

A city skyline at dusk with a road in the foreground. The sky is a mix of orange and blue, and the city lights are visible. The road in the foreground is a multi-lane highway with light trails from traffic. There are trees and a grassy area on the sides of the road.

FUNDING THE FUTURE

A South Carolina Proposal to Ensure Fiscal Stability and Statewide Economic Growth



PROBLEMS FACING SC TODAY

Three Problems : One Issue

Infrastructure



Rebuilding Our
Roads

Education



Funding Our
Schools

Tax Equity



Growing Our Jobs
and Economy

*The current tax code disincentivizes decisions
based on economic foundations that promote long term growth.*

AGENDA

Today's discussion of resetting South Carolina on a path of opportunity and growth.

<p>DATA</p> <p>1</p> <p>Using Data to Make Decisions</p> 	<p>TAX</p> <p>2</p> <p>Simple, Stable, Fair Growth</p> 	<p>FUTURE</p> <p>3</p> <p>How to Get from Here to There</p> 
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1 | HOW CAN WE USE DATA?

A look at how we can use data to uncover trends and create solutions.

Using **data analysis**, we can develop data-driven, evidence-based models to make **informed decisions** for shaping the future financial system of the state.



SC's GENERAL FUND

A brief history of key events.

- **Great Recession**
 November 2007 through June 2009.
- **General Sales Tax**
 Increased from 5% to 6%, with all revenue going to property tax relief.
- **Active Trade Tax**
 Reduced 7% to 3% between 2006 & 2013.
- **Income Tax**
 Lowest bracket reduced from 2.5% to 0%.
- **Unprepared Food Sales Tax**
 Reduced from 5% to 3% and then to 0%.



Source: "General Fund Revenue Historical Data FY 1989-90 through FY 2014-15." South Carolina Revenue and Fiscal Affairs Office. August 27, 2015. (online: <http://rfa.sc.gov/files/General%20Fund%20Revenue%20Historical%20Data%20FY%201989-90%20through%20FY%202014-15.pdf>)

NON-GF ALLOCATIONS

An increasing number of funds are allocated through Federal, Other, and off-budget items.*

FY1999

36%

General Funds



28%

Federal Funds



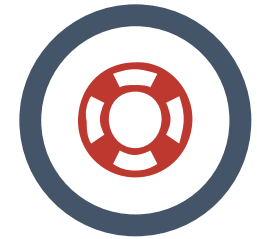
32%

Other Funds



35%

Everything Else



5%

These trends **increase complexity** and **reduce transparency**.

*Off-budget items include property tax relief trust funds, EIA, and Lottery.



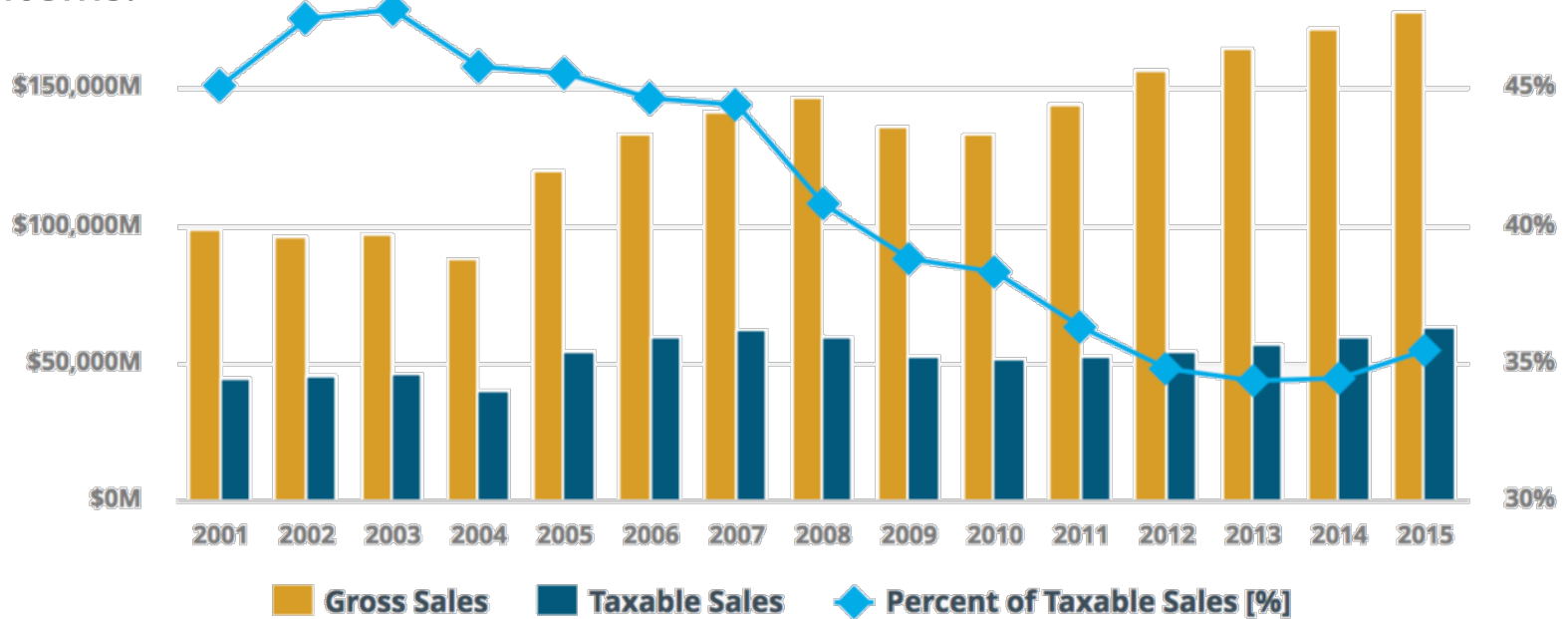
2 | REFORMING OUR TAX SYSTEM

Driving economic growth, providing stability, and restoring fairness.

SALES TAX

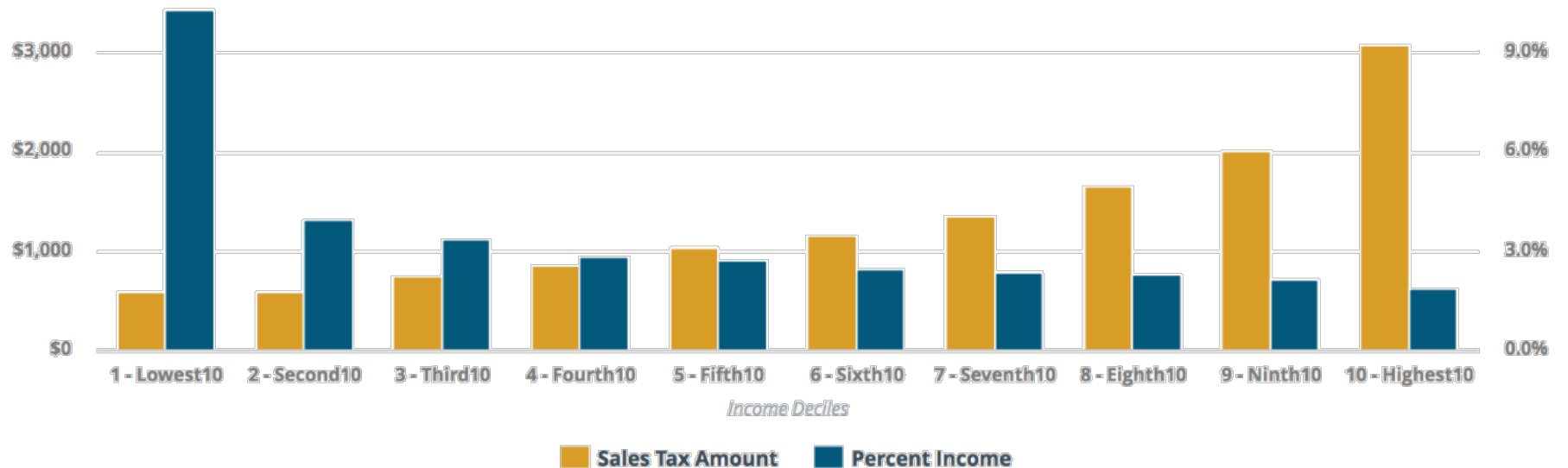
Over time, 80+ exemptions or caps have been individually legislated, now resulting in 65% of goods being exempt from tax.

Higher tax on **fewer** and **fewer** items.



SALES TAX

Lower income families pay a greater percentage of their income on sales tax.



Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, Interview Survey, 2015 (Online: <http://www.bls.gov/cex/home.htm>).
Sales and Use Tax Exemptions/Exclusions FY 2012-13, SC Revenue & Fiscal Affairs Office (online: http://rfa.sc.gov/files/Sales_Tax_Exemptions_-_FY2012-13.pdf)

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INCOME TAX

SC's structure is evolving, in effect, into a 2-tier system with rates of 0% and 7%.



0% BRACKET

paid no state income tax in 2014, up from 27.0% in 2000 and 31.8% in 2007.



7% BRACKET

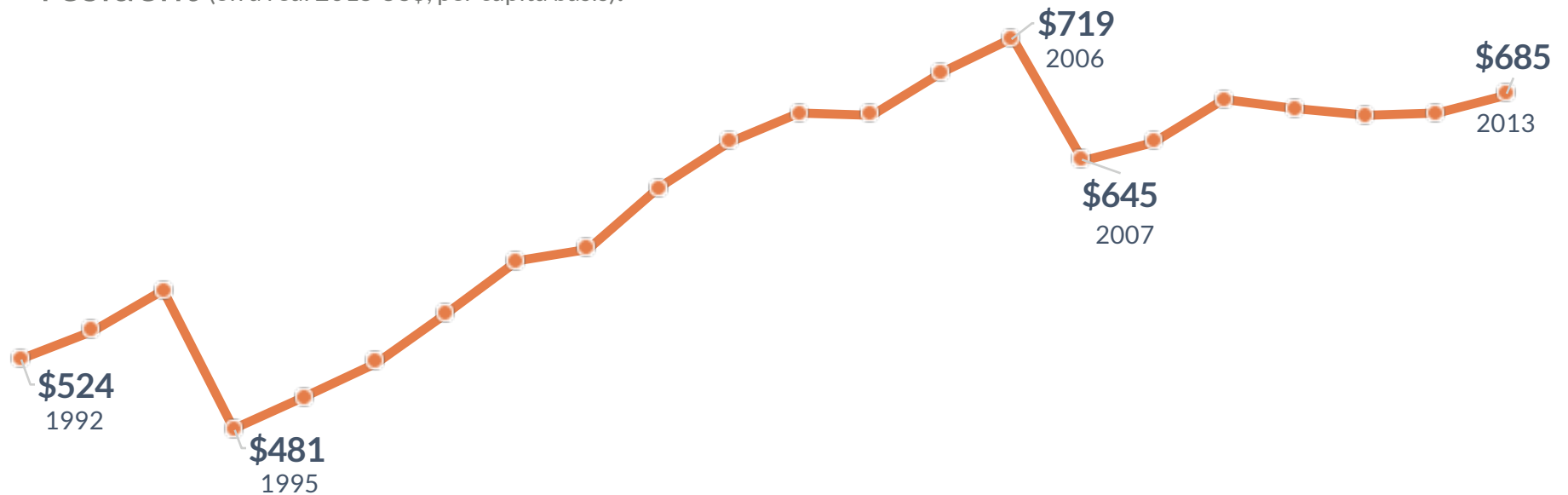
were in the 7% tax bracket in 2014, and accounted for 96.2% of the tax liability.



PROPERTY TAX

Multiple laws created new state education funding to provide property tax relief...

...but property taxes rose anyway. School district taxes **increased 30.7%** since 1993 or **\$161** per South Carolina resident (on a real 2015 US\$, per capita basis).



PROPERTY TAX

And the burden shifted to fewer property types.

Property Tax Relief (1994) and Act 388 (2006)

Combined, these tax laws have eliminated property tax on owner occupied homes from school district taxes, replacing it with 3 “Tiers” of property tax reimbursement to counties from a 1% state sales tax.

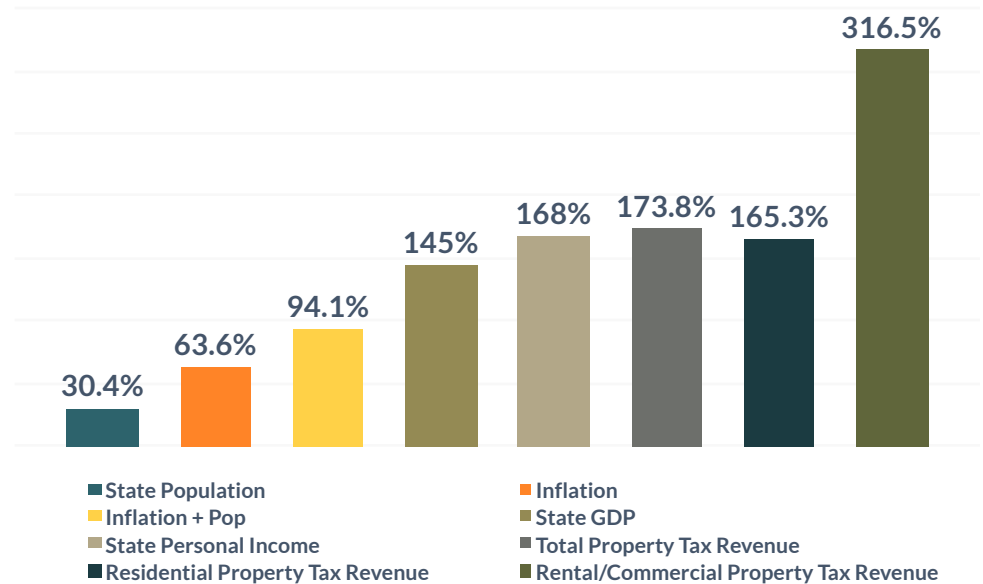
Shifted Tax Burden

The 1977 local funding share formula based on district taxable property has been eroded by tax exemptions, shifting the local property tax burden to fewer properties, particularly rental and commercial.

Insufficient Sales Tax Swap

Act 388 1% sales “tax swap” has fallen short of required tax reimbursements in excess of \$110m annually since FY10.

Property Tax Growth, FY93 – FY13



PROPERTY TAX BURDEN VARIES

A tale of two school districts' tax burden.

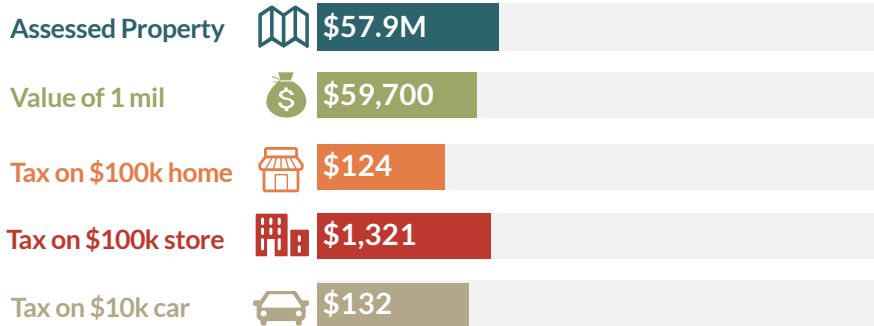


25,007



3,016

Abbeville County

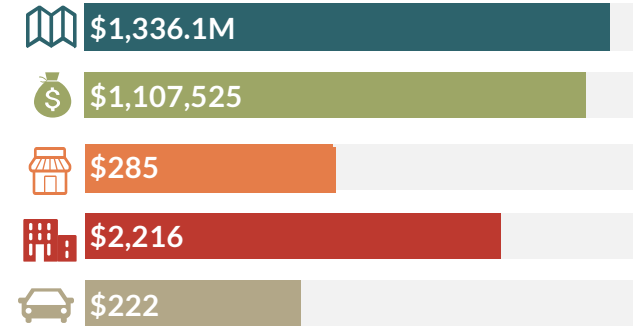


273,752



23,363

Lexington County



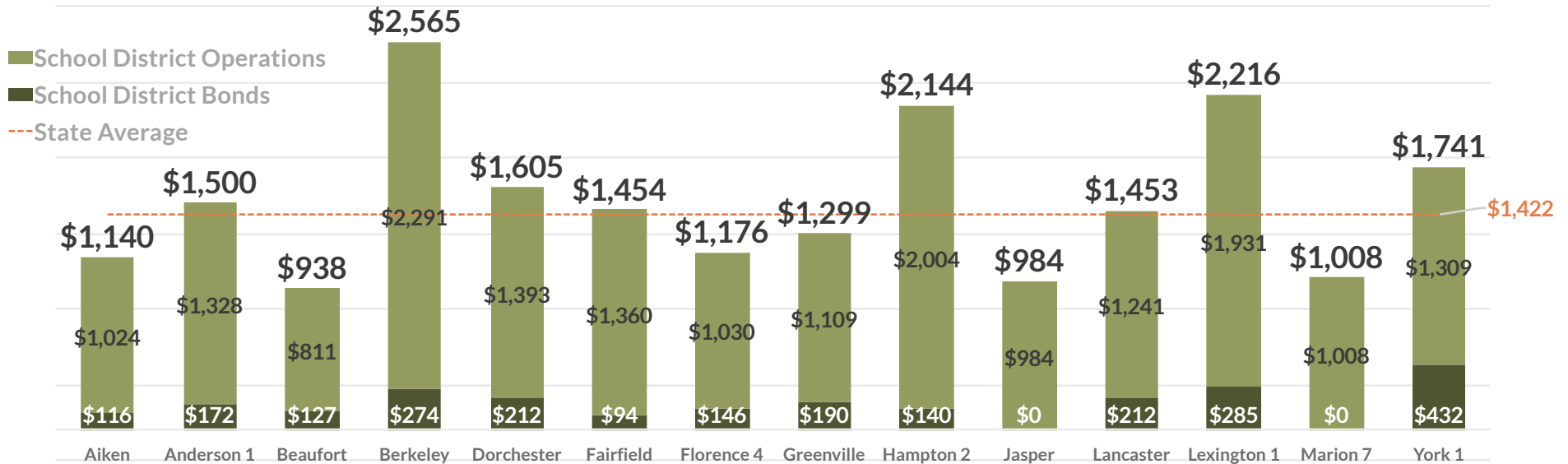
Note: Analysis assumes uniform appraisal methods across counties.
 Source: South Carolina Property Tax Rates by County, 2015. South Carolina Association of Counties. January 2016.



PROPERTY TAX

Millage rates, which are set locally, vary by county and school district, raising revenue in ways that create inequity in tax burden and in services delivered.

School district taxes on a \$100k store vary up to **3 times as much** across counties.



3 | THE ROAD FORWARD

How do we get from here to there?



WHY?

Multiple urgent current needs create the perfect opportunity to achieve these goals.

Fairness & Opportunity

Successful education systems, coupled with equity in revenue and spending, will expand opportunities and equalize burden.

Stability

Constructing a well-coordinated, integrated government finance system is necessary to guarantee stable revenue and avoid “unintended consequence” pitfalls of the past.

Economic Growth

Raising revenue through efficient taxation, combined with effectively managing expenditure to fund schools and roads, will promote the growth of jobs and the state economy.



WHY NOW?

South Carolina faces an impending “perfect storm” of fiscal dilemmas.

AGING INFRASTRUCTURE

Our aging infrastructure system is crumbling around us with no currently workable plan to properly fund future construction, modernization and maintenance needs.

ABBEVILLE RULING

The recent *Abbeville* decision by the State Supreme Court decried a fractured rural education system that is denying too many students the opportunity of a good education and requires swift legislative action.

ECONOMIC COMPETITION

Our neighbors (GA, NC, & TN) are aggressively competing by lowering and equalizing their tax burden to attract and retain business.

BODMAN RULING

The SC Supreme Court *Bodman* decision invited a “challenge...at a later date” by a plaintiff with standing arguing equal protection under the constitution of the individual elements of our current maze of sales tax exemptions.

*Each of these issues is **foundational to the economic future** of our state. None can be solved independently of the other. Each demands proactive, **well-thought out solutions**. Proven **ideas and bold leadership** have never been more needed.*

WHY COMPREHENSIVE?

Continual challenges to the distributional inequities of the tax code.

Parker Poe Consulting Develops Fee-in-Lieu of Tax Model Available for County Use

Parker Poe Consulting has created a fee-in-lieu of tax (FILOT) model providing developers with the ability to illustrate the “net to County” financial impact of a fee-in-lieu of tax and special source revenue credit arrangement for new and expanding companies.

Distinctive features of the model allow economic developers to:

- Rate the effect of local option sales tax (LOST) credits by simply adding or “no” from drop-down menu
- Automatically illustrate one special source revenue credit (SSRC) or

August 21, 2016
Post & Courier

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Could Richland County try to change the way vehicles are taxed?

HIGHLIGHTS
Cars are taxed based on a once-a-year assessed value
State provides standard assessment values to every county
Councilman Bill Malinowski says taxes should be based on cars' current-month value

VIDEOS

April 20, 2016
SC Supreme Court

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EXCLUSIVE: Lawsuit might undo huge tax breaks for student housing

HIGHLIGHTS
Government watchdog group, Columbia activist sue Columbia and Richland County
Lawsuit contends half-off property tax breaks for 10 years are unconstitutional

VIDEOS

August 23, 2016
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News

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School tax shift could cut homeowners' property tax bills

November 15, 2015
The State

THE STATE OF SOUTH CAROLINA

In The Supreme Court

CareAlliance Health Services d/b/a Roper St. Francis Healthcare, Respondent,
v.
South Carolina Department of Revenue, Appellant.
Appellate Case No. 2014-001457

Appeal from the Administrative Law Court The Honorable Shirley C. Robinson,
Administrative Law Judge

Opinion No. 27627 Heard February 9, 2016 – Filed April 20, 2016

REVERSED

February 10, 2016
The State



THANK YOU

To see interactive data, please visit <http://acuitasecon.com/econLab>.