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September 28, 2009

Ms. Rena Grant
Budget Analyst
House Ways & Means Committee
525 Blatt Building
Columbia, SC 29202

Dear Rena,

This letter is in response to your request dated September 21, 2009 on behalf of the Chairman of the Tax Realignment Committee for advice on what the state sales and use tax rate would need to be if all of the current state sales and use tax exemptions were repealed using FY2008-09 as the base year?

Pursuant to Sections 12-36-2110, 12-36-2120, 12-36-2130, 12-36-2610, 12-36-2620, and recurring budget provisos, sales and use tax exemptions, including the maximum tax provisions for automobiles, totaled an estimated $2,754,967,801 in FY2008-09. Based on the advice of the Department of Revenue, sales tax exemptions (1) and (2), exemptions prohibited by the US or SC constitutions, and tangible personal property sold to the federal government, may not be repealed. Also, Section 12-36-2120(77), the sales tax holiday on personal energy efficient products meeting or exceeding ENERGY STAR® program requirements, has been declared unconstitutional by the SC Supreme Court. After adjusting for the above changes, an estimated $2,500,727,595 of sales tax exemptions remains. If taxed at 6%, this would represent an estimated $41,678,793,250 in gross retail sales. In FY2008-09, the state collected $3,341,596,466 from the general sales and use tax, the E.I.A. penny and the Homestead Exemption Fund penny. Dividing this figure by 6% yields an estimated $55,693,274,430 of gross sales in FY2008-09. To raise the same $3,341,596,466 of sales and use tax revenue in FY2008-09 from gross taxable sales of $97,372,067,680 would have required a sales and use tax rate of an estimated 3.4 percent in FY2008-09.

If you have any questions, I will be happy to answer them.

Sincerely,

William Gillespie

William C. Gillespie, Ph.D.
Chief Economist

WCG/rwm

cc: Craig Parks