

SC Taxation Realignment Commission (“TRAC”)

MINUTES

Friday, February 19, 2010 at 10 AM

The meeting was called to order at 10:10 AM

I. Welcome

In attendance:

- Ken Wingate
- Ray Stevens
- Brian Moody
- Don Weaver
- Ben Kochenower
- Burnie Maybank
- Bob Steelman
- Kenneth Cosgrove
- Jack Shuler

Not in attendance:

- Jimmy Addison
- Charlie Way

II. Adoption of Proposed Agenda:

Commissioner Shuler moved to adopt the proposed agenda and Commissioner Steelman seconded the motion.

The Agenda was adopted by voice vote.

III. Adoption of Minutes:

Commissioner Moody moved to adopt the minutes from the January 6th, meeting. Commissioner Cosgrove seconded the motion.

The minutes were adopted via voice vote and will be placed on the website immediately following adjournment.

IV. Status of Extension Bills- *Staff*

Rena Grant updated the Commission on the status of the extension bills.

S. 1034 was filed by Sen. Leatherman to extend the Commission's deadline to October 15, 2010. H. 4336 filed by Rep. Cooper extended the deadline November 15, 2010. H. 4585 extends the Commission's recommendation deadline to November 15, 2010, versus the original deadline of March 15, 2010.

Additionally, the legislation states that TRAC's recommendation to the General Assembly be: " a detailed, comprehensive, and careful evaluation of the state's tax system structure and, with regard to ad valorem taxes, the commission's review and report may extend to all constitutional and statutory provisions pertinent to the imposition of ad valorem taxes.

V. *"Doing Better: Progressive Tax Reform Ideas for South Carolina"* by Andy Brack

Andy Brack believes all components; the income tax, sales, property should be thoroughly examined and modernized to improve and ensure the fairness, adequacy and integrity of the tax system. Taking a look at how the states raise revenues and trying to make those ways fairer will make the South stronger.

He believes that states should broaden the sales tax base and remove unnecessary exemptions. Abolishing sales tax holidays would be beneficial as they cost the state \$5.2 million in 2004.

States should also modernize sales taxes for a new economy. Less than ¼ of SC services are taxed as 34 out of 168 are taxed (as of 2004). It would also be beneficial to adopt a streamlined tax system. Raising cigarette tax for public health would be beneficial because SC's tax is the lowest in the nation and raising it to the national average could cause 30,600 people to stop smoking. Long-term SC health savings from raising the cigarette tax would be \$1.1 billion.

Andy Brack also believes that enacting an earned income tax credit would be advantageous. 431,267 people in SC claimed federal EITC in 2005 and a state credit could help working families get above the poverty line. Modernizing income brackets would also be advantageous. The top SC bracket is 7% for an income of \$12,560 and above. SC is one of few Southern states that indexes several parts of its income tax system. Rethink senior tax preferences. Provide fair relief based on ability to pay, not age alone. Andy believes that strengthening accountability by publishing a tax expenditure report would improve transparency and accountability and would give lawmakers information.

VI. *"Sales Taxes of Services and Internet Sales"* By Holley H. Ulbrich, Ph.D

Purchases of services by households, business firms, nonprofit entities and governments accounted for around 57 percent of the nation's GDP in 2008. In SC, the service sector accounted for about 47 percent of state GDP in 2008. SC has a smaller service sector than many other states. The service sector has grown more rapidly than the tangible goods production and distribution sectors, which includes retailers. Retail sales tax is primarily levied on tangible goods. There are certain services that are subject to sales tax in SC including; laundry and dry cleaning services, some communications services, electricity, restaurant meals, and leases of some personal property, maintenance contracts on production machinery are subject to sales tax. This distinction shifts more of the sales tax burden to traditional manufacturing as opposed to households, nonprofits, government agencies and service-type businesses.

Maintenance contracts offer a particularly good candidate for expansion of the sales tax base. Admissions and amusements are not subject to sales tax but are subject to a separate excise tax at a lower rate. This last category could be converted to a sales tax that would be subject to the same state rate as well as local option sales taxes. Taxing services makes it possible to generate more revenue at a lower tax rate with a broader tax base.

VII. Budget Overview – *Staff*

Rena Grant updates the Commission on the current budgetary outlook. The BEA met last week and the estimates for both this fiscal year and next year remained. Initially the BEA anticipated a general fund loss of nearly \$36 million, so the fact that the latest estimate is unchanged is a substantial one. In January, revenues were up \$5.3 million or 0.9% relative to FY 08-09. Sales tax was down 3.3% or \$7.1 million, Individual income tax had a slight increase of 1% or \$3.1 million and corporate income tax was down 23% or \$2.1 million. The budget writers are out \$575 million, without taking into consideration the Education Funding Act. In order to fully fund the base student cost, budget writers must appropriate \$625 million.

Last year South Carolina received funding from the American Recovery and Reinvestment Act. In order to recapture the funds for the health portion of the state's budget, Maintenance of Effort must be funded to the tune of \$362 million.

Eight months ago, a 1% across the board cut equated \$67 million. Today, an across the board cut in the amount of 1% equates to \$47 million. The state's current economic state necessitates that TRAC provide the General Assembly with a truly comprehensive review of our state's tax structure.

VIII. Conformity:

- Federal Internal Revenue Code Conformity Overview by Chairman Maybank

Chairman Maybank indicates that SC has a much higher income tax burden once a citizen reaches the \$200 K threshold.

- Testimony from Jason Sweatt – Shareholder, Elliott Davis, LLC

IX. *State Individual Income Tax Comparison for Tax year 2009* by Gordon O. Shuford, Economist, Board of Economic Advisors

South Carolina taxpayers filed 2.15 M returns in FY 09. This generated \$2.8 billion for the General Fund. Major Components include: Employee Withholding - \$3.5 B, Individual Declarations - \$367 M, Individual Paid with Returns - \$399 M, Refunds - \$1.5 B for 1.5 B taxpayers. Individual Income tax accounted for 47% of GF Revenue in FY 09.

Forty-one states impose an individual income tax while two states, NH and TN, tax only dividends and interest income. Seven states, AK, FL, NV, SC, TX, WA, and WY, do not impose an individual income tax. 850K people are zero returns.

Commissioner Cosgrove inquired if the analysis of NC included their recent tax increase. Mr. Shuford indicated that the information is current.

Commissioner Weaver inquires about the rationale for increasing the deductions in years past.

Mr. Shuford states that the deductions are changed through conformity. SC adopts the Federal standard deductions every year.

X. *Schedule for Subcommittee Work*

XI. *Adjournment*

The meeting adjourned at 12:30 PM