The purpose of this document is to provide a general overview of the property tax discretionary formula. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

Overview

The property tax discretionary formula is a tax incentive tool to help promote economic development in South Dakota. The discretionary formula provides a tax break on applicable new structures and additions for up to five years. (SDCL 10-6-35.2)

- The formula can be implemented by a county by the passage of a resolution.
- A city may also implement a discretionary formula if the county does not already have one established.

Formula Options

The resolution must specify which types of structures will be receiving the incentive and what the level of tax break, or “formula”, will be. The governing body can choose any level of tax break for each of the five years.

An example formula is the baseline formula of 20-40-60-80-100. This formula means that in the first year, the property owner will have to pay taxes on 20% of the applicable structure’s value. In the second year, the property owner will pay taxes on 40% of the applicable value. The formula will adjust each year until the fifth year where the property owner is paying taxes on the full assessed value.

The governing body can pass any variation of the discretionary formula. The formulas may vary for each structure type.

- Some governing bodies use a 0-0-0-0-0 formula, which means the structure is tax free for the first 5 years.
- Some governing bodies give less of a tax break than the baseline formula, like 25-50-75-100-100.

Structure Types

The following table shows the types of structures that are able to receive a tax break through the discretionary formula.

<table>
<thead>
<tr>
<th>Structure Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Housing (SDCL 10-6-35.26)</td>
<td><strong>Building Requirements:</strong> Four or more new units; monthly rental rate at or below the calculated rent for South Dakota's sixty percent area median income set annually by the SD Housing Development Authority; for a minimum of ten years following the date of first occupancy. For more information on the rental rate, call 605-773-3181. <strong>Minimum Value for Eligibility:</strong> N/A</td>
</tr>
<tr>
<td>Agricultural (SDCL 10-6-35.21)</td>
<td><strong>Building Requirements:</strong> New structure or addition. <strong>Minimum Value for Eligibility:</strong> $10,000</td>
</tr>
<tr>
<td>Commercial (SDCL 10-6-35.24)</td>
<td><strong>Building Requirements:</strong> New structure or addition. <strong>Minimum Value for Eligibility:</strong> $30,000</td>
</tr>
<tr>
<td>Commercial Residential (SDCL 10-6-35.25)</td>
<td><strong>Building Requirements:</strong> New structure or addition. <strong>Minimum Value for Eligibility:</strong> $30,000</td>
</tr>
<tr>
<td>Developer Lots (SDCL 10-6-67)</td>
<td><strong>Building Requirements:</strong> Land only. <strong>Minimum Value for Eligibility:</strong> N/A</td>
</tr>
<tr>
<td>Industrial (SDCL 10-6-35.1)</td>
<td><strong>Building Requirements:</strong> New structure or addition. <strong>Minimum Value for Eligibility:</strong> $30,000</td>
</tr>
<tr>
<td>Industrial &amp; Commercial (SDCL 10-6-35.22)</td>
<td><strong>Building Requirements:</strong> New structure, addition, renovation, or reconstruction. <strong>Minimum Value for Eligibility:</strong> $30,000</td>
</tr>
<tr>
<td>Redevelopment Neighborhood (SDCL 10-6-54)</td>
<td><strong>Building Requirements:</strong> New structure, addition, or renovation. <strong>Minimum Value for Eligibility:</strong> $5,000</td>
</tr>
</tbody>
</table>
Local Government Process

Determining the Discretionary Formula

Once a discretionary formula is passed, either by a county or a city, it automatically applies to all applicable structures or additions. There is no application required by the property owner. The County Director of Equalization will automatically adjust the values through the assessment system to ensure the appropriate percentage is applied.

If a discretionary formula exists, a county or city cannot refuse any property that falls within the formula.

- This includes properties within a Tax Increment Financing (TIF) District.
- The only way a discretionary formula can be disregarded on an applicable structure is if the property owner waives the right to the incentive. (SDCL 10-6-35.2)

The baseline formula is 20-40-60-80-100 (SDCL 13-13-20.4). If a governing board chooses to pass a discretionary formula that gives a larger tax break than the baseline, then the school district must be made whole in terms of the state aid to education funding.

- The county auditor must impose an additional levy on all properties within that school district for both the general and special education funds.
- The levy is based on the difference between tax generated from the baseline formula and the actual formula passed.

Example

County Formula

- A county passes a formula of 0-0-0-0-0, which means the structure is tax free for the first 5 years.

Property Value

- The property has a value of $500,000.

Impact on State Aid to Education Funding

- By providing a tax break more than the established baseline discretionary formula, the county must hold the state aid formula harmless by calculating the difference between the actual tax break versus the break that is allowed by the baseline discretionary formula.
- For the first year, the baseline discretionary formula would have required this property owner to pay taxes on 20% of the value ($500,000 x 0.2 = $100,000). This equals $400,000 in exempted value ($500,000 - $100,000).
- Based on the formula the county established, the property owner is receiving an exemption on the full property value ($500,000). The county is giving an additional tax break of 20% in the first year ($100,000).
- The Department of Revenue provides the county auditor with the amount of taxes that would have been generated off the additional tax break for both the school general and special education funds. The county auditor will calculate the additional levy for that amount of taxes.
- The above calculation will continue for the remaining four years based on the county’s adopted discretionary formula.

Resolution Process

The local governing board should follow the resolution process established by law.

- Counties - SDCL ch. 7-18A
- Municipalities - SDCL ch. 9-19

The resolution can establish the same formula for all building types or each building type can have a separate formula.

Contact Us

If you have any questions, please contact the South Dakota Department of Revenue.

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