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By [Gail Cole](#).

[South Dakota's state sales and use tax rate](#) will drop from 4.5% to 4.2% starting July 1, 2023. It will return to 4.5% beginning July 1, 2027. The new rate of 4.2% will apply to all sales in the state previously subject to the higher rate.

The sales tax rate change is due to the enactment of [House Bill 1137](#). As introduced, the measure sought to reduce the state sales and use tax rate to 4%. The 4.2% rate was proposed in the second iteration of the bill, and there it stayed.

Unless the South Dakota Legislature decides to extend the reduced rate, the 4.2% state sales and use tax rate will be repealed on June 30, 2027.

## Groceries will remain subject to South Dakota sales tax

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is one of few [states where food is subject to sales tax](#) at the full rate.

### Why cut the South Dakota sales tax rate now?

One has to travel back to 2016 to fully understand why South Dakota is cutting its sales and use tax rate in 2023.

No state could require a business to collect and remit sales tax in 2016 unless the business had a physical presence in the state. Knowing that, South Dakota passed a law [requiring businesses with no physical presence in the state to collect sales tax](#) if they had at least \$100,000 in sales or 200 transactions in the state in the current or previous calendar year.

On the same day, South Dakota passed a law [increasing the state sales and use tax](#) from 4% to 4.5%. It wasn't a coincidence. Per [House Bill 1182](#), "If the state is able to enforce the obligation to collect and remit sales tax on remote sellers who deliver tangible personal property, products transferred electronically, or services directly to the citizens of South Dakota, the additional net revenue from such obligation shall be used to reduce the rate of certain taxes."

South Dakota eventually won the right to enforce its remote sales tax law when the Supreme Court of the United States found in favor of the state in [South Dakota v. Wayfair, Inc.](#) (June 21, 2018). The Wayfair decision overruled the physical presence requirement, freeing South Dakota and other states to tax remote sales. South Dakota began enforcing its [economic nexus law](#) on November 1, 2018.

And starting July 1, 2023, South Dakota will at last reduce the sales and use tax rate as laid out in 2016's HB 1182. Not the half percent, but close.

If it's taken so long for the state to fulfill this promise, explains Scott Peterson, VP of Government Relations at Avalara, it's largely due to our turbulent times. "Their 2019

legislative session started so soon after their Wayfair law went into effect that it was

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