

SOUTH DAKOTA DEPARTMENT OF REVENUE

Property Tax 101



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Why Do We Have a Property Tax?

- Primary source of revenue for local governments
 - Schools
 - Cities
 - Counties
 - Townships
- Property tax is *Ad Valorem* (According to Value)

The State of South Dakota DOES NOT collect or spend any property tax dollars

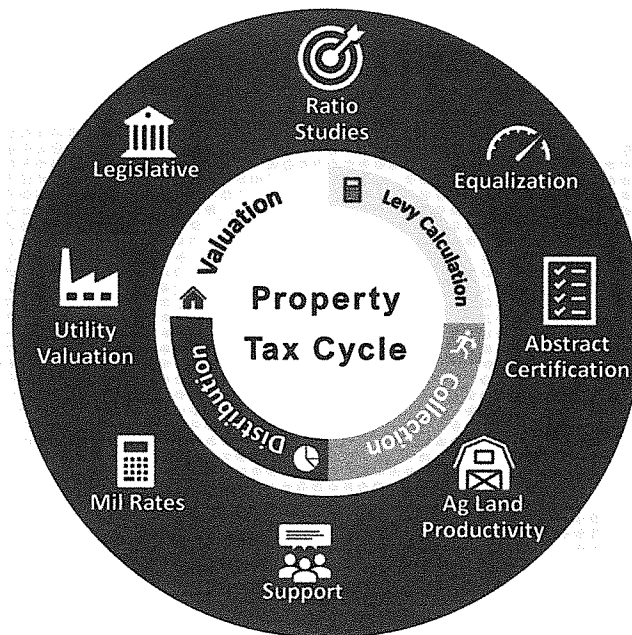
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Property Taxes in South Dakota

- All property is to be assessed at "its true and full value"
 - Non-Ag → Market value
 - Ag land → Agricultural income value as determined by the Productivity Formula represents market value
- All property is to be taxed at 85% of its true and full value
- Equalization means all like properties are treated equally within the assessment district

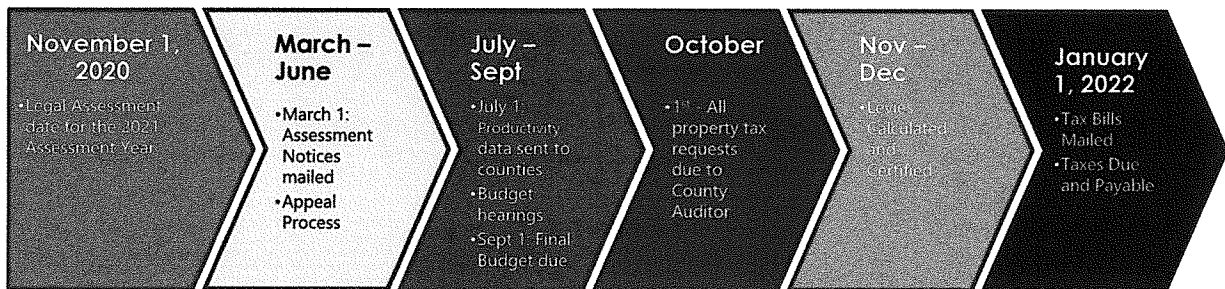
Assessment date is November 1 of the previous year

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Property Tax Timeline



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Definitions

Assessed Value:

- Value indicated on assessment notice
- Full market value in South Dakota

Taxable Value:

- Value indicated on tax bill
- Represents 85% of full market value

Equalization or Taxable Factor:

- Multiplier that converts assessed value to taxable value
- Determined by the Department of Revenue (based upon sales statistics)

Budget:

- Amount of property tax requested by the government entity

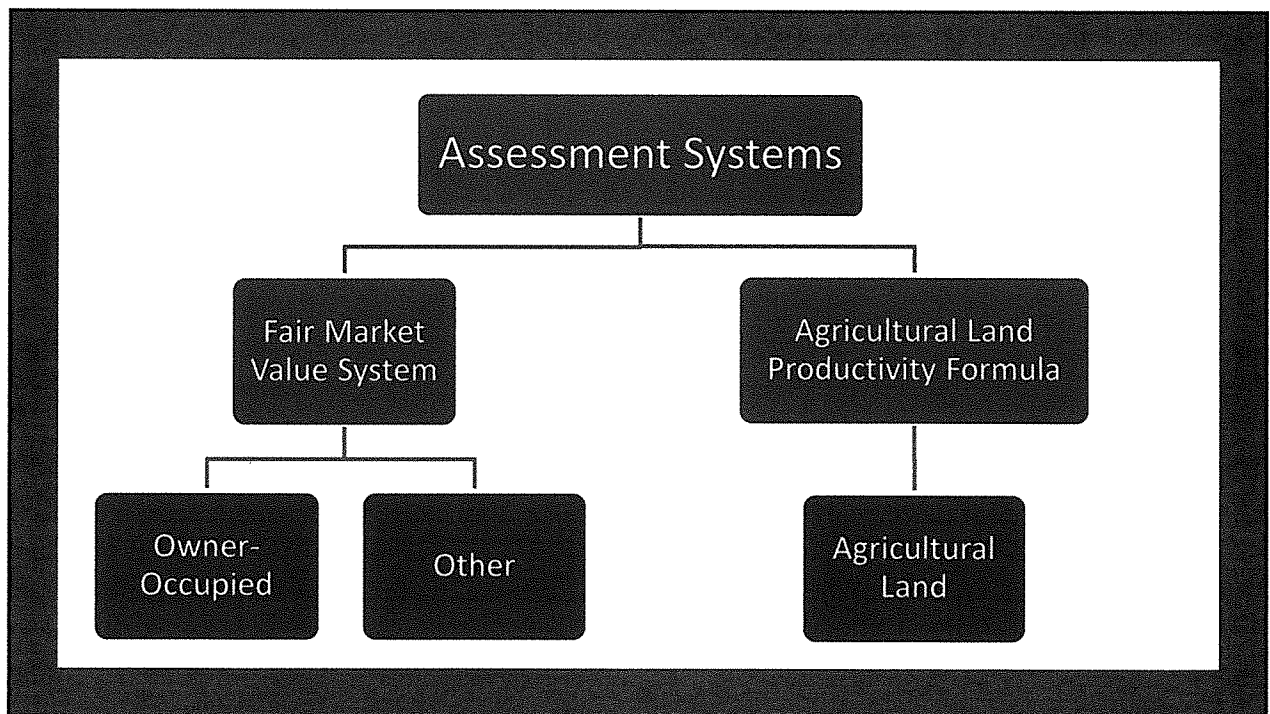
Levy:

- Tax Rate
- Expressed as dollars of tax per \$1,000 of taxable value
- Result of the budget divided by the total taxable value

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Assessment

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Determining Assessed Value for Property Tax Purposes

Mass Appraisal Process

- Appraisers inspect properties and collect details
 - Maintain data in CAMA software
- Inspect every 5 – 7 years
- For Non-Ag properties, 3 approaches to value must be considered
 - Cost approach
 - Sales Comparison Approach
 - Income Approach

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Sales Ratio Analysis For Non-Ag Properties

Measuring Assessment Accuracy

- Sales information is verified and analyzed to ensure uniformity and equality of assessments both countywide and statewide
- Compares assessed value to sale price on all open market sales
 - Assessed Value ÷ Sale Price

$$\$90 \div \$100 = 90\%$$
- **Median Ratio → Primary measure of level of assessment**

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Assessment Changes from Year to Year

- All property is assessed every year
 - Even if not physically inspected
- Non-ag assessed values can change for a variety of reasons
 - The property physically changes → additions to or depreciation
 - The market changes → fluctuations up or down
 - The previous year assessment was incorrect
- Goal is accurate assessments on all properties
 - Properties may change in value at different rates



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Defining Taxable Value

- SDCL 10-1-37

"Property taxes shall be levied on valuations where the median level of assessment represents 85% of the market value as determined by the Department of Revenue."
- Percentage of assessed value
- Value shown on the tax bill
- Value used to calculate the levies and to which those levies are applied

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What is an Equalization Factor?

- A factor that converts assessed value to taxable value
 - \$100 (Assessed at true and full value) X **.85** = \$85 (Taxable)
- Assigned annually to each county by the Department of Revenue
 - For Non Ag → Based on the countywide median sales to assessment ratio
 - For Ag → Based on the calculated dollar per acre after the county applies the Productivity Top Dollars.
- Factor adjusts assessed value to 85% of market value
 - If level of assessment is 100% of market value → Factor is .850
 - If level of assessment is 85% of market value → Factor is 1.00
 - If level of assessment is 90% of market value → Factor is .944
 - If level of assessment is 70% of market value → Factor is 1.214

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Ag Land

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AG PREVIOUSLY ASSESSED USING A FAIR MARKET VALUE SYSTEM

- However, there were three statutes that disqualified sales, ultimately distorting a true market value system:
 1. Sales over 150% of the land's ag income value
 2. Sales under 70 acres
 3. Sales over 150% of the land's assessed value
- Resulted in many counties having no ag land sales available to value ag land.

Fair Market Value System Was Broken

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Beginning of Productivity System

First Year: 2010 Assessment Year

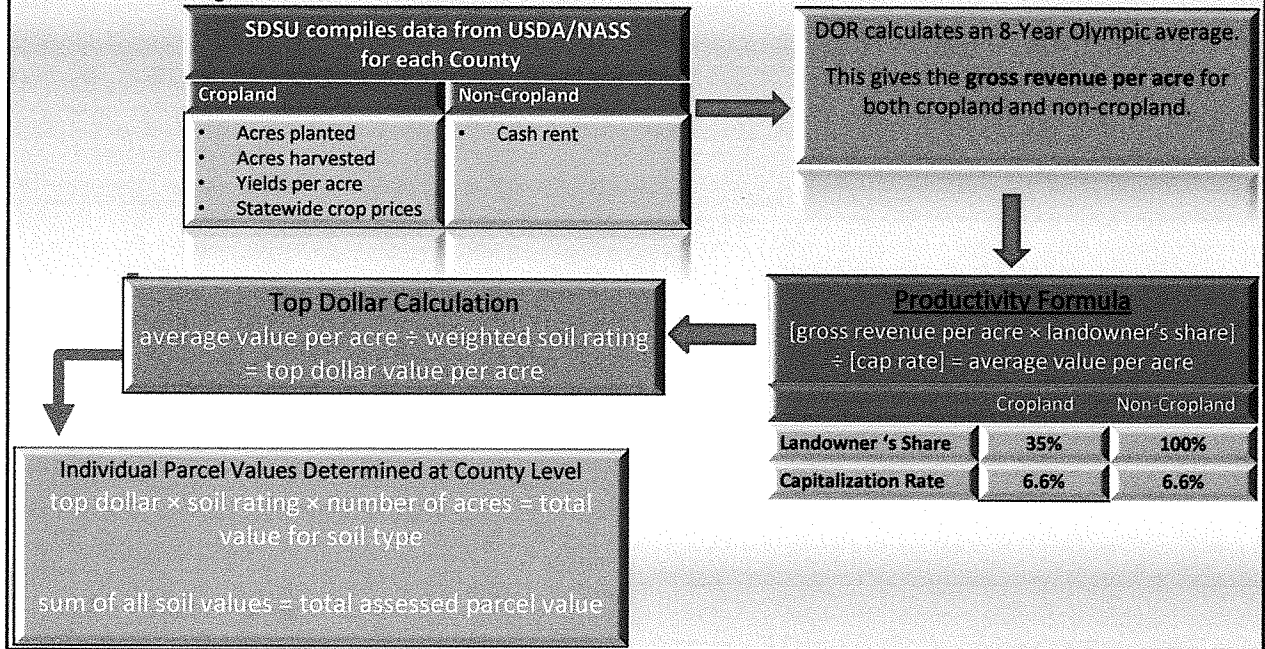
Full Productivity : 2019
Assessment Year

Assumptions made in Productivity Formula

- Keep overall statewide value the same for just the first year of productivity [which value was very low]
- Assumed a 85% crop to 15% noncrop dichotomy
- Limited productivity value increases during implementation

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Summary



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MISCONCEPTIONS

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MISCONCEPTIONS

MISCONCEPTION #1

Productivity has caused unreasonable increases in ag value.

FACTS

- Ag land assessments have increased.
- The market system for ag land was "broken," keeping values arbitrarily low.
- Formula was built so that the first year of Productivity produced the same values as the last year of the Market System.
- Increases were phased in over several years.
- Percentage of property tax contribution from ag land has been virtually the same since prior to Productivity.

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MISCONCEPTIONS

MISCONCEPTION #2

The productivity of East River ag land affects assessments West River.

FACTS

- Commodity production is county specific.
- Cash rents are county specific.
- If there is no data reported by NASS for a particular county, data from neighboring counties will be used for statistical analysis.

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MISCONCEPTIONS

MISCONCEPTION #3

Soil types and soil ratings from other counties are used to increase values in my county.

FACTS

- NRCS created a soil inventory based on the soil types found only in that county.
- The soil ratings were calculated using yields of commodities and forage from that county only.
- Soils tables are created using only soil types and soil ratings specific to that county.

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MISCONCEPTIONS

MISCONCEPTION #4

The State is raising the taxes on my land.

FACTS

- Taxes are driven by the budgets of local governments, not by assessments.
- The Productivity Formula determines how ag land is assessed, is in state law, and has been upheld by the courts.
- The DOR is charged to ensure that assessments of all real property comply with state law.
- The State does not collect any property tax dollars.
- The DOR does not collect any property tax dollars.

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MISCONCEPTIONS

MISCONCEPTION #5

The Productivity Formula is assessing my property more than it is worth.

FACTS

- Statewide, ag land is not assessed over its fair market value.
- Medians of bare ag land sales show that the state average sales to assessment ratio is 55%.
- This shows that the system is working the way it was designed.
- The alternative to the Productivity Formula is a Market Value System.

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Taxation

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Property Tax Budget

- Set by the governing body of the taxing entity
 - Commission, School Board, City Council, etc.
- Amount of property taxes needed to compliment the overall budget to provide required services

• County	• Ambulance Districts
• Cities	• Rural Fire Protection Districts
• Townships	• Water Development Districts
• Schools	• Water Project/Watershed Districts
• Road Districts	• Sanitary/Sewer Districts

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Property Tax Request Limitations

All entities except School Districts

The amount of taxes an entity may receive is capped based upon what they received last year, increased by:

- Economic index factor of 3% or the CPI, whichever is less

PLUS

- Percentage of new construction that occurred within the last year

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Calculation of Levies

Levies are the mathematical result of the budget and taxable valuation:

- Taxable value is set by the assessor and the equalization factor
- Budgets are set by governing boards
- Levies are calculated by the County Auditor

Levies change in response to changes in taxable value and budgets

- If taxable value increases ↑ and budget stays the same → then levies decrease ↓
- If taxable value stays the same → and budget increases ↑ then levies increase ↑

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Calculation of Levies

- Tax Rate, Mill Levy, and Levy are often used interchangeable
- One "mill" is one dollar of taxes per \$1,000 dollars of assessed value

**Request ÷ Taxable Value
= Tax Rate**

$$1,000 \div 500,000 = .002000$$

**Multiply that by 1000 to get
the Levy**

$$.002000 \times 1000 = \$2.00$$

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School General Levies

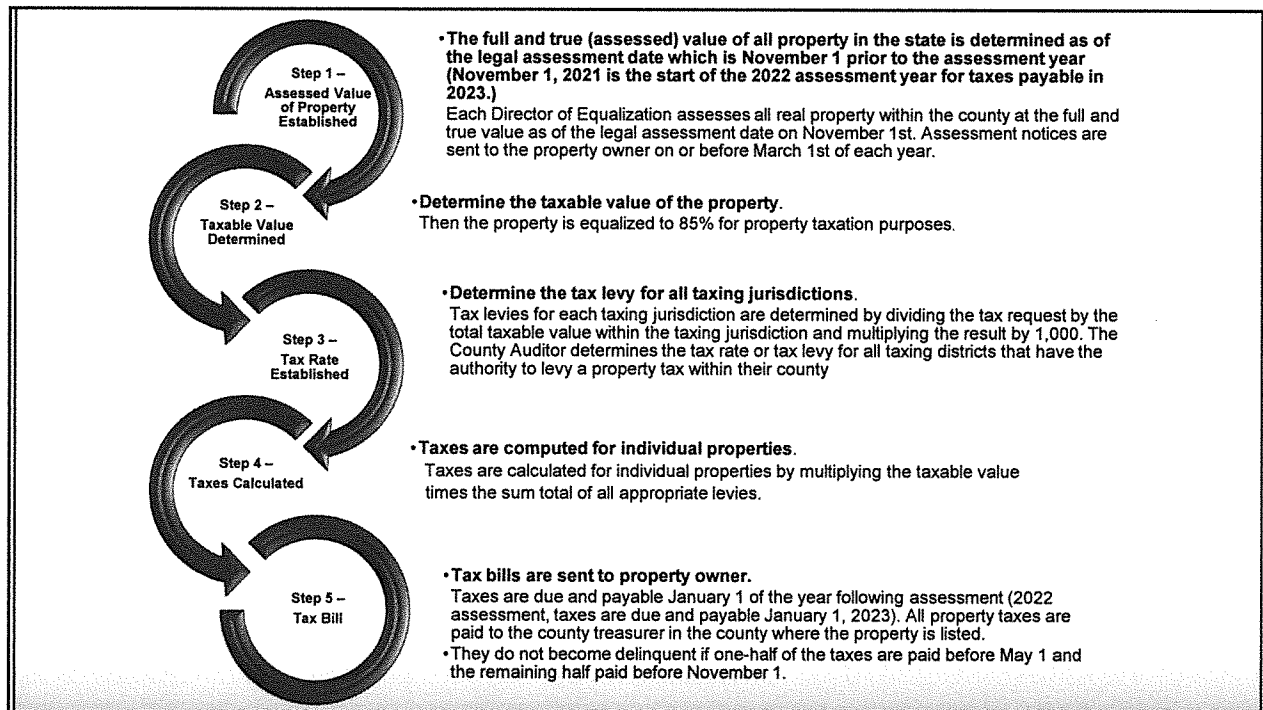
School General Fund is the **ONLY** instance where there are different levies based on the property classification:

Levies for Pay 2022

- Agricultural \$1.409 / thous
- Owner-Occupied \$3.153 / thous
- Other \$6.525 / thous

All other levies are the same for all classes

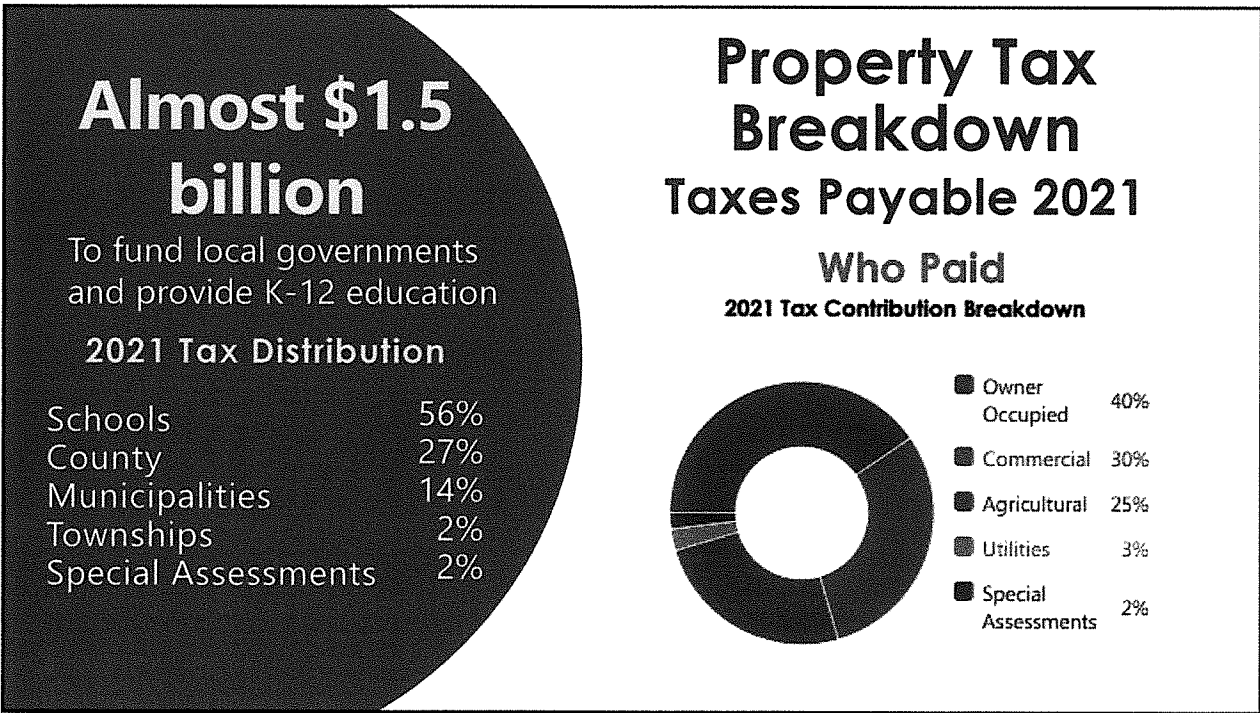
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Statewide Summary

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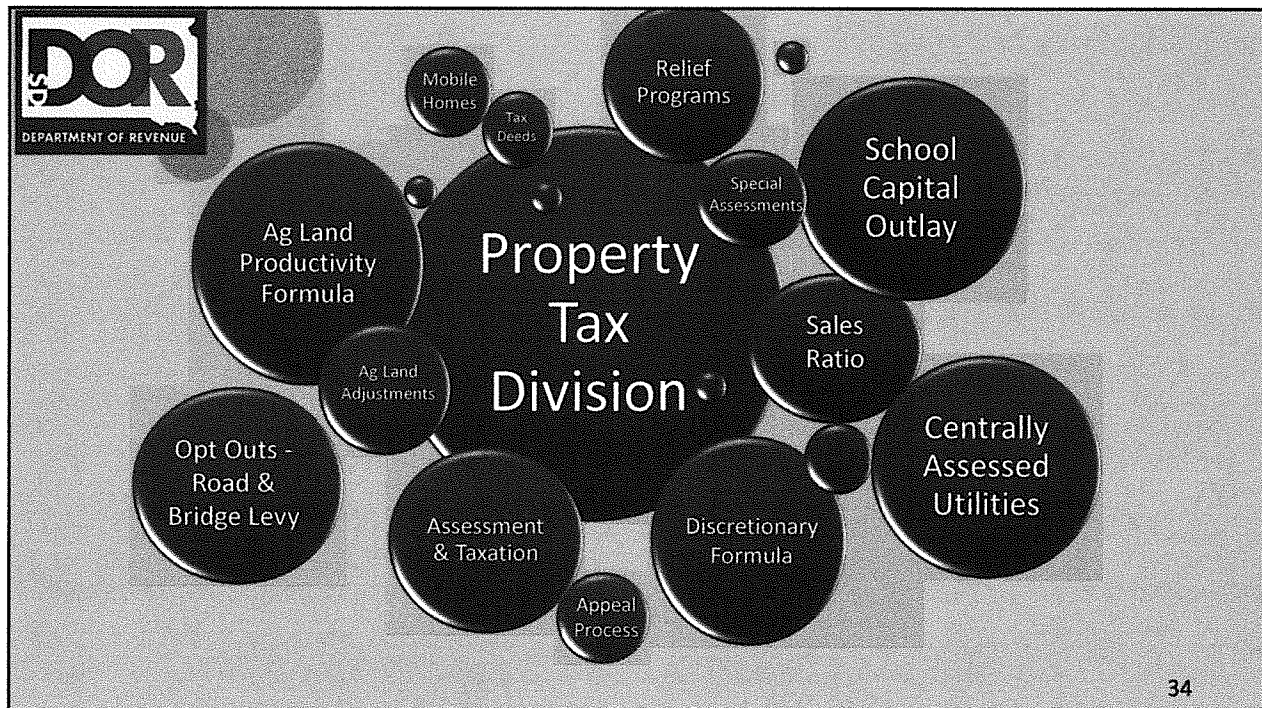


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Property Tax Contribution History

Year Taxes Payable	Agricultural	% Of Total	Owner-Occupied	% Of Total	Commercial	% Of Total	Utilities	% Of Total	Special Assessments	% Of Total	TOTAL
2012	252,715,223	24.50	414,066,249	40.14	321,656,276	31.18	24,275,738	2.35	18,819,754	1.82	1,031,533,239
2013	269,377,688	25.14	424,725,465	39.64	331,147,206	30.91	26,337,906	2.46	19,768,706	1.85	1,071,356,971
2014	286,177,332	25.45	444,727,084	39.55	346,978,590	30.86	27,320,189	2.43	19,323,088	1.72	1,124,526,283
2015	313,174,676	26.32	462,029,557	38.83	363,467,432	30.54	28,251,171	2.37	23,070,108	1.94	1,189,992,944
2016	345,426,962	27.60	481,760,248	38.49	371,483,979	29.68	28,562,138	2.28	24,383,785	1.95	1,251,617,112
2017	354,621,162	28.12	482,519,548	38.26	376,062,906	29.82	28,312,412	2.25	19,486,950	1.55	1,261,002,979
2018	361,302,073	27.83	502,290,098	38.70	376,483,975	29.00	33,553,019	2.58	24,416,213	1.88	1,298,045,378
2019	371,142,707	26.96	538,037,388	39.09	404,346,700	29.38	36,362,901	2.64	26,599,147	1.93	1,376,488,843
2020	375,178,898	26.08	570,688,126	39.67	427,624,967	29.72	37,578,156	2.61	27,650,521	1.92	1,438,720,668
2021	371,416,537	24.89	601,883,810	40.33	449,923,645	30.15	39,129,139	2.62	29,866,713	2.00	1,492,219,844

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Questions?


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