



REFORMING SOUTH CAROLINA'S TAX POLICY

**South Carolina Chamber of Commerce
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Objective

To achieve a simplified, comprehensive tax policy that:

- Ensures fairness, stability, predictability, accountability and compliance;
- Equitably balances income, property and sales tax levies; and
- Provides necessary services without overburdening a specific group of people.

Such a system would help create a sustainable competitive business environment, attract and retain investors and increase individual wealth for all citizens by increasing job opportunities.

Background

Government revenue comes from four sources: taxes on wealth (property), taxes on income, taxes on consumption (sales) and taxes on use (fees). During the 2006 legislative session, South Carolina's General Assembly attempted to address rising homeowner property taxes with piecemeal legislation that provides relief from school operating taxes for owner-occupied homes and is funded with revenue from a 1-cent increase in the state sales tax. The measure, especially in economic downturns, is negatively impacting school districts (under funding) in addition to exposing businesses to higher costs, which will ultimately have a negative impact on individuals (job loss).

A key component for maintaining a business-friendly climate in South Carolina is the recognition that all citizens – individual and corporate – should pay for necessary services needed to live in South Carolina. Unfairly burdening one segment, such as the business community, with a non-competitive tax structure stifles the creation of wealth for all citizens in the state by inhibiting future growth and prosperity.

Approaching tax reform in a piecemeal fashion, whether on the state or local level, only exacerbates administrative inefficiencies and taxpayer derision. Temporary solutions leave behind long-term consequences. In 2009, the South Carolina General Assembly established the Tax Realignment Commission (TRAC) to take a holistic view of the state's tax structure and provide one report back to the General Assembly in 2010. The South Carolina Chamber of Commerce will monitor proceedings and offer recommendations to the Commission as they relate to reducing the overall tax burden on businesses.

As property values increase and property taxes grow faster than income, businesses are feeling the burden of piecemeal packages passed by the South Carolina General Assembly. Inequitable

tax policies are prompting businesses to locate or relocate in states with lower taxes. That substantially affects the jobs, wealth and economic growth that real competitiveness facilitates.

Situation

Those considering investment in South Carolina base their decisions largely on the stability and predictability of the state's tax policies.

- South Carolina businesses pay the highest property tax rate in the nation for industrial property.
- South Carolina has the 7th highest property tax rate in the nation for commercial property.
- The current economic downturn has clouded revenue projections, and sales tax collections have fallen well below expectations, threatening and reducing school funding across the board.
- Schools are facing a shortage of operating dollars thanks to the 2006 property tax swap bill, which only has generated about \$582 million of the \$700 million needed to fund schools. In the future, as valuations increase and the number of homes continues to grow in many areas, the need for funding will outpace sales tax growth, leading to the necessity of identifying additional funding sources. Schools will be forced to turn to the business community to raise the funds.

South Carolina's disproportionate tax on businesses is exacerbating the state's problem of attracting and retaining businesses and good paying jobs and is helping fuel high unemployment rates.

S.C. Chamber Position

State government must take a comprehensive, holistic look at tax reform in South Carolina, which includes examining property taxes, exemptions, sales taxes, etc. if the state is to improve its global competitiveness and succeed in retaining and attracting good jobs for citizens. With comprehensive tax reform and a business climate structure to foster economic development, South Carolina can become an economic global leader.

Measures that would move South Carolina in this direction include:

- Repealing Act 388 to address the cost shifts to businesses, and
- Eliminating the corporate income tax, eliminating special purpose districts and consolidating them under county governments, and reforming the business license fee structure, amongst other recommendations through the TRAC.