South Carolina’s Corporate and Business Tax Climate Rates and Rankings

Presented to: SC TRAC

Craig H. Parks, MPA
SC Corporate / Business Tax Rate and Rankings

SC’s Corporate Tax Rate (C Corps)=5%

40th highest / 10th best nationally (lowest in SE)

SC’s Corporate Tax Collections*

FY10 = $110 Million
FY99-FY09= $192 Million/yr.
FY05-FY08= $244 Million/yr.

*3rd largest source

44th highest / 6th best nationally (@ $72 per capita)
SC Corporate / Business Tax Rate and Rankings (cont.)

Our Neighbors (Rate):
  Georgia = 6.0% (20% higher than SC)
  15th best nationally (SC 10th best)
  NC* = 6.9% (38% higher than SC)
  23rd best nationally (SC 10th best)

Our Neighbors (Collections):
  Georgia = 9th best at $98/pc (SC 6th best)
  NC* = 24th best at $132/pc (SC 6th best)

*This is before NC’s recent enactment of their additional 3% “surtax” on corporate income over a certain threshold.
SC Corporate / Business Tax Rate and Rankings (cont.)

Corporate (C tax) – Who Pays?

Number of Filers: 98,000
Number with $0 Liability: 86,925 (89%)
Number with Liability: 11,075

  Of filers owing tax:
Number (%) Domestic: 6,675 (60%)
Number (%) Foreign (Multi-State): 4,400 (40%)

Collections (Dollars and Percentage):

  Domestic: $ 67 Million (32%)
  Foreign: $142 Million (68%)
SC Corporate / Business Tax Rate and Rankings (cont.)

SC – Small Business “tax parity” with C corps

In 2006, the General Assembly leveled the playing field for small businesses (the majority of businesses in SC) in terms of state tax treatment by phasing in small business tax relief as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
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<tbody>
<tr>
<td>2006</td>
<td>6.5%</td>
</tr>
<tr>
<td>2007</td>
<td>6.0%</td>
</tr>
<tr>
<td>2008</td>
<td>5.5%</td>
</tr>
<tr>
<td>2009 and thereafter</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Today, small businesses may annually choose whichever tax structure most advantages their business (either the current marginal rate structure or the flat 5% rate, ala the Corporate Income Tax rate).

*SC is one of the nation’s friendliest states for small business (more on rankings later)

Note: Combined, corporate and business income taxes generate almost $600 Million annually in General Fund revenue.
SC’s Business Climate – National Rankings

*Chief Executive Magazine*

“Best and Worst States for Business – 2010”
651 CEO’s

3 Primary Categories:
1) Taxation and Regulation (5 subsets)
2) Quality of Workforce (5 subsets)
3) Living Environment (6 subsets)

SC 10th best overall (GA 7th, NC 2nd)

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
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<th>NC</th>
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</thead>
<tbody>
<tr>
<td>Taxation* and Regulation</td>
<td>B+</td>
<td>B</td>
<td>B+</td>
</tr>
<tr>
<td>Quality of Workforce</td>
<td>B</td>
<td>B+</td>
<td>B+</td>
</tr>
<tr>
<td>Living Environment</td>
<td>A-</td>
<td>B+</td>
<td>A-</td>
</tr>
</tbody>
</table>

*It’s Not taxes:

Overall business tax climate: SC 3 spots better than GA and 13 spots better than NC
Corporate Taxes specifically: SC virtual tie with GA, 16 spots better than NC
Property Taxes specifically: SC 10 spots better than GA, 11 spots better than NC

Quality of Workforce –

a) Work ethic
b) General Education level of workforce*
c) Competitiveness of wage rates
d) Employee relations with management
e) Specialized labor

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
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</thead>
<tbody>
<tr>
<td>*Higher Ed Score (overall)</td>
<td>26</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td>Degree Completion (1,000 adults)</td>
<td>41</td>
<td>29</td>
<td>27</td>
</tr>
</tbody>
</table>
SC’s Business Climate – National Rankings

*CNBC – 2010 Top States for Business*

Cost of Doing Business
  a) Tax burden
  b) Utility
  c) Cost of wages
  d) Workers comp
  e) Rental costs for office/industrial

SC 6th best nationally

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<thead>
<tr>
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<th>SC</th>
<th>GA</th>
<th>NC</th>
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<tr>
<td></td>
<td>6</td>
<td>20</td>
<td>15</td>
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Quality of Workforce

<p>| | | |</p>
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<td></td>
<td>5</td>
<td>3</td>
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</tbody>
</table>
SC’s Business Climate – National Rankings

CNBC – 2010 Top States for Business (cont.)

Overall
SC Ranks 31\textsuperscript{th} nationally (6\textsuperscript{th} best on “Cost of Doing Business”)

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
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</thead>
<tbody>
<tr>
<td><strong>31</strong>*</td>
<td>10</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

*Not taxes—What is it?

Education

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>43</td>
<td>28</td>
<td>26</td>
</tr>
</tbody>
</table>

“Education and Business go hand in hand. Not only do companies want to draw from an educated pot of workers, they want to offer their employees a great place to raise a family. Higher education institutions offer companies a source to recruit new talent, as well as a partner in research and development. We looked at traditional measures of K-12 education including test scores, class size and spending. We also considered the number of higher education institutions in each state.”

Quality of Life

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45</td>
<td>35</td>
<td>32</td>
</tr>
</tbody>
</table>

“The best place to do business are also the best places to live. We scored the states on several factors, including local attractions, the crime rate and healthcare.”

Business Friendliness

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>30</td>
<td>17</td>
<td>13</td>
</tr>
</tbody>
</table>

“....We grade the states on perceived “friendliness” of their legal and regulatory framework to business.”
SC’s Business Climate – National Rankings

Area Development – Top 10 States for Business

“Consultants to Industry”
8 main “site selection” criteria:
1) Lowest business costs
2) Most business friendly
3) Corporate tax environment
4) Overall labor
5) Workforce development
6) Fast track permitting
7) Rail and highway accessibility
8) Shovel ready sites

Overall
SC Ranks the 3rd best state for business

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
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</thead>
<tbody>
<tr>
<td>Lowest Business Costs</td>
<td></td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>SC Ranks the BEST state for business</td>
<td>1</td>
<td>N/A*</td>
<td>N/A*</td>
</tr>
<tr>
<td>Business Friendliness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC Ranks the 3rd best state for business</td>
<td>3</td>
<td>N/A*</td>
<td>4</td>
</tr>
<tr>
<td>Corporate Tax Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC Ranks the 3rd best state for business</td>
<td>3</td>
<td>N/A*</td>
<td>N/A*</td>
</tr>
<tr>
<td>Workforce Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC Ranks the 3rd best state for business</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

*Ranked outside the top 10 nationally on this measure
SC’s Business Climate – National Rankings

Pollina – Top 10 Pro-Business States for 2010

2 “stages” (Labor, Taxes and Other and Incentives and Econ. Development Agency Factors)

“Overall Ranking”
SC ranks 4th most pro-business state in nation (2nd in South)

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
<td>13</td>
<td>5</td>
</tr>
</tbody>
</table>

“Labor, Taxes and Other”
SC Ranks 12th most pro-business state in nation, ahead of both GA and NC

“Incentives and Econ. Development Agency Factors”
SC Ranks 3rd most pro-business state in nation, one spot behind NC (2nd) and 4 spots better than GA (7th).
SC’s Business Climate – National Rankings

Pollina – Top 10 Pro-Business States for 2010 (cont.)

It’s taxes and cost of doing business (that boost SC)...

“South Carolina’s Low Corporate Taxes,...low workers compensation costs,...and low electricity costs are responsible for South Carolina’s strong finish in this year’s analysis. South Carolina’s pro-business attitude combined with a relatively low cost of doing business...makes it a major player in the game of attracting corporate investment and jobs.”

Helps offset the “…Labor and other factors” of Stage 1

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School Completion</td>
<td>41</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>College Completion</td>
<td>38</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>43</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Legal Environment</td>
<td>39</td>
<td>27</td>
<td>17</td>
</tr>
</tbody>
</table>
SC’s Business Climate – National Rankings

*Pollina – Top 10 Pro-Business States for 2010 (cont.)*

North Carolina’s high ranking is not attributable to corporate taxes and cost of doing business. Remember, SC’s ranking attributable in part to “...low corporate taxes...and a relatively low cost of doing business.”

Instead:

“North Carolina’s high score can be attributed to their right-to-work status (SC), low unemployment insurance, worker’s compensation rate’s (SC), and a favorable litigation environment.”

Likewise (Georgia):

“Michigan, Ohio, Georgia*, and Louisiana ranked among the nation’s best relative to Stage II, Incentives and State Economic Development Agency Factors, but did not rank high enough in terms of Stage I, Labor, Taxes and Other Factors, to make the Pollina Top 10 Pro-Business States list.”

*Georgia ranked 7th in Stage II (SC ranked 3rd, NC ranked 2nd)*
SC’s Business Climate – National Rankings

*Tax Foundation – 2010 State Business Tax Climate Index*

<table>
<thead>
<tr>
<th>Category</th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>26</td>
<td>29</td>
<td>39</td>
</tr>
<tr>
<td>Corporate</td>
<td>9*</td>
<td>8*</td>
<td>30</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>43</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Property Tax</td>
<td>26</td>
<td>36</td>
<td>37</td>
</tr>
</tbody>
</table>
SC’s Business Climate – National Rankings

Tax Foundation – 2010 State Business Tax Climate Index (cont.)

*Corporate Note:
SC and GA in ‘virtual tie’ in corporate tax ranking at 9th and 8th respectively.

TF’s “corporate tax index” is based on 2 equally weighted sub-indices:
- a) Rate and b) Base

Of those, various factors are considered.

Under “Rate”, SC clear advantage (5% vs. 6%). Only apparent GA advantage is “single apportionment”, but SC is transitioning to that, and will be 100% sales (net income of business done in SC) next year (2011).
SC’s Business Climate – National Rankings

_Tax Foundation – 2010 State Business Tax Climate Index (cont.)_

Note: TF’s only focus are taxes and they acknowledge:

“Clearly, there are many non-tax factors that affect a state’s overall business climate: its proximity to raw materials or transportation centers, its regulatory or legal structures, the quality of its education system and the skill of its workforce, not to mention the intangible perception of a state’s quality of life. The 2010 SBTCI does not measure the impact of these important features of a state’s overall business climate.”
SC’s **SMALL** Business Climate – National Rankings

**Small Business Survival Index 2009**

Small Business Climate favorable in SC too...

Overall

SC 7\textsuperscript{th} best small business climate in US

<table>
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<td></td>
<td>7</td>
<td>20</td>
<td>39</td>
</tr>
</tbody>
</table>

Corporate

|      | 10(t) | 16(t) | 27 |

Individual

|      | 38(t)* | 27(t) | 43** |

*Does not factor SC’s small business tax relief previously discussed (5% vs. 7%). Only looks at “top marginal rates”. If factored, SC’s overall (and individual) ranking would most certainly improve. Currently, the Small Business Survival Index does not appear to account for this small business friendly tax relief for SC small businesses. This tax relief is/was important for small businesses in SC and should be looked favorably upon by the “Index”, as it (the Index) itself acknowledges that “…more than 90% of businesses (in a given state) file taxes as individuals.”*
SC’s Business Climate – National Rankings Recap and Additional Rankings

South Carolina

Corporate Tax Rate: 10th best
Corporate Collections (per capita) 6th best
“Best and Worst States for Business – 2010”
   Chief Executive Magazine 10th best
“CNBC-2010 Top States for Business”
   Cost of Doing Business 6th best
“Area Development-Top 10 States for Business”
   Overall 3rd best
   Lowest Business Cost 1st best
   Business Friendliness 3rd best
   Corporate Tax Environment 3rd best
“Pollina-Top 10 Pro-Business States for 2010”
   Overall 4th best
   Labor, Taxes and Other 12th best
   Incentives and Econ. Develop. Agen. 3rd best

South Carolina (cont.)

Tax Foundation-2010 State Business Tax Climate Index
   Corporate Taxes 9th best

Small Business Survival Index 2009 7th best
Additional Rankings-General:
   Business Facilities Magazine 2010
      Economic Growth Potential 1st best
         Best Business Climate 4th best
   Site Selection Magazine 2010
      Top Business Climates 6th best
   Development Counselors International
      Best Business Climate 6th best
Additional Rankings-Industry Specific:
   Business Facilities Magazine 2010
      Automotive Manufacturing Strength 3rd best
         Wind Energy Manufacturing Strength 2nd best
         Alternative Energy Leaders 9th best
IBM’s “Global Location Trends Annual Report” 4th best

Specific Deals:
Boeing was “Deal of the Year” in following:
   Business Facilities Magazine
   Southern Business and Development Magazine
   Site Selection
Trade and Industry Development Magazine’s “Corporate Investment and Community Impact Awards” - 30 given nationwide – 3 were in South Carolina:
   Boeing
   Crane Company
   Red Ventures

South Carolina one of only 11 states to receive “Area Development’s” “2010 Silver Shovel Award” based or South Carolina’s: a) number of high-value added jobs per capita, b) amount of investment, c) number of new facilities, and d) industry diversity
SC’s Business Climate – National Rankings Recap and Additional Rankings

SC – Cities and Towns Rank Well Too...

Columbia
- 5th lowest cost locations for regional HQs
- The Boyd Company
- 12th most “bang for the buck” cities in US
- Forbes
- One of 21 “strongest performing metro areas”
- Brookings Institution
- 12th best “Place to start a business”
- Portfolio.com

Greenville
- Pro-business tax structure
- Competitive Alternatives 2010 (KPMG)
- 1st in “micro cities of the future”
- FDI Magazine
- 6th in “Top Ten Metro Economic Growth Potential”
- Business Facilities’ 2010
- 5th in “Alternative Energy Industry Leader”
- Business Facilities’ 2010
- 16th best “Place to start a business”
- Portfolio.com

Greenville-Spartanburg
- 2nd lowest business costs in Southeast
- Competitive Alternatives 2010 (KPMG)
- 1st in “Emerging Logistics/Distribution”
- Business Facilities’ 2010
- 2nd in “Low Cost Manufacturing Center”
- Business Facilities’ 2010

SC – Cities and Towns Rank Well Too...

Charleston
- “Top Ten Mid-Market of the Decade”
- Southern Business and Development
- 4th best “Place to start a business”
- Portfolio.com
- 8th “smartest city” in the World
- Forbes
- 2nd best “Next City” with populations b/w 100k-200k
- Next Generation Consulting

Hilton Head
- 4th best for “Economic Strength” among US MSA’s
- Policom Corp

Aiken
- “Top Ten Small Market of the Decade
- Southern Business and Development

Florence
- 5th best metropolitan area for “New and expanding facilities in US” (2008)
- Site Selection Magazine

Orangeburg, Union, Gaffney, Lancaster
- All on Site Selection’s 2009 “Top Micropolitanas List”
Outside North Carolina must calculate the amount of North Carolina income tax due on any corporate income tax return filed by the corporation subject to corporate income tax.
The use of workforce is a quality workforce that augment, more often than it does not resonate with available workforce, we also consider union membership as well as the number of those. We refer to those based on the education level of their workforce, as well as the number of qualified and motivated workers as part of government-sponsored programs to retain.

Quality of workforce definition used by CNBC: "Many firms point with great pride to the

Earnings: The best way to measure how well a business is doing is through its earnings. Earnings are a measure of the money a business makes after all expenses have been paid. Earnings are important because they give investors a good idea of how much money the company is making and how it is managing its resources.

Cost of business: definition used by CNBC: "This is a measure of the cost of operating a business when a

CNBC - 2010 Top Stocks for Business -

Slide 7 and 8:

Link to Sources used by Chief Executive:

Slide 6:

Purpose: Only

Approximately $50 Million of these estimates are unallocated and for general plane of reference

2012 BEA GDP by Sector:

Slide 5:

1. Property Corporation: Per OR is a corporation that is chartered incorporated outside of SC.

2. Domestic Corporation: Per OR is a corporation that is chartered incorporated in SC.

3. Liability is further credits.

Revenue for Tax Year 2009.

Information regarding corporate tax liability in SC from data provided by the SC Department of
Tax Foundation continued.

Slide 14

- Property Tax=Table 6, page 24
- Insurance Rate=Table 1, page 31
- Corporate Rate=Table 3, page 12
- Overall Rate=Table 1, page 3

http://www.taxfoundation.org/taxrates-comp/373467

Slide 13

- Reference(s) to Georgia from pages 28 and 29 of the report.
- Reference(s) to North Carolina from pages 35 of the report.
- Polling continued.

Reference(s) to Georgia from pages 28 and 29 of the report.
- Reference(s) to North Carolina from page 35 of the report.
- Polling continued.

Slide 12

- SC Legal Environment, see Figure 3, page 5
- SC Unemployment Insurance, see Figure 17, page 51
- SC College Competition, see Figure 13, page 47
- SC High School Competition, see Figure 12, page 46
- Polling and cost of doing business climate, see page 35 of the report.
- Polling continued.

Slide 11

- on page 46 for more rankings on a scale of the top components described above.
- See page 13 of the report for detailed description of the two phases and phases 1-2 being measured.
- of 15 factors, comprising the balance of the score (36%).
- The second phase is comprised of 15 factors and comprises 64% of a state's score, Phase 1 is comprised of 15 factors and comprises 36% of a state's score.
- Note: Polling produces three rankings on a scale of 1-10 for each one of the following two categories of state Polling: Top 10 States for Polling Polling and Top 10 States for Polling and Rankings.
- Polling and Rankings 2010 - The Great American Job Pure: "by-template"

Slide 10


Slide 9

- Please note participants in jobs, "http://www.nvdac.com/373467"
- Area Development Magazine - 2010 Top Sales for Business"