



FUNDING SOUTH CAROLINA'S FUTURE

A Practical Plan for **Tax Reform** that Creates
Equity, Stability and Growth

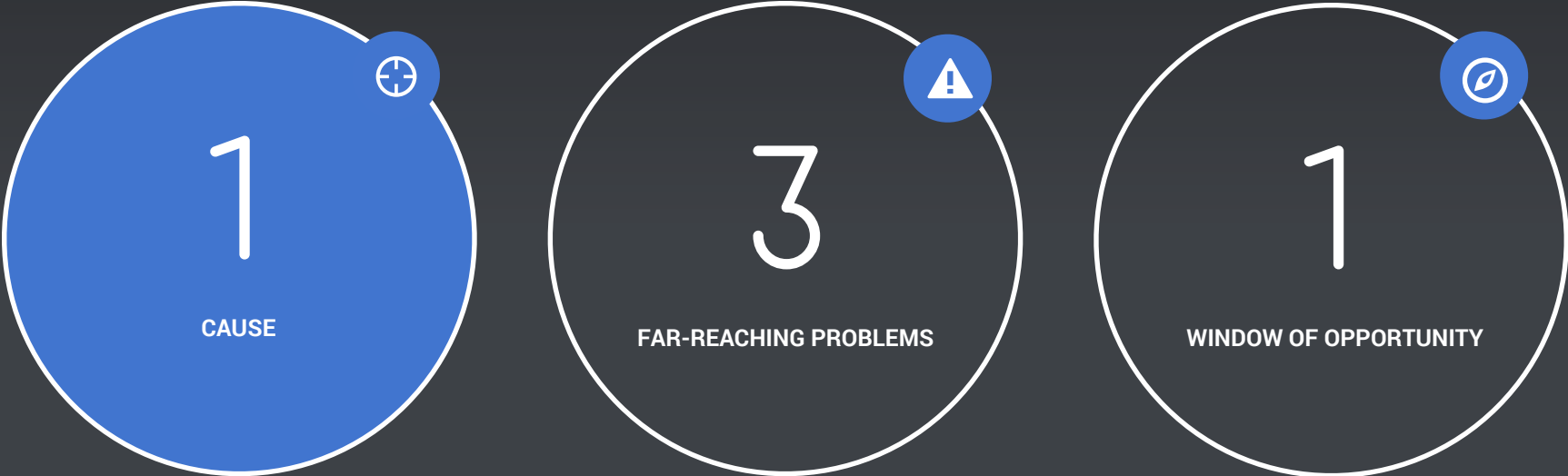


SC TAX SYSTEM



Ad hoc changes create "unintended consequences" that continue to weaken our system.

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ERODING TAX BASE

Over time, the tax base has shrunk (and continues to shrink) due to exemptions.



INCOME TAX

The number of people who pay income tax has decreased. Today, 42% pay nothing.



SALES TAX

The percent of taxable retail goods has declined to only 34% of sales.



PROPERTY TAX

The number of properties subject to the full millage rate has plummeted due to discounts secured for special interests.

HIGH TAX RATES

*A declining tax base requires higher
tax rates to maintain revenues.*

INCOME TAX

41% of taxpayers are subject to the Southeast's highest marginal tax rate of 7%.

SALES TAX

The state sales tax rate has doubled to 6%, and that's not including local sales taxes, which can be up to 3% (or 5% if you include Hospitality Tax).

PROPERTY TAX

Per-person property taxes have increased 31% in real dollars (that is, adjusted for inflation) since 1993.

UNEQUAL TAXES

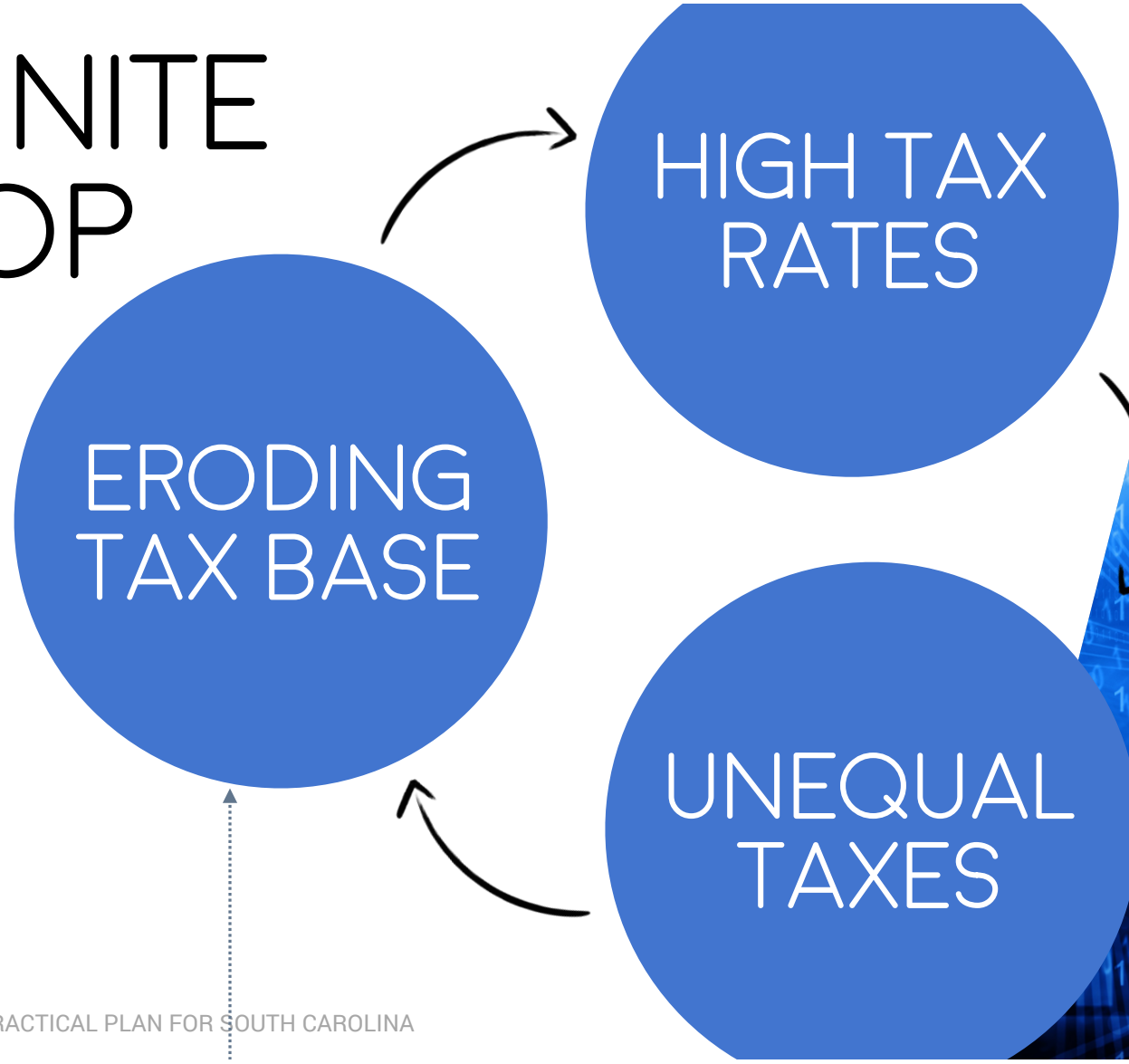
As the tax base erodes, and taxes become higher, the hardship becomes greater on those still subject to the tax.

As the hardship becomes greater on those still subject to the tax, certain taxpayers petition for breaks, which further erodes the base.

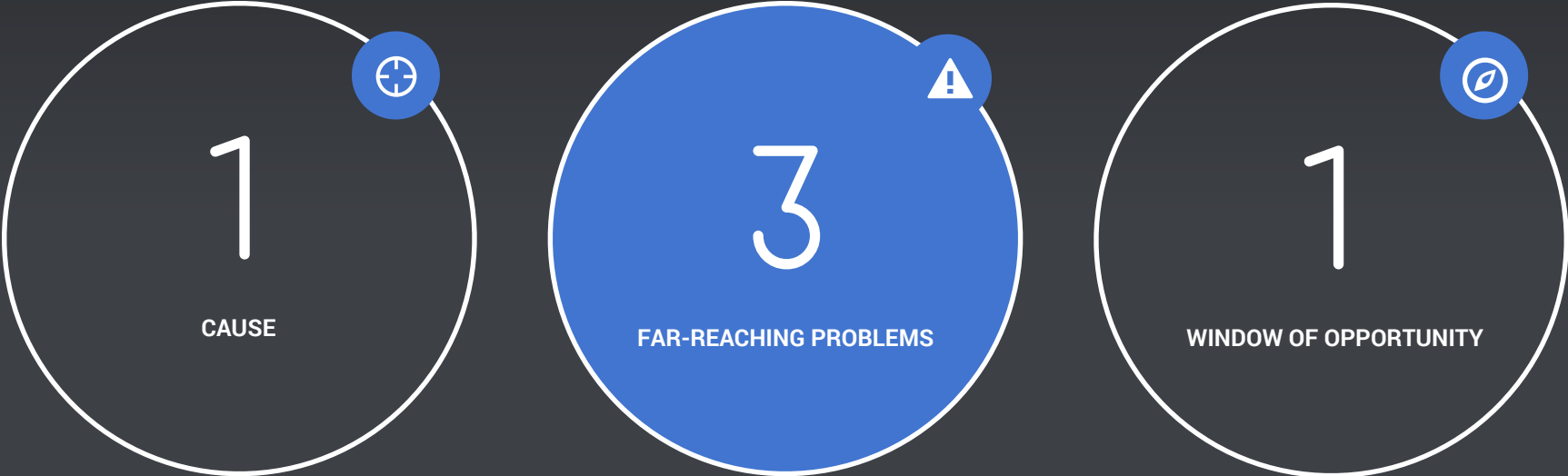
- ✓ A residential renter or small business owner can pay up to 3 times more property tax than a homeowner.

- ✓ Tax on prepared food (take-out and fast food) can be up to 10% in certain counties, while tax on grocery store food is 0% to 2%.

INFINITE LOOP



SC TAX SYSTEM



Ad hoc changes create "unintended consequences" that continue to weaken our system.

3 FAR-REACHING PROBLEMS



NOT FAIR

1



NOT SUSTAINABLE

2



DOES NOT
PROMOTE GROWTH

3



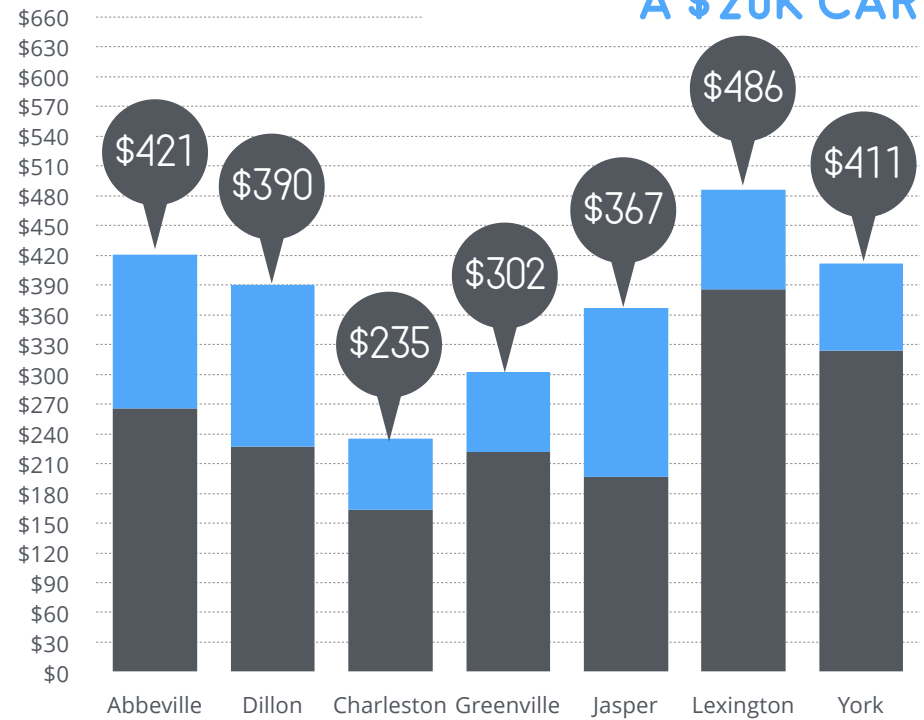
NOT FAIR

PROPERTY TAX DISPARITY (ACROSS COUNTIES)

Property tax rates vary widely across counties and school districts, placing different tax burdens on residents for the same services.

■ County ■ School

PROPERTY TAX ON A \$20K CAR



Source: Author's calculations based on "South Carolina Property Tax Rates by County, 2016," South Carolina Association of Counties, January 2017.



PROPERTY TAX DISPARITY *(WITHIN COUNTIES)*

PROPERTY TAX ON IDENTICAL \$200K HOUSE IN RICHLAND DISTRICT 2



\$1,861

Owner-Occupied Home



\$6,619

Rental Home



\$1,396

Owner-Occupied Home
of Person 65 or older

Source: Author's calculations based on "South Carolina Property Tax Rates by County, 2016." South Carolina Association of Counties, January 2017.

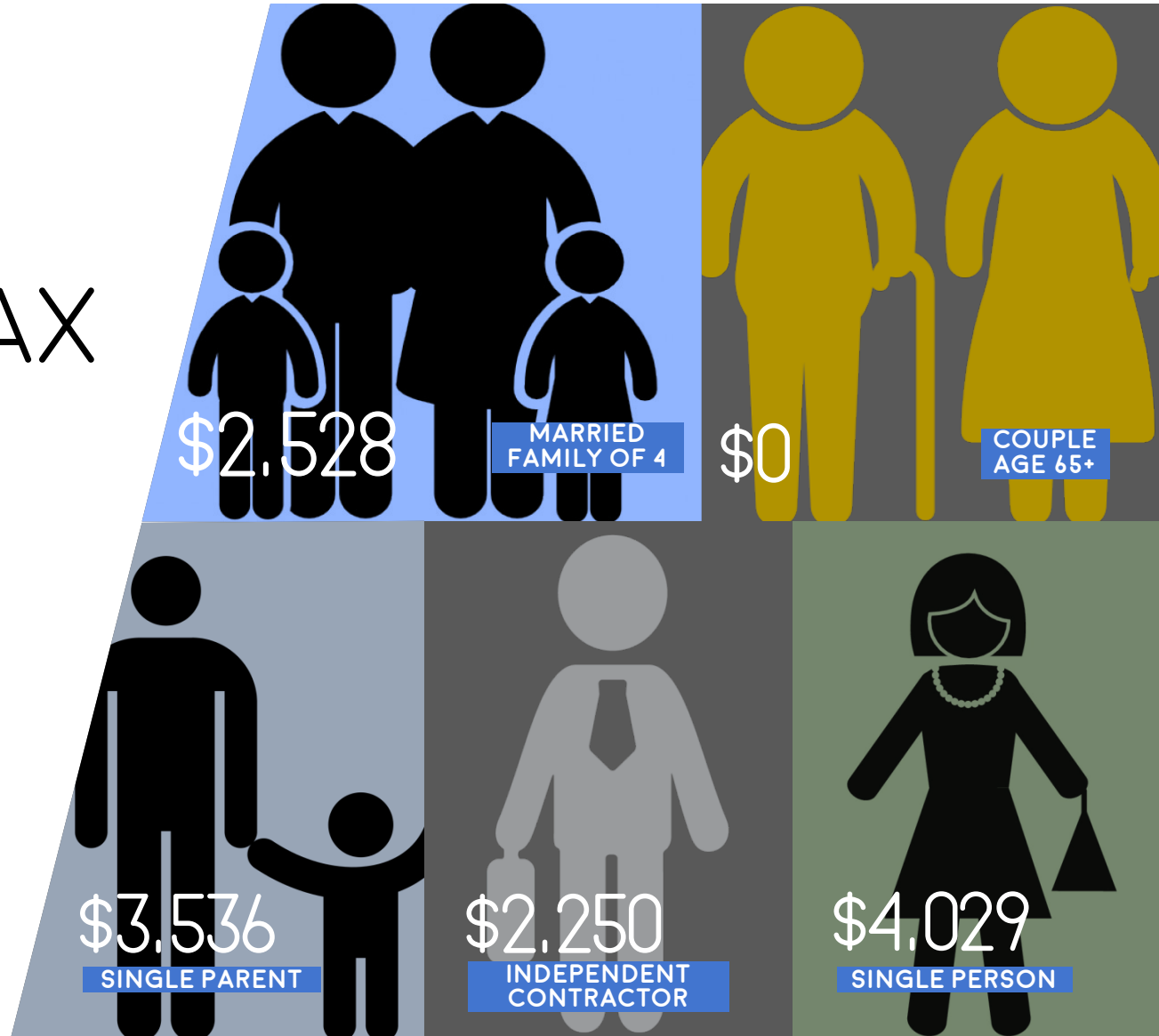


INCOME TAX DISPARITY

SC maintains 60+ legislatively-created credits and deductions, totaling over \$890M in 2014, and growing each year. Selective credits create *disparity between taxpayers, taxing some more than others.*

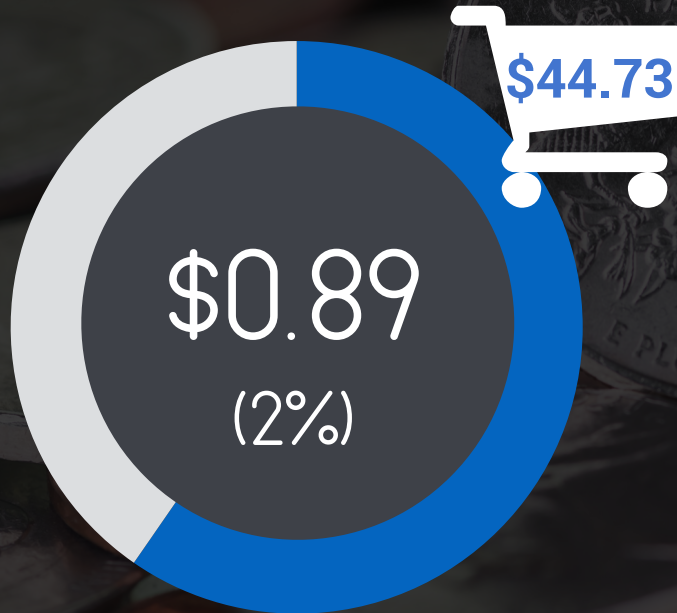
INCOME TAX ON
\$75,000

TAX REFORM – A PRACTICAL PLAN FOR SOUTH CAROLINA

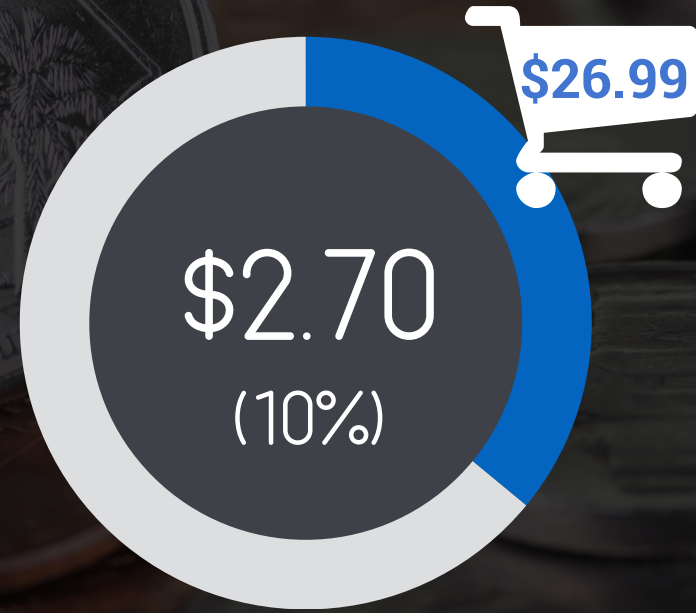




SALES TAX DISPARITY



Tax on four 7oz sashimi grade tuna steaks, sesame oil, organic Asian salad, and a bottle of Perrier at Fresh Market (totaling \$44.73).*



Tax on a 12-Piece Family Meal at Bojangles' (totaling \$26.99).*

*Assumes state, local, and hospitality sales taxes in Richland County.

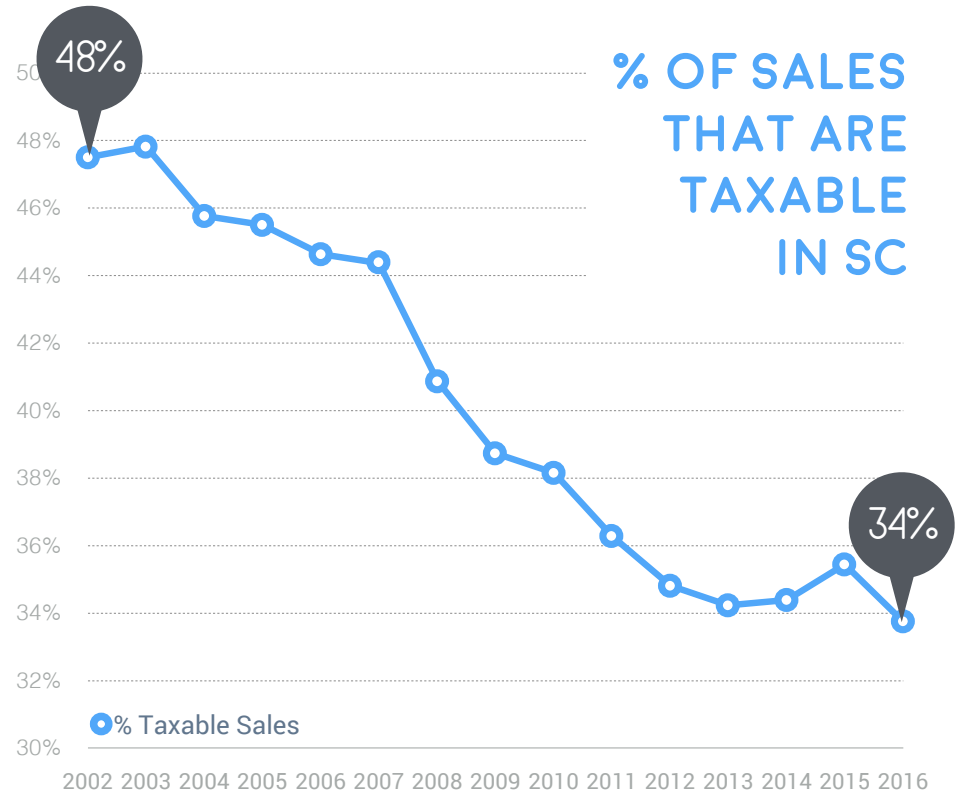


NOT SUSTAINABLE

DECLINING SALES TAX BASE

The percent of sales which are taxable has been declining in SC for two reasons:

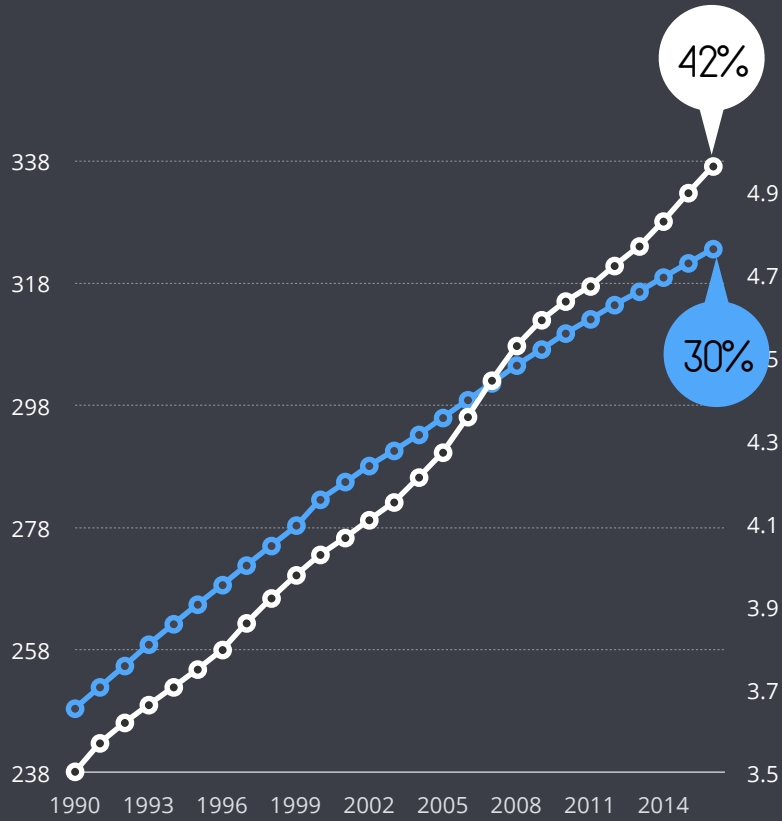
1. *Shifting consumer purchases from goods to services, and*
2. *Increasing legislatively created exemptions.*



Source: Annual Reports, Fiscal Years 2002 - 2016, SC Department of Revenue (DOR) (online: <https://dor.sc.gov/communications/reports>).



NOT SUSTAINABLE



US SC

Source: US Census Population Estimates by State (online: <https://www.census.gov/>).

GROWING POPULATION

South Carolina's population is growing rapidly, creating urgent service, infrastructure and education demands on the future.

United States



South Carolina





AGING POPULATION

1990



19.7%

2 in 10
people in SC are age 55
or older, or **690,782**
people

2015



29.4%

3 in 10
people in SC are age 55
or older, or **1,439,086**
people

+ **108%**

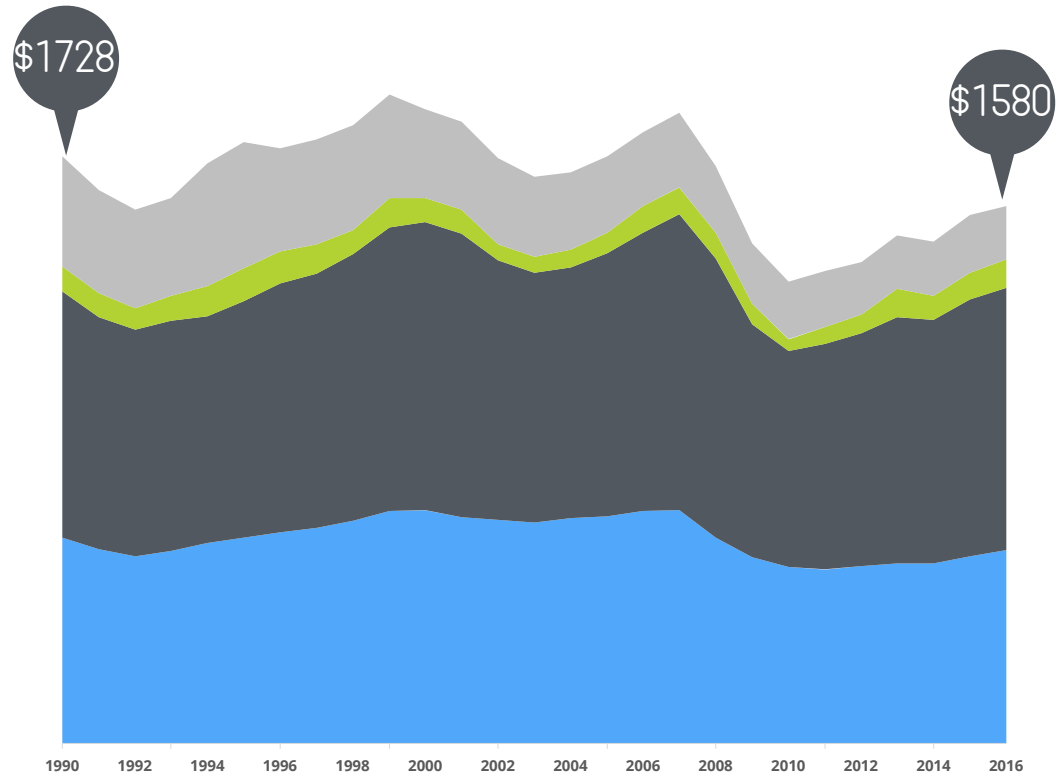
⚡ DOES NOT PROMOTE GROWTH

GENERAL FUND

Despite high tax rates, an eroding tax base prevents long run revenue stability, requiring even **higher tax rates** that impede economic growth and create even **more disparity**.

■ Sales ■ Income ■ Corporate ■ Other

Sources: "General Fund Revenue Historical Data FY 1989-90 through FY 2014-15," South Carolina Revenue and Fiscal Affairs Office, August 27, 2015. "South Carolina Revenue Plan Summary, FY 2015-16," South Carolina Revenue and Fiscal Affairs Office, August 25, 2016.



Per-Capita General Fund Revenues (2016 US\$)



DOES NOT PROMOTE GROWTH

SQUEEZING SMALL BUSINESS

\$225M
GAP



1-2-3

Tier 1, 2 and 3 reimbursements do not fully replace property tax removed from the base, and gets worse every year.



School districts raise millage even higher on those properties still left in the eroded base.



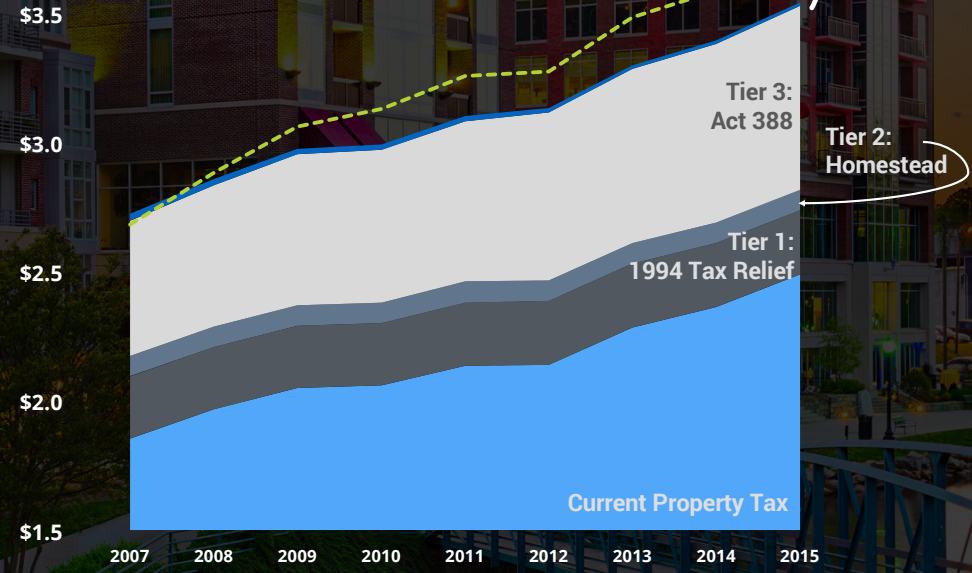
2.7X

Small business and rental properties now pay, on average, 2.7 times the property tax as residential.



\$225M

Gap between what currently is raised and what would have been raised with no reimbursement scheme.




■ Current Property Tax
 ■ Tier 1
 ■ Tier 2
 ■ Tier 3
 ■ Tier 3 Supplemental
 - - - Estimated Property Tax (w/o Reimbursements)

Source: Author's calculations based on "School District Detailed Index of Taxpaying Ability" dataset, Tax Year 2015 (provided by SC Department of Revenue); Final Tier III Reimbursements for FY 2015-16, SC Revenue and Fiscal Affairs Office (online: <http://rfa.sc.gov/files/FY2015-16%20Tier%20III%20Final.pdf>); Trust Fund for Property Tax Relief, FY 2016, SC Revenue and Fiscal Affairs Office (online: <http://rfa.sc.gov/files/TrustFundFY2016Nov10.pdf>).



DOES NOT PROMOTE GROWTH


COMPETITIVE DISADVANTAGE



INDUSTRY
1ST

Columbia has the **highest** industrial rate among the largest cities in each state.


\$84,046*



BUSINESS
7TH

Columbia has the **7th highest** commercial and apartment property rate among the largest cities in each state.


\$38,883*



AUTO
6TH

South Carolina has the **6th highest** property tax rate on automobiles.

\$546*



HOME
47TH

Columbia has the **6th lowest** owner-occupied home tax rate among the largest cities in each state.

\$1,318*

Sources: *50 State Property Tax Comparison Study for Taxes Paid in 2016. Lincoln Institute. June, 2017. 2017's Property Taxes by State. WalletHub. Mar 1, 2017. (online: <https://wallethub.com/edu/states-with-the-highest-and-lowest-property-taxes/11585/>). *Notes: Price based on a median home of \$172,400; a new Toyota Camry valued at \$23,070; Commercial and industrial building and land valued at \$1M. The homeownership rate within the city of Columbia is 45.1% per the US Census American Community Survey.

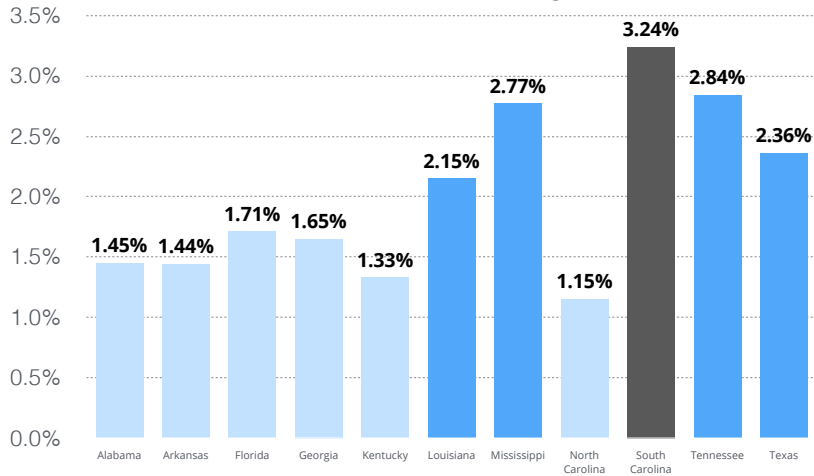


DOES NOT PROMOTE GROWTH

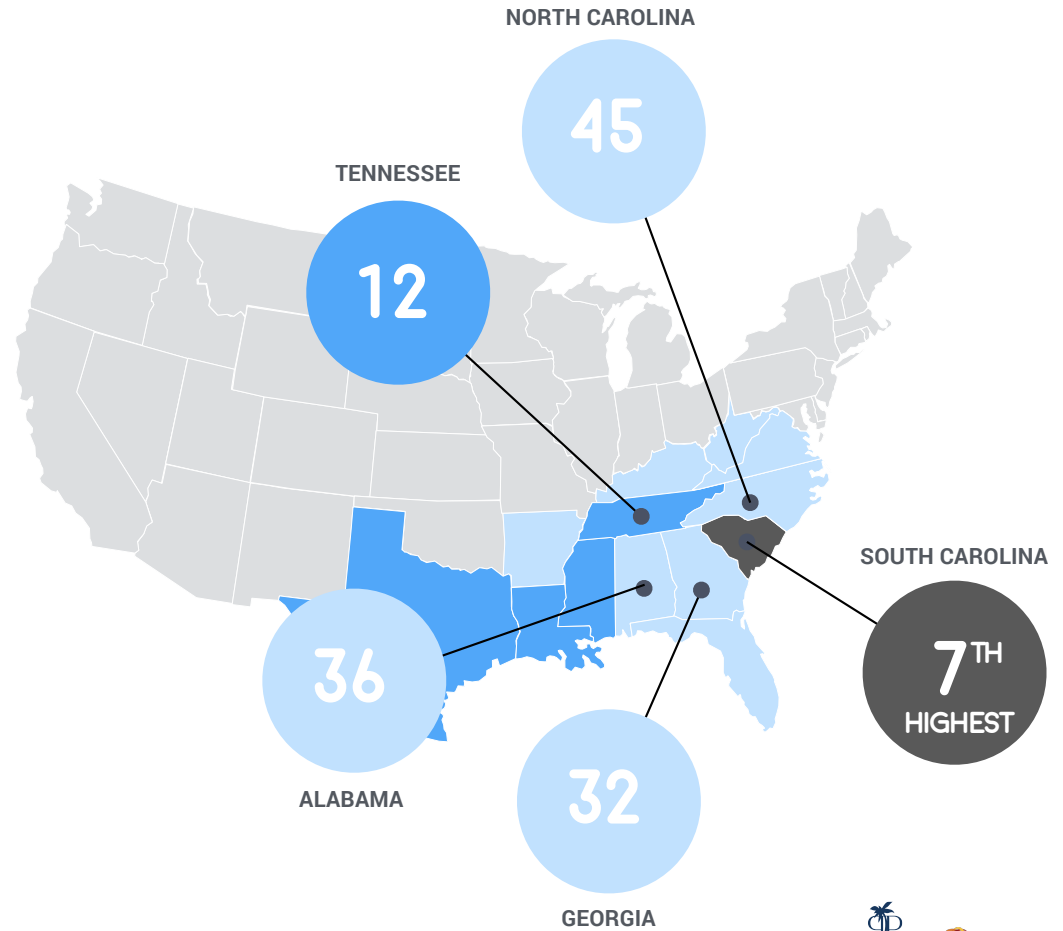
COMPETITIVE DISADVANTAGE

3 FAR-REACHING PROBLEMS

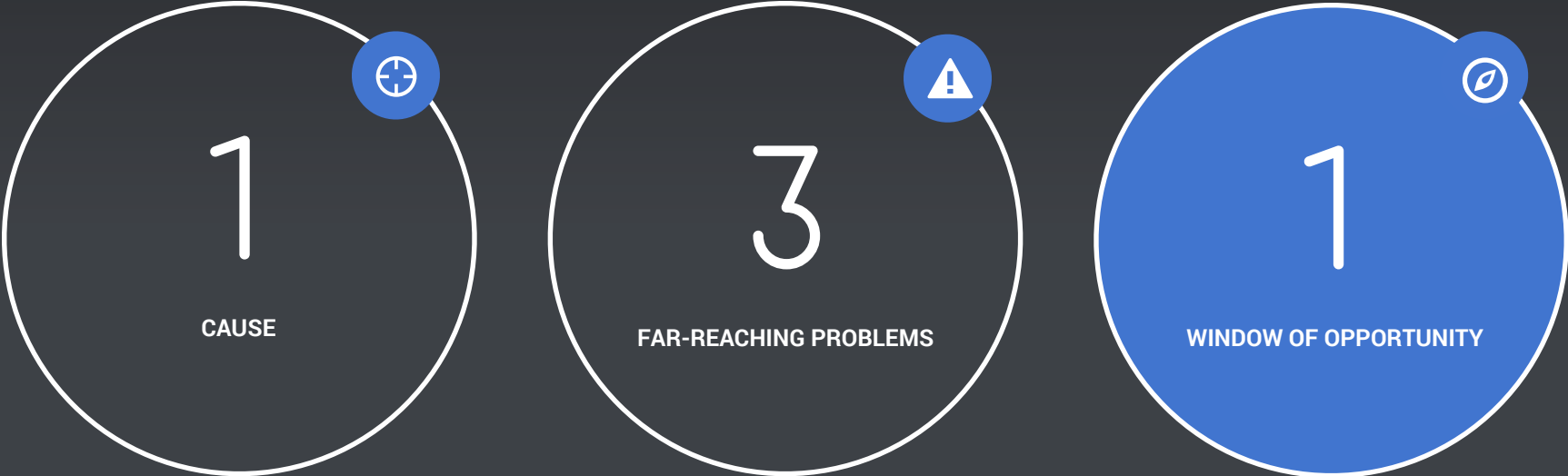
Tax on Commercial Property



Source: "50 State Property Tax Comparison Study for Taxes Paid in 2016. Lincoln Institute, June, 2017. Represents Commercial tax rates of largest city in each state.

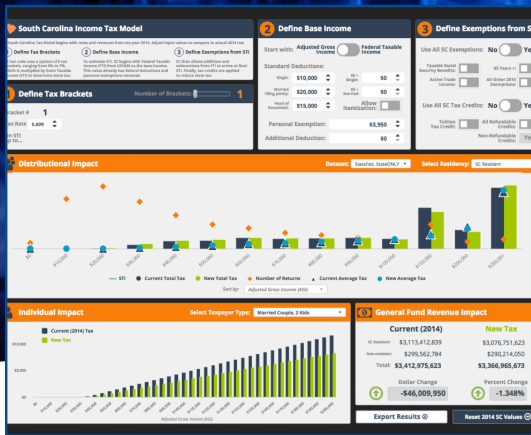


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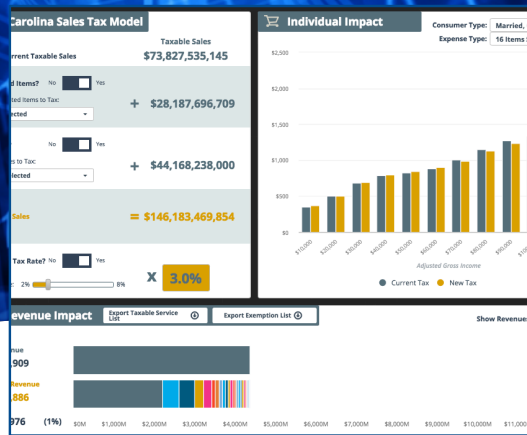
THE MODEL



INCOME TAX



Based on dataset provided by the SCDOR representing 1,976,298 SC1040 resident returns and 269,941 non-resident returns filed for tax year 2014.



SALES TAX



Based on 3 datasets, including 2012 US Economic Census, 2015 US Consumer Expenditure Survey, and SCDOR retail sales returns filed by SC businesses between 9/15 and 8/16.



PROPERTY TAX



Based on 4 datasets, including SCAC Millage Rates by County, 2015 SC Assessed Property by School District, 2015 Homestead Exempted Values, and 2015 Property Tax Reimbursement.

SHIFT TO A
FLAT INCOME TAX OF

5%

WITH STANDARD
DEDUCTIONS OF \$10K
FOR SINGLE & \$20K
FOR MARRIED.

CUT SALES
TAX TO

3%

ON A BROADER, MORE
EQUITABLE BASE OF
GOODS AND
SERVICES.

SHIFT TO A

4% / 6%

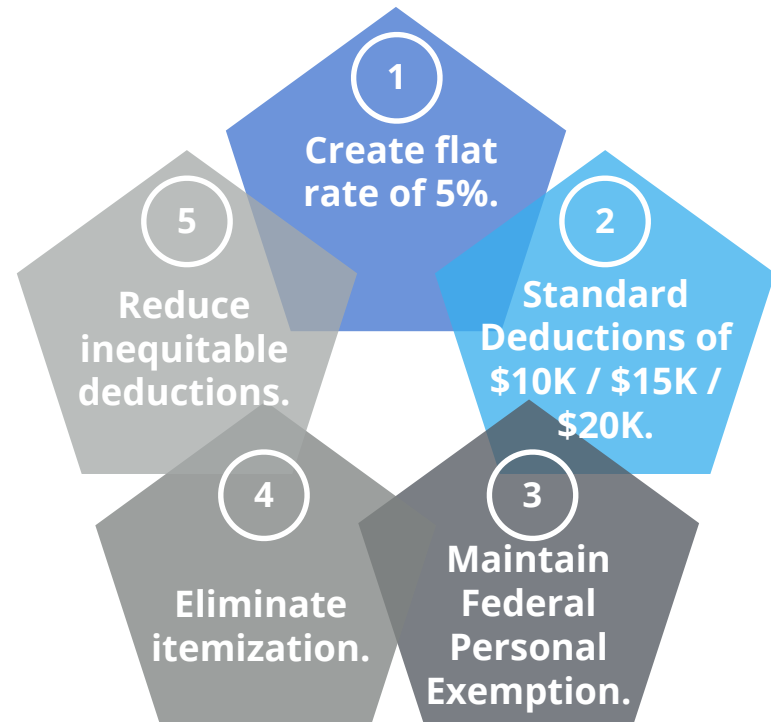
ASSESSMENT RATE. 4% OWNER-
OCCUPIED / 6% ALL OTHER
CATEGORIES WITH STATEWIDE
SCHOOL MILLAGE.

LOW TAX.
BROAD BASE.

EQUITY. STABILITY. GROWTH.

INCOME TAX

A flat tax rate with standard deductions and exemptions will reduce disparity between taxpayers, and ensure continued stable revenues as population changes over time. Simplicity will decrease administrative burden in providing oversight, ensuring compliance, and detecting fraud.





INCOME TAX

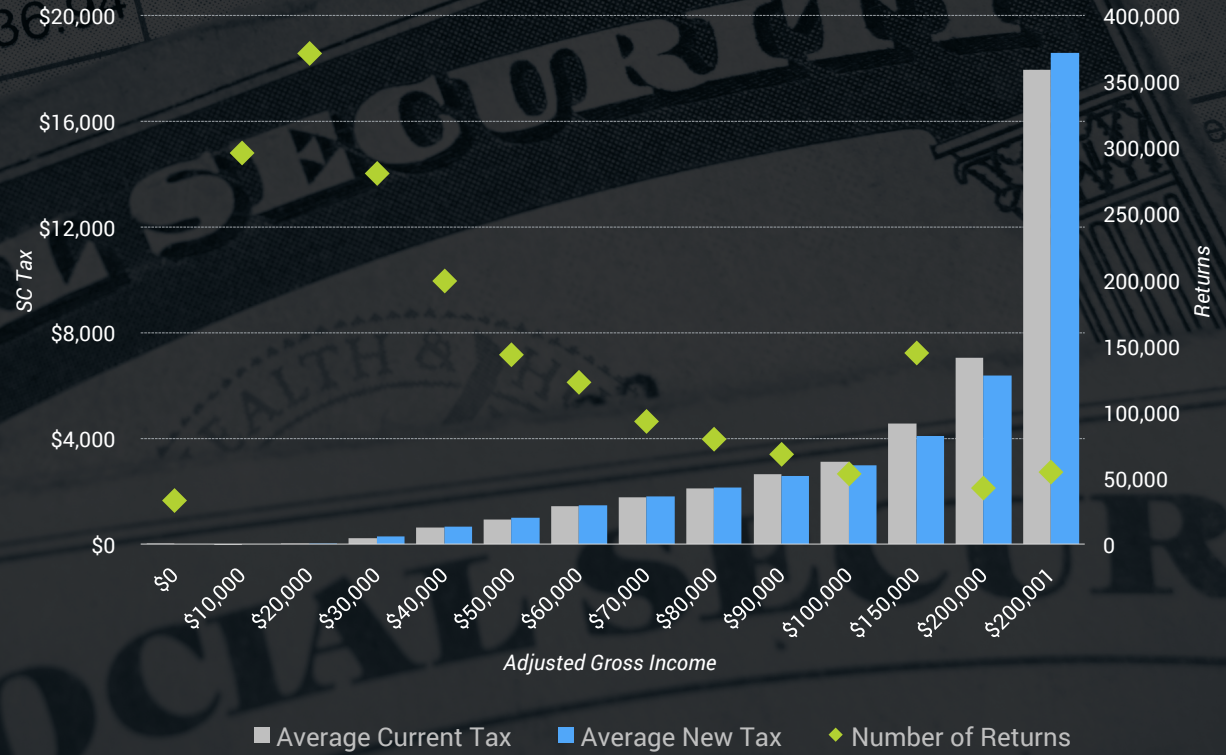
SOLUTION

GENERAL FUND IMPACT

INDIVIDUAL IMPACT

+2.1%

+\$71M



EQUITY. STABILITY. GROWTH.

SALES TAX

1

**Broaden Base to Exempted
Goods and Services**

Stabilize Tax System

As base of goods and services increases.

2

**Reduce Statewide
Rate to 3%**

Reduce Price Disparity

Between taxed and non-taxed goods.

3

**Cut Local Rates by
Corresponding 1/2**

Reduce Regressivity

Among multiple categories of goods and services (Example – cars, food).



SALES TAX

SOLUTION

\$73.8B

Current Taxable Sales
(9/15-8/16)

+ \$28.2B

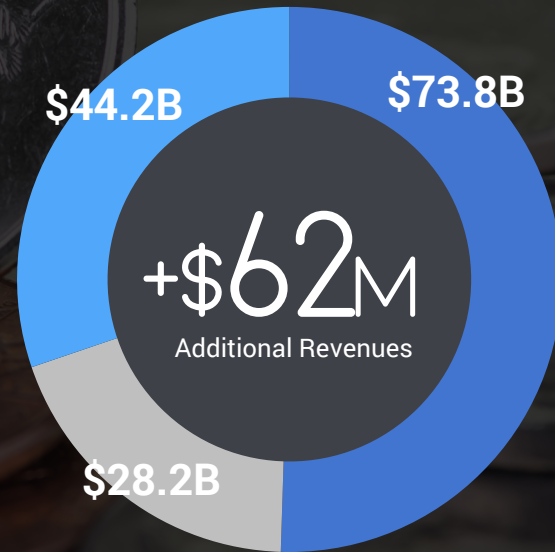
Currently "Exempt" Sales
From \$154.7B in exempt/excluded sales were removed re-sales, out-of-state sales, accounting items, gasoline, & questionable categories.

+ \$44.2B

Currently Non-taxed Services
Non-taxed services do not include Education, Hospitals, Ambulatory Health Care, Nursing Home, and Social Assistance.

× 3%

Reduced Statewide Rate
Requires a corresponding 1/2 reduction in local rates.



Source: Data provided by South Carolina Department of Revenue, detailing gross sales and exemptions by return type, tax type, filing method, and deduction type for each monthly filing period between September 2015 and August 2016.

EQUITY. STABILITY. GROWTH.

PROPERTY TAX

Level rates and uniform oversight will restore equity among taxpayers who currently pay dramatically different rates for the same property. The new statewide millage would reverse the problems of Act 388 and provide schools with a balance of sales and property tax based revenues.

- 1 Repeal Act 388 and Level Property Tax Rates
- 2 4% Owner-Occupied / 6% Other Property Assessment Rate
- 3 Statewide Minimum School Millage
- 4 Statewide Authority for Uniform Appraisals
- 5 Reduce exemptions favoring certain taxpayers over others

EQUITY. STABILITY. GROWTH.



Proven Ideas And Bold Leadership Have Never Been More Needed

Real change demands proactive, **well-thought out solutions** that are incrementally **phased in** over a well-crafted implementation period of 5 to 7 years.

PHASE

1

INCOME & SALES TAXES

Initiate implementation of income and sales tax reform changes.

Work with the Department of Revenue!

Develop detailed plan to phase in changes over 5 to 7 years.

Develop system of triggers to further lower tax rates as revenue targets are met or exceeded.

PHASE

2

PROPERTY TAX

Embark on a fuller analysis of property tax, combining with education funding.

Evaluate data on ALL properties.

Combine with K-12 education funding reform.

Integrate triggers and implementation plan with Income and Sales plans.



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