South Carolina
Tax Realignment Commission

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What Are Business Taxes?

- All Taxes Fall on Real People: Consumers, Employees, Owners
- Legal v. Economic Incidence
- Legal Incidence Matters
  - Legal incidence affects economic incidence
  - Voters aren’t economists
The State Business Tax Burden

• COST/E&Y Annual State Business Tax Burden Study (March 2010, for FYE 2009)

• Fundamental Questions:
  • What is a “Fair Share”?  
  • Why tax business at all?

• Best rationale: payment for benefits provided by state & local governments
South Carolina’s Business Tax Burden

- In FY 2009, SC businesses paid nearly $6 Billion in state & local taxes
- The Corporate Income Tax accounted for 4% of that total (property taxes = 50%).
- Better Measure: total effective business tax rate (TEBTR) (ratio of business taxes to GSP)
- SC: 4.7%; GA: 4.1%; MD: 4.2%; VA: 3.6%; DE: 3.5%; NC: 3.5%; AL: 4.6%; FL: 5.3%
Policy Issues Facing SC

• Combined Reporting v. Separate Filing
• Expansion of the Sales Tax Base to Services
• Should South Carolina Adopt a Gross Receipts Tax?
Combined Reporting: 2009

Key
- No corporate income tax
- Mandatory unitary combined reporting
- Combined reporting – not on a unitary basis – “substantial intercorporate transactions”
- Provide for combined filing, but taxes are in the form of gross receipts or other hybrid taxes
- Rejected combined reporting legislation in 2009
- Pending combined reporting legislation in 2009
Combined Reporting: Status 2010 Legislation

Key:
- Red: Adopted combined reporting in 2010 (N/A to date)
- Yellow: Pending combined reporting legislation
- Green: Rejected combined reporting legislation

Adopted combined reporting in 2010 (N/A to date): States with red areas include: Iowa (IA), Texas (TX), and Maryland (MD).

Pending combined reporting legislation: States with yellow areas include: Pennsylvania (PA), Virginia (VA), and New York (NY).

Rejected combined reporting legislation: States with green areas include: New Mexico (NM), Florida (FL), and Massachusetts (MA).
Unitary Combined Reporting

- Used by less than half of income tax states
- Judicial doctrine, vague definitions
- Complex compliance & audits; encourages costly litigation
- Does not provide a stable revenue source
- Fiscal estimates speculative; creates winners & losers
- Does not improve “fairness” of tax system
Sales Tax Expansion To Services – Policy Issues

• Shift from Manufacturing Economy to Service Economy
• Early Attempts by Florida & Massachusetts
• Recent Attempts by Maryland and Michigan
• Policy Arguments:
  – Exempt Business Services
  – Sourcing Issues
  – Disproportionate Impact on Small Businesses
Gross Receipts Taxes: Next Big Thing?

• History
  - WA, WV (1987 repeal), IN (2002 repeal)
  - Delaware, Hawaii, New Mexico?

• Today
  - New Jersey (sunset 7/1/2006)
  - Michigan, Ohio, Texas
Policy Issues – GR Taxes

- Broad Base, Low Rate: False Appeal?
- Disproportionate impact on low-margin businesses
- Effective rate higher than advertised rate
- Pyramiding encourages vertical integration
- Pyramiding hurts capital investment
- “Stealth” tax = bad tax policy
Questions?

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