Local Option Taxes in South Carolina – A Review

A Presentation to:
The SC Taxation Realignment Commission

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Sales Tax in SC – How We Compare
(from 30K Ft.)

Avg. State Rate (US):	5.16%
Avg. Local Rate (US):	1.13%
Tot.:	6.29%
SC State Rate:	6.00%
Rank = 13th (top quartile)	
SC Avg. Local Rate:	1.04%
Rank = 21st	
SC Avg. Overall	7.04%
Rank = 16th	

Sales Tax in SC – How We Compare (cont.)

A Closer Look…

Of the 50 states…

- 45 impose at least a “state” sales tax; of those…
  - 18 don’t impose a “local” tax, but those typically have…
    - Higher “state” rates (12 of 18)

- 31 impose BOTH “state” and “local” – SC’s “Peers”

Sales Tax in SC – How We Compare (cont.)

So How Does SC Stack Up Against its Peers?

State Rate (SC): 8th/31 (top quartile)

Local Rate (SC): 20/31 (bottom 1/3)

1.04% vs. 1.13% (All states)
1.04% vs. 1.79% (Peer Group)
42% less

Note: 18 spots (bottom 1/3) at 5% (All states) + 6 more spots at 4%

Local Taxes in SC – The Menu

"Local Options" – 9 varieties

State Accommodations*

Local Accommodations

Local Hospitality (almost identical to Local "A")

*Not "local"

“Local Option” Taxes in SC

An Overview

Today, there are 9 different “types” of Local Option taxes/fees that locals (governments, via voters) may impose. Excludes local “A” and “H” taxes (later)

Centrally administered (DOR)

Specific Purposes / Not General Fund*

7 of 9 (2 not imposed)

First was in 1991 (True “LOST”)

$548 Million in 2008*

“Local Option” Taxes in SC (cont.)

Rate(s): From 0.5% to 2% (typically 1%)

Base: Same as State (typically)

- Max Taxes
- Exemptions
- Groceries? (current vs. future)
  - Check your receipt

“Local Option” Taxes in SC (cont.)

9 Taxes and still a (be)low average?

Statutory Limits and Voter Control

- “Stacking” limits
- Voter Referendum*

*“Exceptional” exception

"Local Option" Taxes in SC (cont.)

Local Option

1% / Referendum / Prop. Tax Credit (all classes)

71% / 29%

Robin Hood

Permanent / Repeal

31 Counties

Capital Projects

1% / Referendum / Specific Statutory List (last update '09) – Debt Service

Up to 8 yrs.

12 Counties

Can't stack Transport. & School District

Transportation

Up to 1% / Referendum / Ala "Capital" – Transportation specific

25 yrs.

4 Counties

Can't stack Capital & School District

"Local Option" Taxes in SC (cont.)

School District

- Typically 1% / Typically Referendum
- Debt service of GO Bonds or specific cost of capital improvements
- Initiated by Local Delegation
- Currently 8 Counties/Districts
- "In addition to" / Some groceries, some not

"**Personal" Property Tax Relief** – **NOT BEING IMPOSED**

- Up to 2% / Referendum
- Purpose: REPLACE car, boat, plane, etc. tax
- Stackable

Local Property Tax – **NOT BEING IMPOSED (Act 388)**

- Up to 1% / Referendum
- All Classes (except FILOT) and Jurisdictions / Operating "all other"
- Stackable

"Local Option" Taxes in SC (cont.)

Catawba Indian Tribal Tax (Lancaster and York only)

Sales and Deliveries on the Reservation

Rate depends on state and local rate in those 2 counties

Education Capital Improvement (2008)

1% / Referendum

Eligibility: $7 Million in State Accommodations Tax

School District / Technical / 4-year colleges

Bond Bill / Funding

1 County (Horry)

Tourism Development Tax/Fee (2009)

1% / Ordinance OR Referendum

Eligibility: $14 Million in State Accommodations Tax

City or County

Out of State Tourists , yrs. 1 and 2 / Property Tax rollbacks and Cap. Proj. Yrs. 3 and out

"Save the Season"

1 City (Myrtle Beach)

“State” Accommodations Tax

- Statute calls it “Local”, but it’s STATE (and statewide)
- Centralized Collection / Distributed* to Locals

  *Robin Hood
- Rate: 2%

  Added to 5% ST (Act 388)

  =7% “sales tax” (+ any true Local A Tax + local options)
- Base: Hotel, Motel, Campgrounds, etc. “Stays”
  - Excludes:
    - 6 rooms or less & used as home (B&B)
    - Stays of 90 consecutive days or more
    - Timeshare stays
    - “Additional” guest charges taxed at only 5% rate (movies, meeting rooms, room-service, etc.)
    - Note: Serves as “tax base” for Local A Tax

"State" Accommodations Tax (cont.)

So how can the money be spent?

Tourism – Bottom Line*

1) First $25,000 to locals GENERAL FUND (used for ANY purpose)*
2) 5% of the balance to locals GENERAL FUND (used for ANY purpose)*
3) 30% of the balance to a SPECIAL FUND for Tourism Promotion
4) 65% to a second SPECIAL FUND for "Tourism Related Expenditures" including:
   a) advertising and promotion of tourism so as to develop and increase tourist attendance through the generation of publicity;
   b) promotion of the arts and cultural events;
   c) construction, maintenance, and operation of facilities for civic and cultural activities including construction and maintenance of access and other nearby roads and utilities for the facilities*;
   d) the criminal justice system, law enforcement, fire protection, solid waste collection, and health facilities when required to serve tourists and tourist facilities. This is based on the estimated percentage of costs directly attributed to tourists;
   e) public facilities such as restrooms, dressing rooms, parks, and parking lots;
   f) tourist shuttle transportation;
   g) control and repair of waterfront erosion;
   h) operating visitor information centers.

*Debt Service (all other "cash")

“State” Accommodations Tax (cont.)

Oversight - Local and State

LOCAL LEVEL - Steps before AT revenue can be spent

(1) Local Govt receives requests from various groups wanting money

These are usually NON-PROFITS, but can be from within the GOVT itself

(2) Local Govt forwards requests to a Local Advisory Committee (LAC, aka “A” Tax Committees) for review

LAC makes recommendations to the Local Govt that are NON-BINDING

(3) Local Govt makes final determination and disperses the money to recipients

STATE LEVEL - The “Tourism Expenditure Review Committee” (TERC)

-TERC is a 11 member committee made up of various officials (2 local govt) and hospitality leaders (8 + PRT ex officio)

-ANNUALLY, local govts submit REQUIRED reports to TERC for review

TERC either:

(A) Determines an expenditure **COMPLIANT** or

(B) **NON-COMPLIANT (withheld and redistributed)**

"State" Accommodations Tax (cont.)

The Money

FY05:	$36.8M
FY08:	$45.5M (7%/yr. b/w 05 and 08)
FY09:	$41.9M (-8%)
FY10:	$44.5M (BEA estimate*)

*July-Nov "flat" (vs. need 6.1%)

Local Accommodations Tax

- Aka Local "A" Tax
- 1997 – Brown vs. Horry Co.
- Truly "local" – No Columbia / No Redistribution
- Tax Base? Same as State "A" Tax
- Tax Rate? "May not exceed 3%*"

  *In Co./Unincorporated areas; 1.5% max without city consent

  - Can't "piggyback"

Local Accommodations Tax (cont.)

- Bottom line to Transient?
- 5% State Sales Tax* (Act 388)
- 2% State "A" Tax
- 1% Local Option (avg.)
- 3% Local "A" Tax (max.)

= 11%

- Broaden / Lower?

Local Accommodations Tax (cont.)

The Revenue

- FY03: $25.6 Million
- FY08: $42.9 Million

- The Players
- FY03: 22 Counties / 66 Cities
- FY08: 22 Counties / 97 Cities

Local Accommodations Tax (cont.)

- How is the Tax Imposed?
  - Ordinance
    - Positive Majority Vote
    - How Can the Money be Spent?
      - TOURISM – Bottom Line*
    - Revenue NOT Placed in GENERAL FUND, rather…

Local Accommodations Tax (cont.)

- Local "A" Tax Fund, for 6 TOURIST related functions:
- (1) **tourism-related** buildings including, but not limited to, civic centers, coliseums, and aquariums;
- (2) **tourism-related** cultural, recreational, or historic facilities;
- (3) beach access, renourishment, or other **tourism-related** lands and water access;
- (4) highways, roads, streets, and bridges providing access to **tourist** destinations;
- (5) advertisements and promotions related to **tourism** development; or
- (6) water and sewer infrastructure to serve **tourism-related** demand.

Local Accommodations Tax (cont.)

- Note: 5 of 6 “uses” relate to “capital projects”
- So law allows “construction” of tourism related facilities, but can the funds be used to “operate and maintain” them?
- YES … with conditions*
  *Big (6) vs. Small Counties (40)
  – <> $900K

Local Accommodations Tax (cont.)

- Big Counties
  - Operate and maintain those facilities AND use the funds to provide police, fire protection, emergency medical services, and emergency-preparedness operations directly attendant to those facilities.
    - No Limit
    - Essentially same as “State” A-Tax
  - Small Counties
    - Same, but limited to 20% of revenue raised

Local Accommodations Tax (cont.)

- Oversight
  - TERC / No – This is Local Tax, not State
  - Local Budgetary Process
  - Local Interest and Advocacy Groups
  - AG Opinions
  - Home Rule Act / Annual Financial Audits

Local Accommodations Tax (cont.)

- Statutory Changes – A Brief History
  - 1st enacted in 1997
  - 1999 - Amends 6-1-530(A)(2) by inserting "tourism-related" before "cultural, recreational, or historic facilities"
  - 2002- Expanded definition of beach access and renourishment to include other "tourism-related" lands and water access (lake and/or river).
  - 2006 - Operation and Maintenance provision for smaller counties.
  - 2010 - S. 304?

Local Accommodations Tax (cont.)

- Our "A" (state and local) Taxes – How we Compare to our Peer Destinations – A snapshot…
  - Nashville = 14.25%
  - Virginia Beach = 14.00%
  - Orlando = 13.50%
  - Savannah = 13.00%
  - SC (Avg. Max.) = 11.00%

Local Hospitality Tax

- Aka Local "H" Tax
- 1997 – Brown vs. Horry Co.
- Truly "local" – No Columbia / No Redistribution
- No "State" version / rate
- Tax Rate? "May not exceed 2%*"

  *In Co./Unincorporated areas; 1.0% max without city consent

  - Can't "piggyback"

Local Hospitality Tax (cont.)

- Tax Base? What's Taxed?
  - "Prepared" Meals* and Beverages**
  - *Full meals, not "components"
  - **Includes both alcoholic and non-alcoholic drinks

  - Note: Statute gives locals flexibility to: 1) tax sales in all restaurants, or 2) isolate only bars and/or restaurants serving alcohol

Local Hospitality Tax (cont.)

- Bottom line to Patron?
- 6% State Sales Tax
- 0% State "H" Tax
- 1% Local Option (avg.)
- 2% Local "H" Tax (max.)

= 9%

Broaden / Lower?

Local Hospitality Tax (cont.)

The Revenue

- FY03: $74.0 Million
- FY08: $143.0 Million

- The Players
- FY03: 6 Counties / 37 Cities
- FY08: 12 Counties / 82 Cities

Local Hospitality Tax (cont.)

- How is the Tax Imposed?
  - Ordinance
    - Positive Majority Vote
    - How Can the Money be Spent?
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  - 2006 - Operation and Maintenance provision for smaller counties.
  - 2010 - S. 304?

Local Hospitality Tax (cont.)

- Our "H" Taxes – How we Compare to our Peer Destinations

  - Williamsburg = 10.00%
  - Gatlinburg = 9.50%
  - Daytona Beach = 8.50%
  - Richmond = 8.00%

  - SC (Avg. Max) = 9.00%

Broaden / Lower?

QUESTIONS?

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