



# SDBA Legislative Update

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## Legislative News

The 2010 South Dakota Legislature commenced on Tuesday, Jan. 12, with Gov. Rounds delivering his eighth and final State of the State Address. The Governor reminded the Legislature of their joint accomplishments of the past seven years -- growing the state's economy, providing a positive environment for South Dakota's youth and providing better service to the citizens in need. As he has done each year, he spent considerable time updating South Dakota's progress toward achieving the goals of the South Dakota 2010 Initiative. Whether you are a supporter of Gov. Rounds or not, one has to give him credit for driving some stakes in the ground against which anyone can objectively track progress toward achieving goals for:

**Tourism** - Double visitor spending from \$600 million to \$1.2 billion by 2010 - Spending in 2008 = \$967 million. Figures for 2009 will be finalized soon.

**Size of South Dakota Economy** - Increase gross state product by \$10 billion by 2010. GSP in 2001 was \$24 billion. This goal was reached in 2007. Most recent data for 2008 was \$37 billion.

**Become Recognized Leader in Research and Technology Development by 2010.** - South Dakota has seen significant increases in research funding from the National Science Foundation and the National Institutes of Health. In FY2001 65 grant awards were received in South Dakota totaling about \$21 million. In FY2009, those numbers were 95 grants totaling \$36 million. Academic research and development expenditures totaled \$32 million in FY2001, growing to more than \$81 million in FY2007.

**Brand and Develop SD's Quality of Life as the Best in America by 2010.** I won't begin to list all of the metrics which are being tracked relating to this goal, but they include scholarship numbers, funding for the arts, history, housing and the like. Suffice it to say the numbers show positive progress.

If you are interested in looking more closely at the 2010 Initiative benchmarks and tracking data, you can do so on the Web at [www.2010initiative.com](http://www.2010initiative.com).

## Legislation of Interest to Banking

As of Friday morning, 130 bills had been introduced. Most come from executive agencies, constitutional offices or interim legislative committees. Few are of direct interest to the banking industry. That will no doubt change as individual legislators start introducing bills of interest to them or bills brought on behalf of a constituent back home.

One rumored bill which has yet to be introduced is a measure to repeal the bank franchise tax. Long-time legislator, Rep. Gerald Lange (D-Madison) may introduce such a bill. Rep. Lange is a long standing critic of South Dakota's system of taxation. He has repeatedly brought bills proposing a corporate income tax or to impose an income tax on interest and dividends. I presume a proposal to repeal the bank franchise tax would be couched as a stepping stone to the imposition of a broader based tax on all corporate income.

By way of background, the bank franchise tax was first enacted in 1939 at a rate of 3 percent of net income. The minimum amount owed by any bank was set at \$24. The rate was increased to 4.5 percent in 1957 with 3 percent of total collections retained by the state to cover administrative costs and the remaining 97 percent was distributed to the counties. In 1969, the tax rate was increased to 5.5 percent, and the state began keeping 20 percent for the state general fund. Then in 1979, the tax rate was increased to its current level of 6 percent with the state retaining 26 2/3 percent and the remaining 73 1/3 percent going back to be split among counties, cities, school districts and the various other units of local government. The franchise tax paid by credit card banks is split differently, with the state general fund retaining 95 percent and 5 percent going to local government. During FY2009, the franchise tax totaled \$48.8 million with the state receiving \$33.4 million and local governments sharing \$15.4 million.

If this bill is introduced, county, city, school and state budget officials will express significant concern over the loss of that level of revenue. Repealing a tax with a 70 year history is a tall order. As the session moves along, I will keep you apprised of news each week. Please contact me with any questions or concerns.

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South Dakota Bankers Association ~ P.O. Box 1081 ~ Pierre, SD 57501 ~ Ph: 605-224-1653

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