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

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

ERODING TAX BASE

HIGH TAX RATES

UNEQUAL TAXES
3 FAR-REACHING PROBLEMS

1. NOT FAIR
2. NOT SUSTAINABLE
3. DOES NOT PROMOTE GROWTH
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**

PROPERTY TAX DISPARITY
(WITHIN COUNTIES)

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

- Owner-Occupied Home: $1,861
- Rental Home: $6,619
- Owner-Occupied Home of Person 65 or older: $1,396

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

- SINGLE PARENT, 2 children: $2,910
- INDEPENDENT CONTRACTOR: $2,250
- SINGLE PERSON: $3,905
- MARRIED FAMILY OF 4: $2,256
- COUPLE AGE 65+: $0

NOT FAIR
TAX REFORM – A PRACTICAL PLAN FOR SOUTH CAROLINA

NOT FAIR

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).*

$0.89
(2%)

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

$2.70
(10%)

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

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

1990
2 in 10 people in SC are age 55 or older, or 690,782 people

19.7%

2017
3 in 10 people in SC are age 55 or older, or 1,531,913 people

30.5%

+122%

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

### COMPETITIVE DISADVANTAGE

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>BUSINESS</th>
<th>AUTO</th>
<th>HOME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHARLESTON</strong>&lt;br&gt;6th highest among largest cities in each state.</td>
<td><strong>CHARLESTON</strong>&lt;br&gt;30th highest among largest cities in each state.</td>
<td><strong>AUTO</strong>&lt;br&gt;6th highest among largest cities in each state.&lt;br&gt;South Carolina has the 6th highest property tax rate on automobiles.</td>
<td><strong>CHARLESTON</strong>&lt;br&gt;52nd lowest among largest cities in each state.</td>
</tr>
<tr>
<td><strong>MULLINS</strong>&lt;br&gt;1st highest among rural towns in each state.</td>
<td><strong>MULLINS</strong>&lt;br&gt;6th highest among rural towns in each state.</td>
<td></td>
<td><strong>MULLINS</strong>&lt;br&gt;16th lowest among rural towns in each state.</td>
</tr>
</tbody>
</table>

**TAX REFORM — A PRACTICAL PLAN FOR SOUTH CAROLINA**

*Notes:*
- South Carolina has the 6th highest property tax rate on automobiles.
COMPETITIVE DISADVANTAGE

Tax on Commercial Property


TAX REFORM – A PRACTICAL PLAN FOR SOUTH CAROLINA
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.
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.