Tax Incidence on Vulnerable Populations

Issue Memorandum 2026-XX

SOUTH DAKOTA LEGISLATURE
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Introduction

This issue memorandum examines the burden of taxation incurred by vulnerable populations in this state and summarizes the existing tax relief programs available to those populations.

Vulnerable Populations

The term "vulnerable population" applies to:

(1) Seniors;
(2) Individuals with a disability; and
(3) Low-income individuals.

Seniors

The term "senior" is a ubiquitous label without a universal age requirement. Age sixty-five is often used in connection with government programs—both state and federal. However, certain welfare programs require the "senior" to be at least seventy years old. Other benefits, such as full social security, are made available to those who have reached the age of sixty-seven.

"Seniors" are considered a vulnerable population because most are retired, their incomes are relatively fixed, and household expenses can outpace household incomes over time. As a result, many seniors significantly deplete their net wealth over their later years.

Not all seniors are financially vulnerable. In fact, the senior population demonstrates a high degree of heterogeneity in its financial security or hardship, with much stratification in income and wealth, relative to younger age groups.[1] However, research shows that a growing proportion of seniors experience food insecurity, and furthermore, that a large proportion of seniors experience financial hardship from the expenditure burdens related to housing, healthcare, or basic necessities.[2] [3]

In the United States, the senior population is growing as a proportion of total population. An estimated 16% of Americans were at least sixty-five years of age as of 2022, with projections that this proportion will increase to 20% by 2030. Furthermore, an estimated 1.9% of Americans were at least eighty-five years of age, with projections that this proportion will increase to 4.8% by 2030.[4] Given the financial position in which many seniors may find themselves, policies that affect the tax burden of this vulnerable population are acutely felt by a growing number of people.

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[1] Kuhn, M., & Ríos-Rull, J. V. (2025). Income and Wealth Inequality in the United States: An Update Including the 2022 Wave (No. w33823). National Bureau of Economic Research.

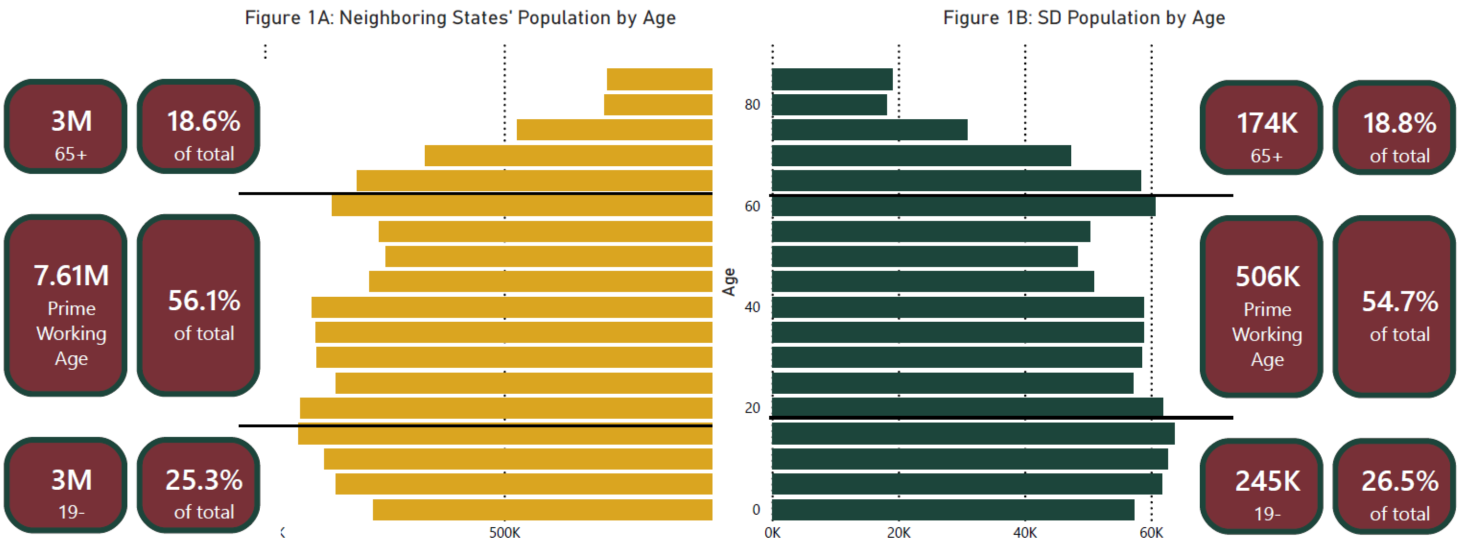
[2] For analysis of food security trends among seniors, see: Federal Interagency Forum on Aging-Related Statistics. (2024). Older Americans 2024: Key indicators of well-being.
Washington, DC: U.S. Government Printing Office.

[3] For analysis of financial stresses from housing, healthcare, or basic necessities, see: Lee, S., Sohn, S. H., Rhee, E., Lee, Y. G., & Zan, H. (2014). Consumption patterns and economic status of older households in the United States. Monthly Labor Review.

[4] Federal Interagency Forum on Aging-Related Statistics. (2024). Older Americans 2024: Key indicators of well-being.
Washington, DC: U.S. Government Printing Office.

As shown in Figure 1, South Dakota's senior segment of the population, estimated to be 18.8%, is approximately equal to the senior segment in South Dakota's neighboring states: Iowa, Minnesota, Montana, Nebraska, North Dakota, and Wyoming. South Dakota's working-age segment of the population is a slightly smaller proportion, at 54.7% between the ages of 20 and 64, while South Dakota's proportion of the population under the age of twenty is slightly larger than its neighboring states, at 26.5%.[5]

Figure 1A - Neighboring States' Population by Age and Figure 1B - South Dakota Population by Age



Disability

For purposes of policy discussions regarding vulnerable populations, an individual with a disability is typically considered one who receives federal benefits through Social Security Disability Insurance (SSDI) and/or Social Security Insurance (SSI), as a result of a disability. To receive these benefits, an individual must have a medical condition that the Social Security Administration deems severe enough to limit the ability to perform basic work-related tasks at the level of "substantial gainful activity," and the medical condition must last, or be expected to last, at least twelve consecutive months.[6] Similar to the income of seniors, the income derived from SSDI and SSI due to the presence of a disability is less flexible than the income of the rest of the population. Moreover, the additional resources required to accommodate an individual's disability, along with the lifestyle constraints inherent in a disability, make this segment of the population particularly vulnerable with respect to their financial wellbeing.

Figure 2 summarizes data on the percentage of the population with a disability, using data from the American Community Survey (ACS). The first column, ACS Disability Prevalence, estimates the percentage of each state's population with a disability.[7] These disability statistics do not necessarily reflect the exact percentages of the population receiving SSDI or SSI due to a disability. Rather, they reflect the rates at which individuals report "serious difficulty" in one of the following ways: hearing, seeing with corrective lenses, cognition, mobility, self-care, or living independently. The columns labeled "CDC" provide additional granularity to the general ACS disability metric by reporting the rates of specific types of disability, as reported by the Centers for Disease Control and Prevention.[8]

[5] United States Census Bureau, State Population by Characteristics: 2020–2025.
[6] United States Social Security Administration, Disability Benefits: How Does Someone Become Eligible?
[7] Disability Statistics, 2024 Disability Status Report: United States
[8] Centers for Disease Control and Prevention, U.S. State Profile Data: Adults 18+ years of age

Figure 2 - Disability Rates

Figure 2: Disability Rates							
State	**ACS Disability Prevalence**	**CDC Mobility**	**CDC Cognition**	**CDC Independence**	**CDC Hearing**	**CDC Vision**	**CDC Self-care**
South Dakota	11.3%	10.0%	10.0%	5.0%	8.0%	3.0%	3.0%
Iowa	11.0%	10.0%	12.0%	6.0%	6.0%	3.0%	2.0%
Minnesota	10.2%	10.0%	12.0%	6.0%	6.0%	4.0%	3.0%
Montana	12.4%	10.0%	14.0%	7.0%	9.0%	4.0%	3.0%
Nebraska	10.2%	10.0%	11.0%	7.0%	6.0%	4.0%	2.0%
North Dakota	10.2%	10.0%	11.0%	6.0%	8.0%	4.0%	2.0%
Wyoming	10.7%	11.0%	13.0%	7.0%	8.0%	5.0%	3.0%

(Percentages are with respect to state population)

Low-Income

Low-income households are, by definition, an economically vulnerable segment of the population. It is this type of household that faces liquidity constraints in its consumption behavior and, as a result, has less opportunity to save income and accumulate wealth. There are degrees of financial hardship and, by extension, degrees of need for tax relief and other economic assistance. Consequently, the term "low-income," in the context of social welfare programs, is a subjective scale that relies on one's worldview to determine who should be given preferential tax treatment based on their economic position.

Income reflects a household's ability to provide for its material wellbeing, while wealth can include more illiquid assets that may be less useful to provide for the household's basic needs. The criteria determining which households qualify for tax relief or economic assistance on the basis of being "low-income" varies greatly across program type and geographic region. However, household wealth is generally excluded from consideration, with few exceptions (see Wyoming tax relief programs detailed below.) The United States Census Bureau tracks and reports poverty data with multiple income thresholds. The Official Poverty Measure (OPM) and the Supplemental Poverty Measure (SPM) are used for the administration of policy and for research, respectively. These income thresholds vary according to household size. The SPM is more commonly used in economic and policy research.

Because there are degrees of financial hardship, the income thresholds for the SPM should not be viewed as a binary mechanism for sorting households into the broad categories of "poor" and "not poor." Rather, they should be viewed as a way of measuring the extent to which a household struggles to support its needs. For example, in this state, qualifying for Supplemental Nutrition Assistance Program (SNAP) benefits requires that a household's income be no greater than 100% of the OPM.[9] Qualifying for Medicaid requires that a household's income be no greater than 138% of the OPM,[10] and qualifying for free school lunches requires that a household's income be no greater than 130% of the OPM.[11] While differing degrees of poverty are used to justify differing degrees of governmental assistance, the exact level of income at which certain benefits are granted to a household is, to some extent, an arbitrary determination.

Figure 3 below summarizes poverty and income statistics for South Dakota and its neighboring states. The income thresholds for the OPM and SPM vary depending on household size. For the sake of simplicity in the illustrations, the SPM values used for comparative purposes are for a two-parent, two-child household. The average household

[9] South Dakota Department of Social Services, Supplemental Nutrition Assistance Program.
[10] S.D. Const., Art. XXI § 10
[11] SDCL § 13-65-1

size in the United States is roughly 2.50,[12] while the average household size in South Dakota is roughly 2.33.[13] Figure 3 uses the SPM specifically for households that pay a mortgage.

A state's income distribution can be further analyzed with percentiles. By sorting household income from lowest to highest, the household income at a specific percentile will reveal what percentage of households fall below an income value. For example, the household income at the 50th percentile is the value at which half of all households fall above the value, and half fall below. The 50th percentile also represents the median. Household income values at the 20th percentile provide a cursory view of the incomes one can expect among the neediest segment of a population.

Figure 3 compares 20th percentile household incomes among the neighboring states.[14] South Dakota's 20th percentile falls below the SPM income threshold. This does not imply that 20% of South Dakota's population is under the poverty level. Recall that the SPM varies according to the size and characteristics of the household. Incomes nearing the SPM income threshold indicate a greater likelihood of financial hardship and difficulty in meeting the household's material needs. South Dakota does, however, report the highest poverty rate among its neighboring states.[15]

Figure 3 - 2024 Poverty and Income Statistics

Figure 3: Poverty and Income Statistics. 2024			
State	**Poverty Rate**	**Families Below Poverty**	**20th Percentile Household Income**
South Dakota	7.5%	16,825	$ 35,929
Iowa	7.0%	56,479	$ 33,795
Minnesota	5.6%	80,470	$ 39,271
Montana	6.7%	18,408	$ 33,566
Nebraska	7.0%	34,824	$ 34,294
North Dakota	6.5%	12,299	$ 34,573
Wyoming	6.8%	10,170	$ 31,874
(SPM Income Threshold: $39,068)			

Veterans

There are many welfare programs at the state and federal levels that target veterans. Included among them are tuition assistance, healthcare benefits, advantageous insurance policies, housing and mortgage assistance, and tax relief. Some of the programs, specifically those offered in this state for purposes of tax relief, are offered only to certain veterans—i.e., those with a disability. Since serving in the United States military does not, by itself, adversely affect an individual's ability to work or generate income, and since the tax relief programs offered in this state to veterans also require that the veteran be disabled to some degree, veterans are not considered a vulnerable population per se, and are discussed only if there is some other characteristic of financial vulnerability.

Figure 4 below summarizes statistics on the veteran populations of South Dakota and its neighboring states.[16] The column "Veterans Receiving Disability Compensation" does not represent the number of veterans rated as being 100% disabled from a service-connected disability. Rather, it represents all veterans receiving some level of veterans disability compensation benefits.

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[12] United States Census Bureau, Historical Household Tables

[13] United States Census Bureau, Data Tables: Households and Families

[14] United States Census Bureau, Data Tables: Household Income Quintile Upper Limits.

[15] National Institute on Minority Health and Health Disparities, Poverty Table by State.

[16] United States Department of Veterans Affairs, State Summaries.

Figure 4 - Veteran Statistics

Figure 4: Veteran Statistics			
State	**State Population**	**Veterans**	**Veterans Receiving Disability Compensation**
South Dakota	924,669	63,365 (6.5%)	22,588 (2.4%)
Iowa	3,241,488	177,099 (5.5%)	50,592 (1.6%)
Minnesota	5,793,151	286,597 (4.9%)	104,656 (1.8%)
Montana	1,144,694	87,184 (7.6%)	29,753 (2.6%)
Nebraska	2,005,465	117,623 (5.9%)	48,257 (2.4%)
North Dakota	796,568	47,474 (6.0%)	15,318 (1.9%)
Wyoming	587,618	44,835 (7.6%)	16,035 (2.7%)

(Percentages are computed with respect to state population)

Tax Types and Tax Incidence

The burden of taxation does not always align with the legal duty to remit taxes. For example, retailers are legally responsible for paying the sales tax. However, since retailers pass the entire cost of sales taxes to the purchaser, it is the purchaser who incurs the burden of taxation. Put another way, the legal incidence of a tax corresponds to the person who pays money to the government. The economic incidence of a tax corresponds to the person who incurs the financial burden of the tax.

The distinction between the legal incidence and economic incidence of a tax is most salient in the case of sales taxes. The consumer sees the tax as an itemized cost on a receipt, while the retailer acts as a pass-through entity by remitting the taxes on a monthly basis. A less obvious example involves property taxes on rental property. Fundamentally, residential housing rent is the compensation made to the landlord for the costs of supplying housing services, where equilibrium rental rates depend on supply factors (e.g. the cost incurred by landlords to annually pay property taxes and the supply of housing units) and demand factors. Increased effective property tax rates increase residential rental rates. While renters bear some economic incidence of property taxes, they do not bear any legal incidence of property taxes.

Taxes are imposed either to generate revenue, to modify behavior through the price mechanism, or to do both. There exist several types of taxes, such as excise taxes, severance taxes, sin taxes, inheritance taxes, and pollution taxes. This memorandum will, however, focus on three types:

(1) Property taxes;
(2) Sales taxes; and
(3) Income tax.

Property Tax Relief in South Dakota

South Dakota provides six property tax programs which, either directly or indirectly, are designed to reduce the property tax burden on vulnerable populations.

Paraplegic Individuals and Wheelchair Accessible Dwellings

SDCL §§ 10-4-24.9 and 10-4-24.10 provide a full tax exemption for a dwelling, or part of a dwelling, that is owned and occupied by a paraplegic veteran, so long as the dwelling, or part of the dwelling, is "specifically designed for use by paraplegics as wheelchair homes." Veterans who have lost both legs also qualify for the program.

SDCL §§ 10-4-24.11 through 10-4-24.13 provide a full, or partial, property tax exemption on a dwelling, or part of a dwelling, that is owned and occupied by a paraplegic individual or an individual who has lost both legs. The amount of the exemption is dependent on the household income of the individual. The lowest income bracket receives a 100% reduction on the property taxes imposed on the dwelling, and the highest income bracket receives a 25% reduction. The income requirements for property tax relief under this program vary according to whether the individual lives in a single-member household or a multi-member household.

The programs for paraplegic individuals are an exemption from, or reduction of, property taxes imposed on dwellings. The term "dwelling" is not explicitly defined in SDCL chapter 10-4 and, as a result, there is the potential for confusion in the interpretation of the law. Given that state law requires the dwelling be owned and occupied by the paraplegic individual for the entire year over which the exemption applies, it could be argued that the intention is for this to apply only to owner-occupied single-family dwellings, as defined in SDCL § 10-13-39. State law does not, however, prohibit the application of this property tax exemption to a dwelling not classified as owner-occupied. An owner-occupied single-family dwelling is subject to the occupancy requirements set forth in SDCL § 10-13-39, but a dwelling that is granted any of the property tax relief measures in SDCL §§ 10-4-24.9 through 10-4-24.13 is subject to stricter occupancy requirements pursuant to SDCL §§ 10-4-24.10 and 10-4-24.11.

Assessment Freeze Program for Low-Income Households

SDCL chapter 10-6A provides a tax assessment freeze on owner-occupied property for low-income seniors. As described above, the burden of property taxation follows the assessed value within a taxing district. Fixing the assessed value of a property provides implicit property tax relief, since the assessed value of all other property increases over time, the burden of taxation shifts relatively more onto the unfrozen assessed value. Due to this feature of the state's property tax system, the degree of property tax relief increases over time. The longer the assessment freeze is applied to a property, the more the burden of taxation shifts off that property.

To qualify for a tax assessment freeze, an individual must be at least sixty-five years old or qualify as disabled for social security and have a household income no greater than $55,000 in the case of a single-member household or $65,000 in the case of a multi-member household. These income limitations increase annually according to the consumer price index for urban wage earners and clerical workers (CPI-W).

To prevent the program from being available to those with relatively higher levels of wealth in real property, the assessment freeze is applicable only to property with an assessed value that is no greater than $500,000 for the first year in which the assessment freeze is applied. The assessed value limitation increases annually in accordance with the CPI-W.

The assessment freeze program has remained largely unchanged for most of its existence. The program has, since its inception, been intended as a benefit for low-income seniors who are at least sixty-five years of age and for low-income individuals with a disability. The evolution of this program to accommodate vulnerable populations pertains mostly to changes in the maximum property value and the maximum household income values necessary for eligibility. Figure 5 below shows how these parameters changed over time and will continue to change because the income and value limitations are indexed to inflation.

Figure 5A - Income Limits and Supplemental Poverty Measure Income Thresholds

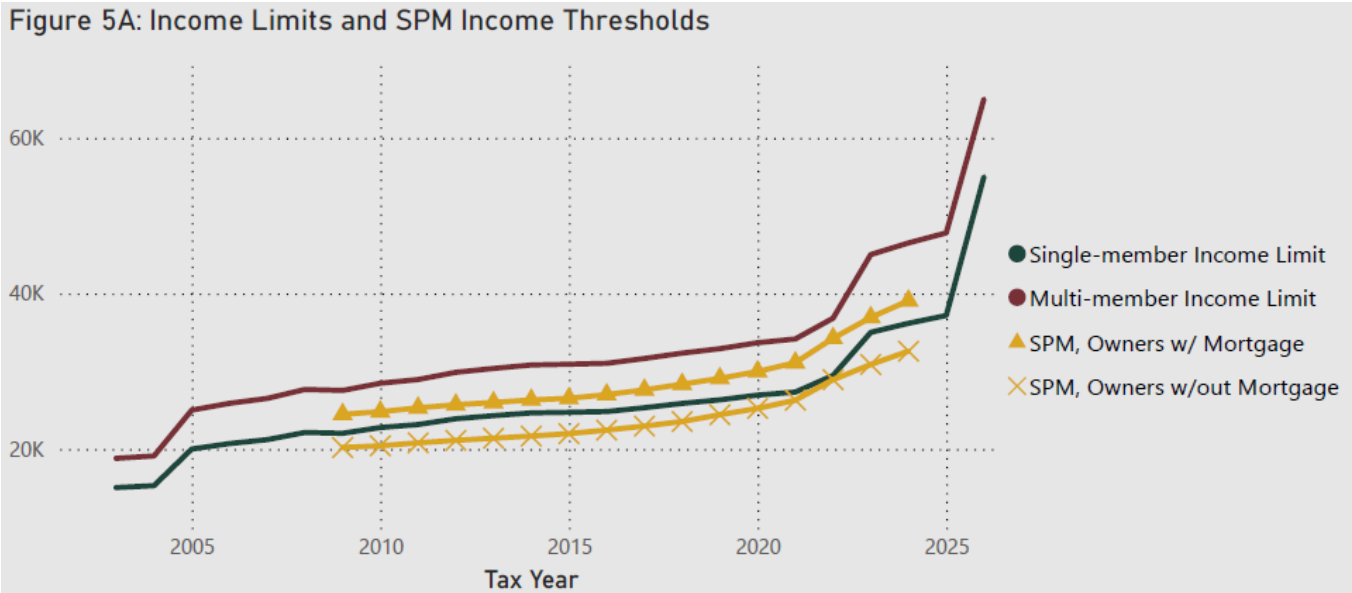
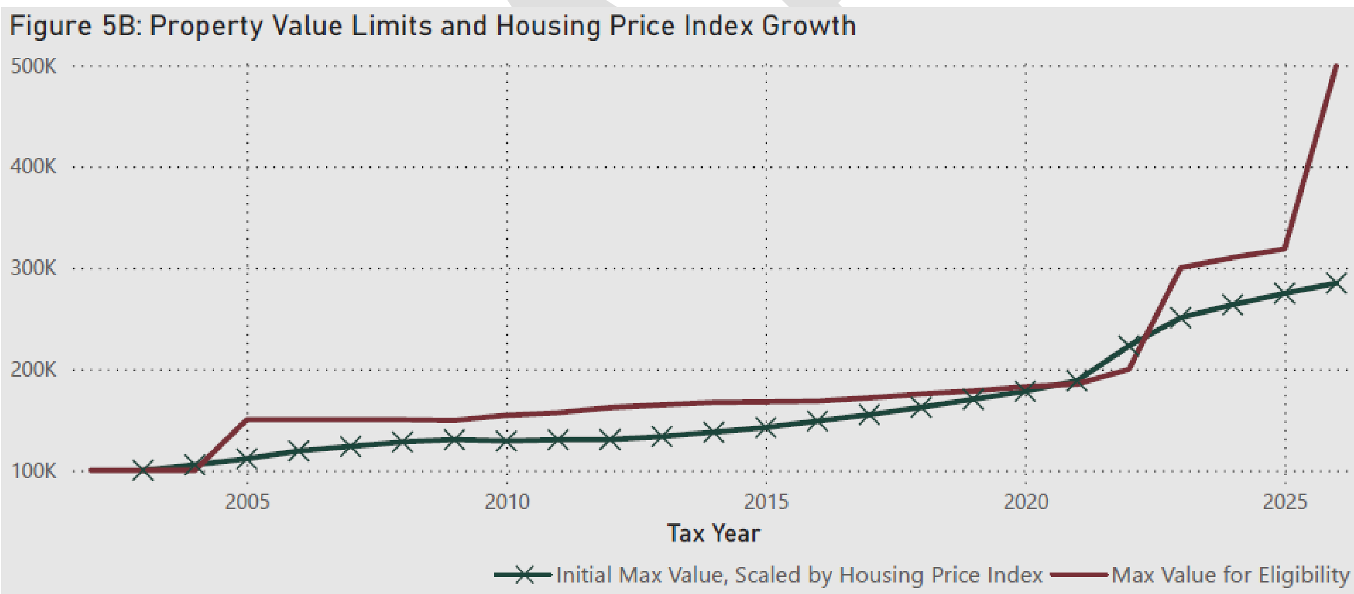


Figure 5B - Property Value Limits and Housing Price Index Growth



As evidenced in Figure 5A, the income limit on multi-member households has remained steadily above the SPM thresholds for homeowners with and without a mortgage, while the single-member household income limit has fallen between these two poverty thresholds. In recent years, these income limits have increased substantially as a result of two bills—2022 HB 1001 and 2025 SB 216. While SPM thresholds are not yet available for 2025 and 2026, it would seem that the income limits for this program will continue to evolve comfortably above these SPM thresholds.

Figure 5B shows how the maximum house value for the assessment freeze program has evolved, compared to the maximum house value from 2002, indexed according to the House Price Index, as reported by the United States Federal Housing Finance Agency.[17] The selection of 2002 as the initial period is, ultimately, arbitrary. Similar to the income limits depicted in Figure 5A, the maximum house value has historically hovered at, or slightly above, the initial period's maximum house value when put into the context of housing price increases over time. Like the income limits depicted in Figure 5B, this maximum house value has increased substantially as a result of 2022 HB 1001 and 2025 SB 216.

Taken together, Figures 5A and 5B show how the scope of this program has increased in recent years, expanding the window of eligibility for tax relief relative to the program's historical standards.

Municipal Property Tax Reduction for Low-Income Households

SDCL chapter 10-6B authorizes a municipality to implement a property tax reduction program for low-income individuals with owner-occupied single-family dwellings. To be eligible for property tax relief under this program, an individual must be at least sixty-five years old or disabled. Tax relief is determined by a graduated schedule relating household income to property tax relief. A 100% tax reduction is provided for households in the lowest income bracket, and a 25% tax reduction is provided for households in the highest tax bracket, which terminates at $18,000 (~$19,600 in 2026 dollars) for single-member households, and $22,000 (~$24,000 in 2026 dollars) for multi-member households. The income limitations increase annually according to the CPI-W.

Currently, only Rapid City offers this optional program to its residents.

Homestead Property Tax Deferral, Low-Income Households

SDCL chapter 10-6C provides low-income households with the ability to defer all property taxes levied on an owner-occupied single-family dwelling indefinitely, so long as the owner of the property meets the program's eligibility criteria. Unlike other tax programs in this state, the owner must be at least seventy years old and disability is not recognized as an alternative pathway to eligibility. In addition to meeting the age requirement, the owner of the dwelling must have a household income that does not exceed $16,000 for a single-member household (~$17,400 in 2026 dollars) or $20,000 for a multi-member household (~$21,800 in 2026 dollars).

The income limitations set forth for this program increase annually according to the CPI-W. So long as a dwelling is approved for a property tax deferral, the owner of the dwelling is protected from losing the property through the tax deed sale process set forth in SDCL chapter 10-25. This is the process by which taxing districts recover delinquent taxes on property.

In the case of most property tax relief programs, expanding eligibility or expanding the relief granted results in a shift of the tax burden to other properties. This ensures that taxing district budgets are not adversely affected by such programs. This program does not, however, result in a shift of the tax burden onto other properties. The taxes imposed on a property receiving tax relief under this program are eventually collected, with interest at a rate of 4% annually. The burden of taxation shifts into future years for that property, instead of shifting onto other property within the same year. As a result, expanding eligibility for the program or expanding the degree of relief granted under the program affects taxing district budgets only marginally, and only until such time as the property taxes are paid.

[17] Federal Reserve Bank of St. Louis, All-Transactions House Price Index for South Dakota.

Homestead Property Tax Deferral, Low-Value Homesteads

SDCL §§ 43-31-1 provides similar property tax relief to a "homestead," where the owner is protected from losing the property through the tax deed sale process. This program applies automatically to all homesteads valued at $170,000 or less, if the owner is at least seventy years of age. Unpaid taxes accumulate at a rate of 10% and must be paid when the property no longer qualifies for the program.

The most significant amendment to this program was made under 2005 SB 97, where a maximum homestead value of $170,000 was added as an additional requirement to qualify. This maximum value has not been adjusted since the 2005 amendment was made and does not increase annually by an inflation index. $170,000 in 2005 is the equivalent of roughly $283,000 in 2026. Prior to the 2005 amendment, all homesteads of individuals at least seventy years of age were protected from the tax deed sale process under this program.

Municipal Property Tax Rebate Program

2026 HB 1260 authorized municipalities to establish a property tax rebate program for owner-occupied single-family dwellings, pursuant to § 10-13-46. Under this law, a municipality may establish its own requirements for a subset of property owners that are determined to need property tax relief. The municipality also defines the rebate schedule. This contrasts with the municipal property tax reduction program discussed above, in which both the eligibility requirements and degree of tax relief are fixed by law. A rebate program implemented under § 10-13-46 applies only to property taxes levied by the municipality on owner-occupied single-family dwellings.

Renters

Residents of this state who are renters incur a tax burden on the rental properties in which they reside. The pass-through of property taxes through rents is the subject of much economic research. However, the academic community has not reached a consensus on the degree to which property taxes are passed onto renters. Due to heterogeneity in the housing markets and property tax structures across the country, the insights from economic research performed in one part of the country may not be applicable to the housing market in this state. Regional analyses do provide an indication of how property tax burdens are passed onto renters.

In 2025, S.S. Baker analyzed the residential rental market in California to derive estimates on how increases in taxes affected rental rates. Ms. Baker found that for every $1 increase in property taxes, rental rates increased about $0.53, resulting in a roughly equal share of the tax burden between landlords and tenants.[18] In 2020, D.J. Schwegman analyzed rental property in the state of New York, and the taxation thereof, to estimate the extent to which an increase in property taxes on rental property resulted in higher rents. Schwegman found that only about 10%–15% of a property tax increase is passed onto the renter through an increase in rental rates.[19]

Some states offer property tax relief for renters. Minnesota's relief program assumes that 17% of a tenant's rental payments derive from the property taxes imposed on the rental property.[20] Iowa's program assumes that 23% of a tenant's rental payments derive from the property taxes imposed on the rental property.[21]

South Dakota does not currently offer any property tax relief to renters.

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[18] Baker, S. S. (2025). Property Tax Pass-Through to Renters: A Quasi-Experimental Approach.

[19] Schwegman, D. J., & Yinger, J. (2020). The Shifting of the Property Tax on Urban Renters: Evidence from New York State's Homestead Tax Option (No. 20-43).

[20] Minnesota Department of Revenue. (2018). Estimate of the Percentage of Rent that Constitutes Property Taxes in Minnesota.

[21] Iowa Department of Health and Human Services. (2025). Rent Reimbursement. Employees' Manual Title 6, Chapter H.

Sales Taxes in South Dakota

A sales tax, or alternatively, a gross receipts tax, is commonly considered a regressive tax, in that the burden of taxation falls more heavily on lower-income households. A lower-income household will spend a greater proportion of its income on sales taxes than will a higher-income household.

States can, and do, adjust the sales tax base to reduce regressivity. Almost all states exempt grocery food from sales tax, and some that impose a sales tax on grocery food do so at a reduced rate. Since low-income households spend a greater proportion of their income on food, relative to high-income households, an exemption of food from sales tax reduces regressivity.

Seniors typically reduce their levels of consumption after retirement, and a larger share of their consumption, relative to non-seniors,[22] is allocated to three categories—healthcare, food, and housing. Healthcare and housing are largely exempt from taxation and food is exempt from sales taxes in most states. Theoretically, due to the level and composition of seniors' consumption habits relative to non-seniors, one could argue that the burden of sales tax is borne relatively less by seniors than by non-seniors.

Sales Tax Relief in South Dakota

Pursuant to SDCL chapter 10-45A, South Dakota provides a sales tax rebate program for low-income seniors and low-income disabled individuals.

To be eligible for payments under this program, an individual must be at least sixty-five years of age or disabled and fall below certain income limits. No more than one individual per household may submit a claim under the program. If the individual meets the eligibility criteria set forth in statute, the secretary of the Department of Revenue will issue a payment to the individual in an amount that takes into account the individual's income and whether the individual lives in a single-member household or a multi-member household.

The nomenclature used to describe this program is imprecise. State statute uses the term "refund" throughout chapter 10-45A. This program is not, however, a tax refund. In the context of taxation, a "refund" refers to the compensation for, or reimbursement of, taxes paid in excess of the taxes due and payable to a government entity. A "rebate" is a tax provision that lowers the tax incidence through payment to a person, for purposes of providing an economic incentive or tax relief. A refund corrects an error, ensuring that the tax ultimately paid by a person equals that person's tax liability, whereas a rebate lowers the tax liability of the person altogether through a payment made after a transaction.

This program, and the disbursements made under the program, are not related to sales taxes paid by individuals. The disbursements are determined by two primary factors:

(1) An annual appropriation by the Legislature setting forth the amount of general funds available for this program; and
(2) The household income of the individual.

From a theoretical perspective, it could be argued that the political motivation for the program is to compensate certain low-income households for the economic incidence of sales taxes incurred by the household, and furthermore that a general formula is more easily implementable than computing the sales taxes paid by each claimant of the program. From a technical perspective, the key parameters of the program are unrelated to sales

[22] Lee, S., Sohn, S. H., Rhee, E., Lee, Y. G., & Zan, H. (2014). Consumption patterns and economic status of older households in the United States. Monthly Labor Review.

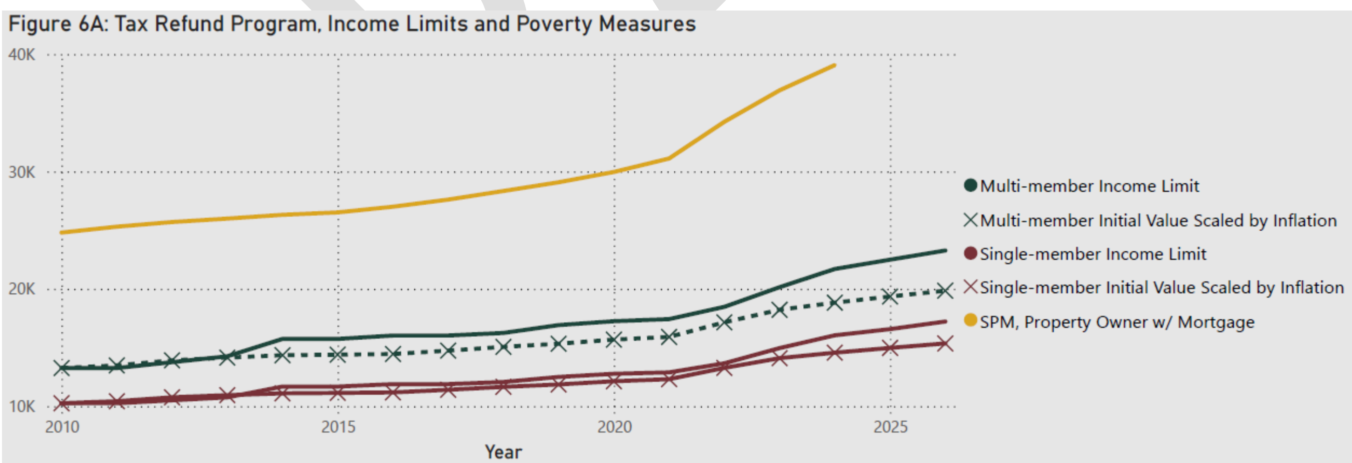
tax receipts. Figure 6 below demonstrates how the moneys appropriated for the program have steadily decreased in both real and nominal terms, while state sales tax revenue has increased over the same period.

The sales tax rebate program has evolved since its inception in 1974. Historically, the changes to the program entailed only adjustments to the amount appropriated for the program, income limitations to be eligible for disbursements, and the amounts set forth in statute that make up the graduated disbursement schedule. The most significant change in the program's construction occurred in 2026.[23] Prior to 2026, the income brackets, and the amount of any claim issued under the program, were explicitly set forth in statute. The disbursement schedule was updated on an annual basis to ensure that the estimated expenses for the program did not exceed the amount appropriated for that purpose, which resulted in annual surpluses. As a result of 2026 SB 21, in 2026 and each year thereafter, the income limits remain explicitly set forth in statute, but the amount of any claim issued under the program will be determined by a formula under which all moneys appropriated for the program are disbursed on a pro-rata basis, with an upper limit to the amount of any single claim.

2026 SB 21 also provided that the property tax rebate program under SDCL chapter 10-18A was to be combined into the sales tax rebate program under chapter 10-45A. Before 2026, the amount appropriated for the sales tax rebate program was shared with the property tax rebate program under chapter 10-18A. Individuals could submit a claim for the sales tax rebate program or the property tax rebate program, but not both. The property tax rebate program functioned in much the same way as the sales tax rebate program, with almost identical eligibility criteria, except that the former had a larger number of income brackets, and the rebate amount was computed as a percentage of property taxes paid by the individual, instead of a fixed amount based on the income of the individual.

Figure 6 depicts the income brackets and the annual amount appropriated from which the disbursement schedule is ultimately derived based on the number of claimants. The income limits in Figure 6A are shown in comparison to the SPM income threshold for a household with a mortgage.

Figure 6A - Tax Refund Program, Income Limits and Poverty Measures



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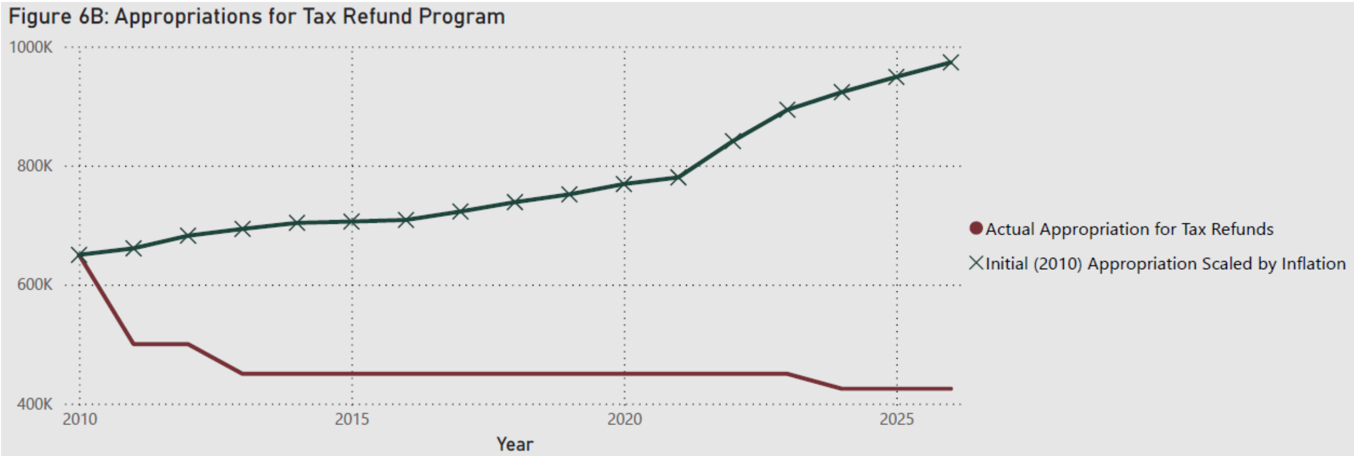
[23] 2026 SB 21

Figure 6B - Appropriations for Tax refund Program



For more than fifteen years, the amount appropriated for this program has been steadily declining, in both real and nominal terms, while the income limits for this program have grown slightly quicker than inflation.

Tax Relief in Other States

A holistic view of a state's tax system is recommended when evaluating tax relief measures provided by that state. Fundamentally, tax relief measures are mechanisms for wealth redistribution. Property taxes, sales taxes, and income taxes are not considered "benefits taxes." Lowering the tax incidence on an individual through a tax relief program does not change the amount of government services that the individual receives. Given no change in the level of government services provided, a tax relief program for certain individuals requires a compensatory change in the level, or type, of taxes imposed by the state on other individuals.

For instance, a state may provide more aggressive property tax relief for vulnerable populations if it imposes a corporate income tax. Alternatively, a state can adjust the tax incidence of any vulnerable population through income tax credits if the state imposes higher income tax rates on high-income households. Some states impose an estate tax or inheritance tax, which can be used to reduce other tax rates that are deemed to be borne more heavily by vulnerable populations. An increase in property tax rates on nonresidential property can finance a reduction on owner-occupied property. The entire composition of a state's revenue sources need to be given consideration when the state's property tax relief measures are evaluated.

Iowa

Iowa provides tax relief to multiple vulnerable populations through its income tax, sales tax, and property tax structures.

(1) Disabled veterans with a 100% disability rating from a service-connected disability receive a 100% property tax exemption on their owner-occupied property.[24]
(2) Low-income seniors and disabled individuals can qualify for partial rent reimbursement in an amount up to $1,000 annually, or a tax exemption on 10% of a home's assessed value. The income limit for the partial rent reimbursement program as of 2025 is $26,895.[25] For individuals at least seventy years old, the income requirements expand to 250% of the federal poverty level.

[24] Iowa Department of Revenue, Tax Credits and Exemptions
[25] Iowa Department of Revenue, Rent Reimbursement

(3) Low-rent housing structures owned by a nonprofit corporation are exempt from property taxation until the development mortgage on the structure is totally paid.[26]
(4) Unprepared food and grocery items are exempt from sales taxation.
(5) A sales tax holiday on clothing and shoes is provided each year on the first Friday and Saturday of August.[27]
(6) A refundable Earned Income Tax Credit (EITC) is provided by the state, at the rate of 15% of the federal EITC.[28]

Iowa also imposes a flat individual income tax at a rate of 3.9%,[29] a graduated corporate income tax at rates between 5.5% and 7.1%,[30] and a state sales tax at a rate of 6%. A local option sales tax is authorized at a rate up to 1%. This local option sales tax is divided among the county and cities, according to population and property tax levies. In certain qualified counties, half of the money must be used for property tax relief.[31]

Minnesota

Minnesota provides tax relief to multiple vulnerable populations through its income tax, sales tax, and property tax structures.[32]

(1) Disabled veterans and unremarried widows of disabled veterans receive a reduction in the taxable value of their homestead. The reduction is either $150,000 or $300,000, depending on whether the individual's disability rating from a service-connected disability is 70% or 100%, respectively.[33]
(2) Seniors making less than $96,000 a year can qualify for a property tax deferral program, where the annual property tax burden on the individual's homestead property is capped at 3% of the individual's household income. All taxes imposed in excess of the 3% limit are paid by the state to the political subdivisions, with accumulated interest, once ownership of the property changes.[34]
(3) Individuals who are blind or who have a total disability receive a reduced tax rate on the first $50,000 of market value on their homestead.[35]
(4) Individuals can qualify for a property tax refund if their household income does not exceed $142,490. The amount of the refund depends on the property taxes imposed on the individual's homestead and on the income generated by the individual's household. The program's eligibility criteria are expanded for individuals over 65.[36]
(5) Individuals with a household income that is less than $77,570 can qualify for a partial rent reimbursement in an amount up to $2,720 annually.[37]
(6) Unprepared food and grocery items are exempt from sales taxation.
(7) A refundable Earned Income Tax Credit (EITC) is provided by the state at a rate of 4% of earned income, up to a maximum of $369 per year.[38]

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[26] Iowa Department of Revenue, Tax Credits and Exemptions
[27] Iowa Department of Revenue, Iowa's Annual Sales Tax Holiday
[28] Iowa Department of Revenue, Line 25: Iowa Earned Income Tax Credit
[29] Iowa Department of Revenue, Individual Income Tax Provisions
[30] Iowa Department of Revenue, Iowa Corporate Income Tax Rates
[31] Iowa Department of Revenue, Local Option Sales Tax (LOST)
[32] Minnesota Department of Revenue, Property Tax Programs
[33] Minnesota Department of Revenue, Market Value Exclusion for Veterans with a Disability
[34] Minnesota Department of Revenue, Property Tax Deferral for Senior Citizens
[35] Minnesota Department of Revenue, Special Homestead Classification
[36] Minnesota Homeowner's Homestead Credit Refund
[37] Minnesota Department of Revenue, Renter's Credit
[38] United States Internal Revenue Service, States and local governments with Earned Income Tax Credit

Minnesota also imposes an individual income tax at rates ranging from 5.35% to 9.85%, a flat corporate income tax at the rate of 9.8%, and a state sales tax at the rate of 6.875%. An optional local sales tax is authorized at rates up to 1% for counties and 0.5% for cities.

Montana

Montana provides tax relief to multiple vulnerable populations through its income tax, sales tax, and property tax structures.

(1) Disabled veterans with a 100% disability rating from a service-connected disability receive a property tax reduction based on the veteran's household income. The lowest income brackets are capped at $48,152 for single filers and at $57,781 for married filers. These filers receive a 100% reduction in property taxes. The reduction decreases for higher income brackets, the highest of which is capped at $62,598 for single filers and at $72,229 for married filers. These filers receive a 50% reduction in property taxes. The income caps are adjusted annually according to inflation.[39]

(2) Disabled first responders with a 100% disability rating from an injury related to their service receive a property tax reduction based on the individual's household income. The income brackets and tax reduction schedule are the same as those set forth in (1) for disabled veterans. The lowest income brackets are capped at $48,152 for single filers and at $57,781 for married filers. These filers receive a 100% reduction in property taxes. The reduction decreases for higher income brackets, the highest of which is capped at $62,598 for single filers and at $72,229 for married filers. These filers receive a 50% reduction in property taxes. Income limits are adjusted annually according to inflation.[40]

(3) Low-income individuals are eligible to receive a tax rate reduction on the first $418,000 of the individual's home market value. The lowest income brackets are capped at $14,286 for single filers and at $19,249 for married filers. These filers receive an 80% reduction in property taxes on the first $418,000 of the individual's home market value. The reduction decreases for higher income brackets, the highest of which is capped at $29,086 for single filers and at $38,917 for married filers. These filers receive a 30% reduction in property taxes on the first $418,000 of the individual's home market value. Income limits are adjusted annually according to inflation.[41]

(4) Homesteads are taxed according to a progressive tax rate structure with respect to the market value. The first $378,000 of a homestead is subject to a 0.76% property tax rate. The portion of market value from $378,001 to $756,000 is subject to a 0.90% property tax rate. The portion of market value from $756,001 to $1,511,999 is subject to a 1.10% property tax rate. The portion of market value in excess of $1,512,000 is subject to a 1.90% property tax rate. This tax structure gives favorable tax treatment to households with less wealth in real estate.[42]

(5) Senior homeowners and senior renters can qualify for a homeowner or renter tax credit in an amount up to $1,150, if the homeowner or renter is at least sixty-two years old and has a household income that does not exceed $45,000.[43]

(6) A refundable Earned Income Tax Credit (EITC) is provided by the state, at the rate of 10% of the federal EITC.[44]

[39] Montana Department of Revenue, Montana Disabled Veteran Assistance Program (MDV)
[40] Montana Department of Revenue, Disabled First Responder (DFR) Assistance Program
[41] Montana Department of Revenue, Property Tax Assistance Program (PTAP)
[42] Montana Department of Revenue, Tax Relief for Homesteads and Long-term Rentals
[43] Montana Department of Revenue, Montana Elderly Homeowner/Renter Credit
[44] Montana Department of Revenue, Montana Earned Income Tax Credit

Montana also imposes an income tax at rates ranging from 4.7% to 5.9% for ordinary income,[45] and a flat corporate income tax at a rate of 6.75%.[46] Montana does not provide for the imposition of a state or local sales tax.

Nebraska

Nebraska provides tax relief to multiple vulnerable populations through its income tax, sales tax, and property tax structures.

(1) Disabled veterans with a 100% disability rating or total disability from a service-connected disability receive a 100% property tax exemption on their homestead.[47]
(2) Low-income seniors can qualify for a property tax exemption on some or all of their assessed value, based on household income. The lowest income bracket ends at $31,600 and qualifies for a 100% property tax exemption. The highest income bracket ends at $46,900 and qualifies for a 10% property tax exemption. The income limitations for this program increase annually by an inflation metric, and have done so since 2018.[48]
(3) Individuals with a total disability or other specific disability limiting the ability to work qualify for a property tax relief program in which the lowest income bracket ends at $34,700 and qualifies for a 100% property tax exemption. The highest income bracket ends at $50,000 and qualifies for a 10% property tax exemption. The income limitations for this program increase annually by an inflation metric, and have done so since 2018.[49]
(4) Unprepared food and grocery items are exempt from sales taxation.
(5) A refundable Earned Income Tax Credit (EITC) is provided by the state, at the rate of 10% of the federal EITC.[50]

Nebraska also imposes an individual income tax at rates ranging from 2.46% to 4.55%,[51] a corporate income tax at a rate of 4.55%, and a state sales tax at a rate of 5.5%. An optional city sales tax is authorized at a rate up to 2%.[52]

North Dakota

North Dakota provides tax relief to multiple vulnerable populations through their income tax, sales tax, and property tax structures.

(1) Disabled veterans with at least a 50% disability rating from a service-connected disability receive a reduction in the taxable value of their owner-occupied property. The amount of exempted value increases as the veteran's disability rating increases.[53]
(2) Seniors, or individuals with a disability, receive a full or partial reduction in the taxable value of their property. There are two income brackets that determine the amount of property tax relief granted under this program. The maximum household income to qualify is $70,000.
(3) Seniors, or individuals with a disability, receive partial rent reimbursements of up to $600 per year.
(4) Unprepared food and grocery items are exempt from sales taxation.

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[45] Montana Department of Revenue, 2025 Montana Tax Tables and Deductions
[46] Montana Department of Revenue, Corporate Income Tax
[47] Neb. Rev. Stat. § 77-3506
[48] Neb. Rev. Stat. § 77-3507
[49] Neb. Rev. Stat. § 77-3508
[50] United States Internal Revenue Service, States and local governments with Earned Income Tax Credit
[51] Nebraska Department of Revenue, Nebraska Tax Rate Chronologies
[52] Nebraska Department of Revenue, Local Sales and Use Tax Rates
[53] North Dakota Office of State Tax Commissioner, Property Tax Credits

North Dakota also imposes an individual income tax at rates up to 2.5%, a graduated corporate income tax at rates up to 4.31%,[54] and a state sales tax at the rate of 5%. An optional local sales tax is authorized at a rate up to 3% for counties and cities.[55]

Wyoming

Wyoming provides tax relief to multiple vulnerable populations through its income tax, sales tax, and property tax structures.

(1) Seniors, or individuals with a disability, with a household income not exceeding 250% of the federal poverty level may, beginning at age 62, defer one-half of all property taxes levied on their principal residence each year. This amount becomes a lien on the property and accrues annual interest at a statutorily defined rate that depends on the characteristics of the applicant. The lien becomes due and payable when ownership of the property changes or when the owner of the property ceases to meet the qualifications.[56]
(2) Veterans, with or without a disability, qualify for a partial property tax exemption for the veteran's principal residence, of up to $6,000.[57]
(3) Individuals qualify for a reduction equaling 65%–75% of the total property tax levy on their principal residence if their household income is no greater than 145% of the median gross household income of the county, and either their household assets do not exceed $150,000 (in 2025 dollars, adjusted for inflation) or their tax liability is at least 10% of their household income. The reduction is capped at 50% of the median residential property liability in the county.[58]
(4) Unprepared food and grocery items are exempt from sales taxation.

Wyoming imposes a state sales tax at a rate of 4% and authorizes an optional local sales tax at a rate up to 2% for counties.

Veterans

Tax relief programs in neighboring states, which are targeted at veterans, are property tax measures. Most require that the veteran be disabled from a service-connected disability in order to qualify for tax relief. Wyoming is the lone exception. South Dakota provides property tax relief programs to veterans, but only those who possess a specific characteristic of a vulnerable population—i.e., a disability. Veterans are not typically granted property tax relief solely by virtue of serving in the United States' military. Veterans are not perceived to be a vulnerable population. Relief is typically provided only when a veteran possesses another trait that exposes the veteran to financial vulnerability.

The degree of disability required to qualify varies from state to state. Most often, a 100% disability rating from a service-connected disability is required to qualify for property tax relief. However, some programs provide a degree of tax relief to those having only a 50% or 70% disability rating. In those programs, the degree of tax relief increases as the disability rating of the veteran increases.

[54] North Dakota Office of State Tax Commissioner, Income Tax
[55] North Dakota Office of State Tax Commissioner, Local Taxes - City and County Taxes
[56] Wyoming Department of Revenue, General Information, Tax Relief W.S. § 39-13-107(b)(iii)
[57] Wyoming Department of Revenue, General Information, Tax Relief W.S. § 39-13-105
[58] Wyoming Department of Revenue, General Information, Tax Relief W.S. § 39-13-109

Individual Income Tax

Income tax structures provide states with an ability to impact the burden of taxation according to criteria deemed optimal by policymakers. Each year, when an individual files an income tax return, the state gains information regarding characteristics of the household that indicate whether the household is vulnerable, and based on that information, can provide tax relief accordingly through the income tax system. Other types of tax relief programs, such as property tax relief programs, often require individuals to be aware of their eligibility and engage in an application procedure. As a result, existing property tax relief programs may experience underutilization. The programs may apply only to a subset of those who actually qualify, whereas state income tax relief programs lend themselves to a more uniform implementation.

For states with progressive income tax schedules—i.e., where tax rates are lower for low-income households and higher for high-income households—vulnerable populations receive tax relief through a lower effective tax rate. In this context, the vulnerability of a household is determined by the amount of income generated, instead of by age or disability status.

Progressive income tax schedules also reveal those segments of the population that the state believes should be granted tax relief. The lowest brackets of a state income tax schedule indicate the income levels that the state determines are most in need of a tax burden reduction. Some states' tax schedules are more stratified than others. Minnesota has increasing tax rates over four tax brackets, Nebraska and North Dakota have increasing tax rates over three tax brackets, Montana has increasing tax rates over two tax brackets, and Iowa has a single tax rate across all income levels. Figure 7 below summarizes the income limits for the lowest income brackets of neighboring states with at least two tax brackets, revealing the preferences of neighboring states to define the most vulnerable households by household incomes.

Figure 7 - 2025 Income Tax, Lowest Income Brackets

Figure 7: Income Tax, Lowest Income Brackets, 2025				
State	**Lowest Bracket Limit Single**	**Lowest Bracket Tax Rate Single**	**Lowest Bracket Limit Married Filing Jointly**	**Lowest Bracket Tax Rate Married Filing Jointly**
Minnesota	$33,310	5.35%	$48,700	5.35%
Montana	$21,000	4.7%	$42,200	4.7%
Nebraska	$4,130	2.46%	$8,250	2.46%
North Dakota	$48,475	0.0%	$80,975	0.0%

North Dakota has the most generous individual income tax treatment for households at the bottom of the income distribution. The state does not tax individual income below $48,475 in the case of a single filer or income below $80,975 in the case of married joint filers. Notably, the lowest income tax bracket in North Dakota extends higher than the lowest income tax brackets in any of South Dakota's other neighboring states.

Another common method of easing the burden of taxation for low-income households is by providing an Earned Income Tax Credit (EITC). This credit encourages low-income households to work, by granting a credit that increases as a function of income, before flattening out at a maximum value, and then tapering back down to $0 as household income continues to increase.

A state EITC may be refundable or nonrefundable. These credits generally rely on household income to determine vulnerability. In some cases, however, the credit is a simple percentage of the federal EITC. Iowa's refundable EITC is 15% of the federal EITC, Montana's and Nebraska's refundable EITC is 10% of the federal EITC, and Minnesota's refundable EITC is an amount up to 4% of earned income until the individual reaches the maximum EITC limit. North Dakota does not offer a state EITC, and Wyoming does not impose any individual income tax.

Conclusion

States consistently offer a variety of tax relief programs to lessen the burden of taxation on households composed of low-income individuals, seniors, and individuals with disabilities. While there is higher variability in the income requirements of state tax relief programs, the age and disability requirements to qualify for the tax relief programs are much more consistent among the states.

While tax relief programs can alleviate the tax burden on vulnerable populations, so too can progressive state tax systems. Regressive state tax systems, on the other hand, tend to exacerbate the tax burden on vulnerable populations.

Tax relief is apportioned among vulnerable populations only to the extent that the public is willing to incur the costs needed to finance the tax relief. The provision of tax relief to vulnerable populations is, necessarily, a shift of the tax burden onto other taxpayers. This shift manifests itself as marginally higher rates for existing taxes or as the imposition of alternative or additional taxes.

The revenue sources available to a state influence the degree of tax relief that a state is able to provide, and a holistic consideration of the taxes imposed by a state and its political subdivisions must be undertaken when evaluating the abundance or paucity of tax relief programs. For example, a state may be rich in natural resources, thereby giving the state access to a revenue source significant enough to reduce the tax burden on seniors. Alternatively, a state may have the political appetite for taxing corporate income in order to reduce the need to generate revenue from low-income households. These elements of state policy and economic conditions are aggregated and ultimately reflect the array of revenue sources available to a state and the financial flexibility that can be utilized to minimize or at least reduce the tax burden imposed upon each vulnerable population.

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 Will Steward, Senior Research Analyst.