South Dakota’s State Sales Tax Rate Drops to 4.2% on July 1, 2023

The Governor has signed HB 1137, a bill the South Dakota Legislature passed to reduce the state sales and use tax rate from 4.5% to 4.2% effective July 1, 2023. The bill includes a “sunset clause,” so on July 1, 2027, the rate would return to 4.5% unless the legislature acts to maintain the rate at 4.2% or make other adjustments.

If you charge 4.5% sales or use tax now, you will charge 4.2% sales or use tax starting July 1.

FREQUENTLY ASKED QUESTIONS

Q: When does the state sales tax rate decrease go into effect?
A: July 1, 2023.

Q: Should the 4.2 percent rate be collected now?
A: No. Continue collecting 4.5 percent until July 1, 2023.

Q: Are municipal taxes affected by the rate increase?
A: No. The change applies only to the state sales and use tax.

Q: What does the new tax rate apply to?
A: Among the things the tax rate applies to (this list is not all-inclusive):
- Sale, lease, or rental of products or merchandise and services
- Excise tax on the purchase of farm machinery
- Amusement device excise tax on coin-or-bill-operated amusement devices such as pinball machines, foosball tables, pool tables and jukeboxes
- Special Jurisdiction Tax Rates in Indian Country
- Motor Vehicle Gross Receipts Tax on short-term vehicle rentals

Q: If I order items for use in my business or remove items from inventory prior to July 1 intending to use them in my business but don't actually use the items until after July 1, does use tax apply at the 4.5% or 4.2% rate?
A: The use tax rate that is in effect at the time the product or service is received or removed from inventory is the rate that would apply. Items removed from resale inventory after June 30 are subject to the 4.2% use tax rate.

Q: Does this affect tax collection in special jurisdiction areas?
A: Yes, the sales tax collection in Indian Country where there is a tax collection agreement also decreases to 4.2 percent.

Q: What tax rate will apply to items ordered prior to July 1 but paid for after July 1, or if a customer makes a partial payment before the tax rate change and makes a final payment after the rate change?
A: If a transaction occurs before July 1 but the customer pays after July 1, the South Dakota Department of Revenue says the amount of tax owed will depend on the accounting method used by the seller. If you use the accrual basis, utilize the sales tax rate in effect at the time the customer is billed. If you use the cash basis, utilize the sales tax rate in effect at the time payment is received.

For example, if a transaction occurs June 5, the customer is invoiced on June 30, and the customer pays after July 1:

**Accrual Basis:** Sellers using the accrual basis to report sales tax will charge the sales tax rate in effect at the time the customer is billed. Sales are reported and sales tax is paid in the month the customer is billed regardless of when the actual payment for the sales are received. Sellers reporting on the accrual basis will report the sale and pay the tax on their June return. For accrual reporters the rate does not depend on when the payment is received from the customer.

**Cash Basis:** Sellers using the cash basis of accounting to report sales tax will charge the tax rate in effect at the time payment is received. If the order was placed in June but payment is received in July the sale is reported and the tax is paid on the July sales tax return and the sales tax rate in effect as of July 1 applies to the sale.

Still Have Questions?
Contact the Department of Revenue (DOR) at (800) 829-9188, by chat on the DOR website (dor.sd.gov), by email at bustax@state.sd.us, or contact any DOR field office.