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SALES AND USE TAX

Impact on Sales and Leases

Contact Us:

South Dakota
Department of Revenue & Regulation
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Pierre, South Dakota 57501-3185
www.state.sd.us/drr
1-800-TAX-9188
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Kelly Thompson

Want to receive **taxation** via email? Send
your email address along with your tax
license number to: webman@state.sd.us

January 1, 2006, Tax Changes

Agricultural Equipment – Parts and Repairs

Tax rate change: Farm machinery, farm machinery attachment units, and irrigation equipment used exclusively for agricultural purposes, that are currently subject to only the 3% state tax rate, will become subject to the full 4% state sales tax *plus* city tax if delivery of the item takes place inside a city with a sales tax.

Tax exemption for repair and parts: The repair of and parts for farm machinery, farm machinery attachment units, and irrigation equipment, that are currently subject only to the 4% state sales tax, will be exempt from state and municipal tax. Exempt parts must replace a farm machinery, farm machinery attachment unit, or irrigation equipment part that has a specific or generic part number assigned to it by the farm implement manufacturer.

See tax facts for additional information – www.state.sd.us/drr/publicat or call 1-800-TAX-9188

Oil and Gas Field Services

Tax rate change: Oil and gas field services, that are currently subject to the 3% state tax rate, will become subject to the 4% state sales tax *plus* city tax if the service is received inside a city with a sales tax.

Garbage Collection and Disposal

Tax rate change: The collection and disposal of solid waste, which is currently subject only to the 4% state sales tax, will be subject to the state and city sales tax if the garbage is picked up inside city limits.

Passenger Transportation

Tax rate change: Passenger transportation services are currently subject to the 4% state sales tax only. Municipal sales tax will apply if the transportation both originates and terminates in the same city. Transportation to locations outside the municipality will not be subject to municipal tax. Examples of taxable passenger transportation services are taxis, limousines, chartered air transportation, air ambulance, intrastate bus service – regular scheduled routes, intrastate and local sight-seeing or tour buses.

The following transportation services remain exempt from sales tax:

- Transportation services that originate or terminate outside South Dakota.
- Regularly scheduled local bus line operation.
- Regularly scheduled air cargo or passenger flights.

Animal Health Products and Medicine

Tax rate change: Agricultural animal health products and medicine that are currently only subject to the 4% state sales tax will be subject to the 4% state sales tax *plus* city tax if delivered to the customer inside a city with a sales tax.

Veterinarian and Animal Specialty Services

Tax rate change: Veterinarian and animal specialty services that are currently subject to the 4% state sales tax will be subject to the 4% state sales tax *plus* city tax if the customer receives the service inside a city with a sales tax.

For more information see page 7

Insights...from the Secretary's Desk



As South Dakotans and the rest of America struggle to comprehend the loss of life, property and happiness caused by Hurricane Katrina, most of us have probably thought to ourselves how fortunate we are to live in an area that at least *feels* more insulated from terrorist attack and natural disaster than most other parts of our country. Our department and the rest of state government have responded generously to the affected areas in many ways and will continue to do our part in the recovery of the Gulf states.

In trying to keep you abreast of developments relating to sales tax on remote sales, certain online retailers will begin collecting tax for eighteen states, including South Dakota, beginning on October 1. After over five years of effort by states and retailers involved in the Streamlined Sales Tax Project, this is an important step forward. The various components of the new tax collection system will be tested to determine if sales tax on Internet and other remote sales can be collected accurately and without undue burden on the seller. If the system works as designed, it should provide a strong incentive for states which have been sitting on the sidelines to make the necessary changes to their sales tax systems so that they can benefit from tax revenues on remote sales. It should also provide an incentive for Congress to change federal law to give states the authority to impose a duty to collect sales taxes on remote sales, and ultimately level the playing field for traditional retailers and e-tailers.

With the fall season upon us, those people and businesses receiving payment for hunting services are once again reminded that sales tax applies to most payments received. If you need information on how sales tax applies to hunting guides and commercial hunting operations, please download the **Hunting and Fishing Services Tax Fact** at www.state.sd.us/drr or request a copy by calling **1-800-TAX-9188**.

Have an enjoyable and successful fall season.

Amnesty for Streamlined Registrants

By Jane Page

Do you make sales into states without collecting that state's sales taxes? Do you make deliveries to those states in your own trucks? Do you send repair or maintenance employees or representatives into various states to perform work on your behalf? Do you sell items through a web site or catalog and then accept returns at a brick and mortar store? Do you market jointly with an affiliate that sells through catalog or Internet? Do you use in-state solicitors, whether employees, agents or independent contractors, to make sales into a state?

If you answered yes to any of these questions, or if you are ready to take the guesswork out of your "nexus status" and want to sign up for simplified collection processes, you should take advantage of an amnesty program that will be available in all states participating as full members or associate members of the Streamlined Sales and Use Tax Agreement. South Dakota will be offering this amnesty program for twelve months as of October 1, 2005.

What amnesty is available:

Amnesty is available for sales tax uncollected by retailers for any period prior to registration through the Streamlined Sales Tax Registration System. Eligible sellers are those who are not currently registered to collect sales taxes in a member state and who volunteer to collect or pay sales tax in the member states by registering through the Streamlined Sales and Use Tax Central Registration System. The link to the Streamlined Registration System will be on our website as of October 1, 2005. The amnesty does not apply if you have collected sales tax, have been registered for sales tax, are being audited, or have received a notice of intent to be audited.

Streamlined member states:

When you register through the Streamlined Registration System you will be licensed in all of the member states which include: Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, New Jersey, North Carolina, North Dakota, Oklahoma, South Dakota, and West Virginia. You also have the option to register in these associate states: Arkansas, Ohio, Tennessee, Utah, and Wyoming. Additional states will become member states as they change their laws to comply with the Streamlined requirements.

REVENUE SOLUTIONS

Business Education Program

Come join our Business Education Program at one of the workshops or seminars in your area. The department offers a number of educational opportunities that cover different tax issues facing new and existing business owners. For the most current list of seminars or to register, visit our website at www.state.sd.us/drr. All seminars and workshops are free of charge.

Basic Tax Seminars

Our Basic Business Tax Seminars cover sales, use and contractors' excise tax issues. These seminars are free and designed for new business owners or as a refresher course.

Sales and Contractors' Excise Tax Seminars

Oct. 6, 2005 Sales Tax: 1 - 5pm
City/School Admin Bldg. Contractors' Excise Tax: 5:30-9:30pm
Rapid City, SD

Nov. 9, 2005 Sales Tax: 9am - 1pm
Yankton Community Library Contractors' Excise Tax: 2 - 5pm
Yankton, SD

Nov. 15, 2005 Sales Tax: 9am - Noon
Kenny Anderson Community Center Contractors' Excise Tax: 1 - 4pm
Sioux Falls, SD

Nov. 16, 2005 Sales Tax: 10am - 1pm
Mitchell Public Library Contractors' Excise Tax: 2 - 5pm
Mitchell, SD

Small Business Workshops

Information regarding the Dept. of Revenue & Regulation, Dept. of Labor, Small Business Administration and the IRS will be covered. The IRS will only be presenting at the Sioux Falls and Rapid City workshops. For more information, check us out online at www.state.sd.us/drr

Oct. 5, 2005 SD Department of Labor
Aberdeen, SD

Oct. 19, 2005 City/School Admin. Bldg
Rapid City, SD

Border Issues Seminars

Border Issues Seminars cover the difference in the tax application and reporting process between South Dakota and bordering states. Sales Tax is from 9am - 12pm and Contractors' Excise Tax is from 1pm - 4pm, unless otherwise noted. For more information, visit us online at www.state.sd.us/drr.

SD/MN **SD/IA**
Oct. 12, 2005 **Oct. 18, 2005**
Morningside Community Center Morningside Community Center
Sioux Falls, SD Sioux Falls, SD

SD/WY Sales Tax: 8:30am - Noon
Oct. 24, 2005 Contractors' Excise Tax: 1 - 4pm
TBA, Rapid City, SD

SD/WY Sales Tax: 8:30am - Noon
Oct. 25, 2005 Contractors' Excise Tax: 1 - 4pm
TBA, Gillette, WY

SD/ND Sales Tax: 8:30am - Noon
Oct. 27, 2005 Contractors' Excise Tax: 1 - 3pm
West Acres Mall
 Fargo, ND

T² Where Technology Meets Taxes

By Dr. Revenue

Starting October 1, 2005, the Department of Revenue & Regulation is offering a free online demonstration of SD QUEST (Quick Easy Secure Tax Filing). Quest is the electronic tax filing and payment

system that allows taxpayers to file and pay their state sales, use, or contractors' excise tax via the Internet or telephone.

There is no longer an excuse for not saving time and effort by filing with QUEST.

Through this audio and visual online tutorial, users can learn how to file electronically by viewing step-by-step processes like file attach uploads and looking up City/Reservation tax codes and rates.

Previously, in order to access SD QUEST, the user had to be registered with a user name and password. The new training site allows you to experiment with the software before you decide whether or not you want to use QUEST without actually having to submit the information.

If you have any questions about the new tutorial site or about SD QUEST, contact the Department of Revenue & Regulation at 1-800-TAX-9188 To try out the new tutorial log on to the SD QUEST webpage at www.state.sd.us/drr2/SDQUEST.

Benefits of SD QUEST:

- Available 24 hours a day - file at *your* convenience.
- Taxpayers can keep their payments up to ten days longer - electronic filing and payment deadlines are later.
- File Attach Upload function allows user to import city/reservation tax information from existing files and eliminates re-keying of multiple city tax codes and amounts.
- "Save and Exit" and complete the return later.

New Rule for Florists

By Jane Page

In 2002, South Dakota lawmakers changed the state's sales tax laws to bring South Dakota into compliance with the Streamlined Sales and Use Tax Agreement. The Department of Revenue and Regulation has been gradually implementing these changes on an industry-by-industry basis. All industries are to be in compliance with these laws by January 2006.

The upcoming sales tax change for the florist industry deals with wire orders and other orders shipped by a florist. Compliance with the law requires all South Dakota retailers to collect sales tax based on **where the product is delivered**. This is known as destination sourcing. The florist who makes the retail sale (sends the order to the receiving florist) is responsible for collecting and remitting the sales tax that is in effect at the location where the product is delivered in South Dakota.

In August our office sent letters to florists in South Dakota explaining the change. Florists who did not receive the letter or who need further information may contact our taxpayer assistance number at 1-800-829-9188.

Restaurants with Separate Bar

Restaurants may sell alcohol beverages with tax included no matter if it is sold in the bar or in the restaurant with food.

Tobacco amnesty offered through October

by Kelly Thompson

Two amnesty programs being administered by the Property and Special Taxes Division will give South Dakota consumers and retailers who have purchased untaxed tobacco products a chance to fulfill their tax obligations without having to pay penalty and interest on their assessments.

The amnesty program for consumers is for those South Dakotans who have purchased cigarettes from Internet cigarette retailers without paying the state excise tax. Under state law, because the consumers purchased cigarettes without paying the tax, they are required to pay the excise tax owed on the product. The cigarette excise tax is \$.53 for each pack of cigarettes purchased.

According to Michael Kenyon, Director of Property and Special Taxes, a federal law, the Jenkins Act, requires internet retailers to provide a list to the state of all people who purchase untaxed cigarettes. Consumers who bought cigarettes via the Internet will be receiving a certificate of assessment for those purchases. The assessment includes the amount of cigarette excise tax, state and local use tax, and interest due on the Internet purchases. The penalty portion of the assessment is being waived by the department.

The amnesty program for retailers is aimed at South Dakota businesses that have purchased untaxed other tobacco products (OTP). Other tobacco products include cigars, chewing tobacco, roll-your-own, and any other product that includes tobacco, except for cigarettes. Retailers who purchase such products

from someone who does not pay the tax, such as an unlicensed wholesaler or a manufacturer, are responsible for paying tax on the products. The tax is 10% of the wholesale price.

Kenyon says retailers identified as purchasing untaxed OTP will receive a notification letter from the department along with a certificate of assessment showing the tax, penalty and interest due.

To further encourage these consumers and retailers to pay their tax debt, the department is providing a partial amnesty through October 28, 2005. Under both amnesty programs, the consumers and retailers can apply to have both the interest and penalty waived on their tax assessment.

As a reminder to consumers, Kenyon says it is illegal to purchase any cigarettes not having South Dakota's excise tax stamp affixed to the package, regardless of whether they are purchased over the Internet or directly from a retailer. And not all brands are legal to purchase in the state of South Dakota. A listing of legal brands is posted on the department's website at <http://www.state.sd.us/drr2/prospectax/tobacco/compliantnpm1.htm>. Retailers wanting to determine whether a distributor, wholesaler, or manufacturer is licensed can view a listing of licensed companies at <http://www.state.sd.us/drr2/prospectax/tobacco/retailer.htm>. For more information on the cigarette excise tax or OTP tax, call the department's toll-free helpline at 1-800-829-9188 and ask for the Division of Property and Special Taxes.

News From the IRS

DISASTER RELIEF

The IRS is offering various forms of relief due to Hurricane Katrina, including extensions and penalty relief. Relief is also available for Wyoming tornado victims. Find out more information at www.irs.gov or by calling 1-866-562-5227.

FEDERAL & STATE E-FILE SEMINARS

Federal & State e-file seminars are set for Aberdeen and Sioux Falls. Both locations will feature information and updates from IRS, SD Department of Labor, and SD Department of Revenue & Regulation; and the Sioux Falls location will also feature a presentation by the Minnesota Department of Revenue.

Preregistration is required as space is limited. Please contact Anne Hullinger by email at Anne.L.Hullinger2@irs.gov, or phone at 605-330-4361 x 235.

Aberdeen, November 7, 2005

SD-Department of Labor classroom
420 S. Roosevelt, 1 - 4:30 pm

Sioux Falls, November 17, 2005

Morningside Community Center
2400 S. Bahnson, 8:30 am - 12:30 pm

ALTERNATIVE SIGNATURES ON EMPLOYMENT TAX FORMS NOW ALLOWED

The Internal Revenue Service has issued new rules allowing corporate officers or duly authorized agents to sign employment tax forms by facsimile, including alternative signature methods such as computer software programs or mechanical devices.

The rules, outlined in Revenue Procedure 2005-39, will reduce burden on business taxpayers by simplifying employment tax filing and lowering the number of returns rejected by the IRS because of signature issues.

<http://www.irs.gov/newsroom/article/0,,id=141058,00.html>

SCORE

SCORE will conduct a workshop on "How to Really Start Your Own Business" on November 12, 2005, in Sioux Falls. Call 605-330-4231 for more information and to register.

Attention Sellers in Areas Directly Affected by Hurricane Katrina

Understanding that this recent disaster has profoundly affected your businesses, sellers located in the disaster areas in Alabama, Florida, Louisiana and Mississippi may take as much time as is necessary to file and pay their South Dakota tax returns. Penalty and interest will be waived in these cases. If records are missing as a result of this tragedy, retailers may estimate by using the same month of the previous year, if they were licensed at that time. Questions regarding this announcement can be directed to our toll-free helpline at 1-800-829-9188. The Department of Revenue and Regulation offers businesses affected by Hurricane Katrina their support and assistance in the weeks and months ahead.

Hunting & Fishing Guides

Hunting and fishing guide services, including lodging and meals, are subject to state sales tax, applicable municipal sales tax, municipal gross receipts tax and tourism tax on their gross receipts. For more information see the Hunting & Fishing Services Tax Fact on our website at www.state.sd.us/drr/publicat.htm

Example

ABC Guide Services offers a hunting package to their customers. For one fee, the customer gets accommodations, three meals a day and guide services. ABC Guide Services may give exemption certificates for accommodations, restaurant meals, and guide services purchased, if any. ABC must pay tax on any ammunition or decoys at the time of purchase. State sales tax, applicable municipal sales tax and municipal gross receipts tax, plus tourism tax must be paid on the gross receipts of the entire package fee.

Tourism Tax when only one unit

In 1995 when the 1% tourism tax went into effect it did not apply to lodging if there was only one rental unit. On July 1, 2002, the tourism tax law was changed and since then the tax has applied to all lodging facilities, even those with just one unit.

The rental of sleeping accommodations or camping sites for 10 days or less in a calendar year is considered occasional and not taxable.

CONTRACTORS IN THE KNOW

Contractors' Excise Tax

1. Contractors that have a retail sales tax license and a contractors' excise tax license should report use tax on materials used in construction projects on their contractors' excise tax return.

2. It is the contractor's obligation to pay the use tax rate that applies where the material is delivered to the contractor. Use tax is due in the tax reporting period in which the contractor receives the material. If the contractor later uses that material inside a city that imposes a higher sales or use tax rate, the contractor must pay the additional city use tax in the tax reporting period in which the contractor uses that material. The use tax applies to the amount the contractor paid for the material including all delivery and handling charges. For additional information on use tax please refer to the Contractors' Excise Tax Guide on our website at www.state.sd.us/drr or call 1-800-TAX-9188.

3. How does tax apply to service or maintenance contracts on real property? Service or maintenance generally includes cleaning, adjusting, or calibrating, but does not include repairs or replacing parts.

- A contract that is for maintenance only is subject to sales tax. If a repair is necessary, the company contracts separately for the repair. The repair is subject to contractors' excise tax.
- A contract that is for maintenance and necessary repairs at one price is subject to contractors' excise tax. Materials used are subject to use tax.
- Some contracts are for maintenance and repairs, however, the repairs are billed in addition to the contract price. The maintenance contract is subject to sales tax and the repairs are subject to contractors' excise tax. Materials used in the repairs are subject to use tax.

Prime Contractors' Exemption Certificates

The prime contractor for a project is the only one that can issue a prime contractors' exemption certificate. If a subcontractor hires another subcontractor for his/her work, the prime contractor must issue the prime contractor exemption certificate. Anyone, other than the prime contractor, who provides a prime contractor exemption certificate becomes liable for contractors' excise tax not paid, plus a 10% penalty based on tax due.

Exemption certificates must show the prime contractor's valid excise tax license number, and subcontractors must keep the certificates in their records for three years. A certificate may not be issued by an unlicensed owner of a project.

The department is changing the look of the sales and contractors' excise tax returns due to law changes on tax rates. You will begin to see the new forms, shown below, starting with the January return which is due in February. Those who file their tax returns via the Internet will also notice the change.

SALES TAX RETURN - DRAFT 08/17/05				
SALES TAX CALCULATIONS				
	GROSS	TAXABLE	RATE	TAX DUE
1 Gross Sales	\$6,500.00			
2 Use Taxable	\$25.00			
3 Non-Taxable Sales	\$3,000.00			
4 Reservation Sales (Detail in City Section)	\$500.00			
5 Net State Sales Taxable (Line 1 plus Line 2 minus Line 3 minus Line 4)			\$3.025.00 x 4%	\$121.00
6 City & Reservation Tax Calculation Detail:				
7 City/Reservation Name	Code			
8 Aberdeen	001-2	\$2,500.00	2%	\$50.00
9 Aberdeen Gross Receipts	001-1	\$1,000.00	1%	\$10.00
10 Isabel	184-2	\$500.00	2%	\$10.00
11 Cheyenne River Sioux Tribe Sales Taxable	408-4	\$500.00	4%	\$20.00
12 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
13 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
14 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
15 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
16 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
17 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
18 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
19 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
20 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
21 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
22 Total City/Reservation Tax (Add Lines 8 through 21)				\$90.00
23 Total Tax Due (Line 5 plus Line 22)				\$211.00
24 Penalty/Interest				\$0.00
25 Adjustment (Previous Credit/Balance Due)				\$0.00
26 Total Due (Line 23 plus Line 24 plus Line 25)				\$211.00
27 Amount Remitted				\$100.00

I declare under the penalties of perjury this return has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

Date Preparer _____

Date Licensee _____

EXCISE TAX RETURN - DRAFT 08/17/05				
EXCISE TAX CALCULATIONS				
	GROSS	TAXABLE	RATE	TAX DUE
1 Gross Receipts	\$525,000.00			
2 Owner-Furnished Materials	\$100,000.00			
3 Deductions (Subcontractors Receipts, Out-of-State)	\$375,000.00			
4 Reservation Receipts (Detail in City Section)	\$150,000.00			
5 Net State Excise Taxable (Line 1 plus Line 2 minus Line 3 minus Line 4)			\$100,000.00 x 2%	\$2,000.00
6 Net Sales and/or Use Taxable			\$50,000.00 x 4%	\$2,000.00
7 Total State Tax Due (Line 5 plus Line 6)				\$4,000.00
8 City & Reservation Tax Calculation Detail:				
9 City/Reservation Name	Code			
10 Aberdeen	001-2	\$4,000.00	2%	\$80.00
11 Aberdeen Gross Receipts	001-1	\$4,000.00	1%	\$40.00
12 Cheyenne River Sioux Tribe Excise Receipts	408-2	\$150,000.00	2%	\$3,000.00
13 Cheyenne River Sioux Tribe Sales Taxable	408-4	\$10,000.00	4%	\$400.00
14 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
15 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
16 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
17 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
18 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
19 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
20 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
21 City Name	Code	\$\$\$\$\$\$		\$\$\$\$\$\$
22 Total City/Reservation Tax (Add Lines 10 through 21)				\$3,520.00
23 Total Tax Due (Line 7 plus Line 22)				\$7,520.00
24 Penalty/Interest				\$0.00
25 Adjustment (Previous Credit/Balance Due)				\$0.00
26 Total Due (Line 23 plus Line 24 plus Line 25)				\$7,520.00
27 Amount Remitted				\$2,000.00

I declare under the penalties of perjury this return has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

Date Preparer _____

Date Licensee _____

SALES AND USE TAX

Impact on sales and leases entered into prior to January 1, 2006

By Jody Bartels

If you report sales tax under the accrual method of accounting, the tax rate in effect at the time of the transaction applies to the sale regardless of when you receive payment. Sales made prior to January 1, 2006, are subject to the tax rate in effect during that time. Sales made on or after January 1, 2006, are subject to the tax rate in effect in and after January.

If you use the accrual method of reporting sales tax you must include all sales on the tax return for the reporting period in which the sale occurs or when billed. This rule applies even though you have not been paid by the customer.

Examples:

You sell a combine in November 2005, for delivery in May 2006. You receive two payments: one in November 2005, and the balance in May 2006, upon delivery of the combine. If you are on the accrual basis of accounting you must report this transaction on the November 2005 return, and pay the state all of the 3% sales tax.

You repair a tractor in December, 2005 and receive payment in December, 2005. If you are on the accrual basis of accounting you must report this transaction on the December 2005 sales tax return, and pay the state the 4% state sales tax on the repair service.

If you report sales tax under the cash method of accounting, the tax rate in effect at the time you receive payment applies to the sale regardless of when you made the sale. Under the cash method of reporting sales tax, revenue from the sale of goods and services are recognized only when payments are made. Payments made prior to January 1, 2006, are subject to the tax rate in effect during that time. Payments made on or after January 1, 2006, are subject to the tax rate in effect in and after January.

If you use the cash method of reporting sales tax, you must include all sales on the tax return for the reporting period in which you receive the payment.

Examples:

You sell a combine in November 2005, for delivery in May 2006. You receive two payments: one in November 2005, and the balance in May 2006, upon delivery of the combine. If you are on the cash basis of accounting you must report the first payment on the November 2005 tax return and pay the state the 3% state sales tax. You will report the second payment on your May 2006 tax return and pay the 4% state sales tax. In addition, you may owe municipal sales tax on the second payment if the customer takes receipt of the combine inside a city with a sales tax.

You repair a tractor in December 2005, and receive payment in December 2005. If you are on the cash basis of accounting you must report this transaction on the December 2005 sales tax return and pay the 4% state sales tax on the repair service.

You repair a tractor in December 2005, and receive payment in February 2006. If you are on the cash basis you will not owe sales tax on the repair service. The transaction is reported on the sales tax return when you receive the payment when the repair of farm machinery is exempt from sales tax.

Leases: Payments received after January 1, 2006, on leased farm machinery, farm machinery attachment units, and irrigation equipment will be subject to the 4% state sales tax beginning with the first billing period starting on or after January 1, 2006.

If the leased equipment is delivered to the lessee inside city limits, the city tax will apply to the first lease payment. If the leased equipment is moved to a new location and the lessor has been notified of the new location, the following lease payments will be subject to sales tax based on where the equipment is located.

Example:

A tractor is leased for twelve months beginning with August 1, 2004. Billing periods begin on the first of each month. The billing for December, which begins on December 1, 2005, is subject to the 3% state sales tax. The billing for January, which begins on January 1, 2006, is subject to the 4% state sales tax, plus applicable municipal tax.



Revenue &
egulation

445 EAST CAPITOL AVENUE
PIERRE, SD 57501-3185

taxation

www.state.sd.us/drr

bustax@state.sd.us or call 1-800-TAX-9188



Return Service Requested