

# South Carolina's Corporate and Business Tax Climate Rates and Rankings

Presented to: SC TRAC

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# SC Corporate / Business Tax Rate and Rankings

SC's Corporate Tax Rate (C Corps)=5%

40<sup>th</sup> highest / 10<sup>th</sup> best nationally (lowest in SE)

SC's Corporate Tax Collections\*

FY10 = \$110 Million

FY99-FY09= \$192 Million/yr.

FY05-FY08= \$244 Million/yr.

\*3<sup>rd</sup> largest source

44<sup>th</sup> highest / 6<sup>th</sup> best nationally (@ \$72 per capita)

# SC Corporate / Business Tax Rate and Rankings (cont.)

## Our Neighbors (Rate):

Georgia= 6.0% (20% higher than SC)

15<sup>th</sup> best nationally (SC 10<sup>th</sup> best)

NC\*= 6.9% (38% higher than SC)

23<sup>rd</sup> best nationally (SC 10<sup>th</sup> best)

## Our Neighbors (Collections):

Georgia= 9<sup>th</sup> best at \$98/pc (SC 6<sup>th</sup> best)

NC\*= 24<sup>th</sup> best at \$132/pc (SC 6<sup>th</sup> best)

\*This is before NC's recent enactment of their additional 3% "surtax" on corporate income over a certain threshold.

# SC Corporate / Business Tax Rate and Rankings (cont.)

## Corporate (C tax) – Who Pays?

Number of Filers:	98,000
Number with \$0 Liability:	86,925 (89%)
Number with Liability:	11,075
Of filers owing tax:	
Number (%) Domestic:	6,675 (60%)
Number (%) Foreign (Multi-State):	4,400 (40%)
 Collections (Dollars and Percentage):	
Domestic:	\$ 67 Million (32%)
Foreign:	\$142 Million (68%)

# SC Corporate / Business Tax Rate and Rankings (cont.)

SC – Small Business “tax parity” with C corps

In 2006, the General Assembly leveled the playing field for small businesses (the majority of businesses in SC) in terms of state tax treatment by phasing in small business tax relief as follows:

2006=	6.5%
2007=	6.0%
2008=	5.5%
2009 and thereafter=	5.0%

Today, small businesses may annually choose whichever tax structure most advantages their business (either the current marginal rate structure or the flat 5% rate, ala the Corporate Income Tax rate).

\*SC is one of the nation’s friendliest states for small business (more on rankings later)

Note: Combined, corporate and business income taxes generate almost \$600 Million annually in General Fund revenue.

# SC's Business Climate – National Rankings

## *Chief Executive Magazine*

“Best and Worst States for Business – 2010”

651 CEO's

3 Primary Categories:

- 1) Taxation and Regulation (5 subsets)
- 2) Quality of Workforce (5 subsets)
- 3) Living Environment (6 subsets)

SC 10<sup>th</sup> best overall (GA 7<sup>th</sup>, NC 2<sup>nd</sup>)

	<u>SC</u>	<u>GA</u>	<u>NC</u>
Taxation* and Regulation	B+	B	B+
Quality of Workforce	B	B+	B+
Living Environment	A-	B+	A-

\*It's Not taxes:

Overall business tax climate: SC 3 spots better than GA and 13 spots better than NC

Corporate Taxes specifically: SC virtual tie with GA, 16 spots better than NC

Property Taxes specifically: SC 10 spots better than GA, 11 spots better than NC

Quality of Workforce –

- a) Work ethic
- b) General Education level of workforce\*
- c) Competitiveness of wage rates
- d) Employee relations with management
- e) Specialized labor

	<u>SC</u>	<u>GA</u>	<u>NC</u>
*Higher Ed Score (overall)	26	24	29
Degree Completion (1,000 adults)	41	29	27

# SC's Business Climate – National Rankings

## *CNBC – 2010 Top States for Business*

### Cost of Doing Business

- a) Tax burden
- b) Utility
- c) Cost of wages
- d) Workers comp
- e) Rental costs for office/industrial

SC 6<sup>th</sup> best nationally

<u>SC</u>	<u>GA</u>	<u>NC</u>
6	20	15

Quality of Workforce

5	3	3
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# SC's Business Climate – National Rankings

## *CNBC – 2010 Top States for Business (cont.)*

Overall

SC Ranks 31<sup>th</sup> nationally (6<sup>th</sup> best on “Cost of Doing Business”)

<u>SC</u>	<u>GA</u>	<u>NC</u>
31*	10	4

\*Not taxes– What is it?

Education

43	28	26
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“Education and Business go hand in hand. Not only do companies want to draw from an educated pot of workers, they want to offer their employees a great place to raise a family. Higher education institutions offer companies a source to recruit new talent, as well as a partner in research and development. We looked at traditional measures of K-12 education including test scores, class size and spending. We also considered the number of higher education institutions in each state.”

Quality of Life

45	35	32
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“The best place to do business are also the best places to live. We scored the states on several factors, including local attractions, the crime rate and healthcare.”

Business Friendliness

30	17	13
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“...We grade the states on perceived “friendliness” of their legal and regulatory framework to business.”

# SC's Business Climate – National Rankings

## *Area Development – Top 10 States for Business*

“Consultants to Industry”

8 main “site selection” criteria:

- 1) Lowest business costs
- 2) Most business friendly
- 3) Corporate tax environment
- 4) Overall labor
- 5) Workforce development
- 6) Fast track permitting
- 7) Rail and highway accessibility
- 8) Shovel ready sites

Overall

SC Ranks the 3<sup>rd</sup> best state for business

Lowest Business Costs

SC Ranks the BEST state for business

Business Friendliness

SC Ranks the 3<sup>rd</sup> best state for business

Corporate Tax Environment

SC Ranks the 3<sup>rd</sup> best state for business

Workforce Development

SC Ranks the 3<sup>rd</sup> best state for business

<u>SC</u>	<u>GA</u>	<u>NC</u>
3	5	8
1	N/A*	N/A*
3	N/A*	4
3	N/A*	N/A*
3	1	4

\*Ranked outside the top 10 nationally on this measure

# SC's Business Climate – National Rankings

## *Pollina – Top 10 Pro-Business States for 2010*

2 “stages” (Labor, Taxes and Other and Incentives and Econ. Development Agency Factors)

“Overall Ranking”

SC ranks 4<sup>th</sup> most pro-business state in nation (2<sup>nd</sup> in South)

<u>SC</u>	<u>GA</u>	<u>NC</u>
4	13	5

“Labor, Taxes and Other”

SC Ranks 12<sup>th</sup> most pro-business state in nation, ahead of both GA and NC

“Incentives and Econ. Development Agency Factors”

SC Ranks 3<sup>rd</sup> most pro-business state in nation, one spot behind NC (2<sup>nd</sup>) and 4 spots better than GA (7<sup>th</sup>).

# SC's Business Climate – National Rankings

## *Pollina – Top 10 Pro-Business States for 2010 (cont.)*

It's taxes and cost of doing business (that boost SC)...

“South Carolina’s Low Corporate Taxes,...low workers compensation costs,...and low electricity costs are responsible for South Carolina’s strong finish in this year’s analysis. South Carolina’s pro-business attitude combined with a relatively low cost of doing business...makes it a major player in the game of attracting corporate investment and jobs.”

Helps offset the “...Labor and other factors” of Stage 1

	<u>SC</u>	<u>GA</u>	<u>NC</u>
High School Completion	41	38	38
College Completion	38	23	26
Unemployment Insurance	43	22	5
Legal Environment	39	27	17

# SC's Business Climate – National Rankings

## *Pollina – Top 10 Pro-Business States for 2010 (cont.)*

North Carolina's high ranking is not attributable to corporate taxes and cost of doing business. Remember, SC's ranking attributable in part to "...low corporate taxes...and a relatively low cost of doing business."

Instead:

"North Carolina's high score can be attributed to their right-to-work status (SC), low unemployment insurance, worker's compensation rate's (SC), and a favorable litigation environment."

Likewise (Georgia):

"Michigan, Ohio, Georgia\*, and Louisiana ranked among the nation's best relative to Stage II, Incentives and State Economic Development Agency Factors, but did not rank high enough in terms of Stage I, Labor, Taxes and Other Factors, to make the Pollina Top 10 Pro-Business States list."

\*Georgia ranked 7<sup>th</sup> in Stage II (SC ranked 3<sup>rd</sup>, NC ranked 2<sup>nd</sup>)

# SC's Business Climate – National Rankings

## *Tax Foundation – 2010 State Business Tax Climate Index*

Overall

<u>SC</u>	<u>GA</u>	<u>NC</u>
26	29	39

Corporate

9*	8*	30
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Unemployment Insurance

43	22	5
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Property Tax

26	36	37
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# SC's Business Climate – National Rankings

## *Tax Foundation – 2010 State Business Tax Climate Index (cont.)*

\*Corporate Note:

SC and GA in 'virtual tie' in corporate tax ranking at 9<sup>th</sup> and 8<sup>th</sup> respectively.

TF's "corporate tax index" is based on 2 equally weighted sub-indices:

a) Rate and b) Base

Of those, various factors are considered.

Under "Rate", SC clear advantage (5% vs. 6%). Only apparent GA advantage is "single apportionment", but SC is transitioning to that, and will be 100% sales (net income of business done in SC) next year (2011).

# SC's Business Climate – National Rankings

## *Tax Foundation – 2010 State Business Tax*

### *Climate Index (cont.)*

Note: TF's only focus are taxes and they acknowledge:

“Clearly, there are many non-tax factors that affect a state's overall business climate: its proximity to raw materials or transportation centers, its regulatory or legal structures, the quality of its education system and the skill of its workforce, not to mention the intangible perception of a state's quality of life. The 2010 SBTCI does not measure the impact of these important features of a state's overall business climate.”

# SC's SMALL Business Climate – National Rankings

## *Small Business Survival Index 2009*

Small Business Climate favorable in SC too...

Overall

SC 7<sup>th</sup> best small business climate in US

	<u>SC</u>	<u>GA</u>	<u>NC</u>
	7	20	39
Corporate	10(t)	16(t)	27
Individual	38(t)*	27(t)	43**

\*Does not factor SC's small business tax relief previously discussed (5% vs. 7%). Only looks at "top marginal rates". If factored, SC's overall (and individual) ranking would most certainly improve. Currently, the Small Business Survival Index does not appear to account for this small business friendly tax relief for SC small businesses. This tax relief is/was important for small businesses in SC and should be looked favorably upon by the "Index", as it (the Index) itself acknowledges that "...more than 90% of businesses (in a given state) file taxes as individuals."

# SC's Business Climate – National Rankings

## Recap and Additional Rankings

### South Carolina

Corporate Tax Rate:	10 <sup>th</sup> best
Corporate Collections (per capita)	6 <sup>th</sup> best
“Best and Worst States for Business – 2010”	
Chief Executive Magazine	10 <sup>th</sup> best
“CNBC-2010 Top States for Business	
Cost of Doing Business	6 <sup>th</sup> best
“Area Development-Top 10 States for Business”	
Overall	3 <sup>rd</sup> best
Lowest Business Cost	1 <sup>st</sup> best
Business Friendliness	3 <sup>rd</sup> best
Corporate Tax Environment	3 <sup>rd</sup> best
“Pollina-Top 10 Pro-Business States for 2010”	
Overall	4 <sup>th</sup> best
Labor, Taxes and Other	12 <sup>th</sup> best
Incentives and Econ. Develop. Agen.	3 <sup>rd</sup> best
Tax Foundation-2010 State Business Tax Climate Index	
Corporate Taxes	9 <sup>th</sup> best

### South Carolina (cont.)

Small Business Survival Index 2009	7 <sup>th</sup> best
Additional Rankings-General:	
Business Facilities Magazine 2010	
Economic Growth Potential	1 <sup>st</sup> best
Best Business Climate	4 <sup>th</sup> best
Site Selection Magazine 2010	
Top Business Climates	6 <sup>th</sup> best
Development Counselors International	
Best Business Climate	6 <sup>th</sup> best
Additional Rankings-Industry Specific:	
Business Facilities Magazine 2010	
Automotive Manufacturing Strength	3 <sup>rd</sup> best
Wind Energy Manufacturing Strength	2 <sup>nd</sup> best
Alternative Energy Leaders	9 <sup>th</sup> best
IBM's “Global Location Trends Annual Report	
	4 <sup>th</sup> best
Specific Deals:	
Boeing was “Deal of the Year” in following:	
Business Facilities Magazine	
Southern Business and Development Magazine	
Site Selection	
Trade and Industry Development Magazine's “Corporate Investment and Community Impact Awards” - 30 given nationwide – 3 were in South Carolinas:	
Boeing	
Crane Company	
Red Ventures	
South Carolina one of only 11 states to receive “Area Development's” “2010 Silver Shovel Award” based on South Carolina's: a) number of high-value added jobs per capita, b) amount of investment, c) number of new facilities, and d) industry diversity	

# SC's Business Climate – National Rankings

## Recap and Additional Rankings

### SC – Cities and Towns Rank Well Too...

#### Columbia

- 5<sup>th</sup> lowest cost locations for regional HQs  
The Boyd Company
- 12<sup>th</sup> most “bang for the buck” cities in US  
Forbes
- One of 21 “strongest performing metro areas”  
Brookings Institution
- 12<sup>th</sup> best “Place to start a business”  
Portfolio.com

#### Greenville

- Pro-business tax structure  
Competitive Alternatives 2010 (KPMG)
- 1<sup>st</sup> in “micro cities of the future”  
fDi Magazine
- 6<sup>th</sup> in “Top Ten Metro Economic Growth Potential”  
Business Facilities’ 2010
- 5<sup>th</sup> in “Alternative Energy Industry Leader”  
Business Facilities’ 2010
- 16<sup>th</sup> best “Place to start a business”  
Portfolio.com

#### Greenville-Spartanburg

- 2<sup>nd</sup> lowest business costs in Southeast  
Competitive Alternatives 2010 (KPMG)
- 1<sup>st</sup> in “Emerging Logistics/Distribution”  
Business Facilities’ 2010
- 2<sup>nd</sup> in “Low Cost Manufacturing Center”  
Business Facilities’ 2010

### SC – Cities and Towns Rank Well Too...

#### Charleston

- “Top Ten Mid-Market of the Decade”  
Southern Business and Development
- 4<sup>th</sup> best “Place to start a business”  
Portfolio.com
- 8<sup>th</sup> “smartest city” in the World  
Forbes
- 2<sup>nd</sup> best “Next City” with populations b/w 100k-200k  
Next Generation Consulting

#### Hilton Head

- 4<sup>th</sup> best for “Economic Strength” among US MSA’s  
Policom Corp

#### Aiken

- “Top Ten Small Market of the Decade”  
Southern Business and Development

#### Florence

- 5<sup>th</sup> best metropolitan area for “New and expanding facilities in US” (2008)  
Site Selection Magazine

#### Orangeburg, Union, Gaffney, Lancaster

- All on Site Selection’s 2009 “Top Micropolitas List”

Notes/Sources Page for:

“South Carolina’s Corporate and Business Tax Climate - Rates and Rankings”

**Presented by Craig H. Parks, MPA**

**October 22, 2010**

**Slide 1:**

Title page.

**Slide 2:**

- SC’s Corporate tax rate for C Corps of 5% - SC Code of Laws 12-6-530.
- 40<sup>th</sup> Highest/10<sup>th</sup> best nationally - The Tax Foundation “The Facts on South Carolina’s Tax Climate” <http://www.taxfoundation.org/research/topic/57.html>
- Lowest in the Southeast\* - The Tax Foundation [http://www.taxfoundation.org/files/state\\_corp\\_income\\_rates-201100325.pdf](http://www.taxfoundation.org/files/state_corp_income_rates-201100325.pdf)
- \*Note: SC is tied with Mississippi for the lowest top rate of 5%. However, Mississippi (and several other states) has a marginal rate structure with lower rates. SE states/rates are as follows: SC=Flat 5%, FL=Flat 5.5%, WV=Flat 8.5%, NC=Flat 6.9% (does not factor increase due to temporary “surtax”), KY=Marginal Rates of 4%, 5% and 6%, with top rate kicking in at \$50K+, AR=Marginal Rates from 1% to 6.5% with top rate kicking in at \$100K+, TN=Flat 6.5%, AL=Flat 6.5%, GA=Flat 6%, LA=Marginal Rates from 4% to 8% with top rate kicking in at \$200K+, VA=Flat 6%, MS=Marginal Rates from 3% to 5%, with top rate kicking in at \$10K+.
- SC’s Corporate Tax Collections: FY10 from Comptroller General’s Year End report for FY10, dated August 20, 2010. Other Years indicated taken from the SC Budget and Control Board’s “Historical Analysis” report dated October 31, 2009.
- Reference to “3<sup>rd</sup> largest source” refers to the Corporate Income Tax collections being the 3<sup>rd</sup> largest source of state general fund revenue, behind Sales and Use Tax and Individual Income Tax; take from the SC Budget and Control Board’s “Historical Analysis” report dated October 31, 2009.
- 44<sup>th</sup> Highest / 6<sup>th</sup> best nationally refers to SC’s corporate tax burden ranking on a “per capita” collections basis - The Tax Foundation “The Facts on South Carolina’s Tax Climate” <http://www.taxfoundation.org/research/topic/57.html>

**Slide 3:**

- Comparative data for SC to both NC and Georgia is from The Tax Foundation. Specifically: Georgia=<http://www.taxfoundation.org/research/topic/22.html>
- North Carolina=<http://www.taxfoundation.org/research/topic/47.html>
- Reference to Corporate surtax is from NC’s Department of Revenue <http://www.dornc.com/aboutus/education/lawchanges2009.html>
- Specifically, from NC DOR’s website regarding the Corporate Surtax: “Corporations subject to corporate income tax must pay an income tax surcharge of 3 percent on its North Carolina income tax due before deducting any tax credits or payments. S corporations filing composite income tax returns on behalf of shareholders who live outside North Carolina must calculate the amount of North Carolina income tax due

separately for each nonresident shareholder. That calculation must include the amount of individual income surtax based on the Surtax Percentage Table for individuals with a filing status of single. Note: there is no penalty (interest) for underpayment of estimated tax if the underpayment is because of the surtax.”

**Slide 4:**

- Information regarding corporate tax liability in SC from data provided by the SC Department of Revenue for Tax Year 2008.
- Liability is after credits.
- Domestic corporation, per DOR is a corporation that is chartered/incorporated in SC.
- Foreign corporation, per DOR is a corporation that is chartered/incorporated outside of SC.

**Slide 5:**

- Small businesses now have parity with “biggs” (C Corps). See SC Code Section 12-6-545.
- Applies to “active trade or business income”.
- Reference to corporate / business income tax collections totaling roughly \$600 Million annually is unofficial (non-BEA) staff estimate based on: 1) average corporate tax (C corps) tax collections in non-recession years of \$244 Million annually and 2) extrapolation of BEA’s revenue impact when small business rate was cut from 7% to 5% of \$129M assuming each 1% yields approximately \$65 Million. These estimates are unofficial and for general frame of reference purposes only.

**Slide 6:**

- “Best and Worst States for Business - 2010” - Chief Executive Magazine  
<http://chiefexecutive.net/ME2/Audiences/dirmod.asp?sid=&nm=&type=Publishing&mod=Publications::Article&mid=8F3A7027421841978F18BE895F87F791&tier=4&id=59FD13C5177B40B0B2D3EBA9E4384572&AudID=72E5923167534E2FA8CAC760727D0426>
- Link to subcomponents of “3 Primary Categories” -  
<http://www.chiefexecutive.net/ME2/dirmod.asp?sid=0CC7FBFE04E534C16922586FP98AF9AEB3&nm=Articles&type=Publishing&mod=Publications%3A%3AArticle&mid=8F3A7027421841978F18BE895F87F791&tier=4&id=D89686F3721B4211AB39E53C70A39748>
- Link to Sources used by Chief Executive - <http://www.chiefexecutive.net/states2010/map.asp>

**Slides 7 and 8:**

- “CNBC - 2010 Top States for Business” - <http://www.cnbc.com/id/37554006/>
- “Cost of Doing Business” definition used by CNBC: “Cost is a major consideration when a company chooses a state. We looked at the tax burden, including individual income and property taxes, business taxes, even the gasoline tax. Utility costs can add up to a huge expense for business, and they vary widely by state. We also looked at the cost of wages and state workers’ compensation insurance, as well as rental costs for office and industrial space.”  
<http://www.cnbc.com/id/37516039/>
- “Quality of Workforce” definition used by CNBC: “Many states point with great pride to the quality and availability of their workers, as well as government-sponsored programs to train them. We rated states based on the education level of their workforce, as well as the numbers of available workers. We also considered union membership. While organized labor contends that a union workforce is a quality workforce, that argument, more often than not, doesn’t resonate with

business. We also looked at the relative success of each state's worker training programs in placing their participants in jobs." <http://www.cnbc.com/id/37516047>

**Slide 9:**

"Area Development Magazine - 2010 Top States for Business" - <http://www.areadevelopment.com/siteSelection/sept2010/top-states-doing-business39016.shtml>

**Slide 10:**

- "Pollina Top 10 Pro-Business States for 2010 - The Great American Job Purge" by Brent A. Pollina and Ronald R. Pollina, PhD.
- Note: Pollina produces three rankings: an overall, and then one in each of the following two categories, or what Pollina refers to as "phases" of their study; a) "Labor, Taxes and Other Factors" (Phase 1), and b) Incentives and State Economic Development Agency Factors" (Phase 2). Phase 1 is comprised of 16 factors and comprise 64% of a state's score. Phase 2 is comprised of 15 factors, comprising the balance of the score (36%).
- See page 13 of the report for a detailed description of the two phases and figures 12-28 beginning on page 46 for state rankings on a series of the sub-components described above.

**Slide 11:**

- Pollina continued.
- Pollina quote regarding SC's tax and cost of doing business climate, see page 35 of the report.
- SC High School Completion, see Figure 12, page 46
- SC College Completion, see Figure 13, page 47
- SC Unemployment Insurance, see Figure 17, page 51
- SC Legal Environment, see Figure 23, page 5

**Slide 12:**

- Pollina continued.
- Reference(s) to North Carolina from page 35 of the report. In terms of Phase 1 ("Labor, Taxes and Other Factors", NC ranked 18<sup>th</sup> in 2010, with Pollina noting that "...North Carolina has lost some ground" in the category.
- Reference(s) to Georgia from pages 28 and 29 of the report.

**Slide 13:**

- Tax Foundation's "2010 State Business Tax Climate Index" - <http://www.taxfoundation.org/files/bp59.pdf>
- Overall Ranking= Table 1, page 3
- Corporate Ranking=Table 3, page 12
- Unemployment Insurance Ranking=Table 7, page 31
- Property Tax=Table 6, page 24

**Slide 14:**

- Tax Foundation continued.

- Discussion of corporate income tax portion of report including explanation of “rate” and “base” sub-indices pages 9-14 of the report. <http://www.taxfoundation.org/files/bp59.pdf>

**Slide 15:**

- Tax Foundation continued.
- Quote from pages 3 and 4 of report. <http://www.taxfoundation.org/files/bp59.pdf>

**Slide 16:**

- The Small Business and Entrepreneurial Council’s “Small Business Survival Index 2009” - <http://www.sbecouncil.org/uploads/SBSI2009.pdf>

**Slide 17:**

- “Additional Rankings” beginning in 2<sup>nd</sup> column of slide from the SC Department of Commerce’s “Recent Economic Development Recognitions” publication - [http://scommerce.com/sites/default/files/all/scommerce/Documents/Resources/Recent\\_Economic\\_Development\\_Recognitions\\_for\\_South\\_Carolina\\_August\\_2010.pdf](http://scommerce.com/sites/default/files/all/scommerce/Documents/Resources/Recent_Economic_Development_Recognitions_for_South_Carolina_August_2010.pdf)

**Slide 18:**

- City and town rankings from the SC Department of Commerce’s “Recent Economic Development Recognitions” publication - [http://scommerce.com/sites/default/files/all/scommerce/Documents/Resources/Recent\\_Economic\\_Development\\_Recognitions\\_for\\_South\\_Carolina\\_August\\_2010.pdf](http://scommerce.com/sites/default/files/all/scommerce/Documents/Resources/Recent_Economic_Development_Recognitions_for_South_Carolina_August_2010.pdf)