

# Property Tax--Changes Since 1989

Issue Memorandum

2024-XX



## Introduction

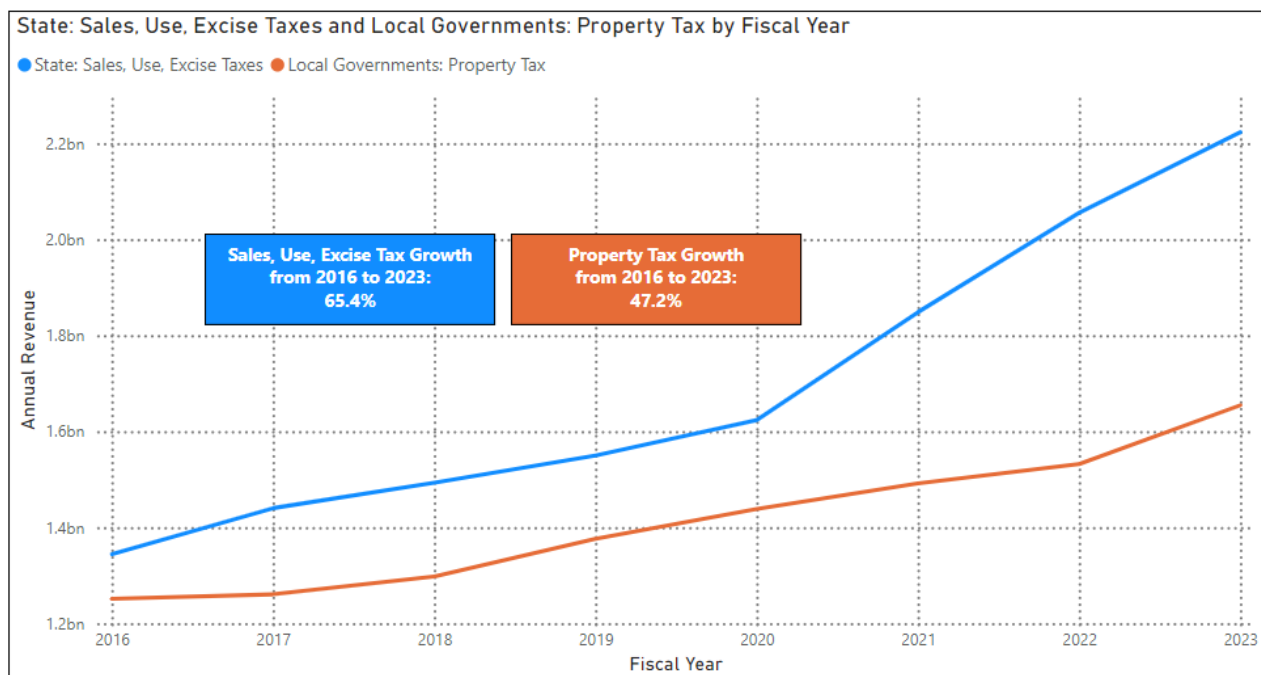
Property taxes were initially conceived as a reliable source of revenue that political subdivisions could use for the provision of fundamental services such as schools, law enforcement, courts, roads, and other infrastructure. Over the decades, there have been multiple legislative efforts to evaluate the assessment and distribution of property taxes.

The two largest sources of revenue in South Dakota are sales taxes and property taxes. The majority of sales tax revenue funds the operations of state government, whereas property tax revenue funds the operations of political subdivisions. The state does not receive or direct the spending of property tax dollars. The state, through the Department of Revenue, only provides training and guidance to county officials and administers audits to ensure compliance with the laws pertaining to the assessment and equalization of properties for taxation purposes.

The assessment of real property and the collection of property taxes are left to the counties. The collecting county retains a portion of the property tax revenue for its own use, and distributes the remainder among other political subdivisions, hereinafter collectively referred to as "taxing districts." The distribution of the revenue to each taxing district is based on the district's annual property tax levy request. The calculation of the annual property tax levy request for a taxing district does not depend on the total assessed value of real property within the taxing district; rather, for all taxing districts except school districts, it depends on the property tax levy request in the previous year.

Fifty-seven percent of property tax revenue is distributed to school districts. The other forty-three percent is distributed to counties, municipalities, townships, fire districts, and other taxing districts. Annually, the Legislature sets the general fund levy for school districts and the maximum property tax levies for special education and capital outlay, the latter of which provides funding for the acquisition of real property and equipment by the school district.<sup>1</sup> In recent years, property tax revenue has been relatively flat compared to revenue from sales, use, and excise taxes, as depicted in Figure 1.

Figure 1 – Tax Revenues by Fiscal Year<sup>2</sup>



<sup>1</sup> [SDCL § 13-16-6](#)

<sup>2</sup> Data taken from South Dakota Department of Revenue Annual Reports

## Property Assessment and Taxation Revisions: 1989

During the 1989 legislative session, bills were enacted to address:

- (1) The setting of taxable percentages by counties;<sup>3</sup>
- (2) The statutory maximum property tax mill levies;<sup>4</sup>
- (3) The minimum assessment standards;<sup>5</sup>
- (4) Calculations for making assessment adjustments;<sup>6</sup>
- (5) The county director of equalization;<sup>7</sup> and
- (6) Uniformity of tax and assessment notices.<sup>8</sup>

1989 SB 16 delegated the assessment of real property entirely to the county, except for centrally assessed property which is assessed by the Department of Revenue. Centrally assessed property exists in multiple counties and typically possesses characteristics that make it different from most other real property subject to taxation. Infrastructure used in the provision of utilities or infrastructure used for pipelines are examples of centrally assessed property. Prior to the passage of 1989 SB 16, municipalities and townships could employ deputy assessors to assess real property within their boundaries.

1989 SB 12 provided that the determination of a property's "full and true value" must include "appropriate consideration" of three different methods of estimating the property's value:

- (1) The cost approach, which represents the cost of constructing the structure and accounts for depreciation;
- (2) The income approach, which represents an estimate of the income that could be generated from the property; and
- (3) The market approach, which represents the price at which the structure could be sold on the open market.

Although the statute does not detail the methodology behind any of the approaches, administrative rules identify the manuals that must be used in the assessment of properties.<sup>9</sup>

1989 SB 15 reduced the maximum mill levies imposed by counties, townships, school districts, and municipalities, respectively. 1989 SB 121 provided a temporary freeze for property taxes payable in 1990 and 1991.<sup>10</sup>

## Property Tax Reduction Program and School District Funding

During the 1980's and early 1990's, property taxation was the subject of several failed constitutional measures.<sup>11</sup> At that time, the governing board of each taxing district would set its property tax levy, constrained only by the maximum mill levy set by statute. There were no constraints in statute for the total amount of property tax

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<sup>3</sup> South Dakota 1989 Session Laws, chapter 86: SB 12

<sup>4</sup> South Dakota 1989 Session Laws, chapter 87: SB 15

<sup>5</sup> South Dakota 1989 Session Laws, chapter 86: SB 12

<sup>6</sup> South Dakota 1989 Session Laws, chapter 87: SB 15

<sup>7</sup> South Dakota 1989 Session Laws, chapter 174: SB 16

<sup>8</sup> South Dakota 1989 Session Laws, chapter 251: SB 17

<sup>9</sup> [ARSD 64:04:04](#)

<sup>10</sup> South Dakota 1989 Session Laws, chapter 89: SB 121

<sup>11</sup> [1980 Proposed Constitutional Amendment B, South Dakota Property Tax; 1988 Proposed Constitutional Amendment C, South Dakota Property Tax; 1990 Proposed Constitutional Amendment E, South Dakota Property Tax; 1994 Initiated Measure 1, South Dakota Property Tax.](#)

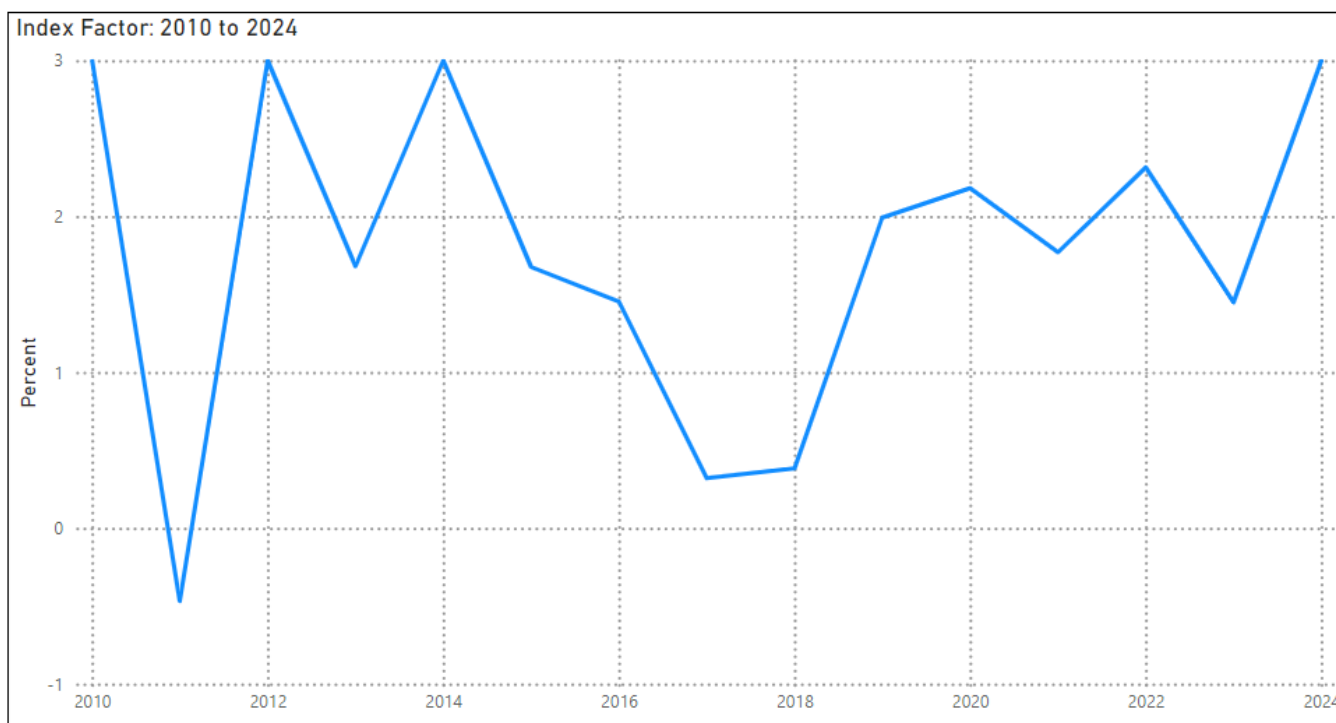


revenue generated from locally-imposed levies, and these levies were made without any substantive state oversight or regulation.

In 1995, the Legislature enacted what came to be known as Governor Janklow's Property Tax Reduction Program. The program reduced property taxes and limited property tax revenue increases from one year to the next. Property tax revenues were frozen for one year—from 1995 to 1996.<sup>12</sup> Beginning with the 1996 tax year, the total property tax revenue collected by a taxing district could not increase by more than the lesser of either three percent or the annual inflation rate two years prior using the consumer price index for urban wage earners and clerical workers, plus any proportional growth in the real property tax base. The inflation rate, calculated two years prior to the adjustment, is defined as the "index factor".<sup>13</sup> As a result of changes made by the Property Tax Reduction Program in 1995, counties, townships, and municipalities now impose mill levies that are far below the maximum mill levies provided in statute.

The average increase in the index factor has been approximately 1.78 percent per year since the 2010 tax year, but has averaged 2.14 percent over the past five years. Since the 2010 tax year, the index factor has reached the maximum of three percent four times. A taxing district does not have to levy the maximum amount allowed under [SDCL § 10-13-35](#). If it levies less, it is not permanently disadvantaged. For example, if a taxing district is allowed to increase its property tax levy by three percent, but only chooses to increase its levy by two percent, then that taxing district retains that extra one percent, which can be used in a subsequent year. Figure 2 depicts the index factor in relation to the three percent cap, from 2010 to 2024.

Figure 2 – Index Factor Over Time<sup>14</sup>



Since the size of a local government's budget is tied to the level of property taxation, implementing the index factor for local government property taxation was designed to reduce local government spending.

<sup>12</sup> South Dakota 1995 Session Laws, chapter 57: HB 1353

<sup>13</sup> [SDCL § 10-13-38](#)

<sup>14</sup> Data on inflation collected from the Federal Reserve Bank of St. Louis.



The caps imposed by the Property Tax Reduction Program applied to all taxing districts except school districts, and still apply today. The calculation of school district levies is different than that of municipalities, counties, and townships. School district levies are determined primarily by the maximum mill levies set each year by the Legislature, while municipality, county, and township levies are primarily determined by the prior year's levy, growth in the county's property tax base, and the index factor.

The 1995 Property Tax Reduction Program provided a two-year, twenty percent property tax credit for owner-occupied single-family dwellings and agricultural property. Beginning in 1997, property tax relief was provided through the newly established levies set by the Legislature for school district general funds, and by an increase in state aid for school districts. The state-aid-to-education formula provided new tax rates for different classes of property, with the greatest benefit going to owner-occupied single-family dwellings and agricultural property. If property tax levies were low in a school district prior to the enactment of the program, property owners within that district may have received little or no property tax relief. Property owners in neighboring school districts may have received more than twenty percent in property tax relief if their property taxes or assessments were high, relative to the state average.

The impact of the Property Tax Reduction Program varies greatly among the taxing districts in the state. Since property tax revenue for each taxing district was limited based on the district's property tax revenue for the year before implementation of the program, the budget decisions for each taxing district in 1995 determine the amount of property tax collectable today.

As noted above, a taxing district may increase the revenue it receives from taxes on real property by using the growth factor. This factor is the proportional increase of value that results from improvements or changes in the use of real property, annexation, minor boundary changes, or any adjustments in the taxation of property separately classified. If not for this growth factor variable, the opportunity to increase property tax revenue from one year to the next would be equal across all taxing districts.

The 1995 Property Tax Reduction Program also included a provision under which taxing districts, including school districts, may opt-out of the property tax limitation. An opt-out would allow the governing board of a taxing district, by a two-thirds vote, to adopt a resolution for the collection of additional revenue in an amount specified in the resolution. The adoption of the resolution is subject to a referendum if a petition signed by at least 5 percent of the registered voters in the district is filed with the governing body within twenty days from when the public notice of the resolution was published. Initially, there was no restriction on how many years an opt-out may be applicable. It was not until the passage of [2007 SB 164](#) that the governing body of a taxing district was required to specify the number of years an opt-out would be applied.

1995 HB 1351 established a requirement that the monies for school district general funds, from local tax revenue and from state revenues, must remain proportionally constant relative to each other when making the school district general fund levy adjustment each legislative session.<sup>15</sup> 1995 HB 1353 required that the school district general fund mill levies for agricultural, owner-occupied, and nonagricultural property must also remain proportionally constant relative to each other.<sup>16</sup>

The newly established proportion of state funding was 47.8 percent of the total need for FY 1998. Over the next ten years, the state annually increased its share to reach a target share of 56.5 percent for FY 2008. This remained the target ratio for four years. In 2012, the state budget was reduced due to decreasing revenues, and the new target ratio was set at 53.8 percent for FY 2012 and each year thereafter. Prior to the Property Tax Reduction

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<sup>15</sup> South Dakota 1995 Session Laws, chapter 94: HB 1351

<sup>16</sup> South Dakota 1995 Session Laws, chapter 57: HB 1353



Program, state-aid-to-education was about thirty-one percent of a school district's total funding need.<sup>17</sup>

Under the 1995 Property Tax Reduction Program, the state-aid-to-education formula computed "local need," or the estimated amount of money a school district needs to operate for a given year, by establishing a "per student allocation," and multiplying that allocation by the fall enrollment for the current school year. Adjustments were made to account for factors such as a district's size and the number of students with limited English proficiency.

From FY 1998 through FY 2007, the state experienced declining kindergarten through twelfth grade student enrollment and steady increases in property assessments. The declining enrollment partially offset the state and local effort required to meet the growth in the "per student allocation," due to the annual application of the index factor. The state also increased its proportional share of funding to school districts during this period. The declining student enrollment and the increased state share of funding were reflected by the relatively small increase in property taxes for the general fund of school districts during that time. In FY 1998, \$249 million in property taxes were levied to provide the local effort, and in FY 2008, that local effort was \$258 million. Beginning in FY 2008, that trend reversed. K-12 student enrollment has increased annually, and the state's share of funding has decreased, thereby increasing the property tax dollars required to fund school districts.<sup>18</sup> By FY 2016, approximately \$325 million in property taxes were collected to meet the local effort, and by FY 2024, over \$455 million of property taxes were required.<sup>19</sup>

A constitutional amendment to [S.D. Const., Art. VIII, § 15](#) was approved in 2000. The amendment authorized the Legislature to establish multiple classes of property for school taxation purposes. [2009 SB 149](#) separated the school district general fund levy adjustment for agricultural property from nonagricultural property and owner-occupied property. This was done due to a concern that the agricultural productivity formula, which was used to assess agricultural property for purposes of taxation, may lead to a flattening of agricultural land assessments. However, from 2011 to 2015 the statewide assessed value of agricultural land increased relative to nonagricultural and owner-occupied property. As a result, the provisions of SB 149 were repealed in 2016.

In 2015, the Governor appointed the Blue-Ribbon Task Force on School Funding to revise the state-aid-to-education formula and address low teacher salaries. [2016 SB 131](#) established a new formula, along with a one-half percent increase in the sales and use tax. Sixty-three percent of the additional sales and use tax revenue was dedicated to increasing kindergarten through twelfth grade teacher salaries, thirty-four percent was used to reduce property taxes through the school district general fund mill levies, and three percent was used to increase postsecondary technical institute instructor salaries. The school district pension fund levy tax was rolled into the general fund tax levy.

Prior to the enactment of SB 131 in 2016, the state-aid-to-education formula computed "local need," or the estimated amount of money a school district needs to operate for a given year, by defining a "per student allocation," and multiplied that by the fall enrollment of the current school year. Beginning with SB 131, the state-aid-to-education formula computes "local need" by:

- (1) Setting a target teacher salary and target teacher benefits to establish a value for "target teacher compensation;"
- (2) Setting a target ratio of teachers to students;
- (3) Scaling the target ratio to the fall enrollment of the current school year to compute the total amount of money paid to staff for each school district;

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<sup>17</sup> [South Dakota Legislative Research Council, Issue Memorandum 2016-02](#)

<sup>18</sup> [South Dakota Legislative Research Council, Issue Memorandum 2016-02](#)

<sup>19</sup> [South Dakota Department of Education, State Aid Tables](#)



- (4) Establishing an "overhead rate," which is a proportion between zero and one to represent all other costs of running a school district; and
- (5) Multiplying the target teacher compensation by one plus the overhead rate.

Regarding subdivision (1) above, including target teacher benefits in the formula for "local need" was a new concept when 2016 SB 131 was enacted. Prior to SB 131, school districts would impose an additional property tax levy to fund pensions for retired employees of the school district. SB 131 combined the pension fund and general fund levies by adding target teacher benefits to the calculation of local need, and then repealed the pension fund levies.

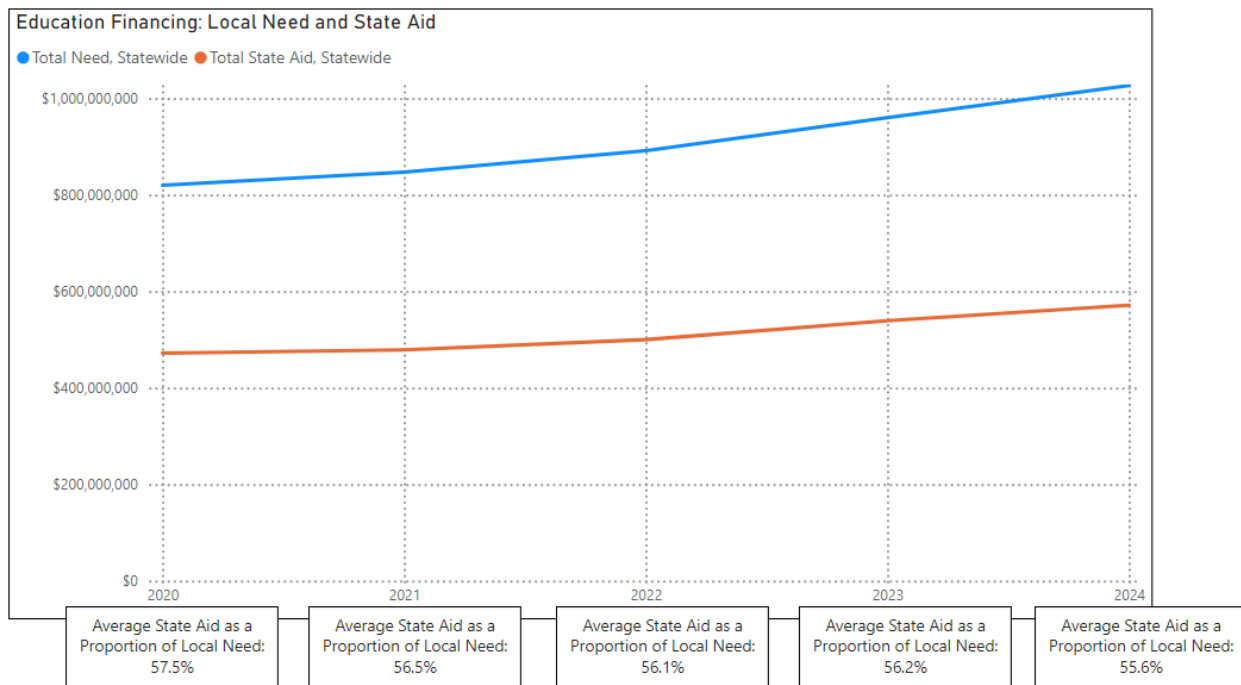
Figure 3 shows the proportion of average school district funding that comes from property taxes. From 2020 to 2024, the statewide estimated local need has increased steadily by around twenty-five percent. This can be attributed to multiple factors, such as increased enrollment, increases in the target teacher salary, and increases in the target teacher ratio. Changes in the target teacher compensation can be attributed to changes in two principal components:

- (1) The average salary for teachers in each school district; and
- (2) The target teacher ratio relating enrollment to the number of teachers needed to operate.

Increases in either subdivision (1) or (2) increase the "local need" for school district funding. State-aid-to-education has also increased steadily at a slightly slower rate than the increase in local need. This is reflected in the average proportion of local need that is financed through state aid.

Figure 3 also shows that average state aid, as a proportion of local need, has decreased about two percent over the past five years, from an average of 57.5 percent of local need financed by state aid in FY 2020, to an average of 55.6 percent of local need financed by state aid in FY 2024. A decrease in state aid as a proportion of local need means that a slightly larger burden of school financing is being placed on local government's financing ability, through property taxes or other means of generating revenue locally.

Figure 3 – Education Financing<sup>20</sup>

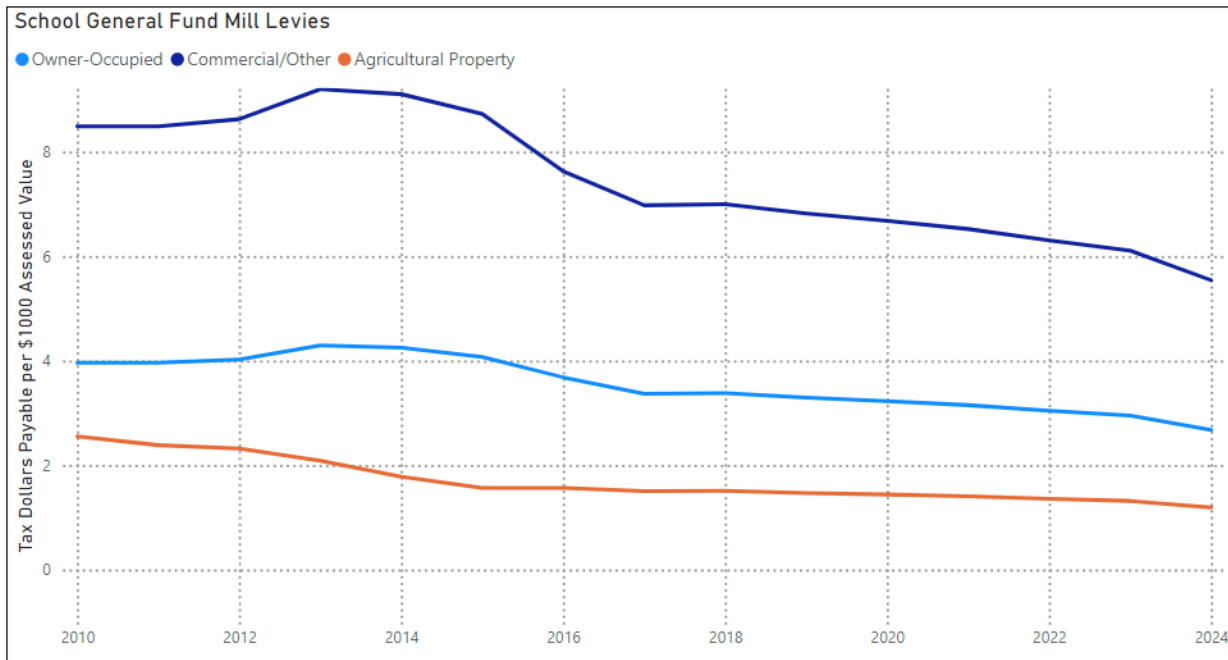


<sup>20</sup> Data from the [South Dakota Department of Education State Aid Tables](#)



Figure 4 shows recent mill levies for school district general funds, according to property classifications.

Figure 4 – School District General Fund Mill Levies



### Classification and Equalization of Property

[1998 HB 1292](#) created the nonagricultural acreage classification, colloquially referred to as the NA-Z Rule. If any agricultural property sold for more than one hundred fifty percent of its agricultural income value, the law required that the property be separately classified and taxed for school district general fund purposes. These sales could not be used in the assessment of agricultural property. Such property remained in this new classification for five years, and was assessed at the sales price multiplied by the level of assessment for nonagricultural property within the county. After five years, if the owner could document that the property remained in agricultural use, the owner could apply to the director of equalization to have the property reclassified as agricultural property. Otherwise, the property would be reclassified as nonagricultural property. This classification was also challenged, but upheld by the South Dakota Supreme Court in 2000, in part because "classes of non-agricultural property can be created by the legislature without limit."<sup>21</sup>

[1998 HB 1292](#) also established a new school district general fund levy for the nonagricultural acreage classification. The school district general fund levy was annually set by the Legislature for the NA-Z classification that paralleled changes made to the agricultural property classification.

[1998 SB 103](#) eliminated the sale of any agricultural land parcel of seventy acres or less from being included in the median sales to assessment ratio for a county. For context, the median sales to assessment ratio compares the assessed value of each property in a taxing district with the fair market value of the property. [SDCL § 10-6-121](#) requires that the median ratio across a county for agricultural property and nonagricultural property must be at least eighty-five percent. This further limited the number of agricultural land sales available for the directors of equalization to use in assessing agricultural property.

<sup>21</sup> [Thares v. Brown County Board of Equalization, 2000 S.D. 114 ¶17](#)



[1999 SB 1](#) provided that real property which sold for more than one hundred fifty percent of its assessed value could not be used in the sales ratio study. If property was generally assessed at around eighty-five percent of its market value in the county, that meant the sale of any property which sold for more than 127.5 percent of its assessed value was not included in the sales ratio study. The sale of any property that was under-assessed often resulted in that sale being excluded from the assessment process.

[2002 HB 1135](#) reduced the timeframe for remaining in the nonagricultural acreage classification to one year. One year after the classification of the property as nonagricultural acreage, the director was required to reclassify any nonagricultural acreage according to its actual use.

Over time, the nonagricultural classification, the assessed value limitation, and the select exclusions from the median sales to assessment ratio caused property assessments to become less reflective of market values. This slowed the growth of assessments in many parts of the state and caused disparity between neighborhoods, counties, and property classifications. This disparity in property valuations from one area to the next also impacted the application of the state-aid-to-education formula.

The school district tax obligation on comparable property in different areas of the state varied, depending on how these three rules impacted the usable sales for assessments. The Department of Revenue reported that, in 2005, there were only two hundred agricultural sales and twelve thousand nonagricultural sales for assessors to use in assessing property on a statewide basis.<sup>22</sup> Thirty-three of the sixty-six counties had one or fewer agricultural sales to use in assessing agricultural land. Furthermore, over five thousand nonagricultural sales were not used during the assessment process in 2005 because of the one hundred fifty percent rule. The Department of Revenue reported that all three classifications were experiencing a slowed growth in assessment values in comparison to the market. The greatest impact on statewide assessments was on agricultural land due to the cumulative effect of the three rules affecting agricultural land sales.

[2008 HB 1005](#) phased out the assessment methodology of agricultural property based on market value using sales comparisons and provided for implementation of the agricultural productivity formula.

## Agricultural Land

Prior to implementation of the agricultural productivity formula in 2008, there were multiple efforts to address the tax burden on agricultural land. During the 1980s, the maximum general fund tax levy for school districts was different for agricultural versus nonagricultural land. Also, some counties set the percentage of taxable value differently for agricultural versus nonagricultural land. During times of agricultural prosperity, the market price for agricultural property rose. A limited supply of agricultural property may have also led to increases in market price.

These increasing prices caused the Legislature to enact laws slowing or mediating the increases in assessed values for agricultural property. 1993 HB 1016 created a separate treatment of certain agricultural property, colloquially referred to as AG-Y.<sup>23</sup> This treatment was found unconstitutional by the Supreme Court in 1997, "because it attempts to create more than one class of agricultural land in violation of Art. VIII, §15 of the South Dakota Constitution."<sup>24</sup>

[2000 HB 1005](#) appropriated one hundred thousand dollars to the Department of Revenue to conduct a pilot study for the counties of Brown, Clark, Corson, Custer, Hyde, Lyman, Meade, Moody, and Turner concerning the use and implementation of the agricultural income value as a means to assess agricultural land.

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<sup>22</sup> [South Dakota Legislative Interim Committee, Property Tax Assessment Study, 2007](#)

<sup>23</sup> South Dakota 1993 Session Laws, chapter 81: HB 1016

<sup>24</sup> [Gould v. Pennington County Board of Equalization, 1997 S.D. ¶18](#)





[2003 HB 1192](#) addressed the diminishing market sales data by permitting the county director of equalization to use the income method, instead of the market method, to assess agricultural land. The income method used county agricultural property cash-rent data and a capitalization rate of 7.75 percent as the basis for determining the agricultural property assessment value for the county. This alternative could be used if there were less than fifteen arms-length transactions of agricultural land during the three preceding assessment years. The term "arms-length transaction" means a sale where the seller and buyer are not related, nor is there any coercion advantage taken by either transacting party.<sup>25</sup> The Legislature made slight revisions to these provisions during the following sessions and continued seeking alternatives for assessing agricultural land and monitoring the effects of the one hundred fifty percent rule on the other property classifications.

[2008 HB 1005](#) changed the assessment of agricultural land from a system based on comparable sales to a system based on the estimated income that could be generated. The income-based system is commonly referred to as the agricultural productivity formula. This formula is codified in SDCL chapter [10-6](#).

The productivity formula begins its estimation of cropland income by:

- (1) Taking the past eight years of agricultural production;
- (2) Omitting the highest and lowest value;
- (3) Averaging the remaining values; and
- (4) Multiplying the average production values by their respective crop prices in that county.

The productivity formula begins its estimation of noncropland income with an Olympic average of the past eight years of cash rents. These resulting values provide gross revenue per acre for cropland and noncropland.

While agricultural production is calculated on a county basis according to land usage, prices are applied uniformly across the state for each crop to estimate the average value per acre in each county. A value for the landowner's share and a value for a property's capitalization rate were established by [2008 HB 1005](#), and these values are applied to the previously calculated average value per acre.<sup>26</sup> A capitalization rate is a percentage value used to compute the market value of a property based on the annual income generated from that property. Given an annual income, and a selected value for the capitalization rate, one can compute the market value of the property. The intent of the Legislature, when selecting values for the landlord share and capitalization rate was to prevent a shift of assessed value, both among different classifications of property, and between cropland and noncropland.

[2008 HB 1005](#) also created the Agricultural Land Oversight and Advisory Task Force to monitor the implementation of the productivity system. The task force has eight legislative members, with equal representation from both parties, and six non-legislative members.

[2008 HB 1006](#) was enacted to ensure school districts would not systematically receive more funding from the newly established agricultural productivity formula, nor would the taxpayers realize an undue burden from changes in assessments. The provisions limited the annual increase in property taxes payable to the lesser of three percent or the index factor.

Due to different levels of assessments on agricultural land across the state, [2009 SB 3](#) limited the change in the total taxable value of cropland and noncropland within a county to ten percent per year. This provided a transition period for taxpayers to adjust to a revised level of assessment and taxation. However, changes in commodity prices and increased yields resulted in productivity values increasing quickly, which was reflected in the data used

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<sup>25</sup> [SDCL § 10-11-56](#)

<sup>26</sup> [SDCL § 10-6-127](#)



in the Olympic averages needed to calculate the average value per acre in each county. The productivity model was increasing annually at a rate close to, or exceeding, the ten percent limit in the change of the total taxable value permitted by statute.

[2012 HB 1003](#) created a three-tier system for increases in agricultural assessments. The tiers allowed an annual increase of fifteen percent, twenty percent, and twenty-five percent, depending on how the current assessed value compared to the full agricultural income value of property within the county. At the time, the agricultural productivity formula was still being phased in by counties, and HB 1003 extended the phase-in process for taxes payable under the agricultural productivity formula until 2019.

[2017 SB 66](#) reduced the taxable value of agricultural property containing riparian buffer strips. Land that is immediately adjacent to rivers, streams, or lakes, and which is not used directly for agricultural production or grazing, is assessed at fifty percent of its estimated agricultural income.<sup>27</sup>

[2021 SB 70](#) established a set of topics on which the Agricultural Land Oversight and Advisory Task Force must make recommendations, regarding any adjustments to the agricultural productivity formula. The topics included changing the capitalization rate and earning capacity for purposes of computing agricultural income, ensuring that the total amount of property taxes generated by a school district remains stable, and ensuring that the local property taxes generated by school districts from the agricultural property and nonagricultural property remain fixed.

[2022 HB 1325](#) allowed agricultural land with a class four soil type to be reclassified from cropland to noncropland. In any given year, no more than twenty percent of class four noncropland in a county may be reclassified, at the director of equalization's discretion.<sup>28</sup> Noncropland is generally assessed at a lower level than cropland, so this reclassification reduces the burden of taxation for property owners of class four agricultural land.

## Property Tax Relief Programs

There are several property tax relief programs in South Dakota for elderly, disabled, or low-income households.

SDCL chapter [10-6A](#) allows disabled homeowners and senior homeowners to apply for a freeze of the assessed value of their owner-occupied single-family dwellings, as long as the individual's household income falls under certain thresholds. This program was established in 1980, at which time the maximum income thresholds were \$6,000 for a single-member household and \$9,000 for a multi-member household. Currently, the income threshold is \$35,000 for a single-member household and \$45,000 for a multi-member household. The income thresholds increase annually, according to inflation, as determined by the proportional increase in the consumer price index for urban wage earners and clerical workers.

SDCL chapter [10-6B](#) authorizes municipalities to adopt a property tax relief program for disabled homeowners and senior homeowners, subject to certain income thresholds, similar to the program in SDCL chapter [10-6A](#). This program was established in 1987. Instead of freezing assessments like SDCL chapter [10-6A](#), the program grants a proportional reduction in the homeowner's property tax bill. A one hundred percent tax reduction is available for households in the lowest income bracket, which currently includes multi-member households with an annual income of \$0 to \$18,500. A twenty-five percent tax reduction is available for households in the highest eligible income bracket, which currently includes multi-member households with an annual income of \$21,000 to \$22,000. In 2023, the legislature amended the program so that the income thresholds annually increase according to inflation, as determined by the proportional increase in the consumer price index for urban wage earners and clerical workers.

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<sup>27</sup> [SDCL §§ 10-6-116 through 10-6-117, inclusive](#)

<sup>28</sup> [SDCL § 10-6-130](#)



SDCL chapter [10-6C](#) provides a property tax exemption for senior homeowners who have owned their homes for at least three years. This program was established in 1994. At the time the program was implemented, there were no income requirements to be eligible for the property tax exemption. Currently, the program's income thresholds are \$16,000 for single-member households and \$20,000 for multi-member households. Similarly to SDCL chapters [10-6A](#) and [10-6B](#), the income thresholds are annually increased according to inflation.

## Conclusion

Property tax revenue is less sensitive to economic fluctuations than sales, use, or excise taxes. Current property tax revenues for each taxing district are a function of what the taxes were in 1997, after annually applying the statewide index factor, the local growth factor for each taxing district, and any property tax opt-out that may have been adopted by the taxing district. Because of this, property taxes are recognized as a reliable source of revenue for the provision of fundamental services at the local level. Over the years, many attempts have been made to balance the need for revenue with the ability of property owners to meet that need. As statewide valuations continue to increase, it can be expected that issues surrounding property valuation and taxation will remain in the forefront of legislative efforts.

The Legislative Research Council provides nonpartisan legislative services to the South Dakota Legislature, including research, legal, fiscal, and information technology services. This issue memorandum is intended to provide background information on the subject. For more information, please contact William Steward, Research Analyst.

