Doing Better: Progressive tax reform ideas for South Carolina

Testimony by Andy Brack
S.C. Tax Realignment Commission
Feb. 19, 2010
About us

cen·ter for a bet·ter south (sĕn' ter fôr ā bĕt' er south). A pragmatic, nonpartisan think tank dedicated to developing progressive ideas, policies and information for thinking leaders who want to make a difference in the American South.
What we do

Rational debate and discussion

vs.

Bumper sticker philosophy
“We wouldn't have a lot of the benefits of civilized society if taxes weren't there to pay for public services and invest in the common good.

“We have taxes because generations of people have learned that shared sacrifices (taxes) are the best and fairest way for everyone to build a better country, a better quality of life.”
On tax reform ...


Author: Sarah Beth Coffey, with Alan Essig; Georgia Budget and Policy Institute awarded fellowship with the Center for a Better South in February 2006.

“Taxes are not something that should be vilified because of their very nature. Instead, people might consider looking at them in another light — as the necessary price we pay to keep our democracy alive.”

--- From the Introduction
Big picture
Old way

- Tasty
- Nourishing

but ...

- Filled with fat
- Cooked in lard
- Unhealthy
New way

- Still tasty
- Still nourishing

but ...

- Healthier
- Modern
- Smarter
“Southern state governments haven’t adapted to the new economy. It’s time for state lawmakers to wake up and modernize tax structures for the new economy.”
Holistic view

11 tax modernization ideas for 11 Southern states

(Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia)
Holistic review

“It is incumbent for lawmakers across the South to revisit their state tax codes in a holistic manner to bring our tax systems into the 21st century....
Don't cherry-pick ideas

“... All components – the income tax, sales tax, property tax and others – **should be thoroughly examined and modernized** to improve and ensure the fairness, adequacy and integrity of our tax system.”
Why?

Taking a long look at how we raise revenues and trying to make those ways fairer will make the South stronger.
## A South Carolina scorecard

<table>
<thead>
<tr>
<th>Has the state …</th>
<th>Yes</th>
<th>No</th>
<th>More work needed</th>
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<tbody>
<tr>
<td>1: Broadened sales tax base</td>
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<td>2: Modernized sales taxes</td>
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<td>3: Raised cigarette taxes to U.S. average</td>
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<td>4: Enacted Earned Income Tax Credit</td>
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<td>5: Modernized income tax bracket</td>
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<td>6: Curbed inflationary increases</td>
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<td>7: Rethought senior tax preferences</td>
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<td>8: Eliminated corporate loopholes</td>
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<td>9: Linked property taxes and ability to pay</td>
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<td>10: Strengthened accountability</td>
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<td>11: Conducted a performance review</td>
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Idea 1

Broaden the sales tax base

Review removal of sales tax exemptions
2.5 BILLION lost annually in SC

Abolish sales tax holidays
$5.2 million cost to state in 2004
Idea 2

Modernize sales taxes for new economy

Less than one-fourth of SC services taxed
34 out of 168 taxed (2004)

Adopt SSUTA
SC has not adopted Streamlined Sales and Use Tax Agreement
Idea 3

Raise cigarette tax for public health

SC tax is lowest in nation. Raising to national average would:

- Likely to cause 30,600 South Carolinians to stop smoking
- Long-term SC health savings would be $1.1 billion
Enact an Earned Income Tax Credit

431,267 South Carolinians claimed federal EITC in 2005 for $856 million.

State credit would help working families escape poverty.
Idea 4

Enact an Earned Income Tax Credit

Three Southern states have EITC

Up from 1 in 2006; LA, NC, VA
Idea 5

Modernize income brackets

Broaden brackets
Top SC bracket (single filers) is 7 percent for income of $12,560 and above.

Consider creation of new top bracket
Idea 6

Deal with hidden income tax increases

SC is one of few Southern states that indexes several parts of its income tax system for inflation.
Idea 7

Rethink senior tax preferences

Provide fair relief based on ability-to-pay, not age alone

- SC will grow by 2030 to 22% seniors
- Provides Social Security exemption
- Provides private pension income exemption
- Provides property tax preferences, more
Idea 8

Eliminate corporate tax loopholes

SC should review and update its corporate income tax structure to eliminate tax loopholes and promote fairness. SC does NOT:

- Require combined reporting
- Have throwback rule
Idea 9

Link property taxes with ability to pay

Rethink property tax reform:

Use a property tax circuit breaker that connects taxes with ability to pay.
Idea 10

Strengthen accountability

SC should publish a tax expenditure report

- Improves transparency and accountability
- Allows lawmakers better info for decisions
Idea 11

Conduct a performance review

SC conducted a review in 2002 through a governor's commission. Needs to become institutionalized and part of routine operations.
Review

Southern states *haven't adapted* tax structures to the new economy.

Southern legislators should review tax structures to make *fairer to all*.

Doing so will make South stronger and allow residents to achieve their *Southern dreams*. 
Questions?

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