



EDUCATION FUNDING OPTIONS

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TOPICS FOR DISCUSSION

- State Sales Tax
- Seasonal Sales Tax
- Rural Sales Tax
- Cigarette Tax
- Alcohol Taxes
- Other Revenue Sources
- Property Tax Relief

***The estimates in this discussion are calculations based on FY2015 collections. ***

Current tax rate is 4% -- since 1969

FY2015 revenue = \$826 million*

- 0.5% increase = \$103 million based on FY2015 revenue
- 1% increase = \$206 million based on FY2015 revenue

** includes farm machinery (\$35 million)*

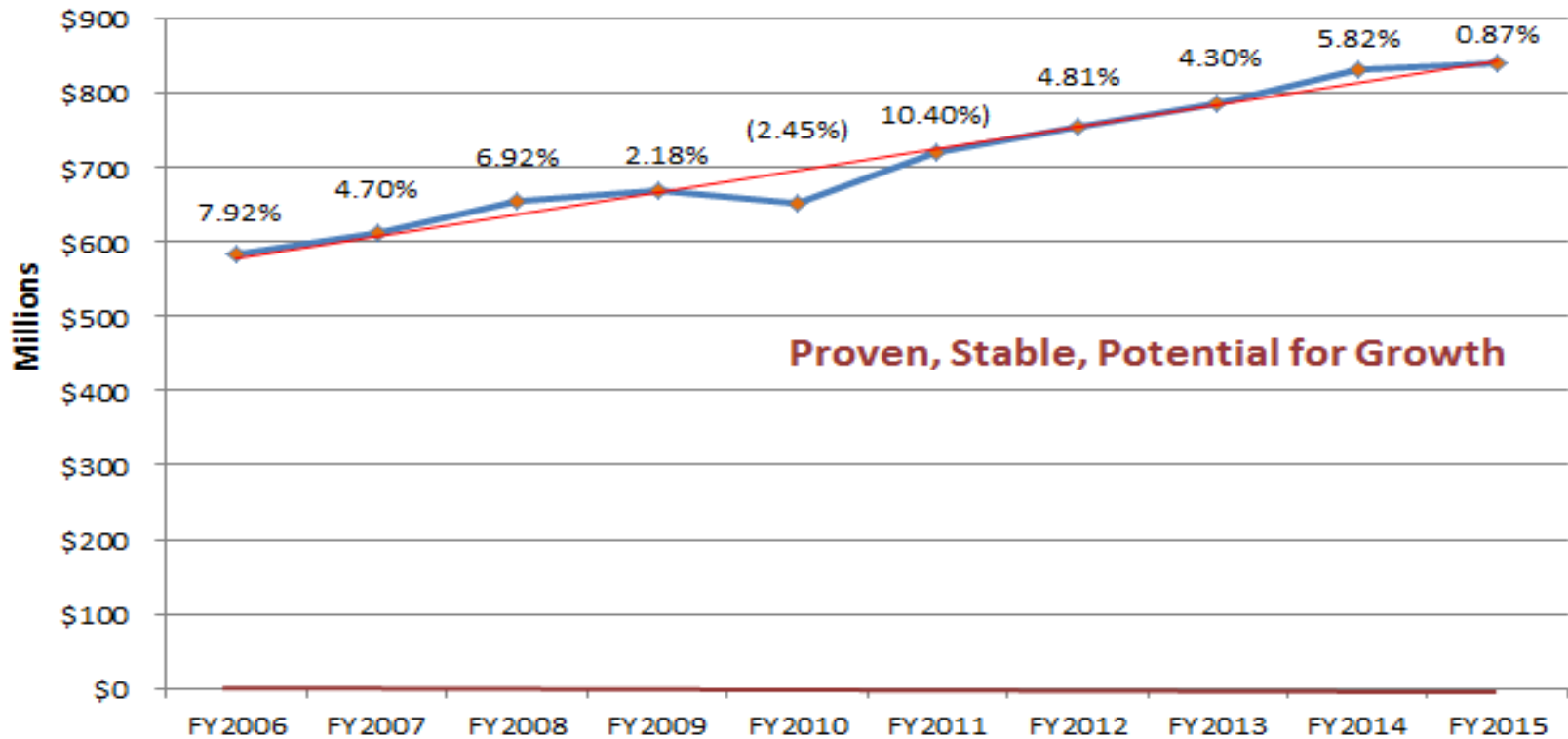


STATE SALES TAX

CONSIDERATIONS

1. Of the \$826 million, approximately \$75 million is from food sales
2. A year-round increase is easier to administer by retailers and the Department of Revenue

10 Year History of Sales and Use Tax



Adding a seasonal 1% state sales tax increase

- 4 months (June – Sept) = \$72 million based on FY2015 revenue
- 6 months (May – Oct) = \$107 million based on FY2015 revenue

CONSIDERATIONS

1. Changing tax rates means retailers will need to re-program cash registers and accounting systems twice a year
2. A seasonal sales tax may influence the time in which large purchases are made



RURAL SALES TAX

Adding a 2% sales tax for any purchases not subject to a current municipal sales tax

- \$84 million based on FY2015 revenue

CONSIDERATIONS

1. Retailers will be challenged with accurately reporting taxable location
2. Changing demographics from rural to urban in SD may diminish this revenue source over time
3. Municipalities may change current tax policies or expand municipal boundaries
4. Tax on farm machinery sales comprises a significant portion of the estimated revenue

▣ **Cigarette tax stamps -- \$1.53 per pack**
FY2015 revenue = \$52 million

- Increasing by 50% (\$0.76/pack) = \$26 million based on FY2015 revenue

OTP tax -- 35% of wholesale cost
FY2015 revenue = \$7 million

- Doubling to 70% = \$7 million based on FY2015 revenue

Figures assume no change in consumption

CONSIDERATIONS

1. Tobacco taxes are flat and have little potential for growth
2. SD already has a relatively high cigarette tax stamp compared to surrounding states
3. May actually be a declining revenue source over time as tobacco usage rates drop
4. Higher tobacco taxes may increase cross-border purchases and counterfeiting

Alcohol Occupational Taxes

(various rates depending on type of alcohol)

FY2015 revenue = \$14.3 million

- Increasing by 50% = \$7.2 million based on FY2015 revenue

- Example: Beer tax is currently \$8.50 per 31 gallon barrel; would increase to \$12.75 per 31 gallon barrel

2% purchase price tax

(excludes malt beverages)

FY2015 revenue = \$1.5 million

- Doubling rate to 4% = \$1.5 million based on FY2015 revenue

Figures assume no change in consumption

CONSIDERATIONS

1. Alcohol taxes are flat and have little potential for growth
2. 25% of alcohol occupational tax proceeds are distributed to municipalities



OTHER REVENUE SOURCES

Current Bank Franchise tax rate is 6% of SD taxable income
FY2015 revenue = \$28.3 million

Total Bank Franchise Tax Revenue (FY2005 - FY2015)



Corporate Income Tax

Potential revenue is unknown and depends on various factors such as:

- Tax Rate
- Definition of taxable income
- Entities subject to tax
- For comparison, Montana's corporate income tax five-year average was \$137 million with a high of \$171 million (FY13) and a low of \$93 million (FY10)

CONSIDERATIONS

1. Corporate income tax would be costly to implement and administer
 - Additional staff and expertise required
2. Volatile and difficult to predict for budgeting purposes
3. Similar to Bank Franchise Tax



PROPERTY TAX RELIEF OPTIONS

Assumptions

1. \$30 million in new money for property tax relief
2. Relief will come through the State's contribution to the state aid formula

Pay 2016 School General Fund Levies

AG = 1.568 mils

OO = 4.075 mils

Other = 8.727 mils



PROPERTY TAX RELIEF OPTIONS

Option #1 - Equal Levy Decrease

	AG	OO	Other	Total
Pay 2017 levy change	\$ (0.339)	\$ (0.339)	\$ (0.339)	
Pay 2017 Property Tax Relief	(14,107,332)	(9,791,173)	(6,101,728)	(30,000,232)

Option #2 - Proportional Levy Decrease

	AG	OO	Other	Total
Pay 2017 levy change	\$ (0.138)	\$ (0.359)	\$ (0.768)	
Pay 2017 Property Tax Relief	(5,742,808)	(10,368,824)	(13,823,383)	(29,935,014)

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PROPERTY TAX RELIEF OPTIONS

Option #3 - Equal PTR across tax class

	AG	OO	Other	Total
Pay 2017 levy change	\$ (0.240)	\$ (0.346)	\$ (0.556)	
Pay 2017 Property Tax Relief	(9,987,491)	(9,993,351)	(10,007,553)	(29,988,396)

Option #4 - PTR based on Percent contributed towards General Education

	AG	OO	Other	Total
Pay 2017 levy change	\$ (0.126)	\$ (0.359)	\$ (0.800)	
Pay 2017 Property Tax Relief	(5,243,433)	(10,368,824)	(14,399,357)	(30,011,614)

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Questions?