Opinion - Cindi Scoppe
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Scoppe: TRAC tackling service taxes

By CINDI ROSS SCOPPE - Associate Editor

THE LEGISLATURE wants you to take your dirty laundry to the Laundromat rather than buying a washer. It wants you to hire someone to mow your yard rather than buying a mower and doing it yourself. It wants you to hang out at pool halls and play pinball rather than bowling or going to college football games. It wants you to hire a limo rather than renting a car to drive yourself. And it wants you to get pretty much anything repaired rather than buying new.

With the exception of that last one, it's hard to think of anything that makes the activities the state favors more virtuous than the things the state frowns upon. But favor and frown upon are precisely what the state does when it taxes certain purchases and exempts others.

Usually, what gets taxed and doesn't is based on what industry has the most effective lobby. But when it comes to services, our tax system is just plain antiquated: When the sales tax was created, two-thirds of U.S. consumer purchases were *things*; today, two-thirds of purchases are services. Services constitute 75 percent of private industry output here in South Carolina, but our state has done a worse job than most at adjusting its tax policy to this changing reality.

With all this in mind, I'm happy to report that I might have been wrong when I wrote last month that the Taxation Realignment Commission wasn't interested in taxing services. On Thursday, in addition to voting on its proposal to lift many of the sales tax exemptions on products, the full TRAC will take up a subcommittee report that proposes to significantly increase the portion of our economy that is subject to the sales tax. There is nothing ambiguous about the proposal, which declares: "South Carolina must finally recognize this fundamental shift in economic activity and CHANGE its tax structure and/or base accordingly by increasing the number of services that it taxes to a more reasonable level."

Like the exemptions list, the service tax proposal is imperfect. But it's a pretty smart plan that, if combined with the proposals to get rid of some exemptions, would allow the state to lower its sales tax from 6 percent to perhaps 4 percent and still collect the same amount of money. (That's a very, very rough, back-of-the-hand projection that will be refined long before any plan goes to the Legislature.)

Any expansion of the base makes a tax better able to withstand economic changes. It also gets the state out of the business of influencing consumer choices. (Unlike economists, I have no objection to the state influencing consumer choices; I object to the state influencing choices in ways that are stupid or counter to public policy.) And taxing services has the added advantage of making the notoriously regressive sales tax a little flatter, because the more people make, the more of their money they tend to spend on services instead of things.

Now before all you doctors and lawyers and real estate agents and ad executives run frantically screaming to the nearest lobbyist, the panel does not propose to tax *any* services in the "professional" or "finance, insurance and real estate" categories. There are legitimate policy reasons for exempting these services, but mainly it's a reflection of political reality: No state has ever been able to overcome the resistance of these groups, which include the largest campaign contributors and the most influential lobbies in most states. Even Clemson economist Holley Ulbrich, the Legislature's go-to expert on tax policy, gave her tacit approval of steering clear of these service providers, because of the potential that their opposition would have to undermine the overall effort. (Not coincidentally, lobbying would remain untaxed, though lobbying income is going through the roof as a result of the TRAC's work.)

In general, the panel tried to target services that are used by individuals, in order to avoid pyramiding, or double-taxation, which occurs when businesses pass on to their customers the taxes that *they* paid on services, and customers end up paying a tax on a tax. So in addition to professional and financial services, the two broad groups of services that would remain completely exempt are industrial and mining, and construction. The panel also tried to target services that people would not be likely to cross state lines to purchase. So intrastate transportation and storage services would be taxed, but travel agents wouldn't. Haircuts and perms would be taxed, but bail bonds and employment agencies wouldn't be.

Other services the panel proposes to tax include most repairs, carpet cleaning, utilities, health clubs and tanning parlors, massage services, extermination, security, pet grooming, taxidermy, limo service and chartered flights. The plan also calls for taxing "intangibles" — primarily computer programs and downloads of products that we used to purchase as *things* but that now exist in cyberspace.

Currently, South Carolina taxes just 35 of the 168 services that the Federation of Tax Administrators has identified as taxable — well below the national average of 57. This proposal would increase that to nearly 100, making South Carolina one of the half-dozen or so most aggressive states at taxing services. That might sound like a bad thing, until you remember that the TRAC has made it clear that every penny it gains from broadening the tax base will be used to lower the tax rate. So if you're a do-it-yourself kind of person, you might end up paying less in sales taxes, and if you tend to have others wait on you hand and foot, you might start paying closer to your fair share.

Ms. Scoppe can be reached at cscoppe@thestate.com or at (803) 771-8571.

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Abcasia Yesterday 02:10 PM

We simply must elect a Governor who will work to implement sales taxes on goods and services sufficient to support and expand state and local government. That man is Vincent Sheheen. I am voting for Clements in November after changing my mind from Sheheen to Clements because I want my vote to count. Sheheen if elected will get a vast array of taxes raised, however.

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