

South Carolina's Tax System: Damning with Faint Praise

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What System?

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- Taxes, fees and charges
- Own source revenue
- State and local combined
- Thinking systemically—it's the system that matters, not the particular tax!

What makes a revenue system good?

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- It raises enough money (adequacy)
- It distributes the burden fairly (equity)
- It doesn't distort decisions in order to reduce one's taxes, and it isn't too complicated or expensive to administer (efficiency)
- It relies on multiple sources at low rates rather than few sources at high rates (the three legged stool)
- It balances the need for stability with the potential for growth as population, inflation, and service needs grow

How can we tell if our tax system is “good?”

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- Does it raise enough money? Quality of public services compared to past and compared to “peer” states
- Is it fair? Does it follow the benefit or ability to pay principle? Is the system regressive or progressive? Does it use a variety of taxes so everyone contributes something?
- Is it efficient? Are the people we are trying to help getting the relief? Is relief going to a lot of people who don't need it or who are getting incentives for things they were going to do anyway?

By the Numbers

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How do we compare to our own past?

How do we compare to our peers?

What do we compare?

- Where the money used to come from and where it comes from now
- Per capita revenue (tax resources) and revenue as a percent of income (tax burden) over time and in comparison to other states
- Selected categories of spending per capita

Over Time—US and SC Revenue Sources

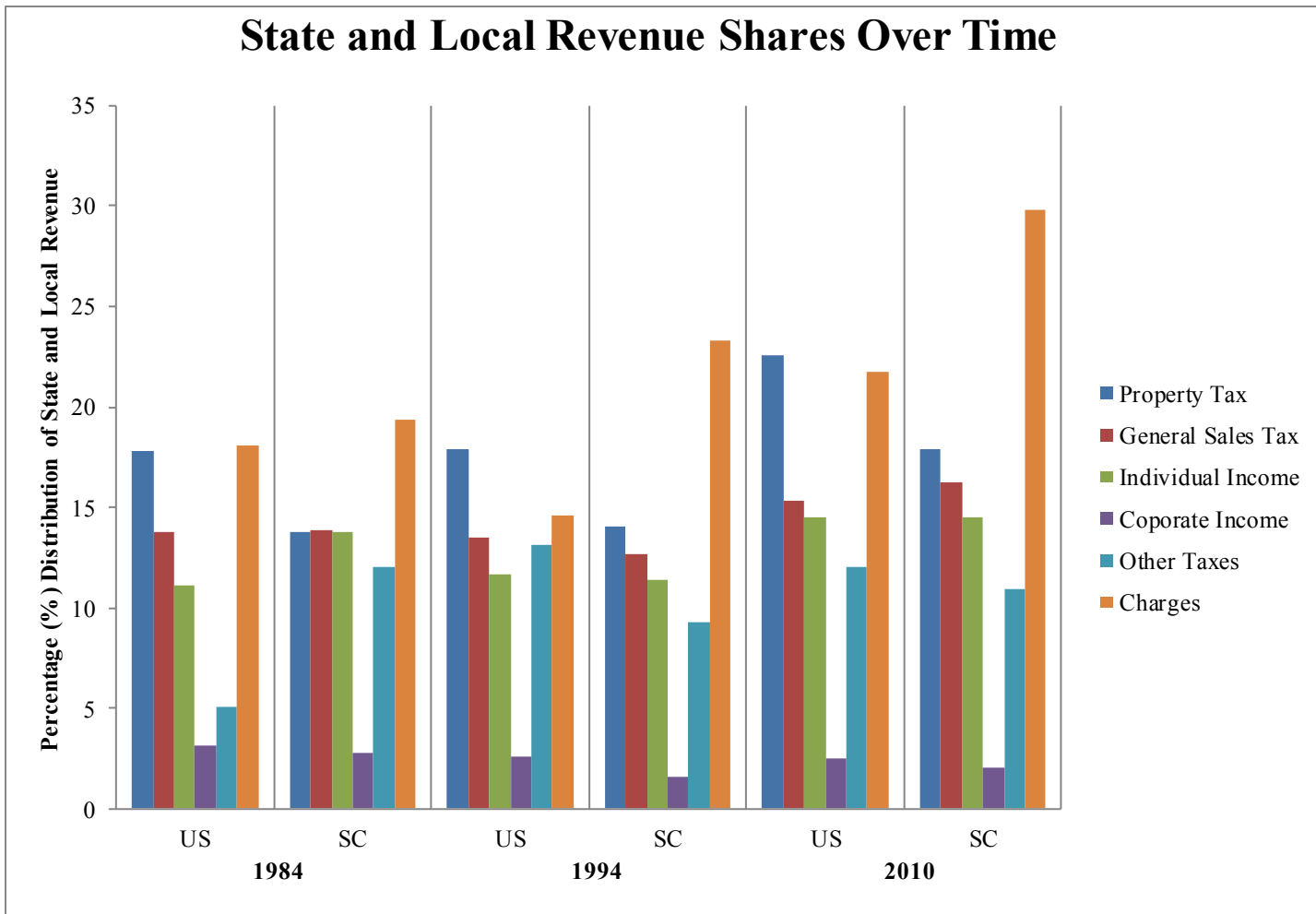
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State and Local Revenue Shares Over Time

Percentage (%) Distribution of State and Local Revenue

	1984		1994		2010	
	US	SC	US	SC	US	SC
Property Tax	17.8	13.8	17.9	14	22.52	17.9
General Sales	13.8	13.9	13.5	12.7	15.3	16.25
Individual Income	11.1	13.8	11.7	11.4	14.49	14.51
Corporate Income	3.1	2.8	2.6	1.6	2.49	2.08
Other Taxes	5.1	12	13.1	9.3	12.05	10.96
Charges	18.1	19.4	14.6	23.3	21.76	29.78

State and Local Revenue Shares Over Time

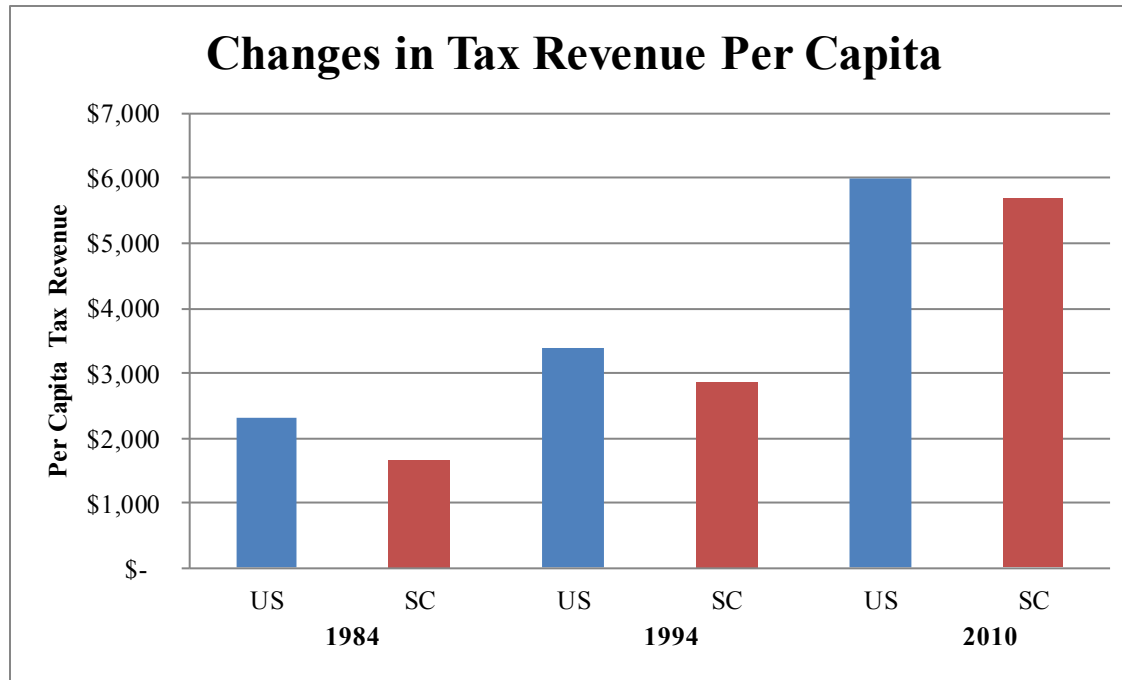


A Word on Fees and Charges

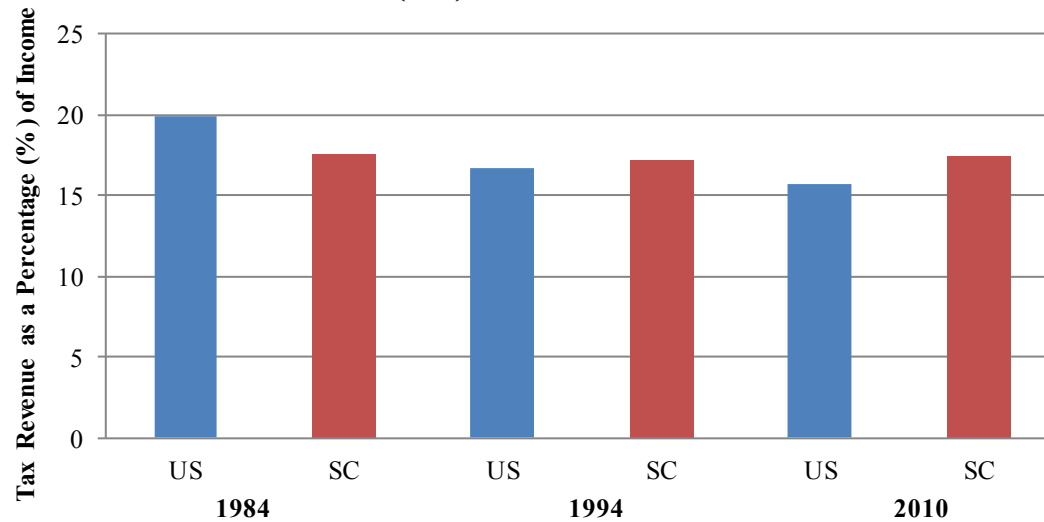
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- SC ranks close to the top in fees and charges as a percent of own-source revenue
- Includes tuition for higher education, fees for state parks, public hospitals, landfill tipping fees, etc. (not water and sewer)
- Fees and charges have pros and cons, but they are regressive
- Some parts of government lend themselves to quasi-business operation, others do not
- Poor rely more heavily on public services

Changes in Revenue Per Capita and as a Share of Income						
	1984		1994		2010	
	US	SC	US	SC	US	SC
Per Capita Tax Revenue	\$ 2,299	\$1,669	\$ 3,399	\$2,878	\$5,984	\$ 5,687
Revenue as a Percentage (%) of Income	19.9	17.6	16.7	17.2	15.7	17.4



Changes in Tax Revenue as a Percentage (%) of Income

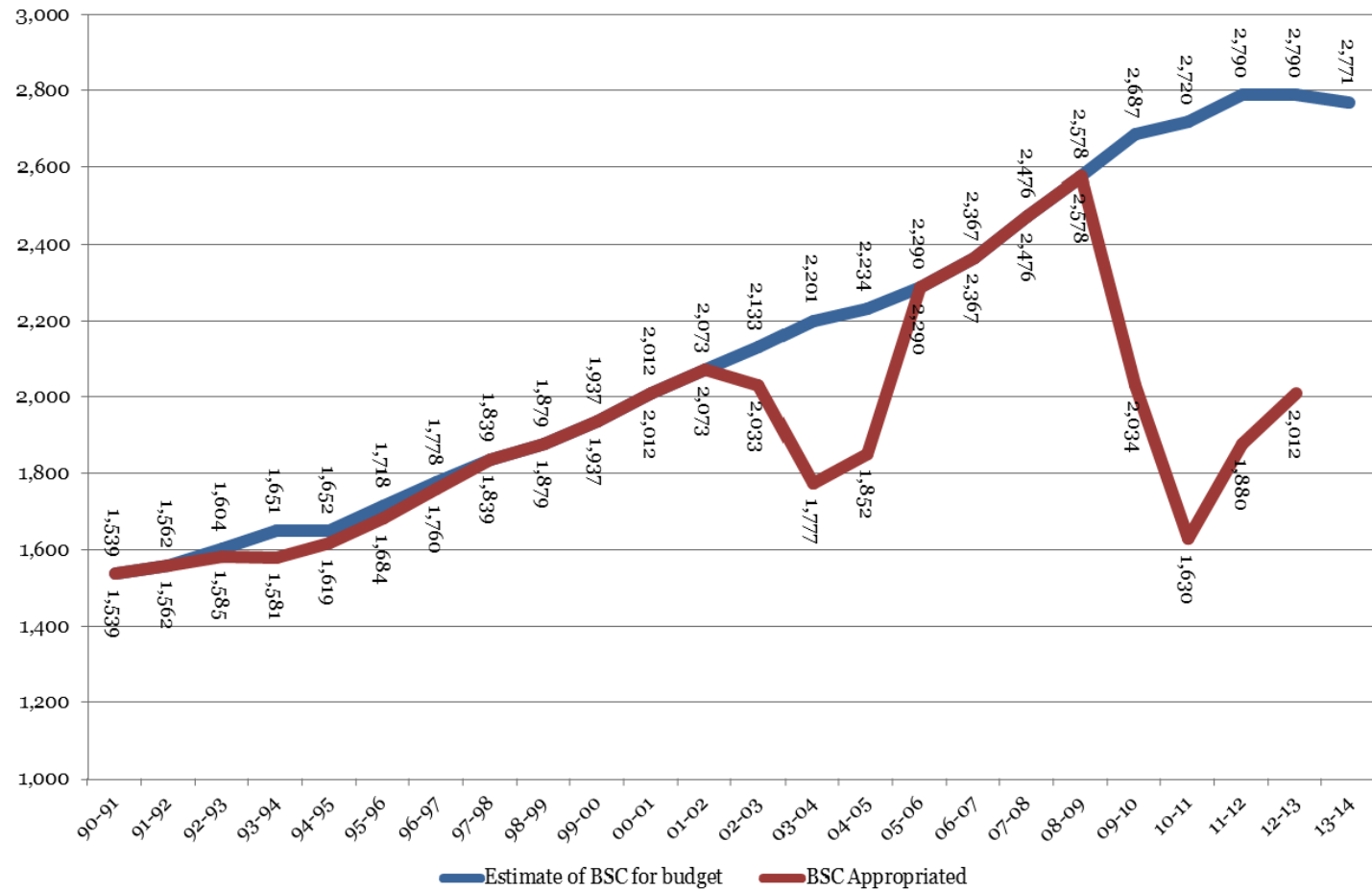


Over Time: Education Spending

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- In 1990, SC was spending 85% of the national average per pupil on public education. By 2000 it had risen to 98%. By 2009, it had fallen to 78%, before the big budget cuts of 2010-2012 further reduced education spending.
- Base student cost is the key ingredient in the distribution of EFA funding. It is adjusted each year for inflation, unless the legislature decides otherwise.
- In 2013, BSC should have been \$2,790. Instead, it was \$2,012.

BSC Estimate Provided for the Budget and the BSC Appropriated



Per Capita Taxes in Peer States

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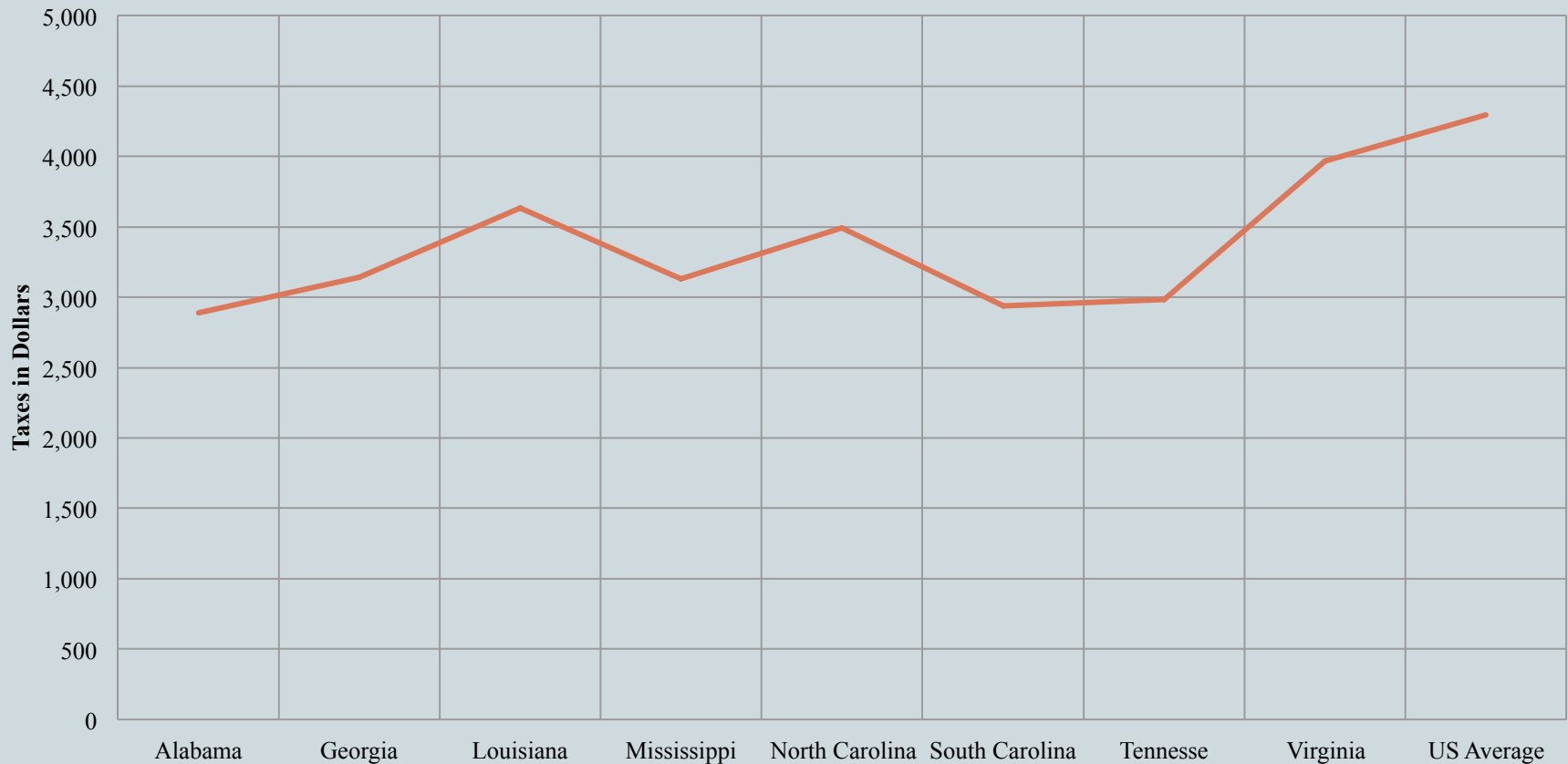
Per Capita Taxes by State in 2011		
State	Per Capita Taxes (in Dollars)	Rank
Alabama	2,889	51
Georgia	3,143	46
Louisiana	3,631	32
Mississippi	3,133	47
North Carolina	3,493	35
South Carolina	2,941	50
Tennessee	2,981	48
Virginia	3,967	26
US Average	4,296	-

Keeping Up with the Joneses?

Peer State Revenue

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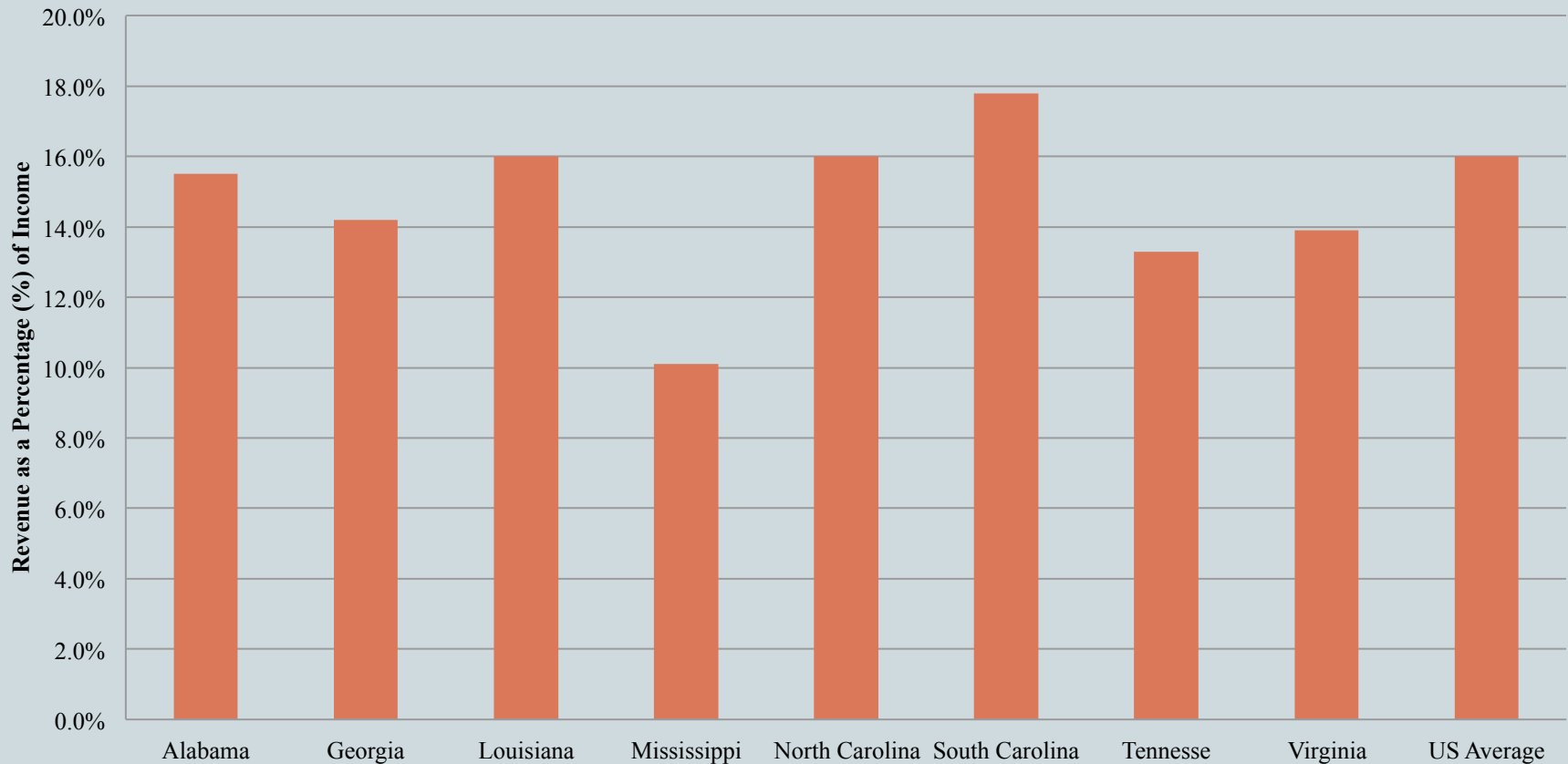
Per Capita Taxes by State, 2011



Own-source Revenue Relative to Income

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Own Source Revenue Across States, 2011

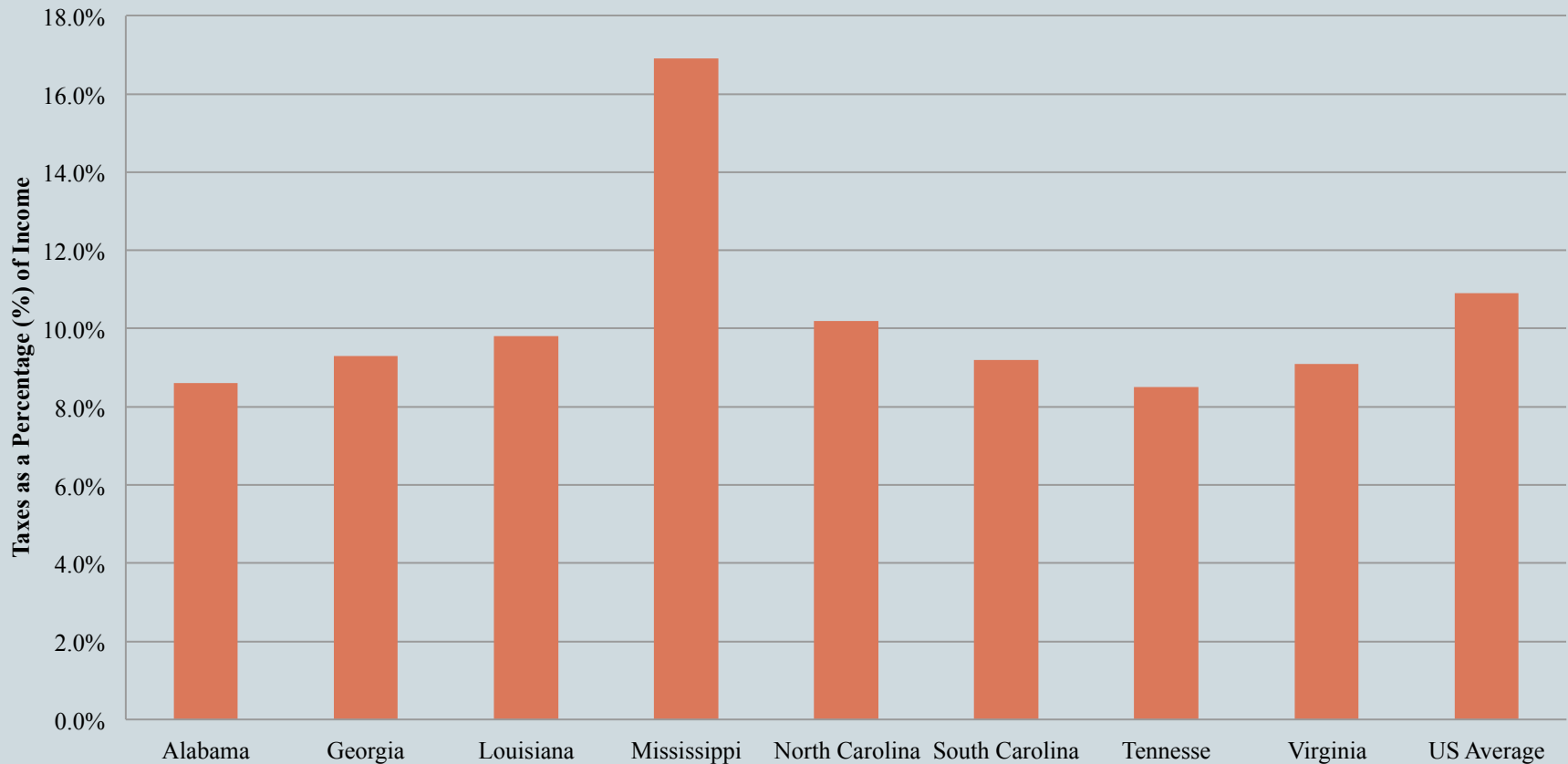


Comparing Own Source Revenue Across States in 2011		
State	Revenue as % of Income	Rank
Alabama	15.5%	32
Georgia	14.2%	43
Louisiana	16.0%	27
Mississippi	10.1%	35
North Carolina	16.0%	25
South Carolina	17.8%	7
Tennessee	13.3%	49
Virginia	13.9%	46
US Average	16.0%	-

Tax Revenue Relative to Income (Tax Burden)

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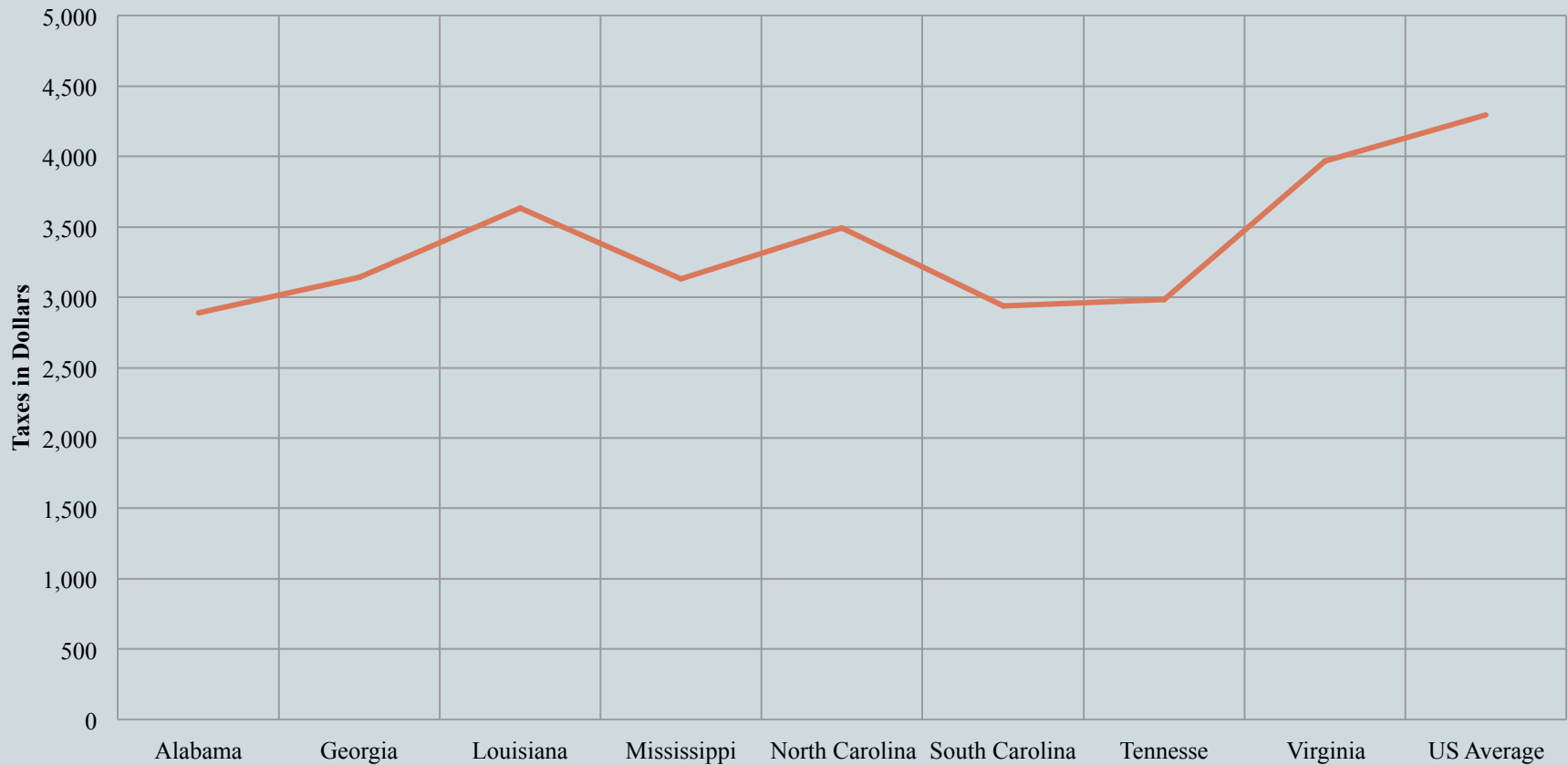
Tax Revenue Across States, 2011



Per Capita Taxes (Tax Resources)

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Per Capita Taxes by State, 2011



Per Capita Taxes by State

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Efficiency: Incentives and the Revenue System

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- The incentive to be a nonprofit
- The incentive to claim your beach house as your primary residence
- The incentive to play one county and one state off against another in business location
- The incentive to shop out of state
- The incentive to be a farmer or own a forest
- The idea of tax expenditures: theory and practice

Deciding Who Pays

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- How we measure tax burdens
- What does “who” mean? Income? Wealth? Age? Homeowner? Business? County or city of residence?
- How SC compares with other states
- How SC has changed over time

Simplest is Not always Best!

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“The government passed a new flat tax today on crackers, computer screens, floor tiles, plywood, pancakes, cheese, roof shingles, cardboard, DVDs, windows, doors, sidewalks, old tires, stale beer and everything else that is flat.”

Comparing Tax Burdens

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- By income group: highest percent of income is paid by those with incomes from \$27K to \$44K, lowest by those earning \$390K or more
- By age: income taxes for the elderly are 80% lower than for families of comparable income under the age of 65
- By owner occupied status: the property tax bill for a \$200K house owner-occupied would average \$1,003, compared to \$3,554 for a rental or commercial property of equal market value

What Have We Done (and failed to do) to the Tax System Lately?

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- The cigarette tax
- The gasoline tax and other excises
- The sales tax: Act 388
- The sales tax: internet
- The sales tax: base broadening
- The income tax: small business
- The income tax: collapsing rates
- Property tax relief: Act 388 and Act 402

Excise Tax Issues

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- The role of excise taxes
- The battle over tobacco
- The battle over the gasoline tax
- The idea of indexing
- Revenue from excise taxes has been flat in amount and declining as a share of revenue

Sales Tax Issues

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- The internet issue
- The increase in the sales tax as part of Act 388
- Higher sales taxes and relief on property taxes for higher valued property has made the system more regressive
- The base broadening issue

Broadening the Base

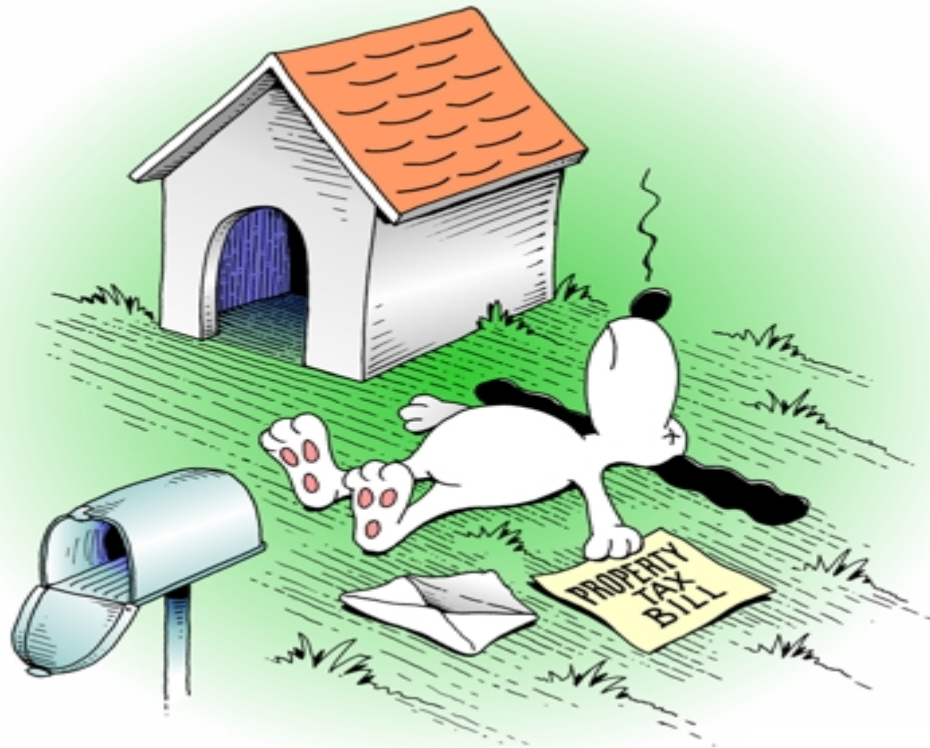
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- Lots of exemptions that don't add up to a lot of money
- Big revenue and equity issue is in services
- SC taxes only 36 of at least 160 possible services taxed in some other states
- Can generate as much as 35% more revenue at same rate
- Services make the sales tax less regressive
- Services is a major growth area for the economy, sales tax would track income growth better

Income Tax Issues

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- Lots of small but significant reforms in the last 30 years including indexing in the 1980s, relief for small business and bracket tightening along with a lot of incentives and breaks for parents and the elderly
- Income tax is the workhorse of the system, income and sales together account for most of the General Fund (as distinct from general revenue)
- Corporate income tax as a continued bone of contention but a modest source of revenue and not significant in influencing business location



Property Tax Relief: Act 388 and its Relatives

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- Homestead exemption for the elderly (Tier 1) first \$50,000 in market value, all local taxes (was \$20,000), state funded, amount capped
- Exemption of first \$100K of market value of owner occupied property from school taxes (1995) (Tier 2), state funded, amount capped
- Exemption of the rest of market value of owner occupied property from school taxes (2006, Act 388, Tier 3), state funded, formula distribution
- Assessment cap of 15% over any five year reassessment period (Act 402)

Winner and Losers

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- Homeowners v. non-homeowners (including business)
- Rich school districts/counties vs. poor school districts/counties
- A few poor districts with the \$2.5 million guarantee
- High income vs. low income

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