SPECIAL REPORT

TAX & BUDGET

ACHIEVING PROSPERITY, STABILITY, & FAIRNESS

The Surprising Consensus on South Carolina Tax Reform

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EXECUTIVE SUMMARY: UGLY, BAD, AND GOOD

The following Issues in the South Carolina tax code are areas we find worth addressing. Surprisingly, there is a near consensus among conservative, free-market national and state policy groups on these provisions of the current code.

TOP CONCERNS

- Full Expensing First Year p.6 ●
- Individual Income Taxes p.11 ●
- Business Corporate License Fee p.13 ●
- Property Taxes (Commercial) p.18 ●
- Taxing Remote Work p.20 ●
- Tort Tax Burden p.21 ●
- Growth of Government p.23 ●

Full Expensing/Bonus Depreciation. Whether coupled or decoupled from IRC 168k, businesses should be able to deduct expenses immediately. A separate law is better than rolling this into conformity.

Income Tax (Individuals). For Individuals, South Carolina has already set in motion the process for a **1.99%** then a **0%** individual income tax rate. No new legislation is necessary. Shrinking government and continued prosperity will make lower effective rates possible if the Governor and General Assembly act decisively in the appropriations process. Our rating with the Tax Foundation (#29) and ALEC (#21) should improve as this tax winds down (Appendices xiii and xiv). We code this tax **red** (urgent) because of the lift required for the General Assembly to fulfill its **0%** pledge.

Business Taxation. The General Assembly has placed band-aids on commercial property tax problems by passing legislation exempting the first **$10,000** of business personal property from tax. The corporate license fee (stock tax) needs to go as well.

The passage of Act 388 (2006) created an enormous property tax benefit to primary homesteaders, especially those 65 years of age and older. The removal of school overhead expenses from tax bills and caps on primary residence valuation squeezed one end of the balloon while expanding the tax liability of businesses, renters, and owners of second homes on the other.

Remote Work. 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. 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**.

Tort Tax Burden. National tax studies have graded South Carolina down in their competitiveness ratings due to our plaintiff-friendly civil liability system. As we show, South Carolina consumers pay more for goods and services due to these unnecessary lawsuits. They are, in essence, a tax that tort reform could remove from Palmetto State families.

Growth of Government. ALEC has dinged South Carolina in its *Rich States, Poor States* rating (we currently stand at **#21**) due to state spending and local government debt. Growth of local and state government spending is outpacing economic growth.

OTHER CONCERNS

- Research and Experimentation IRC §174 p.7 🟡
- Immediate Expensing IRC §179 p.7 🟡
- Sales Tax p.10 🟡
- Income Tax (Corporate/Businesses) p.13 🟡
- Property Tax (Industrial) p.18 🟡

As shown in Appendix pages viii and ix, the South Carolina tax code has not evolved with the times in terms of the taxation of **services** as well as goods. The **sales tax** base is too narrow; the rate is too high. Grocery food buyers benefit. Restaurant food buyers lose out. There are over 100 exemptions for DOR to manage. There should be fewer business-to-business sales taxes.

The **industrial** property tax has an exorbitant constitutional rate, but the General Assembly buys that down to a more moderate one (Appendix pages xi and xii). The **corporate income** tax is in need of repeal. We code **§174** and **§179** yellow because South Carolina has not passed a new conformity bill since OBBB to sort this out.

OK FOR NOW

- ✓ Property Tax (Residential) p.16 🟢
- ✓ Contingency (“Rainy Day”) Funds p.21 🟢
- ✓ Unemployment Insurance Tax p.19 🟢
- ✓ Business License Tax p.20 🟢
- ✓ Inheritance Tax p.20 🟢

✓ Business Deductions for Interest IRC §163j p.7
✓ GILTI IRC §951A p.8
✓ Transition Tax IRC §965 p.8

Unlike some states, South Carolina does not have an **inheritance** tax, and because we are a static conformity state, we have made the correct calls on **transition** tax, **GILTI**, and IRC **§163**.

Recent reforms and good fortune have led to improvements in the **business license** tax collection mechanism, **rainy day funds,** and **unemployment insurance** trust fund balance and rates. These bright spots have earned South Carolina a ranking of **#16** on the Forbes *Best States* ranking and **#6** on the ALEC Economic Outlook ranking.

The **residential property tax** is one of the most homesteader-friendly systems in the country as long as the homeowners don't sell their home and buy another. Taxpayers may have sticker shock because the tax is so transparent (a single bill once a year) compared to the sales tax, but South Carolina property tax rates and property tax bills to value are in the bottom five in the United States consistently. Local impact may vary.

I. FIRST A FEW FACTS

1. South Carolina has become a net in-migration state—ranking **#1** in the nation according to the U.S. Bureau of Economic Analysis. The population of **5.1** million in **2020** is expected to approach **6.6** million in **2040,** a **29% increase** (see Appendix page vi).[i] Nevertheless, South Carolina remains a relatively **poor** state. Growth and wealth are high in some counties but nearly nonexistent in others. The Palmetto State ranks **45th** in per capita income while our neighbors rank higher: Florida (**18th**), Tennessee (**33rd**), North Carolina (**34th**), and Georgia (**42nd**). But this cuts both ways. The cost of living in South Carolina is 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 percentage of our residents who have **aged** out of the workforce, require more services, and pay less in taxes is increasing. [ii] In **1970**, **7.3%** of South Carolinians were aged 65+. That is expected to reach **21.5%** by **2020**. A high proportion of newly arriving residents are retirees.

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 (including addressing the "tort tax") 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 (Appendix xiii) in attracting new, younger taxpayers.

4. The leading **sources** for the General Fund (2025-26) are Individual Income Taxes (**46%** or $7 billion) and the Sales Tax (**34%** or $5.28 billion). Leading expenditures are K-12 Education (**35%**), Health & Social Services (**25%**), Higher Education (**14%**), and Public Safety & Criminal Justice (**11%**) [Appendices pages i and iii].

5. The leading funding **sources** for **local** government (school, municipal, county, and special purpose districts) are the property tax, local sales taxes, and hospitality & accommodations taxes. Of total property taxes, school districts collect **57%**, counties **25%**, municipalities **11%,** and special purpose districts **7%** (2025-26; Appendix ix).

II. FEDERAL TAX CODE CONFORMITY

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

The Tax Cuts & Jobs Act (TCJA, 2017) changed IRC §168k to offer 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." In this case, TCJA gave but also took away. Before TCJA, bonus depreciation was 50%. TCJA took it to 100%, enabling an immediate federal 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.[iii]

But then came the One Big Beautiful Bill Act (2025), which made positive changes to this code section. The kicker is that the General Assembly did not pass a conformity act after OBBBA, so any federal action since December 31, 2024, is not covered.

> **"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.[iv]**

Current South Carolina Policy: Does not conform.[v]

Recommended Future Policy: Rather than conforming or not conforming to this section of 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 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—and will encourage private purchases/investments. 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: Tennessee conformed to IRC § 168(k) and Mississippi passed permanent full expensing, both in 2023.

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. The maximum deduction amount under 179 increases each year.[vi]

Current South Carolina Policy: Conformed as of December 31, 2024.[vii]
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.[viii] 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 traditionally conform.[ix]
Recommended Future Policy: Don't conform.
Effect on Economic Growth: Decoupling from the federal code for this provision 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).[x]

IRC §174/174A 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. [xi] Some questioned whether Congress ever intended for this provision of TCJA to go into effect. That mystery may have been solved when the OBBBA moved in the opposite direction.

Current South Carolina Policy: Conformed to old IRC provisions.[xii]
Recommended Future Policy: Conform to new IRC provision.
Effect on Economic Growth: R&E expenses should be allowed to be deducted immediately and will encourage private investment in the economy.
Neighboring States: Georgia decoupled (voted not to conform) to this section in 2023 and again in 2026. Tennessee reverted to the more business-friendly pre-TCJA allowance in SB 2397 (2022).[xiii]

IRC §951A GLOBAL INTANGIBLE LOW-TAXED INCOME

GILTI was adopted as 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: Jobs will be created by both newly arriving and existing businesses if the General Assembly addresses the Tax Cuts & Jobs Act and OBBBA with a conformity bill. A separate, permanent law is the way to make any future federal tinkering with IRC Section 168k irrelevant.

III. TYPES OF TAXES

TAX BALANCE CHANGE OVER TIME

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 FY2026 (SOUTHEAST)

	SALES	INCOME	CORPORATE	OTHER
ALABAMA	26%	44%	9%	21%
FLORIDA	73%	0%	10%	16%
GEORGIA	26%	44%	9%	22%
LOUISIANA	47%	32%	5%	16%
MISSISSIPPPI	45%	29%	10%	17%
NORTH CAROLINA	32%	49%	4%	15%
SOUTH CAROLINA	**36%**	**44%**	**8%**	**12%**
TENNESSEE	57%	0%	15%	28%
AVERAGE	***43%***	***27%***	***9%***	***19%***

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

Calculated in another manner, using more typical categories but for state *and* 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	**30%**	**22%**
SALES	**25%**	**29%**
INDIVIDUAL INCOME	**22%**	**29%**
CORPORATE	**5%**	**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	2026	2014	2026
ALABAMA	4.00%	4.00%	8.51%	9.46%
FLORIDA	6.00%	6.00%	6.62%	6.98%
GEORGIA	4.00%	4.00%	6.97%	7.49%
LOUISIANA	4.00%	5.00%	8.89%	10.11%
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%	9.61%
AVERAGE	***5.34%***	***5.40%***	***7.69%***	***8.04%***

Source: Tax Foundation 2026; author's calculations

The first sales tax was adopted in South Carolina in 1951. 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.

Across the United States and in South Carolina, the ratio of sales of *goods* to sales of *commodities* has been inverted since that first Palmetto State sales tax. In **1949**, **73%** of sales in the U.S. were commodities. That number for South Carolina in **2026** was only **31%**.

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 often the wrong things are taxed—like business-to-business purchases. Local option sales taxes have created a much higher-than-advertised effective rate.

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 about **130** sales and use tax exemptions, exclusions, "max" taxes, and/or discounts.
- The SC Revenue and Fiscal Affairs Office estimates that by **2028-29**, **$4.24 billion** in tax revenues will not be collected on items exempt from sales tax. General Fund impact is projected to be **$2.98 billion**. Local revenue impact is estimated to be **$812 million**. RFA estimates that **66%**

of exemptions for **2025-26** fall into five categories: motor vehicle max 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 must record and report every type of sales exemption, reduction, etc.

Because South Carolina taxes relatively little of its retail sales and has low per capita income, it requires a higher tax to raise sufficient revenue. At **6%**, the 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.

With potential revenue from goods and services currently exempt from the SC sales tax, the 2016 Palmetto Promise Institute Tax Model[xiv] calculations demonstrated that the 6% state sales tax rate could be cut nearly *in half* if all goods and services were taxed at a minimal rate.

INCOME TAX (INDIVIDUALS)

	BRACKETS	INCOME TAX TYPE	2014	4/28/2026	FUTURE
SOUTH CAROLINA	**2**	**GRADUATED**	**7.00%**	**5.21%***	1.99%, 0%
GEORGIA		**FLAT RATE**	6.00%	5.19%	4.99% IN 2027
ALABAMA	3	**GRADUATED**	5.00%	5.00%	
MISSISSIPPI		**FLAT RATE**	5.00%	4.00%	3.00% IN 2030
NORTH CAROLINA		**FLAT RATE**	5.80%	3.99%	3.49% IN 2027
LOUISIANA		**FLAT RATE**	6.00%	3.00%	
TENNESSEE		**NONE**	0.00%	0.00%	
FLORIDA		**NONE**	0.00%	0.00%	
AVERAGE			***5.10%***	***2.99%***	

See Appendices iv, v, vi, and vii.

- In **2022**, for the first time since its inception in **1959**, South Carolina's top marginal individual income-tax rate was reduced. 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 in **2025**, South Carolina shifted from a three-bracket system to a two-bracket system: **1.99%** on taxable income up to $30,000 and **5.21%** on taxable income over $30,000. The state also shifted to a more typical basis for income calculation, using federal Adjusted Gross Income (**AGI**) rather than Taxable Income (**TI**). Added to 2022 cuts, this lowered income taxes by $1.35 billion for 2026-27.

But the pressure is 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 ***3.49*** *percent* by **2027**.

Georgia seems to have a similar income tax cut strategy to South Carolina. In 2022-2024, Georgia collapsed its six brackets into one, cut its rate, and 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**.[xv] Florida and Tennessee have never had an individual income tax. Louisiana's rate dropped from **4.25%** to **3%** for **2025**. Mississippi is creating a path to **0%**.

With no change, our closest neighbors will soon be at **0**%, **0**%, **3.49%,** and **4.99%** while we are at **5.21%.** 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.[xvi]

2022, **2024**, and **2025** 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	2026	FUTURE
ALABAMA	6.50%	6.50%	
FLORIDA	5.50%	5.50%	
GEORGIA	6.00%	5.19%	
LOUISIANA	8.00%	5.50%	
MISSISSIPPPI	5.00%	5.00%	
NORTH CAROLINA	6.00%	2.00%	0.00%
SOUTH CAROLINA	**5.00%**	**5.00%**	
TENNESSEE	6.50%	6.50%	
AVERAGE	**6.06%**	**5.15%**	

Source: Tax Foundation 2026; 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 which we compete for economic development. North Carolina's corporate rate is **2.0%** 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 **5.19** percent, down from **5.75** percent, and is scheduled to be cut further.

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 (and **65%** of C-Corps) 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 carryforward. The TCJA and OBBBA 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.[xvii]
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 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.*[xviii]

PROPERTY TAX (OVERVIEW)

According to Lincoln Institute of Land Policy data, at **26%** of all local general revenue, South Carolina's reliance on the property tax is nearly the same as the national average (**28%**). The average state per capita property tax bill (**$1,476**) ranks **34th** (on a scale where 1 is the highest). The median property tax bill for an owner-occupied home in the Palmetto State (**$1,199**) and the effective tax rate (**.5%**) rank **46**th and **47th** nationally. The U.S. average bill is **$2,969**. The *effective rate* is the rate actually paid.

Table 6 shows that and another metric: property taxes paid as a percentage of owner-occupied housing *value.*[xix]

TABLE 6: AVERAGE PROPERTY TAXES (SOUTHEAST)

	PROPERTY TAX PAID		PROPERTY TAX RATE	
	2021	2023	2022	2024
ALABAMA	$658.00	$769.00	0.36%	0.37%
FLORIDA	$1,608.00	$1,789.00	0.71%	0.78%
GEORGIA	$1,390.00	$1,616.00	0.72%	0.79%
LOUISIANA	$996.00	$1,086.00	0.51%	0.55%
MISSISSIPPPI	$1,208.00	$1,286.00	0.70%	0.58%
NORTH CAROLINA	$1,116.00	$1,201.00	0.63%	0.66%
SOUTH CAROLINA	**$1,368.00**	**$1,490.00**	**0.46%**	**0.49%**
TENNESSEE	$921.00	$1,023.00	0.48%	0.52%
AVERAGE	***$1,158.13***	***$1,282.50***	***0.57%***	***0.59%***

Source: Tax Foundation 2023; author's calculations

For commercial property, a comprehensive study from Lincoln finds that the effective rate is at least *two and a half times* residential.[xx] According to the Tax

Foundation, manufacturers pay *five times* residential (more than *six times* that of a residential property owner 65 years old or older).[xxi]

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.[xxii]

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%**

*42.857% of property is exempt, producing an effective rate of 6%.
See Appendices x, xi, and xii.

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

Act 388 (2006) 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.[xxiii] 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.[xxiv]

According to the Lincoln Institute, 18 states have limits on growth of assessed *value* while 45 states have limits on property tax *rates*. South Carolina has both. The final piece of the troika would be a *levy* limit. According to the Tax Foundation, "...levy (or revenue) limits are concerned with the actual amount of revenue raised, imposing rollbacks or reductions to ensure that collections do not increase in aggregate above a given amount." [xxv]

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 a 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.

- **Beach** property that is not a primary residence is less desirable in South Carolina than in 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.[xxvi]
- 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.[xxvii]
- 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.[xxviii]
- Though the assessed value of the property is equal, commercial property owners and renters are making up for the loss of residential property taxes. 46.1% of property tax revenue is from commercial property and renters, while homeowners are paying 20.3% of total property tax revenue. Personal vehicle property tax is third at 11.8%.

Act 236 (2022) was passed in response to the SC Supreme Court decision in *Burns v. Greenville* (2021), which 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)

"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.[xxix]

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[xxx]**

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 unfavorable position *vis-à-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. [xxxi] Louisiana has PILOTs (Payment in Lieu of Taxes), but **PILOTs** require transfer of real estate and/or equipment to a public entity.

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, the awarding of these tax breaks can be based on whim.

To address those left out in the cold, **Act 228** was adopted in 2022, and **Act 122** was adopted in **2026**, to provide a **42.8751%** exemption for manufacturing property. Under that law, the state would reimburse counties for up to **$300 million** per year. These 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 June 30, 2025, the state unemployment-insurance trust fund had built up a balance of **$1.8 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.[xxxii]

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 towns 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[xxxiii] and the Tax Foundation.[xxxiv]

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. **Five** states have inheritance taxes. Maryland has both. South Carolina has neither.[xxxv]

REMOTE WORK TAXES

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 in which they work. (**61%** of incoming commuters to South Carolina are from North Carolina.)

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.

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 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 **320** days. South Carolina's time span? **38** days. (Florida is **30** days. Tennessee is at **34** days. Georgia is at **56** days, North Carolina **42** days. The 50-state median is **48** days.) But, South Carolina could operate for **174** days on **total balances**, which is good for **#6** in the nation. The national median is **92** 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

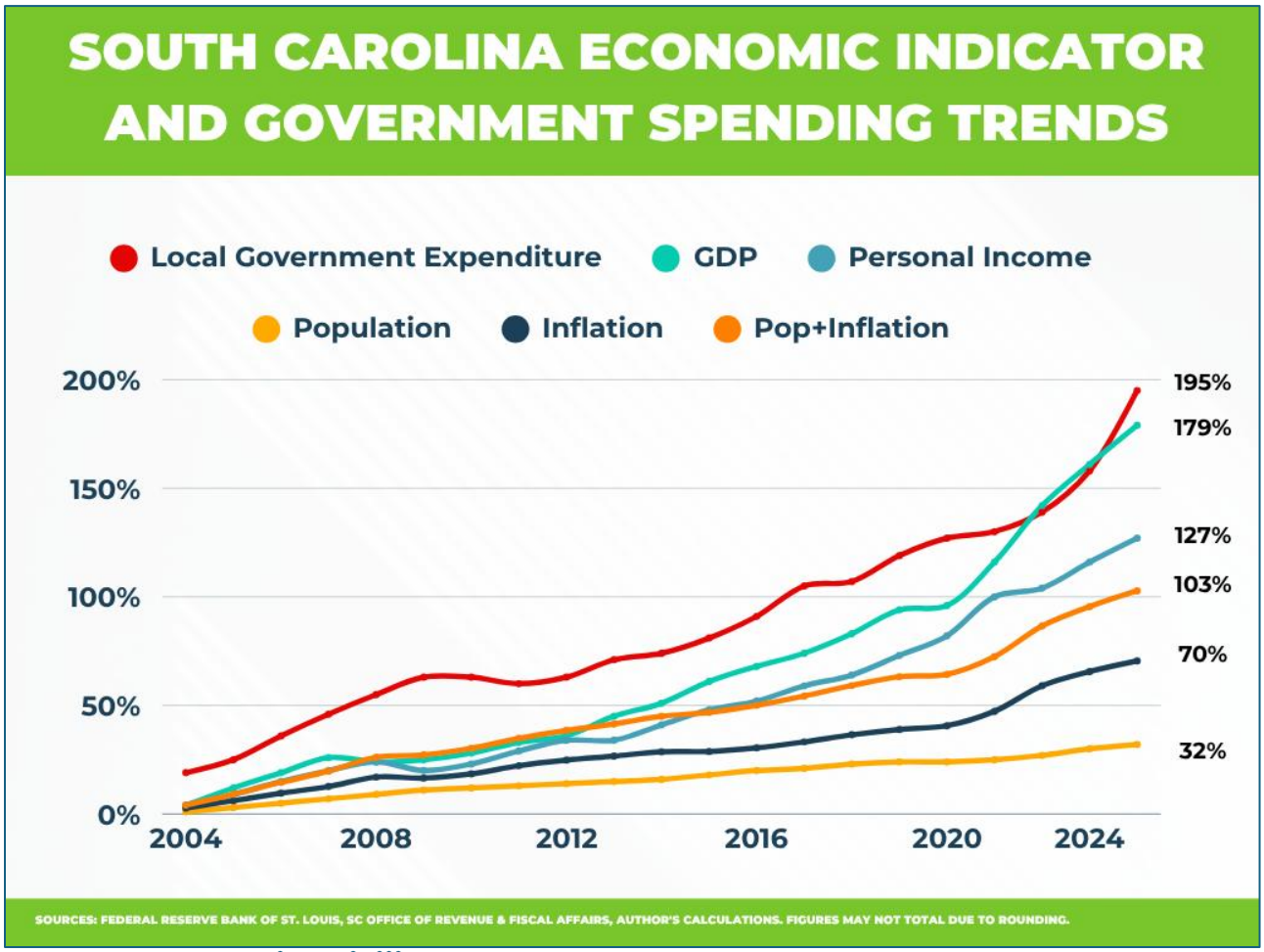
- ✓ **South Carolina needs more access to capital and better treatment of commuting employees.**
- ✓ **South Carolina should help its businesses create jobs by passing a permanent law that will make federal tinkering with IRC Section 168k irrelevant.**
- ✓ **South Carolina must address the still high 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.**

V. THE SPENDING SIDE

This paper primarily covers the income side of the ledger. But because reducing the income tax or recentering the property or sales tax can create a revenue loss, the appropriations side can speak to how to make up the difference.

Local Spending

Our assessment is not as stark as some analysts, but since **2004**, we find Population growing at **32%**, Inflation at **70%**, Population + Inflation at **103%**, Personal Income at **127%**, and GDP at **179%**. During this slice of time, local government spending grew at a rate of **195%.**



See also Appendices i, iii

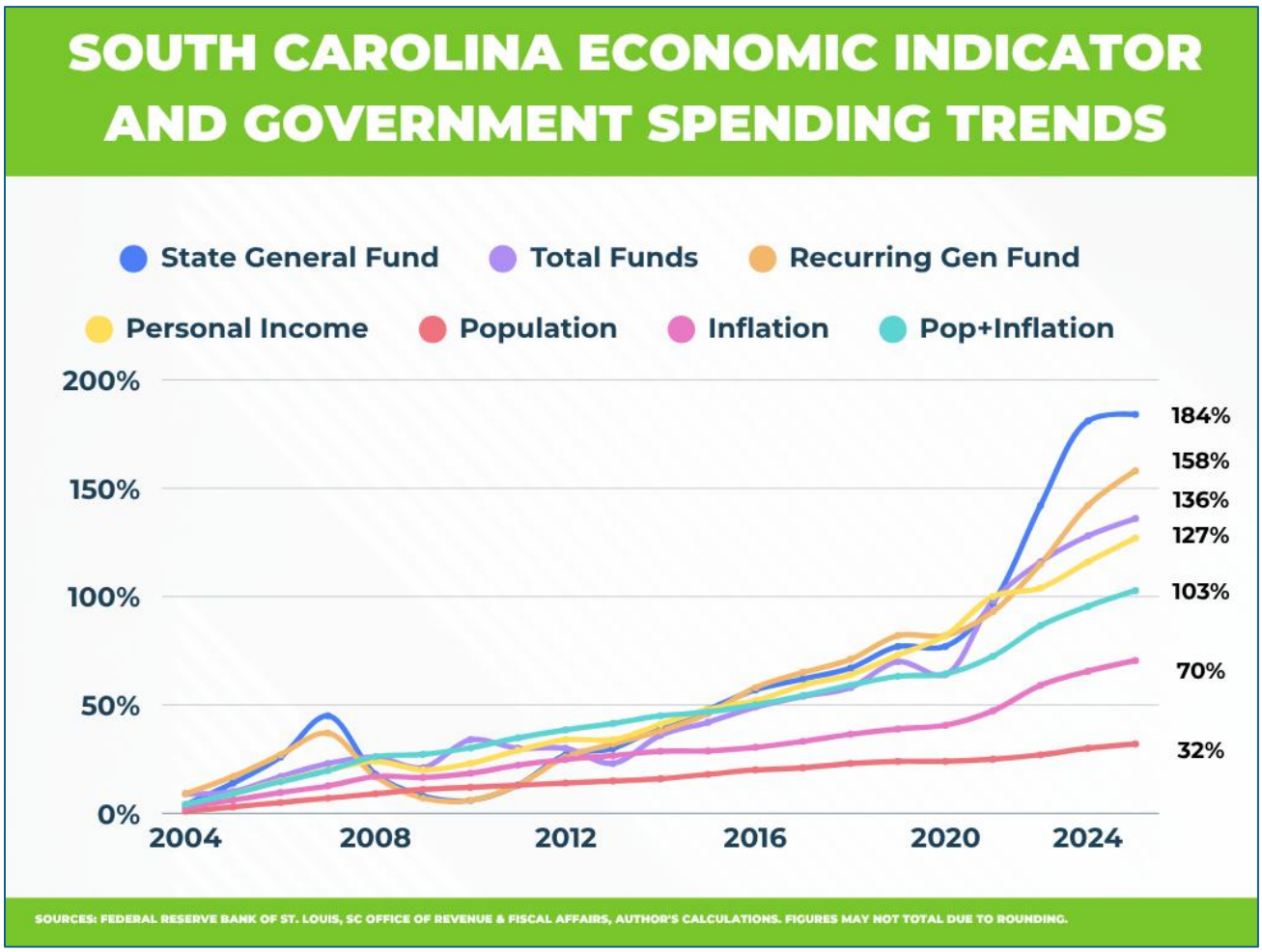
State Spending

If we look at **state** spending compared to economic growth metrics, we see state general fund appropriations growing at **184%** and recurring general fund appropriations coming in at **158%**. During the period (2004-24), the state

spent **$16.37 billion** in non-recurring (one-time) general funds, **$5.47 billion** in 2022-23 alone.

That's a lot of funds. Here's what each of those terms means: the state **General Fund** is composed of Recurring General Funds, Nonrecurring General Funds, and Capital Reserve Funds.

The General Fund + Federal Funds + Other Funds equals Total Appropriations. These "Other Funds" represent revenue coming into state coffers that doesn't come from taxes. Examples include state agency-collected fines, college tuition, fuel taxes, and proceeds from the Education Lottery.



The rate of government spending is running ahead of all measures. No matter what the appropriate growth rate is, the General Assembly and the new Governor should act decisively to control spending. There are several options for keeping a lid on.

- The General Assembly could establish a Joint Budget Committee of the General Assembly or other spending watchdog composed of Senate and House members. There is a precedent: the Joint Appropriations Review Committee of the South Carolina General Assembly. A similar committee could be constituted, designed not to run afoul of *McLeod v. McInnis*, 278 S.C. 307 (1982).

- The Governor could use the State Fiscal Accountability Authority (SFAA) and/or the Executive Budget Office to assist with true Zero-Based Budgeting for agencies as called for in **§2-7-65**:

  > *The Governor shall, prior to making annual recommendations to the General Assembly of the amounts to be appropriated to the various state agencies, departments and institutions, as required by SECTION 2-7-60 of the 1976 Code, require them to justify the **entire amount** of money they are requesting. It is the intent of this section that each state agency, department or institution shall be required to justify its **recurring** expenses, as well as any new or **additional** expenses.*

- At the local level, **levy limits** could serve as firewalls against spending that outpaces population growth + inflation, personal income, or a measure tied to actual, legitimate funding requirements for municipalities, counties, school districts, and special purpose districts.

- A final idea is to review previous cost-cutting efforts. Long before there was DOGE at the federal level, there was the **South Carolina State Reorganization Commission** and the **Management, Accountability, and Performance Commission (MAP)**. Though some reorg studies predate the Commission, the State Reorganization Commission was formally created in 1949, with the goal of reviewing and recommending changes in the state's administrative structure. The objectives were increasing efficiency, promoting the economy, and reducing the cost of government in the wake of the end of World War II. Here is information about the South Carolina State Reorganization Commission.

  The **Management, Accountability, and Performance Commission (MAP)** began in June 2003. This commission was formed to address the financial crisis that was arising across state governments and affecting South Carolina. Its specific goals included reducing costs, increasing accountability, eliminating duplication of effort, improving government's effectiveness, focusing on outcomes/results, and meeting the needs of citizens. Here is the final report of the MAP Commission.

RECOMMENDED READING BY PUBLICATION DATE

Fiscal Survey of States, National Association of State Budget Officers, 2014.

Funding South Carolina's Future, Rebecca Gunnlaugsson, Palmetto Promise Institute, 2015.

"Reforming South Carolina's System of Business Licensing," Homebuilders Association of Greenville, 2015.

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.

South Carolina: A Road Map for Tax Reform, The Tax Foundation & South Carolina Chamber of Commerce, 2018.

Unemployment Insurance Trust Fund Annual Assessment, SC Department of Employment & Workforce, FY 2019.

Funding the Future: A South Carolina Proposal to Ensure Fiscal Stability and Statewide Economic Growth, Rebecca Gunnlaugsson, Palmetto Promise Institute, 2019.

A Deep Dive into South Carolina's Property Tax System Volume I, SC Chamber of Commerce, SC Association of Realtors, Lincoln Institute of Land Policy, 2020.

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City of Columbia Property Tax Analysis, Rebecca Gunnlaugsson, 2020.

Does Your State Have a Marriage Penalty?, The Tax Foundation, August 16, 2022.

The 2023 ROAM Index: How State Tax Codes Affect Remote and Mobile Workers, National Taxpayers Union Foundation, 2023.

South Carolina's Guide to Internal Revenue Code Conformity 2021-2023, South Carolina Department of Revenue Tax Policy Services, August 2023 edition (through 2023 General Assembly Session).

Significant Features of the Property Tax, State by State Property Tax at a Glance: South Carolina, Lincoln Institute of Land Policy, October 2023 & March 2024.

Lessons from the Biggest Business Tax Cut in US History, Gabriel Chodorow-Reich, Owen Zidar, and Eric Zwick, Journal of Economic Perspectives, Volume 38, Number 3, Summer 2024.

Fiscal Survey of States, National Association of State Budget Officers, 2024

Rich States, Poor States, ALEC, 2024.

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America's Top States for Business, CNBC, 2024.

Best States for Starting a Business, Forbes, 2024.

Estate and Inheritance Taxes by State, The Tax Foundation, 2024.

2025 State Tax Competitiveness Index: South Carolina, The Tax Foundation.

2026 State Tax Competitiveness Index, The Tax Foundation.

Estate and Inheritance Taxes by State, 2026, The Tax Foundation.

2026 State Tax Competitiveness Index: South Carolina, The Tax Foundation.

NOTES

[i] South Carolina Office of Revenue & Fiscal Affairs presentation, September 10, 2026.
[ii] *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/
[iii] 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).
[iv] "South Carolina: A Road Map for Tax Reform," The Tax Foundation & South Carolina Chamber of Commerce, 2018, p. 42.
[v] **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;
[vi] "Section 179," Carolina Hosman, Wolters Kluwer Tax & Accounting.
[vii] **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.
[viii] The original estimate was $8 million for individuals and $3 million for corporate taxpayers, South Carolina Revenue & Fiscal Affairs Office.
[ix] **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**: (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…]
[x] "State Conformity to Federal Pandemic-Related Tax Provisions in CARES and ARPA," The Tax Foundation, April 1, 2021.
[xi] "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.

[xii] **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…

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

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

[xv] "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/

[xvi] "Does Your State Have a Marriage Penalty?," The Tax Foundation, August 16, 2022.

[xvii] 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.

[xviii] "2025 State Tax Competitiveness Index: South Carolina," The Tax Foundation, 2024.

[xix] 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).

[xx] "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.

[xxi] "South Carolina: A Road Map for Tax Reform," The Tax Foundation & South Carolina Chamber of Commerce, 2018, p. 100.

[xxii] Lincoln, 2020, p. 34.

[xxiii] Lincoln, 2020, p. 50.

[xxiv] Lincoln, 2020, p. 51.

[xxv] *Property Tax Limitation Regimes: A Primer*, The Tax Foundation, 2018, Jared Walczak.

[xxvi] 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.

[xxvii] "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).

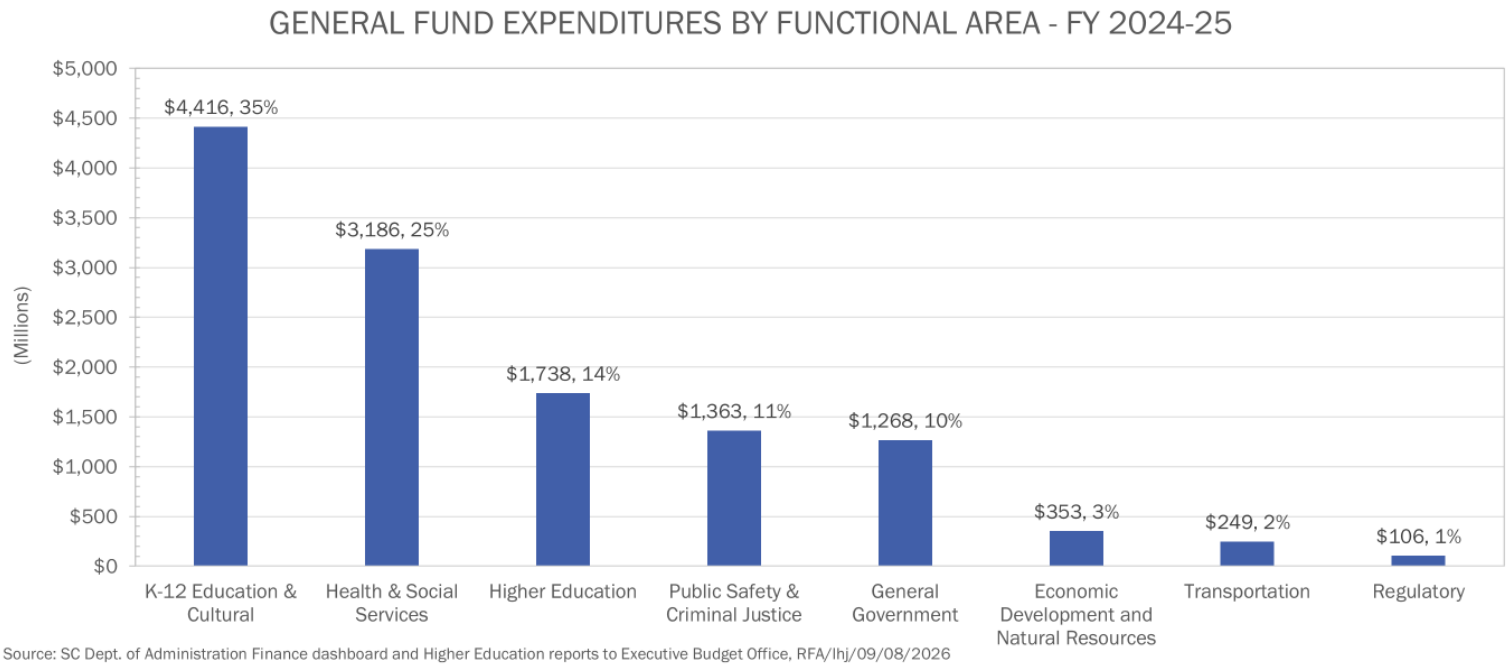
[xxviii] Some states like North Carolina tax all property at the same rate. Imagine the reduced staff and paperwork required. Lincoln, 2020, p. 35.

[xxix] Lincoln, 2020, pp. 11, 28, 48.
[xxx] Roadmap, 2018, p. 100.
[xxxi] Louisiana has PILOT (Payment in Lieu of Taxes), but PILOT requires transfer of real estate and/or equipment to a public entity. PILOTs are also potentially broader and more customizable at the local level.
[xxxii] "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
[xxxiii] "Reforming South Carolina's System of Business Licensing," Homebuilders Association of Greenville, 2015. https://hbaofgreenville.com/reforming-south-carolinas-system-of-business-licensing/
[xxxiv] "South Carolina House Unanimously Approves Business License Tax Reform," The Tax Foundation, 2020. https://taxfoundation.org/blog/south-carolina-business-license-tax-reform/
[xxxv] "Estate and Inheritance Taxes by State," The Tax Foundation, 2024.

APPENDICES

General Fund Expenditures – FY 2024-25

K-12 Education (35%) and Health & Social Services (25%) are the two largest areas of General Fund expenditures

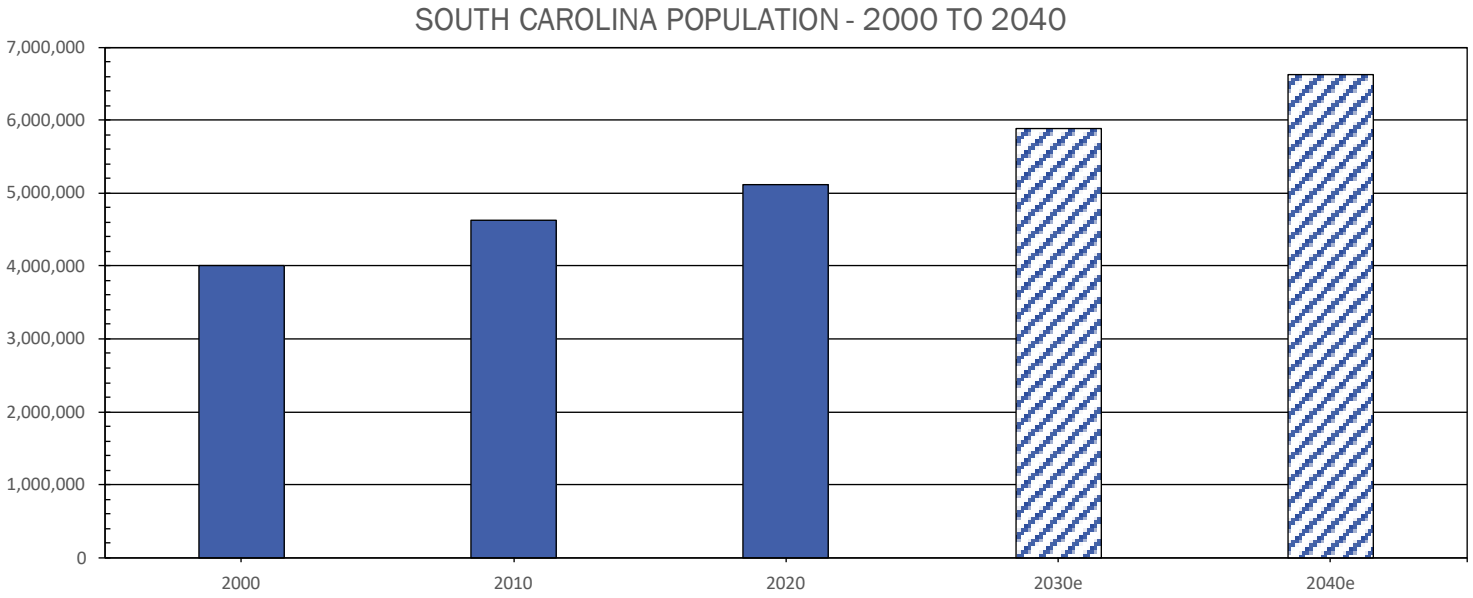


Source: SC Dept. of Administration Finance dashboard and Higher Education reports to Executive Budget Office, RFA/lhj/09/08/2026
Includes the agencies listed in the dashboard and colleges and universities. (https://admin.sc.gov/transparency/insidesc-data-dashboards/finance/sc-actuals-vs-actuals-dashboard)

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

SC Population Growth - Projections

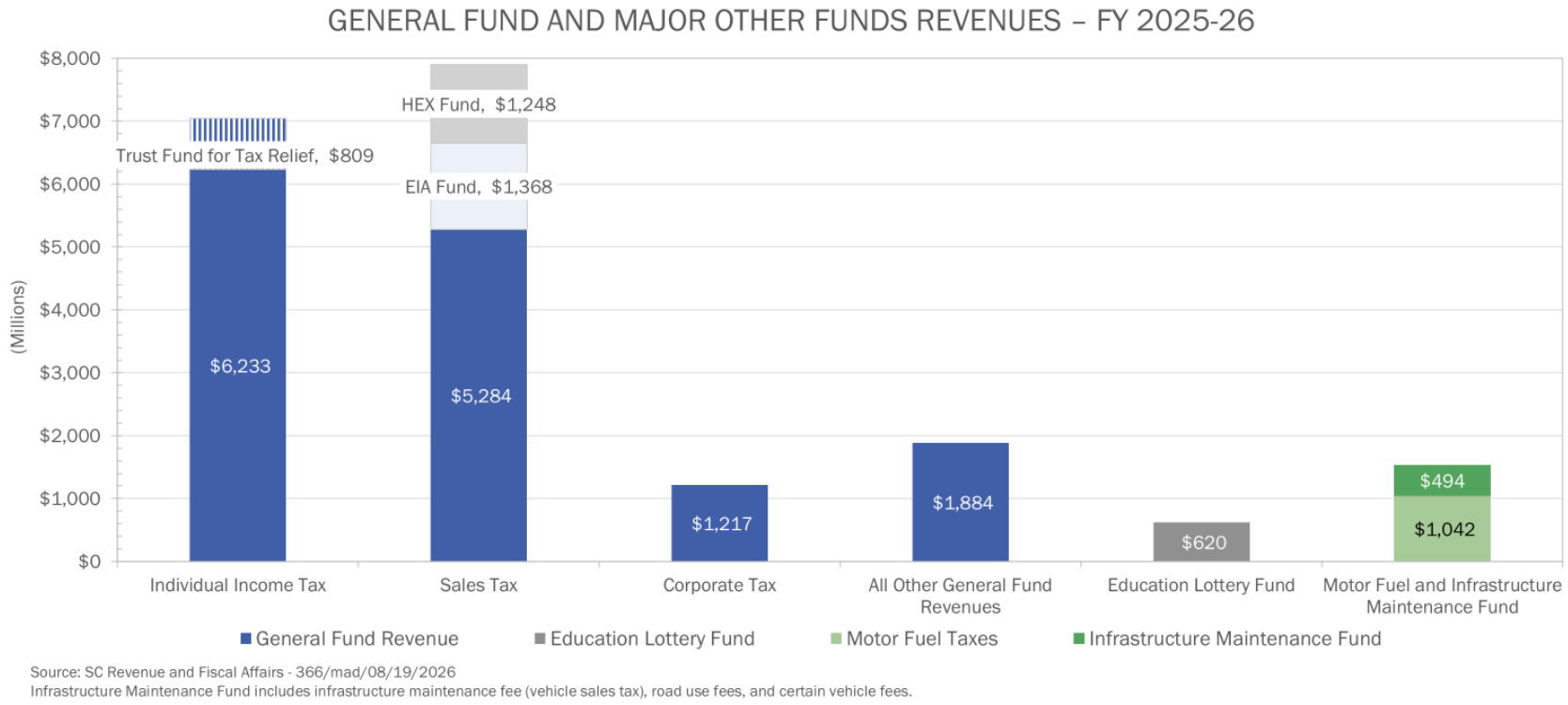
Population is estimated to grow 29% from 5.1 million in 2020 to 6.6 million in 2040; similarly, the need for services and the total cost will increase



Source: U.S. Census Bureau, Intercensal Estimates of the Resident Population, 2000, 2010, and 2020; S.C. RFA Population Estimates 2030 and 2040. 372–RFA/lpw/9/11/2025

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

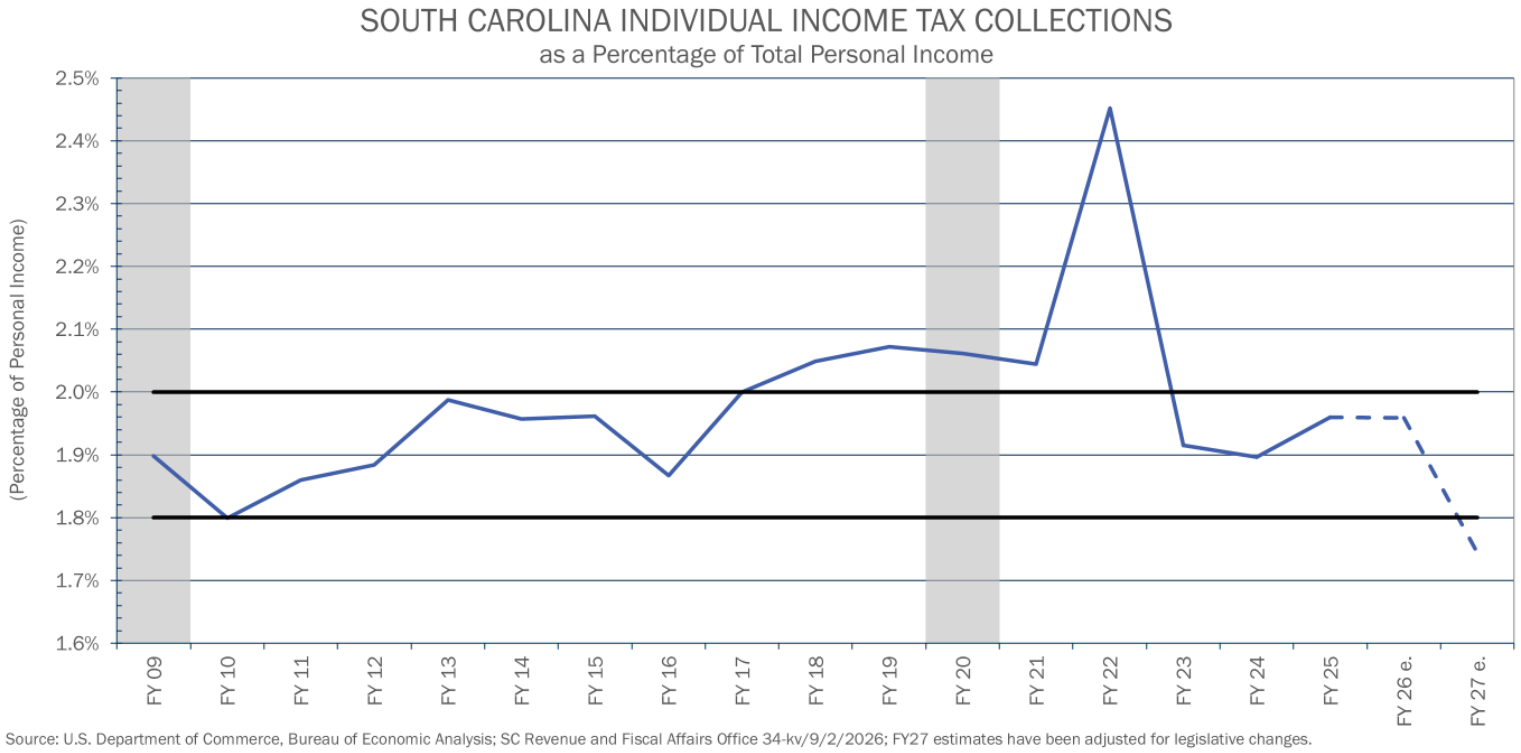
Major Revenue Items - FY 2025-26 Appropriations Act



Source: SC Revenue and Fiscal Affairs - 366/mad/08/19/2026
Infrastructure Maintenance Fund includes infrastructure maintenance fee (vehicle sales tax), road use fees, and certain vehicle fees.

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

Individual Income Tax as a Percentage of Personal Income

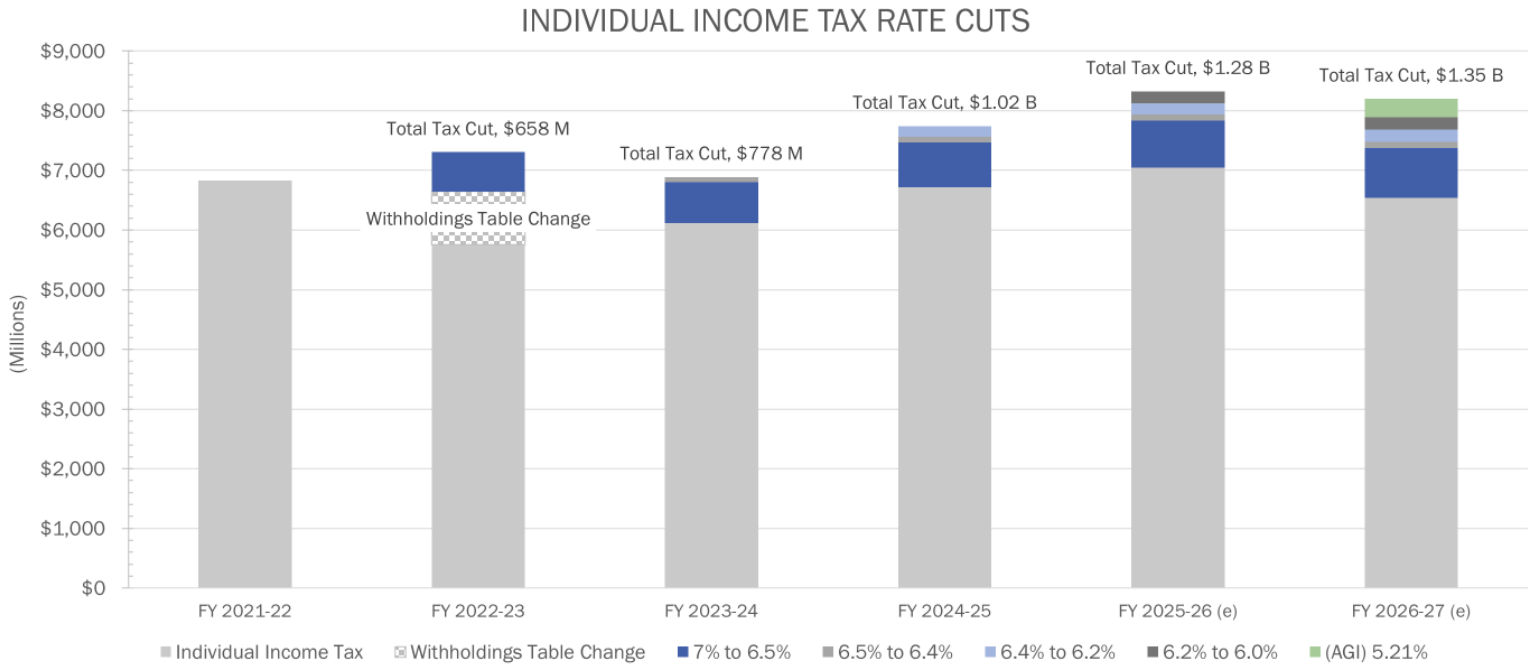


Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34-kv/9/2/2026; FY27 estimates have been adjusted for legislative changes.

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

Individual Income Tax Rate Cuts Since 2022

The income tax cuts since tax year 2022 will lower income taxes by an estimated $1.35 billion in FY 2026-27

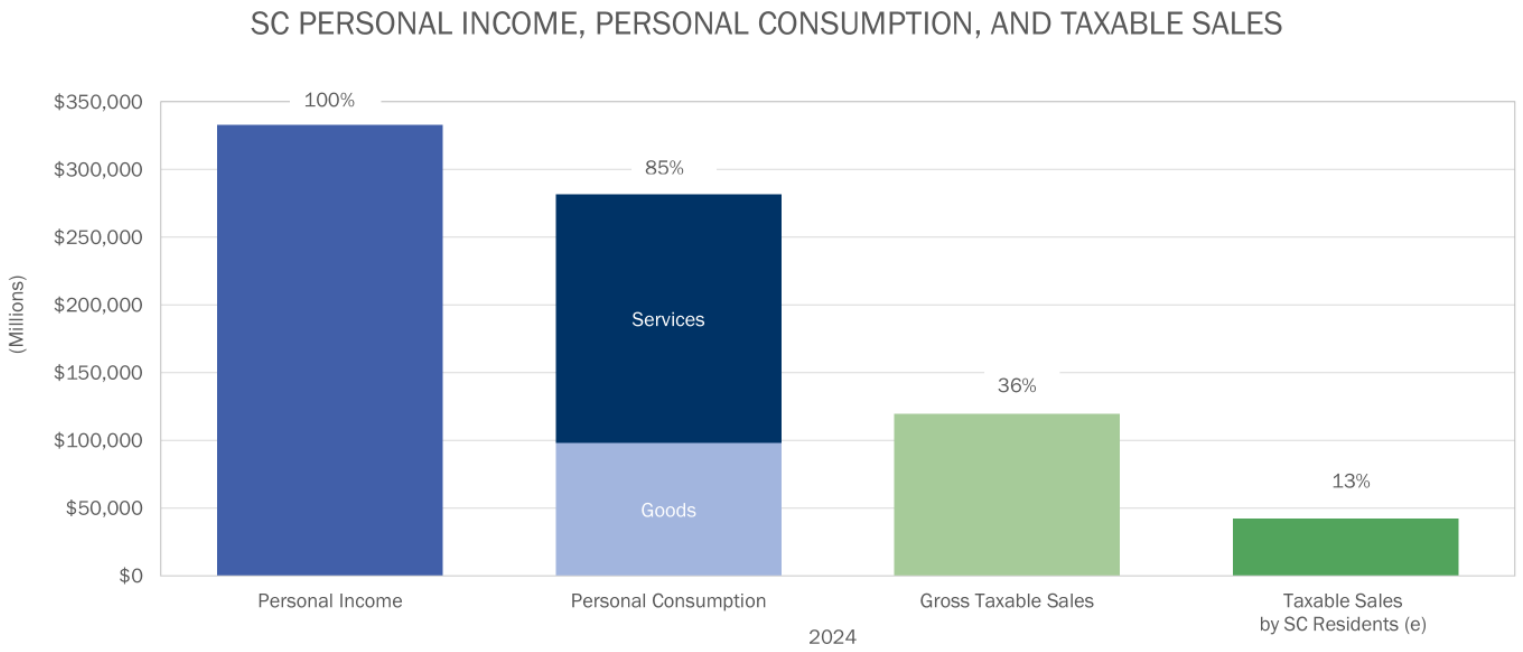


Source: SC Revenue and Fiscal Affairs; individual income tax liability change attributed to each fiscal year without regard to extensions (TY 22 in FY22- 23) 379-RFA/lhj/08/21/2026

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

SC Taxable Sales as a Percentage of Personal Income

Approximately 13% of personal income is spent on taxable purchases

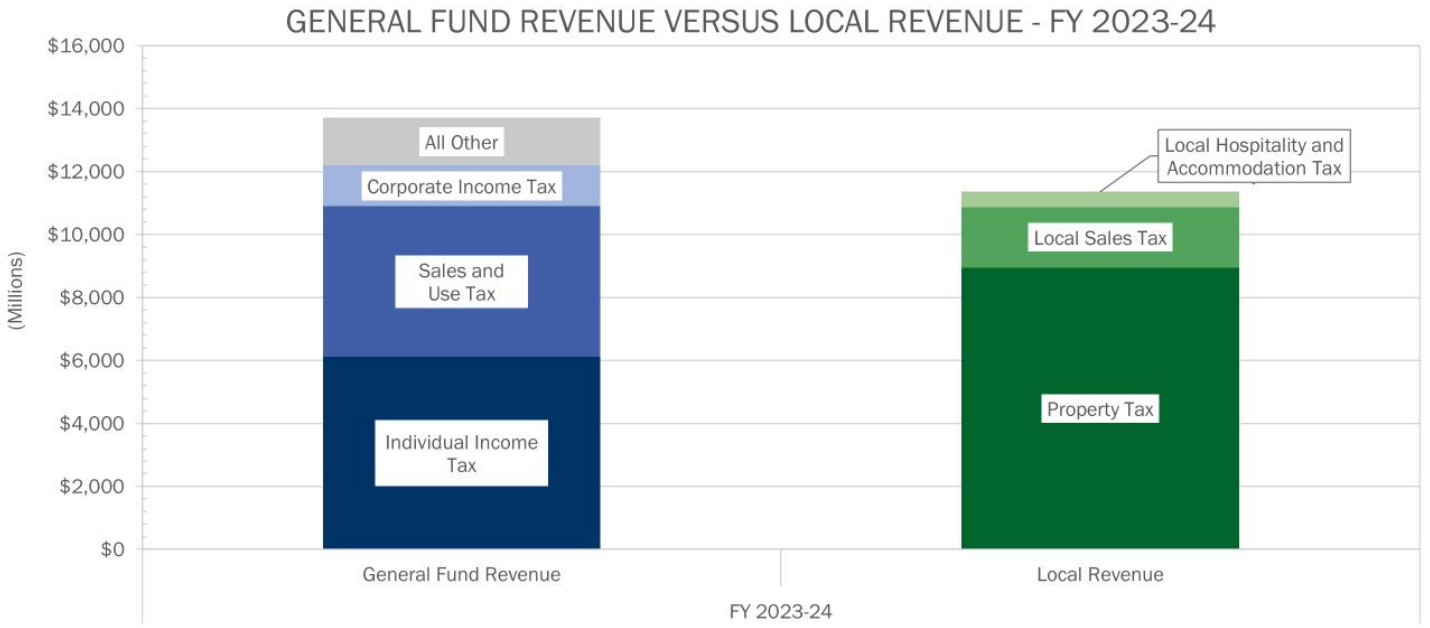


Source: Source: U.S. Department of Commerce, Bureau of Economic Analysis, S.C. Department of Revenue; S.C. Revenue and Fiscal Affairs Office, 171D-mad/08/25/2026

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

State General Fund Revenue versus Local Revenue

Statewide, property tax revenue exceeds any one source of General Fund revenue



Source: SC Revenue and Fiscal Affairs BEA Forecast, SC Department of Revenue, Tax Collections by County; SC Revenue and Fiscal Affairs Office, Local Government Finance Report RFA/mkm/9/3/2026

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

Property Tax Base by Classification – Tax Year 2024

Owner-occupied property is not subject to school operating millage

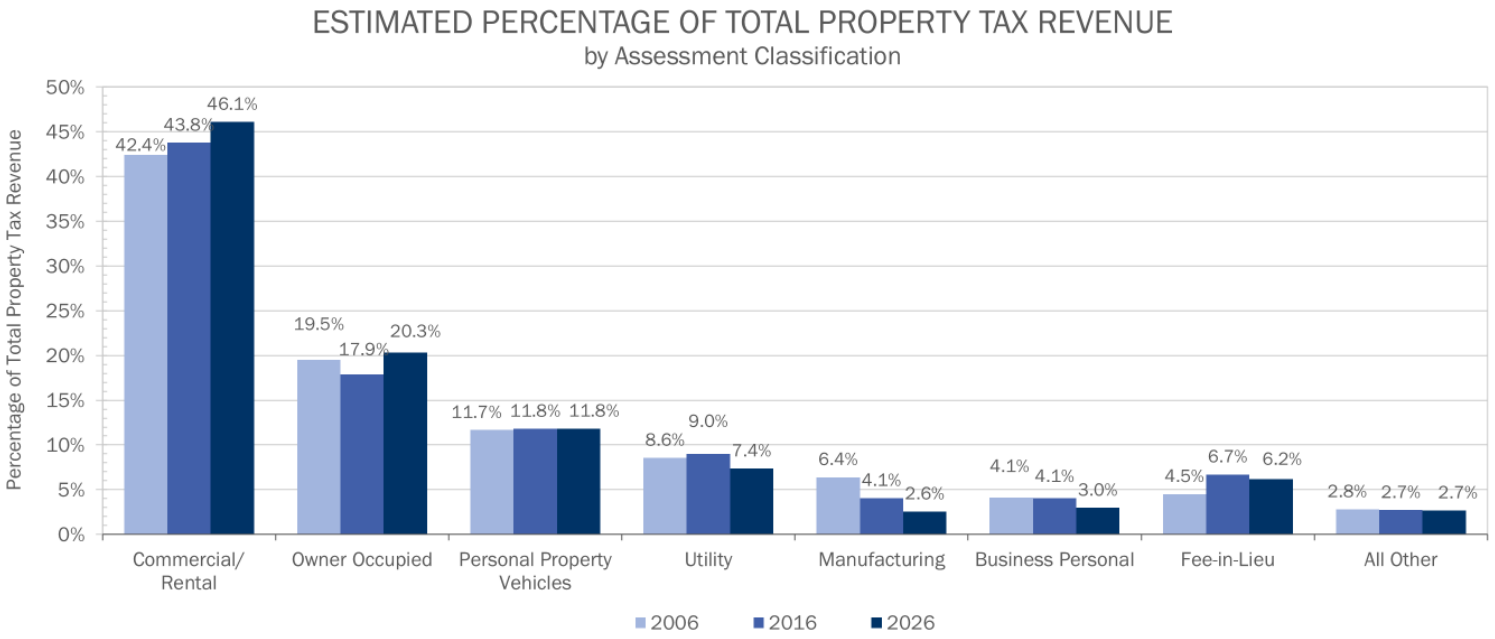
	Non-School Operating	School Operating
Owner-occupied	35.8%	0.0%
Commercial/rental	36.1%	56.2%
Vehicles	9.2%	14.3%
Manufacturing	3.2%	4.9%
Utility	6.1%	9.5%
Business Personal	2.4%	3.7%
Fee-in-Lieu	5.2%	8.1%
All Other	2.1%	3.3%
Total Assessed Value	100.0%	100.0%

Note: All Other includes other personal property, motor carrier, agricultural real property (corporate and private)
Source: Department of Revenue 2026 Index of Taxpaying Ability RFA/mkm/8/19/2026

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

Estimated Property Tax Revenue by Classification – History

The percentage of property tax revenue from commercial/rental has increased while owner-occupied has varied

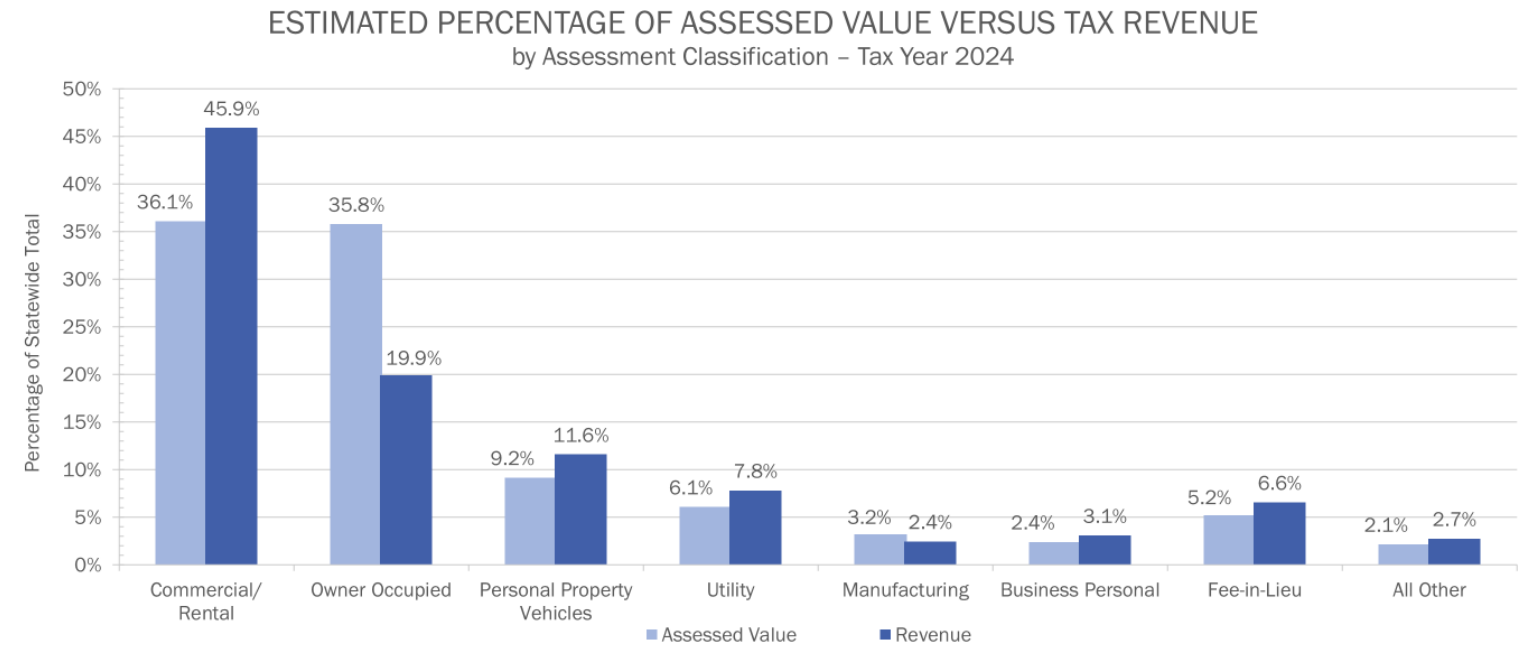


Note: All Other includes other personal property, motor carrier, agricultural real property (corporate and private)
Source: DOR Index of Taxpaying Ability; calculations by Revenue and Fiscal Affairs 229-RFA/mkm/8/28/2026

For reference only. Does not imply endorsement by the SC Office of Revenue & Fiscal Affairs, The Tax Foundation or ALEC.

Assessed Value Compared to Estimated Revenue by Category

While owner-occupied is 35.8% of assessed value, it is only 19.9% of total revenue



Note: All Other includes other personal property, motor carrier, agricultural real property (corporate and private)
Source: Department of Revenue Index of Taxpaying Ability and Revenue and Fiscal Affairs RFA/mkm/9/2/2026

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The Tax Foundation

Competitiveness Index

South Carolina | #29 Overall

Category	Rank	Rank Change	Score
Overall	29	0	5.08
Corporate Taxes	8	1	5.62
Individual Income Taxes	24	-1	5.43
Sales Taxes	28	1	4.63
Property Taxes	40	1	4.20
Unemployment Insurance Taxes	27	1	5.11

LEARN MORE ABOUT SOUTH CAROLINA TAXES

South Carolina levies an individual income tax with two brackets, a top marginal rate of 6 percent, and a marriage penalty. By contrast, neighboring North Carolina levies a flat individual income tax and does not impose a marriage penalty, making South Carolina's levy particularly uncompetitive. Pass-through businesses enjoy a preferential rate on business income, which helps them but creates distortions and drives up the ordinary rate.

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 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.

The state also applies a different formula to assess distinct property types, known as split roll taxation, and South Carolina is the only state to apply school property taxes to commercial and industrial property but *not* to residential property, raising costs for businesses and renters compared to homeowners.

Rich States, Poor States

American Legislative Exchange Council (ALEC)

Economic Outlook Rank

South Carolina is currently ranked **21st** in the United States for its economic outlook. This is a forward-looking forecast based on the state's standing (equal-weighted average) in 15 important state policy variables. Data reflect state and local rates and revenues and any effect of federal deductibility.

21st

CURRENT (2026) | RANK TRENDS | TRENDS CHARTS | TRENDS DATA | ADJUST POLICIES

Current Economic Outlook (2026)

From the 2026 edition of *Rich States, Poor States*. These values are the most recent available at the time of publication.

POLICY	VALUE	RANK
Top Marginal Personal Income Tax Rate	6.20%	35th
Top Marginal Corporate Income Tax Rate	5.00%	17th
Personal Income Tax Progressivity *(change in tax liability per $1,000 of income)*	$21.63	45th
Property Tax Burden *(per $1,000 of personal income)*	$26.45	24th
Sales Tax Burden *(per $1,000 of personal income)*	$22.30	19th
Remaining Tax Burden *(per $1,000 of personal income)*	$16.00	25th
Estate / Inheritance Tax Levied?	No	1st
Recently Legislated Tax Changes	-$120	18th
Debt Service as a Share of Tax Revenue	3.22%	16th
Public Employees Per 10,000 of Population *(full-time equivalent)*	493.24	13th
State Liability System Costs *(as a share of state GDP)*	2.54%	44th
State Minimum Wage *(federal floor is $7.25)*	$7.25	1st
Average Workers' Compensation Costs *(per $100 of payroll)*	$1.03	22nd
Right-to-Work State? *(option to join or support a union)*	Yes	1st
Tax Expenditure Limits	1	15th

Ranks for other states in our region: Florida (1), North Carolina (9), Georgia (11), and Tennessee (12).