

FISCAL NOTE

	FY 2024	FY 2025	FY 2026
NON-ADMINISTRATIVE IMPACT			
Anticipated Revenue increase/(decrease)			
GENERAL FUND (exemption repeals)	\$34,500,000	\$34,500,000	\$34,500,000
GENERAL FUND (services taxation)	\$40,100,000	\$40,100,000	\$40,100,000
GENERAL FUND (reduced rate)	(\$231,700,000)	(\$238,700,000)	(\$245,400,000)
GENERAL FUND (NET)	(\$157,100,000)	(\$164,100,000)	(\$170,800,000)
LOCAL SOURCES (exemption repeals)	\$42,000,000	\$42,000,000	\$42,000,000
LOCAL SOURCES (services taxation)	\$48,800,000	\$48,800,000	\$48,800,000
LOCAL SOURCES (reduced rate)	(\$104,100,000)	(\$107,200,000)	(\$110,200,000)
LOCAL SOURCES (NET)	(\$13,300,000)	(\$16,400,000)	(\$19,400,000)

Sources of revenue increase:

Repeal of livestock and feed exemptions, repeal of food for domestic home consumption exemption, repeal of farm implements exemption, repeal of aircraft sales, maintenance and repair exemptions, repeal of manufacturing machinery exemption, repeal of data processing service centers exemption, repeal of broadband internet equipment exemption

Taxation of specified agricultural services, personal services, business services, amusement and recreation services, engineering and management services and real estate agent & real estate manager services

Sources of revenue (decrease):

Decrease in the state sales and use tax rate from 4 percent to 2.5 percent

Authorization of counties to hold elections to exempt sales of food for domestic home consumption from local sales taxes

Assumptions:

The estimated revenue decreases to the General Fund (GF) and to local governments from the state sales and use tax rate decrease are based on the GF sales and use tax forecast in the October 2022 Consensus Revenue Estimating Group (CREG) forecast. Reducing the state sales and use tax rate from 4.0% to 2.5% would decrease GF sales and use taxes by an estimated \$231.7 million in FY 2024, \$238.7 million in FY 2025 and \$245.4 million in FY 2026. This rate reduction would decrease local government sales and use taxes by an estimated \$104.1 million in FY 2024, \$107.2 million in FY 2025 and \$110.2 million in FY 2026.

The estimated revenue increases from the taxation of certain services are based on South Dakota's reported taxable sales by service category for calendar year 2021 and adjusted based on the difference in Wyoming's and South Dakota's population. The adjusted taxable sales are multiplied by the assumed combined state and local sales tax rate of 3.84%. A table with estimated revenue increases by service category is provided below:

Service Category	South Dakota Taxable Sales	Population Adjustment 65%	Total Tax 3.84%	General Fund	Local Share
Agricultural services (except livestock vet)	284,389,329	184,853,064	7,098,358	3,201,359	3,896,998
Personal services	351,000,609	228,150,396	8,760,975	3,951,200	4,809,775
Business services	1,396,185,190	907,520,374	34,848,782	15,716,801	19,131,982
Amusement & recreation services	385,755,768	250,741,249	9,628,464	4,342,437	5,286,027
Engineering & management services	713,797,804	463,968,573	17,816,393	8,035,193	9,781,200
Real estate agents & managers	432,306,310	280,999,102	10,790,365	4,866,455	5,923,911
Total			\$88,943,338	\$40,113,445	\$48,829,892

The estimate revenue increases from the repeals of the manufacturing machinery exemption, the data processing service center exemption and the broadband equipment exemption are based on the most recent voluntary surveys submitted to the Department of Revenue (DOR) by qualifying taxpayers.

- Manufacturing machinery - Voluntary reported exempt purchases were \$101,127,872 with \$5,460,905 in tax exempted, based on a 43% survey response rate. Assumed total exempt purchases two times the voluntary reported amount. ($\$202,255,744 \times 3.84\% = \$7,766,621$ in total tax exempted).
- Data processing service centers - Voluntary reported exempt purchases were \$282,000,000 with \$15.2 million tax exempted, based on a 40% survey response rate. Assumed total exempt purchases two times the voluntary reported amount. ($\$564,000,000 \times 3.84\% = \$21,657,600$ in total tax exempted).
- Broadband internet equipment - Voluntary reported exempt purchases were \$6,086,702 with \$328,682 in tax exempted, based on a 48% survey response rate. Assumed total exempt purchases two times the voluntary reported amount. ($\$12,173,404 \times 3.84\% = \$467,459$ in total tax exempted).

The estimated revenue increases from repeals of exemptions for livestock and feed, food for domestic home consumption, farm implements, and aircraft sales, maintenance and repair are based on South Dakota's reported taxable sales by category for calendar year 2021 and adjusted based on the difference in Wyoming's and South Dakota's population. The adjusted taxable sales are multiplied by the assumed combined state and local sales tax rate of 3.84%. A table with estimated revenue increases from exemption repeals is provided below:

Exemption	South Dakota Taxable Sales	Population Adjustment 65%	Total Tax 3.84%	General Fund	Local Share
Livestock and Feed	39,264,498	25,521,924	980,042	441,999	538,043
Food for domestic home consumption	1,785,723,716	1,160,720,415	44,571,664	20,101,820	24,469,844
Farm implements	37,669,633	24,485,261	940,234	424,046	516,188
Aircraft sales & maintenance and repair	4,867,015	3,163,560	121,481	54,788	66,693
Manufacturing machinery		202,255,744	7,766,621	3,502,746	4,263,875
Data processing service centers		564,000,000	21,657,600	9,767,578	11,890,022
Broadband internet equipment		12,173,404	467,459	210,824	256,635
Total			\$76,505,100	\$34,503,800	\$42,001,300

The bill authorizes counties to hold elections to exempt sales of food for domestic home consumption from local sales taxes. The fiscal impact of authorizing counties to exempt sales of food for domestic home consumption from local sales taxes is indeterminable, as it is unknown which counties, if any, would elect to create this local sales tax exemption.

NOTICE-AGENCY ESTIMATE OF ADMINISTRATIVE IMPACT REQUESTED

This bill has administrative impact that appears to increase duties or responsibilities of one or more state agencies and may impact agency spending or staffing requirements. As introduced, the bill does not modify any state agency budget or current personnel authorizations.

The following state agencies will be asked to provide their estimate of the administrative fiscal impact prior to the first committee meeting held to consider the bill:

Department of Revenue