SPEAKER JON HANSEN, CHAIR | PRESIDENT PRO TEMPORE CHRIS KARR, VICE CHAIR
JOHN MCCULLOUGH, DIRECTOR | JUSTIN GOETZ, CODE COUNSEL

500 EAST CAPITOL AVENUE, PIERRE, SD 57501 | 605-773-3251 | SDLEGISLATURE.GOV

SOUTH DAKOTA
LEGISLATURE
LEGISLATIVE RESEARCH COUNCIL

October 29, 2025 **Filed this** 30th **day of** October 2025

Monae L. Johnson
SECRETARY OF STATE

RECEIVED
OCT 29 2025
S.D. SEC. OF STATE

Hon. Monae Johnson
Secretary of State
500 E Capitol Avenue
Pierre, SD 57501

Dear Secretary Johnson,

The Legislative Research Council received an initiated constitutional amendment proposing: (1) to prohibit a political subdivision from taxing real property, and (2) to establish a retail transaction tax to offset the lost property tax revenue for political subdivisions to pay for their operations. A fiscal note is required, as it was determined the proposed constitutional amendment may have an impact on the revenues, expenditures, or fiscal liability of the state or its agencies and subdivisions. SDCL 2-9-30 requires the fiscal note to be no longer than fifty words. If this proposed constitutional amendment is approved by the people of South Dakota, it will take effect on July 1, 2027.

The initiated constitutional amendment proposes to prohibit political subdivisions from taxing real property. The proposed changes are estimated to reduce political subdivision revenues by a total of ($2.018) billion. Schools would see a reduction of ($1.134) billion; cities, ($266.4) million; counties, ($540.9) million; townships, ($36.3) million; and special assessments, ($40.4) million.[1] The reduction in revenue to political subdivisions would result in a savings to an individual or entity paying property taxes in South Dakota.

The initiated constitutional amendment proposes to establish a retail transaction tax on all retail transactions in South Dakota.[2] A tax of $1.50 would be imposed on retail transactions of more than $15, while a 10% retail transaction tax would apply to retail transactions of $15 or less. There are three separate groups making retail transactions in this state - residents, businesses,[3] and out-of-state visitors. It is estimated that the total amount of revenue generated from the proposed retail transaction tax collected from these groups would be $1.167 billion. As a result of the retail transaction tax, residents will likely generate $422 million a year in retail transaction tax revenue; businesses, $54.5 million a year; and out-of-state visitors, $691.2 million.

This analysis contains several assumptions based on the best available data. Any change in the assumptions or actual outcomes will change the estimated revenue generated from the retail transaction tax or the amount of property tax revenue lost. A Federal Reserve Financial Services study indicates the average consumer makes 48 payments (transactions) a month.[4] This analysis assumes that 45 out of those

[1] Total property tax revenue of $2.018 billion was calculated by inflating 2024-year property taxes payable by 4.1% each year, which is in line with pre-COVID growth. The political subdivision breakout was calculated based on the historical weighted average.
[2] For this analysis, retail transaction, means the purchase of goods or services by an individual or business that is not for resale.
[3] Businesses for this analysis includes those registered with the Secretary of State's Office.
[4] https://www.frbservices.org/binaries/content/assets/crsocms/news/research/2025-diary-of-consumer-payment-choice.pdf

48 consumer payments/transactions would be retail transactions, as not all payments or transactions are considered retail transactions (e.g. mortgage payments, student loan payments, car loan payments, etc.). The same study indicates 17 out of the 48 transactions are transactions costing less than \$25. This analysis assumes 60% of retail transactions under \$25 would be \$15 or less, with an average purchase price of \$8. This analysis also assumes that on average, per month, 38 retail transactions are made in state by an adult resident (85% of the 45 payments/transactions per month), with 29 of those being retail transactions with a cost above \$15.

In calculating the resident population of South Dakota, the U.S. Census Bureau 2024 South Dakota population estimate of 924,669 was inflated by 0.91% (yearly average growth) a year for three years and multiplied by 73% to get an adult (18 years of age or older) population for South Dakota in 2027 to be 693,604.[5]

If a consumer on average makes 38 transactions a month in a state, then out-of-state visitors are assumed to make 7 transactions a month on average (4 transactions costing more than \$15 each and 3 transactions costing less than \$15 each). South Dakota is projected to have 15.5 million "visitors" in 2027 (including both in-state and out-of-state travelers), with approximately 56% of those visitors coming from out of state. Of these out-of-state visitors, 79% are estimated to be 18 years of age or older, producing 6.86 million out-of-state adult visitors making retail transactions in South Dakota.[6]

Businesses are likely to have less retail transactions per month than retail consumers. This is because business-to-business transactions for supplies and services often tend to be higher value transactions, resulting in fewer needed transactions. A Federal Reserve payments study reported 17.75 billion business payments (transactions) via checks, ACH, and wire transfers.[7] The Small Business Administration reports 34,752,434 small businesses and 19,688 large businesses in the country. This data indicates, on average, a business will make 43 payments (transactions) a month. Of those, 30 are assumed to be retail transactions with 4 assumed to cost below \$15, with an average purchase price of \$8. The Secretary of State shows 107,606 records for businesses and non-profits filing an annual report in South Dakota.[8]

This estimate does not include any increased sales tax revenue generated from savings resulting from the reduction in property taxes. The reduction in property taxes will likely generate more sales tax revenue as consumers will have more disposable income to spend. This estimate also does not consider changes in consumer behavior. Consumers will likely change their transaction behavior, and the overall tax amount will likely be lower than estimated here, but it cannot be determined how quickly this behavior will change. Since the retail transaction tax will likely affect consumer behavior, the retail transaction tax may generate less revenue than expected according to the Laffer curve, in addition to the fact that South Dakota is currently in the prohibitive range for sales tax. These effects could offset each other, or somewhat offset each other, but the entirety of the effects could not be determined for this analysis.

The Legislature will need to determine how the retail transaction tax revenue is distributed to each political subdivision, as the proposed constitutional amendment provides the Legislature with the authority to make this determination by law.

---

[5] U.S. Census Bureau - American Community Survey - DP05 (https://data.census.gov/table/ACSDP1Y2024.DP05)

[6] Tourism visitor numbers, including the percent from out of state, provided by the South Dakota and North Dakota Departments of Tourism.

[7] https://www.federalreserve.gov/paymentsystems/frps_dfips25ddr.htm

[8] Secretary of State record data

Enclosed is a copy of the initiated constitutional amendment, in final form, that was submitted to this office. In accordance with SDCL 2-9-30, I hereby submit the Legislative Research Council's fiscal note with respect to this initiated constitutional amendment.

Sincerely,

John McCullough
Director, Legislative Research Council

Enclosures
cc: Mike Mueller, Julie Frye-Mueller, and Matt Smith

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

FISCAL NOTE

RECEIVED
OCT 29 2025
S.D. SEC. OF STATE

INITIATED AMENDMENT

AN INITIATED AMENDMENT TO THE SOUTH DAKOTA CONSTITUTION – PROHIBITING POLITICAL SUBDIVISIONS FROM TAXING REAL PROPERTY AND EASTABLISHING A RETAIL TRANSACTION TAX TO FUND POLITICAL SUBDIVISIONS.

For taxes payable in 2027, political subdivisions (schools, cities, counties) will likely see a total reduction of ($2.018) billion in property tax revenues. The retail transaction tax will likely generate $1.167 billion in revenue annually. This change creates an estimated net loss of ($850.3) million in funding for political subdivisions.

Approved: /s/ John McCullough
Director, Legislative Research Council

Date: October 29, 2025

Filed this 30th **day of**
October 2025

Monae L. Johnson
SECRETARY OF STATE