SPECIAL REPORT

TAX & BUDGET

ACHIEVING PROSPERITY, STABILITY, & FAIRNESS

Essential South Carolina Tax Reforms

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JANUARY 2025

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ESSENTIAL SOUTH CAROLINA TAX REFORMS
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GUIDE TO SOUTH CAROLINA TAX POLICY RATINGS

🟢 Current Policy is *Excellent* or *Good*
🟠 Current Policy is *Mediocre* or *Neutral*
🔴 Current Policy is *Poor* or *Very Poor*

INTRODUCTION

Palmetto Promise Institute has produced two major reports assessing the competitiveness and fairness of the South Carolina tax code (2014; 2019). The latter had a powerful title— *Funding the Future: A South Carolina Proposal to Ensure Fiscal Stability and Statewide Economic Growth*. Those reports, crafted by Dr. Rebecca Gunnlaugsson, are unique in that they are based on models developed with actual tax data and therefore are robust enough to make predictions about the effect of the various reform options presented. Other trusted organizations, including the Tax Foundation and the Lincoln Institute of Land Policy have also produced comprehensive analyses. This brief is intended to glean commonalities from those and a half dozen more in-depth analyses. For a deeper understanding, we commend the original reports to you.

We have chosen to analyze state fiscal policy on the *revenue* side[1] in three distinct sections. First, we rate the accuracy of various attempts to grade the business climate of the Palmetto State. Next, we examine recent changes to federal tax policy and the consequences of conforming or non-conforming to the current Internal Revenue Code (IRC). The most recent significant change to federal tax policy was in the Tax Cuts and Jobs Act (2017). Finally, we assess the fairness and competitiveness of the major types of taxes imposed by state government. The types of taxes that are most significant are common to all states that use them: sales, income, and property. The latter two have both an individual (personal) and a business (commercial, manufacturing) component.

As we proceed, a few facts are worth considering.

1. Though South Carolina has become a net in-migration state, by some measures #1, South Carolina is still a relatively **poor** state. The Palmetto State ranks 44th in per capita income while our neighbors rank higher: Florida (18th), Tennessee (35th), North Carolina (36th), and Georgia (40th). But this cuts both ways. The cost of living in South Carolina is by and large lower than our neighbors. A dollar goes much farther in South Carolina than in DC, Maryland or California—or even in Atlanta or Miami.

2. South Carolina is facing what one researcher termed a "**Hurricane Gray**." Though we are not unique in this looming headwind, the

[1] The appropriations of state government, the spending side, will be assessed separately at a later date.

percentage of our residents who have **aged** out of the workforce, require more services, and pay less in taxes is increasing. [2]

3. South Carolina is located in the **most competitive region** in the nation for economic development. The competition for attracting job creators is fierce. Tax reform is not just an option if the Palmetto State is to be in the game, it is a necessity. Tax policy changes can improve a state's competitiveness—raising its per capita income and helping it face a graying population—failure to change means being left vulnerable and left behind.

4. We must stop picking **winners and losers** and stop using the tax code to reward certain South Carolinians and South Carolina companies deemed "worthy."

I. THE RANKINGS

The rankings we review here are not click-bait rankings. The organizations represented take their analysis seriously, and each assessment has lessons to teach.

State Tax Competitiveness Index (Tax Foundation) #33
Best States for Starting a Business Ranking (Forbes) #10

The Tax Foundation grades the state **corporate** tax rate slightly positively, but finds income, sales, property, and unemployment insurance tax rates to have little positive effect on the state business climate. The Foundation places the most weight in its methodology on the **individual income tax**, which no doubt cost the Palmetto State points in the final rating. The Tax Foundation also finds that South Carolina state and **local government debt** per capita to be the highest in the region.

Forbes gives South Carolina strong marks across all of its five categories of business startup friendliness except for one, Financial Accessibility. Forbes defines that category as Average Funding Per Small Business.

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[2] *Hurricane Gray Swirls Toward South Carolina: Age, Demographic Challenge, and the Near Future of South Carolina Education*, Matthew Ladner, Foundation for Excellence in Education, 2016.
https://palmettopromise.org/hurricane-gray-age-demographic-change-and-the-near-future-of-south-carolina-education/

CNBC (data not included) ranks all of South Carolina's neighbors in the top ten for Business (North Carolina #2, Georgia #4, Florida #5, and Tennessee #8). Of the ten categories of data used to develop the scorecard, the Palmetto State's rating is harmed most by **Quality of Life** which CNBC now bases on crime, environmental quality, healthcare, worker protections, inclusiveness, protections against discrimination, and availability of affordable childcare. A number of those factors read like a list of ESG standards, so we don't recommend relying too heavily on the findings of CNBC. But, CNBC is spot on for dinging South Carolina for its "**lawsuit** and liability climate."

	2024	2023
Rich States, Poor States Outlook (ALEC)	#24	#21
Rich States, Poor States Performance (ALEC)	#10	#9

The ALEC analysis has been warning that the "Outlook" for South Carolina has been mediocre for years, even as the "Performance" rating has climbed into the top ten. ALEC's Outlook concerns stem primarily from: high top marginal personal **income tax** rate, personal income tax progressivity, high **debt** service as a share of state tax revenue, a lawsuit-friendly **tort liability** system, and high average **workers compensation** costs. "Performance" is based on South Carolina's high **employment**, **GDP** growth, and domestic **migration** increases.

	2024	2023
ROAM Index (NTU)	#31	#35

South Carolina receives a mediocre **31** score on the National Taxpayers Union (NTU) ROAM (Remote Options and Mobility) scorecard, meaning only **19** states are *worse* than South Carolina on its scale. Looking beyond the score, is there any substance to NTU's criticism? It appears there is at least some.

One of the problems NTU identified is that a small amount of income earned in South Carolina can trigger the requirement to file a South Carolina tax return—just **$10,000**. NTU recommends a *time* requirement rather than a *wage* requirement. That means the trigger or *threshold* for being required to file a South Carolina return would be based on a number of days. That's more certain and simpler for non-resident taxpayers. A reasonable period would be **30** days. Georgia is lesser of **23** days, $5,000, or 5% of an employee's income. Georgia is ranked **22** on the ROAM Index. Tennessee and Florida are tied for **1**, mostly for their lack of an individual income tax, one of the five components of the ROAM Index.

NTU also recommends reciprocity agreements with border states so that employees physically residing in other states---think Augusta or Charlotte---face fewer hardships with paying taxes in both their residential state and the state they work in. (**61%** of incoming commuters to South Carolina are from North Carolina.)

On fully remote work, a bill passed in the last legislative session, H.4087, seemed to provide some modernization to remote worker policy in terms of economic development credit. It declares that remote employees (workers who work outside of South Carolina) can be counted for the minimum South Carolina employment levels necessary to receive tax breaks, if the business pays South Carolina withholding taxes on the remote employees in SC.

BOTTOM LINE ON RANKINGS OF EXPERTS: The experts, as reflected in their rankings, have common concerns about South Carolina's economic competitiveness—business access to capital, the tort tax (lawsuits), workers' comp rates, state & local debt, high personal income tax rates, and the need for better treatment of commuters. All but workers' comp seems valid.

II. FEDERAL TAX CODE CONFORMITY

When the Tax Cuts and Jobs Act (**TCJA**) was passed in 2017, it started a series of clocks in motion. Many of the business-friendly provisions of TCJA expire this year (2025) while others were set on a course to unwind incrementally over time. Here are a few key changes wrought by TCJA and their effect on state tax code competitiveness based on the response of the state to the changes. Some states have "rolling" conformity, meaning their state code automatically will conform to federal changes. Other states, like South Carolina and most of its neighbors, have "static" conformity, meaning the state legislature typically passes a bill each year setting out which new provisions of the Internal Revenue Code (IRC) will be adopted for state tax purposes.

IRC §168k BONUS DEPRECIATION OR "FULL EXPENSING."

A good example of the unwinding in TCJA is IRC §168k which offers accelerated or "bonus" depreciation for firms making qualified **machinery and equipment** investments. This change relieved manufacturers and other businesses of the so-called "factory tax." This is a case where TCJA gave but also took away. Before TCJA, bonus depreciation was 50%. TCJA took it to 100%, enabling an immediate write off for machinery and equipment acquired September 27, 2017 to January 1, 2023. But, TCJA reduced the "bonus" write-off by 20% per year—80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026 and 0% in 2027.[3] This means—

> **"Companies have to pay tax up front on revenue reinvested in the company, only recovering those tax costs over a period of years as the property depreciates."**
> **—The Tax Foundation.[4]**

If the SC legislature had conformed the SC tax code to the federal code in 2018, Palmetto State businesses (particularly capital-intensive businesses like manufacturing) could have enjoyed up to five years of that 100% depreciation for state tax purposes. Conforming now would be of little value. But, with a Republican back in The White House and a business-friendly Congress, the 100% or "full" expensing provision could be restored.

Current South Carolina Policy: Does not conform.[5]
Recommended Future Policy: Rather than conforming or not conforming to the federal tax code based on the winds blowing from Washington, South Carolina should follow two states (Oklahoma [H.3418], Mississippi [H.1733]) that passed *permanent* state full expensing laws that are not connected to IRC 168k. No matter what happens in DC, Oklahoma and Mississippi businesses will be able to write off 100% of their machinery and expenses in the year that they were purchased or placed into service for the state tax purposes. That allows their investment to be profitable in Year 1.
Effect on Economic Growth: Being able to write off expenses in the first year of that asset's service would be a huge boost to a company's ability to expand and hire. Due to inflation, the value of future deductions will be less than the original cost of the asset. This is particularly harmful to capital-intensive businesses like manufacturing. The net to the state government in the long run will be far more than the tax break costs in the short run.
Neighboring States: In 2023, Tennessee conformed to IRC § 168(k) and Mississippi passed permanent full expensing.

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[3] South Carolina offers an investment tax credit, but it is not available to all firms. Again, we pick winners and losers indiscriminately. (Tax Foundation: South Carolina, p. 42).
[4] "South Carolina: A Road Map for Tax Reform," The Tax Foundation & South Carolina Chamber of Commerce, 2018, p. 42.
[5] **SECTION 12-6-50**. Internal Revenue Code sections specifically not adopted by State. For purposes of this title and all other titles that provide for taxes administered by the department, except as otherwise specifically provided, the following Internal Revenue Code sections are specifically not adopted by this State: (4) Sections 78, 85(c), 86, 87, **168(k),** 168(l), 168(m), 168(n), 196, and 280C relating to dividends received from certain foreign corporations by domestic corporations, unemployment compensation, taxation of social security and certain railroad retirement benefits, the alcohol fuel credit, **bonus depreciation**, deductions for certain unused business credits, and certain expenses for which credits are allowable;

IRC §179. IMMEDIATE EXPENSING OR "179 EXPENSING."

Changes to this section of the federal tax code allow taxpayers to immediately deduct (rather than depreciate over time) the cost of furniture, some **vehicles, computers, and software** purchased or financed during the tax year for use in a business. "Section 179 Expensing" is more important now than when TCJA was passed because other TCJA provisions like 168k for the immediate deductibility of business purchases are (most likely) phasing out. The maximum deduction amount under 179 increases each year.[6]

Current South Carolina Policy: Conforms.[7]
Recommended Future Policy: Conform.
Effect on Economic Growth: Without 168k full expensing in South Carolina, 179 expensing is even more important for providing inflation relief to businesses. The state office of Revenue & Fiscal Affairs calculates the revenue lost each year due to 179 conformity.[8] It is relatively small for its potential positive impact on businesses.
Neighboring States: North Carolina and Tennessee conform. Georgia and Florida do not.

IRC §163j. BUSINESS DEDUCTIONS FOR INTEREST COSTS.

Changes to this section of IRC were paired with 168k changes in TCJA to reduce tax code bias in favor of debt-financed investments over equity-financed investments. That meant a new limitation on business interest deductibility (30%). The CARES Act temporarily expanded this to 50% (2019 and 2020).
Current South Carolina Policy: Does not conform.[9]

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[6] "Section 179," Carolina Hosman, Wolters Kluwer Tax & Accounting.
[7] **SECTION 12-6-40**. Application of federal Internal Revenue Code to State tax laws. (A)(1)(a) Except as otherwise provided, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, 2022, and includes the effective date provisions contained in it.
(b) For purposes of Sections 63 and **179** of the Internal Revenue Code, the amendments made by Sections 103 and 202 of the Jobs and Growth Tax Relief Reconciliation Act of 2003, P.L. 108-27 (May 28, 2003) are effective only for taxable years beginning after December 31, 2003.
(c) If Internal Revenue Code sections adopted by this State which expired or portions thereof expired on December 31, 2022, are extended, but otherwise not amended, by congressional enactment during 2023, these sections or portions thereof also are extended for South Carolina income tax purposes in the same manner that they are extended for federal income tax purposes.
[8] The original estimate was $8 million for individuals and $3 million for corporate taxpayers, South Carolina Revenue & Fiscal Affairs Office.
[9] **SECTION 12-6-50**. Internal Revenue Code sections specifically not adopted by State. For purposes of this title and all other titles that provide for taxes administered by the department, except as otherwise specifically provided, the following Internal Revenue Code

Recommended Future Policy: Don't conform.
Effect on Economic Growth: Decoupling from the federal code keeps interest deductible.
Neighboring States: State Tax Treatment of Business Interest Expenses Under IRC § 163(j) Tax Years 2019 and 2020 (as of March 29, 2021) were 100% (SC and GA), 30% (NC and FL). Tennessee 100% (2020) and 50% (2019).[10]

IRC §174 AMORTIZATION OF RESEARCH AND EXPERIMENTATION (R&E) EXPENDITURES.

The "innovation tax" was built into the TCJA because Congress wanted some methods for raising revenue. The law at the time of passage of TCJA allowed businesses to permanently deduct R&E costs when they were incurred. But TCJA required R&E to be amortized over five years beginning in 2022. [11]
Current South Carolina Policy: Conforms.[12]
Recommended Future Policy: Don't conform.
Effect on Economic Growth: R&E expenses can be deducted immediately if the state stops conforming.

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sections are specifically **not adopted by this State**: (5B) Section 163(e)(5)(F) relating to original issue discount on certain high yield obligations, **Section 163(j) relating to limitation on business interest expense**, and Section 381(c)(20) and 382(d)(3) relating to carryover of limited business interest... [2018 Act No. 266, Section 3.A, in (5B), inserted ", Section 163(j) relating to limitation on business interest expense...]

[10] "State Conformity to Federal Pandemic-Related Tax Provisions in CARES and ARPA," The Tax Foundation, April 1, 2021.

[11] "All states levying a corporate income tax are assumed to conform to this change." "The impact of federal tax reform on state corporate income taxes," Andrew Phillips and Steve Wlodychak, prepared for the State Tax Research Institute (STRI), March 2018, p.8.

[12] **SECTION 12-6-1210**. Deductions for capital expenses, depreciation, gains and losses; change in accounting method; certain elections for special tax treatment; provisions of federal law.
(A) If as of January 1, 1985, a taxpayer is for federal income tax purposes amortizing a capital expense paid or incurred before January 1, 1985, as provided in Internal Revenue Code Sections 171 (Amortization of Bond Premium), **174 (Research and Experimental Expenditures),** 185 (Amortization of Railroad Grading and Tunnel Bores), 189 (Amortization of Real Property Construction Period Interest and Taxes), or 194 (Amortization of Reforestation Expenditures), **the taxpayer is allowed to deduct for South Carolina income tax purposes the amount amortized and deducted for federal income tax purposes**. At the expiration of the amortization for federal income tax purposes, the taxpayer may continue to amortize, for South Carolina income tax purposes, the balance of the capital expense, if any, using the same rate of amortization until the cost of the item has been fully amortized for South Carolina income tax purposes.
SECTION 12-6-50. Internal Revenue Code sections specifically not adopted by State. For purposes of this title and all other titles that provide for taxes administered by the department, except as otherwise specifically provided, the following Internal Revenue Code sections are specifically not adopted by this State: (4) Sections 78, 85(c), 86, 87, 168(k), 168(l), 168(m), 168(n), 196, and **280C** relating to dividends received from certain foreign corporations by domestic corporations, unemployment compensation, taxation of social security and certain railroad retirement benefits, the alcohol fuel credit, bonus depreciation, deductions for certain unused business credits, and certain expenses for which credits are allowable...

Neighboring States: Georgia decoupled (did not conform) to this section in Act 236 (2023). Tennessee reverted to the pre-TCJA allowance as well in SB 2397 (2022).[13]

> ***Note: §168k and §174 were addressed in the Tax Relief for American Workers and Families Act ("Smith-Wyden") that died in the US Senate on August 1, 2024, after easily clearing the House in January, 2024. The new Republican-controlled Congress will likely see these sections differently than the former split Congress.***

IRC §951A GLOBAL INTANGIBLE LOW-TAXED INCOME (GILTI)

Global Intangible Low-Taxed Income was adopted as a part of TCJA to ensure that multinational corporations pay a minimum level of tax. It targets foreign earnings.

Current South Carolina Policy: Does not conform. South Carolina has never conformed to §951A which would have imposed an additional tax at the state level.

Recommended Future Policy: Don't conform.

Neighboring States: Florida, Georgia, and North Carolina do not conform to GILTI. Tennessee has a low GILTI rate (5%).

IRC §965 TRANSITION TAX

Section 965 requires United States shareholders (as defined under section 951(b)) to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States.

Current South Carolina Policy: Does not conform. South Carolina has never conformed to §965 which would have imposed an additional tax at the state level.

Recommended Future Policy: Don't conform.

Neighboring States: Florida, Georgia, North Carolina and Tennessee do not conform to §965.

BOTTOM LINE ON FEDERAL TAX CODE CONFORMITY: South Carolina can help its businesses create jobs by addressing problems created by the Tax Cuts & Jobs Act by non-conforming to IRC Section 174 and passing a permanent law that will make federal tinkering with IRC Section 168k irrelevant.

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[13] "State Responses to Federal Changes to Sec. 174", The Tax Adviser, February 1, 2024.

III. TYPES OF TAXES

TAX BALANCE CHANGE OVER TIME

2024 was the tenth anniversary of the publication of Dr. Rebecca Gunnlaugsson's first tax reform study for Palmetto Promise Institute, *Funding South Carolina's Future*. Following the same outline, we are able to see how Southeastern states differ in the balance of taxes imposed to fund state and local government.

Looking across all three major types of taxes as categorized by the National Association of State Business Officers (NASBO)—Income, Sales, Corporate, and Other—we see that South Carolina is currently one of the more balanced in the region and does not overly rely on any particular tax. The Palmetto State relies less than average on the sales tax and above average on the income tax (see Table 1).

TABLE 1: STATE GENERAL FUND REVENUE BY SOURCE 2024 (SOUTHEAST)

	SALES	INCOME	CORPORATE	OTHER
ALABAMA	28.10%	42.69%	8.75%	20.46%
FLORIDA	75.11%	0.00%	11.87%	13.01%
GEORGIA	24.05%	45.76%	9.00%	21.19%
LOUISIANA	39.89%	37.81%	5.00%	17.30%
MISSISSIPPPI	41.56%	32.31%	11.94%	14.19%
NORTH CAROLINA	31.87%	49.17%	5.00%	13.96%
SOUTH CAROLINA	**36.55%**	**46.79%**	**6.07%**	**10.59%**
TENNESSEE	57.66%	0.00%	18.23%	24.11%
AVERAGE	***41.85%***	***31.82%***	***9.48%***	***16.85%***

Source: National Association of State Business Officers; author's calculations

Calculated in another manner, using more typical categories but for state <u>*and*</u> local taxes, both North and South Carolina show a balance between the types of taxes and very similar ratios.

TABLE 2: COMPARING CAROLINA STATE & LOCAL TAX SOURCES

	SOUTH CAROLINA 	NORTH CAROLINA 
PROPERTY	**31%**	**23%**
SALES	**24%**	**26%**

INDIVIDUAL INCOME	**24%**	**31%**
CORPORATE	**3%**	**3%**
OTHER TAXES	**18%**	**17%**
		Source: The Tax Foundation

SALES TAX

TABLE 3: STATE AND LOCAL SALES TAX RATES (SOUTHEAST)

	STATE SALES		STATE + AVE. LOCAL	
	2014	**2021**	**2014**	**2022**
ALABAMA	4.00%	4.00%	8.51%	9.29%
FLORIDA	6.00%	6.00%	6.62%	7.00%
GEORGIA	4.00%	4.00%	6.97%	7.38%
LOUISIANA	4.00%	4.45%	8.89%	9.56%
MISSISSIPPPI	7.00%	7.00%	7.00%	7.06%
NORTH CAROLINA	4.75%	4.75%	6.90%	7.00%
SOUTH CAROLINA	**6.00%**	**6.00%**	**7.19%**	**7.50%**
TENNESSEE	7.00%	7.00%	9.45%	9.55%
AVERAGE	***5.34%***	***5.40%***	***7.69%***	***8.04%***

Source: Tax Foundation; author's calculations

A tax on sales is considered a regressive tax because poorer people pay a greater share of their income in sales tax than in other forms of taxation.

The first sales tax was adopted in South Carolina in 1951 when Governor James Byrnes proposed it as a segregationist defense measure to fund Black "separate but equal" schools. The original rate was 3%. It moved to 4% in 1970, 5% in 1984, and 6% in 2007. Two percent of the 6% is intended to provide additional or alternate funding for public education.

South Carolina sales tax policy is in desperate need of reform. Its many problems are beyond the scope of this paper, but suffice it to say that the rate is too high, sales subject to the tax are too narrow, and local option sales taxes have created a much higher than advertised effective rate.

Since sales taxes were first enacted, consumption patterns in the nation and state have shifted from goods to services.

- In 1965, 54% of consumption was **goods** while 46% was **services**.
- In 2008, consumption was comprised of 26% **goods** and 74% **services**.

Failing to account for this change, South Carolina taxes just **39** (20%) of the **176** services that the Federation of Tax Administrators has identified as taxable. The national average was **57** in **2017**.

The **range of retail sales** being taxed has narrowed as well, from 47.8% in 2002 to 34.3% in 2012.

In addition to failing to tax services in general, the sales tax section of the state code creates a host of carveouts and caps.

- SC has **130** sales and use tax exemptions, exclusions, “max” taxes, and/or discounts.
- The SC Revenue and Fiscal Affairs Office estimates that by 2026-27, **$4.4 billion** in tax revenues will not be collected on items exempt from sales tax. Local revenue impact is estimated to be **$883 million**. **RFA estimates that 61% of exemptions for 2023-24 fall into five categories: motor vehicle sales, motor fuel sales, residential electricity sales, medicine and related items, and unprepared food.**
- Excessive exemptions, exclusions, “max” taxes, and/or discounts require excessive oversight by the Department of Revenue (DOR) to ensure compliance and to detect fraud.
- Further, this policy complicates the tax code for taxpayers, and places a hardship and uncertainty on retailers and businesses—particularly small businesses—who have to record and report every type of sales exemption, reduction, etc.

Because South Carolina taxes relatively little of its retail sales, and because SC has a low per capita income, it requires a higher tax to raise sufficient revenue. At 6%, the statewide sales tax is one of the highest in the nation. In the region, Florida and Tennessee have higher rates, but those states have no individual income tax.

But the base rate of 6% is only a part of the story. In some localities, the sales tax rate is 10%. Total taxes on hotel rooms can reach **14% (Isle of Palms)**.[14] This is due to numerous—a total of eight—1% “penny” taxes (also known as Local Option Sales Taxes) and accommodations taxes being added for roads, capital projects, school construction, tourism development, and other one-offs subject to certain caps on total sales taxes.

[14] A hotel room on the Isle of Palms would be taxed 5% state sales tax, 2% state accommodations tax, 2% county accommodations tax, 1% city accommodations tax, 1% local option sales tax, 1% county transportation tax, 1% county schools tax, and 1% beach preservation fee = 14%.

With potential new revenue, ranging from $500 million to $5.6 billion in goods and services currently exempt from the SC sales tax, the 2016 Tax Model[15] calculations demonstrate the 6% state sales tax rate could be cut nearly *in half* if all goods and services were taxed at a minimal rate.

Wayfair Issues
In 2018, the Supreme Court of the United States decided *South Dakota v. Wayfair*, allowing states to impose sales tax collection and remittance obligations on out-of-state businesses that lacked physical presence in their state. Since that decision, every state with a sales tax has passed laws to initiate this sales tax collection, including South Carolina.

However, tens of thousands of online small businesses have not registered to collect sales taxes, in part due to the complexity involved. South Carolina could make it easier for those who sell to South Carolinians by modifying its post-*Wayfair* laws to incorporate best practices that have been increasingly adopted in other states.

- South Carolina's law, for instance, imposes a collection obligation once sellers have in-state gross sales of **$100,000**. The sales threshold should be changed to be based upon *retail* sales rather than *gross* sales, ensuring that sellers do not need to file a tax return for *nontaxable* wholesale sales. Marketplace sales should be excluded from the threshold for individual sellers, as marketplace facilitators are already responsible for collecting and remitting sales tax on these sales.
- South Carolina should also consider basing its threshold measurement on the *previous year's* sales only, with compliance obligations beginning on January 1 of the ensuing year. Currently, retailers crossing the threshold must begin collecting immediately starting with the next month. For sellers who exceed the threshold in December, compliance obligations should be deferred to February 1 instead. This last change allows sellers to determine whether they have South Carolina economic nexus obligations on an annual, rather than year-round, basis, and provides ample time to prepare their compliance infrastructure for an additional state.
- South Carolina could also halt its effort to required retroactive collection from before 2018 from sales on third-party marketplaces. Retroactive tax increases are fundamentally unfair, undermining certainty in the law and the ability of taxpayers to plan their affairs by relying on the law today, not based on what legislators in the future decide the law was. In

[15] "Funding South Carolina's Future," Rebecca Gunnlaugsson, Palmetto Promise Institute, 2015.

sales tax they are especially unfair, given it is impossible for retailers to go back to 2016 to collect the tax from sellers.

These changes to make sales tax compliance easier would ensure South Carolina is accessible not just to large retailers but also small retailers that may not have the capacity to have an entire tax compliance department. This benefits not only those out-of-state sellers but South Carolinians who can access goods from all over the country and benefit from additional investment and transactions.[16]

INCOME TAX (INDIVIDUALS)

TABLE 4: STATE TOP INDIVIDUAL INCOME TAX RATES (SOUTHEAST)

	INCOME TAX TYPE	2014	2024	FUTURE
SOUTH CAROLINA	GRADUATED	**7.00%**	**6.40%***	**6.00%** AS OF 2027
GEORGIA	FLAT RATE	6.00%	5.49%	4.99% AS OF 2029
ALABAMA	GRADUATED	5.00%	5.00%	
MISSISSIPPI	FLAT RATE	5.00%	4.70%	4.00%
NORTH CAROLINA	FLAT RATE	5.80%	4.50%	3.99% AS OF 2027
LOUISIANA	FLAT RATE	6.00%	4.25%	
TENNESSEE	NONE	6.00%	0.00%	0.00%
FLORIDA	NONE	0.00%	0.00%	0.00%
AVERAGE		***5.10%***	***2.99%***	

Source: Tax Foundation; author's calculations **SC=6.2% (2025); LA 3% (2025)*

Since he first ran for Governor in 2010, Henry McMaster had been bothered by South Carolina's individual income-tax rate, the highest in the southeast. McMaster tells visitors to his office that he has heard wonks opine that the "effective rate" (the average of what citizens were *actually paying* across all taxpayers) is lower than the stated rate, but that matters little to industries that he is recruiting. "All I know is when we try to recruit businesses to this state, all they see on the map is a *big ole **seven***," he said.

[16] See also "State Sales Taxes in the Post-Wayfair Era," The Tax Foundation, December 12, 2019. https://taxfoundation.org/research/all/state/state-remote-sales-tax-collection-wayfair/

McMaster is referring to the Tax Foundation graphic that shows each state's top individual income-tax rate. At the beginning of his administration, the highest rate was **7%** and it kicked in at just ***$14,400*** per year.

A bit of state and organizational history is in order.

- In 2013, Palmetto Promise Institute was born. PPI was formed by state business and elected leaders who saw the need for a state public policy "idea machine" that would propose innovative solutions from a free-market perspective. One of our first initiatives was a call for comprehensive tax reform. Our battle cry? "South Carolina's Tax Code — *unfair, unstable, uncompetitive.*"
- In 2016, Governor Haley took up the cause, calling for a swap that would have reduced the income tax from **7** percent to **5** percent over ten years, while raising the state fuel tax by **10** cents per gallon over **3** years. The legislature didn't buy it.
- After McMaster became governor in **2017**, he made a call for slicing the income-tax rate, pounding away at that **7** percent in his annual State of the State speeches.
- In 2022, for the first time since its inception in **1959**, South Carolina's top marginal individual income-tax rate was reduced. The implementation schedule proposed by the Haley administration was truncated from **10** to **5** years. The initial cut would be from 7 percent to **6.5** percent, the brackets would be reduced which would create a flatter tax, and the brackets would be indexed for inflation to prevent bracket creep. The 6.5 percent rate was set on a course to decline by **.1%** per year to **6** percent by **2027**.

But the pressure was on. Our neighboring states (and competitors in economic development) kept cutting. North Carolina, already at **4.5** percent, adopted a plan to cut its rate a bit each year until it reached ***3.99*** *percent* by **2027**.

So McMaster sounded the alarm again in his January 2024 address, when he stated: "I ask the General Assembly to speed up the income-tax-cut schedule, and let taxpayers keep even more of their own money." Palmetto Promise began to advocate for the income-tax cut. In the end, the General Assembly "sped up" the cut in the individual-income-tax rate, bringing it down to **6.2** percent. The goal is still 6%, but our neighbors keep moving the goal posts.

Georgia seems to have a similar income tax cut strategy to South Carolina. In 2022-2024, Georgia collapsed its six brackets into one, cuts its rate, and is set a plan to reduce its rate by .1% each year. The rate was cut from **5.49%** to **5.39%**

with the goal of dropping to **4.99%** by **2028**.[17] Florida and Tennessee have no individual income tax. Louisiana's rate dropped from **4.25%** to **3%** for **2025**.

With no change, our closest neighbors will soon be at **0**%, **0**%, **3.99%** and **4.99%** while we are at **6.2%.** South Carolina and Georgia tax codes create a disadvantage for married couples, North Carolina's does not. (A "marriage penalty" exists when a state's income brackets for married taxpayers filing jointly are less than double the bracket widths that apply to single filers.[18]

2022 and 2024 were the best years for individual income tax policy in decades, but there is more to do, including addressing the marriage penalty.

INCOME TAX (CORPORATE/BUSINESS)

TABLE 5: STATE TOP CORPORATE INCOME TAX RATES (SOUTHEAST)

	2014	2024	FUTURE
ALABAMA	6.50%	6.50%	
FLORIDA	5.50%	5.50%	
GEORGIA	6.00%	5.75%	
LOUISIANA	8.00%	7.50%	
MISSISSIPPPI	5.00%	5.00%	
NORTH CAROLINA	6.00%	2.50%	0.00%
SOUTH CAROLINA	**5.00%**	**5.00%**	
TENNESSEE	6.50%	6.50%	
AVERAGE	**6.06%**	**5.53%**	

Source: Tax Foundation; author's calculations

South Carolina's corporate tax, first adopted in **1927**, is at **5%** (phasing down from **6%** beginning in **1988**). This would be competitive were it not for the state on our border with whom we compete for economic development. North Carolina's corporate rate is **2.5%** and will reduce to **0%** by **2030**. Georgia is slightly behind in trimming its corporate rate, but in 2024 that state passed legislation tying its corporate rate cut to its individual rate cut. The new corporate income tax rate is **5.39** percent, down from **5.75** percent, and is scheduled to be cut further.

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17 "State Tax Changes Taking Effect July 1, 2024," The Tax Foundation, June 26, 2024. https://taxfoundation.org/research/all/state/2024-state-tax-changes-july-1/
18 "Does Your State Have a Marriage Penalty?," The Tax Foundation, August 16, 2022.

But there are other state business taxes. A related tax is an arcane "corporate license fee" that functions as a stock tax. The Tax Foundation summarizes the situation this way:

> **South Carolina's corporate income tax is imposed at a low rate, with a base heavily carved out by incentives. Many firms face little or no liability under the corporate income tax, but for others, the tax's treatment of capital investment, combined with an antiquated capital stock tax in the form of the corporate license fee, can be an impediment to growth. Our recommendations would create a more neutral corporate tax environment which avoids penalizing capital expansion.**

Most businesses in South Carolina (up to **89%** of them)[19] have no corporate tax liability, but when a business is required to pay, the calculation required in South Carolina is less sophisticated and less realistic than the federal government and other states. By this we mean that corporate activity does not seamlessly follow the tax calendar. Business profits and losses are cyclical. The goal of any corporate taxation should be to tax "average profitability." That is why most tax assessing authorities allow Net Operating Loss (NOL) "carrybacks" and "carryforwards." This allows good years and bad years to balance out. South Carolina does not allow carrybacks but has a 20-year NOL carry forward. The TCJA changed policy for federal purposes to a more forgiving NOL framework. Florida and Georgia conformed to the federal IRC and therefore allow unlimited carryforwards, South Carolina did not. North Carolina's policy is very similar to South Carolina's.

As discussed in earlier portions of this research, South Carolina has a tendency to use tax policy to pick winners and losers. This is true for corporate income tax as well. Various tax credits for job creation, capital investment, and credits for specific industries are offered, some quite significant, many of which are related to energy, but only a few businesses qualify.[20]
South Carolina is one of only a handful of states that levies a Corporate License Fee, a Capital Stock Tax, which is harmful to capital intensive businesses. Again, from the Tax Foundation:

> **The Palmetto State maintains a reasonably competitive corporate tax code, featuring a flat rate of 5 percent. However, the state also relies unusually heavily on tax credits rather than focusing on**

[19] Roadmap, 2018, 37.
[20] Businesses got some help with the passage of Act 113 (2024) RELATING TO ALTERNATE METHODS FOR THE ALLOCATION AND APPORTIONMENT OF INCOME FOR STATE INCOME TAX PURPOSES, SO AS TO SET FORTH A PROCESS FOR THE DEPARTMENT OF REVENUE AND TAXPAYERS TO ACCURATELY DETERMINE NET INCOME.

broad-based rate relief. The state imposes a capital stock tax without capping maximum payments. Capital stock taxes are levied against a business's net worth (or accumulated wealth) and tend to penalize investment. Moreover, businesses are required to pay capital stock taxes *regardless of profitability*.[21]

PROPERTY TAX (OVERVIEW)

South Carolina does not over-rely on property taxes. At **31%** of all state and local tax revenue, the Palmetto State is about the same as the national average (**30%**). The average state per capita property tax bill ($1,380) ranks **34th** (on a scale where 1 is the highest). The median property tax bill for an owner-occupied home (**$1,024**) and the effective tax rate (**.6%**) each rank **47th**. The *effective rate* is the rate actually paid. Table 6 shows another metric: property taxes paid as a percentage of owner-occupied housing value.[22]

TABLE 6: AVERAGE PROPERTY TAXES (SOUTHEAST)

	PROPERTY TAX PAID		PROPERTY TAX RATE	
	2014	**2021**	**2014**	**2022**
ALABAMA	$526.00	$658.00	0.42%	0.36%
FLORIDA	$1,997.00	$1,608.00	1.01%	0.71%
GEORGIA	$1,493.00	$1,390.00	0.90%	0.72%
LOUISIANA	$643.00	$996.00	0.43%	0.51%
MISSISSIPPPI	$724.00	$1,208.00	0.70%	0.70%
NORTH CAROLINA	$1,278.00	$1,116.00	0.82%	0.63%
SOUTH CAROLINA	**$801.00**	**$1,368.00**	**0.56%**	**0.46%**
TENNESSEE	$1,102.00	$921.00	0.79%	0.48%
AVERAGE	***$1,070.50***	***$1,158.13***	***0.70%***	***0.57%***

Source: Tax Foundation; author's calculations

So far, so good.

But for commercial property, a comprehensive study from The Lincoln Institute for Land Policy finds that the effective rate is at least *two and a half times* residential.[23] According to the Tax Foundation manufacturers pay *five*

[21] "2025 State Tax Competitiveness Index: South Carolina," The Tax Foundation, 2024.
[22] Significant Features of the Property Tax: State by State Property Tax at a Glance: South Carolina," Lincoln Institute of Land Policy, 2023 (revised April 2024).
[23] "A Deep Dive into South Carolina's Property Tax System," SC Chamber of Commerce & SC Association of Realtors, Lincoln Institute of Land Policy, 2020, p. 48.

times residential (more than *six times* that of a residential property owner 65 years old or older).[24]

Then there is the confusion. There are **eight** property tax classes with distinct assessment ratios in the South Carolina Constitution (1895). South Carolina also has several different appraisers of property depending on the type: the county assessor, the county auditor, and the state Department of Revenue (DOR). This leads to variable appraisal values (and therefore varying effective rates) and uneven quality across the **46** counties.[25]

TABLE 7: SC CONSTITUTIONAL PROPERTY TAX ASSESSMENT RATIOS	
Manufacturing	**10.5%**
Utility	**10.5%**
Business Personal	**10.5%**
Motor Carrier	**9.5%**
Agricultural (corporate)	**6.0%**
Commercial/Rental	**6.0%**
Personal Property (vehicles)	**6.0%**
Owner-Occupied	**4.0%**
Agricultural (private)	**4.0%**

PROPERTY TAX (RESIDENTIAL)

From **1995** to **2006**, the South Carolina General Assembly acted aggressively in the face of a homeowner tax revolt. Those actions have led to the Palmetto State having the second lowest individual property tax bills in the country as of this writing.

- The first phase, in **1995**, was the removal of the portion of taxes dedicated to school "O&M" (operations and maintenance) from property tax bills up to $100,000 market value.
- In **2000**, the property tax rate on personal vehicles was reduced.
- In **2006** came the transformative but distortive Act 388. Act 388 finished the job on residential property tax reductions by removing all O&M taxes for public education. Only school debt service is now taxed in the

[24] "South Carolina: A Road Map for Tax Reform," The Tax Foundation & South Carolina Chamber of Commerce, 2018, p. 100.
[25] Lincoln, 2020, p. 34.

residential class. South Carolina is the only state in the nation that does not tax owner-occupied homes for school operations.

Act 388 effected a swap, where individual property taxes were reduced in return for raising the statewide sales tax from **5%** to **6%** with the additional **1%** dedicated to making school districts whole through a Homestead Exemption Fund ("The Fund"). The Act also placed a **15%** cap on property tax *assessment* increases over **5** years and capped property tax millage (i.e. – *rate)* increases to population growth + inflation.

But this swap hit at a most inopportune time. From FY 2007-08 to FY 2018-19, the additional **1%** sales tax failed to generate sufficient revenue to fully fund the Fund, and the difference had to come from General Fund revenues.[26] To seal the door on property tax increases even more tightly, **Act 388** specified that a **2/3 vote** of the local taxing authority would be required to raise the millage cap.[27]

According to the Lincoln Institute, **18** states have limits on growth of assessed *value* while **45** states have limits on property tax *rates* or levies. South Carolina has both.

Forcing tax bills down even farther, seniors and disabled citizens and in some cases veterans and first responders and their surviving spouses enjoy additional property tax exemptions.

Within the sphere of residential property taxes (not to mention in the separate world of commercial and manufacturing property taxes, which will be addressed next), the policy embedded in Act 388 that placed owner-occupied property in First Class and all other property in Coach has led to number of distortions:

- **Rental** property (and therefore owners of rental property and renters) are being hammered. A higher millage rate and a higher assessment ratio on rental property can lead to bills that are *quadruple* what a primary homeowner pays. (Bills for rental property were "only" double that of owner-occupied pre-Act 388.) This side effect of the change in policy is enormous pressure on renters, who are often least able to absorb the higher rental rates to cover the property tax differential. Landlords pay high taxes and this negatively affects the price of rental properties.

[26] Lincoln, 2020, p. 50.
[27] Lincoln, 2020, p. 51.

- **Beach** property that is not a primary residence is less desirable in South Carolina, as opposed to other states along the Atlantic coastline that tax second homes at the same rate as primary homes.
- Homesteaders will also find themselves in Coach if they make improvements or additions to their property as this will trigger a **reappraisal**.
- **Transfer** of ownership removes the appraisal cap. Therefore, young homeowners with growing families are reluctant to leave their smaller home. Empty-nesters or disabled persons are similarly concerned about leaving a home that is too large because the fresh appraisal required on their new smaller home required by the South Carolina Real Property Valuation Reform Act (2006) will leave them worse off. This can be expensive even with their homestead exemption.[28]
- Counties are forced to look to **new** homes or homes that have **changed ownership** recently for raising revenue.
- Because of Act 388, South Carolina does not have a "**circuit breaker**" tax relief program for low-income property owners as found in **31** states.[29]
- Due to the dramatic difference in tax rates and assessments to tax bills, counties are forced to employ an excessive number of staff in **auditors'** and **assessors'** offices to prevent homeowners who do not qualify from attempting to claim lower rates.[30]

Act 236 (2022) was passed in response to the SC Supreme Court decision in *Burns v. Greenville* (2021), that held that a Greenville County road maintenance fee was actually a tax. Act 236 permitted local governments statewide to impose fees of this type. Greenville County voters turned down the tax in November 2024 by a vote of **51.5%-48.5%.**

PROPERTY TAX (COMMERCIAL)

[28] Utah and Kansas have passed "Truth in Taxation" legislation to require subdivisions (cities, counties, school districts, special purpose districts) to notify property owners if their tax bills increase due to the increased value of their property. But Act 388 placed a 15% cap on property tax assessment increases and capped property tax rate increases to population growth + inflation making such sneaky tax increases less likely.

[29] "Significant Features of the Property Tax: State by State Property Tax at a Glance: South Carolina," Lincoln Institute of Land Policy, 2023 (revised April 2024).

[30] Some states like North Carolina tax all property at the same rate. Imagine the reduced staff and paperwork required. Lincoln, 2020, p. 35.

"Unfortunately, South Carolina's property tax code is one of extremes. It features enviably low effective rates for many homeowners, particularly those who remain in their own home for many years, at the expense of renters and commercial property owners, who can face remarkably high property tax burdens."

– The Tax Foundation

The downside of Act 388 is the strong negative effect on businesses—and therefore economic development and prosperity.

Like a balloon, when one end is squeezed the other end grows. By removing school O&M costs from owner-occupied property tax bills, Act 388 created a massive shift in the property tax burden from primary homeowners to non-homestead properties, commercial property, industrial property, businesses, and apartment property. The effective taxes on owner-occupied homes in South Carolina are among the lowest in the nation, while effective property taxes on other properties are among the country's highest. Before Act 388 was passed, commercial property was taxed at approximately *double* the rate of homesteads. Since 388, commercial property taxes are *triple* those of homeowner-occupied property. Looking to other states in the region, it is not unusual for commercial property to be taxed more than residential property, but not at such a vast difference.[31]

PROPERTY TAX (MANUFACTURING/INDUSTRIAL)

"The manufacturer is paying *five* times what a homeowner pays for a property with the same assessed value (more than *six* times if compared to seniors).

—The Tax Foundation[32]

With an assessment rate of **6%**, *commercial* businesses have become victims of Act 388. But the situation is even worse for the *manufacturing* sector at **10.5%.** Before Act 388, the effective rate for industrial property was *3.5* times residential. It is now *seven* times residential.

- State officials know how dependent the South Carolina economy has become on manufacturing jobs; some say overly dependent.
- State and County officials know that the constitutional provision that assesses manufacturing at such a high rate puts them in an

[31] Lincoln, 2020, pp. 11, 28, 48.
[32] Roadmap, 2018, p. 100.

> unfavorable position *vis a vis* Georgia, Tennessee, and North Carolina in their ability to lure precious manufacturing jobs.

For this reason—decades ago—the General Assembly heard the pleas of the counties and enacted property tax millage rate freezes and tax exemptions for economic development known as Fee in Lieu of Taxes (**FILOT**) agreements. These FILOTs are unique to South Carolina.

In order to spur primarily *new* investment, three different FILOT statutes were enacted to allow counties at their discretion (or whim) to offer fees instead of property taxes, which in practice cuts assessment ratios to **6%** or even **4%** depending on the number of jobs created and other investment commitments from new manufacturers. (FILOTs apply to *commercial* businesses if they meet the employment and investment requirements, but economic commitments at this level are more likely in the *manufacturing* sector). These FILOTs involve a pledge to meet certain job-creation or investment benchmarks in a five-year period or an eight-year period but can abate tax liability for up to **40** years. Needless to say, FILOTs have become fairly typical. In fact, the value of property currently under FILOTs in South Carolina now exceeds the value of property not under FILOTs.

The patchwork of abatements for manufacturing also includes Special Source Revenue Credits and Multicounty Industrial Park incentives. Taxing and collections for those are conducted at the state level.

Such arrangements are lucrative if a business is able to secure them, but again, awarding of these tax breaks can be based on whim.

To address those left out in the cold, **Act 228** was adopted in 2022 to provide a **42.8751%** exemption for manufacturing property. Under that law, the state would reimburse counties for up to **$170 million** per year. This replaced a **14.2857%** phased-in exemption passed in 2015. Palmetto Promise Institute fiscal fellow Dr. Rebecca Gunnlaugsson, had this to say about the effect of this reform:

> **It is hard to understate what a significant change dropping the manufacturing assessment rate really is. A very oppressive tax—like the 10.5% assessment rate—affected economic development, so much so that South Carolina had to create discounts against that tax to keep manufacturers from closing or leaving the state!**
>
> **But, those discounts were geared only toward larger firms. Startups and small operations were still saddled with the tax. That depressed**

investment (and the growth, employment, wages, and income that came with it). This legislation really helps remove that hurdle.

The 2022 reforms have been a boon to state economic development efforts, but a permanent solution is required.

UNEMPLOYMENT INSURANCE TAX

Another move for economic development was South Carolina's reform to its unemployment-insurance-tax policy. Formerly a source of embarrassment for the Palmetto State due to the trust fund's unhealthy fiscal status and high rates, as of late 2023, the state unemployment-insurance trust fund had built up a balance of **$1.6 billion** after showing a negative balance from roughly 2009- 2014. Reforms in this policy area produced a sizeable rainy-day balance that has allowed the state to freeze or lower insurance rates for three years running.[33]

BUSINESS LICENSE TAX

In 2020, the General Assembly passed Act 176 (H.4431), the Business License Standardization Act. This new statute set a standard calendar year for municipality-issued business licenses, required cities and town to calculate the business license tax based on a business' gross income for the previous calendar year or its previous fiscal year, set a definition of gross income, prevented double taxation, set up an online payment system, and required a standardized appeals process. This reform was among specific measures recommended by free market researcher and The Citadel Professor Russ Sobel[34] and the Tax Foundation.[35]

ESTATE OR INHERITANCE TAX

There is a federal estate tax that has a top rate of **40%**. Twelve states and DC have additional estate taxes. Six states have inheritance taxes. Maryland has both. South Carolina has neither.[36]

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[33] "Unemployment Insurance Trust Fund Annual Assessment," SC Department of Employment & Workforce, FY 2019. https://www.scstatehouse.gov/reports/DeptofEmployment/FINAL_SC%20UI%20Trust%20Fund%20Assessment.pdf

[34] "Reforming South Carolina's System of Business Licensing," Homebuilders Association of Greenville, 2015. https://hbaofgreenville.com/reforming-south-carolinas-system-of-business-licensing/

[35] "South Carolina House Unanimously Approves Business License Tax Reform," The Tax Foundation, 2020. https://taxfoundation.org/blog/south-carolina-business-license-tax-reform/

[36] "Estate and Inheritance Taxes by State," The Tax Foundation, 2024.

BOTTOM LINE ON TYPES OF TAXES: At the very least, South Carolina must address the high state individual income tax, the marriage penalty, the corporate license fee, and the inequitable taxation of commercial businesses and second homes.

IV. OTHER FISCAL POLICIES

LAWSUIT TAX BURDEN

South Carolina's lawsuit industry is out of control. Plaintiff attorneys benefit from outrageous damage awards while bars close and job-creators are alarmed. This phenomenon was on national display in Netflix's *Murdaugh Murders: A Southern Scandal* where a convenience store owner was unfairly and relentlessly targeted by plaintiff attorneys because alcohol was involved. There's a reason for all those lawsuit industry billboards on the Interstates. They work!

But the problem in the Palmetto State goes deeper than a few one-off traffic accidents and slips and falls. South Carolina led the "judicial hellhole" list in 2020 and has remained in the top 10. The total cost to the nation's economy of the lawsuit industry was **$443 billion** in 2020, or **2.1%** of Gross Domestic Product (GDP). In South Carolina that works out to **$3,181** per household in higher prices due to lawsuits.

CONTINGENCY FUNDS

A look back at state budgets since 2002-03 reveals that when the General Assembly had money it spent it. But thanks to a generally strong economy, the legislature had been forced to tap contingency or "rainy day" funds to shore up the state budget only three times during in that period (2003-04, 2007-08 and 2008-09).

But, the economy is unpredictable. The **$1 billion+** state budget surpluses could be a thing of the past soon too. Fiscal rainy days could be ahead.

One of the measures of the adequacy of a rainy day fund is the number of days a state could operate its government on **rainy day funds** alone. According to Pew, the winner by that measure is Wyoming at a whopping **255** days. South Carolina's time span? **32** days. (Florida is **25** days. Tennessee is at **28** days. Georgia is at **54** days, North Carolina **58** days. The 50-state median is **48** days.) But, South Carolina could operate for **156** days on **total balances**, which is good for **#9** in the nation. The national median is **88** days.

In the 2022 General Election, two constitutional amendments were passed. One raised the General Reserve Fund from **5%** to **7%**. The other raised the Capital Reserve Fund from **2%** to **3%**. The state began to set aside a total of **10%** of its General Fund Revenues for events like an economic downturn or a natural disaster.

Contingency fund levels are tracked by creditworthiness rating agencies like Fitch, so feeding the piggy bank can also lead to lower rates for borrowing for capital projects like roads. The 2022 rainy day fund reforms were generally good for fiscal responsibility. An even more fiscally responsible step would be to refuse to take the constitutionally allowable option to spend Capital Reserve Fund revenues on buildings and infrastructure when state finances are good.

SUMMARY OF RECOMMENDED TAX REFORMS

- ✓ **South Carolina needs more access to capital and better treatment of commuting employees.**
- ✓ **South Carolina should help its businesses create jobs by addressing expensing problems created by the Tax Cuts & Jobs Act by non-conforming to IRC Section 174 and passing a permanent law that will make federal tinkering with IRC Section 168k irrelevant.**
- ✓ **South Carolina must address the high state individual income tax, the marriage penalty, the corporate license fee, and the inequitable taxation of commercial businesses and second homes.**
- ✓ **Manufacturing property taxation needs a permanent fix to provide economic development tools while avoiding arbitrary awarding of tax breaks.**

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Dr. Smith is the author of numerous books and publications, including *Transformation: What South Carolina Can Learn from Florida's K-12 Reforms*, *How Common Core Went Wrong: Bringing Common Sense to Education Standards in SC,* and *Stronger Together: Expanding Opportunity Through School District Consolidation*.

Dr. Smith has served as a political consultant and governmental relations professional in South Carolina for over 25 years.