

FUNDING SOUTH CAROLINA'S FUTURE

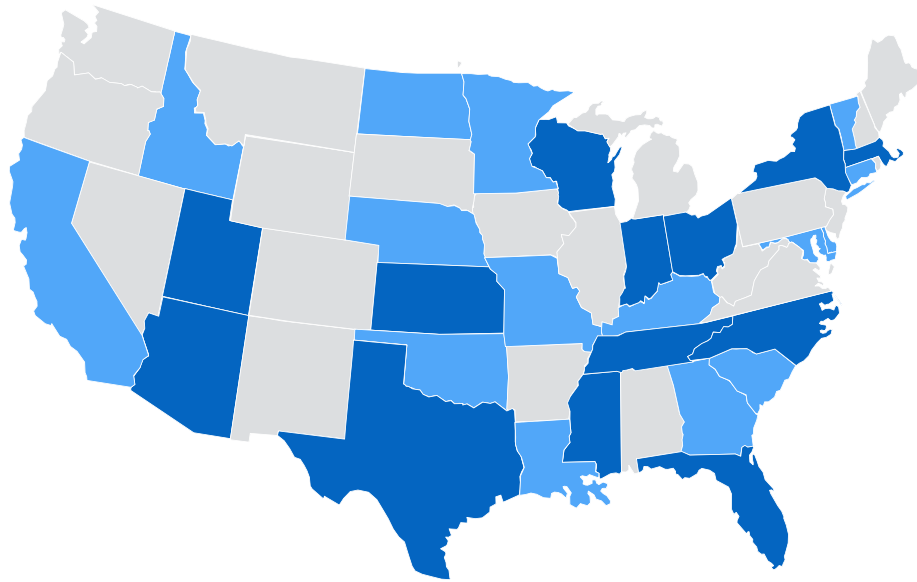


A Practical Plan for **Tax Reform** that Creates
Equity, Stability and Growth

Presented by Dr. Rebecca Gunnlaugsson
January 2019



STATE TAX REFORM EFFORTS



SINCE 2010...

23

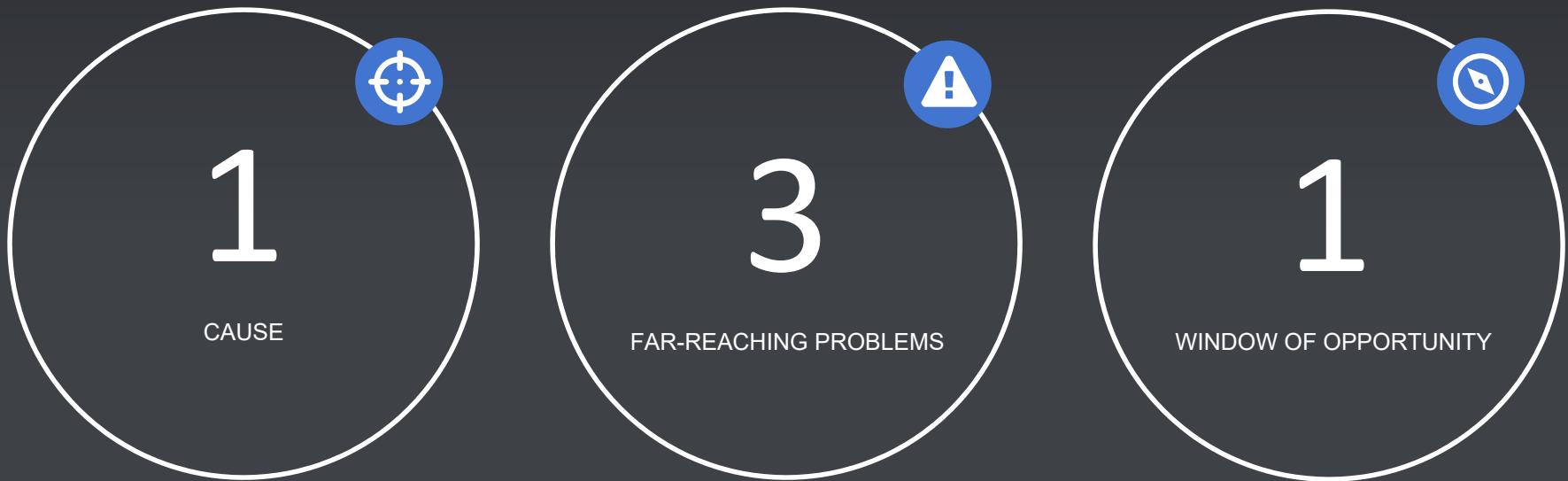
States Established
Commissions or Task
Forces

14

States Passed
Reforms

Source: Auxier, R. "State Tax Commissions, 2006-1016." Urban Institute, November 2016. Pathuk, R. et. al. "State Tax Reform Efforts: 2010-2015." The Center for State and Local Finance, January 26, 2016. "State Tax Cut Roundup." 2014 - 2016. American Legislative Council Exchange.

SC TAX SYSTEM



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

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 35% 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.

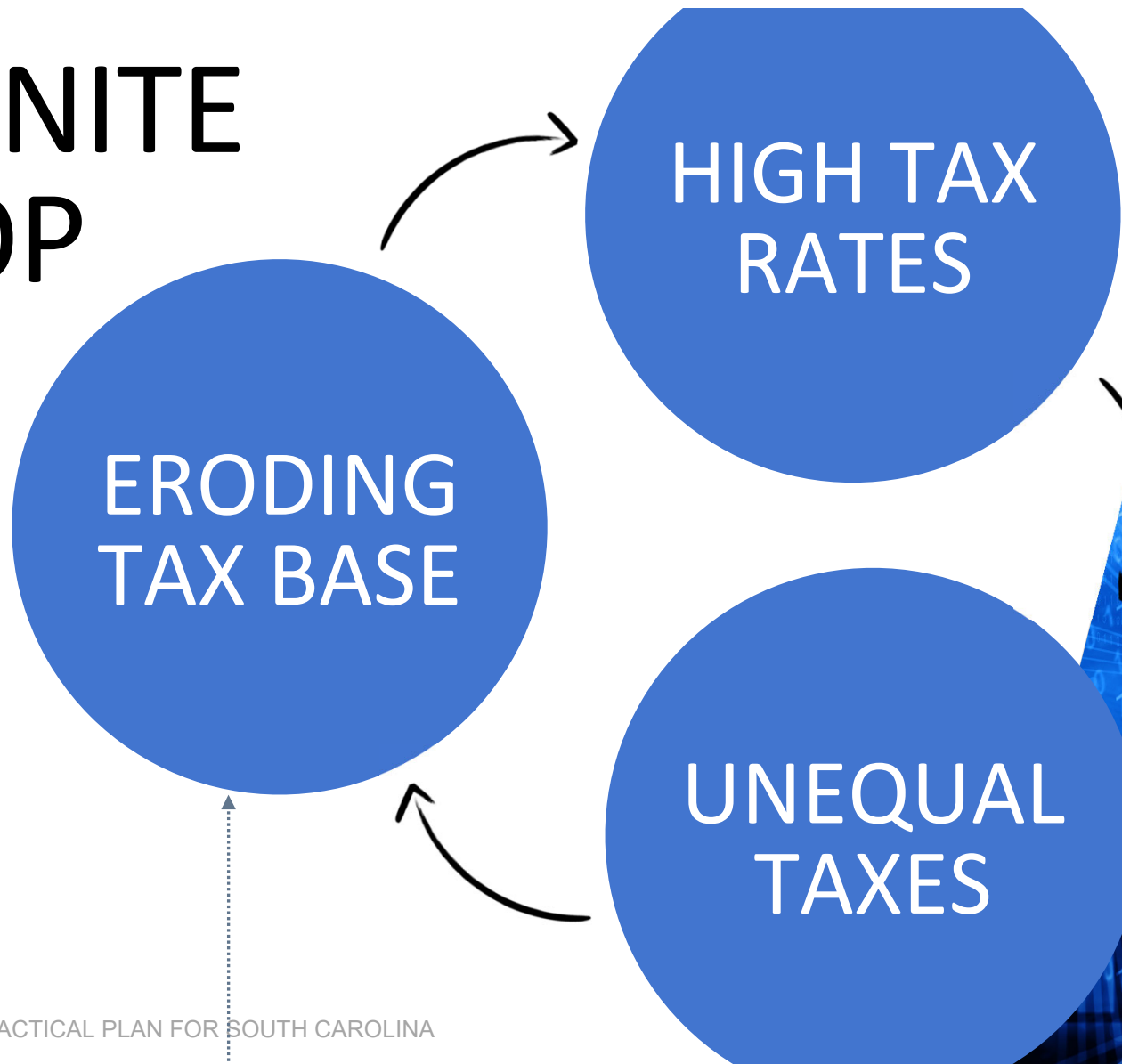


A residential renter or small business owner can pay up to 3 times more property tax than a homeowner.



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



3 FAR-REACHING PROBLEMS



NOT FAIR

1



NOT SUSTAINABLE

2



DOES NOT PROMOTE
GROWTH

3



NOT FAIR

PROPERTY TAX DISPARITY (ACROSS COUNTIES)

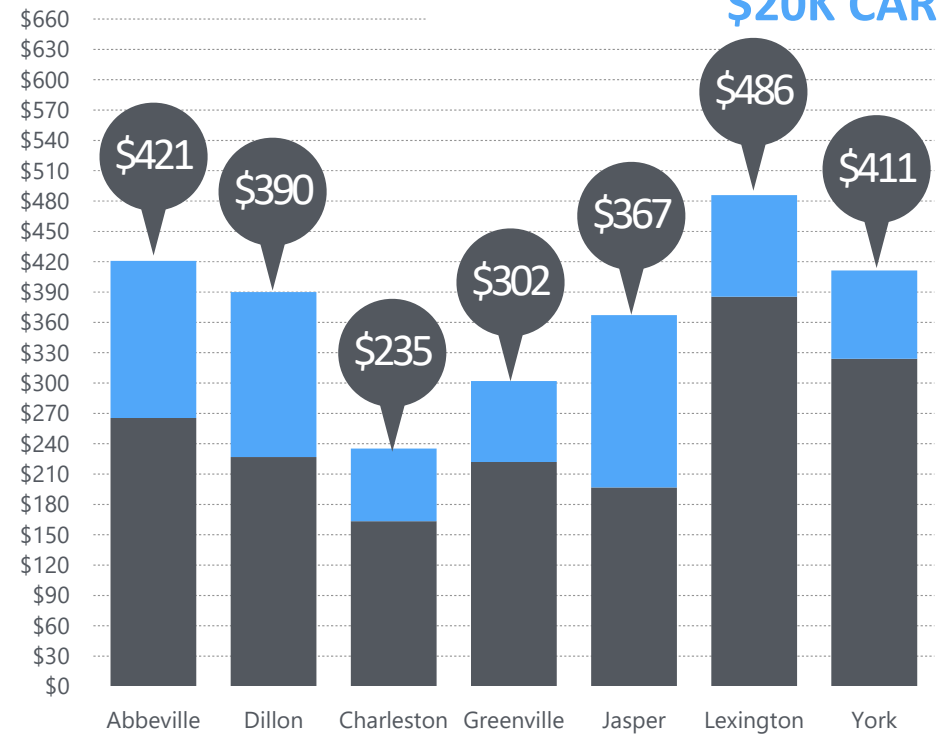
Property tax rates vary widely across counties and school districts, placing different tax burdens on residents for the same services.

■ County ■ School

3 FAR-REACHING PROBLEMS

11

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.



NOT FAIR

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.

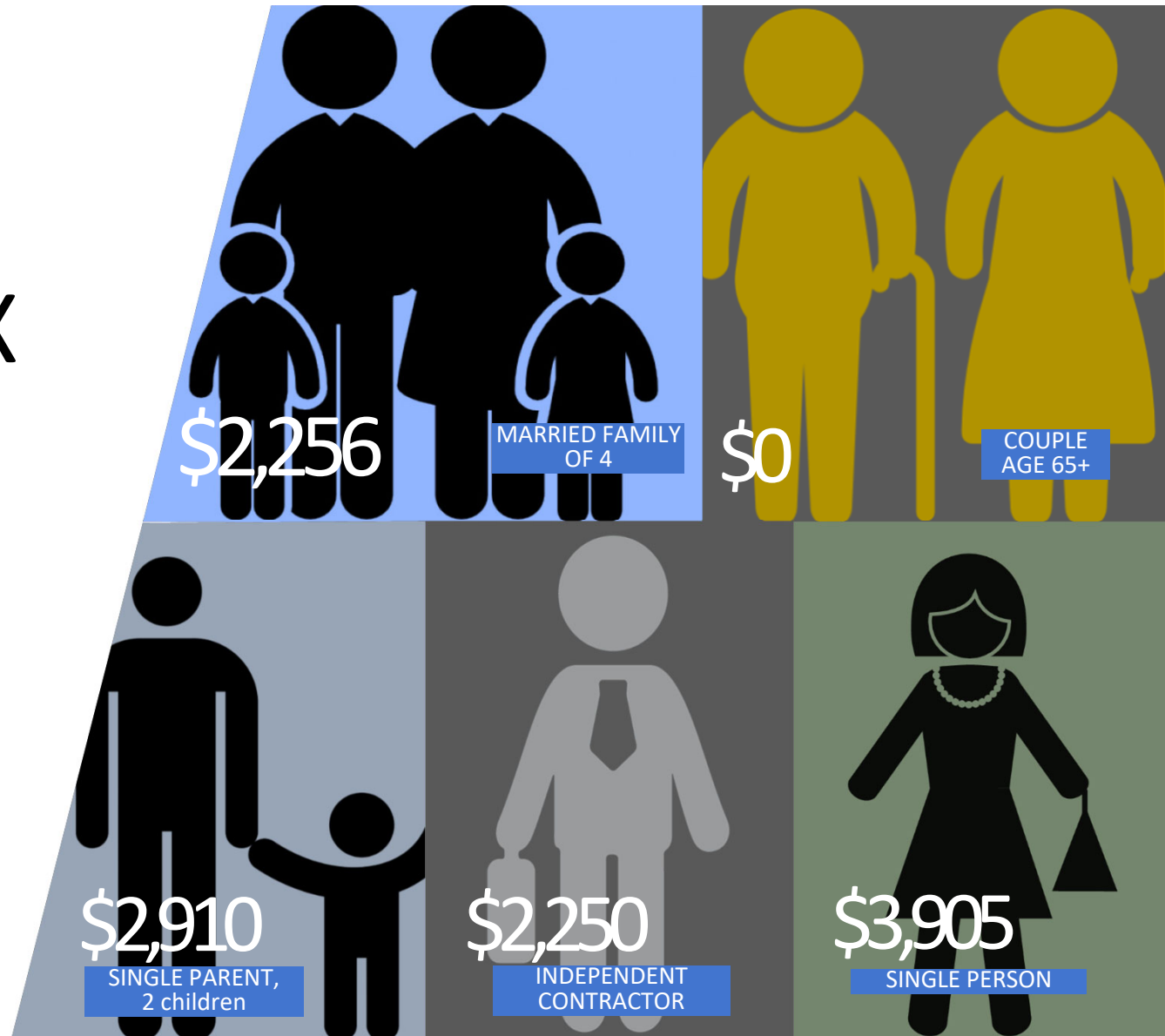


NOT FAIR

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

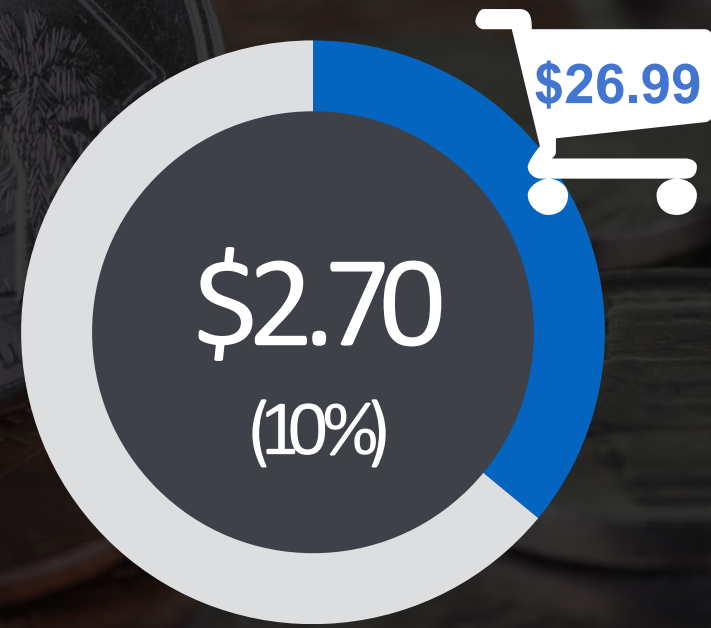




SALES TAX DISPARITY



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

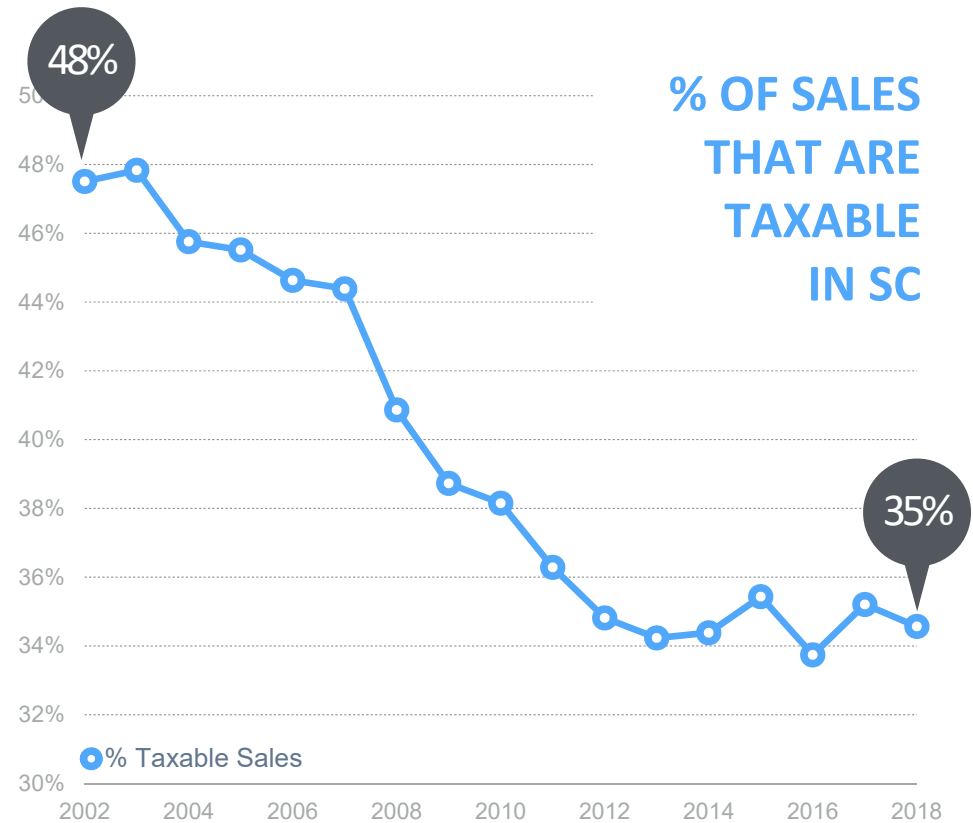
DECLINING SALES TAX BASE

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.*

3 FAR-REACHING PROBLEMS

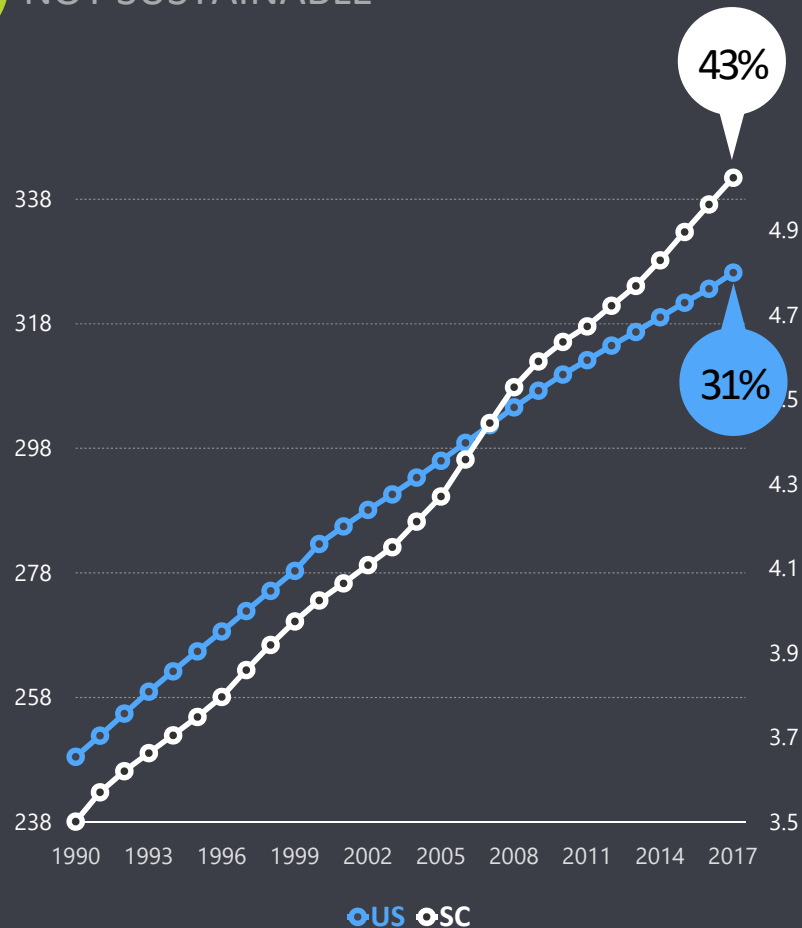
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Source: Annual Reports, Fiscal Years 2002 – 2016, SC Department of Revenue (DOR) (online: <https://dor.sc.gov/communications/reports>).



NOT SUSTAINABLE



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

3 FAR-REACHING PROBLEMS

16

GROWING POPULATION

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

United States

+31.3%
+77,736,178

South Carolina

+43.5%
+1,523,214



NOT SUSTAINABLE

AGING POPULATION

1990



19.7%

2 in 10

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

2017



30.5%

3 in 10

people in SC are age 55 or older, or **1,531,913** people

+122%



DOES NOT PROMOTE GROWTH

GENERAL FUND

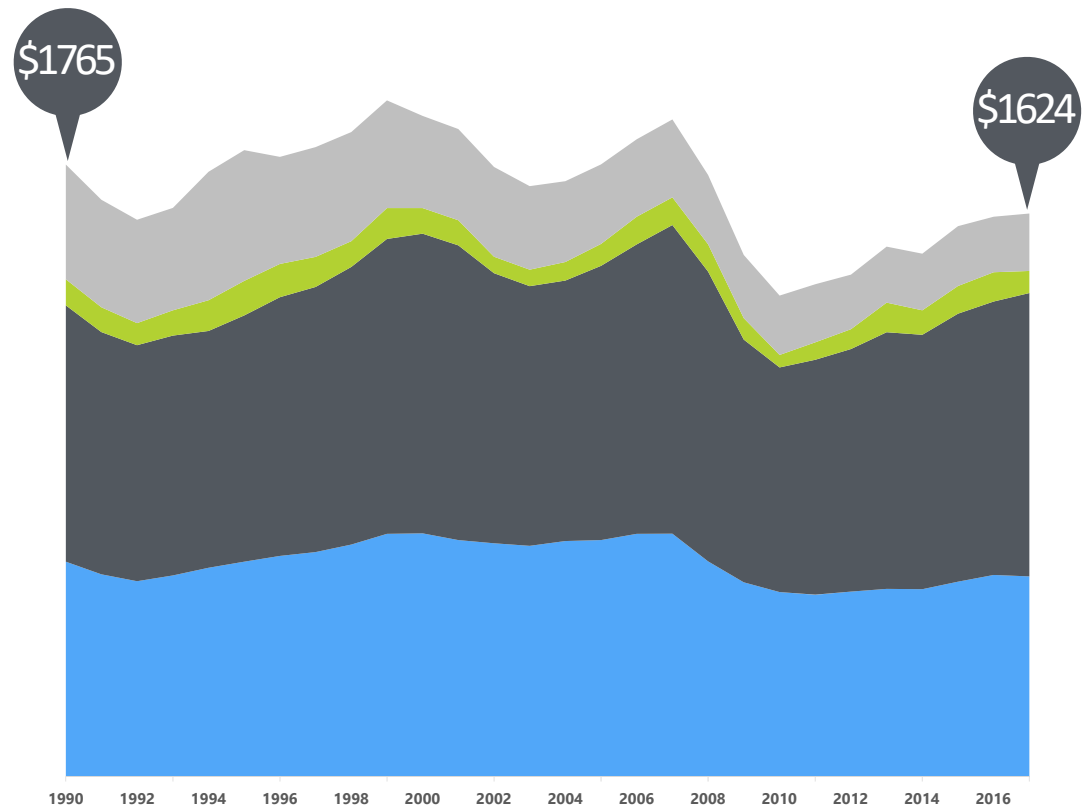
Despite high tax rates, an eroding tax base prevents long run revenue stability, requiring even **higher tax rates** that impede economic growth and create even **more disparity**.

■ Sales ■ Income ■ Corporate ■ Other

Source: "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.

3 FAR-REACHING PROBLEMS

18



Per-Capita General Fund Revenues (2017 US\$)



DOES NOT PROMOTE GROWTH

3 FAR-REACHING PROBLEMS

19

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*



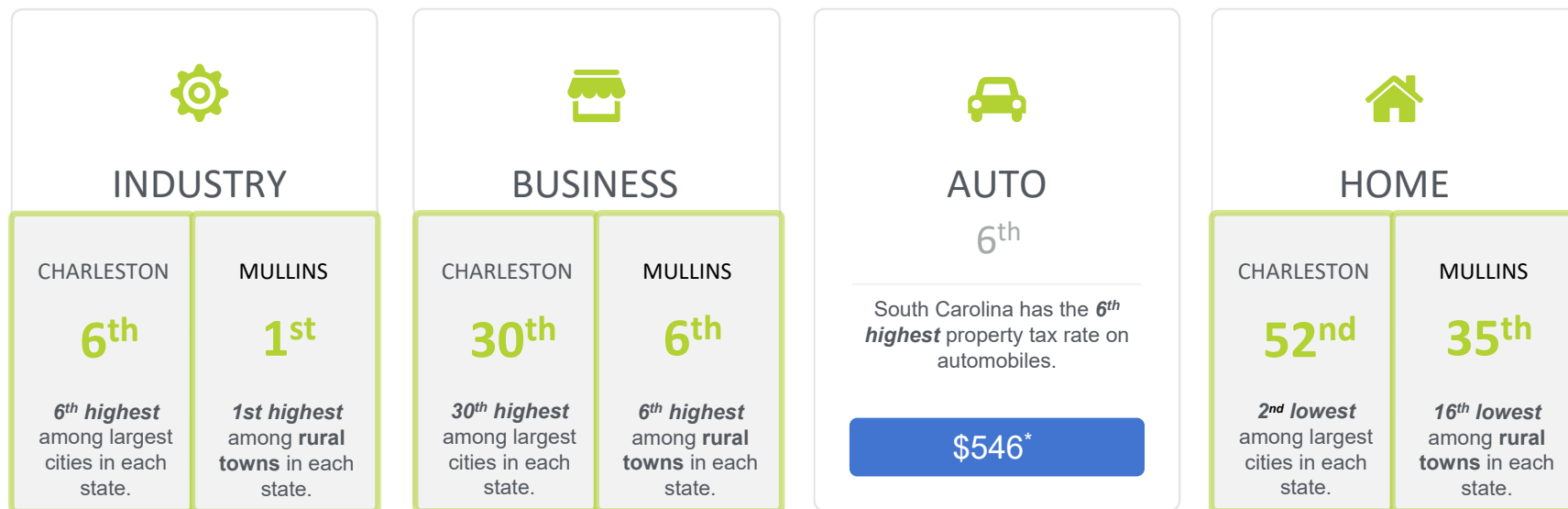
HOME
47th

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.

COMPETITIVE DISADVANTAGE



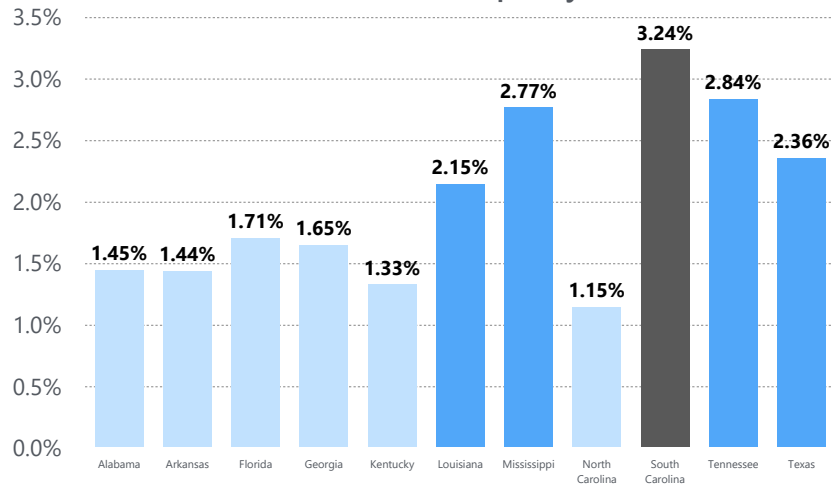
Sources: *50 State Property Tax Comparison Study for Taxes Paid in 2016. Lincoln Institute. June, 2017. *50 State Property Tax Comparison Study for Taxes Paid in 2017. Lincoln Institute. April, 2018. Lincoln Institute. June, 2017. 2017's Property Taxes by State. WalletHub. Mar 1, 2017. (online: <https://wallethub.com/edu/states-with-the-highest-and-lowest-property-taxes/11585/>) - *Notes : 2016 rice pbased 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%, and Charleston is 53.5%, per the US Census American Community Survey.



DOES NOT PROMOTE GROWTH

COMPETITIVE DISADVANTAGE

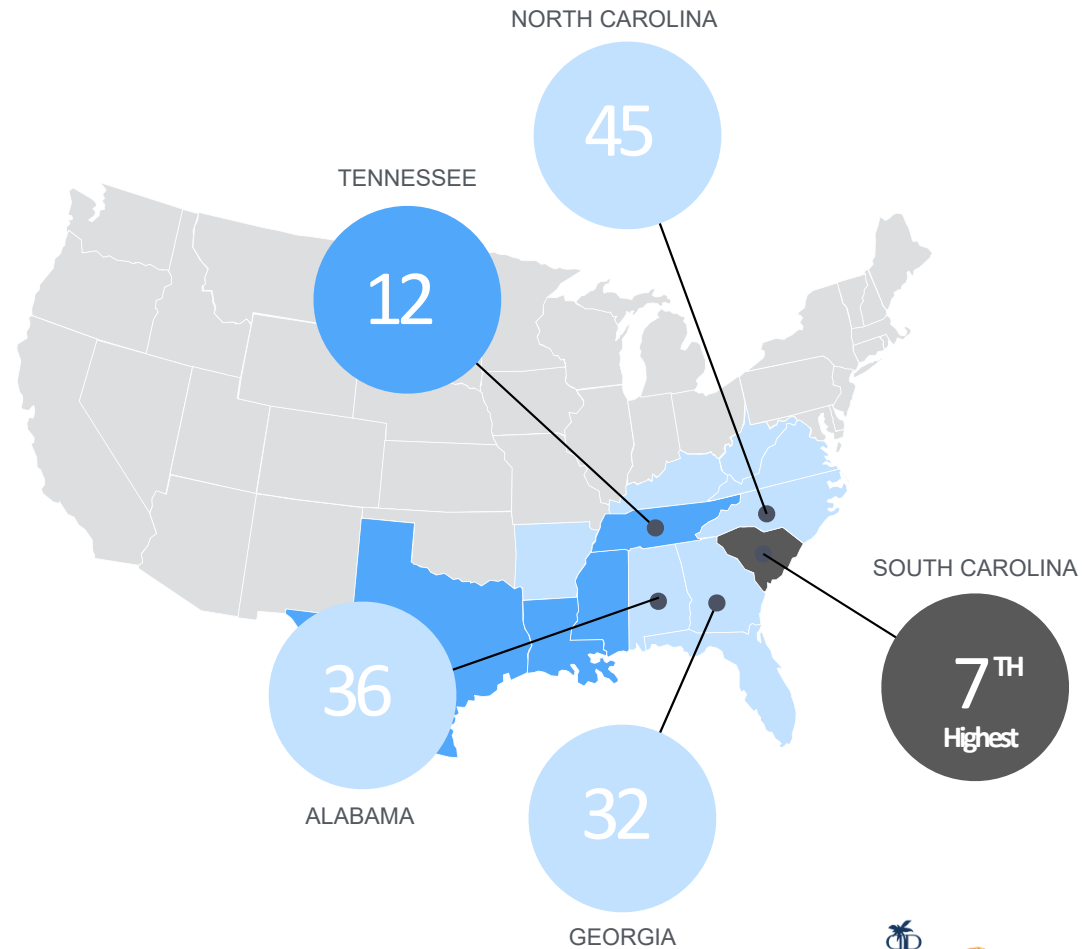
Tax on Commercial Property



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.

3 FAR-REACHING PROBLEMS

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EQUITY. STABILITY. GROWTH.

ROAD FORWARD

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 TAX
CHANGES**

Initiate implementation of income and sales tax reform changes.

Update income analysis with 2018 data.

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
CHANGES**

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.

PHASE
3

**CORPORATE & OTHER TAX
CHANGES**

Analyze all other state taxes and fees.

Evaluate data on corporate taxes and fees, including admissions, insurance, bank, licenses, etc.

Identify efficient tax reforms and implementation plan.

Develop similar system of triggers integrated with Income, Sales, and Property plans.

THE TAX FOUNDATION

LESSONS FROM OTHER STATES

1

REFORM
IS AN “EVOLUTION,
NOT A
REVOLUTION.”

2

CANNOT BE DONE
WITH SINGLE GOAL
OF CUTTING
TAXES.

3

MUST
ADDRESS
SPENDING AT
THE SAME TIME.

4

MUST
INCLUDE TAX
TRIGGERS.