



September 2015

Low Tax for Whom?

South Dakota is a “Low Tax State” Overall, But Not for Families Living in Poverty

Annual data from the U.S. Census Bureau appear to lend support to South Dakota’s reputation as a “low tax state,” ranking it **51st** nationally in taxes collected as a share of personal income, the lowest overall tax state.¹ But focusing on the state’s overall tax revenues has led many observers to overlook the fact that different taxpayers experience South Dakota’s tax system very differently. In particular, the **poorest 20 percent** of South Dakota residents pay significantly more of their income (**11.3 percent**) in state and local taxes than any other group in the state. For low-income families, South Dakota is far from being a low tax state.² In fact, only eleven states tax their poorest residents more heavily than South Dakota.

No Income Tax, but High Sales and Excise Taxes

According to the Census Bureau, South Dakota’s state and local tax collections totaled **7.95 percent** of personal income in fiscal year 2012, well below the national average of 10.54 percent. One reason for South Dakota’s low ranking is that it is one of just nine states that does not levy a broad-based personal income tax.

But failing to levy an income tax comes at a cost. In order to pay for state and local government services, South Dakota’s sales and excise taxes are **16 percent** above the national average. Measured relative to personal income, South Dakota has the **16th highest** sales and excise tax collections in the entire country. According to the Institute on Taxation and Economic Policy (ITEP), the **poorest 20 percent** of South Dakota households spend **8.7 percent** of their income on these taxes, compared to just **.9 percent** of income for the state’s most affluent residents.

A High Tax State for the Poor

While South Dakota’s state and local taxes average **7.95 percent** of income, differently positioned taxpayers experience South Dakota’s tax system very differently. For the **top 1 percent** of South Dakota households (a group with an average income over \$1.5 million), the Mount Rushmore State’s decision not to levy a personal income tax has indeed been an enormous boon. This group pays just **1.8 percent** of their income in South Dakota taxes—the **3rd lowest** (or 48th highest) state and local tax bill for this group in the entire country.

But while South Dakota’s reputation as a “low tax state” is accurate for wealthy households, it bears little resemblance to reality for the state’s less affluent residents. The **poorest 20 percent** of South Dakota taxpayers (earning an average income of \$12,200 per year) actually face the **12th highest** state and local tax bill in the entire country, at **11.3 percent** of income.

South Dakota’s imbalanced tax system, with its heavy reliance on sales and excise taxes, is pushing the state’s impoverished taxpayers deeper into poverty. The state’s lack of a personal income tax has been a major contributor to its reputation as a “low tax state,” but it comes at a steep price in terms of higher tax rates on low-income families.

South Dakota State and Local Taxes Are:

51st

highest overall

12th

highest for the poorest 20% of taxpayers

¹ This brief reflects Census data for state and local tax collections for fiscal year 2012, the most recent year available.

² *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 5th Edition, ITEP 2015: www.whopays.org