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MEMO TO: South Carolina Tax Realignment Commission

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SUBJECT: Sales Tax Cap on Commercial Vehicles

I have reviewed the 1994 memo of my former colleague, Jim Hite, on the sales tax cap on commercial vehicles. This memo was given to the Commission by the South Carolina Trucking Association at its meeting on November 12, 2009.

I disagree with Jim Hite's general contention that we should exempt all inputs into production, because business purchases presently constitute about 43 percent of the taxable sales base in South Carolina, and the revenue loss would be very significant. Some of the products and services produced by these firms are subject to sales tax, and some are not. Taxation of business inputs is common practice in most states with general retail sales taxes.

I do recognize that interstate commercial vehicles have some particular problems with their tax liabilities. They, and South Carolina, are in a competitive situation. In adjusting the sales tax cap on these vehicles, the entire tax liability—motor fuel tax, property tax, sales tax, and other fees—needs to be examined in the light of the tax policies of our neighboring states.