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GROWTH OF SOUTH DAKOTA RETAIL SALES AND USE TAX REVENUES

Editor's Note: The following is a Summary report of research recently completed under Dr. William E. Kamps, Assistant Professor.

South Dakota is one of 45 states presently levying sales and use taxes. South Dakota enacted its sales tax in 1935 and its use tax in 1939. The South Dakota Retail Occupational Sales Tax is a tax applied upon the taxable gross receipts of retailers engaging in business within the State of South Dakota. Retailers are legally entitled to add the tax onto the retail selling price paid by customers. The South Dakota Use Tax serves to supplement the sales tax by imposing a tax on tangible personal property not originally purchased in South Dakota but brought into the state for use, storage or consumption. The purpose of the use tax is to place a similar tax liability on South Dakota residents for purchases of tangible property made in states not employing a sales tax or employing a sales tax with a lower rate. Use tax collections represented only about 4 percent of the combined sales and use tax revenues in 1974.

Importance of State Sales & Use Taxes

Dramatic increases in sales and use tax revenues have made these taxes the largest current source of tax revenue for the State of South Dakota. In 1960, sales and use tax collections accounted for \$15.7 million or 33 percent of total South Dakota tax revenue. By 1970, sales and use tax collections had increased to \$51.3 million and accounted for 47 percent of total tax revenue. Sales and use tax collections totaled \$78.5 million and comprised over 51 percent of total South Dakota tax receipts in 1974.

Factors Affecting Sales Tax Revenues

Sales (and use) tax revenue increases can be attributed to three important factors. First, increasing the rate at which retail items are taxed can increase revenue. The tax rate measures the extent to which the base is taxed. The original sales tax act specified a rate of 2 percent. The rate has been changed several times since then with the most recent change occurring in 1969 when the rate was increased from 3 to 4 percent.

Second, including more items in the tax base can increase revenue. The sales tax base is composed of those items the legislature has designated as taxable. The base of the sales tax has also been changed several times since its enactment. Some of the major changes were (1) the taxation of room rentals in 1963, (2) the taxation of certain professional and repair services in 1965, (3) the taxation of beer and alcoholic beverages in 1969, (4) the taxation of rentals of tangible personal property and cable television service in 1974 and (5) the exclusion of prescription drugs and medicines in 1974. Changes in the base or rate of the sales tax generally apply to the use tax.

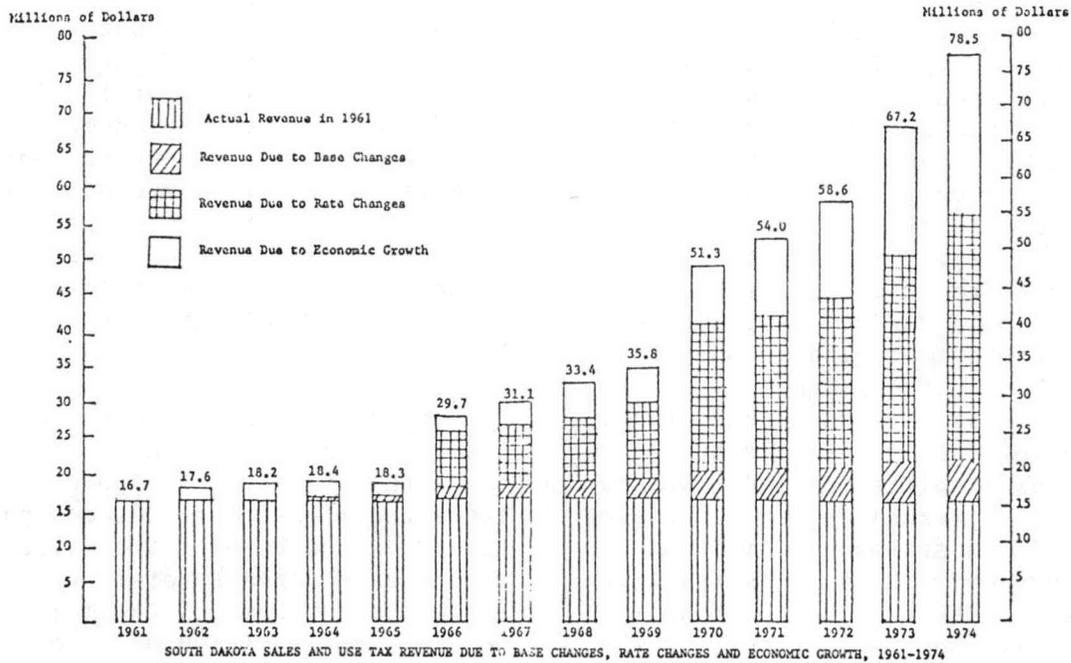
Third, an increase in purchases of taxable items brought about by the growth of economic activity (including effects of inflation) within the state can increase revenue. Increased economic growth would lead to increasing personal incomes resulting in increased

spending on taxable items and thus increased sales tax revenue. The accompanying figure illustrates the sales and use tax revenues attributable to these three factors for the fiscal years 1961 through 1974.

In the figure, actual revenue in 1961 serves as a means of illustrating the additions to revenue in subsequent years brought about by changes in the three previously mentioned factors. Revenues in 1970, for instance, totaled \$51.3 million. Base and rate changes occurring after 1961 accounted for \$2.2 million and \$24.5 million of the revenues, respectively. Increased economic growth during the 10-year period was the source of \$6.4 million of the 1970

sales and use tax revenue.

Had no base changes, rate changes or economic growth occurred during the fiscal years 1961 through 1974, sales and use tax revenues for each of the years shown would have remained equal to the 1961 revenues of \$16.7 million. Sales and use tax revenues for the 14-year period 1961 through 1974 totaled \$528.8 million. Base changes accounted for \$18.2 million and rate changes accounted for \$189.9 million of that revenue. Revenues of \$87.1 million were the result of economic growth. In conclusion, legislative base and rate changes accounted for nearly two-fifths (39.4) percent) of the 1961-1974 sales and use tax revenues.



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