

South Dakota Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in South Dakota pay a far higher share of their income in state and local taxes than do the richest South Dakotans, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, South Dakota has a very unfair tax system.”

South Dakota’s Tax Code: Soak the Poor and Middle Class, Spare the Rich

When all South Dakota taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of South Dakota families—with average incomes of \$714,000—is 2.3% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 2.1%.
- The average tax rate on families in the middle of the income distribution—those earning between \$25,000 and \$40,000—is 9.0% before and after the federal offset, four times the rate the richest pay.
- But the tax rate on the poorest South Dakota families—those earning less than \$15,000—is the highest of all. At 10.0% it is nearly five times the effective rate of the wealthiest South Dakotans.

The study found that South Dakota’s taxes are so extremely regressive because the state lacks an income tax and instead relies primarily on regressive sales and excise taxes to pay for public services.

“Taxes ought to be based on people’s ability to pay them,” McIntyre said, “Which means that the share of income paid in taxes should rise as income grows, not fall sharply as is the case in South Dakota.”

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South Dakota Taxes Among Nation's Most Regressive

South Dakota's tax system earns it the dubious distinction of placing on the list of the "Terrible Ten" most regressive states in the nation. Even before federal offset tax savings, it asks poor families—those in the bottom 20% of the income scale—to pay 4.8 times as great a share of their earnings in taxes as do the wealthy. By the same measure, middle-income families in South Dakota pay 4.3 times as high a share of their income in taxes as the wealthiest families.

"South Dakota is one of only nine states nationwide that do not have a broad-based personal income tax," McIntyre said. "The lack of a progressive income tax to offset regressive sales and property taxes is the most important factor in making the South Dakota tax system so regressive. And the lack of diversity in South Dakota's tax structure means that lawmakers have few choices available when increased revenues are necessary—a critical constraint in the current fiscal situation."

Tax Regressivity Has Worsened Since 1989

The study also examined the impact of changes in the regressivity of South Dakota taxes since 1989. The study's findings include:

- Tax burdens rose for lower- and middle-income South Dakotans due to higher sales tax rates.
- But taxes fell on the best-off South Dakotans, who benefitted from cuts in property tax rates.

"The benefits of South Dakota's property tax relief flowed mainly to the well-off, while the low and middle classes were left to pick up the tab," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low- and middle income taxpayers."

Two pages of tables detailing the South Dakota findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

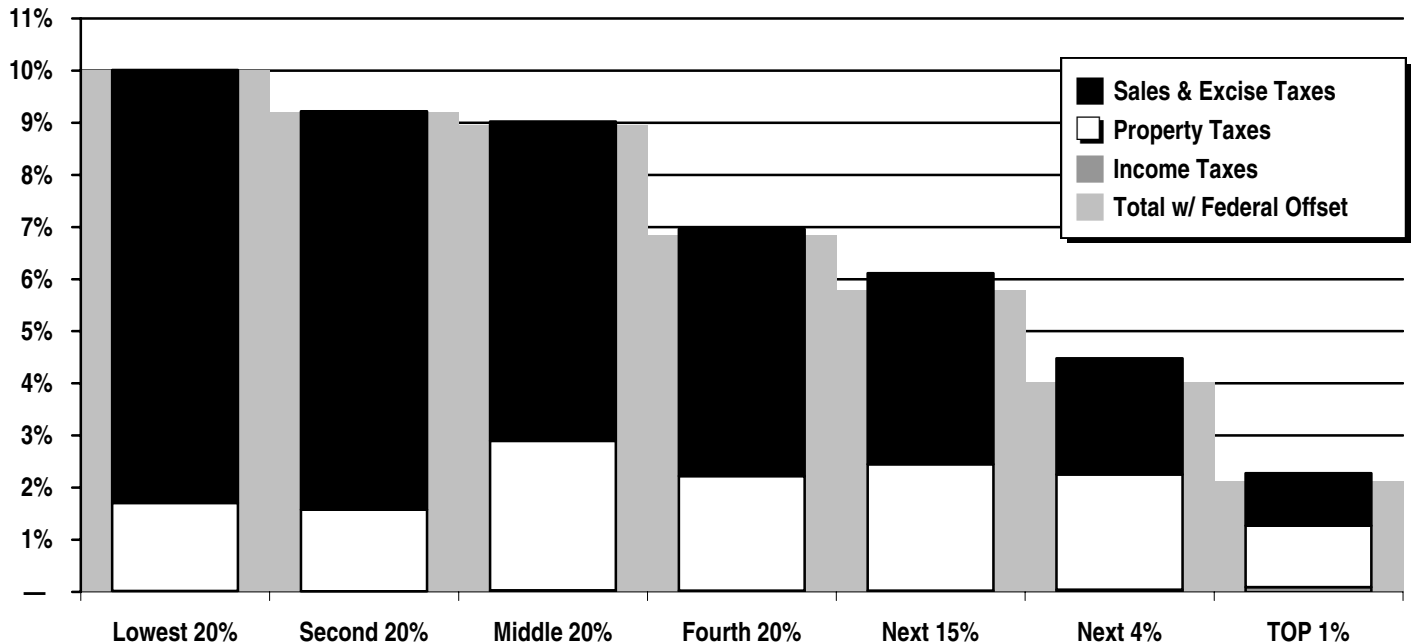
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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South Dakota

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$25,000	\$25,000 – \$40,000	\$40,000 – \$64,000	\$64,000 – \$112,000	\$112,000 – \$291,000	\$291,000 or more
Average Income in Group	\$9,000	\$19,400	\$31,900	\$50,900	\$79,600	\$161,000	\$714,000
Sales & Excise Taxes	8.3%	7.6%	6.1%	4.7%	3.7%	2.2%	1.0%
General Sales—Individuals	4.1%	3.7%	3.0%	2.5%	1.9%	1.2%	0.6%
Other Sales & Excise—Ind.	1.7%	1.6%	1.3%	1.0%	0.7%	0.4%	0.1%
Sales & Excise on Business	2.4%	2.3%	1.8%	1.3%	1.0%	0.6%	0.3%
Property Taxes	1.7%	1.6%	2.9%	2.2%	2.4%	2.2%	1.2%
Property Taxes on Families	1.6%	1.5%	2.7%	2.0%	2.2%	1.8%	0.5%
Other Property Taxes	0.1%	0.1%	0.2%	0.2%	0.3%	0.4%	0.6%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	10.0%	9.2%	9.0%	7.0%	6.1%	4.5%	2.3%
Federal Deduction Offset	—	-0.0%	-0.1%	-0.1%	-0.3%	-0.5%	-0.2%
TOTAL AFTER OFFSET	10.0%	9.2%	9.0%	6.8%	5.8%	4.0%	2.1%

Notes: Table shows 2002 tax law at 2000 income levels; Corporate income tax consists of miscellaneous taxes and fees levied on businesses

South Dakota Tax Trends

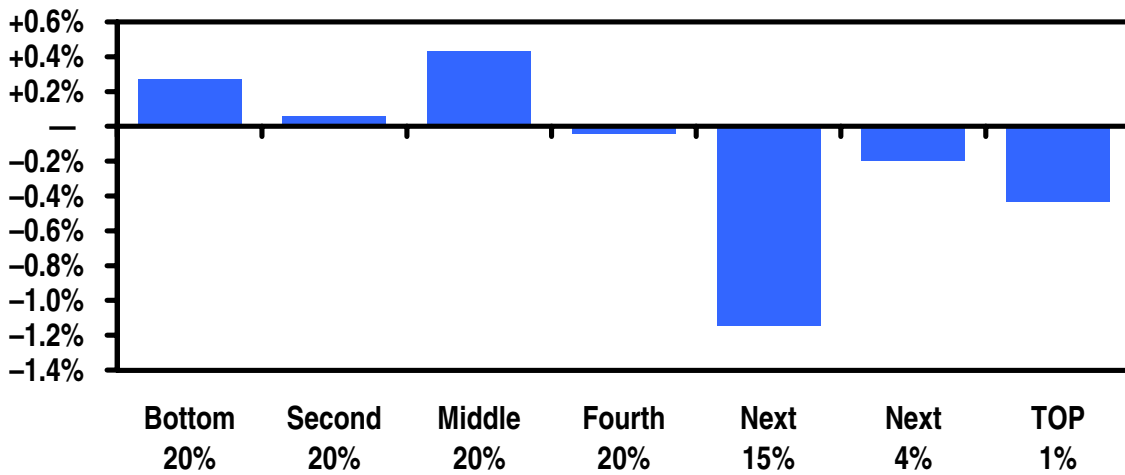
Progressive Features

X None

Regressive Features

- X Sales tax applies to groceries
- X No broad-based personal income tax
- X No corporate income tax

Changes in Taxes as Shares of Income, 1989 – 2002

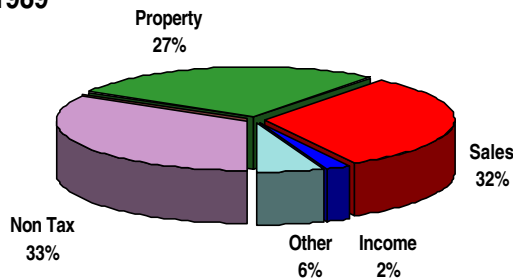


	Bottom	Second	Middle	Fourth	Top 20%		
	20%	20%	20%	20%	Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.5%	+0.5%	+0.4%	+0.3%	+0.2%	+0.1%	+0.0%
Property	-0.2%	-0.4%	+0.0%	-0.3%	-1.2%	-0.3%	-0.5%
Income	-0.0%	-0.0%	+0.0%	-0.0%	-0.0%	-0.0%	-0.0%
Federal Offset	+0.0%	-0.0%	+0.0%	+0.0%	-0.1%	-0.0%	+0.1%
Overall Change	+0.3%	+0.1%	+0.4%	-0.0%	-1.1%	-0.2%	-0.4%

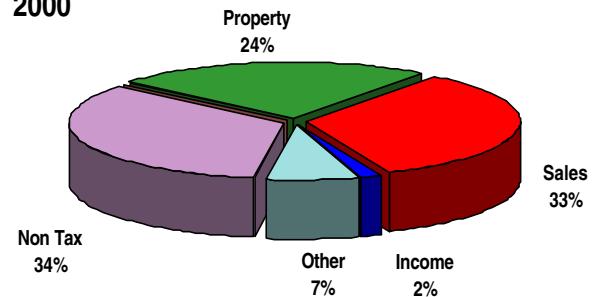
The 30% drop in residential property taxes was a largely flat cut, but since expansions in the sales tax were used to pay for the cut, low income residents saw most of their tax savings disappear.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census