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Personal Property Taxes in South Dakota

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PERSONAL PROPERTY TAXES IN SOUTH DAKOTA

"If we could just do away with personal property taxes, our tax system would be much improved." This statement has been made over and over again through the years. Nearly every session of the South Dakota Legislature in recent years has tusseled with the issue of repealing the tax on personal property. Even though defenders of the personal property tax are rare, the tax persists as one of the key elements of our state and local tax system. Why are we concerned?

Many object to the self-assessment feature of this tax. One person even suggested the tax was immoral because it forced people to lie. This, of course, is not true, as the decision to not list all property is made by people not the tax. Nevertheless, the temptation to "forget" to list certain items of personal property is very great when one observes the behavior of his friends and neighbors. The publication of personal property valuations is meant to discourage such behavior, but in reality may merely set the standards for underlisting in the community. In effect, the equitableness of the tax as well as its ability to raise revenue becomes dependent upon the collective honesty of the citizens.

Many other equity questions can be raised in regard to this tax. Should we tax personal property used in businesses to generate income the same as we tax personal property in households? Is personal property a good measure of a person's or firm's ability to pay taxes? The professional person such as a doctor, lawyer or college professor used relatively little personal property to generate income as opposed to the farmer, rancher, or retail merchant. The questions of fairness lead to heated arguments. Before we get to that stage, let's examine some facts.

Currently, the South Dakota personal property tax raises about $35 million. Taxes levied in 1971 and payable in 1972 totaled $32,550,040.26. This was 22% of the total amount of $146,766,593.69 payable in 1972 on all real and personal property. This figure does not include the amount payable on property centrally assessed by the South Dakota Department of Revenue. In spite of possible inaccuracies in self-listing, the tax is a significant revenue raiser. More importantly, not all counties have the same degree of dependence on this source of revenue. In Minnehaha County, 16% of the revenues payable in 1972 from taxes levied on real and personal property were derived from personal property alone. In Butte and Haakon counties these revenues amounted to 25% of the total.

Looking at the personal property tax base, we find that it comprised 23% of the total personal and real property tax base in 1972. In individual counties personal property makes up as much as one third of the property tax base. In 1972, 19 counties in South Dakota had real and personal property tax bases made up of 30% or higher in personal property. The significance of all this is that proposals to repeal the personal property tax must give simultaneous consideration to the precise manner in which the lost revenue will be replaced in order to avoid undue hardships to some local governments.

In 1972, personal property classified as agricultural property made up 15% of the total real and personal property tax base. In terms of tax dollars, agricultural personal property yielded $16,526,777.23 payable in 1972 or 11% of the total real and personal property taxes due in 1972. Non-agricultural personal property made up 8% of the total real and personal property tax base and yielded 11% of the total property taxes payable in 1972. Even though the non-agricultural personal property tax base is only about half as large as the agricultural personal property, it yields the same amount of revenue. The difference, of course, is because of the lower mill-age levy limits on agricultural property taxed for school purposes.

Within the personal property tax base, the valuation of cattle made up the largest single category in 1972, $261,923,309. Agricultural tools and machinery were in second place with a valuation of $172,173,573. Inventories of goods and merchandise were in third place with a valuation of $72,867,788. These data are important in estimating the immediate direct impact of repeal of the personal property tax as well as beginning to understand the complexities of the issue.

Adjusting the tax system is never simple. When one considers repeal of any tax, he must attempt to fully assess not only the primary impacts, but also the secondary impacts and even further. The personal property tax has been condemned as being unfair as it violates the principle of ability to pay. In general, the condemnation is correct. However, one must look carefully at what will replace it and what are the ultimate impacts on local governments, the economy of the state, and the welfare of the individual citizens. At the same time, the old adage "Look before you leap!" does not say "Don't leap at all!". It's impossible to foresee every reaction and outcome of any projected change. If we are in agreement that the personal property tax is an unfair tax, then, total inaction certainly does not improve it.

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