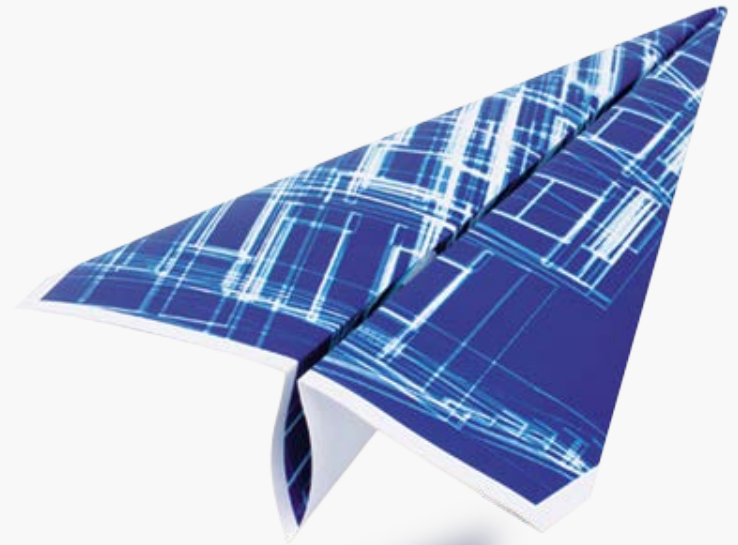


NEXT CHALLENGE. NEXT LEVEL.

NEXSEN | **PRUET**

House Tax Policy Study Committee



27 SEPTEMBER 2016

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TAX POLICY

1. Effect on the General Fund
2. Tax Equity
3. Competitiveness

TAX POLICY

TAX EQUITY

- Why are banks exempt from Business Personal Property taxes and business license taxes – when every other business pays them?
- Why are car dealers exempt from property and sales taxes on their personal vehicles (with dealer tags) when everyone else pays?
- Why is a prescription sole by CVS exempt from sales taxes but the same prescription is subject to sales taxes when administered in a doctor's office?
- Why is light construction equipment subject to sales tax cap – but not heavy construction equipment?
- Some 47% of the people who file state income tax returns don't pay a dime of taxes (TRAC recommended a \$50 filing fee)

TAX POLICY

COMPETITIVENESS

- Time shares directly compete with Hotels/Motels and second homes leased to third parties
- Yet time shares pay no ATAX or business personal property taxes unlike Hotels/Motels or second homes

How South Carolina Fares in 50 STATE Rankings for State Taxes (Corporate, Sales and Property Taxes)

Property Taxes

RANKINGS

PROPERTY TAXES

The Lincoln Institute recently issued its updated June 2016 50-State Property Tax Comparison Study. The study looks at urban (Columbia) tax rates for homestead (primary resident), commercial and industrial taxpayers in 53 tax jurisdictions.

The study shows that Columbia has very low property taxes on primary residences; very high taxes on commercial; and the highest property tax rates in the country on industrial.

A ranking of 1 is the state with the highest taxes and a ranking of 53 is the lowest.

RANKINGS

PROPERTY TAXES

PRIMARY RESIDENCE

The Lincoln Institute looked at Property Taxes on Median Value Home for largest City in each state (together with 3 other tax jurisdictions). They selected Columbia; 1 is highest tax; 53rd is lowest.

Columbia, SC

Effective Tax Rate: 46th

Tax Bill: 51st

RANKINGS

PROPERTY TAXES

COMMERCIAL; INDUSTRIAL

Columbia, South Carolina

A. Commercial

\$1 million commercial (plus \$200K in fixtures)

Rank: 8th

Charlotte: 45th

B. Industrial

Columbia ranks 1st in industrial property taxes. Charlotte ranks 42nd, Atlanta, 25th

RANKINGS

PROPERTY TAXES

APARTMENT

Apartment Property Taxes (\$600,000 in R/P, plus \$30K of Fixtures)

Columbia: 8th

Charlotte: 43rd

RANKINGS

PROPERTY TAXES

COMMERCIAL VS. HOMESTEAD

NYC: 1

Boston: 2

Columbia: 3

Charlotte: 43rd

RANKINGS

PROPERTY TAXES

APARTMENT VS. HOMESTEAD

NYC: 1

Columbia: 2

RANKINGS

PROPERTY TAXES

Property Tax Component of the State Business Tax Climate Index (2013-2016)

	2013 Rank	2014 Rank	2015 Rank	2016 Rank	Change from 2015 to 2016 Rank
South Carolina	22	22	22	25	-3

Note: A rank of 1 is best, 50 is worst.

Tax Foundation, 2016 State Business Tax Climate Index

NOTE: This doesn't jibe with Tax Foundation/KPMG, Location Matters (2015) – SC is 49th on Commercial/Industrial Property Taxes

Sales Taxes

RANKINGS SALES TAXES

STATE AND LOCAL SALES TAX RATES IN 2016 – TAX FOUNDATION.ORG

State and Local Sales Tax Rates as of January 1, 2016						
State	State Tax Rate	Rank	Avg. Local Tax Rate {a}	Combined Rate	Combined Rank	Max. Local Tax Rate
South Carolina	6.00%	16	1.22%	7-22%	18	2.50%

Note: A rank of 1 is best, 50 is worst.

RANKINGS

STATE TAXES

Sales Tax Component of the State Business Tax Climate Index (2013-2016)

	2013 Rank	2014 Rank	2015 Rank	2016 Rank	Change from 2015 to 2016 Rank
South Carolina	18	22	17	19	-2

Note: A rank of 1 is best, 50 is worst.

Tax Foundation, 2016 State Business Tax Climate Index

Corporate Income Taxes

RANKINGS

CORPORATE INCOME TAXES

Corporate Tax Component of the State Business Tax Climate Index (2013-2016)

	2013 Rank	2014 Rank	2015 Rank	2016 Rank	Change from 2015 to 2016 Rank
South Carolina	12	12	14	16	-2

Note: A rank of 1 is best, 50 is worst.

Tax Foundation, 2016 State Business Tax Climate Index

RANKINGS

CORPORATE INCOME TAX RATES

South Carolina is very competitive for corporate income taxes:

1. Low CIT Rate
2. Host of Income Tax Credits (Job Tax Credit, Investment Tax Credit, etc.)
3. 100% Sales Factor for purposes of apportioning income – the only income subject to taxation is sales to South Carolina customers

All State Taxes

RANKINGS

ALL STATE TAXES

2016 *State Business Tax Climate Index* Ranks and Component Tax Ranks

	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
South Carolina	36	16	41	19	35	25

Note: A rank of 1 is best, 50 is worst.

RANKINGS

ALL STATE TAXES

State Business Tax Climate Index (2013-2016)

	2013 Rank	2014 Rank	2015 Rank	2016 Rank	Change from 2015 to 2016 Rank
South Carolina	36	35	36	36	0

Note: A rank of 1 is best, 50 is worst.

Tax Foundation, 2016 State Business Tax Climate Index

RANKINGS

ALL STATE TAXES

SC ranks 24 in the PWC 2016 Aerospace Manufacturing Attractiveness Rankings

SC ranked 21st on Tax Rank

RANKINGS
ALL STATE TAXES
AREA DEVELOPMENT, 2016 TOP STATES FOR DOING BUSINESS

SOUTH CAROLINA

- Overall Rank- 2ND
- Corporate Tax Environment- 10TH
- Business Incentive Programs- 1
- Cooperative & Responsive State Government- 2ND
- Favorable Regulatory Environment- 3D
- Most Improved Economic Development Policies- 3D

RANKINGS

ALL STATE TAXES

- #42 overall in State & Local Tax Burden as a Percentage of State Income (50th being lowest tax burden and best; based on FY 2012); NC was 20th

Rich States, Poor States (2015).

RANKINGS

ALL STATE TAXES

- #36 Top Marginal Personal Income Tax Rate
- #43 Personal Income Progressivity
- #30 in Property Tax Burden (\$29.96 per \$1,000 of personal income)
- #23 in Sales Tax Burden (\$20.25 per \$1,000 of personal income)
- #19 in Remaining Tax Burden (\$16.77 per \$1,000 of personal income)

Note: A rank of 1 is best, 50 is worst.

Rich States, Poor States (2016), ALEC – Laffer State Economic Competitiveness Index.

RANKINGS ALL STATE TAXES

The U.S. Chamber of Commerce, *Enterprising States Study* which measures state performance overall and across five policy target areas important for job growth and economic prosperity. The study named South Carolina in the top ten in four out of six categories, including 10th in Business Climate – State and Local Tax Burden.

RANKINGS

ALL STATE TAXES

South Carolina ranked 39th in the recent KPMG Tax Foundation *Location Matters* report. I emailed KPMG and their response was as follows:

The reason for South Carolina's poor ranking is high property taxes. In fact, South Carolina offers one of the most generous job credits in the nation, which helps the state rank among the best for low corporate income taxes. South Carolina also ranks in the top quartile for sales taxes, as well as for unemployment insurance taxes due to very generous rebates valued at more than four times the national average.

South Carolina ranks either last or in the bottom 10% for property tax burden in all business scenarios. The cities selected for this analysis, Columbia and Spartanburg, levy the highest tax rate on business equipment among all 100 cities studied, at 4.73% and 4.82% respectively, and among the highest tax rates on land and buildings. Even though South Carolina's property tax incentive is roughly three times the national average, the state ranks 46th with one of the highest property tax burdens in the country for capital-intensive manufacturing operations.

Despite having overall favorable tax burdens and generous rebates and credits, South Carolina's very high tax property burden is negatively impacting its overall rankings for new and existing businesses, at 47th and 43rd respectively.

RANKINGS ALL STATE TAXES

The Location Matters Report makes clear that property taxes is almost exclusively the reason why SC fared poorly. For example, the Report states "South Carolina's 49th ranking on property taxes more than negates its 10th place ranking for corporate income taxes."

RANKINGS ALL STATE TAXES

Similarly, the Report notes:

South Carolina's property tax incentive, manufacturer's tax abatement, is roughly three times the national average yet the state ranks 46th with one of the highest property tax burdens in the country for manufacturing operations.

RANKINGS ALL STATE TAXES

Location Matters concludes:

South Carolina ranks 32nd overall for mature operations and 34th overall for newly established operations.

RANKINGS

ALL STATE TAXES

MANUFACTURING

South Carolina's lightest tax costs are on mature labor-intensive manufacturing firms, where the state ranks ninth nationally. The firm's total effective tax rate (TETR) is 8.2 percent – almost 30 percent less than the national average.

However, the firm also faces the third-highest property tax burden in the country.

RANKINGS
ALL STATE TAXES
DISTRIBUTION CENTERS

The distribution center has the heaviest tax cost of any mature operation in the state with the TETR of 35.6 percent, 16 percent above the national average.

RANKINGS
ALL STATE TAXES
RETAIL

South Carolina ranks 49th for having one of the highest tax costs for newly established retail operations with a TETR of 46 percent, which is 41 percent higher than the national average. Though the state has one of the lightest income tax burdens for this type of firm (ranking 10th), it has one of the highest property tax burdens (ranking 49th).

RANKINGS

ALL STATE TAXES

MANUFACTURER

Lastly, the Report states:

South Carolina also ranks 42nd for newly established capital-intensive manufacturing firms, with the typical firm facing a tax burden 72 percent higher than the national average. The state imposed the highest tax rate (4.49 percent) on equipment in the country for this firm type, which greatly affects a business so reliant on equipment in production.

ALL STATE TAXES

THE STATE TAX COSTS OF DOING BUSINESS - KPMG TAX FOUNDATION 2015

LOCATION MATTERS

- #30 for Mature Company Corporate HQs incentives (NC was #5)
- #26 for New Company Corporate HQs incentives (NC was #6)
- #20 for Mature Labor-Intensive Manufacturer incentives (NC was #19)
- #19 for New Labor-Intensive Manufacturer incentives (NC was #11)
- #36 for Mature R&D Facility incentives (NC was #16)
- #32 for New R&D Facility incentives (NC was #20)
- #36 for Mature Retail incentives (NC was #5)
- #49 for New Retail incentives (NC was #10)
- #42 for Mature Capital-Intensive Manufacturer incentives (NC was #17)
- #46 for New Capital-Intensive Manufacturer incentives (NC was #35)
- #41 for Mature Call Center incentives (NC was #12)
- #31 for New Call Center incentives (NC was #20)
- #49 for Mature Distribution Center incentives (NC was #8)
- #50 (last) for New Distribution Center incentives (NC was #11)

RANKINGS

ALL STATE TAXES

Notwithstanding its high property taxes, certain industrial segments fared well in the Location Matters study.

Spartanburg SC ranks number 10 in the 10 lowest tax cost states for new Labor-Intensive Manufacturing. South Carolina ranks 27th for mature corporate headquarters, Number 9 for mature labor-intensive manufacturing, number 22nd for New Corporate Headquarters, number 18 for New Call Centers, and number 10 for new labor-intensive manufacturing.

RANKINGS ALL STATE TAXES

In addition the Location Matter study totally ignores South Carolina's major property tax incentive for new manufacturing, warehousing and commercial establishments – fee-in-lieu. (The report only includes the manufacturer's abatement.)



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