

TRAC MINUTES

Tuesday, June 29, 2010

10:00 AM in Room 105, Gressette Building

I. Welcome

Meeting was called to order at 10:08.

In attendance:

- Charlie Way
- Bob Steelman
- Burnie Maybank
- Ben Kochenower
- Brian Moody
- Don Weaver
- Ken Wingate
- Ray Stevens

Not in attendance:

- Jack Shuler
- Jimmy Addison
- Kenneth Cosgrove

II. Adoption of Proposed Agenda:

Commissioner Way moved to adopt proposed agenda and Commissioner Weaver seconded the motion. Agenda adopted via voice vote.

III. Adoption of Minutes from Previous Meeting:

Commissioner Way moved to adopt Minutes and Commissioner Steelman seconded the motion. Minutes adopted via voice vote.

IV. Subcommittee Update/Reports

a. Streamlined Sales Tax:

Commissioner Steelman reports that the Streamlined Subcommittee has met twice. There are two policy issues; 1) SC has a transient accommodation rental tax of 7% and streamline does not support such a tax. 2) Local Option Sales Tax needs to be changed to a revenue neutral alternative from sales tax to excise tax. Local Option can be changed to an excise tax in a supplemental amount. The subcommittee believes there should be a phase out on durable medical equipment and would like to adopt recommendation of Sales Tax Exemption Subcommittee. One provision that SC has that would not be permissive under simplified sales tax is a \$300 cap on musical instruments thus the subcommittee recommends imposing that tax at the correct level. Subcommittee would also like to repeal 1% exemption to anyone over the age of 85. Also, during SC's Sales Tax Free Holiday, a tax would have to be imposed on bed sheets to be in compliance with the streamlined initiative.

Commissioner Moody: What is a simple definition of simplified sales tax? Commissioner Steelman responds that SC would join the Simplified Sales Tax Commission. There is a streamlined national standard to allow rules and uniform s across the states. So far, about 30 states have adopted the Streamlined Sales Tax initiative. SC would be one of the last southern states to adopt this. If enough states adopt Streamline, internet vendors will drop lobby against feds to stop taxation of internet purchases.

b. Sales and Use Tax Exemptions:

Chairman Maybank reports that there is a section by section summary of the Subcommittee's recommendations available online.

V. Property Tax Topics (continued from June 8th meeting)

a. Ag. Use Property, Issues & Concerns: John Cloyd, Richland Co. Assessor

Act 208 was passed in 1974 to insure that all counties were being assessed equally. No guidelines were provided as to what qualifies as real agricultural use of property. As of 2005, there are 265,000 properties being classified as agriculture use. In 1993, assessors, counties, forestry, and Farm Bureau came together to define what qualifies as agriculture use and thus a bill passed in 1995 specifying that 5 acres for timber and 10 acres for crop could qualify. Ideally, classification would be 10 acres for crop and 10 acres for timber.

Commissioner Weaver: Is suggestion of 10 acres for crop and 10 for timber supported by other organizations? John Cloyd believes so but believes that most organizations would like to see the acreage higher.

Commissioner Maybank: Is there a fifty state survey of requirements for agriculture use? John Cloyd will submit one. Chairman Maybank believes a comparison of 12 or 14 southeastern states would suffice.

Commissioner Wingate: Is the primary concern duplication in claiming two or more residencies as primary property? Cloyd states that yes that is the case.

b. Definition of Legal Residency, Issues & Concerns : Alexandra Eikner Sampson

Currently, SC provides a special assessment for real property classified as agricultural. If owned or leased by an individual, partnership or small business corporation property will be assessed at 4% of FMV for agricultural purposes (in lieu of up to 6% if assessed as non-agricultural use). Real Property owned by a corporation is assessed at 6% (in lieu of up to 10.5% if assessed as non-ag).

Agricultural Real Property is land used to: 1) raise, harvest or store crops; 2) feed, breed or manage livestock; 3) or to produce plants, trees, fowl or animals useful to man. Including real property used for agriculture, grazing horticulture, forestry, dairying and mariculture, dockside facilities whose primary use is the landing and processing of seafood, and free housing for farm laborers, so long as such housing is located on the tract of land that qualifies as agricultural real property.

To obtain special assessment, apply to two categories of agricultural real property: 1) timberland and 2) nontimberland. The requirements for each differ and include minimum acreage, income and familial requirements.

Roll-back taxes are used in instances where property is classified as agricultural but is applied to another non-agricultural use; the property will then be subject to roll-back taxes.

Potential for abuse: 1) Grandfather-In Properties: Includes the informal grandfathering in of properties that have historically been used or taxed as agricultural. 2) Mini-Farm: refers to property of less than 5 acres that is either contiguous to land that qualifies as agricultural or is non-contiguous to qualifying land but is under the same management plan. This is one of the largest areas of abuse. 3) Land owned by developers.

Solutions: 1) Deal with small acre abuse. 2) Allow a single, non-contiguous, less than five-acre tract. 3) Require a noncontiguous tract to support a true agricultural purpose. 4) Impose strict income test on all applicants. 5) Increase Penalties. 6) Minimum Years of Use. 7) Minimum years of ownership. 8) Circuit breaker program.

Commissioner Steelman states that there are 2 types of exemptions: 1) non-farmers who happen to own farm property 2) True farmers. He would like to see exemptions geared to each category. Non-farmers could follow Georgia rule and get a 25% discount from true market value. Farmer: discount and perhaps 75% off fair market value.

c. Dealer Tags, Issues and Concerns: Marcia Adams, DMV

Code Section 56-3-2320 authorizes dealer tag use and issuance in SC, specifically, when the dealership is owned by, assigned, or used for loaning purposes for test driving. The cost of a dealer plate is \$20.

Commissioner Way clarifies that a dealer must sell 20 cars in order to get two dealer plates. Marcia Adams confirms yes and adds that one additional plate is awarded for every fifteen sold thereafter.

S.1059, introduced this year, would allow one dealer plate for just one seller. The bill did not pass. Very few things have been offered to change current law in the past 20 years.

Individuals are allowed to use a dealer tag if someone (family, employee, etc) is a corporate officer of the dealership. Currently, there are 18K dealer tags issued but the total has been as high as 22K. Car sales are down dramatically which will reduce the number of dealer tags. If sales volume is lower, dealers must surrender appropriate amount of dealer tags.

Chairman Maybank: Does the DMV have resources to enforce this law with budget cuts? Marcia Adams states that no, enforcement has been cut in half.

Commissioner Kochenower: Are dealer tags provided to new dealership owners through estimates? Yes, first year sales are estimated and after one year of being open they are subject to these rules.

Fitz Floyd with the Automobile Association.: Commissioner Maybank inquires if any other industry or individuals are not required to pay property taxes on their cars? No, he is only familiar with the automobile industry.

d. Airplanes – Property Tax and Other Tax Issues: SC Aviation Association, Doug Decker

SC has 54 airports solely devoted to general aviation. There were over 750K visitors that arrived by general aviation aircraft. Almost 1/3 of all air travelers to the state arrived on a general aviation aircraft. More than 5k people with a payroll of almost 200 Mil work supporting general aviation.

Aircraft ownership is decreasing. There has been a significant drop in pilot training. The number of aircraft hours flown has decreased. Aircraft maintenance business and employment is trending downward. Fuel flowage and associated tax revenue are decreasing.

Recommendations: The legislature should encourage general aviation in the State of SC and reinforce this with sound tax policy. Amend aircraft property tax. Establish an aircraft registration fee in lieu of taxation as many other states have. These registration fees provide a more reasonable method of accessing revenue from aircraft. A registration fee would provide a uniform state-wide method for taxation as opposed to leaving it to individual counties.

Chairman Maybank: In the states with registration fees, how is that enforced? Is there a 50 state breakout on aviation? Doug Decker has not seen any.

Commissioner Steelman: How much would registration be compared to property tax? See page 30 of report, table of aircraft. The revenue would be less but it would encourage plane ownership.

SC Aeronautics Commission, Paul Werts

Aviation revenue sources: 1. State aviation fuel sales tax: \$.06 sales tax on jet fuel and average gas tax. Transportation companies are tax exempt. Recently, tax revenue is down about 40%.

Fair and balanced revenue sources = government and private partnerships for airport infrastructure and development and air transportation service needs. NEXTGEN Technologies and satellite navigation systems are enabling aerospace industry in SC.

Mr. Werts believes there should be a fair assessment across the board and flat fuel tax.

Chairman Maybank: Is there a fifty state breakout on fuel tax? Yes, he has it and will submit it.

Property Taxation of Manufacturing Property; SCMA: Lewis Gossett, President and CEO

Manufacturing represents the largest industry cluster in the state. Manufacturing sector pays wages well above that of the average industry in the state. The average manufacturing wage of \$46,192 is more

than 27% above the statewide average. The manufacturing sector pays almost 13% of all property taxes in SC.

MN taxpayer association study: Reports on relative property tax burdens across the US> It compares effective property tax, and SC has 46th highest homeowner, property taxes in country. Aircraft issues are crucial according to SCMA in gaining manufacturers and retaining them.

Commissioner Kochenower: Where does the 10.5% rate come from? The rate was in the constitution and shifts property tax burden from single primary residency.

DOR (Fee In Lieu Of Tax): Jerry Lynn, with DOR

DOR administers the 'Fee in Lieu of (FILOT).' FILOT began in 1988 after SC lost a plant to GA and was available to new manufacturers and people who are currently in state and plan on expanding. The program is administered at the discretion of the county and reduces the assessment ratio from 10.5% to 6% while if a business invests \$25 million the assessment ration is lowered to 6%. Millage can be set for life of the fee and applicable for the next 30 years or it can be adjusted every five years. Counties will offer credit against property tax in a range of 25% and generally runs the entire life of the fee. 50% of properties are under the fee and 50% are assessed under manufacturing properties.

*Chairman Maybank requests to hold over '**Property Tax Exemption Overview**' until next mtg.*

VI. Future Meeting Schedule

The next SC TRAC meeting on 07.21.10 will delve further into property tax exemptions and school boards.

VII. Adjournment

Meeting adjourned at 12:38.