

Property Tax Alternatives

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Background

- People value government services supported by taxes
- We don't like paying taxes
- Which local taxes are the most equitable?
- Rich people think poor should have a higher percentage tax burden – regressive tax
- Poor people prefer progressive tax
- Income tax is often progressive, state/local taxes usually regressive

Local Taxes

- SD has no income tax
- Sales tax is primary Sioux Falls funding source
- Property tax is almost as important to Sioux Falls city government as sales tax
- Property tax provides primary funding to local public schools
- Are there better alternatives to property tax?

Property Tax – Current Method

- Taxes land and buildings
- Based on real estate prices
- Can change quickly depending on the market
- Discourages investment which raises taxes
- Allows hoarding undeveloped land; speculators benefit from nearby development
- Often regressive; cheap houses may be over-assessed relative to expensive houses

TIFs – Currently Used

- TIF – Tax Increment Financing
- Designed to fix decaying areas and urban blight; now used for “economic development”
- Freezes general fund property tax revenue in TIF district for years after development
- Future increase in revenue (tax increment) finances current construction via debt or a fund
- Property tax subsidy for favored projects or areas
- Shifts some tax burden to properties without TIFs

Land Value Tax – Alternate Tax

- Taxes land itself and not buildings
- Developed centuries ago
- More stable than property tax
- Helps fixed income homeowners
- Encourages investment; construction does not raise taxes
- Construction investment creates new housing
- Helps reduce housing shortage

LVT Continued

- Discourages hoarding undeveloped land due to high tax on idle valuable land
- Often progressive because rich people own more valuable property
- Sort of makes the whole city a TIF – great for spurring construction

Split Rate Tax – Alternate 2

- Combination of property and land value taxes
- Different tax rates apply to buildings and land

Service Cost Tax – Alternate 3

- Original idea by David Zokaite
- Cost of government services assessed to landowner
- Services include roads, schools, emergency, utility, infrastructure, ...
- Encourages compact development; reduces costly sprawl
- Each design pattern pays for itself
- Urban core would no longer subsidize suburbs

Implementation

- Sell the benefits: changes reduce construction costs, encourage development and renovation, promote affordable housing
- Mix all 3 tax strategies
- Pick ratio of property, land value, and service cost taxes
- Start implementation in test areas and new subdivisions; gradually extend test areas
- Migrate away from property tax and TIFs

A Legal Problem

- City's home rule charter generally allows city to supersede state law
- South Dakota law prevents changing property tax
- "SDCL 6-12-6 Restrictions on power of home rule units ... The power of a home rule unit does not include the power to ... Change assessment practices and procedures relating to ad valorem taxation of property"
- Thanks to Joe Kirby for noting this problem
- State law should be changed

