

# **SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL**

## **2022 South Dakota Legislature**

FISCAL NOTE 2022-FN114A

**SB 114 – An Act to provide a refund for the contractor's excise tax for certain residential housing projects.**

This bill would refund the contractor's excise tax for newly built affordable single-family homes purchased by eligible homebuyers. An eligible homebuyer would be a homebuyer that meets the income limits as would be set by the South Dakota Housing Development Authority (SDHDA). An affordable single-family home would be defined as a single-family home under a purchase price limit as would be set by the SDHDA. The bill would require the homebuyer to apply to the Department of Revenue for a refund on the contractor's excise tax between 60 days and 180 days after the closing date of the sale. If the homebuyer meets the qualifications, the homebuyer would receive a refund of the excise tax from the Department of Revenue.

The fiscal impact of this bill would reduce general fund revenues by \$5,708,743. This is calculated by taking the number of eligible homebuyers of 1,149 times the contractor's excise tax that would be remitted for affordable homes which is \$4,976.

The median purchase price of a new home in Sioux Falls is \$227,979 while the median price of a new home in Rapid City is \$259,007. The average median home price between those two communities is \$243,493. Applying the contractor's excise tax on a newly constructed home at the average median price is \$4,976 per home.

The price of an affordable home is \$300,000 in South Dakota as determined by the SDHDA. In Sioux Falls, the number of new affordable homes is 644 out of 850, or 75.8%. Since the Sioux Falls area has the greatest concentration of new homes in South Dakota, this same percentage is assumed to apply to the rest of the state. According to the U.S. Census Bureau, there are 4,334 new home permits in South Dakota. Out of the 4,334 permits, 3,284 would be presumed to be affordable.

The median income in South Dakota is \$58,275, which, for purposes of this analysis, is rounded up to \$60,000. According to the U.S. Census Bureau, the number of people who were below the median and purchased a new home is 833 in 2019, or 35% of new home sales. When this percentage is applied to the number of affordable homes, there would be 1,149 of the affordable homes sold to eligible homebuyers.

The U.S. Census Bureau, the cities of Sioux Falls and Rapid City, and the SDHDA provided data for this analysis.

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