



*South Dakota Department of Revenue
Anderson Building, Pierre, SD*

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To the Governor, Legislature, and People of South Dakota:

December 2001

2001 has been a year of challenge and reward, as technology and its impact on how people do business interacted with traditional tax policy. As the popularity of buying goods and services over the Internet continued to grow this year, the challenge of simplifying administration of the sales tax to preserve its viability has intensified. At the same time, technology is providing great opportunities to improve taxpayer service and compliance.

The combined efforts of Governor Janklow and the Legislature to keep property taxes down continues to pay off. While property values have generally trended upward since 1995, the property tax relief measures begun that year are keeping the tax burden down for most South Dakotans. Had the property tax reforms not been put in place, 180,000 homeowners and those owning 39 million acres of farm and ranch land in our state would have paid an additional half-billion dollars in property taxes over the past five years.

Maximizing revenues under the existing state tax structure continues to be our primary goal, as more effort has gone into educating taxpayers and making it easier to file returns. Over 26% of all business tax returns representing \$182 million in revenues were filed electronically this year. E-government is working well to serve the needs of taxpayers and state government alike, as all tax forms, publications, notices and other pertinent information are now available through our award-winning Website. I am pleased to report that tax revenues increased once again over the previous year . . . exceeding the one billion dollar mark for the first time in the state's history.

Looking to the future, we will continue to work to simplify and streamline the administration of the sales tax in order to ensure that it works effectively and equitably in the electronic commerce environment that is so rapidly expanding. We will also continue to look for opportunities to improve the way the Department serves the taxpayers and citizens of South Dakota.

This report is intended to provide an overview of how South Dakota's system of taxation performed in FY2001. Hopefully, the report will be a useful tool for legislators, policymakers and citizens at large . . . not only during the legislative session but throughout the upcoming year.

Respectfully submitted,



Gary R. Viken, Secretary

Tax Revenues by Category and Distribution

As the principal tax agency for the State of South Dakota, the Department of Revenue collects 34 different state taxes which are grouped into four main categories: sales, use and contractors' excise taxes; motor fuel taxes; motor vehicle fees and taxes; and special taxes. Once collected, these tax revenues are distributed to three primary locations: the state's general fund, local units of government, and the state highway fund.

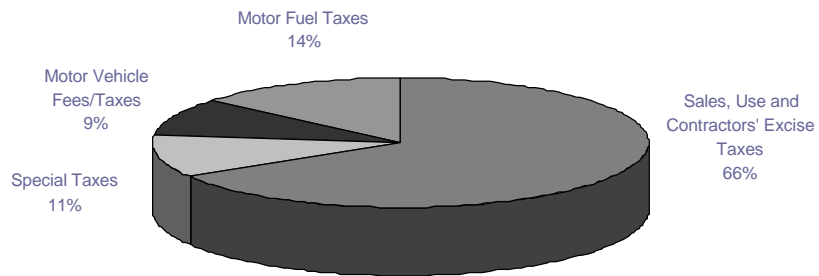
In fiscal year 2001, revenue from all 34 state taxes totaled \$1,031,550,600. That compares to revenues of \$998,014,867 collected in fiscal year 2000 and \$934,536,896 for fiscal year 1999.

Where tax money comes from...

In fiscal year 2001, the majority of the revenue collected came from sales, use and contractors' excise taxes (66%).

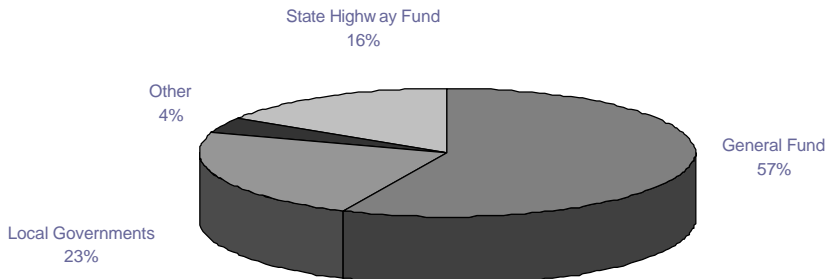
Tax Revenues by Category

Total Receipts - \$1,031,550,600



Distribution of Tax Revenues

Total Disbursements - \$1,031,550,600



Where tax money goes...

The state's general fund received the largest portion of state tax revenues, followed by local governments.

An Overview of Tax Revenues

Total Revenues

In fiscal year 2001, the department collected a total of \$1,031,550,600 from taxes and licensing fees, an increase of \$33,535,793 from last year's revenues of \$998,014,867. As the table below indicates, total state tax revenues have increased steadily in the past five years.

Total Revenues: A Five-Year Comparison

Fiscal Year	Total Revenues	Percent of Change
1997	\$826,658,410	5.55%
1998	897,132,063	8.53%
1999	934,536,896	4.17%
2000	998,014,867	6.79%
2001	1,031,550,600	3.36%
Five-Year Average	\$937,578,567	N/A

Revenues by Category

The majority of the tax revenue collected in fiscal year 2001 came from sales, use and contractors' excise taxes, at \$699,371,497, an increase of \$36,098,272 over fiscal year 2000 receipts of \$663,371,497. Fuel tax revenues decreased by \$2,516,072; special tax revenues increased by \$4,706,569; and motor vehicle licensing fees decreased by \$4,453,036.

Revenues by Tax Category: A Five Year Comparison

Fiscal Year	Sales Use, and Excise Taxes*	Motor Fuel Taxes**	Special Taxes	Motor Vehicle Fees
1997	\$551,375,461	\$109,971,764	\$97,208,863	\$68,102,322
1998	597,620,617	128,423,402	99,095,451	71,992,593
1999	624,249,831	121,955,576	112,648,364	75,683,125
2000	663,573,225	139,717,601	107,111,354	87,612,687
2001	699,371,497	137,201,529	111,817,923	83,159,651
Five-Year Average	\$627,238,126	\$127,453,974	\$105,576,391	\$77,310,076

* Includes \$6,560,269 in Tourism Taxes, Motor Vehicle Leasing, Excise Tax on Water Projects and Construction Refund Program

** Includes Tank Inspection Fees

Distribution of Taxes

In fiscal year 2001, the department collected \$1,031,550,600 in taxes which was then distributed to various funds and units of government. The largest portion of revenues (57%) is deposited in the state's general fund. Sales, use and contractors' excise taxes make up 62% of the state general fund; 15% of the fund comes from special taxes and fees and the remaining 23% comes from other sources which include the South Dakota Lottery and CRP program.

The following chart shows the taxes that produce the revenues and the manner in which the revenues are distributed.

How Taxes Are Distributed

Tax	General Fund	Local Gov't	State Highway Fund	Other
State Sales Tax	100%	-0%	-0%	-0%
State Use Tax	100%	-0%	-0%	-0%
State Contractors' Excise Tax	100%	-0%	-0%	-0%
Municipal Contractors' Excise Tax	-0%	100%	-0%	-0%
Municipal Sales and Use Tax (1)	-0%	100%	-0%	-0%
Reservation Sales, Use, Excise Tax	-0%	100%	-0%	-0%
Cigarette Excise Tax	100%	-0%	-0%	-0%
Cigarette License Fee	100%	-0%	-0%	-0%
Reservation Cigarette Excise Tax	(2)	(2)	-0%	-0%
Inheritance Tax	90%	10%	-0%	-0%
Bank Franchise Tax (3)	26.66%	73.33%	-0%	-0%
Bank Card Taxpayers	95%	5%	-0%	-0%
Ore Tax	100% (4)	-0%	-0%	-0%
Coin Operated Laundromat Fee	100%	-0%	-0%	-0%
Trading Stamp License Fee	100%	-0%	-0%	-0%
Energy Minerals Severance Tax	50%	50%	-0%	(5)
Malt Beverage Occupational Tax	75%	25%	-0%	-0%
Conservation Tax	-0%	-0%	-0%	(6)
Amusement Machine Registration	(7)	(7)	-0%	-0%
Distilled Spirits Occupational Tax	75%	25%	-0%	-0%
Wines and Diluted Beverages	75%	25%	-0%	-0%
Malt Beverage License Fee	50%	50%	-0%	-0%
Liquor License Fee (other than retail)	100%	-0%	-0%	-0%
Other Tobacco Products Tax	100%	-0%	-0%	-0%
Alcoholic Beverage 2% Purchase Price Tax	100%	-0%	-0%	-0%
Wholesale Liquor License Fee	100%	-0%	-0%	-0%
Alcohol Beverage Brand Registration Fee	100%	-0%	-0%	-0%

(continued on next page)

Overview/continued

How Taxes Are Distributed/continued

Tax	General Fund	Local Gov't	State Highway Fund	Other
Aviation Fuel Tax	-0-%	-0-%	-0-%	Aeronautics Fund (DOT)
Motor Fuel Tax	-0-%	-0-%	97%	(8)
Tank Inspection Fee	-0-%	-0-%	-0-%	(9)
Prorate Fee (10)	-0-%	98.5%	-0-%	(11)
Motor Vehicle Excise Tax	-0-%	-0-%	100%	-0-%
Motor Vehicle Registration Fee	-0-%	95.5%	-0-%	(12)
Motor Vehicle Licensing Receipts:				
Snowmobiles	-0-%	-0-%	-0-%	(13)
Plates and Permits	-0-%	-0-%	-0-%	LPR
Title and Penalty Fees	-0-%	-0-%	-0-%	MVF
Mobile Home Registration Fees	-0-%	85%	-0-%	15% - MVF

- (1) The state retains an administrative fee, which varies from 1.25% to 1.8%.
- (2) Revenue from reservation taxes is distributed to the reservation on a proratable basis based on the percentage of Indian population on the reservation and a proratable percentage retained by the state based on the percentage of non-Indian population on the reservation. The state also retains 1% of the revenue credited to reservations as an administrative charge.
- (3) An exception exists regarding banks organized pursuant to SDCL 51A-2-38 to 51A-2-43, inclusive. 95% of the revenue derived from that tax is deposited into the State General Fund, while 5% goes to the county where the bank is located.
- (4) Revenues from mining companies, licensed after January 1, 1981, are split as follows: 80% to the state, 20% to the county of production (subject to a \$1 million cap).
- (5) If the energy development fund has a balance of less than \$100,000, then one-sixth (1/6) of the revenue is deposited in that fund until the balance reaches \$100,000.
- (6) 100% of the tax collected is placed in the Environment and Natural Resources fee fund.
- (7) Revenue from devices located outside municipalities is deposited into the State General Fund. If the amusement device is located within the boundaries of a municipality, then the revenues are remitted to the municipality.
- (8) Motor fuel refunds are deducted first and then the remaining monies are divided as follows: Each July, an amount equal to the number of snowmobiles licensed as of July times 125 gallons times the tax rate is transferred to a fund for snowmobile trails; an amount equal to the number of licensed motorized boats times 125 gallons times the tax rate is transferred to the parks recreation fund; an amount equal to 35% of claimed refunds not to exceed \$850,000 in 1993 and not to exceed \$1,500,000 thereafter is transferred to the conservation commission; the taxes collected under the provisions of the International Fuel Tax Agreement are transferred to member jurisdictions; and 2% is transferred to the Motor Fuel Tax Administration Account.
- (9) 1.0% is deposited in the Motor Fuel Tax Administration Account, and the remaining balance is split between the Capitol Construction Fund and the Petroleum Release Compensation Fund.
- (10) Other proratable fees: duplicate cab card, trailer fees, tractor registration fees, and transfer fees are deposited in the State Highway Fund. Trailer ID fees and duplicate fees are deposited in the License Plate Special Revenue Fund (LPR). Title and penalty fees and administration fees are deposited in the State Motor Vehicle Fund (MVF).
- (11) .5% is deposited in the State Motor Vehicle Fund (MVF), and 1% goes to the License Plate Special Revenue Fund (LPR). The percentages were changed in 2000.
- (12) 2% is deposited in the State Motor Vehicle Fund (MVF), and 2.5% goes to the License Plate Special Revenue Fund (LPR).
- (13) 90% goes to Game, Fish and Parks, 10% to the State Motor Vehicle Fund (MVF).

Revenues by Type of Tax

In fiscal year 2001, the revenue produced by the 34 separate taxes and fees administered by the department varied from a low of \$50 to a high of \$459,110,188. In addition, the amount of revenue generated by individual taxes fluctuated by as much as 62.69% from fiscal year 2000 to fiscal year 2001.

A Three-Year Comparison of Revenues by Type of Tax

	FY1999	% Increase (Decrease) over Previous Year	FY2000	% Increase (Decrease) over Previous Year	FY2001	% Increase (Decrease) over Previous Year
Sales and Use Taxes - State	\$413,528,845	4.70%	\$435,126,953	5.22%	\$459,110,188	5.51%
Contractors' Excise Tax - State	43,398,474	0.06%	47,555,167	9.58%	50,149,680	5.46%
Sales, Use, Contractors' Excise Tax - Cities	157,931,942	5.96%	171,191,853	8.40%	180,112,009	5.21%
Sales, Use, Contractors' Excise Tax - Reservations	3,203,773	-4.82%	3,418,754	6.71%	3,439,351	0.60%
Tourism Tax	3,291,977	12.11%	3,585,267	8.91%	3,793,170	5.80%
Water and Environment Fund	518,313	15.18%	650,176	25.44%	645,336	-0.74%
Refund for Construction of Facility	1,454,570	-45.31%	1,064,898	-26.79%	1,108,620	4.11%
Motor Vehicle Licensing Fund	921,037	13.22%	980,157	6.31%	1,013,143	3.37%
Aviation Fuel	602,229	-0.55%	876,617	45.56%	733,455	-16.33%
Motor Fuel Tax	103,787,368	-5.51%	120,074,010	15.69%	116,963,783	-2.59%
Interstate Fuel Users Tax	2,934,444	-5.86%	3,784,364	28.96%	3,927,378	3.78%
Tank Inspection Fees	14,631,535	-1.56%	14,982,610	2.40%	15,576,913	3.97%
Prorate	11,233,309	3.53%	13,032,775	16.02%	11,294,698	-13.34%
Motor Vehicle Titles and Registration	64,449,816	5.41%	74,579,912	15.72%	71,864,953	-3.64%
Cigarette Tax - State	19,374,203	-2.62%	17,921,405	-7.50%	18,158,603	1.32%
Cigarette Tax - Reservations	479,511	8.45%	464,989	-3.03%	428,017	-7.95%
Cigarette License Fees	11,780	19.75%	10,278	-12.75%	12,827	24.80%
Other Tobacco Products	1,037,387	-0.54%	1,160,448	11.86%	1,178,798	1.58%
Liquor License Fees	30,305	-13.24%	31,405	3.63%	37,165	18.34%
Malt Beverage License Fees	220,285	-15.50%	238,215	8.14%	243,850	2.37%
Alcoholic Beverage Brand Registration Fees	105,975	8.24%	110,760	4.52%	118,783	7.24%
Beer Tax	5,432,712	10.50%	5,244,979	-3.46%	5,478,788	4.46%
Liquor Tax	4,607,059	8.05%	4,700,604	2.03%	4,675,782	-0.53%
Alcoholic Beverage 2% Purchase Price Tax	655,669	10.32%	703,642	7.32%	711,660	1.14%
Wholesale Beer License Fee	4,075	1.88%	2,725	-33.13%	3,800	39.45%
Bank Franchise/Bank Card Tax	50,818,698	32.79%	45,123,079	-11.21%	43,387,112	-3.85%
Inheritance Tax	26,427,049	2.46%	28,428,593	7.57%	34,925,181	22.85%
Ore Tax	2,579,120	15.99%	1,663,013	-35.52%	620,535	-62.69%
Severance Tax	599,221	-38.00%	1,051,052	75.40%	1,565,796	48.97%
Coin Laundry License Fees	123,330	-5.77%	119,638	-2.99%	123,738	3.43%
Trading Stamps License Fee	100	0.00%	100	0.00%	50	-50.00%
Amusement Device Fee	94,680	-3.53%	88,092	-6.96%	97,488	10.67%
Bingo License Fee	27,500	-8.33%	27,500	0.00%	30,000	9.09%
Bingo Tax	19,705	-11.40%	20,837	5.74%	19,950	-4.26%
Total	\$934,536,896	4.17%	998,014,867	6.79%	1,031,550,600	3.36%

Legislative Summary



A Chronology of Tax Legislation

The first state tax in South Dakota - an inheritance tax - was enacted by the legislature in 1905. Since that time, there have been a number of major expansions and changes in our tax codes, as evidenced by this chronology of the tax history of South Dakota.

- 1905 Inheritance Tax**
2000 Last Major Change: Voters repealed the tax.
- 1913 License Fees, Non-Commercial**
1999 Last Major Change: Fees increased on non-commercial vehicles by an average of \$12. Motor home fees increased. Travel trailers no longer qualified for ID plates.
- 1923 Motor Fuel**
1999 Last Major Change: Tax increased on April 1 from \$.18 to \$.22 per gallon.
- 1923 Cigarettes**
1995 Last Major Change: Increased from \$.23 to \$.33 per pack of 20 and \$.29 to \$.42 on packs of 25.
- 1933 License Fees, Commercial**
1982 Last Major Change: License fees were restructured.
- 1935 Alcohol Beverage**
Spirits - 1987 Last Major Change: \$3.80 to \$3.93 per gallon. **Malt Beverages** - 1987 Last Major Change: \$8.30 to \$8.50 per barrel. **Table Wine** - 1987 Last Major Change: \$.90 to \$.93 per gallon.
- 1935 Sales Tax**
1995 Last Major Change: Removed 30 sales tax exemptions to fund 20% property tax credit.
- 1935 Mineral Extraction**
1994 Last Major Change: Changed from gross yield and net income to gross production (\$4.00 per ounce of severed gold) and 10% net income.
- 1937 Motor Vehicle Registration**
1996 Last Major Change: Changed fees for personalized plates from \$75 initial fee plus \$10 per year to \$25 per year with no initial fee.
- 1939 Bank Franchise**
2000 Last Major Change: Lowered the net income levels on which the bank franchise tax is based.
- 1939 Use Tax**
1995 Last Major Change: Removed 30 use tax exemptions to fund 20% property tax credit.
- 1941 Special Fuel**
1999 Last Major Change: Tax increased on April 1 from \$.18 to \$.22 per gallon.
- 1965 Interstate Fuels**
1995 Last Major Change: Allowed state to enter into agreements for the collection of fuel tax on interstate motor carriers.
- 1977 Energy Minerals**
No major changes made since implementation.
- 1979 Contractors' Excise Tax**
1995 Last Major Change: Increased the tax rate on utility contracts from 1.5% to 2%.
- 1988 Tank Inspection Fee**
1993 Last Major Change: Increased from \$.01 per gallon to \$.02 per gallon on all petroleum products introduced into this state.
- 1995 Other Tobacco Products Tax**
1995 Last Major Change: 10% tax imposed on the wholesale purchase price of other tobacco products.
- 1998 Alcohol Beverage: Cider**
1998: Cider was added as a category at a rate of \$.28 per gallon.

2001 Legislature

The 2001 South Dakota State Legislature passed several bills affecting the activities of the Department of Revenue. Some of these bills are summarized below and on the following page.

Senate Bill 8	Allows appropriate contingency plans for the protection of private cropland and pasture to be incorporated into county drainage plans.
Senate Bill 45	Allows the parties involved in alcohol beverage license suspension or revocation hearings to change the location of the hearing or to conduct the hearing by phone or DDN.
Senate Bill 46	Gives the secretary of revenue the authority to grant direct pay permits to companies, letting them purchase taxable goods and services without paying tax to the supplier at the time of purchase. Companies would then review their purchases and pay applicable taxes directly to the taxing jurisdiction.
Senate Bill 65	Clarifies that although the inheritance tax was repealed, the state estate tax remains in effect. Makes the same estate tax laws pertain to nonresidents and residents alike.
Senate Bill 114	Reduces the percent (.75% to .50%) of the highway and bridge fund that goes to the technology special revenue fund and eliminates the \$91,000 maximum cap.
Senate Bill 137	Makes it a Class 2 misdemeanor to not hand over a title on a used vehicle to the purchaser within 30 days of the sale of the vehicle. An exception is if the purchaser defaults on the terms of the sale within 30 days, then the seller doesn't have to hand over the title.
Senate Bill 140	Makes optional the current requirement that electric cooperatives pay taxes to municipalities where the electric cooperatives provide service.
Senate Bill 155	Requires a certified death certificate to be recorded in the register of deeds office when a joint tenant or person having a life estate on their property dies.
Senate Bill 161	Makes it a Class 2 misdemeanor to knowingly sell or store petroleum products that contain methyl tertiary butyl ether.
Senate Bill 162	Sets license fee at \$150 for farm wineries to hold off-sale package wine licenses and makes them subject to the same constraints as other on-sale and off-sale licensees.
Senate Bill 165	Provides tax incentives to anyone who builds a commercial small power production facility utilizing renewable resources such as sun, wind, geothermal or biomass. Gives a refund of contractors' excise tax on the construction of the facility and exempts rural cooperatives from centrally assessed property taxes.
Senate Bill 166	Provides for the creation of a 15-member task force (8 legislators, 4 business reps, 2 municipal reps, 1 at-large member) to study the final report of the Streamlined Sales Tax Project to determine how it will impact South Dakota and the state's current laws.
Senate Bill 168	Increases the number of on-sale resort facility licenses a county can issue from one to three, and reduces the number of lodging rooms a resort facility must have from 60 to 30.
Senate Bill 199	Allows a municipality to license and tax certain transient merchants and to exempt from such action a transient merchant whose products the municipality determines to be of that merchant's own production.
Senate Bill 209	Allows a business to apply to the department for an extension of paying sales and use tax on equipment or machinery for direct use in a manufacturing, fabricating or processing business. The extension ends when the equipment and machinery is operational or after six months, whichever occurs first.
Senate Bill 219	Allows a municipality to issue a temporary liquor license when hosting a sporting event with 100,000 attendance as estimated by local government.
Senate Bill 223	Appropriates \$1 million from the state general fund to pay for refunds under the elderly and disabled persons tax refund program.

Legislative Summary/ continued

House Bill 1001	Eliminates or updates obsolete language in state and city sales and use tax laws.
House Bill 1036	Makes it a Class 1 misdemeanor for a person to drive a commercial vehicle if they themselves, the vehicle, or the operation is subject to an out-of-service order.
House Bill 1038	Updates the dates in current statutes to coincide with those in Title 49 of the Code of Federal Regulations as they relate to hauling hazardous materials.
House Bill 1044	Annual bill which updates certain dates in current law to correspond with changes in the Internal Revenue Code.
House Bill 1045	Protects the personal privacy of individuals who license their vehicles by prohibiting certain disclosures of information provided by the owner and maintained by the state. Brings South Dakota into compliance with the federal Driver's Privacy Protection Act.
House Bill 1046	Requires boat owners whose boats are registered with the Coast Guard to register them in South Dakota and get a South Dakota boat decal if the boats will be used on South Dakota waters.
House Bill 1047	Requires boat dealers who lease or rent boats in addition to selling them to be licensed as a business separate from the dealership. Also clarifies the conditions for the use of temporary boat license tags.
House Bill 1048	Allows the secretary of revenue to revoke the license of any tobacco distributor or wholesaler who doesn't file the necessary reports required by the Master Tobacco Settlement Agreement.
House Bill 1055	Changes the date by which exempt motor carriers must pay their annual renewal fees from December 1 to December 31.
House Bill 1080	Authorizes collection agencies to add applicable sales tax to their \$30 maximum bad check collection fee.
House Bill 1116	Defines what vehicles and equipment used for construction or farming purposes is required to be registered.
House Bill 1119	Allows auto auctions to obtain an in-transit permit for those vehicles they're offering for sale so they can take them for repair at a location within 20 miles of their business.
House Bill 1132	Requires all directors of equalization to provide copies of all assessment documentation to the local boards of equalization.
House Bill 1139	Sets maximum tax levies for ag, non-ag and owner-occupied property for the funding of school districts.
House Bill 1163	Exempts the gross receipts from membership fees paid to any motel or hotel membership organization except if the fee represents payment for tangible personal property or services from the organization.
House Bill 1177	Specifies that in some cases, a taxpayer cannot appeal a certificate of assessment until they have paid any amount ordered by the secretary of revenue or have filed a bond to insure payment.
House Bill 1223	Specifies that if a vehicle lease is extended, the lessor has to pay the additional tax due on the extended lease period.
House Bill 1236	Allows auction agencies to accept for sale at their option, vehicles owned by the manufacturer which have the manufacturer's certificate of origin or a valid title.
House Bill 1254	Puts fertilizer spreaders which are leased into the same taxing scheme as other leased vehicles, allowing lessees to pay on their lease payments.

A Listing of South Dakota Taxes

Description of Individual Taxes

Each of the four categories of taxes (sales, use and contractors' excise taxes; motor fuel taxes; motor vehicle licensing; and special taxes) is comprised of a number of individual taxes which vary in purpose, application and rate.

Tax	Description
Alcoholic Beverage Brand	Malt and cereal beverages and wines; alcoholic cordials, liqueurs, cocktails, etc.; distilled spirits, whiskeys, gin, rum, brandy, vodka, etc. Imposed on all brand labels registered and offered for sale by distillers, manufacturers, vintners and breweries importing products into the state. (Authority: SDCL 39-13-3) (Rate Base: 1st Label: \$25.00, \$50.00, \$100.00; 2nd Label: \$10.00, \$15.00, \$25.00)
Alcoholic Beverage 2%	Imposed on all distilled spirits and wines imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-6.1) (Rate Base: 2% of the purchase price paid for alcoholic beverages)
Amusement Machine	Imposed on all mechanical or electronic amusement devices offered to the public for use. Any device used exclusively at a fair may be registered for 30 days by paying a fee of \$3.00. Devices manufactured before 1940 are exempt from the fee. (Authority: SDCL 10-58) (Rate Base: \$12.00 per machine; \$3.00 per machine, temporary)
Bank Franchise Tax	Imposed on all banks and financial corporations, small loan companies and savings and loan companies on their net annual earnings in lieu of sales tax on financial and banking services. (Authority: SDCL 10-43-2, 4) (Rate Base: 6% decreasing to .25% as income increases or \$200 minimum)
Beer License Fee	Imposed on all applicants requesting permission to operate as a malt beverage wholesaler or retailer; annual license and 50% of all fees, except brewers license fee which is retained in state general fund, retained at the local level. (Authority: SDCL 35-4-2)(Rate Base: \$500.00 - Brewer; \$400.00 - Wholesalers; \$150.00 - Off-Sale; \$250.00 - On-Off Sale; \$150.00 - Transfers)
Beer Occupational Tax	Imposed on all 31-gallon barrels of high-point beer imported and received by all licensed beer and liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$8.50 per bbl.)
Bingo/Pull Tab Tax	All bingo paper and pull tab distributors pay a monthly tax of 5% of gross sales of these products (Authority: SDCL 22-25-48) (Rate base: 5% of gross sales)
Bingo/Pull Tab Tax Licenses	Persons or entities selling bingo paper or pull tabs to any organization conducting bingo games or pull tab lotteries must acquire a distributor's license. Persons or entities manufacturing bingo paper or pull tabs and selling these products to South Dakota distributors must obtain a manufacturer's license. (Authority: SDCL 22-25-28, 29) (Rate base: Distributor - \$5,000 annually; Manufacturer - \$2,500 annually)
Cigarette Excise Tax	Imposed on all packs of 20 and 25 cigarettes; stamps or impressions applied by the cigarette distributor prior to any sale to retailers for resale. (Authority: SDCL 10-50-3) (Rate Base: 33-cent cigarette stamps on packs of 20 and 42-cent stamps on packs of 25)
Cider Tax	Imposed tax of \$.28 per gallon (Authority: SDCL 35-5-3)
Cigarette License Fee	Imposed on all applicants requesting a cigarette wholesaler's or distributor's license; such licenses are required prior to the purchase and affixing of cigarette stamps and meter impressions. (Authority: SDCL 10-50-9) (Rate Base: \$150.00 annually or \$75.00 semi-annually)
Coin-Operated Laundromat Fee	Imposed on operators of coin-operated laundromats and drycleaning businesses which is in lieu of sales or use tax provisions. \$10.00 per unit in cities of 1,000 population or over and all rural areas. \$8.00 per unit in cities of under 1,000 population. (Authority SDCL 10-45-5.1) (Rate Base: \$8.00 per unit and \$10.00 per unit)
Commercial License Fee	In consideration of the unusual use of the public highways, each person, except as otherwise provided in this chapter, desiring to operate a motor vehicle, trailer or semitrailer, upon the public highways of this state as a motor carrier, annually pays the commercial motor vehicle fee based on gross weight. (Authority: SDCL 32-9-15 and SDCL 32-9-22) (Rate Base: fees are based on maximum gross weight)

Tax Listing/continued

Tax	Description
Conservation Tax	Imposed on the severance of all energy minerals, paid quarterly by the severor. (Authority: SDCL 10-39B) (Rate Base: 2.4 mills of taxable value)
Contractors' Excise Tax	Contractors' Excise Tax of 2% is imposed on gross receipts of prime and subcontractors on realty improvement contracts performed for qualifying utility projects. Sales and use tax is applicable on construction materials. (Authority: SDCL 10-46B) (Rate Base: 2%) A contractors' excise tax of 2% is imposed on gross receipts of prime contractors on all other realty improvement contracts, including labor and materials. (Authority: SDCL 10-46A) (Rate Base: 2%)
Contractors' Use Tax	Imposes use tax on contractors and subcontractors who use tangible personal property in the performance of realty improvement contracts. Tax applies on the cost or fair market value of property, whichever is greater. Materials used in public contracts are taxable. (See Contractors' Excise Tax) (Authority: SDCL 10-46-5) (Rate Base: 4%)
Energy Minerals	Imposed on owners of energy minerals for the privilege of severing said minerals. (Authority: SDCL 10-39A) (Rate Base: 4 1/2% of taxable value)
Estate Tax	Imposed on estates in an amount equal to any unused Federal-State Death Tax Credit. (Authority: SDCL 10-40A) (Rate Base: Unused Federal Credit)
Interstate Fuel Use Tax	Provides an additional method of collecting fuel taxes from interstate motor vehicle operators commensurate with their operations on South Dakota highways. (Authority: SDCL 10-47B) (Rate Base: .22/gallon - Diesel; .20/gallon - Liquid Petroleum Gas)
Liquor License Fee	Imposed on all applicants requesting permission to obtain and operate under the provision of any classified license listed in the area of distilled spirits and liquor. (Authority: SDCL 35-4-2) (Rate Base: \$4,000.00 - Distiller; \$5,000.00 - Wholesaler; \$25.00 - Solicitors; \$25.00 - Transporters; \$100.00 - Carriers; \$10.00 - Dispensers)
Liquor Tax	Imposed on every gallon of distilled spirits imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$3.93 per gallon)
Mobile Home	An initial registration fee at the rate of three percent of the purchase price of a mobile home or if a bill of sale is not available, the fair market value thereof. The payment of such license fee shall be in full and is in lieu of all occupational, sales, excise, privilege and franchise taxes levied by this state upon the gross receipts from all sales of mobile homes. (Authority: SDCL 32-5-16.1) (Rate Base: 3% on purchase price or fair market value)
Motor Fuel/Special Fuel Tax	A tax is imposed on all motor fuel and special fuel that is removed from a terminal in this state and on all imports of fuel, except dyed diesel fuel. A tax of \$.20 per gallon is imposed on all ethanol blend sold or used in this state. The ethanol blend must contain a minimum of 10% by volume of ethyl alcohol of at least 99% purity derived from cereal grain. Alternative fuel is defined as compressed natural gas and mixtures containing 85% or more by volume of ethyl alcohol or methol alcohol. Dyed diesel fuel is either exempt or subject to sales tax depending on the use of the fuel. (Authority: SDCL 10-47B) (Rate Base: .22/gallon - Motor Fuel/Special Fuel; .20/gallon - Ethanol blend/LPG; .06/gallon - Aviation; .04/gallon - Alternative Fuel for road purposes/ Compressed Natural Gas; .04/gallon Jet Fuel and Alternative Fuel for aircraft purposes)
Motor Vehicle Excise Tax	In addition to all other license and registration fees for the use of the highways, a person pays an excise tax at the rate of three percent on the purchase price of any snowmobile, boat or motor vehicle, as defined by 32-3-1 or 32-3A, purchased or acquired for use on the streets, highways or waterways of this state and required to be registered under the laws of this state. This tax is in lieu of any tax levied by chapters 10-45 and 10-46 on the sales of such vehicles. (Authority: SDCL 32-5B-1 thru 32-5B-20, 32-20A-15 and 32-3A) (Rate Base: 3% purchase price)

Tax Listing/continued

Tax	Description
Municipal Contractors'	Municipal Contractors' Excise Tax imposed by city ordinance, administered by the Department of Revenue, tax in addition to state tax. (Authority: SDCL 10-46A and 10-52) (Rate Base: 1/2%)
Municipal Sales	Municipal sales and use taxes imposed by city ordinance, administered by the Department of Revenue, in addition to state tax. State exemptions apply. Farm machinery and irrigation equipment, parts or repairs for farm machinery, agricultural animal health products and medicine, transportation services, collection and disposal of solid waste, and veterinarian and animal specialty services are exempt. (Authority: SDCL 10-52) (Rate Base: No specific rate, rates vary from 1% to 3%)
Non-Commercial License Fees	License fees and compensation on non-commercial motor vehicles, including automobiles, pickups and vans with an empty weight of 10,000 lbs. or less (pickups in the 6,001 - 10,000 lbs. category have the option of licensing non-commercial or non-commercial declared gross weight), trailers and semitrailers for use on the highways payable under SDCL 32-5-5, shall be determined by the manufacturer's shipping weight. License fees and compensation on non-commercial motor vehicles which are not automobiles, pickups or vans shall be determined on declared gross weight. (Authority: SDCL 32-5-5, 32-5-6, 32-5-6.1, 32-5-6.3, 32-5-6.4, and 32-5-8) (Rate Base: Fees are based on the age and weight of the vehicle)
Ore Tax	Imposed on all companies severing precious metals within the state; based on the gross production and net income from the sale of such metal. Each producer is given a 20 ounce exemption per year. (Authority: SDCL 10-39-43) (Base Rate: \$4 per ounce of gross gold production plus 10% of net income)
Other Tobacco Products Tax	Imposed on distributors, wholesalers and retailers of cigars, snuff, chewing tobacco and any other products made up of tobacco, except cigarettes. The tax is imposed on the wholesale purchase price of other tobacco products and is paid on the fifteenth day of the month following the month of purchase. (Authority: SDCL 10-50-61) (Rate Base: 10%)
Reservation Cigarette	The reservation cigarette excise tax is imposed by tribal ordinance and is identical to the state cigarette excise tax. The tax is collected by the state and a share reverted to the tribe. (Authority: SDCL 10-12A) (Rate Base: 33 cents per pack of twenty; 42 cents per pack of twenty-five)
Reservation Sales, Use	The reservation sales, use and contractors' excise taxes are imposed by tribal ordinance and are identical to the state sales, use and contractors' excise tax. (Authority: SDCL 10-12A) (Rate Base: 4%)
Retail Liquor License Fee	These are the fees that may be assessed by the local governing board to any applicant requesting a retail liquor license to sell distilled spirits, wine and beer. The fees marked "max" indicate that the local board may set any fee up to this maximum level. All fees remain with the local governing board recommending the issuance of such license within their jurisdiction. (Authority: SDCL 35-4-2)
	Rate Base: City:
	Off-sale Package Liquor \$ 500.00(max) First Class
	Off-sale Package Liquor \$ 400.00(max) Second Class
	Off-sale Package Liquor \$ 300.00(max) Third Class
	On-sale Retailer Liquor (New) \$1.00/person First Class
	On-sale Retailer Liquor (Renewal) \$1500.00 First Class
	On-sale Retailer Liquor \$1200.00 (max) Second Class
	On-sale Retailer Liquor \$ 900.00(max) Third Class
	On-sale Retailer Liquor (Sunday) \$ 200.00(max) All Classes
	On-sale Retailer Liquor (Airport) \$ 250.00 All Classes
	Off-sale Municipal Package \$ 250.00 All Classes
	On-sale (wine) \$ 500.00 All Classes

Tax Listing/continued

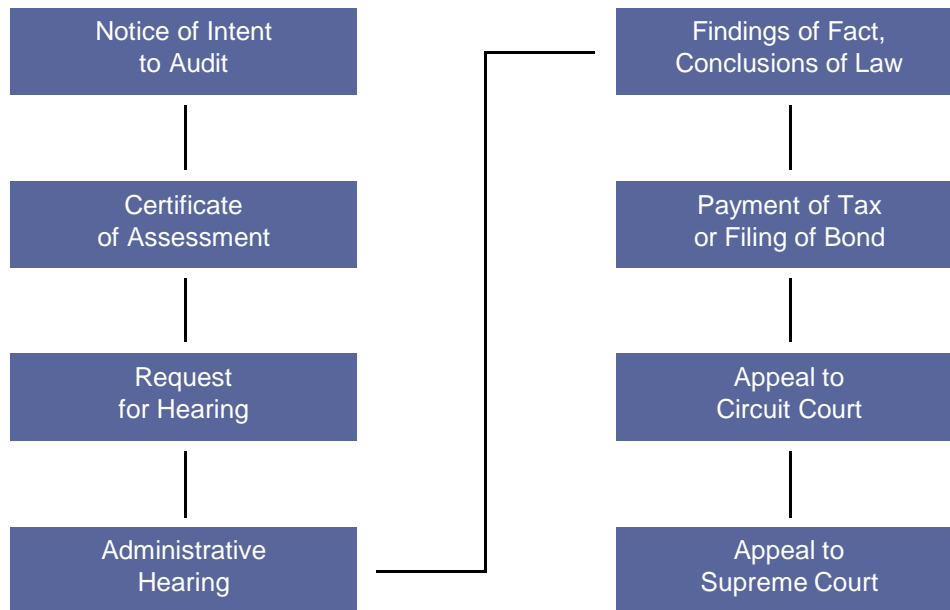
Tax	Description
Sales and Service Tax	<p>(License Required) Sales Tax applies on retailers' gross receipts from all sales of tangible personal property and services not specifically exempted. Exemptions include, but are not limited to, sales to the state and its political subdivisions, certain agricultural products, motor vehicles, motor fuel, labor on construction and prescription drugs. (Authority: SDCL 10-45) (Rate Base: 4%)</p> <p>Tax applies to receipts from amusement devices except coin-operated washers and dryers subject to special licensing. (Rate Base: 4%)</p> <p>Farm machinery and irrigation equipment: tax applies on the cash difference whenever a trade-in or exchange of used farm machinery is involved. (Rate Base: 3%)</p> <p>Tax applies to receipts from oil and gas field services. (Rate Base: 3%)</p>
Tank Inspection Fee	A \$0.02 per gallon fee is imposed upon any petroleum product received in this state. (Authority: SDCL 34A)
Title and Penalty Fees	Title fees are \$5.00 per title; however, if the title is submitted more than 30 days after the date of sale, a late fee of one dollar for each week or fraction thereof beyond the 30-day limitation for 25 weeks and a late fee of \$50 for 26 weeks or more is imposed. (Authority: SDCL 32-3-18 and SDCL 32-3-27) (Rate Base: \$5.00 title fee, variable penalty)
Trading Stamp License Fee	Imposed annually on all trading stamp and coupon companies who wish to provide retailers with their products. (Authority: SDCL 37-19-1) (Rate Base: \$50.00)
Use Tax	<p>Use Tax is imposed on the privilege of the use, storage and consumption in this state of tangible personal property or services. Tax is imposed on persons using property, certain exemptions apply; property exempted if taxed under 10-45. Use tax license required. (Authority: SDCL 10-46) (Rate Base: 4%)</p> <p>A. Farm machinery and irrigation equipment not taxed under 10-45. (Rate Base: 3%)</p>
Wine Tax (High)	Imposed on wines, except sparkling wines, containing 14.1 to 20% alcohol by weight imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$1.45 per gallon)
Wines and Diluted	Imposed on all wines, except sparkling wine, and diluted beverages containing 3.2 to 14% alcohol by weight imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$.93 per gallon)
Wine Tax (over 20%)	Imposed on wines containing 20.1 to 24% alcohol by weight and all sparkling wine imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$2.07 per gallon)

Taxpayer's Bill of Rights

South Dakota passed its taxpayer's bill of rights in 1990, formalizing the fundamental principles that have guided the South Dakota Department of Revenue since 1986. The specific rights contained in the South Dakota Taxpayer's Bill of Rights flow naturally from these five principles:

- A sincere respect for taxpayers and the importance of their role in providing public services;
- A belief that taxpayers act in good faith;
- An unwavering commitment to the uniform and fair application of our tax laws;
- A conviction that bureaucratic methods of dealing with taxpayers are inappropriate and ultimately ineffective;
- A recognition that our tax system depends on the voluntary compliance of our taxpayers.

Audit and Appeal Flow Chart:



Department Overview

In fiscal year 2001, 195 full-time employees worked for the Department of Revenue administering, collecting and distributing the state's 34 separate types of taxes and fees. Total administrative costs were \$12.9 million, of which \$733,648 were general fund dollars.

The department is organized into five divisions, the legal section, and the Office of the Secretary. While the department secretary, division directors and some staff are in Pierre, there are also six divisional field offices located in communities across the state.

A Review of the Divisions



Administrative Services
Joan Serfling, *Director*

Responsibilities: Remittance center; computer operations; training; public relations; budget and finance



Legal Section
Jack Magee,
Chief Legal Counsel

Responsibilities: Legal staff; Investigative Services Bureau (ISB)



Audits
Bruce Christensen, *Director*

Responsibilities: Audit selection and performance



Motor Vehicles
Debra Hillmer, *Director*

Responsibilities: Motor vehicle excise tax; title and registration; motor fuel tax; special fuel tax; interstate fuel tax; fuel tax refunds; prorate and commercial licensing; dealer licensing



Business Tax
Scott Peterson, *Director*

Responsibilities: Retail sales and service tax; use tax; contractors' excise tax; municipal and reservation sales and use tax



Property and Special Taxes
Paul Kinsman, *Director*

Responsibilities: Liquor licensing and tax; cigarette tax; bank franchise tax; ore tax; sales and property tax refunds for the elderly/disabled; bingo/lottery; real property tax; centrally assessed utilities

Departmental Goals

The mission of the department is to fairly and consistently apply the tax laws and establish a comprehensive education program explaining the responsibilities and rights of the taxpayer for the purpose of insuring that the obligations of all taxpayers, to the State of South Dakota, are paid. Our goals as a department are:

- To reduce uncollected taxes.
- To simplify the administration of taxes to accommodate electronic commerce.
- To achieve uniform tax assessments.
- To reduce unfair tax exemptions.
- To simplify the tax laws.
- To resolve contested audits in a more timely manner.
- To have uniformity in the tribal tax agreements.
- To improve internal processes and take advantage of new technology wherever possible.

Administrative Services

The Administrative Services division manages the department's computer services, budgetary data and physical assets. Its purpose is to increase the efficiency of the operational divisions by providing them with the resources they need to meet their goals. The division also manages the department's Remittance Center in Sioux Falls, which processed over \$941 million in payments in fiscal year 2001.

Fiscal Year 2001 - Remittance Center

Dollars processed for Department of Revenue	\$810,004,200
Dollars processed for other agencies	131,892,822
Total dollars processed	\$941,897,022
Total documents processed	526,655

Other agencies for which the Remittance Center collects revenues include the Division of Insurance; Agriculture; Game, Fish and Parks; Social Services; Health; Environment and Natural Resources; Human Services; Legislative Audits; Unified Judicial System; and Retirement.

Sales, Use and Contractors' Excise Taxes

The Business Tax Division administers the sales tax, use tax, and contractors' excise tax. That includes licensing new taxpayers, educating current taxpayers, and collecting delinquent taxes.

Total Revenues

Sales, use and contractors' excise taxes produce the largest portion of the state's tax revenues, accounting for 66% of the total revenues in fiscal year 2001. These revenues come from over 59,000 businesses that currently pay sales, use and contractors' excise taxes on their products and services.

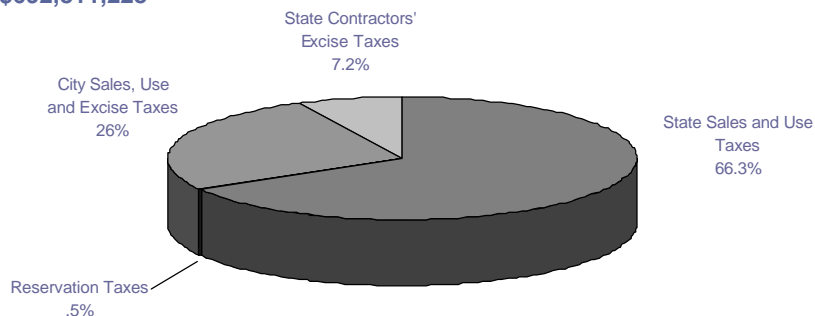
Total Revenues: Sales, Use and Contractors' Excise Taxes

Fiscal Year	Total State Revenue	Percent of Change
1992	\$289,323,536	-1.54%
1993	306,251,882	5.85%
1994	339,023,981	10.70%
1995	358,879,261	5.86%
1996	380,746,752	6.09%
1997	407,559,211	7.04%
1998	438,348,560	7.55%
1999	455,353,445	3.88%
2000	482,182,120	5.89%
2001	508,759,868	5.51%

A Percentage Breakdown of Sales, Use and Contractors' Excise Tax Revenues

In fiscal year 2001, sales, use and contractors' excise taxes in South Dakota totaled \$692,811,228. This figure includes state sales and use taxes; state contractors' excise taxes; city sales, use and contractors' excise taxes; and reservation taxes. The majority of the revenue continues to come from state sales and use taxes as evidenced by the graph below.

Total Receipts - \$692,811,228



Sales Tax/continued

Municipal and Reservation Taxes

While cities and Indian reservations set their own tax rates, the department is responsible for collecting the actual taxes. Those revenues are then distributed to the taxing units based on the amount collected from each city or reservation. These sales tax revenues don't necessarily indicate the level of economic activity in these areas since municipalities and reservations vary in their tax rates and the size of their tax bases.

City/Reservation	Rate(s)	Adopted	FY 2000 Remittance	FY 2001 Remittance	% Increase [Decrease]
Aberdeen	1%, 2%, 3%	4-71	\$9,233,805.53	\$9,362,316.45	1.39%
Alcester	1%	9-84	66,981.23	68,963.39	2.96%
Alexandria	1%, 2%	11-84	62,001.28	70,613.59	13.89%
Alpena	1%	7-00	0.00	31,421.98	N/A
Arlington	1%, 2%	3-89	179,907.64	189,052.61	5.08%
Armour	1%, 2%	9-88	135,811.04	138,291.30	1.83%
Avon	1%, 2%	9-84	75,138.84	84,142.60	11.98%
Baltic	1%, 2%	7-93	88,423.66	86,041.60	-2.69%
Belle Fourche	1%, 2%, 3%	2-78	1,158,601.59	1,240,872.72	7.10%
Belvidere	1%, 2%	1-85	11,966.32	8,701.36	-27.28%
Beresford	1%, 2%	7-77	230,289.88	461,192.40	100.27%
Blunt	1%	7-96	5,237.95	2,932.18	-44.02%
Bonesteel	1%	1-01	0.00	7,318.63	N/A
Bowdle	1%	1-89	55,013.75	55,545.83	0.97%
Box Elder	1%, 2%, 3%	1-83	435,615.34	458,246.90	5.20%
Brandon	1%, 2%	4-77	874,428.22	907,414.76	3.77%
Brandt	1%	1-01	0.00	996.07	N/A
Bridgewater	1%, 2%	7-85	74,105.43	67,927.17	-8.34%
Bristol	1%	7-96	20,518.75	21,129.50	2.98%
Britton	1%, 2%	1-84	330,128.29	334,510.10	1.33%
Brookings	1%, 2%, 3%	1-82	5,548,997.11	5,571,111.75	0.40%
Bryant	1%	1-95	35,321.01	33,344.02	-5.60%
Buffalo	1%	7-97	38,302.63	42,858.83	11.90%
Burke	1%, 2%	3-88	133,627.49	134,685.59	0.79%
Canistota	1%, 2%	7-79	74,419.95	93,322.07	25.40%
Canova	1%	9-88	8,457.22	7,960.15	-5.88%
Canton	1%, 2%	4-77	319,436.40	539,574.31	68.91%
Carthage	1%	7-99	8,109.65	9,439.79	16.40%
Castlewood	1%, 2%	1-89	65,428.41	70,904.74	8.37%
Centerville	1%, 2%	7-79	111,707.18	100,433.50	-10.09%
Central City	1%, 2%	7-75	48,279.96	61,862.12	28.13%
Chamberlain	1%, 2%, 3%	4-79	804,003.08	829,605.64	3.18%
Chancellor	1%, 2%, 3%	1-84	22,712.24	30,219.59	33.05%
Cheyenne River ST	1-1/2%, 2%, 3%, 4%	6-76	839,437.03	952,524.64	13.47%
Clark	1%, 2%	3-86	245,847.63	247,635.15	0.73%
Clear Lake	1%, 2%	7-78	302,547.46	327,140.21	8.13%
Colman	1%	1-96	60,020.12	57,792.50	-3.71%
Colome	1%, 2%	1-89	42,752.14	39,559.00	-7.47%
Colton	1%, 2%, 3%	1-98	48,443.58	80,181.16	65.51%
Corsica	1%, 2%	1-87	129,531.88	130,669.94	0.88%
Crooks	1%, 2%	9-89	43,430.17	51,462.86	18.50%
Custer	2%, 3%	7-77	799,245.22	834,933.46	4.47%
Davis	1%, 2%	7-94	6,473.47	7,801.49	20.51%
DeSmet	1%, 2%	1-79	256,947.62	256,469.53	-0.19%
Deadwood	1%, 2%, 3%	4-78	1,312,397.90	1,406,349.64	7.16%
Dell Rapids	1%, 2%	7-79	478,139.86	488,951.58	2.26%
Delmont	1%, 2%	11-88	32,949.27	33,915.60	2.93%
Doland	1%	1-95	20,850.87	21,681.28	3.98%
Dupree	1%	1-85	34,463.59	37,397.22	8.51%
Eden	1%	11-91	11,689.77	11,187.73	-4.29%
Edgemont	1%, 2%	4-74	101,223.04	103,577.83	2.33%
Egan	1%, 2%	1-89	18,174.71	19,398.67	6.73%
Elk Point	1%, 2%	7-79	285,554.60	267,319.17	-6.39%
Elkton	1%, 2%	1-95	49,222.59	63,613.36	29.24%
Emery	1%, 2%	1-90	46,316.87	42,118.60	-9.06%
Estelline	1%	1-92	42,210.04	43,827.69	3.83%
Ethan	1%, 2%	7-95	30,851.69	66,757.52	116.38%
Eureka	1%, 2%	7-85	161,896.69	177,257.19	9.49%
Faith	1%	3-85	64,435.16	64,280.28	-0.24%
Faulkton	1%, 2%	7-88	150,134.81	154,221.08	2.72%
Flandreau	1%	7-81	160,672.38	179,789.75	11.90%
Florence	1%	1-97	19,670.55	14,676.08	-25.39%
Fort Pierre	1%, 2%, 3%	10-78	508,693.97	525,150.64	3.24%
Freeman	1%, 2%	1-94	299,241.50	297,918.09	-0.44%

Sales Tax/continued

City/Reservation	Rate(s)	Adopted	FY 2000 Remittance	FY 2001 Remittance	% Increase [Decrease]
Garretson	1%, 2%	3-84	165,732.90	192,766.86	16.31%
Gary	1%	7-87	15,707.45	17,513.36	11.50%
Geddes	1%, 2%	5-87	35,989.23	36,521.18	1.48%
Gettysburg	1%, 2%, 3%	5-85	285,625.94	302,160.87	5.79%
Gregory	1%, 2%	1-87	329,038.91	326,559.99	-0.75%
Groton	1%, 2%	1-79	227,060.41	242,308.18	6.72%
Harrisburg	1%, 2%	7-82	148,623.73	126,679.82	-14.76%
Harrold	1%	1-94	12,677.55	18,159.89	43.24%
Hartford	1%, 2%, 3%	1-78	231,704.31	269,058.89	16.12%
Hayti	1%	1-94	29,008.95	29,556.11	1.89%
Henry	1%	1-95	15,432.37	17,053.15	10.50%
Hermosa	1%, 2%	3-84	52,168.62	48,423.29	-7.18%
Herried	1%	1-91	48,849.29	60,936.67	24.74%
Highmore	1%, 2%	10-79	211,341.32	237,347.48	12.31%
Hill City	1%, 2%, 3%	7-77	398,496.61	441,908.36	10.89%
Hitchcock	1%	9-90	8,327.32	8,755.32	5.14%
Hosmer	1%	7-82	17,451.29	17,780.24	1.88%
Hot Springs	1%, 2%, 3%	11-71	893,331.62	936,671.47	4.85%
Hoven	1%	3-92	59,874.79	64,151.73	7.14%
Howard	1%, 2%	11-86	204,361.62	230,787.60	12.93%
Humboldt	1%, 2%, 3%	7-82	64,850.30	76,035.62	17.25%
Hurley	1%, 2%	7-82	47,913.90	49,082.16	2.44%
Huron	1%, 2%, 3%	10-72	3,505,358.17	3,429,377.87	-2.17%
Interior	1%, 2%	1-92	28,180.97	34,288.31	21.67%
Ipswich	1%, 2%	7-77	152,971.79	167,212.57	9.31%
Irene	1%, 2%	7-84	100,778.33	59,691.67	-40.77%
Iroquois	1%	7-81	15,581.05	17,952.18	15.22%
Isabel	1%	11-91	24,970.75	27,400.67	9.73%
Java	1%	7-99	7,039.22	7,511.12	6.70%
Jefferson	1%, 2%	1-96	31,664.89	49,553.19	56.49%
Kadoka	1%, 2%, 3%	1-77	155,011.85	197,357.75	27.32%
Kennebec	1%	7-78	29,539.31	33,007.74	11.74%
Keystone	2%, 3%	7-72	467,979.26	500,647.28	6.98%
Kimball	1%, 2%	1-81	141,395.20	182,176.14	28.84%
Lake Andes	1%, 2%	7-84	108,677.77	111,390.58	2.50%
Lake Norden	1%	1-94	58,384.82	64,629.84	10.70%
Lake Preston	1%, 2%	1-81	109,822.61	127,389.37	16.00%
Langford	1%	1-98	16,784.89	18,242.42	8.68%
Lead	1%, 2%, 3%	4-72	666,797.73	617,023.83	-7.46%
Lemmon	1%, 2%	1-89	264,968.33	327,814.55	23.72%
Lennox	1%, 2%	1-74	244,235.70	254,843.48	4.34%
Leola	1%	11-87	35,547.83	30,514.86	-14.16%
McIntosh	1%	3-92	12,514.90	12,466.45	-0.39%
McLaughlin	1%	1-93	50,384.68	51,670.40	2.55%
Madison	1%, 2%, 3%	4-72	1,665,814.72	1,728,211.64	3.75%
Marion	1%, 2%	7-80	171,222.53	152,842.87	-10.73%
Martin	1%, 2%, 3%	7-80	263,368.78	266,497.42	1.19%
Menno	1%	1-90	73,992.09	69,822.15	-5.55%
Midland	1%	7-83	21,188.33	21,400.87	1.00%
Milbank	1%, 2%	7-88	983,804.71	1,023,199.59	4.00%
Miller	1%, 2%	9-86	391,261.09	408,579.07	4.43%
Mission	1%, 2%	11-73	214,980.33	234,020.55	8.86%
Mitchell	2%, 3%	1-77	5,816,043.38	6,646,964.64	14.29%
Mobridge	1%, 2%	11-86	845,669.23	893,630.68	5.67%
Monroe	1%	1-81	5,790.49	6,087.69	5.13%
Montrose	1%, 2%	7-88	57,904.54	53,235.14	-8.06%
Mount Vernon	1%, 2%, 3%	1-97	37,411.03	43,711.17	16.84%
Murdo	1%, 2%, 3%	1-78	265,262.53	261,908.12	-1.26%
New Underwood	2%	3-86	42,707.32	44,488.40	4.17%
Newell	1%, 2%	7-78	71,333.36	83,270.96	16.73%
Nisland	1%, 2%	11-88	5,116.07	10,784.63	110.80%
North Sioux City	1%, 2%	5-88	4,053,028.64	4,086,236.54	0.82%
Oacoma	1%, 2%, 3%	4-82	402,032.94	404,304.02	0.56%
Oglala ST	1.5%, 2%, 3%, 4%	12-70	1,337,549.22	1,121,147.73	-16.18%
Olivet	1%	1-00	728.71	2,302.53	215.97%
Onida	1%, 2%	1-95	66,502.17	115,553.04	73.76%
Parker	1%, 2%	7-83	158,029.83	158,608.58	0.37%
Parkston	1%, 2%, 3%	10-79	255,652.47	281,732.00	10.20%
Philip	1%, 2%	4-76	257,124.07	258,120.31	0.39%
Pickstown	1%	1-89	22,223.16	24,100.42	8.45%
Pierre	2%, 3%	1-77	4,239,324.03	4,072,906.31	-3.93%
Plankinton	1%, 2%	1-94	107,194.83	101,053.63	-5.73%
Platte	1%, 2%, 3%	7-86	377,231.88	377,244.21	0.00%
Pollock	1%	7-92	37,522.87	31,440.67	-16.21%
Presho	1%	7-78	50,829.17	53,750.83	5.75%
Ramona	1%	1-97	7,813.75	7,910.99	1.24%
Rapid City	2%, 3%	5-72	28,134,993.81	28,491,598.84	1.27%
Redfield	1%, 2%, 3%	1-81	545,533.20	569,463.35	4.39%
Reliance	1%	1-99	14,736.12	16,831.64	14.22%
Roscoe	1%	1-79	31,179.14	35,784.52	14.77%

Sales Tax/continued

City/Reservation	Rate(s)	Adopted	FY 2000 Remittance	FY 2001 Remittance	% Increase [Decrease]
Rosebud ST	1.5%, 2%, 3%, 4%	1-78	\$948,636.88	\$995,693.43	4.96%
Rosholt	1%	7-99	39,353.88	50,337.43	27.91%
Roslyn	1%	1-89	14,932.79	14,066.10	-5.80%
Salem	1%, 2%	7-83	273,176.99	268,976.49	-1.54%
Scotland	1%, 2%	7-82	165,661.00	196,423.71	18.57%
Selby	1%	9-87	66,877.75	73,841.64	10.41%
Sioux Falls	1%, 2%, 3%	1-74	58,287,564.95	61,681,330.01	5.82%
Sioux Falls Lodging	1%	1-96	390,787.20	366,206.92	-6.29%
Sisseton	1%, 2%	7-78	568,883.70	599,230.24	5.33%
Spearfish	2%, 3%	10-71	3,277,110.58	3,408,943.33	4.02%
Spencer	1%, 2%	1-87	25,027.93	26,952.76	7.69%
Springfield	1%	7-84	76,451.76	106,981.20	39.93%
Standing Rock ST	1.5%, 2%, 3%, 4%	3-91	284,635.02	303,842.09	6.75%
Stickney	1%, 2%	7-86	75,183.18	54,096.26	-28.05%
Sturgis	1%, 2%, 3%	11-71	1,860,364.93	1,981,452.00	6.51%
Summit	1%	7-93	12,008.61	14,512.93	20.85%
Tabor	1%	7-93	26,211.98	27,056.91	3.22%
Tea	1%, 2%, 3%	7-82	226,642.82	312,108.88	37.71%
Timber Lake	1%	3-87	36,916.05	40,709.95	10.28%
Toronto	1%	9-85	20,949.13	23,650.76	12.90%
Trent	1%	1-99	6,784.80	7,561.12	11.44%
Tripp	1%, 2%	1-88	101,773.10	103,933.68	2.12%
Tulare	1%	11-91	13,174.90	13,713.69	4.09%
Tyndall	1%	1-86	93,072.78	104,085.22	11.83%
Valley Springs	1%	1-91	30,448.40	35,428.24	16.36%
Veblen	1%	1-89	17,507.46	17,078.48	-2.45%
Vermillion	1%, 2%, 3%	7-80	1,609,262.81	1,727,840.18	7.37%
Viborg	1%, 2%	4-80	174,125.13	181,060.40	3.98%
Volga	1%	7-97	115,998.94	108,443.34	-6.51%
Wagner	1%, 2%	7-87	417,531.93	467,140.70	11.88%
Wakonda	1%	1-82	20,552.70	20,907.30	1.73%
Wall	1%, 2%, 3%	10-71	651,583.81	663,716.92	1.86%
Warner	1%, 2%	7-98	29,207.91	25,164.81	-13.84%
Wasta	1%	9-90	4,059.16	3,570.80	-12.03%
Watertown	1%, 2%, 3%	1-78	7,849,574.01	8,305,333.61	5.81%
Waubay	1%, 2%	1-81	46,756.85	60,309.95	28.99%
Webster	1%, 2%	7-81	466,116.26	477,913.21	2.53%
Wentworth	1%	7-94	11,024.57	15,822.67	43.52%
Wessington	1%	5-91	27,136.17	27,897.21	2.80%
Wessington Springs	1%, 2%	7-78	194,150.94	192,882.98	-0.65%
White Lake	1%	1-94	30,523.53	31,657.53	3.72%
White River	1%, 2%	7-78	87,378.53	93,016.75	6.45%
Whitewood	1%, 2%	7-76	102,187.95	110,315.43	7.95%
Willow Lake	1%, 2%	5-85	38,881.91	41,664.14	7.16%
Wilmot	1%	7-98	52,392.76	48,029.88	-8.33%
Winner	1%, 2%	1-80	928,079.68	909,269.23	-2.03%
Witten	1%	1-98	2,768.25	3,160.22	14.16%
Woonsocket	1%, 2%	7-79	167,214.92	141,107.88	-15.61%
Worthing	1%, 2%	1-84	47,509.55	50,116.59	5.49%
Yankton	1%, 2%, 3%	7-79	4,826,100.62	4,855,490.03	0.61%
TOTAL			\$172,464,689.73	\$179,749,683.67	4.22%

In fiscal year 2001, a total of 194 communities (plus four reservations) imposed local sales and use taxes. Some local governments have several different tax rates but the maximum local rate that can be levied in South Dakota is 3%.

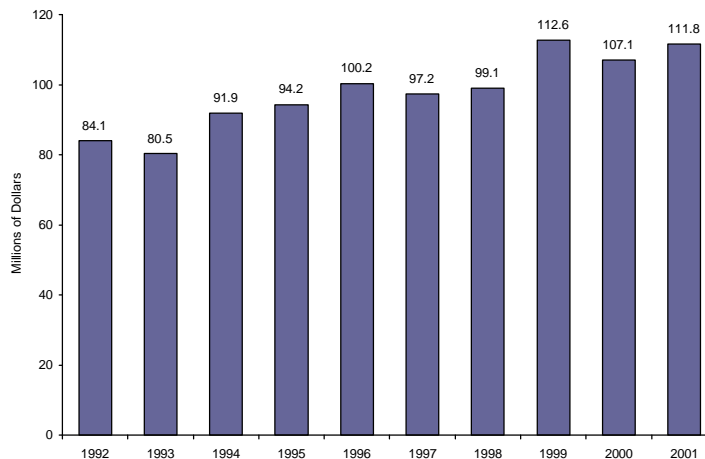
Of the surrounding states, only one state has more local governments which implement a sales tax: Iowa has nearly 925 with a maximum local rate of 1%. Nebraska has 111 with a maximum local rate of 1.5%; North Dakota limits the maximum local rate to 2% with 91 local governments implementing sales taxes; and Minnesota has 12 such local governments with a maximum rate of 3%.

Special Taxes

Total Revenues

The Special Taxes division administers a variety of diverse taxes including cigarette excise taxes; inheritance taxes; bank franchise taxes; ore taxes; energy mineral severance taxes; coin-operated laundromat license fees; beer, wine and distilled spirits taxes; gaming excise taxes; beer and liquor license fees; other tobacco products; and alcohol beverage brand registration fees. In fiscal year 2001, revenues in this division showed an increase from 2000 with total collections of \$111,817,923.

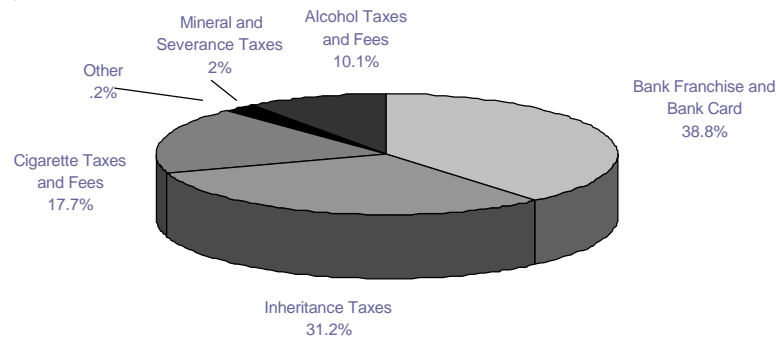
Total Special Tax Revenues: A Ten-Year Comparison



There are five major types of Special Taxes: bank franchise taxes, inheritance taxes, alcohol taxes, cigarette taxes, and mineral and severance taxes. In fiscal year 2001, bank franchise and bank card taxes generated about 39% of special tax revenues.

Tax Revenues by Category

Total Receipts - \$111,817,923

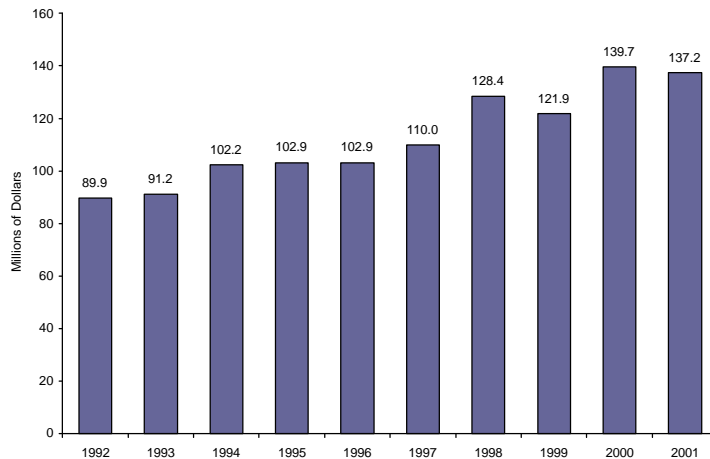


Fuel Tax and Motor Vehicle Licensing

Total Fuel Tax Revenues

Gasoline, ethanol blend, aviation fuel, jet fuel, liquid petroleum gas (LPG) and diesel fuel all fall into the fuel tax category. In fiscal year 2001, there were 2,635 fuel licenses in South Dakota, but only 1,257 licensees report and remit the tax.

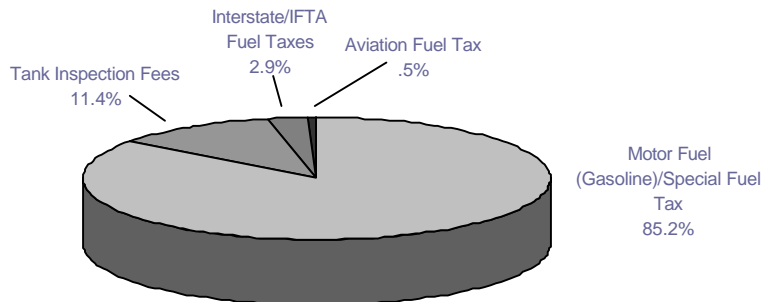
Fuel Tax Revenues: A Ten-Year Comparison



Of the three types of fuels sold in South Dakota, motor fuel (gasoline) and undyed diesel generally produce the largest amount of revenue.

Tax Revenues by Category

Total Receipts - \$137,201,529



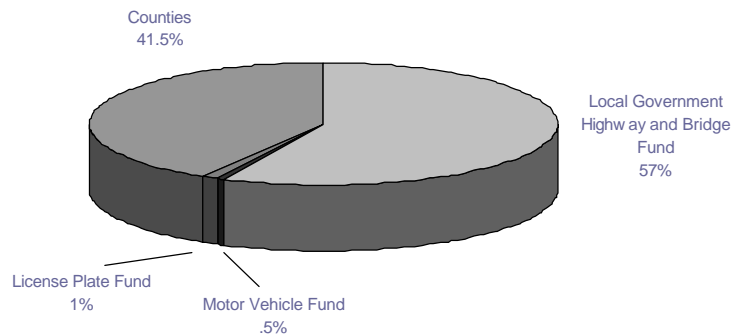
Motor Vehicle/ continued

Motor Vehicle Licensing

Commercial registration fees (licensing fees) are levied on intrastate and interstate motor carriers doing business in the state. The amount of the fee for interstate registration is determined by the percentage of miles the carrier travels in all the states. Over 98 percent of the fees are used by local governments to maintain public roads. Prorate registration revenues during fiscal year 2001 were \$10,167,057, the largest share of which was used to maintain state highways.

Distribution of Fees by Fund

Total Prorate Registration Fees - \$10,167,057



Distribution of Fees by County

Aurora	\$51,012	Fall River	\$53,460	Marshall	\$56,678
Beadle	131,116	Faulk	47,132	Meade	129,811
Bennett	37,372	Grant	70,164	Mellette	29,626
Bon Homme	58,339	Gregory	59,347	Miner	45,921
Brookings	128,819	Haakon	41,347	Minnehaha	466,987
Brown	218,124	Hamlin	48,305	Moody	55,353
Brule	57,028	Hand	70,981	Pennington	359,483
Buffalo	15,302	Hanson	36,003	Perkins	65,573
Butte	59,901	Harding	37,003	Potter	44,854
Campbell	36,740	Hughes	80,906	Roberts	92,598
Charles Mix	89,554	Hutchinson	78,247	Sanborn	42,666
Clark	65,196	Hyde	29,744	Shannon	53,961
Clay	64,723	Jackson	37,336	Spink	113,160
Codington	125,579	Jerauld	35,319	Stanley	29,715
Corson	71,821	Jones	27,198	Sully	39,658
Custer	49,655	Kingsbury	71,001	Todd	52,772
Davison	87,569	Lake	72,517	Tripp	84,824
Day	80,990	Lawrence	99,174	Turner	71,282
Deuel	49,490	Lincoln	96,726	Union	65,760
Dewey	55,057	Lyman	53,559	Walworth	49,788
Douglas	40,067	McCook	55,595	Yankton	96,280
Edmunds	61,444	McPherson	48,810	Ziebach	37,158
				TOTAL	\$4,968,680

Motor Vehicle/ continued

Titles and Registration

Any vehicle (including mobile homes, trailers and snowmobiles) that operates on South Dakota's roadways must have a title verifying ownership. Vehicles and boats used on public roadways or waterways must also be registered. Registration is confirmed by the issuance of a license plate, decal or permit.

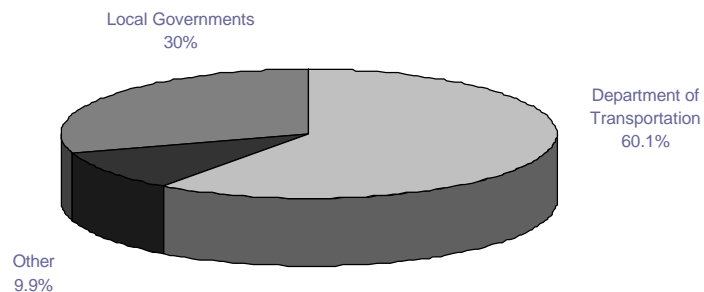
Title and Registration Revenues

	FY2000	FY2001	Percent Change
License Plate Fees - State's Share*	\$1,934,242	\$1,983,180	2.53%
License Plate Fees - Counties', Cities', Townships' Share	20,662,179	21,569,395	4.39%
Snowmobiles	107,600	176,124	63.68%
Boats	847,479	731,282	-13.71%
Temporary Special Permits	112,423	117,273	4.31%
Mobile Home Plates	10,280	10,527	2.40%
Dealer Fees, Duplicate Dealer Plates	136,245	141,427	3.80%
Noncommercial Duplicate Plates	82,498	76,682	-7.05%
Commercial Duplicate License Plates	3,070	1,260	-58.96%
Title and Penalty Fees	2,054,439	1,980,674	-3.59%
Trailer ID Fees	44,220	45,300	2.44%
Replacement Plate Fees	117,969	122,637	3.96%
Motorcycle Safety Education Fees	83,151	89,720	7.90%
Mobile Home Registration Fees - State's Share	263,571	204,204	-22.52%
Other Vehicle 3.0% Registration Fees	46,810,062	43,193,824	-7.73%
Snowmobile 3.0% Initial Registration Fees	219,179	345,512	57.64%
Register of Deeds Fees	141,700	134,515	-5.07%
DENR Solid Waste Fees	949,605	941,417	-0.86%
Total Receipts	\$74,579,912	\$71,864,953	-3.64%

*State Motor Vehicle Fund, License Plate Special Revenue Fund

Distribution of Title and Registration Revenues

Total Disbursements - \$71,864,953



Property Taxes

Property taxes are administered by local governments and are the primary source of funding for school systems, counties, municipalities and other local government units. Because they are local taxes, the Department of Revenue doesn't collect or use property taxes; the department's authority is limited to assisting local governments in making property tax assessments that are fair and in compliance with the law.

How Property Taxes are Applied

Property owners in South Dakota can be taxed by two or more of the following units of government: cities, counties, townships, school districts, water districts, fire districts, and sanitary sewer districts. The following three steps are commonly used to apply property taxes in each government unit.

- 1. Establishing the Value of Property:** Step 1 establishes the value of all the property within the boundaries of each unit of government. Because all property is not of equal value, individual values are arrived at based on the price the property would bring if sold on the open market. This selling price, called *true and full value*, is determined by the sale price of comparable properties and is what establishes the value of the property.
- 2. Establishing the Amount of Tax:** Step 2 determines the amount of taxes needed to meet the cost of operating a unit of government. The higher the cost of operating the city or school district, the larger the revenues required from property taxes. Revenues from property taxes, combined with other funds such as federal grants, must equal the size of the budget of the unit of government.
- 3. Establishing a Tax Rate:** Step 3, establishing a tax rate to apply to an individual piece of property, is based on Steps 1 and 2. To set a tax rate for all property in a local unit of government, divide the value of all the property into the amount of the budget that is unfunded from other sources.

These tax rates are expressed in dollars of property value or "dollars per thousand". If the dollars per thousand were \$5, the tax on a home valued at \$100,000 would be calculated at \$5 X 100 and result in a tax of \$500.

In practice, all the tax rates that apply to a property are added together to make a single tax levy. This single levy is always the product of two or more rates assessed by different government entities. You'll find an example on the top of the next page.

Property Taxes/ continued

Local Units of Government Taxing a Hypothetical Parcel of Property

Property “X” is taxed at a rate of \$30.30 per thousand dollars of taxable value. Here’s how that tax rate is broken down by unit of government:

<u>Unit of Government</u>	<u>Amount of Tax</u>
School District Tax	\$9.65 per thousand
County Tax	8.00 per thousand
City Tax	12.00 per thousand
Township Tax	0 per thousand
Water District Tax	0.25 per thousand
Fire District Tax	0.30 per thousand
Sanitary District Tax	0.10 per thousand
TOTAL	\$30.30 per thousand

Even after the tax rate is established, the rate can’t be applied uniformly to all property because school districts tax agricultural property at a different rate than non-agricultural property.

Property Tax Variables

Three major variables affect the taxes on an individual piece of property:

1. The size of the combined budgets of the governmental units taxing the property;
2. The value of all the property in the governmental unit;
3. The value of the individual piece of property.

A change in any one of these variables will change a property owner’s taxes, resulting in either an increase or decrease in taxes owed, as evidenced by the chart below.

If local government budgets <i>decrease</i>	AND	The value of property in the gov’t unit as a whole <i>remains the same</i>	AND	The value of the individual’s parcel of property <i>remains the same</i>	TAXES DECREASE
If local government budgets <i>remain the same</i>	AND	The value of property in the gov’t unit as a whole <i>decreases</i>	AND	The value of the individual’s parcel of property <i>remains the same</i>	TAXES INCREASE
If local government budgets <i>remain the same</i>	AND	The value of property in the gov’t unit as a whole <i>remains the same</i>	AND	The value of the individual’s parcel of property <i>increases</i>	TAXES INCREASE

Property Taxes/ continued

Limits on Property Taxes

While budgets control the size of a political subdivision's taxes, there are limits on the amount of taxes that can be levied. Each unit of local government is limited in the dollars per thousand dollars of taxable value it can tax. For example, the maximum rate for municipalities is \$27 per thousand, while the maximum rate for townships is \$3 per thousand dollars of property value.

Total Property Taxes

Total Property Taxes 1999 - 2001

	Payable 1999	Payable 2000	Payable 2001
Agricultural Property	\$154,433,143	\$159,212,772	\$150,641,597
Non-Ag Acreages		294,622	1,279,712
Owner-Occupied Property	203,873,029	215,800,767	210,016,104
Manufactured Homes (Real) - Not Owner Occupied			1,172,450
Manufactured Homes (Real) - Owner Occupied			2,075,410
Other Property	195,619,643	207,037,885	203,536,413
Utilities			
Railroad	1,080,419	1,179,273	1,117,255
Telegraph			
Electric Light, Power, etc.	22,245,482	23,415,680	21,739,439
Telephone Companies (Within)	4,966,411	5,516,563	5,041,458
Telephone Companies (Without)	1,419,965	2,248,220	1,337,775
Special Assessments	8,011,655	8,165,304	8,783,550
TOTAL	591,649,747	622,871,086	606,741,163

Taxes Levied by Local Units of Government

Each government unit levies its own property taxes to meet its budget. The chart below compares the total amount of tax levied by each unit of government.

Taxes Levied by Local Units of Government - 2001

	Amount Taxed	Percent of Total
County (Includes Library, Secondary Road, Fire Fighting Purposes, Telephone Outside-General Fund)	\$154,771,961.70	25.51%
Municipalities	76,628,849.91	12.63%
Schools	356,034,460.32	58.68%
Townships	10,522,341.59	1.73%
Special Assessments	8,783,549.72	1.45%
Total	\$606,741,163.24	100.00%

Property Taxes/ continued

The charts on the next two pages compare the effective tax rate in 25 of South Dakota's largest municipalities (non-agricultural property) and townships (agricultural property). The effective tax rate is the percentage of a property's assessed (market) value that will be paid in taxes. For example, if the effective tax rate is 2%, and the selling price of the property is \$150,000, the taxes would be approximately \$3,000 per year. There are three separate tax rates for school general fund purposes: Owner-Occupied, Agricultural and Other (all property that is not owner-occupied or agricultural).

Owner-Occupied Taxes Payable in 2001

City	Effective Tax Rate	X \$40,000 =	A Tax Of	City	Effective Tax Rate	X \$40,000 =	A Tax Of
Aberdeen	1.77%		\$707.88	Mobridge	1.83%		\$733.72
Belle Fourche	1.90		759.56	Pierre	1.76		702.10
Brandon	1.50		601.12	Rapid City	1.61		644.30
Brookings	1.68		673.20	Redfield	2.67		1,067.94
Canton	2.09		835.04	Sioux Falls	1.46		582.08
Chamberlain	1.95		781.66	Sisseton	1.98		792.88
Dell Rapids	1.58		632.40	Sturgis	2.14		856.80
Flandreau	2.08		833.00	Vermillion	1.91		764.32
Hot Springs	2.22		888.08	Watertown	1.31		523.60
Huron	2.19		875.50	Webster	2.18		873.46
Madison	1.75		699.72	Winner	1.79		715.02
Milbank	1.62		648.38	Yankton	1.53		613.70
Mitchell	1.84		735.76				

Other Non-Agricultural Taxes Payable in 2001

City	Effective Tax Rate	X \$40,000 =	A Tax Of	City	Effective Tax Rate	X \$40,000 =	A Tax Of
Aberdeen	2.50%		\$1,000.96	Mobridge	2.57%		\$1,028.84
Belle Fourche	2.64		1,054.68	Pierre	2.48		993.48
Brandon	2.24		895.22	Rapid City	2.34		937.38
Brookings	2.42		969.68	Redfield	3.40		1,360.00
Canton	2.82		1,127.10	Sioux Falls	2.19		875.16
Chamberlain	2.68		1,073.04	Sisseton	2.71		1,084.94
Dell Rapids	2.31		925.48	Sturgis	2.88		1,152.60
Flandreau	2.81		1,124.38	Vermillion	2.67		1,066.92
Hot Springs	2.96		1,182.18	Watertown	2.04		816.68
Huron	2.92		1,166.88	Webster	2.91		1,164.84
Madison	2.48		991.78	Winner	2.53		1,012.18
Milbank	2.35		939.76	Yankton	2.26		905.76
Mitchell	2.57		1,027.14				

Property Taxes/ continued

Agricultural Taxes Payable in 2001

Township	Effective Tax Rate	X \$40,000 =	A Tax Of	Township	Effective Tax Rate	X \$40,000 =	A Tax Of
Aberdeen Twp. 6-1	1.31%		\$522.92	Mobridge Twp. 62-3 (Unorg.)	1.16%		\$464.44
Belle Fourche Twp. 9-1 (Unorg.)	1.16		462.06	Pierre Twp. 32-2 (Unorg.)	1.29		517.82
Brandon Twp. 49-2	1.04		416.16	Rapid City Twp. 51-4 (Unorg.)	1.29		516.80
Brookings Twp. 5-1	1.43		571.20	Redfield Twp. 56-4	1.18		471.58
Canton Twp. 41-1	1.08		433.50	Sioux Falls Twp. 49-5	1.03		413.78
Chamberlain Twp. 7-1	1.16		462.06	Sisseton Twp. 54-8	1.07		427.72
Dell Rapids Twp. 49-3	.94		374.68	Sturgis Twp. 46-1 (Unorg.)	1.22		488.58
Flandreau Twp. 50-3	1.30		519.86	Vermillion Twp. 13-1	1.36		542.98
Hot Springs Twp. 23-2 (Unorg.)	1.44		576.64	Elmira Twp. 14-4	1.00		400.52
Used (Clyde) Twp. 2-2	1.27		508.98	Webster Twp. 18-4	1.29		517.48
Lakeview Twp. 39-2	1.09		437.92	Lamro Twp. 59-2	1.17		466.48
Alban Twp. 25-4	1.18		470.90	Unorganized Twp. 63-3	1.15		461.04
Mitchell Twp. 17-2	1.17		467.16				

Sales to Assessment Ratio Analysis

One factor determining the amount of tax levied on a parcel of property is the value assigned to the property. The accuracy of assessments can be evaluated by comparing them with the actual sale prices of property. The Sales to Assessment Ratio Analysis in the chart below compares, by county, the assessed value of property with its real value (i.e. sale price). The ratio is expressed as a percentage and is found by dividing the assessed value by the selling price. For example, a parcel assessed at \$32,000 and selling at \$40,000 has an assessment/sales ratio of 80%.

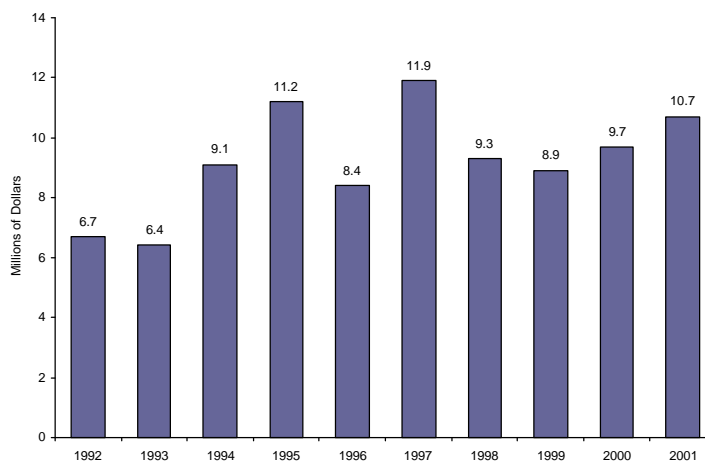
Sales for Years 1999,2000

County	Ag	Non-Ag	County	Ag	Non-Ag	County	Ag	Non-Ag
Aurora	82.3%	95.5%	Fall River	69.9%	87.4%	Marshall	84.1%	88.6
Beadle	89.5	94.7	Faulk	96.8	102.9	Meade	79.2	88.6
Bennett	92.3	88.7	Grant	89.6	88.6	Mellette	83.5	94.4
Bon Homme	85.8	99.9	Gregory	89.4	100.4	Miner	82.6	90.4
Brookings	89.0	94.4	Haakon	117.0	96.1	Minnehaha	83.9	85.9
Brown	85.4	89.6	Hamlin	92.6	91.0	Moody	85.3	87.0
Brule	91.1	95.8	Hand	92.9	102.2	Pennington	69.3	82.6
Buffalo	65.8	0.0	Hanson	83.8	92.2	Perkins	90.1	97.5
Butte	96.7	94.2	Harding	95.6	107.9	Potter	96.3	102.2
Campbell	86.3	96.6	Hughes	84.8	87.8	Roberts	87.4	94.6
Charles Mix	92.5	90.1	Hutchinson	77.5	92.3	Sanborn	75.6	89.1
Clark	93.5	98.2	Hyde	90.7	89.7	Shannon	87.0	78.6
Clay	91.0	87.4	Jackson	86.7	85.4	Spink	87.5	100.4
Codington	83.0	90.2	Jerauld	77.1	95.7	Stanley	84.4	86.4
Corson	90.0	100.0	Jones	83.0	95.8	Sully	87.8	97.2
Custer	82.4	93.7	Kingsbury	83.9	89.5	Todd	90.5	82.2
Davison	84.8	88.7	Lake	89.6	93.1	Tripp	89.8	95.8
Day	90.5	94.4	Lawrence	0.0	85.6	Turner	89.7	94.7
Deuel	83.7	89.1	Lincoln	84.7	86.2	Union	91.8	94.9
Dewey	88.6	104.0	Lyman	90.1	97.1	Walworth	87.9	99.7
Douglas	93.4	88.3	McCook	82.9	87.6	Yankton	82.1	95.3
Edmunds	91.2	90.0	McPherson	93.5	92.8	Ziebach	91.9	110.0
						Statewide	85.7%	86.9%

To insure that businesses are correctly reporting their taxes, the department regularly performs audits on financial records. An audit may be conducted on any tax license holder, in-state or out-of-state, large or small.

Audits are used to correct errors businesses may make in the payment of their taxes. Such corrections meant an additional \$10,671,756 in tax revenues (assessments and penalties) in fiscal year 2001.

Total Assessments: A Ten-Year Comparison



Audits and Assessments

	Number of Audits	Assessments
Sales, Use and Contractors' Excise Tax	1,206	\$8,681,023
Limited Scope Audits	28	30,837
Bank Franchise, Severance Taxes and Inheritance Taxes	3,033	1,338,000
Fuel Taxes, Prorate (IRP) and IFTA	339	621,896
TOTAL	4,606	\$10,671,756

Collection Allowances

There are some allowances given to taxpayers that reduce the amount of taxes collected by the department. Allowances are given to tobacco distributors, and fuel suppliers and marketers.

Allowances FY 2001

Tobacco Distributors	3.5% of the value of the tax indicia they purchase	\$678,928.46
Fuel Suppliers/Marketers	2.25% of the tax paid. One-third is kept by the supplier and the remaining two-thirds is given to the marketer.	\$2,767,123.66
Importer	Two-thirds of the allowance in 10-47B-34.	\$28,378.42
LPG Vendor	2% of the first 25,000 gallons taxed each month; 1% on the gallons taxed in excess of 25,000 each month. Maximum \$500 per month.	\$3,529.11

Tax Refund Programs

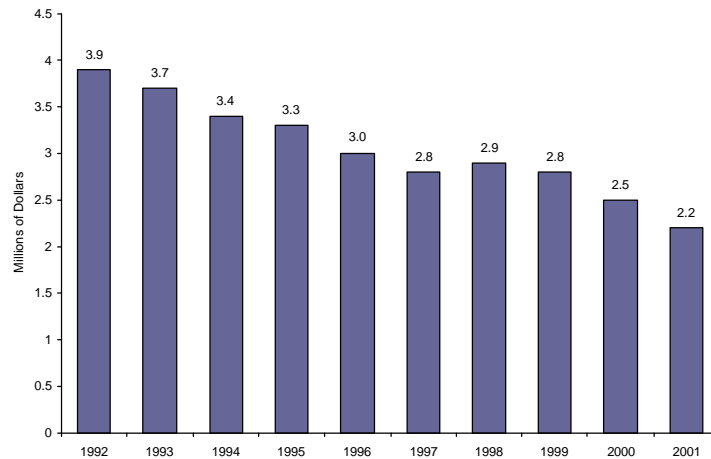
Tax refunds are an essential part of South Dakota's tax system. They apply to two groups: (1) consumers using vehicles and equipment off highways and roads for agricultural or commercial purposes who may receive motor fuel tax refunds; and (2) the elderly and disabled who are eligible for sales and property tax refunds.

Motor Fuel Tax Refunds

Motor fuel used to operate agricultural and commercial equipment, other than aircraft, off of roads and highways is not subject to fuel tax. Consumers documenting this off-highway usage receive motor fuel tax refunds. During fiscal year 2001, there were 7,802 refunds totaling \$2,249,598.24. The average refund was \$288.34 in fiscal year 2001, as compared to \$297.48 in 2000 and \$313 in 1999.

Effective July 1, 1999, \$.03 of every gallon of gasoline on which a refund is claimed is deposited into an Agricultural Fund. This amounted to \$346,614.15 in fiscal year 2001.

Motor Fuel Tax Refunds: A Ten-Year Comparison



Tax Refunds/ continued

Refunds to the Elderly and Disabled

Tax refund dollars for the elderly and disabled benefitted citizens in every South Dakota county in fiscal year 2001. Minnehaha County had the largest number of participants with 537, followed by Pennington County with 495, and Brown County with 271.

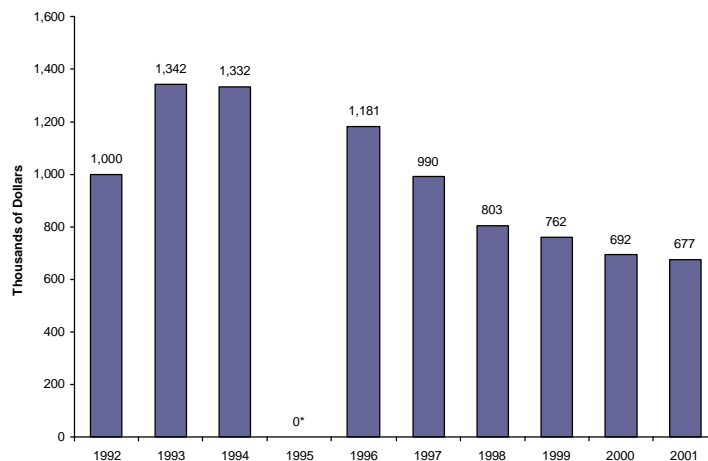
County	Amount of Refunds FY 2000	Number of Applications FY 2000	Amount of Refunds FY 2001	Number of Applications FY 2001
Aurora	\$3,629	17	\$4,103	18
Beadle	18,902	133	18,405	129
Bennett	5,975	29	3,996	22
Bon Homme	5,861	31	6,486	33
Brookings	11,559	76	11,274	80
Brown	40,045	272	38,279	271
Brule	3,324	28	2,740	23
Buffalo	948	5	720	4
Butte	8,711	58	7,962	50
Campbell	1,951	13	1,758	12
Charles Mix	17,357	103	14,851	91
Clark	4,544	32	4,293	27
Clay	2,239	20	1,811	17
Codington	19,146	136	18,361	142
Corson	3,909	24	4,068	20
Custer	8,639	53	7,485	48
Davison	25,556	163	24,501	163
Day	12,956	73	10,992	70
Deuel	11,388	64	13,421	72
Dewey	17,385	76	20,183	85
Douglas	4,261	26	4,006	26
Edmunds	5,628	39	6,581	39
Fall River	16,027	116	13,300	105
Faulk	1,066	10	1,038	10
Grant	7,941	59	7,352	56
Gregory	14,925	77	13,451	73
Haakon	214	2	306	2
Hamlin	6,704	44	7,308	50
Hand	3,898	33	3,976	35
Hanson	1,467	7	1,088	6
Harding	405	1	113	1
Hughes	10,885	75	10,326	73
Hutchinson	9,250	53	7,982	48
Hyde	1,181	10	1,917	14
Jackson	3,057	18	2,629	15
Jerauld	2,752	22	2,029	17
Jones	253	2	225	2
Kingsbury	6,142	47	5,858	45
Lake	10,575	73	11,773	82
Lawrence	12,578	94	12,454	93
Lincoln	6,191	43	5,501	39
Lyman	2,444	15	3,329	22
Marshall	7,757	47	7,533	49
McCook	4,694	25	3,697	23
McPherson	4,371	23	4,694	27

Tax Refunds/ continued

County	Amount of Refunds FY 2000	Number of Applications FY 2000	Amount of Refunds FY 2001	Number of Applications FY 2001
Meade	14,023	87	14,493	93
Mellette	4,636	23	5,087	21
Miner	3,654	21	2,958	20
Minnehaha	74,533	523	74,291	537
Moody	5,032	31	5,775	40
Pennington	75,393	484	77,244	495
Perkins	5,201	33	3,917	29
Potter	2,131	16	1,704	14
Roberts	10,904	70	9,102	63
Sanborn	3,100	19	3,879	17
Shannon	43,179	208	47,798	233
Spink	6,650	44	6,330	44
Stanley	1,061	8	722	5
Sully	1,129	6	400	2
Todd	14,014	67	11,924	56
Tripp	10,214	56	10,383	60
Turner	6,450	48	5,158	38
Union	7,135	47	6,759	47
Walworth	10,185	69	12,012	75
Yankton	14,979	100	13,164	97
Ziebach	9,500	25	9,813	40
TOTAL	\$691,793	4,352	\$677,068	4,355

The number of refund applications by group in 2001 were: Elderly single - 2,372; Elderly household - 375; Disabled single - 1,309; and Disabled household - 299. Supplemental checks in the amount of \$100 were sent to the 1,000 individuals with the lowest reported income.

Refunds to the Elderly and Disabled: A Ten-Year Comparison



*Those qualifying for the refunds did receive their checks in 1995, but the payments fell in the 1996 fiscal year.

Legal Services

In fiscal year 2001, the department's Legal Division was comprised of five full-time attorneys, four full-time Investigative Services Bureau (ISB) Special Agents, one full-time Assistant Attorney General, three part-time fraud auditors, and one secretary. In addition to providing routine legal counsel to the department, the legal staff worked on 747 cases during FY 2001, the majority of which were alcohol beverage license suspensions (377). The ISB Special Agents examined 86 individuals and businesses, of which 55 were investigated for tax crimes.

The Supreme Court issued three decisions during the year which affected the department - one involving the distinction between the provision of a service and the sale of tangible personal property; one relating to the imposition of municipal use tax; and one involving an interpretation of an inheritance tax exemption. Currently, there is one tax case (involving contractors' excise tax) on appeal to the Supreme Court.

Supreme Court Summaries

Watertown Coop Elevator Association and Farmers Union Oil Company (WECOTA/FAULKTON/ONAKA) v. Department of Revenue, 2001 SD 56, 627 NW2d 167.

This case concerns whether a contract entered into by the taxpayer involved the purchase of taxable business services or the sale of exempt tangible personal property. Pursuant to the contract, the taxpayer purchased the services of a crop or livestock production specialist. The production specialist sold agronomy products for the taxpayer and also advised the taxpayer's customers on certain farm and ranch practices. The Supreme Court concluded the production specialist program involves "predominantly the performance of a service as distinguished from selling property" and upheld the department's use tax assessment.

South Dakota Department of Revenue v H & R Roofing of South Dakota Inc., 2001 SD 39 623 NW2d 508.

This case concerns whether municipal use tax can be assessed and imposed independently from the state use tax. H & R is a roofing contractor with a storage yard just outside the jurisdiction of Sioux Falls. H & R has most of their supplies delivered to their storage yard. They pay state sales tax at the time they take delivery of the supplies. They then use the supplies in roofing projects within the taxing jurisdiction of several cities, but pay no municipal use tax to any of these cities. The department assessed H & R municipal use tax for the materials used within the taxing jurisdiction of the cities. The Supreme Court, in upholding the assessment, held that items can be subject to the state sales or use tax and then later, upon entering a municipal taxing jurisdiction, be subject to that municipality's sales or use tax.

Prairie Home Cemetery Association of Butler Township v. Department of Revenue, 2001 SD 124 ___NW2d___.

This case concerns whether a cemetery association is exempt from inheritance tax. The decedent died prior to the repeal of the inheritance tax leaving the entire corpus of a trust, less future expenses of administering it, to the cemetery association (\$551,764.71). Inheritance tax of \$153,673 was calculated on basis of the cemetery association receiving the entire net value of the trust. The cemetery association claimed it was exempt from tax as a charitable, benevolent or religious society or institution or foundation. The Supreme Court held that the cemetery association was not a charitable, benevolent or religious society or institution or foundation as defined by the applicable statutes, and, therefore, it was not exempt from the inheritance tax.

AT&T Corporation v. Department of Revenue, S.Ct. No. 21906.

This case concerns the applicability of the contractors' excise tax to a taxpayer performing construction work listed in Division C of the Standard Industrial Classification Manual (1987). The Department conducted a sales, use and contractors' excise tax audit of the taxpayer and assessed approximately \$700,000 in tax. The main issue raised by the taxpayer involved the assessment of contractors' excise tax on the installation of telephone switching equipment. The circuit court held that the tax applied.

How SD Compares to Other States

At just \$1,228, South Dakota had the lowest per capita state tax burden in fiscal year 2000, according to the latest figures available from the US Bureau of the Census and Bureau of Economic Analysis. Following is a listing of per capita state tax burdens for all 50 states, beginning with the highest:

Connecticut	\$2,986		Arkansas	\$1,822
Hawaii	2,751		Kansas	1,810
Delaware	2,720		Virginia	1,787
Minnesota	2,712		Utah	1,782
Massachusetts	2,544		Iowa	1,772
California	2,474		Nebraska	1,742
Vermont	2,415		Oregon	1,738
Wisconsin	2,357		Ohio	1,733
Michigan	2,290		Oklahoma	1,696
Alaska	2,270		Indiana	1,662
New York	2,199		Mississippi	1,656
New Jersey	2,157		Georgia	1,651
Washington	2,132		Colorado	1,645
Maine	2,087		South Carolina	1,591
New Mexico	2,058		Arizona	1,579
Maryland	1,955		Montana	1,564
Wyoming	1,951		Florida	1,553
Rhode Island	1,942		Missouri	1,532
Kentucky	1,904		Louisiana	1,457
North Carolina	1,890		Alabama	1,448
Nevada	1,860		New Hampshire	1,372
West Virginia	1,849		Tennessee	1,360
Idaho	1,837		Texas	1,315
Illinois	1,835		South Dakota	1,228
Pennsylvania	1,829			
North Dakota	1,826		National Average	\$1,921

The map on the following pages compares South Dakota's sales, gasoline and cigarette tax rates with those of other states. Five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) do not charge a state sales tax. Of the remaining states, seven (Alabama, Georgia, Hawaii, Louisiana, North Carolina, New York, and Wyoming) charge the same 4% rate as South Dakota and only two (Colorado and Virginia) have lower state sales tax rates.

How SD Compares to Other States/continued

Five Highest Gasoline Tax Rates

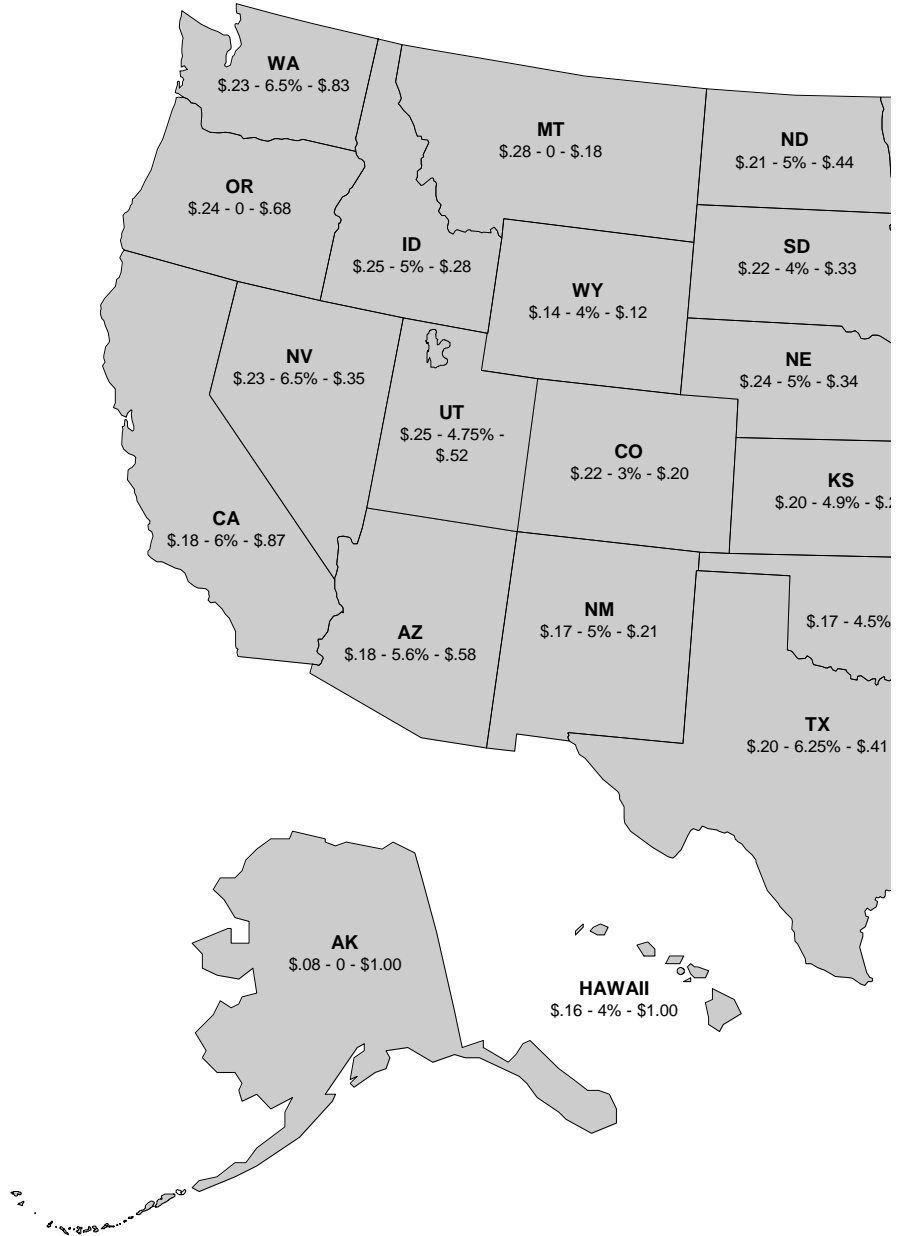
New York	\$.31
Wisconsin	\$.30
Montana	\$.28
Rhode Island	\$.28
Connecticut	\$.25
Idaho	\$.25
South Dakota	\$.22

Five Highest Sales Tax Rates

Mississippi	7%
Rhode Island	7%
Washington	6.5%
Nevada	6.5%
Minnesota	6.5%
South Dakota	4%

Five Highest Cigarette Tax Rates

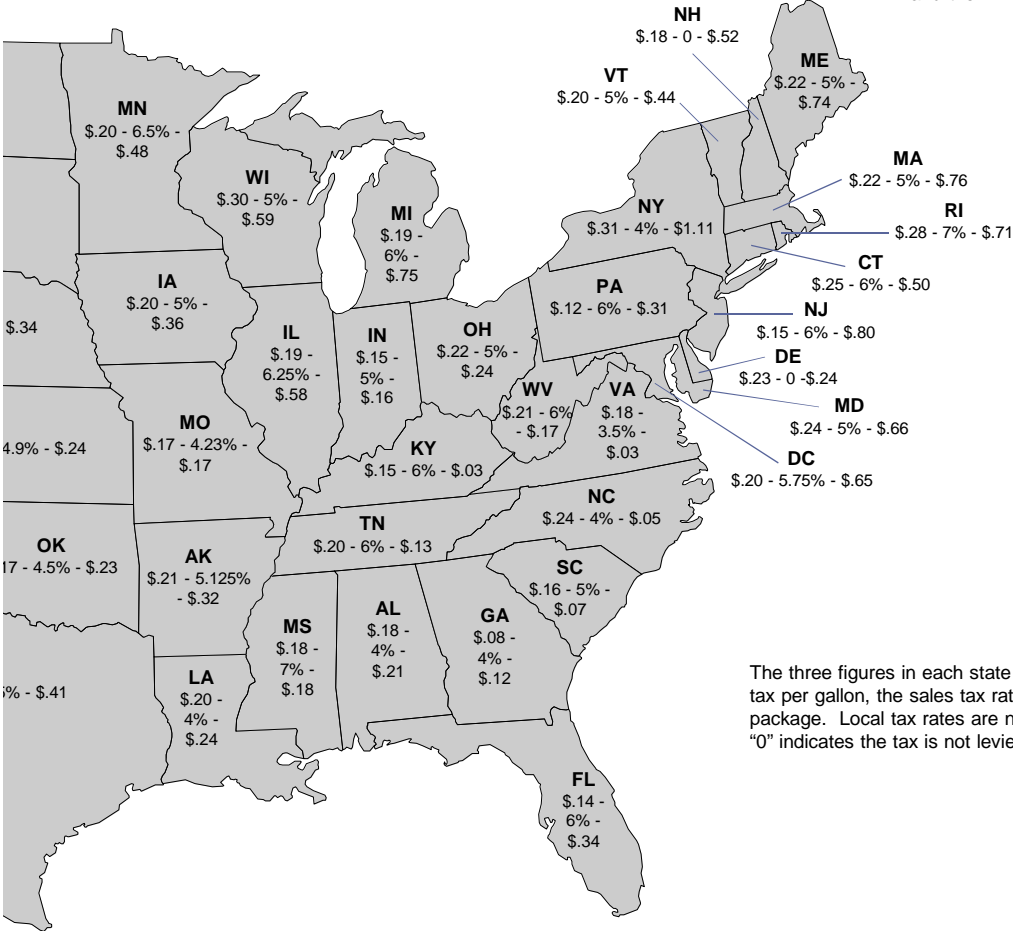
New York	\$1.11
Alaska	\$1.00
Hawaii	\$1.00
California	\$.87
Washington	\$.83
South Dakota	\$.33



Five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) do not charge a state sales tax.

How SD Compares to Other States/continued

* Data provided by the Federation of Tax Administrators and the American Petroleum Institute



The three figures in each state are, left to right, the gasoline tax per gallon, the sales tax rate, and the cigarette tax per package. Local tax rates are not included unless mandatory. "0" indicates the tax is not levied.

Comparing the Region

	Gas Tax (cts. per gallon)	Sales Tax (%)	Cigarette Tax (cts. per package)
South Dakota	22	4	33
Iowa	20	5	36
Minnesota	20	6.5	48
Montana	28	0	18
Nebraska	24	5	34
North Dakota	21	5	44
Wyoming	14	4	12

2001: The Tax Year In Review

The repeal of the state inheritance tax. Simplifying the sales tax system. Developing alternate means of remitting taxes. The year 2001 presented the Department of Revenue with a diverse group of issues and challenges, some of which are detailed below.

Internet Taxation/Tax Simplification

South Dakota continues to play a major role in the Streamlined Sales Tax Project, an effort created by state governments to simplify the administration and collection of sales and use tax. Thirty-nine states are currently involved in the project, 33 of which (including South Dakota) have formally committed to the project through legislative means. The 2001 South Dakota Legislature took the next step towards serious consideration of the project's recommendations by passing Senate Bill 166 which created a 15-member task force (to include representatives from local and state government and the business community) to study the final report of the Streamlined Sales Tax Project to determine how it will impact South Dakota.

Internet Filing/Website/Listserv

Finishing its second year of operation in October 2001, the Department of Revenue's electronic tax filing system, SD QUEST (Quick Easy Secure Tax Filing), reported a total of 19,324 returns filed with \$181,874,434.83 in sales, use and contractors' excise tax collected, up from 18,893 returns and \$173,878,555.26 in taxes collected for the previous year. With SD QUEST, taxpayers have the option of using a toll-free Telefile system by calling 1-877-725-3773 or logging on to the Internet at www.sdquest.com.

As more people utilize computer technology, the Department of Revenue expanded its efforts to better serve taxpayers by making all of their forms available on-line on the department's website. During 2001, over 9,000 taxpayers provided the department with an e-mail address. This allowed the department to share updated information and answer taxpayer questions in a more efficient and expedient manner.

Direct Payment Permits

Following the passage of Senate Bill 46 this year, some South Dakota businesses are now able to purchase taxable goods and services without immediate payment of tax to the supplier. The legislation authorized the Department of Revenue to issue direct payment permits in certain instances. Through this process, taxpayers are better able to accommodate new electronic business practices as well as better administer their tax compliance. Thirty-four states now offer direct payment permits.

Tribal Refunds

In January of 2000, U.S. District Court Judge Charles B. Kormann issued a decision upholding the notion that members of the state's nine Indian tribes who reside on their reservations do not have to pay the 3% motor vehicle excise tax when registering vehicles after purchase. As a result of that court decision, the State of South Dakota was ordered to refund, with interest, the motor vehicle excise tax paid by such tribal members in some cases as far back as June 1986. A July 16, 2001 deadline was set for completion of the refund process: the total amount refunded, including interest, was about \$2.92 million.



Department Resources

Field Offices

Department of Revenue

Anderson Building
445 East Capitol Avenue
Pierre, SD 57501-3100
1-800-TAX-9188
Fax: 605-773-5129

Aberdeen Area Office

419 Moccasin Drive
Aberdeen, SD 57402-1534
(605) 626-2218
Fax: 626-2946

Rapid City Area Office

4447 S. Canyon Rd., Ste 6
Rapid City, SD 57702-1889
(605) 348-2332
Fax: 394-6076

Watertown Area Office

1505 10th Ave. SE, Suite 1
Watertown, SD 57201-5300
(605) 882-5188
Fax: 882-5199

Mitchell Area Office

417 N. Main, Suite 112
PO Box 1103
Mitchell, SD 57301-7103
(605) 995-8080
Fax: 995-8087

Sioux Falls Area Office

230 S. Phillips, Suite 301
Sioux Falls, SD 57104-6321
(605) 367-5800
Fax: 367-5830

Yankton Area Office

Kanner Building
3113 N. Spruce St., Ste 127
Yankton, SD 57078-5320
(605) 668-2939
Fax: 668-2936

Toll-Free Phone Center

Help is just a phone call away with the Department of Revenue's free helpline! Offering answers to your tax questions Monday thru Thursday from 8:00am to 6:00pm CST and Friday from 8:00am to 5:00pm CST. Just call 1-800-TAX(829)-9188.

Department Website

Visit us on the Internet at www.state.sd.us/revenue/. From registering for our tax seminars to downloading forms and publications, you'll find answers to your questions on our award-winning Department of Revenue website.

State (SDCL 20-13) and federal (Title VI of the Civil Rights Act of 1964, the Rehabilitation Act of 1973 as amended, and the Americans with Disabilities Act of 1990) laws require that the Department of Revenue provides services to all persons without regard to race, color, creed, religion, sex, disability, ancestry, or national origin.

*The **South Dakota Department of Revenue Annual Report** is written and designed to make information accessible to the general reader. Six hundred twenty-five copies of this document were printed by the department at a cost of \$3.27 per document.*