

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

2026 South Dakota Legislature

FISCAL NOTE 2026-FN1308A

HB1308, An Act to reduce certain property taxes for owner-occupied property, and to increase the rates for certain gross receipts taxes and use taxes.

HB 1308 would increase the state sales tax rate from 4.2% to 5.0% and decrease the school district general fund and special education fund mill levies for owner-occupied property to zero.

The bill would increase the state sales tax rate to 4.7% starting July 1, 2026 (FY2027) and to 5.0% starting July 1, 2027 (FY2028). This change is estimated to generate an additional \$167.8 million in FY2027 and \$309.8 million in FY2028.

For taxes payable in 2027 and every year after, the owner-occupied mill levies for general education and special education would be reduced to zero. This is estimated to reduce local effort in the state aid formula by \$120.8 million in FY2027 and \$246.4 million in FY2028.¹ The reduction in local effort would likely reduce owner-occupied property taxes, 29% to 44% on average, depending on where the property owner lives.

The amounts reduced in local effort would become state expenses through the state aid formula. The state share of state aid to general education would increase from 58% to 72%, while the state's share for special education would increase from 39% to 67%. There would be no change in the total calculated need for a school district, as the total dollars needed in the state aid to general education and special education formulas would not change. A school district may see a reduction in total revenue if the district is collecting revenues above the calculated formula need for the district.

The net state revenues available could be used on the ongoing expenditures for the payroll and rate increases of state employees, school employees, and medicaid providers, as indicated in section 1 of the bill.

	FY2027	FY2028
State Revenues	\$ 167,796,397	\$ 309,781,514
State Expenses	\$ 120,793,729	\$ 246,419,208
Net State Revenue	\$ 47,002,668	\$ 63,362,306

APPROVED BY: /s/ John McCullough
Director, Legislative Research Council

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¹ The local effort amounts may change based on what amounts are adopted for the target teacher salary, K-12 enrollment, and special education disability levels.