



STATE OF SOUTH DAKOTA
OFFICE OF THE GOVERNOR

March 2, 2023

KRISTI NOEM | GOVERNOR

Dear Mr. Speaker and Members of the House of Representatives,

I respectfully return to you House Bill 1109 with my VETO. House Bill 1109 is an act to modify the occupation tax for business improvement districts. This bill significantly raises taxes.

House Bill 1109 increases the maximum occupation tax on hotel rooms in business improvement districts. The current maximum occupation tax is \$2 per room per night. This bill increases that tax to \$4 per room per night, or 4% of the rented room charge.

The occupation tax is not just paid by out-of-state travelers. This legislation would raise taxes on South Dakotans. South Dakota residents are traveling every day for business, medical visits, youth activities, weddings – the list goes on. South Dakotans vacation in South Dakota, as well.

This tax would be layered on top of many existing taxes. Today, a room in South Dakota in a business improvement district could be taxed at 9% plus \$2 per room per night. This bill would raise that overall tax rate to 13%.¹ Oftentimes, these BID districts are layered on top of each other, creating even higher rates. These dollars can be spent without transparency, accountability, and are not mandated to be used for marketing. They can often be manipulated to go directly into private businesses' pockets.

Proponents of this bill claimed that our tourism surge is slowing down. But tourism in South Dakota continues to break records. In 2022 alone, visitors to our state spent approximately \$4.7 billion, 8% more than 2021. We had 14.4 million total visitors. Hotel nights have significantly increased since 2005, when the current rate was put in place. As hotel nights increase, so too do occupancy taxes under the current \$2 per night model.

Proponents also made the argument that cities in other states are charging these higher tax rates. That shouldn't dictate what we do in South Dakota. When South Dakota competes on tax rates, we should compete to be lower – not higher.

We should be working to cut taxes this legislative session, not increase them. I oppose the tax increases enabled by House Bill 1109 and ask that you sustain my veto.

Respectfully submitted,


Kristi Noem
Governor

¹ Based on 4.5% state sales tax, 2% city sales tax, 1% municipal gross receipts tax, 1.5% tourism tax, and new 4% BID tax.