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1998
Annual Report
July 1, 1997-
June 30, 1998

Secretary's Report



December 1998

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

Additional property tax relief for South Dakota homeowners and agricultural landowners was a major accomplishment in 1998, with Governor Janklow and the Legislature pushing relief to 25% since the Property Tax Reduction Program took effect in 1996.

The Department of Revenue worked diligently in 1998 to improve revenues under the existing tax structure by improving taxpayer access and by providing more opportunity for taxpayer education. Implementing a toll-free call center to answer taxpayer questions and making extensive improvements to our Website are examples of initiatives completed this year to improve taxpayer access. Providing more and better business taxpayer workshops and tax education materials have also been a priority this year. Improving voluntary taxpayer compliance is the key to enhancing revenues . . . and providing easier access and better education to taxpayers are making this happen. Once again I am pleased to report that revenues increased significantly over the previous year, as you will see in reviewing the statistics contained in this report.

Looking ahead, the biggest challenge we are likely to face in the next few years will be deciding what changes must be made to our sales tax laws in order to make the sales tax work effectively and equitably in an electronic commerce environment. The rapid growth in sales by out-of-state merchants through the Internet will force policymakers to re-think how the sales tax should apply to remote sellers. This is a particularly important issue for South Dakota, since we rely upon the sales tax to produce the lion's share of revenues needed to finance the operation of government and the many important services our citizens have come to expect.

This report is intended to provide a good overview of how South Dakota's system of taxation performed in FY1998. Hopefully, the report will be a useful tool to legislators, policy-makers and citizens at large . . . not only during the legislative session but throughout the upcoming year.

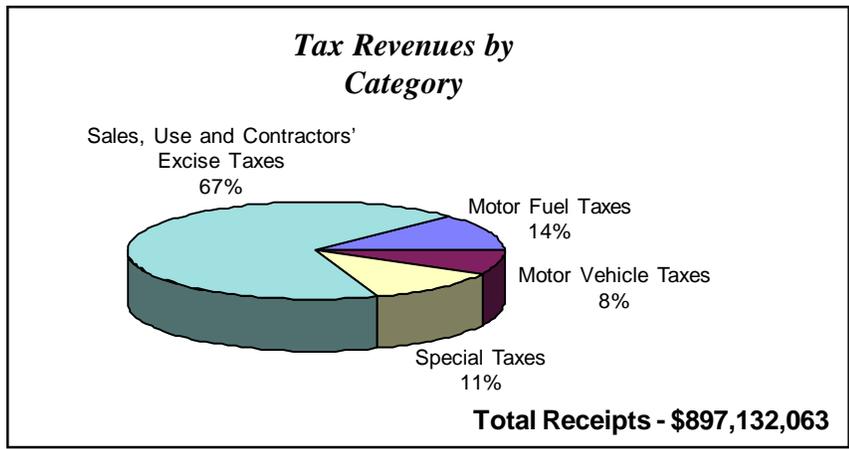
Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "Gary R. Viken". The signature is fluid and cursive, written over a light background.

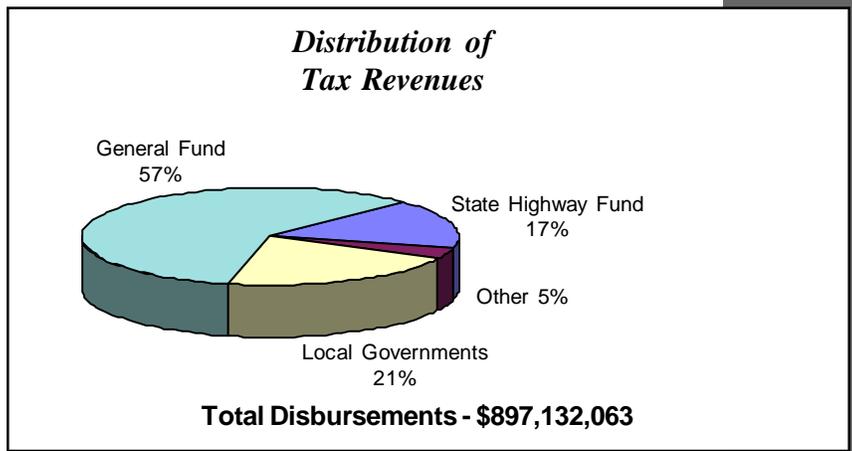
Gary R. Viken
Secretary of Revenue

Tax Revenues by Category and Distribution

The South Dakota Department of Revenue is the principal agency of tax administration for the state of South Dakota. While there are 34 different state taxes collected by the department, they can be grouped into four main categories: sales, use and contractors' excise taxes; motor fuel taxes; motor vehicle licensing; and special taxes. The total revenue from these taxes in fiscal year 1998 was \$897,132,063. That amount compares with revenues of \$826,658,410 in fiscal year 1997. A breakdown of total revenues by category of tax is shown in the chart below.



Once collected, tax revenues are distributed to three primary locations: the state's general fund, local units of government and the state highway fund. The chart below shows the percentage of the total taxes received by each group.



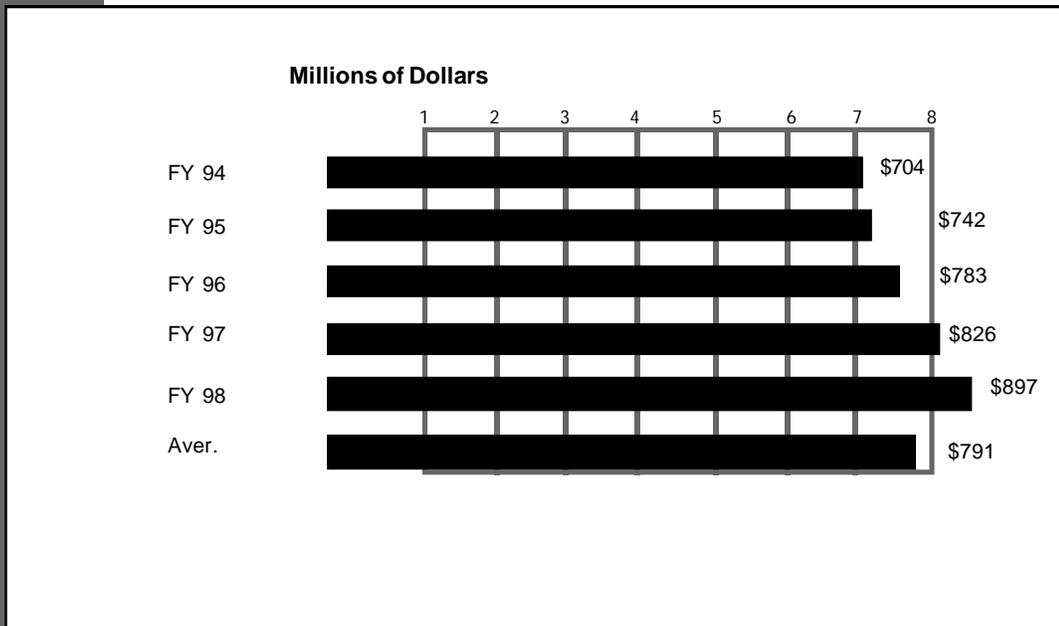
An Overview of Tax Revenues

Total Revenues

Revenues collected by the department from taxes and licensing fees totaled \$897,132,063 in fiscal year 1998. This amount is an increase of \$70,743,653 from last year's revenues of \$826,658,410. The major source of this revenue — sales, use and contractors' excise taxes — increased by \$46,245,156. Revenues from fuel taxes increased by \$18,451,638; special tax revenues increased by \$1,886,588; and motor vehicle licensing fees increased by \$3,890,271. The two charts below illustrate the change in total revenues over a five-year period.

Total Revenues: A Five-Year Comparison

Fiscal Year	Total Revenues	Percent of Change
1994	\$704,204,829	13.01%
1995	742,330,127	5.41%
1996	783,210,742	5.51%
1997	826,658,410	5.55%
1998	897,132,063	8.53%
Five-Year Average	\$790,707,234	N/A



Revenues By Category

A five-year comparison among the revenues from the four major tax categories shows a consistency in the dollars generated by each category. Sales taxes are clearly first, and motor vehicle fees produce the least revenue. Motor fuel taxes rank second in revenues every year.

Sales, use and contractors' excise taxes make up almost 66% of the department's total revenues.

Revenues by Tax Category: A Five-Year Comparison

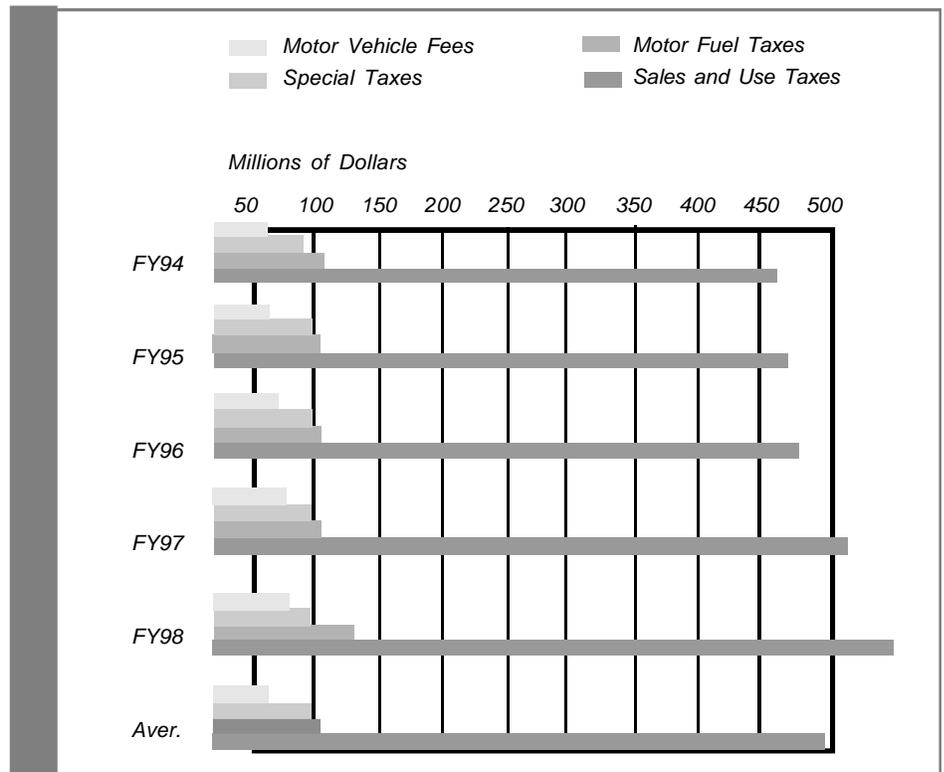
Fiscal Year	Sales Use, and Excise Taxes	Motor Fuel Taxes*	Special Taxes	Motor Vehicle Fees
1994	\$452,131,034	\$102,199,726	\$91,924,557	\$57,949,512
1995	482,694,331	102,911,151	94,258,399	62,466,246
1996	514,397,107	102,918,020	100,248,385	65,647,230
1997	551,375,461	109,971,764	97,208,863	68,102,322
1998	597,620,617	128,423,402	99,095,451	71,992,593
Five-Year Average	\$519,643,710	\$109,284,813	\$96,547,131	\$65,231,581

* Includes Tank Inspection Fees

Revenues by Tax Category:

- sales, use and contractors' excise taxes
- motor vehicle fees
- motor fuel taxes
- special taxes

Fiscal year 1996 collections are affected by approximately \$8 million in revenues resulting from the removal of approximately 30 sales and use tax exemptions. The revenue was used to partially finance the 20% property tax credit given to 180,000 taxpayers in FY96.



*An Overview
continued*

*A Comparison of South Dakota's Taxes
with Those of Surrounding States*

While the following chart gives a good indication of the relative rate of taxes in each state, it does not reflect all the variables. For example, while South Dakota applies its sales tax to most services, other states may not.

A Comparison of Tax Rates

(As of August 1998)

State	Sales Tax (percent)	Gasoline Tax (cts. per gallon)	Cigarette Tax (cts. per package)	Maximum Rate	Corporate Income Tax		
					Amounts Up to	Maximum Rate	Amounts Over
South Dakota	4	18	33	[No Tax]
Iowa	5	20	36	6	25,000	12	250,000
Minnesota	6.5	20	48	9.8	[Flat Rate]
Montana	No Tax	27	18	6.75	[Flat Rate]
Nebraska	4.5	24.4*	34	5.58	50,000	7.81	50,000
North Dakota	5	20	44	3	3,000	10.5	50,000
Wyoming	4	14**	12	[No Tax]

*Rate changes every three months.

**There is an additional 1 cent per gallon license tax.

The chart above illustrates the differences in the rate of taxes among states in the region. The chart below shows how different tax rates affect individual taxpayers and compares this effect with the rest of the nation. In 1998, South Dakotans paid an average of \$7,371 per person in federal, state and local taxes. The national average in 1998 was \$9,205, and only three states had lower total taxes as a percentage of income than South Dakota.

**A Comparison of Taxes Per Capita
with Those of Surrounding States**

	Per Capita Income	Per Capita Total Taxes	Total Taxes as % of Income	Rank
U.S.	\$26,187	\$9,205	35.20%	
SD	22,516	7,371	32.70%	47
IA	23,611	8,295	35.10%	20
MN	27,512	9,997	36.30%	8
MT	20,502	7,355	35.90%	10
NE	24,611	8,518	34.60%	27
ND	20,741	7,387	35.60%	16
WY	22,639	8,119	35.90%	11

Source: U.S. Department of Commerce, Bureau of the Census, Government Finances in various issues.

Distribution of Taxes

In fiscal year 1998, the department collected \$897,132,063 in taxes. Those dollars were then distributed to various funds and units of government. The largest portion of revenues, 59%, is deposited in the state's general fund. The chart below 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-%
State Contractors' Use Tax	100%	-0-%	-0-%	-0-%
Municipal Sales and Use Tax (1)	-0-%	100%	-0-%	-0-%
Reservation Sales, Use, Excise Tax (2)	-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-%

The general fund receives a portion of the revenues from most taxes.

(continued on next page)

(1) The state retains a minimum 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.

An Overview /continued

How Taxes Are Distributed/continued

Tax	General Fund	Local Gov't	State Highway Fund	Other
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-%
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-%	41.5%	54%	(11)
Motor Vehicle Excise Tax			100%	
Motor Vehicle Registration Fee	-0-%	95.5%	-0-%	(11)
Motor Vehicle Licensing Receipts:				
Snowmobiles	-0-%	-0-%	-0-%	(12)
Plates and Permits	-0-%	-0-%	-0-%	LPR
Title and Penalty Fees	-0-%	-0-%	-0-%	MVF
Mobile Home Registration Fees	-0-%	85%	-0-%	15%-MVF

(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 100 gallons times the tax rate is transferred to a fund for snowmobile trails; an amount equal to the number of licensed motorized boats times 100 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 42% goes to the Capitol Construction Fund. The remaining balance is deposited in the Petroleum Release Compensation Fund.

(10) Other prorate fees: duplicate cab card, trailer fees, tractor registration fees, and transfer fees are deposited in the State Highway Fund. Trailer ID fees and duplicate plates 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).

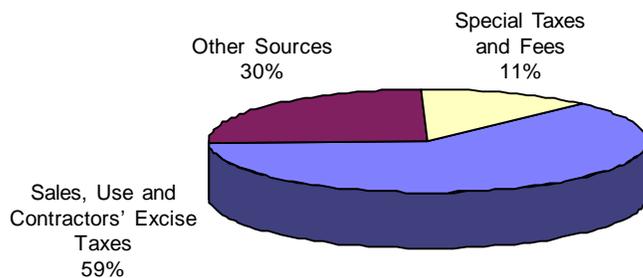
(11) 2.0% is deposited in the State Motor Vehicle Fund (MVF), and 2.5% goes to the License Plate Special Revenue Fund (LPR).

(12) 80% goes to Game, Fish & Parks, 20% to State Motor Vehicle Fund (MVF).

The General Fund:

Where does the money come from?

State General Fund



Total Receipts - \$723,303,764

Revenues by Type of Tax

The department administers 34 separate taxes and fees. In fiscal year 1998, the revenue produced by these taxes varied from a low of \$100 to a high of \$394,977,528. In addition, the amount of revenue generated by individual taxes fluctuated by as much as -61.53% from fiscal year 1997 to fiscal year 1998.

Revenues by Type of Tax: A Three-Year Comparison

	FY1996	%Increase (Decrease) Over Previous Year	FY1997	%Increase (Decrease) over Previous Year	FY1998	%Increase (Decrease) over Previous Year
Sales and Use Taxes-State	\$349,178,090	7.13%	\$371,173,256	6.30%	\$394,977,528	6.41%
Contractors' Excise Tax-State	31,568,662	-4.14%	36,385,955	15.26%	43,371,032	19.20%
Sales, Use, Contractors' Excise Taxes-Cities	127,749,666	7.26%	135,261,020	5.88%	149,045,455	10.19%
Sales, Use, Contractors' Excise Taxes-Reservations	3,051,194	7.39%	3,281,744	7.56%	3,366,167	2.57%
Tourism Tax	1,771,486	n/a	2,243,409	26.64%	2,936,484	30.89%
Water and Environment Fund	245,378	35.33%	367,760	49.87%	450,000	22.36%
Refund for Construction of Facility	173,711	-85.07%	1,905,080	996.70%	2,659,652	39.61%
Motor Vehicle Licensing Fund	658,920	25.04%	757,237	14.92%	814,299	7.54%
Aviation Fuel	595,752	29.65%	601,018	0.88%	605,554	0.75%
Motor Fuel Tax	85,066,092	1.20%	91,206,455	7.22%	109,837,113	20.43%
Interstate Fuel Users Tax	3,903,240	-5.00%	3,341,114	-14.40%	3,117,094	-6.70%
Tank Inspection Fees	13,352,936	-6.52%	14,823,177	11.01%	14,863,641	.27%
Prorate	10,869,816	6.06%	10,494,728	-3.45%	10,850,476	3.39%
Motor Vehicle Titles and Registration	54,777,414	4.90%	57,607,594	5.17%	61,142,117	6.14%
Cigarette Tax-State	20,930,790	37.31%	19,985,850	-4.51%	19,895,030	-.45%
Cigarette Tax-Reservations	412,089	30.92%	479,370	16.33%	442,136	-7.77%
Cigarette License Fees	7,435	-9.93%	9,910	33.29%	9,837	-0.74%
Other Tobacco Products	854,491	n/a	984,714	15.24%	1,042,996	5.92%
Liquor License Fees	30,165	-9.31%	30,390	0.75%	34,930	14.94%
Malt Beverage Beer License Fees	222,850	0.36%	224,505	0.74%	260,700	16.12%
Alcoholic Beverage Brand Registration Fees	88,735	9.72%	93,385	5.24%	97,910	4.85%
Beer Tax	4,899,035	1.21%	4,818,872	-1.64%	4,916,398	2.02%
Liquor Tax	4,428,869	4.77%	4,362,399	-1.50%	4,263,724	-2.26%
Alcoholic Beverage 2% Purchase Price Tax	576,388	8.11%	600,431	4.17%	594,342	-1.01%
Wholesale Beer License Fee	3,475	-24.46%	3,550	2.16%	4,000	12.68%
Bank Franchise/Bank Card Tax	38,099,913	-4.55%	36,887,953	-3.18%	38,269,116	3.74%
Inheritance Tax	22,235,799	-0.85%	21,487,558	-3.37%	25,792,904	20.04%
Ore Tax	6,141,038	18.84%	5,779,685	-5.88%	2,223,575	-61.53%
Severance Tax	945,898	-4.31%	1,178,336	24.57%	966,485	-17.98%
Coin Laundry License Fees	124,082	0.00%	123,045	-0.84%	130,886	6.37%
Trading Stamps License Fee	100	100.00%	100	0.00%	100	0.00%
Amusement Device Fee	167,770	115.41%	99,012	-40.98%	98,142	-0.88%
Bingo License Fee	45,000	-14.29%	35,000	-22.22%	30,000	-14.29%
Bingo Tax	34,463	-17.88%	24,798	-28.04%	22,240	-10.32%
Total	\$783,210,742	5.51%	\$826,658,410	5.55%	\$897,132,063	8.53%

An Overview /continued

The last state tax enacted was the cider tax passed in 1998.

A Chronology of Tax Legislation

In 1913, the legislature enacted the first state tax — a license fee on non-commercial vehicles. Since that time, a number of major expansions and changes have occurred. The following chronology shows the tax history of South Dakota.

Major Legislative Changes

1913 — License Fees, Non-commercial

1992 Last Major Change -- New fee schedule for non-commercial vehicles which are not an automobile, pick-up or van with an empty weight of 6,000 lbs. or more, license fees based on vehicle's declared gross weight.

1915 — Inheritance Tax

1980 Last Major Change -- Spouses exempted; other rates increased

1933 — License Fees, Commercial

1982 Last Major Change -- License fees were restructured at this time

1933 — Motor Fuel

1997 Last Major Change -- Temporarily increased tax \$.03 per gallon to help pay for damage to roads and bridges caused by the 1996 and 1997 winter snow storms and flooding.

1935 — Alcohol Beverage: Spirits

1987 Last Major Change -- \$3.80 to \$3.93/gallon

Alcohol Beverage: Malt Beverages

1987 Last Major Change -- \$8.30 to \$8.50/barrel

Alcohol Beverage: Table Wine

1987 Last Major Change -- \$.90 to \$.93/gallon

1935 — Sales Tax

1995 Last Major Change -- Removed 30 sales tax exemptions to fund 20% property tax credit

1937 — Cigarettes

1995 Last Major Change -- Increased from 23 to 33 cents per pack of 20. Increased from 29 cents to 42 cents on packs of 25

1937 — Motor Vehicle Registration

1996 Last Major Change -- Changed fees for personalized plates from \$75.00 initial fee plus \$10 per year to \$25 per year with no initial fee

1939 — Bank Franchise

1991 Last Major Change -- Decreasing tax rate on income over \$500,000,000

1939 — Use Tax

1995 Last Major Change -- Removed 30 use tax exemptions to fund 20% property tax credit

1941 — Special Fuel

1996 Last Major Change -- Changed point of taxation to the terminal rack and implemented a dyed diesel fuel program

1965 — Interstate Fuels

Last Major Change -- No Major Change

1975 — 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

1977 — Energy Minerals

Last Major Change -- No Major Change

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 1 cent per gallon to 2 cents 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

A Description of Individual Taxes

Each tax category (sales, fuel, special and motor vehicle licenses) contains a number of individual taxes. These individual taxes vary in purpose, application and rates. The following list gives the name of the tax, a description of its application, its location in statute and the rate or base for calculation.

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 local and state personal property taxes. (Authority: SDCL 10-43-2, 4) (Rate Base: 6% decreasing to 1% 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)

*An Overview
continued*

Tax	Description
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)
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)
Inheritance Tax	Imposed on inheritances received by classified persons and others; based upon total estate less specified statutory exemptions. Spouses are totally exempt from inheritance tax. (Authority: SDCL 10-40-2) (Rate Base: 1 1/2% to 30%)
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: .18/gallon - Diesel; .16/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 original 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 sixteen cents 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

Tax	Description
	to tax depending on the use of the fuel. (Authority: SDCL 10-47B) (Rate Base: .18/gallon - Motor Fuel/Special Fuel; .16/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 or motor vehicle, as defined by 32-3-1, purchased or acquired for use on the streets and highways 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 and 32-20A-15) (Rate Base: 3% purchase price)
Municipal Contractors'	Municipal Contractors' Excise Tax imposed by city ordinance, administered by State 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 State 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 1/2% 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 6,000 lbs. or less, 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

*An Overview
continued*

Tax	Description
	<p>Off-sale Package Liquor \$ 300.00(max) Third Class</p> <p>On-sale Retailer Liquor (New) \$1.00/person First Class</p> <p>On-sale Retailer Liquor (Renewal) \$1500.00 First Class</p> <p>On-sale Retailer Liquor \$1200.00 (max) Second Class</p> <p>On-sale Retailer Liquor \$ 900.00(max) Third Class</p> <p>On-sale Retailer Liquor (Sunday) \$ 200.00(max) All Classes</p> <p>On-sale Retailer Liquor (Airport) \$ 250.00 All Classes</p> <p>Off-sale Municipal Package \$ 250.00 All Classes</p> <p>On-sale (wine) \$ 500.00 All Classes</p>
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	<p>A \$0.02 per gallon fee is imposed upon any petroleum product received in this state. (Authority: SDCL 34A)</p>
Title and Penalty Fees	<p>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 dollars 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)</p>
Trading Stamp License Fee	<p>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)</p>
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> <p>B. Property used in maintaining or operating any type of railroad company classified by 10-28.1. (Rate Base: 2%)</p>
Wine Tax (High)	<p>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)</p>
Wines and Diluted	<p>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)</p>
Wine Tax (over 20%)	<p>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)</p>

Total Revenues

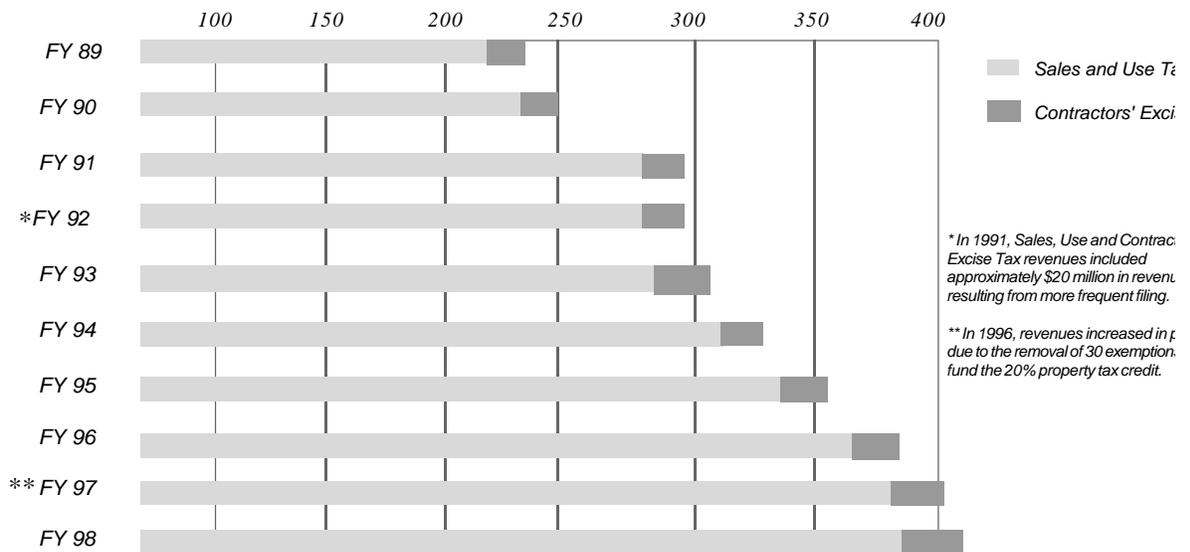
Sales, use and contractors' excise taxes produce the largest portion of the state's tax revenues. These revenues come from over 59,000 businesses that currently pay sales, use and contractors' excise taxes on their products or services. Revenues from sales taxes made up 66% of the total revenues in fiscal year 1998.

Sales, Use and Contractors' Excise Taxes

Total Revenues: Sales, Use and Contractors' Excise Taxes

Fiscal Year	Total State Revenue	Percent of Change
1989	\$233,523,272	-10.99%
1990	250,542,927	7.29%
1991	293,836,821	17.28%
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%

Millions of Dollars

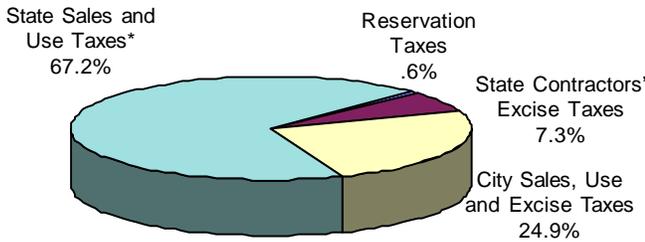


*Sales Tax
/continued*

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

In fiscal year 1998 sales, use and contractors' excise taxes in South Dakota totaled \$597,620,617. Within this category are four types of tax: state sales and use taxes; state contractors' excise taxes; city sales, use and contractors' excise taxes; and reservation taxes. The pie chart below illustrates the percentage of the \$597 million in total tax produced by each tax type.

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



*Includes Tourism Tax and Motor Vehicle Leasing

Total Revenues - \$597,620,617

City sales tax revenues increased by 10.4% in fiscal year 1998.

Municipal and Reservation Taxes

While cities and Indian reservations set their own tax rates, the administrative task of collecting municipal and reservation taxes is performed by the department. The dollars are then distributed to the taxing units based on the amount collected from each city or reservation.

Sales tax revenues do not necessarily indicate the level of economic activity, since municipalities and Indian reservations vary in their tax rates and the size of their tax bases.

City/Reservation	Rate(s)	Adopted	FY 1997 Remittance	FY 1998 Remittance	% Increase [Decrease]
Aberdeen	1%,2%,3%	4-71	\$7,827,021.77	\$8,429,927.70	7.70%
Alcester	1%	9-84	67,181.48	64,393.03	-4.15%
Alexandria	1%,2%	11-84	71,065.71	67,567.93	-4.92%
Arlington	1%	3-89	90,075.10	171,283.07	90.16%
Armour	1%,2%	9-88	124,511.04	137,992.60	10.83%
Avon	1%	9-84	72,607.84	78,757.84	8.47%
Baltic	1%	7-93	28,751.09	32,608.02	13.41%
Belle Fourche	1%,2%,3%	2-78	952,827.08	1,024,033.18	7.47%
Belvidere	1%,2%	1-85	10,756.39	15,245.62	41.74%
Beresford	1%	7-77	210,369.55	215,407.46	2.39%
Blunt	1%	7-96	429.30	2,085.06	385.69%
Bowdle	1%	1-89	45,613.83	49,827.35	9.24%
Box Elder	1%,2%	1-83	229,246.20	399,338.08	74.20%
Brandon	1%,2%	4-77	649,352.62	725,770.88	11.77%
Bridgewater	1%	7-85	36,455.65	61,820.98	69.58%
Bristol	1%	7-96	17,411.29	20,233.55	16.21%
Britton	1%,2%	1-84	290,656.27	302,390.10	4.04%
Brookings	1%,2%	1-82	2,447,190.83	4,617,144.41	88.67%
Bryant	1%	1-95	27,424.02	28,521.19	4.00%
Buffalo	1%	7-97	0.00	31,271.90	N/A
Burke	1%	3-88	63,801.20	85,783.10	34.45%
Canistota	1%,2%	7-79	67,254.44	67,508.79	0.38%
Canova	1%	9-88	8,292.63	9,530.86	14.93%
Canton	1%	4-77	279,098.49	310,043.73	11.09%
Castlewood	1%	1-89	35,668.29	36,702.80	2.90%
Centerville	1%,2%	7-79	95,454.44	101,193.78	0.63%
Central City	1%,2%	7-75	42,056.29	38,308.73	-8.91%
Chamberlain	1%,2%,3%	4-79	638,078.80	685,508.47	7.43%
Chancellor	1%	1-84	12,574.89	16,707.36	32.86%
Cheyenne River ST	1-1/2%,2%,3%,4%	6-76	936,932.35	999,534.37	6.68%
Clark	1%	3-86	131,785.56	135,251.11	2.63%
Clear Lake	1%,2%	7-78	266,231.50	267,496.69	0.48%

City/Reservation	Rate(s)	Adopted	FY 1997 Remittance	FY 1998 Remittance	% Increase [Decrease]
Colman	1%	1-96	46,008.34	48,936.70	6.36%
Colome	1%,2%	1-89	30,714.36	35,590.76	15.88%
Colton	1%	1-98	0.00	15,421.43	N/A
Corsica	1%,2%	1-87	130,199.64	128,962.75	-0.95%
Crooks	1%	9-89	18,433.84	19,322.64	4.82%
Custer	2%,3%	7-77	698,962.16	683,978.49	-2.14%
Davis	1%,2%	7-94	7,467.20	5,933.90	-20.53%
De Smet	1%,2%	1-79	235,451.40	245,143.72	4.12%
Deadwood	1%,2%,3%	4-78	1,274,920.81	1,225,358.07	-3.89%
Dell Rapids	1%,2%	7-79	355,322.14	370,681.89	4.32%
Delmont	1%	11-88	17,899.47	19,079.90	6.59%
Doland	1%	1-95	18,187.10	20,988.10	15.40%
Dupree	1%	1-85	32,798.74	35,081.77	6.96%
Eden	1%	11-91	14,527.06	12,822.93	-11.73%
Edgemont	1%,2%	4-74	109,603.66	93,381.88	-10.24%
Egan	1%	1-89	12,462.98	10,623.15	-14.76%
Elk Point	1%	7-79	110,441.59	220,621.58	99.76%
Elkton	1%	1-95	36,412.17	50,439.99	38.53%
Emery	1%,2%	1-90	36,397.49	65,614.30	80.27%
Estelline	1%	1-92	40,407.06	44,849.32	10.99%
Ethan	1%	7-95	19,961.40	29,333.75	46.95%
Eureka	1%,2%	7-85	157,573.62	155,137.81	-1.55%
Faith	1%	3-85	60,254.42	65,637.43	8.93%
Faulton	1%	7-88	78,546.04	100,487.62	27.93%
Flandreau	1%	7-81	197,800.68	203,305.54	2.78%
Florence	1%	1-97	2,917.59	10,266.27	251.88%
Fort Pierre	1%,2%,3%	10-78	394,888.51	431,589.02	9.29%
Freeman	1%	1-94	151,024.50	207,925.19	37.68%
Garretson	1%	3-84	77,658.37	77,644.71	-0.02%
Gary	1%	7-87	15,573.08	15,272.10	-1.93%
Geddes	1%	5-87	24,536.50	35,229.35	43.58%
Gettysburg	1%,2%,3%	5-85	293,795.27	299,516.09	1.95%
Gregory	1%,2%	1-87	314,039.74	311,042.21	-0.95%
Groton	1%,2%	1-79	219,325.70	246,344.71	12.32%
Harrisburg	1%,2%	7-82	76,038.44	79,737.93	4.87%
Harrold	1%	1-94	15,341.57	9,817.85	-36.00%
Hartford	1%,2%	1-78	188,924.49	189,565.41	0.34%
Hayti	1%	1-94	29,015.60	27,865.88	-3.96%
Henry	1%	1-95	9,197.59	10,694.76	16.28%
Hermosa	1%	3-84	17,163.66	18,966.05	10.50%
Herreid	1%	1-91	49,727.53	42,655.56	-14.22%
Highmore	1%	10-79	153,931.39	201,659.30	31.01%
Hill City	1%,2%,3%	7-77	286,258.19	321,363.43	12.26%
Hitchcock	1%	9-90	7,287.15	7,700.44	5.67%
Hosmer	1%	7-82	28,375.76	18,364.59	-35.28%
Hot Springs	1%,2%,3%	11-71	800,073.94	801,195.63	0.14%
Hoven	1%	3-92	63,313.66	60,383.99	-4.63%
Howard	1%,2%	11-86	196,211.62	201,094.07	2.49%
Humboldt	1%,2%	7-82	40,937.29	56,635.90	38.35%
Hurley	1%,2%	7-82	39,375.59	47,190.57	19.85%
Huron	1%,2%,3%	10-72	3,341,365.82	3,397,253.16	1.67%
Interior	1%,2%	1-92	20,583.76	23,479.25	14.07%
Ipswich	1%	7-77	97,743.77	131,884.87	34.93%
Irene	1%,2%	7-84	63,891.82	82,471.14	29.08%
Iroquois	1%	7-81	15,111.52	14,753.97	-2.37%
Isabel	1%	11-91	20,272.81	20,758.65	2.40%
Jefferson	1%	1-96	25,942.41	23,569.72	-9.15%
Kadoka	1%,2%	1-77	125,137.61	126,614.96	1.18%
Kennebec	1%	7-78	29,475.98	28,127.40	-4.58%
Keystone	2%,3%	7-72	379,766.13	416,270.91	9.61%
Kimball	1%,2%	1-81	138,163.67	125,401.47	-9.24%
Lake Andes	1%,2%	7-84	100,417.80	103,661.36	3.23%
Lake Norden	1%	1-94	61,654.01	67,163.23	8.94%
Lake Preston	1%,2%	1-81	114,676.49	101,991.11	-11.06%
Langford	1%	1-98	0.00	4,704.25	N/A
Lead	1%,2%,3%	4-72	968,505.08	809,329.56	-16.44%
Lemmon	1%,1.5%	1-89	242,717.96	247,397.77	1.93%
Lennox	1%,2%	1-74	231,786.40	244,247.01	5.38%
Leola	1%	11-87	33,954.05	34,854.51	2.65%
Mc Intosh	1%	3-92	15,233.80	13,810.82	-9.34%
Mc Laughlin	1%	1-93	38,826.39	41,640.62	7.25%
Madison	1%	4-72	755,863.55	771,966.05	2.13%
Marion	1%	7-80	71,711.98	76,540.25	6.73%
Martin	1%,2%,3%	7-80	241,190.63	240,355.65	-0.35%
Menno	1%	1-90	58,301.42	64,356.74	10.39%
Midland	1%	7-83	16,303.33	18,788.75	15.24%
Milbank	1%	7-88	509,190.96	885,882.06	73.98%
Miller	1%,2%	9-86	354,197.41	363,836.68	2.72%
Mission	1%,2%	11-73	177,070.55	185,429.37	4.72%
Mitchell	2%,3%	1-77	4,718,233.71	4,867,965.85	3.17%
Mobridge	1%,2%	11-86	837,838.77	832,477.88	-0.64%
Monroe	1%	1-81	5,208.18	5,144.58	-1.22%
Montrose	1%,2%	7-88	41,202.38	46,969.78	14.00%
Mount Vernon	1%,2%,3%	1-97	9,923.84	34,154.04	244.16%
Murdo	1%,2%,3%	1-78	235,673.56	242,007.65	2.69%
New Underwood	2%	3-86	38,819.32	41,397.02	6.64%
Newell	1%,2%	7-78	76,425.91	81,906.88	7.17%
Nisland	1%	11-88	2,382.47	4,303.97	27.24%
North Sioux City	1%,2%	5-88	2,829,673.22	3,515,454.47	24.24%
Oacoma	1%,2%	4-82	320,650.04	367,916.20	14.74%
Oglala ST	1-1/2%,2%,3%,4%	12-70	1,162,940.82	1,273,976.19	9.55%
Onida	1%	1-95	67,092.08	62,264.68	-7.20%
Parker	1%,2%	7-83	133,588.18	144,674.69	8.30%
Parkston	1%,2%,3%	10-79	243,153.63	247,635.57	1.84%
Philip	1%,2%	4-76	328,142.51	292,991.31	23.03%

Sales Tax /continued

City / Reservation	Rate(s)	Adopted	FY 1997 Remittance	FY 1998 Remittance	% Increase [Decrease]
Pickstown	1%	1-89	21,270.27	24,424.20	14.83%
Pierre	1%,2%,3%	1-77	3,432,846.87	3,797,404.00	10.62%
Plankinton	1%,2%	1-94	100,537.64	98,280.43	-2.25%
Platte	1%,2%	7-86	344,139.92	347,687.46	1.03%
Pollock	1%	7-92	43,511.91	39,929.97	-8.23%
Presho	1%	7-78	50,733.65	50,720.63	-0.03%
Ramona	1%	1-97	1,899.98	7,080.97	272.69%
Rapid City	2%,3%	5-72	22,383,503.59	23,445,580.06	4.74%
Redfield	1%,2%	1-81	504,230.29	515,612.95	2.26%
Roscoe	1%	1-79	25,850.50	25,816.15	-0.13%
Rosebud ST	1-1/2%,2%,3%,4%	1-78	767,636.91	848,000.24	10.47%
Roslyn	1%	1-89	14,042.94	13,156.79	-6.31%
Salem	1%,2%	7-83	250,485.84	236,778.25	-5.47%
Scotland	1%	7-82	87,595.16	89,442.64	2.11%
Selby	1%	9-87	63,938.11	67,313.04	5.28%
Sioux Falls	1%,2%,3%	1-74	45,043,855.66	49,998,185.47	11.00%
Sioux Falls Lodging	1%	1-96	300,825.98	322,777.73	7.30%
Sisseton	1%	7-78	297,072.97	480,942.95	61.89%
Spearfish	2%,3%	10-71	2,799,502.10	2,843,915.36	1.59%
Spencer	1%	1-87	27,487.36	37,487.36	36.92%
Springfield	1%	7-84	67,550.15	92,286.78	36.92%
Standing Rock ST	1-1/2%,2%,3%,4%	3-91	305,470.48	211,497.55	-30.76%
Stickney	1%,2%	7-86	51,265.09	48,290.47	-5.80%
Sturgis	1%,2%,3%	11-71	1,653,708.07	1,683,066.55	1.78%
Summit	1%	7-93	12,565.99	10,737.12	-14.55%
Tabor	1%	7-93	26,236.59	25,448.72	-3.00%
Tea	1%,2%	7-82	168,794.24	190,989.94	13.15%
Timber Lake	1%	3-87	36,554.87	39,956.59	9.31%
Toronto	1%	9-85	20,939.36	20,121.65	-3.91%
Tripp	1%,2%	1-88	98,586.94	86,932.36	-11.82%
Tulare	1%	11-91	14,018.21	14,105.95	0.63%
Tyndall	1%	1-86	83,016.07	89,465.00	7.77%
Valley Springs	1%	1-91	26,980.48	27,903.44	3.42%
Veblen	1%	1-89	16,201.03	15,385.86	-5.03%
Vermillion	1%,2%,3%	7-80	1,584,292.16	1,643,378.17	3.73%
Viborg	1%,2%	4-80	132,777.61	144,239.05	8.63%
Volga	1%	7-97	0.00	79,498.88	N/A
Wagner	1%,2%	7-87	394,628.03	416,552.54	5.56%
Wakonda	1%	1-82	17,688.82	17,678.06	-0.06%
Wall	1%,2%,3%	10-71	636,174.04	610,279.19	-4.07%
Wasta	1%	9-90	1,943.20	2,064.92	6.26%
Watertown	1%,2%,3%	1-78	6,900,962.31	7,370,415.97	6.80%
Waubay	1%	1-81	30,021.06	29,695.79	-1.08%
Webster	1%,2%	7-81	562,826.65	518,216.82	-7.93%
Wentworth	1%	7-94	7,681.22	7,371.28	-4.04%
Wessington	1%	5-91	26,923.48	22,720.88	-15.61%
Wessington Springs	1%,2%	7-78	191,281.84	183,272.15	-4.19%
White Lake	1%	1-94	23,709.25	26,394.80	11.33%
White River	1%,2%	7-78	81,663.09	86,845.37	6.35%
Whitewood	1%,2%	7-76	87,751.62	92,957.82	5.93%
Willow Lake	1%,2%	5-85	42,488.53	43,967.71	3.48%
Winner	1%,2%	1-80	842,355.74	907,038.67	7.68%
Witten	1%	1-98	0.00	623.06	N/A
Woonsocket	1%	7-79	68,583.99	82,034.91	19.61%
Worthing	1%	1-84	29,999.56	44,735.49	49.12%
Yankton	1%,2%,3%	7-79	4,165,358.94	4,243,621.58	1.88%
TOTAL			\$137,199,826.58	\$150,018,756.96	9.34%

Comparison of South Dakota's Local Sales Taxes with Surrounding States

During fiscal year 1997, three municipalities enacted local sales taxes. In fiscal year 1998, two more municipalities implemented a local sales tax, bringing the total number of local governments (including reservations) with sales and use taxes to 179.

A Comparison of Local Sales Taxes in South Dakota and Surrounding States

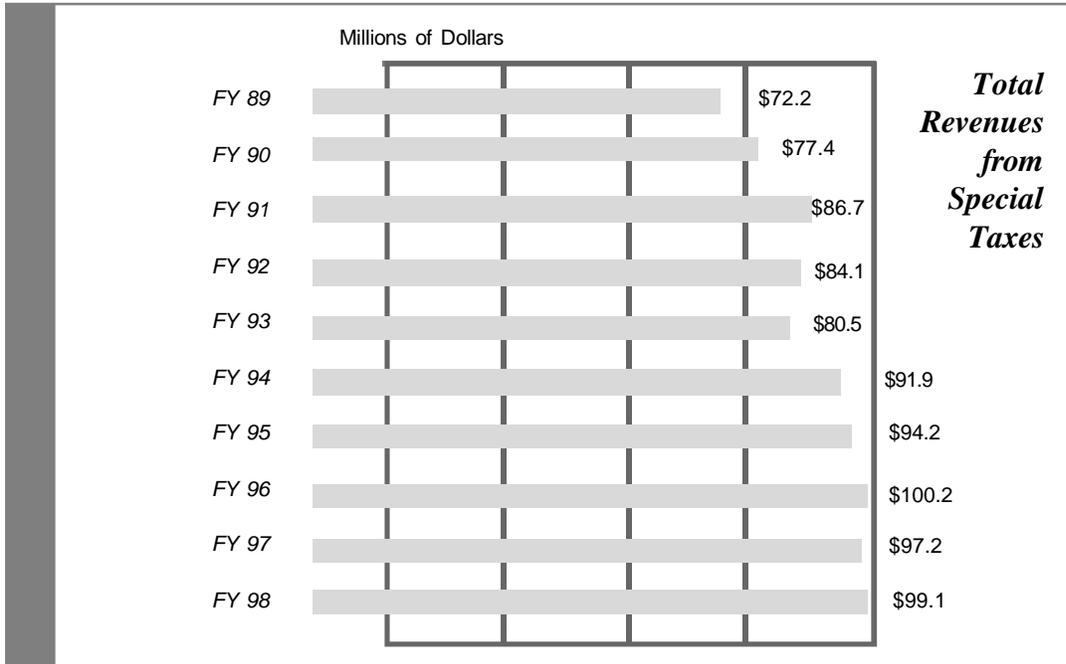
	Number of local governments with a sales tax	Maximum local rate
South Dakota	179*	3
Iowa	467	1
Minnesota	7	1
Montana		No local tax
Nebraska	78	1.5
North Dakota	54	1.75
Wyoming	19	2

*This is the number of local governments, not the number of taxes and tax rates. Some local governments have several rates.

Special Taxes

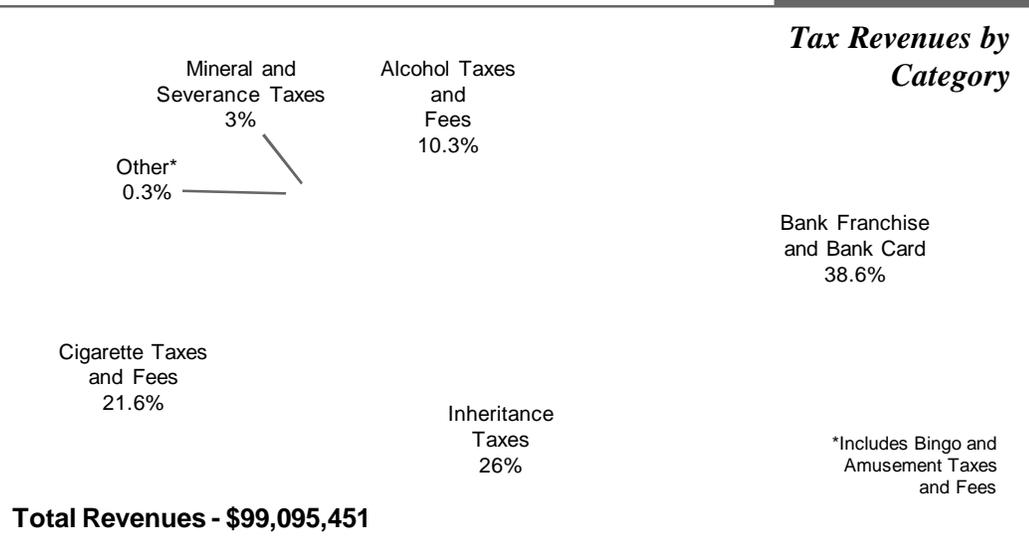
Total Revenues

The revenues collected in fiscal year 1998 from the category of Special Taxes were \$99,095,451. This tax category includes 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.



The Special Tax category can be divided into five major types: bank franchise taxes, inheritance taxes, alcohol taxes, cigarette taxes, and mineral and severance taxes. The pie chart below illustrates the percentage of revenues produced by each type of tax.

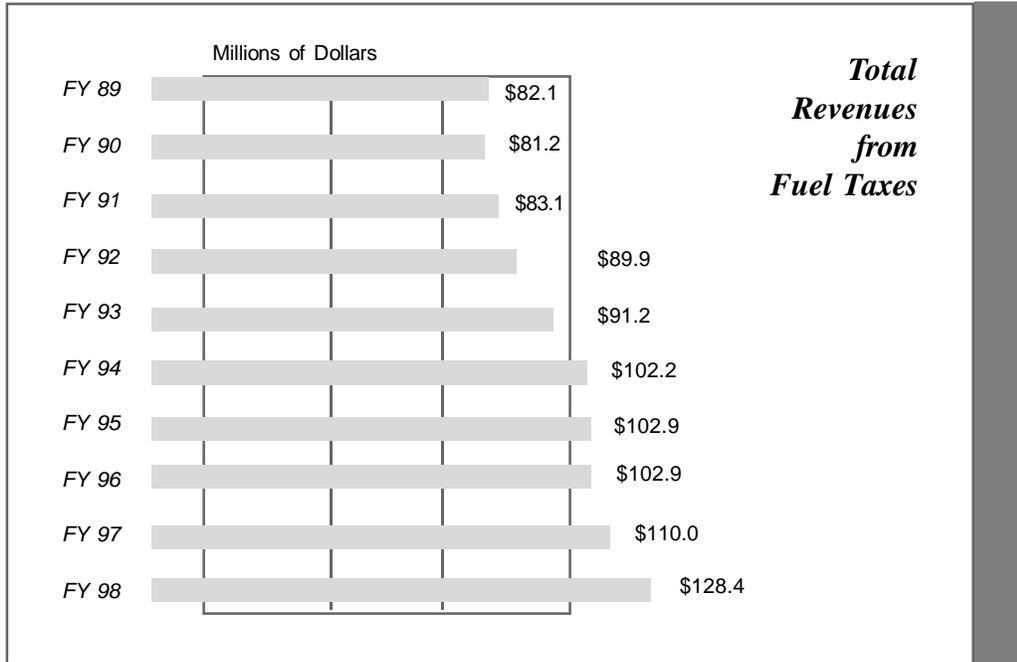
In fiscal year 1998 bank franchise and bank card taxes generated over 38% of special tax revenues.



*Fuel Tax
and Motor
Vehicle
Licensing*

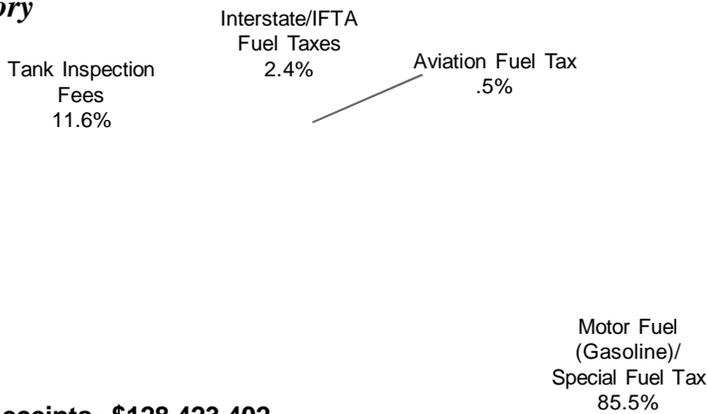
Total Fuel Tax Revenues

Fuel taxes include taxes on gasoline, ethanol blend, aviation fuel, jet fuel, liquid petroleum gas (LPG) and diesel fuel. In fiscal year 1998, there were 2,878 fuel licenses in South Dakota, but only 1,332 licensees report and remit the tax.



Of the three types of fuels sold in South Dakota, motor fuel (gasoline) and undyed diesel are by far the most significant, producing 85.5% of the total fuel tax revenues in fiscal year 1998. The chart below illustrates the percentage of the total fuel tax revenues produced by each type of fuel.

Tax Revenues by Category



Total Receipts - \$128,423,402

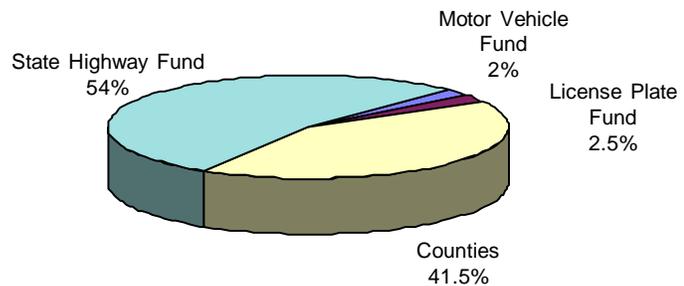
In fiscal year 1998, gasoline / special fuel taxes generated 85.5% of the total fuel tax revenues.

Motor Vehicle Licensing

Commercial Registration Fees

Commercial registration fees are licensing fees 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 95 percent of the fees are used by the state and counties to maintain public roads.

Distribution of Fees by Fund



Total Fees - \$9,721,492

Prorate registration revenues during fiscal year 1998 were \$9,721,492. Of this amount, 54% was used to maintain state highways, 41.5% was used to maintain county highways, 2% went to the State Motor Vehicle Fund and 2.5% to the License Plate Special Revenue Fund.

Distribution of Fees by County

Aurora	\$ 43,684	Fall River	\$45,768	Marshall	\$ 48,560
Beadle	112,399	Faulk	40,403	Meade	111,051
Bennett	32,143	Grant	60,059	Mellette	25,485
Bon Homme	49,922	Gregory	50,945	Miner	39,433
Brookings	110,219	Haakon	35,449	Minnehaha	396,550
Brown	186,682	Hamlin	41,407	Moody	47,523
Brule	48,834	Hand	60,922	Pennington	306,955
Buffalo	13,088	Hanson	30,815	Perkins	56,255
Butte	51,270	Harding	31,850	Potter	38,549
Campbell	31,559	Hughes	73,735	Roberts	79,350
Charles Mix	76,954	Hutchinson	67,077	Sanborn	36,520
Clark	55,876	Hyde	25,503	Shannon	46,369
Clay	55,416	Jackson	32,083	Spink	97,018
Codington	106,878	Jerauld	30,324	Stanley	25,599
Corson	61,670	Jones	23,412	Sully	34,051
Custer	42,570	Kingsbury	60,915	Todd	45,381
Davison	74,786	Lake	62,083	Tripp	72,850
Day	69,473	Lawrence	85,019	Turner	61,000
Deuel	42,356	Lincoln	82,279	Union	56,300
Dewey	47,276	Lyman	46,054	Walworth	42,693
Douglas	34,365	McCook	47,706	Yankton	82,140
Edmunds	52,742	McPherson	41,879	Ziebach	31,848
				TOTAL	\$4,257,329

In fiscal year 1998, 41.5% of the commercial registration fees were distributed to counties.

Motor Vehicle Licensing 'continued

The total change from fiscal year 1997 to fiscal year 1998 was a 6% increase.

Titles and Registrations

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

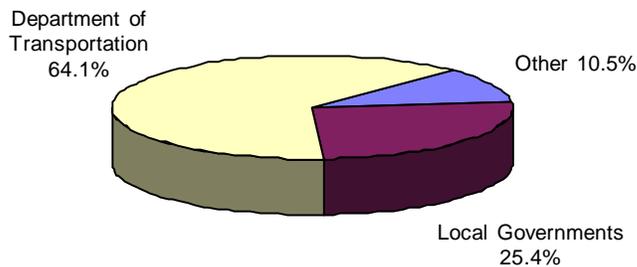
Title and Registration Revenues

	FY 1997	FY 1998	Percent Change
License Plate Fees-State's Share*	\$1,416,414	\$1,398,736	-1.25%
License Plate Fees-Counties', Cities', Townships' Share	14,956,066	15,522,313	3.79%
Snowmobiles	140,600	113,780	-19.08%
Boats	699,512	784,192	12.11%
Temporary Special Permits	73,653	79,564	8.03%
Mobile Home Plates	9,210	12,015	30.46%
Dealer Fees, Duplicate Dealer Plates	111,150	123,150	10.80%
Noncommercial Duplicate Plates	63,706	115,764	81.72%
Commercial Duplicate License Plates	3,350	1,070	-68.06%
Title and Penalty Fees	1,831,804	1,926,920	5.19%
Trailer ID Fees	32,360	36,790	13.69%
Replacement Plate Fees	63,986	129,597	102.54%
Motorcycle Safety Education Fees	73,824	74,433	0.82%
Mobile Home Registration Fees-State's Share	267,217	276,055	3.31%
Other Vehicle 3.0% Registration Fees	36,530,807	39,196,967	7.30%
Snowmobile 3.0% Initial Registration Fees	321,148	313,070	-2.52%
Register of Deeds Fees	131,410	135,755	3.31%
DENR Solid Waste Fees	881,377	901,946	2.33%
Total Receipts	\$57,607,594	\$61,142,117	6.14%

*State Motor Vehicle Fund, License Plate Special Revenue Fund

Title, registration and other associated fees produced revenues of \$61,142,117 in fiscal year 1998. This amount was an increase of 6% from fiscal year 1997 and an increase of 11.6% over fiscal year 1996.

Distribution of Title and Registration Revenues



Total Revenues - \$61,142,117

Property taxes in South Dakota are part of a larger system of taxation that includes sales taxes, fuel taxes, motor vehicle licensing and a wide variety of special taxes. Property taxes are, however, local taxes. They are the primary source of dollars for school systems, counties, municipalities and other local government units. Consequently, their administration is a local responsibility. The authority of the Department of Revenue is limited to assisting local government units in making property tax assessments that are fair and in compliance with the law. The department does not collect or use property taxes.

How Property Taxes Are Applied

Property owners in South Dakota may be taxed by two or more of the following units of government: cities, counties, townships, school districts, water districts and, in some cases, units such as fire and sanitary sewer districts. There are, however, three steps that are common to the application of property taxes in each government unit.

1

Establishing the Value of Property

The first step is to establish 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. This selling price, determined by the sale price of comparable properties and known as the true and full value, is what establishes the value of the property.

2

Establishing the Amount of Tax

The second step is to determine 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 monies such as federal grants, must equal the size of the budget of the unit of government.

3

Establishing a Tax Rate

The third step, establishing a tax rate to apply to individual pieces of property, is based on steps one and two. The tax rate for all property in a local unit of government is arrived at by dividing the value of all the property into the amount of the budget that is unfunded from other sources.

This calculation results in a tax rate expressed in dollars of property value, or “dollars per thousand.” If the dollars per thousand were \$4, the tax on a home valued at \$50,000 would be calculated at $\$4 \times 50$ and would result in a tax of \$200.

In practice, all the tax rates that apply to a property are added together, resulting in a single tax levy. This single levy, however, is always the product of two or more tax rates assessed by different government entities as illustrated on the top of the next page.

Property Taxes /continued

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

Local Units of Government Taxing a Hypothetical Parcel of Property

Property "X" taxed at a rate of \$45.37 per thousand dollars of taxable value.

Unit of Government	Amount of Tax
School District Tax	\$17.88 per thousand
County Tax	10.09 per thousand
City Tax	16.75 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	\$45.37 per thousand

Property Tax Variables

Three major variables affect the taxes on individual pieces 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 three variables will change a property owner's taxes. For example:

if budgets decrease even though the value of all the property in a taxing jurisdiction as well as the value of an individual piece of property remain the same, the tax on the individual piece of property will decrease;

if budgets and the value of an individual piece of property remain the same while the value of the property in the rest of a taxing jurisdiction decreases (due to a drop in land prices, for example), the tax on the individual piece of property will increase;

if budgets and the value of property in a taxing jurisdiction remain the same while the value of an individual piece of property increases (due to a new addition on a home, for example), the tax on that individual piece of property will increase.

The chart below illustrates the effect of changes made in property tax variables.

The Effect of Changes in Property Tax Variables on a Parcel of Property

If local government budgets decrease	AND	The value of property in the gov't unit as a whole remains the same	AND	The value of the individual's parcel of property remains the same	Taxes Decrease
If local government budgets remain the same	AND	The value of property in the gov't unit as a whole decreases	AND	The value of the individual's parcel of property remains the same	Taxes Increase
If local government budgets remain the same	AND	The value of property in the gov't unit as a whole remains the same	AND	The value of the individual's parcel of property increases	Taxes Increase

Limits on Property Taxes

Although 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 it may 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 1996 - 1998

	Payable 1996	Payable 1997	Payable 1998
Agricultural Property	\$177,155,703	\$146,728,901	\$154,812,969
Owner-Occupied Property	227,989,164	191,658,393	205,112,642
Other Property	158,910,064	176,930,052	186,243,621
Utilities			
Railroad	447,546	931,630	1,051,811
Electric Light	16,707,178	21,424,006	20,251,539
Telephone Comp (within)	4,722,009	5,357,036	5,206,509
Telephone Comp (without)	2,922,274	2,945,011	1,699,374
Special Assessments	5,948,428	6,597,665	7,378,706
TOTAL	\$594,802,366		
Less Ag/Owner-Occupied State Credit	80,408,754		
Total due from taxpayer	\$514,393,612	\$552,572,695	<u>\$581,757,172</u>

Taxes Levied by Local Units of Government

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

Taxes Levied by Local Units of Government -- 1998

	Amount Taxed	Percent of Total
County (Includes Library, Secondary Road, Fire Fighting Purposes, Telephone Outside-General Fund)	\$138,413,304	23.79%
Municipalities	66,159,294	11.37%
Schools	359,703,612	61.83%
Townships	10,102,257	1.74%
Special Assessments	7,378,706	1.27%
Total	\$581,757,172	100.00%

Property Taxes /continued

The following chart compares 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 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. Therefore, three categories of effective tax rates are listed: Agricultural, Owner-Occupied and Other (all property that is not agricultural or owner-occupied).

Owner-Occupied Taxes Payable in 1998

City	Effective Tax Rate	A Tax X \$40,000= of...	City	Effective Tax Rate	A Tax X \$40,000= of...
Aberdeen	1.96%	\$784.38	Mobridge	2.25%	\$899.64
Belle Fourche	2.35	940.44	Pierre	1.93	772.48
Brandon	1.85	738.14	Rapid City	1.92	768.40
Brookings	2.05	820.42	Redfield	2.91	1,165.52
Canton	2.51	1,004.36	Sioux Falls	1.74	694.28
Chamberlain	2.23	892.84	Sisseton	2.38	951.66
Dell Rapids	1.84	737.46	Sturgis	2.54	1,014.22
Flandreau	2.42	967.30	Vermillion	2.16	865.64
Hot Springs	2.68	1,072.36	Watertown	1.73	692.24
Huron	2.50	1,001.98	Webster	2.55	1,020.68
Madison	2.05	819.40	Winner	2.19	874.48
Milbank	2.12	847.28	Yankton	1.93	770.10
Mitchell	2.22	888.08			

Other Non-Agricultural Taxes Payable in 1998

City	Effective Tax Rate	A Tax X \$40,000= of...	City	Effective Tax Rate	A Tax X \$40,000= of...
Aberdeen	2.60%	\$1,039.38	Mobridge	2.88%	\$1,153.62
Belle Fourche	2.99	1,195.44	Pierre	2.56	1,025.10
Brandon	2.48	992.12	Rapid City	2.56	1,022.38
Brookings	2.69	1,077.80	Redfield	3.55	1,418.14
Canton	3.15	1,258.34	Sioux Falls	2.37	947.92
Chamberlain	2.87	1,147.50	Sisseton	3.01	1,204.62
Dell Rapids	2.48	991.44	Sturgis	3.17	1,268.88
Flandreau	3.05	1,220.94	Vermillion	2.80	1,121.66
Hot Springs	3.32	1,326.00	Watertown	2.37	947.24
Huron	3.14	1,256.98	Webster	3.19	1,274.66
Madison	2.69	1,074.06	Winner	2.83	1,131.52
Milbank	2.75	1,099.90	Yankton	2.56	1,022.72
Mitchell	2.87	1,149.54			

Agricultural Taxes Payable in 1998

Township	Effective Tax Rate	X \$40,000 =	A Tax of...
Aberdeen Twp. 6-1	1.30%		\$520.88
Belle Fourche Twp. 9-1 (Unorg.)	1.45		579.36
Brandon Twp. 49-2	1.24		495.04
Brookings Twp. 5-1	1.66		663.00
Canton Twp. 41-1	1.41		563.38
Chamberlain Twp. 7-1	1.37		549.44
Dell Rapids Twp. 49-3	1.15		459.34
Flandreau Twp. 50-3	1.29		517.82
Hot Springs Twp. 23-2 (Unorg.)	1.84		734.06
Used (Clyde) Twp. 2-2	1.49		596.36
Lakeview Twp. 39-2	1.28		511.36
Alban Twp. 25-4	1.37		548.76
Mitchell Twp. 17-2	1.42		568.14
Mobridge Twp. 62-3 (Unorg.)	1.42		568.14
Pierre Twp.32-2 (Unorg.)	1.35		538.90
Rapid City Twp. 51-4 (Unorg.)	1.48		591.60
Redfield Twp. 56-4	1.38		552.16
Sioux Falls Twp. 49-5	1.21		484.84
Sisseton Twp. 54-8	1.32		529.72
Sturgis Twp.46-1 (Unorg.)	1.35		539.92
Vermillion Twp. 13-1	1.50		601.80
Elmira Twp. 14-4	1.30		518.50
Webster Twp. 18-4	1.50		601.80
Lamro Twp. 59-2	1.47		586.16
Unorganized Twp. 63-3	1.42		568.82

*Property
Taxes /
continued*

*Property
Taxes
/continued*

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. If, for example, the rate of tax is \$4 per thousand dollars of value and the value of the property is determined to be \$30,000, the tax will be \$120. On the other hand, if the property is valued at \$40,000, the tax will be \$160.

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 following chart 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. Thus, a parcel assessed at a value of \$32,000 and selling at \$40,000 would have an assessment/sales ratio of 80%.

Sales to Assessment Ratio Analysis

*Sales for Years 1996,
1997*

	Agricultural	Non-Ag		Agricultural	Non-Ag
Aurora	76.1%	86.2%	Kingsbury	88.0%	92.2%
Beadle	84.2	80.3	Lake	90.6	85.1
Bennett	83.5	83.2	Lawrence	0.0	78.4
Bon Homme	93.1	86.1	Lincoln	82.8	88.0
Brookings	87.8	90.8	Lyman	86.9	79.5
Brown	86.4	91.0	McCook	84.9	82.7
Brule	82.6	85.5	McPherson	93.3	91.2
Buffalo	66.7	122.6	Marshall	76.9	85.2
Butte	73.9	84.7	Meade	61.9	80.5
Campbell	89.2	75.0	Mellette	65.9	82.5
Charles Mix	85.5	86.9	Miner	85.5	88.8
Clark	81.4	73.3	Minnehaha	86.8	88.1
Clay	79.3	84.6	Moody	87.6	89.1
Codington	81.1	88.7	Pennington	77.1	80.5
Corson	86.7	98.6	Perkins	85.2	89.0
Custer	90.4	82.4	Potter	81.6	79.3
Davison	89.8	85.6	Roberts	82.8	92.0
Day	86.0	83.5	Sanborn	85.7	90.9
Deuel	84.8	81.5	Shannon	79.3	88.3
Dewey	76.1	82.4	Spink	91.8	88.0
Douglas	89.2	88.5	Stanley	80.3	76.7
Edmunds	84.3	83.3	Sully	88.2	85.2
Fall River	69.1	78.0	Todd	80.5	82.8
Faulk	91.9	80.4	Tripp	88.5	86.7
Grant	86.6	79.9	Turner	87.1	80.0
Gregory	84.4	85.4	Union	89.1	85.6
Haakon	79.5	86.8	Walworth	90.3	82.6
Hamlin	82.9	79.5	Yankton	84.9	90.4
Hand	90.7	99.6	Ziebach	65.8	74.8
Hanson	80.0	79.6			
Harding	103.8	87.6	Statewide	82.5%	84.5%
Hughes	74.1	83.9			
Hutchinson	82.3	90.1			
Hyde	94.3	87.7			
Jackson	99.6	97.5			
Jerauld	85.5	94.3			
Jones	77.3	98.6			

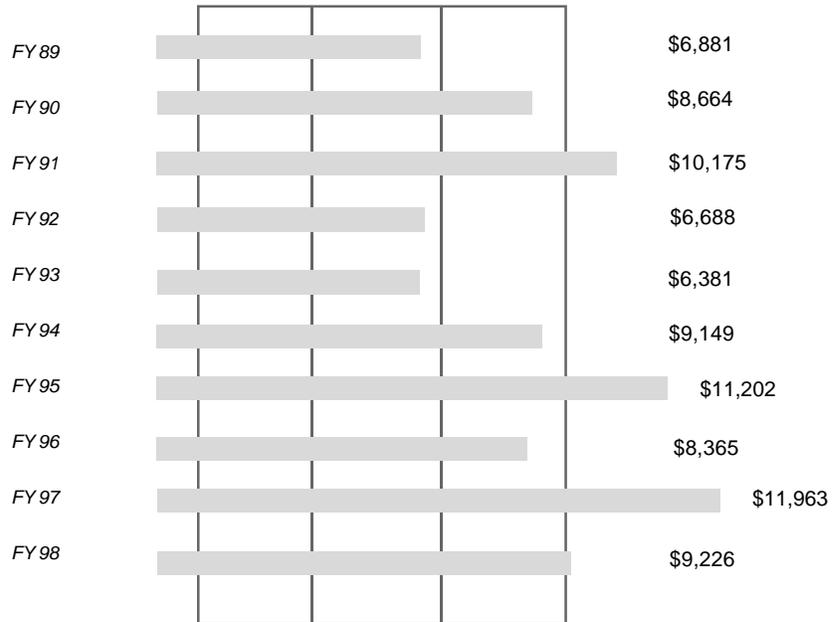
To insure that businesses are correctly reporting their taxes, the Department of Revenue performs regular audits on financial records. An audit may be conducted on any tax license holder, in-state or out-of-state, large or small.

Audits result in the correction of errors made by businesses in the payment of taxes. These corrections meant an additional \$9,255,722 in tax revenues (assessments and penalties) in fiscal year 1998.

Audit assessments amounted to \$9,255,722 in fiscal year 1998.

Total Assessments

Thousands of Dollars



Audits and Assessments

	Number of Audits	Assessments
Sales, Use and Contractors' Excise Taxes	912	\$7,702,656
Limited Scope Audits	35	197,613
Bank Franchise, Severance Taxes and Inheritance Taxes	3,686	998,066
Fuel Taxes	477	327,387
Total	5,110	\$9,225,722

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.

The chart below demonstrates the type and the amount associated with each allowance for fiscal year 1998.

Allowances FY 1998		
Tobacco Distributors	3.5% of the value of the tax indicia they purchase.	\$744,417.60
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.	\$2,323,349.00
Importer	Two-thirds of the allowance in 10-47B-34.	\$15,516.50
LPG Vendor	2% of the first 25,000 gallons taxed each month; 1% on the gallons taxed in excess of 25,000 each month. Max. \$500.00 per month.	\$4,272.19

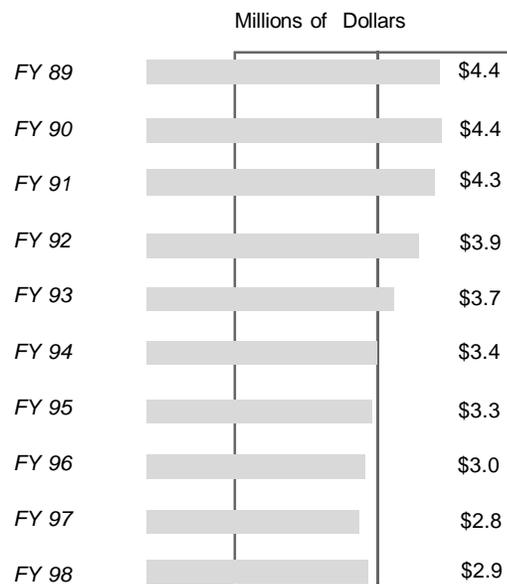
Tax Refund Program

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 are given a motor fuel tax refund. During fiscal year 1998, there were 9,218 refunds totaling \$2,859,380. The average refund amounted to \$310.19 in fiscal year 1998 as compared to \$285.11 in 1997.

Motor fuel tax refunds peaked at \$4.4 million in fiscal years 1989 and 1990.



Motor Fuel Tax Refunds

Tax Refund Programs

Refunds to the Elderly and Disabled

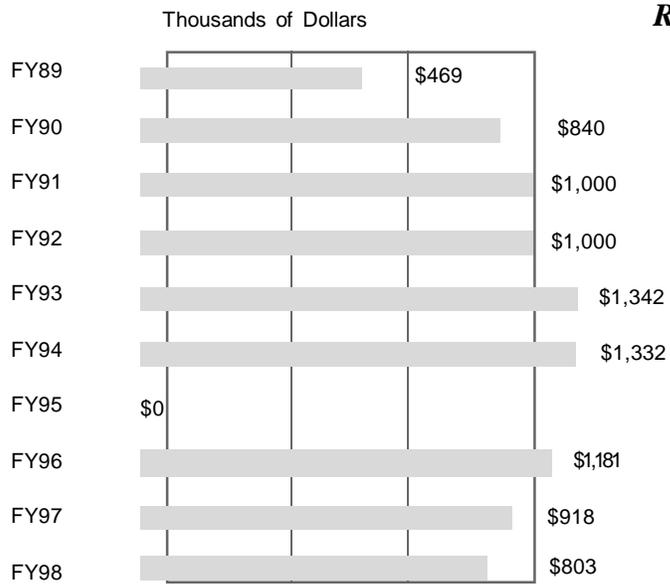
Tax refund dollars for the elderly and disabled affected citizens in every county. Minnehaha County had the largest number of participants with 617, followed by Pennington County with 501, and Brown County with 291.

County	Amount of Refunds FY 1997	Number of Applications FY 1997	Amount of Refunds FY 1998	Number of Applications FY 1998
Aurora	\$4,015	18	\$4,510	21
Beadle	27,695	182	22,581	152
Bennett	7,754	37	7,458	40
Bon Homme	11,260	57	9,782	47
Brookings	17,029	108	12,874	85
Brown	52,227	340	44,893	291
Brule	4,461	36	4,133	34
Buffalo	2,691	12	1,400	8
Butte	11,264	64	10,420	64
Campbell	3,635	16	2,911	16
Charles Mix	19,953	118	19,326	116
Clark	7,187	44	5,387	37
Clay	5,168	38	3,806	30
Codington	28,351	200	24,600	177
Corson	2,272	15	2,333	12
Custer	10,593	69	8,606	59
Davison	30,330	211	26,716	183
Day	21,017	105	17,133	86
Deuel	16,005	86	14,357	75
Dewey	12,968	61	16,095	70
Douglas	8,659	48	6,619	37
Edmunds	8,935	55	8,211	52
Fall River	20,224	147	16,162	116
Faulk	2,002	17	1,669	15
Grant	13,082	89	10,353	75
Gregory	19,258	116	17,226	104
Haakon	1,086	7	521	4
Hamlin	9,984	59	8,165	48
Hand	7,833	50	5,560	43
Hanson	2,458	14	1,612	8
Harding	961	6	0	0
Hughes	11,772	75	9,970	67
Hutchinson	12,870	80	12,766	75
Hyde	2,763	20	2,529	19
Jackson	6,330	32	4,433	24
Jerauld	5,486	36	4,136	29
Jones	594	4	567	4
Kingsbury	11,061	72	8,394	59
Lake	17,226	119	14,351	97
Lawrence	15,153	105	12,882	100
Lincoln	8,734	63	8,277	61
Lyman	5,005	29	4,179	26
Marshall	10,603	68	9,268	61
McCook	6,478	39	5,267	35
McPherson	6,816	38	5,329	28

County	Amount of Refunds FY 1997	Number of Applications FY 1997	Amount of Refunds FY 1998	Number of Applications FY 1998
Meade	18,293	113	18,210	106
Mellette	4,776	23	3,713	20
Miner	5,682	33	3,415	22
Minnehaha	100,511	694	88,387	617
Moody	9,369	62	8,512	52
Pennington	89,802	555	81,031	501
Perkins	6,300	46	5,308	40
Potter	2,722	20	2,561	18
Roberts	15,778	99	12,399	82
Sanborn	6,443	27	4,899	23
Shannon	49,600	239	49,643	244
Spink	12,350	75	9,279	60
Stanley	1,531	9	1,427	10
Sully	264	2	159	1
Todd	13,314	63	15,442	78
Tripp	12,472	67	10,842	62
Turner	8,999	64	8,227	55
Union	12,530	68	10,590	60
Walworth	13,766	81	11,468	74
Yankton	16,208	110	14,112	97
Ziebach	5,683	19	6,090	22
TOTAL	\$917,641	5,674	\$803,481	5,024

The number of refund applications by group in 1998 were:
Elderly single 2,993
Elderly household 504
Disabled single 1,209
Disabled household 328

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



Refunds to the Elderly and Disabled

How SD Compares to Other State

State Government Tax Collections Per Capita: FY 1996-97

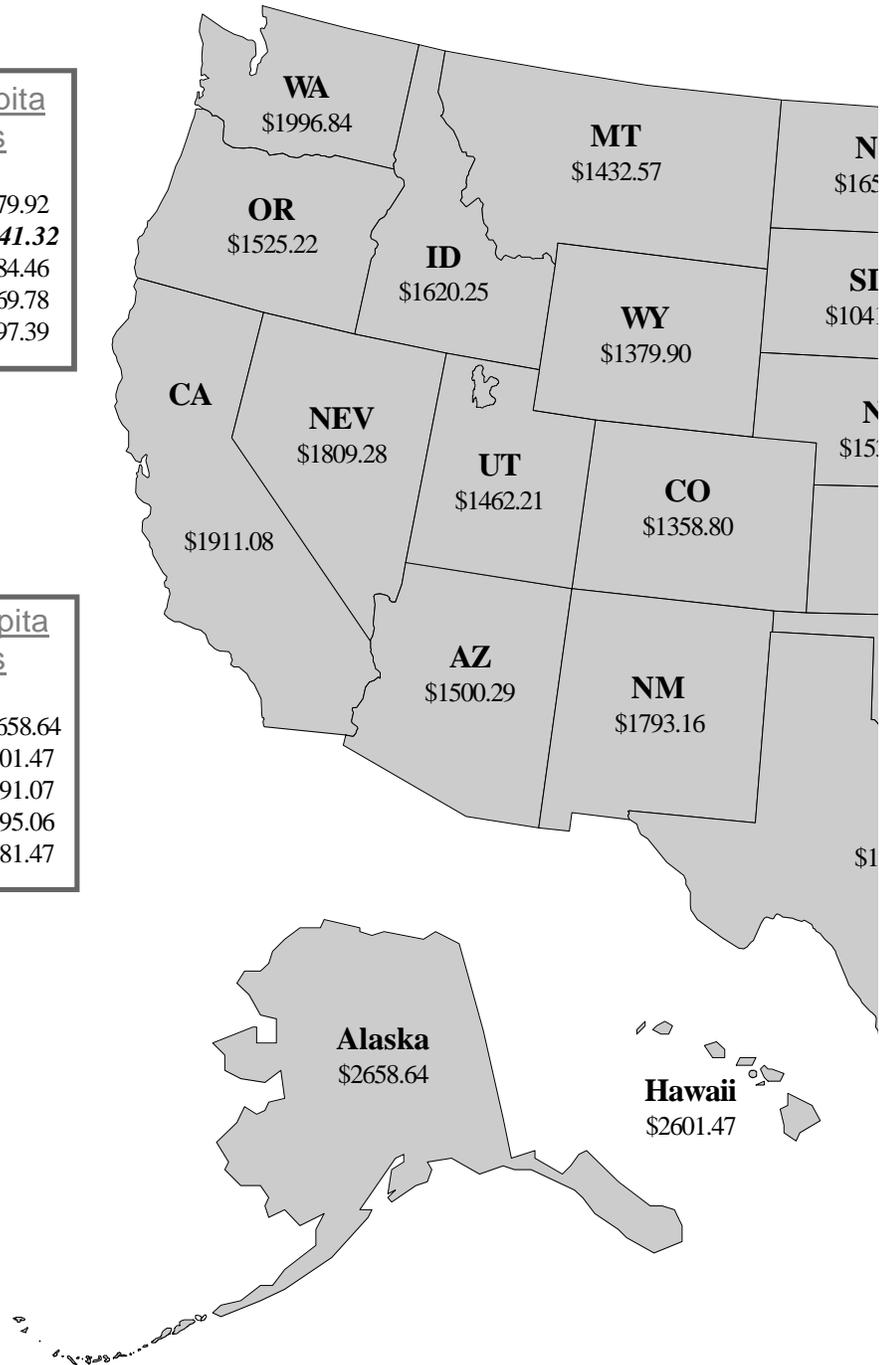
In comparing all states for fiscal year 1996-97, only one state had a lower per capita state tax burden than South Dakota.

Five Lowest Per Capita State Tax Burdens

New Hampshire	\$779.92
South Dakota	1041.32
Texas	1184.46
Alabama	1269.78
Louisiana	1297.39

Five Highest Per Capita State Tax Burdens

Alaska	\$2658.64
Hawaii	2601.47
Connecticut	2491.07
Minnesota	2395.06
Delaware	2381.47



Comparing the Region

South Dakota	\$1041.32
Wyoming	1379.90
Montana	1432.57
Nebraska	1537.82
Iowa	1643.20
North Dakota	1659.92
Minnesota	2395.06

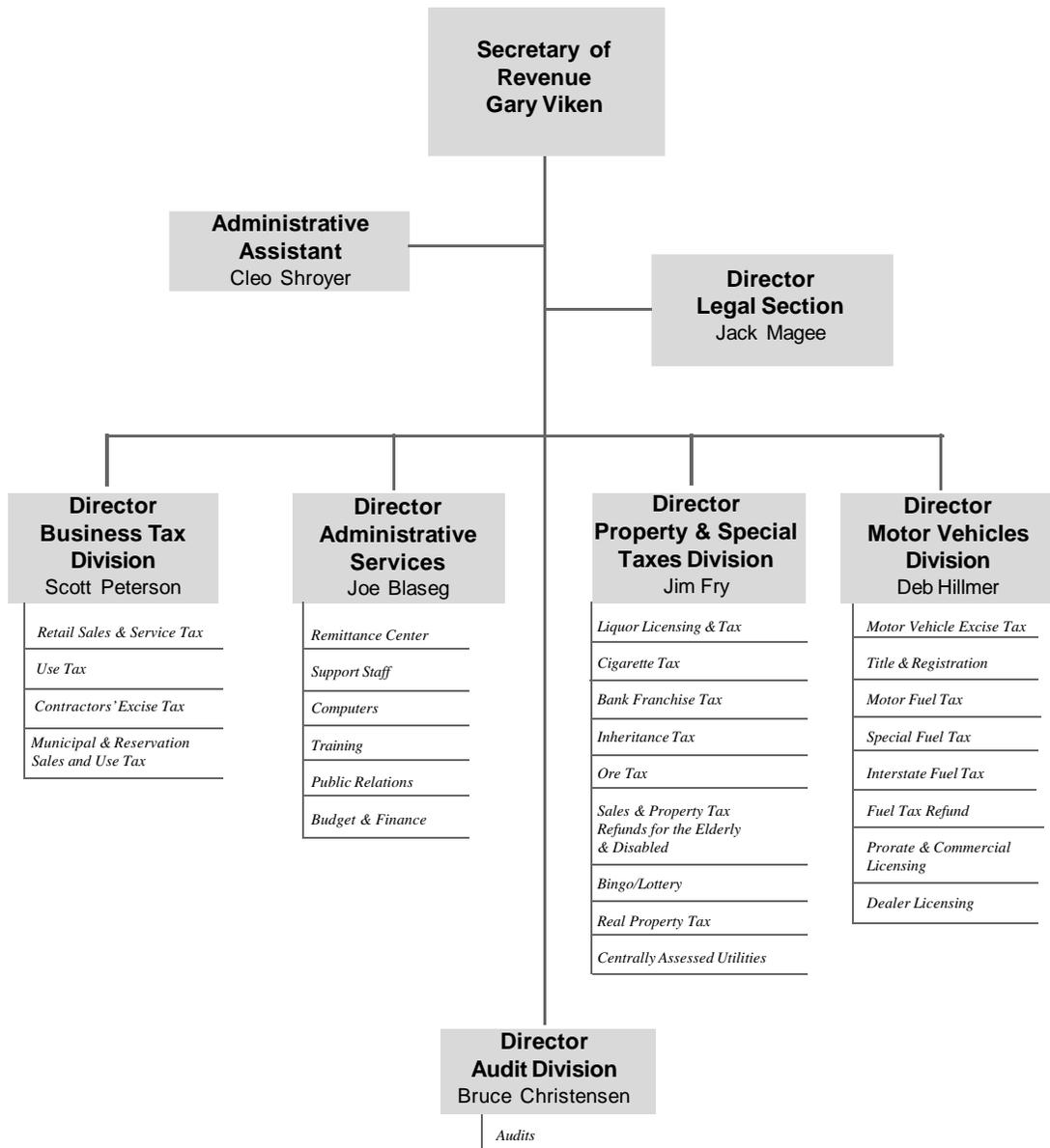


* Data provided by CCH Incorporated 6/98

*Department
Review*

The administration of the 34 separate types of taxes and fees in force in fiscal year 1998 and collection and distribution of the \$897 million of tax revenues required 192 full-time employees. The total administrative costs were \$10.2 million, of which \$697,463 were general fund dollars.

The Department of Revenue is organized into five divisions and the Office of the Secretary. While the department secretary, division directors, and some staff are in Pierre, divisional field offices are located in communities throughout the state.



Legal Services

The Department of Revenue employed five full time attorneys in fiscal year 1998. During the course of the year, they logged 232 cases involving sales, use and contractors' excise tax, motor fuel tax, inheritance tax, property tax, bankruptcies, foreclosures, and other State debt collections. The legal staff additionally provided ongoing legal counsel to the department. The Supreme Court handed down two decisions - one pertaining to the applicability of interest to certain large construction projects and one involving a sales tax exemption. Additionally, the Supreme Court is considering the appeal of a person convicted of tax fraud and two other cases examining who is permitted to represent a corporation in administrative hearings.

Court Case Summaries

Northern States Power Company v. Department of Revenue, 1998SD57, 578 NW2d 579.

Northern States Power (NSP) engaged in a construction project which qualified for a refund of sales, use and contractors' excise taxes pursuant to SDCL ch. 10-45B. NSP received a refund of all taxes paid on the project, however, the Secretary of Revenue denied NSP's claim for interest on the refund. On appeal the circuit court reversed the Secretary's decision and concluded that interest was due on the refund pursuant to SDCL 10-59-24. The Supreme Court affirmed the circuit court's decision.

Blood System's, Inc. v. Department of Revenue, 1998SD82, 582NW2d 682.

Blood System's, Inc. (BSI) is a non-profit corporation in the business of collecting blood from donors and selling the blood to hospitals in South Dakota. BSI claimed that it qualified as a relief agency pursuant to SDCL 10-45-10, and, therefore, was exempt from tax on its purchases. The Secretary of Revenue denied BSI's claim. On appeal, the circuit court concluded that BSI did qualify for relief agency status because selling blood to hospitals indirectly relieved the poor, distressed or underprivileged. The Supreme Court affirmed the circuit court's decision.

State of South Dakota v. Elmer Ruttman, S. Ct. No. 20508.

Elmer Ruttman was found guilty on charges he made false or fraudulent returns in an attempt to evade sales tax. Following a restitution hearing, the circuit court ruled

that Ruttman owed the State \$184,343 in back taxes and interest and \$12,000 in fines. Ruttman has appealed the circuit court restitution order claiming the amount ordered to be paid was calculated incorrectly.

Minnesota Crane Corporation v. Department of Revenue, S. Ct. No. 20432

Minnesota Crane Corporation is a Minnesota construction business. In 1997, the Department conducted an audit on Minnesota Crane and issued an assessment for additional taxes. Minnesota Crane, through its Minnesota attorney, attempted to request a hearing on the assessment. The Secretary denied the attempted hearing request because, in South Dakota, corporations are required to be represented by counsel and Minnesota Crane's attorney was not licensed or admitted to practice law in South Dakota. On appeal, the circuit court affirmed the Secretary's decision. Minnesota Crane has appealed to the Supreme Court.

Programmer's Clearinghouse, Inc. v. Department of Revenue, S. Ct. No. 20556

The Department conducted an audit of Programmer's Clearinghouse and issued a tax assessment. Programmer's, through its accountant, attempted to request an administrative hearing on the assessment. The hearing examiner dismissed the hearing concluding that he lacked jurisdiction to hear the appeal because the hearing request had to be filed by an attorney licensed or admitted to practice law in South Dakota. On appeal, the circuit court affirmed the hearing examiner's decision. Programmer's Clearinghouse has appealed to the Supreme Court.

During the course of the year, the legal staff represented the Department and other state agencies in 232 new cases and represented the Department in five Supreme Court appeals.

Department Overview /continued

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

Administrative Services

Administrative services has the responsibility of managing secretarial and computer services, budgetary data and the department's physical assets. Its purpose is to increase the efficiency of the operational divisions by providing them with the resources they require to meet their goals. In addition, administrative services manages the department's Remittance Center located in Sioux Falls. The center processed over \$823 million in payments in fiscal year 1998.

Fiscal Year 1998 - Remittance Center

Dollars processed for Department of Revenue	\$642,941,717.93
Dollars processed for other agencies	180,245,013.65
Total dollars processed	\$823,186,731.58
Total documents processed	518,991

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. The department developed a five-year strategic plan in July 1991 to set goals that would insure our compliance with the mission. The goals are listed below:

- To reduce uncollected taxes.
- To simplify the administration of municipal taxes
- To achieve uniform property 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.

Legislative Summary

The 1998 South Dakota State Legislature passed several bills affecting the activities of the Department of Revenue. These bills included legislation relating to sales, use and contractor's excise tax; motor vehicles; and property taxes. Some of these bills are summarized below:

<i>Bill Number</i>	<i>Description</i>
Senate Bill 2	<p>Provides a procedure for assessing flooded land for taxation purposes.</p> <p>Directors of equalization will take into consideration and make adjustments in setting the assessed value of agricultural land that has been inundated by floods and is not farmable during the past three growing seasons.</p>
Senate Bill 69	<p>Revises certain provisions concerning the filing of contractors' excise tax returns.</p> <p>Clarifies certain provisions for filing contractors excise tax returns but does not change any filing requirements.</p>
Senate Bill 70	<p>Revises certain provisions regarding the median level of assessment for property tax purposes.</p> <p>Instructs the secretary of revenue to calculate a factor for each county for agricultural and non-agricultural valuations using the sales of arms-length transactions and the assessments from the preceding assessment year.</p>
Senate Bill 103	<p>Revises the procedure for the valuation of agricultural land.</p> <p>Prohibits the use of agricultural land sold in increments of 70 acres or less from being used for the purpose of valuing agricultural land.</p>
Senate Bill 171	<p>Revises certain provisions regarding the design of motor vehicle license plates.</p> <p>Authorizes license plates to be of different designs every five years with a marked contrast between the color of the plate and the numbers and letters on the plate.</p>
Senate Bill 193	<p>Prohibits the taxation of United States postage.</p> <p>Postage charges by a mailing service are now exempt from sales tax if the cost of the postage is itemized on the sales invoice as a separate charge and there's no mark-up on the postage charges.</p>
Senate Bill 233	<p>Reduces the property tax levies for general funds of a school district to maintain the relationship between state aid to general education and local effort and to provide for a 5% reduction in property taxes for certain types of property.</p> <p>Sets the maximum levies for school general funds for agricultural land and owner-occupied homes for taxes payable in 1999 and each year thereafter.</p>
House Bill 1051	<p>Revises certain provisions regarding the taxation of manufactured housing as real property.</p> <p>Real property, for the purposes of ad valorem taxation, includes manufactured homes as defined in subdivision 32-3-1(6) with a model year of 1997 or newer.</p>
House Bill 1069	<p>Revises the procedure for the valuation of agricultural land and declares an emergency.</p> <p>Any agricultural land which sells for more than 150% of its agricultural income value may not be used for the purpose of valuing agricultural land for the 1998 assessment year. The agricultural income value will be determined using capitalized actual annual cash rent.</p>

*Department
Overview
/continued*

House Bill 1104	<p>Exempts certain contracting school districts from certain taxation requirements.</p> <p>For school districts that send students to an adjoining school district, the county auditor will spread a levy over the taxable property of the sending school district sufficient to raise the sending school district's tax levy per one thousand dollars of taxable valuation up to the weighted average tax levy per one thousand dollars of taxable valuation of the receiving school districts.</p>
House Bill 1131	<p>Exempts locksmiths and related businesses from contractors' excise tax and makes them subject to sales and use tax.</p> <p>This bill also makes locks, lock parts, and other materials purchased for use by locksmiths as classified in repair shops and related services as purchases for resale.</p>
House Bill 1140	<p>Provides for the regulation of boat dealers.</p> <p>Individuals who sell boats commercially in South Dakota need to be licensed as boat dealers, and as such, are able to sell both the boat and the boat trailer without a separate license. Licenses are issued for the county where an applicant has their principal place of business. If a place of business is held in two or more counties, a separate license is required for each county.</p>
House Bill 1167	<p>Revises certain provisions concerning appeals from decisions of county boards of equalization and declares an emergency.</p> <p>Individuals may appeal the decisions of county boards of equalization regarding the assessment of their property to the Office of Hearing Examiners. An appeal to the Office of Hearing Examiners from a county board of equalization can be perfected by mailing or filing a notice of appeal with the chief hearing examiner no later than the third Friday in May. If perfected by mailing, the postmark shall be conclusive evidence regarding the timeliness of the appeal. This bill doesn't prevent an appeal to the circuit court as provided in § 10-11-44, but an appeal to either tribunal excludes an appeal to the other.</p>
House Bill 1245	<p>Allows an owner-occupant of a manufactured or mobile home to be eligible for an owner-occupied classification under certain circumstances.</p> <p>This bill enables such individuals to continue to be eligible for the owner-occupied classification even if the owner-occupant fails to list the home with the director of equalization by the required date or within the specified time frame.</p>
House Bill 1284	<p>Added location and size to the list of factors to be considered when analyzing agricultural property.</p> <p>Bases the market value of certain agricultural land on the capacity of the land to produce agricultural products, and the location, size, soil, terrain and topographical condition of the property.</p>
House Bill 1292	<p>Classifies certain land as nongricultural acreage and revises the tax levy for the general fund purposes of a school district.</p> <p>This bill is a culmination of a variety of tax issues and, among other things, classifies any agricultural land which sells for more than one hundred fifty percent of its agricultural income value as a nonagricultural acreage; allows the secretary of revenue to enter into a contract for the collection of cash rent information by county; leaves any land which is classified pursuant to this bill so classified for a minimum of five years; and instructs the director of equalization to use sales of agricultural land within the county from previous years or sales or comparable land from adjoining counties if there are less than fifteen sales of agricultural land within a county.</p>
House Bill 1298	<p>Requires certain operators selling vehicles at a sell-it-yourself lot to obtain a license.</p> <p>The license allows the operator to buy or sell or negotiate to buy or sell any vehicle; make comments about the vehicle; communicate ownership information to potential customers; authorize test drives of vehicles; and advertise a vehicle either as part of a group or individually.</p>

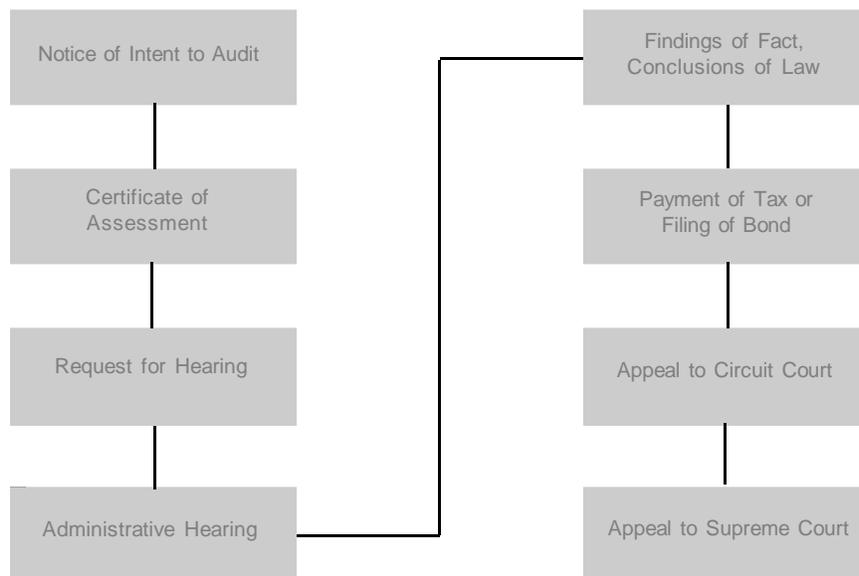
Taxpayer's Bill of Rights

South Dakota passed its taxpayer's bill of rights in 1990. This legislation formalizes the fundamental principles that have guided the South Dakota Department of Revenue since 1986. These principles are:

- 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.

The specific rights contained in the South Dakota Taxpayer's Bill of Rights flow naturally from these five principles.

Audit and Appeal Flow Chart:



Field Offices

Department of Revenue

Anderson Building
445 East Capitol Avenue
Pierre, SD 57501-3185
1-800-TAX-9188
FAX: 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) 394-2332
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
P.O. 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 North Spruce Street
Suite 127
Yankton, SD 57078-5320
(605) 668-2939
FAX: 668-2936

Publications

Sales, Use, and Contractors'

Excise Taxes Publications

A Guide to Sales and Use Tax
Municipal Tax Information
Bulletin
A Guide to the Contractors'
Excise Tax
Construction: Contractors and
Subcontractors
Municipal Sales and Service Tax
Guide for Municipal
Officials

Tax Refund Publications

Tax Refund Information (Elderly
and Disabled)
Motor Fuel Gas Tax Refund Claim
Instructions

Property Tax Publications

South Dakota Assessment and
Sales Information
Guide to Property Assessment
Appeals
Your Property Taxes

Alcoholic Beverage Tax Publication

Days/Hours of Sales Chart
Sales Restrictions Brochure

Motor Vehicle Publications

Motor/Special Fuel Distributor
Taxpayer Guide
International Registration Plan
Procedure Manual
International Fuel Tax Agreement
Procedure Manual
Diesel Fuel and LPG Information
Pamphlet
Interstate Fuel Use Tax Pamphlet
IFTA Licensing Information
Pamphlet
Title and Registration Procedure
Manual
Buyer's and Seller's Guide to
Titling Motor Vehicles
Young Driver's Brochure
IRP Licensing Pamphlet
Understanding Fuel Tax Laws: A Guide for
Counties and Municipalities
Understanding Fuel Tax Laws: A Guide for
Schools

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 provide 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 copies of this document were printed by the department at a cost of \$2.09 per document.