

SC Taxation Re-Alignment Commission (TRAC)

MINUTES

Friday, August 13, 2010 at 10 AM

Room 105 Gressette

The meeting was called to order at 10:05

I. Welcome

In attendance:

- Ray Stevens
- Burnet Maybank
- Ben Kochenower
- Charlie Way
- Jimmy Addison
- Don Weaver
- Kenneth Cosgrove
- Bob Steelman

Not in attendance:

- Ken Wingate
- Jack Shuler
- Brian Moody

The Fuel Tax Subcommittee and the Intangibles and Services Subcommittee both adopted reports at their last meeting. These reports will need to be voted on by the full commission at the September 2nd meeting.

The soft drink tax will be addressed at the next meeting.

Commissioner Kochenower requests to serve on the Income Tax Subcommittee.

II. Adoption of Proposed Agenda

Commissioner Way moved to adopt the proposed agenda, Commissioner Kochenower seconded the motion. The agenda was adopted via voice vote

III. Adoption of Minutes from Previous Meeting

Commissioner Way moved to adopt the minutes, Commissioner Steelman seconded the motion. The minutes were adopted via voice vote.

IV. Testimony from Trade Groups: 10 AM to 12 PM

All written testimony submitted (including those in attendance and not in attendance) will be placed on the TRAC website

- Jackie B. Hicks, National Education Association: Would like for TRAC to recommend that SC administer a tax system that provides adequate and stable funding for core services, including education. She believes minor adjustments will not be adequate.
- Rebecca Madigan, Performance Marketing Association: Represents online advertising and opposes an affiliate nexus tax. She believes that if advertising with SC affiliate marketers establishes nexus for out-of-state retailers, the retailers will terminate their SC affiliate marketers to avoid nexus and thus work with affiliate marketers in other states.
- Scott Hulstrand, SC Medical Association: Clarifies that SC still has the highest sales and use tax in the nation for medicines administered by physicians. Forty-eight states do not levy a sales and use tax on these medicines. The approach to cut the current rate in half does not fully address the problem and will create new problems as the tax cannot be passed on to consumers.
- Mark Stephens, National Patient Advocate Foundation: Proposed elimination on sales tax for prescription medications.
- Michael Fields, SC Petroleum Marketers Association, SC Convenience Store Association, SC Retail Association. Convenience stores collect about 60% of the total tax burden for whole state and he would like for the Commissioner to reconsider the proposed sales and use tax report. This is a \$16 M hit to retailers and collection and remittance is a burden on retailers.

Commissioner Cosgrove: Has the recent separation of grocery tax has increased burden for retailers? Yes, when there are different local option taxes in each county.

- Sue Berkowitz, SC Appleseed Legal Justice Center. Ms. Berkowitz opposes the elimination of the sales tax exemption on pharmaceuticals, electricity and food and would like to see food tax credits.

Commissioner Weaver would like to motion at the appropriate time to change the report to remove water and electricity from being taxed.

- Neil Rashley, SC Bankers Association: Opposes banks and savings associations being subject to sales tax by state or local authorities. These exemptions have been on the books. The Sales and Use draft only taxes purchases of tangible property by the bank and does not tax insurance services and investor counseling. This causes direct competition against lenders who are not taxed, aka the credit unions. Savings and loans pay 6% on their income.

- Robert Adams, Retailers Association: The sales tax holiday has been good for grocers, chain drug stores, discount stores, etc. and good for consumers as well. The scope of the sales tax holiday should be limited to school supplies only but carefully as clothes and shoes are important for back to school purposes. Mr. Adams does not believe that it is good public policy to place the 2.5% tax on prescription drugs if it causes someone to be unable to afford their medication.
- Thomas Edmund, SC Dental Association: Opposes the proposed changes regarding dental prosthetic devices.
- Dr. Lindsay: Opposes tax on prescription drugs and believes individuals with kidney failure should be included in the cancer drug exemption as dialysis is fully taxed.

TRAC recessed at 11:21 and will reconvene at 1:30 PM.

V. Testimony from Individual Citizens: 1:30 PM to 3:30 PM

- Julie Houston, Marietta, SC: She is a founder of a brain tumor awareness organization and is here in opposition to the sales tax on prescription drugs.
- Todd Gibson, Audiologist: Opposes lifting sales tax exemption on hearing aids.
- Jane Thompson: Supportive of the elimination of the sales tax holiday. She believes that is the one way the parents could contribute to the cost of the education.

Commissioner Steelman: Are GA and NC both eliminating the sales tax holiday? Yes. GA has done it and NC is will be looking at it.

- Deedee Vaughters, small business owner: Opposes tax exemptions across the board and believes that all internet sales should be taxed as that is an exemption of sorts.
- Bill Kreckler: States that SC should repeal all exemptions for goods and services purchased at the retail level. Mr. Kreckler is also supports the Fair Tax Act reviewed by the Commission earlier this year.
- Kimberly Bradstreet: Opposes tax on prescription drugs. As a cancer survivor, she believes this could be devastating to certain individuals.
- Ken Lockeridge: Opposes the ad tax and believes merchants will terminate their business in SC. There are 2800 people with his job in SC and he believes they will go elsewhere.

Commissioner Addison: Have you picked up business from states that have enacted this law? No and he is not sure where the business has gone but it would drive advertisers to another state as they are afraid it could establish nexus in SC

- Jenny Martin: Runs a website that teaches people how to save money and saves consumers \$500 a month as a free service. Her revenue is generated through advertisers. There are 2800 affiliate advertisers in SC

Commissioner Weaver would like to know if we can tweak sales and use exemption report before the meeting closes. The other commissioners believe it would be best suited for another meeting.

- Craig Parks, staff, reads Dr. Ulbrich's testimony as she could not attend the meeting today. Her recommendations include a reduction in the general sales tax rate as a result of broadening the base. As a professional economist she believes these combined steps could very well reduce rather than increase the overall regressiveness of the SC sales tax code. She would also like for TRAC to consider steps to provide relief from food tax. Several states provide an income tax rebate for sales tax on food that is based on adjusted gross income and family size and phases out at some set income level.

Chairman Maybank inquires if the commission needs to amend the proposal to explicitly not include food stamps for sales tax. Commissioner Stevens believes they need to clarify but he will look into it and check with the federal government.

Commissioner Cosgrove believes everyone in SC is going to be a winner the current draft because the entire sales tax rate will be lowered within the state.

VI. Adjournment

TRAC adjourned at 2:56 PM