

South Carolina Tax Realignment Commission

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What Are Business Taxes?

- All Taxes Fall on Real People: Consumers, Employees, Owners
- Legal v. Economic Incidence
- Legal Incidence Matters
 - Legal incidence affects economic incidence
 - Voters aren't economists

The State Business Tax Burden

- COST/E&Y Annual State Business Tax Burden Study (March 2010, for FYE 2009)
- Fundamental Questions:
 - What is a “Fair Share”?
 - Why tax business at all?
- Best rationale: payment for benefits provided by state & local governments

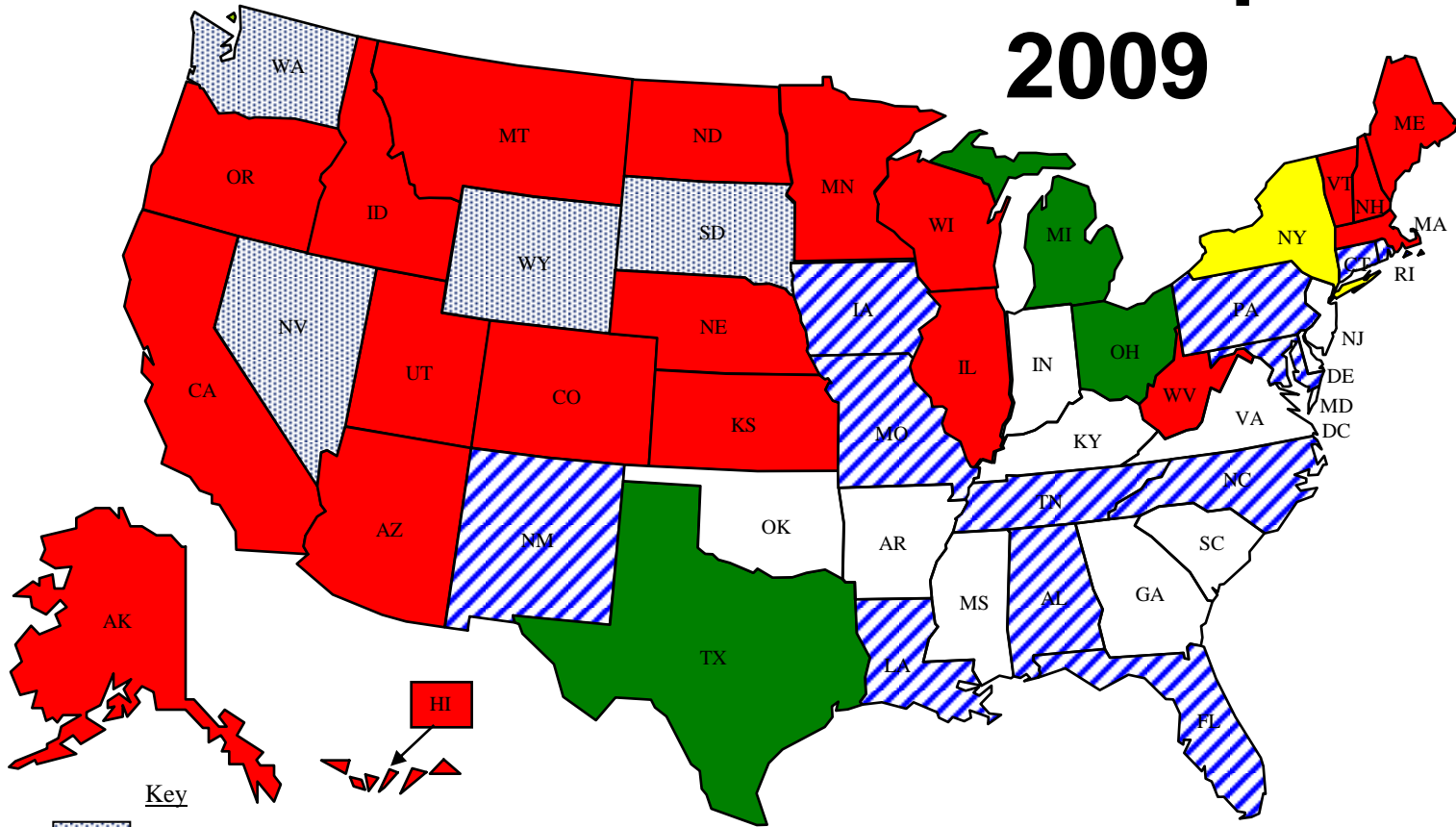
South Carolina's Business Tax Burden

- In FY 2009, SC businesses paid nearly \$6 Billion in state & local taxes
- The Corporate Income Tax accounted for 4% of that total (property taxes = 50%).
- Better Measure: total effective business tax rate (TEBTR) (ratio of business taxes to GSP)
- SC: 4.7%; GA: 4.1%; MD: 4.2%; VA: 3.6%; DE: 3.5%; NC: 3.5%; AL: 4.6%; FL: 5.3%







Policy Issues Facing SC

- Combined Reporting v. Separate Filing
- Expansion of the Sales Tax Base to Services
- Should South Carolina Adopt a Gross Receipts Tax?

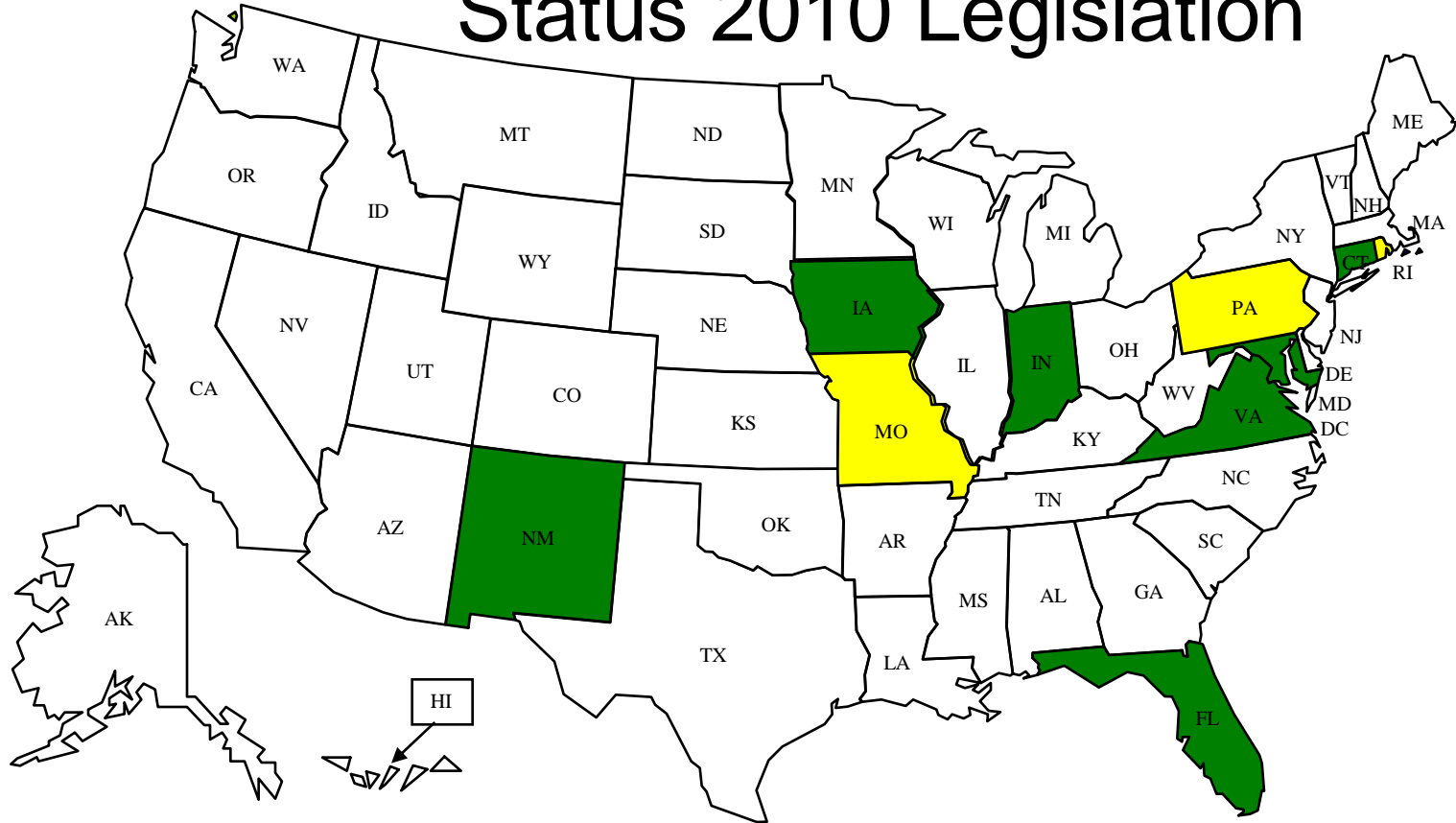
Combined Reporting: 2009






Key

-  No corporate income tax
-  Mandatory unitary combined reporting
-  Combined reporting – not on a unitary basis – “substantial intercorporate transactions”
-  Provide for combined filing, but taxes are in the form of gross receipts or other hybrid taxes
-  Rejected combined reporting legislation in 2009
-  Pending combined reporting legislation in 2009

Combined Reporting: Status 2010 Legislation



Key

-  Adopted combined reporting in 2010 (N/A to-date)
-  Pending combined reporting legislation
-  Rejected combined reporting legislation

Unitary Combined Reporting

- Used by less than half of income tax states
- Judicial doctrine, vague definitions
- Complex compliance & audits; encourages costly litigation
- Does not provide a stable revenue source
- Fiscal estimates speculative; creates winners & losers
- Does not improve “fairness” of tax system

Sales Tax Expansion To Services – Policy Issues

- Shift from Manufacturing Economy to Service Economy
- Early Attempts by Florida & Massachusetts
- Recent Attempts by Maryland and Michigan
- Policy Arguments:
 - Exempt Business Services
 - Sourcing Issues
 - Disproportionate Impact on Small Businesses

Gross Receipts Taxes: Next Big Thing?

- History

- WA, WV (1987 repeal), IN (2002 repeal)
- Delaware, Hawaii, New Mexico?

- Today

- New Jersey (sunset 7/1/2006)
- Michigan, Ohio, Texas

Policy Issues – GR Taxes

- Broad Base, Low Rate: False Appeal?
- Disproportionate impact on low-margin businesses
- Effective rate higher than advertised rate
- Pyramiding encourages vertical integration
- Pyramiding hurts capital investment
- “Stealth” tax = bad tax policy

Questions?

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