YOUR PROPERTY TAXES

- How they are calculated
- How to appeal
- How the Property Tax Reduction Program works

South Dakota Department of Revenue & Regulation 2004

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 *Guide to Understanding The Property Tax Reduction Program* is written and designed to make property tax information accessible to the general public. 100 copies of this document were printed by the department at a cost off $0.08 cents per document.

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Q: Does the Property Tax Reduction Program mean that property taxes will never go up?

A: No. Local taxing districts are limited to increasing taxes from year to year by the maximum of the cost of inflation and the percentage increase in the tax base due to new construction. Schools are limited to the maximum property tax levies as set by state statute. These taxing districts may increase over this limitation, but only by a resolution of the governing body, which is referable by the local taxpayers.

Q: What portion of my property taxes are now used to fund state government?

A: None. State government receives no property tax funds. All property tax revenues are spent by local governments and schools.

Q: Can local governments increase my taxes by increasing the value of my unimproved property in the county?

A: No. If property values rise county-wide, the rate of tax for each thousand dollars of property must decrease. Simply put, the greater the value of the property county-wide, the smaller the rate of tax. The result is that even though the value of property may increase, taxes can only increase up to 3% annually. However, if you remodel or improve your property, the value of that property can increase and your taxes may go up.

For more information on property taxes, contact:

S.D. Department of Revenue & Regulation
Property and Special Taxes Division
445 East Capitol Avenue
Pierre, SD 57501
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KEY ELEMENTS OF THE TAX REDUCTION PROGRAM

There are two essential components needed for the Property Tax Reduction Program to work as intended: limiting property taxes at the source, and assessing all property equitably and reflecting market value.

Limiting Property Taxes at the Source

Cities, counties, schools, fire districts, water conservancy subdistricts, ambulance districts and other types of local government entities are the groups which use property tax dollars to provide services. **Despite what many people think, the State of South Dakota DOES NOT receive any of your property tax dollars.**

The tax reduction program is designed to limit how much a governmental entity can increase taxes from one year to the next. **All entities are limited to the amount they received from taxes the previous year plus a percentage increase due to inflation, with the increase being no more than 3%.** There **MAY** be an additional increase due to growth/new construction. Growth/new construction means property added to the existing tax base, such as a new house, a subdivision annexed to a city, etc. Such construction means there are more properties, and, therefore, more services are needed. Everything else being equal, an increase in tax dollar request due to growth/new construction will **NOT** increase your taxes.

Equal Assessments of Property

The other key part of the reduction program is to have all property assessed equitably and reflecting market value – for any tax to be levied, it must be done so in a fair and equitable manner. Our statutes require property to be assessed at its market (or full and true) value. Market value is the amount the property would probably sell for if sold on the open market.

To accomplish this, it's the responsibility of the county director of equalization to assess all property within the county. The director uses a combination of three approaches to value:

- ***Cost Approach:*** the estimated cost of replacing the property (structures), taking into account the age and condition of the structure, then adding the value of the land
- ***Market Approach:*** comparing the property to like properties that have recently been sold.
- ***Income Approach:*** using the value of the projected income from a property to determine its value.

After ALL properties are assessed at the market value, the changes in value from year to year should reflect market increases or improvements to the property.

When looking at changes in the value of your property, **DO NOT ASSUME**:

- That the previous year's value was the market value for last year. In the larger counties, there is not enough time or staff to visually inspect every property every year. Consequently, the director of equalization usually has a schedule specifying that within a certain time period (such as every three years), every property in the county is visually inspected.
- That the current year's value **IS** market value. If you believe the assessed value is higher than the amount you could actually realize from selling the property, you have the right to appeal that value through your local board of equalization.
- That if your value doubled, your taxes are going to double. Conversely, don't assume that if your value decreased by a percentage, that your taxes will drop by that same percentage. The taxes are limited for all taxing entities, so regardless of changes in assessed value of property from year to year, taxes will only go up by the amount needed to underwrite local budgets, which are capped. If all properties are assessed equitably, the tax burden is distributed equitably.

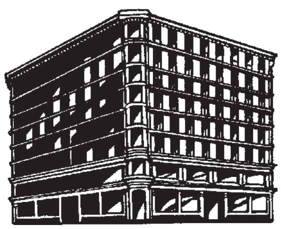
Who Benifits from the Reduction?

The tax reduction program was implemented to give property tax relief to all property classified as agricultural or single-family, owner-occupied property.

Agricultural property is all property used exclusively to produce agricultural products. Owner-occupied property is just that – property that is lived in by the owner. For example, a mobile home would qualify for the tax credit if the person who lives in it is also the owner.

The following groups DO NOT qualify for the property tax savings:

Commercial Property



A home not occupied by its owner

Rental properties DO NOT qualify for the reduction. There is no way the State of South Dakota can make a landlord reduce rent in proportion to any tax break received by the property owner.

In some circumstances, a property owner may qualify for the reduction under both eligible classifications. For example, a farmer could receive the reduction on any of his property classified as agricultural and for the owner-occupied farm house on the property.

Understanding Property Taxes

To fully understand how property owners benefit from the tax reduction program, it's important to first understand how the property tax system works.

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 three steps that are common to the application of property taxes in each government unit:

ESTABLISHING THE VALUE OF PROPERTY: The first step is to establish the value of all 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.

ESTABLISHING THE AMOUNT OF TAX: The second step is to determine the amount of taxes needed to meet the costs 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. The amount coming from property taxes is limited based on Governor Janklow's Property Tax Reduction Act.

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 X 50 or a tax of $200.

Prior to 1977, counties in South Dakota were allowed to assess properties at a percentage of market value. The percentage varied from county to county. Since that time, a variety of bills have been passed that changed the state's property tax system. Here's a quick review:

1977

- Counties required to assess property at market value
- County Commissioners given authority to establish taxable percent for AG and NON-Ag property (SDCL 10-11-25)
- Maximum taxable percentage of 60% (SDCL 10-6-33)

Often, the taxable percentage was different for the two classes with ag taxable percentage generally lower. Assessments were not changed often except for new construction and ranged anywhere from 30% of market value to 120% of market value.

1989

SB12 and SB15: major rewrite of property tax laws, removing taxable percentage; adjusting statutory levy limits; and establishing minimum requirements for assessments according to market.

SB121: Governor Mickelson's property tax freeze legislation froze INDIVIDUAL tax bills for two years (pay 90 and pay 91) unless improvements were made to property.

Taxes payable in 1992 – the freeze ended and assessments were brought up closer to market value.

1995

Governor Janklow's Property Tax Relief Legislation

Taxes payable in 1996, 1997, 1998 – All ag and owner-occupied designated property received 20% reduction in real property taxes with State of South Dakota paying the 20% ($83 million).

All taxing entities capped as to what they could ASK from tax rolls; for taxes payable 1996 – could ask for no more than what they asked for payable 1995, except for percentage increase due to growth.

1998

Governor Janklow's Property Tax Relief Legislation

Taxes payable in 1999 – Expanding on the 1995 tax relief program, all ag and owner-occupied designated property received an additional 5% reduction in real property taxes in 1999, with the State of South Dakota paying the 5% ($20.4 million for a total of $102 million to provide 25% property tax relief).

Limits placed on growth of local government budgets instituted in 1995 remain in place.

2000

Governor Janklow's Property Tax Relief Legislation

Taxes payable in 2001–This fufills Governor Janklow's promise, to citizens of South Dakota, of lowering property taxes by 30% for property designated agricultural and owner-occupied. The additional 5% reduction ($20.4 million) in real property taxes payable in 2001 brings the reduction to 30%.

Limits placed on growth of local government budgets instituted in 1995 remain in place.

Property Taxes - Where Are We Now?

For property taxes payable in 1997 and each year thereafter, all taxing districts (except school districts) are capped as to what they can ask from the tax rolls. The cap equals what was payable the previous year plus a percentage increase due to growth or new construction and percentage increase in the Consumer Price Index (CPI) with said increase up to but not exceeding 3%. For example:

Pay 2001 – City A Taxes Payable	$200,000
Growth for 2001 (in property tax base)	2.4%
Consumer Price Index (CPI)	2.8%
Pay 2002 Taxes =	$200,000 + 5.2% Or $200,000 + $10,400 Or **$210,400**

In 1997, for the first time in the history of the state, all property values were equalized for tax purposes to the same level of market value (85%). This initially shifted taxes to classes and types of property that were lower than the 85%, or were at a lower level of market than other properties. Let's see the impact this had on county taxes:

Before 85% of Market Value

AG Value (estimated 80% of market value)	$80,000,000
NA Value (estimated 60% of market value)	$30,000,000
Total Value =	**$110,000,000**
County Tax Request	$440,000
Request Divided by Value (440,000/110,000,000)	.004
Tax Levy (.004 X 1,000) =	**$4/thousand**
AG Value ($80,000,000 X $4/thousand)	$320,000
NA Value ($30,000,000 X $4/thousand)	$120,000
Total Raised:	**$440,000**

After 85% of Market Value

AG Value (85% of market value)	$85,000,000
NA Value (85% of market value)	$42,500,000
Total Value =	**$127,500,000**
County Tax Request Divided by Value (440,000/127,500,000)	.00345
Tax Levy (.00345 X 1,000)	**$3.45/thousand**
AG Value ($85,000,000 X $3.45/thousand)	$293,250
NA Value ($42,500,000 X $3.45/thousand)	$146,625
Total Raised =	**$439,875**

How did this change in percentage of market value affect individual property values and taxes? Take a look:

AG (at 80% of market value)	$40,000 X $4/thousand
Total Taxes =	**$160.00**
AG (equalized to 85% of market value)	$42,500 X $3.45/thousand
Total Taxes =	**$146.63**
NA (at 60% of market value)	$40,000 X $4/thousand
Total Taxes =	**$160.00**
NA (equalized to 85% of market value)	$56,666 X $3.45/thousand
Total Taxes =	**$195.50**

Property Taxes and Schools

In the first phase of the property tax reduction program, the budget requests of schools districts were capped, meaning a school district with a budget request of $5 million in 1995 could not be allowed a budget request greater than $5 million in 1996, with the exception of additional dollars made available through new construction.

Beginning in 1997, uniform tax rates were applied for the general fund in every school district from Sioux Falls to Mobridge to Spearfish. Uniform tax rates for schools are limited and often reduced each year so that growth in the value of local property does not increase school budgets more than the rate of inflation. The amount of the rates depend on the property's classification.

To better explain how the reduction program affects school levies, here's the math (in the following table, ADM represents "Average Daily Membership" or the number of students enrolled):

Maximum School Levies				
Year	**Agriculture**	**Non Agriculture**		
Pay 1995	14.40	24.00		
Pay 1996*	14.40	24.00		
**Pay 1996 - All ag and owner-occupied properties received 20% reduction on real property taxes payable in 1996.*				
Year	**Agriculture**	**Owner Occupied**	**Other**	**Cost/ADM**
Pay 1997*	5.75	9.20	16.75	$3,350.00
Pay 1998	5.66	9.06	16.49	$3,440.45
Pay 1999	4.73	7.61	16.25	$3,540.91
Pay 2000	4.70	7.56	16.15	$3,604.65
Pay 2001	3.33	5.36	13.93	$3,665.93
Pay 2002	4.04	6.50	13.93	$3,775.91
Pay 2003	3.74	6.02	12.90	$3,889.19
Pay 2004	3.49	5.62	12.04	$3,967.88
Pay 2005	3.32	5.34	11.45	$4,086.56
**Pay 1997 - All property valuations equalized to 85% of market value.*				

* Set annually by Legislature

Value of District

Pay 1995

AG 80,000,000 X 14.40/thousand	=	$1,152,000
NA 30,000,000 X 24.00/thousand	=	$ 720,000
Total	=	**$1,872,000**

Pay 1996 (20% reduction on AG and Owner-Occupied)

AG 80,000,000 X 14.40/thousand = $1,152,000 less $230,400 (20%)	=	$921,600
OO 15,882,353 X 24.00/thousand = $ 381,176 less $ 76,235 (20%)	=	$304,941
OTH 14,117, 647 X 24.00/thousand	=	$338,823
Total	=	**$1,565,364**

Pay 1997 (All valuations equalized to 85% of market value)

AG 85,000,000 X 5.75/thousand	=	$488,750
OO 22,500,000 X 9.20/thousand	=	$207,000
OTH 20,000,000 X 16.75/thousand	=	$335,000
Total	=	**$1,030,750**

Pay 1998

AG 85,000,000 X 5.66/thousand	=	$481,100
OO 22,500,000 X 9.06/thousand	=	$203,850
OTH 20,000,000 X 16.49/thousand	=	$329,800
Total	=	**$1,014,750**

Pay 1999

AG 85,000,000 X 4.73/thousand	=	$402,050
OO 22,500,000 X 7.61/thousand	=	$171,225
OTH 20,000,000 X 16.25/thousand	=	$325,000
Total	=	**$898,275**

Pay 2000

AG 85,000,000 X 4.70/thousand	=	$399,500
OO 22,500,000 X 7.56/thousand	=	$170,100
OTH 20,000,000 X 16.15/thousand	=	$323,000
Total	**=**	**$892,600**

Pay 2001

AG 85,000,000 X 3.33/thousand	=	$283,050
OO 22,500,000 X 5.36/thousand	=	$120,600
OTH 20,000,000 X 13.93/thousand	=	$278,600
Total	**=**	**$682,250**

Pay 2002

AG 85,000,000 X 4.04/thousand	=	$343,400
OO 22,500,000 X 6.50/thousand	=	$146,250
OTH 20,000,000 X 13.93/thousand	=	$278,600
Total	=	**$768,250**

Pay 2003

AG 85,000,000 X 3.74/thousand	=	$317,900
OO 22,500,000 X 6.02/thousand	=	$135,450
OTH 20,000,000 X 12.90/thousand	=	$258,000
Total	=	**$711,350**

What Does All This Mean to Individual School Districts?

School districts receive their funding for the general operation of a school from two basic sources: dollars collected through uniform tax rates; and State Aid-to-Education dollars distributed to the school district. In determining how many Aid-to-Education dollars a district will get, take the school district's need for education funding (how much it costs to educate one student multiplied by the number of students in the district) and subtract the dollars collected through the uniform tax rates. Or to put it more simply, **Need – Local Effort (taxes) = State Aid.**

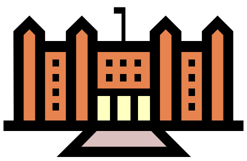
Here are some additional equations that you may find useful:

Number of students X Cost/ADM = Need

Value of district X maximum levies = Local effort

The following is an example of these equations at work:

The school district has 600 students.



Pay 2002

600 (students) X $3,775.91
(cost per student)...**$2,265,546**

Local Effort (dollars collected through uniform tax rates)
AG 85,000,000 X 4.04/thousand..........$343,400
OO 22,500,000 X 6.50/thousand..........$146,250
OTH 20,000,000 X 13.93/thousand......$278,600
TOTAL LOCAL EFFORT.......**$768,250**

State Aid (Need - Local Effort)
$2,265,546 - $768,250..................................**$1,497,296**

State Aid = $1,497,296

The school district has 600 students.

Pay 2003

600 (students) X $3,889.19
(cost per student)...**$2,333,514**

Local Effort (dollars collected through uniform tax rates)
AG 85,000,000 X 3.74/thousand...........$317,900
OO 22,500,000 X 6.02/thousand...........$135,450
OTH 20,000,000 X 12.90/thousand........$258,000
TOTAL LOCAL EFFORT..........**$711,350**

State Aid (Need - Local Effort)
$2,333,514 - $711,350....................................**$1,622,164**

State Aid = $1,622,164

Like counties, townships, and municipalities, school districts may choose to exceed the limits of the property tax reduction program through a two-thirds vote of their governing boards. That decision in turn can be referred to the voters by a petition filed within 20 days bearing the signatures of five percent of the registered voters.

How Does This Affect Individual Property Values and Taxes?

The previous examples have shown how changes in the local effort (taxes) raised in a school district affect the amount of State Aid funding a school district receives to educate its students. The figures on the next page illustrate how those changes are reflected in property values and actual taxes paid.

Pay 1995

AG 40,000 X 14.40 = $ 576.00
NA 40,000 X 24.00 = $ 960.00

Pay 1996

AG 40,000 X 14.40 = $ 576.00 – 20% = 460.80
OO 40,000 X 24.00 = $ 960.00 – 20% = 768.00
OTH 40,000 X 24.00 = $ 960.00

Pay 1997 **(Property valuations equalized to 85%)**

AG 42,500 X 5.75 = $ 244.38
OO 56,666 X 9.20 = $ 521.33
OTH 56,666 X 16.75 = $ 949.16

Pay 1998

AG 42,500 X 5.66 = $ 240.55
OO 56,666 X 9.06 = $ 513.39
OTH 56,666 X 16.49 = $ 934.42

Pay 1999

AG 42,500 X 4.73 = $ 201.03
OO 56,666 X 7.61 = $ 431.23
OTH 56,666 X 16.25 = $ 920.82

Pay 2000

AG 42,500 X 4.70 = $ 199.75
OO 56,666 X 7.56 = $ 428.39
OTH 56,666 X 16.15 = $ 915.16

Pay 2001

AG 42,500 X 3.33 = $ 141.53
OO 56,666 X 5.36 = $ 303.73
OTH 56,666 X 13.93 = $ 789.36

Pay 2002

AG 42,500 X 4.04 = $ 171.70
OO 56,666 X 6.50 = $ 368.33
OTH 56,666 X 13.93 = $ 789.36

Pay 2003

AG 42,500 X 3.74 = $ 158.95
OO 56,666 X 6.02 = $ 341.13
OTH 56,666 X 12.90 = $ 730.99

***NOTE:** To simply illustrate how changes in levies affect taxes, the property values in this table remain constant. In actuality, property values may increase or decrease from year to year.

THE APPEAL PROCESS

As the owner of real property in South Dakota, you have the right to ensure your property is being assessed at no more than market value and equitably in relationship to other properties in your area. When you receive your assessment notice, check to make sure the property is listed correctly. Look at the assessed value. Ask yourself, "If I sold this property, is this the amount I would expect to receive?". If it's higher than what you think you could sell it for, first talk to your county director of equalization to find out how the values were determined. If you still disagree with the assessment, you may want to consider appealing the assessment.

STEP 1:

Appeal to the local board of equalization. Notify the clerk of the local board of your intentions to appeal by mid-March*. The local board will hold a hearing and must notify you in writing of their decision by the end of March.
IF YOU DISAGREE…

STEP 2:

Appeal to the county board. Write a letter to the county board stating your intent to appeal; it must be received by the board by the first part of April*. The board will hold a hearing and must notify you of their decision.
IF YOU DISAGREE…

STEP 3:

Appeal to the Office of Hearing Examiners. Send a letter to the chief administrative law judge by mid-May*. You will receive additional information from that office on how and when the hearing of your appeal will be conducted.
IF YOU DISAGREE WITH THE DECISION…

STEP 4:

Appeal to the circuit court. To be valid, your appeal must be made within 30 days after receiving notice of the decision from OHE. The court will instruct you as to how and when the hearing of your appeal will be conducted.

*Check with your County Auditor or the Department of Revenue for specific deadline dates.

Consumer Price Index (CPI)

For property taxes payable in 1997 and each year thereafter, all taxing districts (except school districts) are capped as to what they can ask from the tax rolls. The cap equals what was payable the previous year plus a percentage increase due to growth or new construction and percentage increase in the Consumer Price Index (CPI) with said increase up to but not exceeding 3%.

Since the start of the property tax reduction act, the CPI has been:

Taxes Payable	%
1997	2.9
1998	2.9
1999	2.3
2000	1.57
2001	2.2
2002	3.0
2003	2.8
2004	1.6