

SC Taxation Re-Alignment Commission (TRAC)
MINUTES
Thursday, September 2, 2010 at 10:00 AM
Room 105 Gressette

Called to order at 10:10 AM

I. Welcome

In attendance:

Brian Moody
Charlie Way
Jack Shuler
Ben Kochenower
Ray Stevens
Bob Steelman
Burnie Maybank
Kenneth Cosgrove
Don Weaver
Jimmy Addison
Ken Wingate

Commissioner Way inquires when the property tax recommendations will be completed. The Chairman feels they will need at least one more meeting. The 09.22.10 meeting would be best as the 9/10 agenda is filled.

II. Adoption of Proposed Agenda

Commissioner Kochenower moved to adopt the agenda, Commissioner Addison seconded the motion. Agenda was adopted via voice vote.

III. Adoption of Minutes from Previous Meeting

Commissioner Way moved to adopt the minutes from the previous meeting, Commissioner Weaver seconded the motion. The minutes were adopted via voice vote.

IV. Sales and Use Tax Exemption "Modified Proposal" Presentation - Craig H. Parks, MPA

Craig begins his presentation by thanking TRAC. SC Code Section 12-3-10(C)(2)(a) mandates that the Commission make comprehensive recommendations. The General Assembly has formed similar bodies to address these same or similar issues but no recommendations were made at all.

Sales tax is the largest source of revenue in this state. The effort undertaken by TRAC was a broadening of the tax base and a lowering of the tax rate. Under the modified proposal revenue may be slightly negative. The base increase will be \$10.17B. Tax rate on electricity/natural gas will be 1.25%. This still puts SC with a lower tax rate than GA

and NC. Water will be taxed at 1.25% and will impact the average American family 19 cents/month. Prescriptions will be taxed at 1.25% with a maximum annual cap of \$100/year. Prosthetics and Insulin, medical supplies and dental prosthetics will be taxed at 1.25%. Drug sales to providers/facilities cancer drugs will remain exempt. Non-cancer provider administered drugs will be taxed at an effective rate of 5.0%. Grocery tax rate will be 2.95% under the modified proposal. Of the states that tax groceries we fall below their grocery tax rate.

Commissioner Steelman: Concerning doctor prescribed drugs, he doesn't see that it would negatively impact revenue in SC if we exempt physician administered drugs as they are all already being administered in neighboring states mainly because of the tax rate in SC. The Chairman explains there would be some revenue impact as some doctors are absorbing the tax.

Commissioner Weaver asks for clarification regarding the \$100 max on prescriptions. Per Craig, No one will pay more than \$100 in ST on prescription drugs. It will be up to the taxpayer to keep up with what they are paying on sales tax for RX drugs.

Kochenower moves to adopt the amended the proposal. Commissioner Addison seconds the motion to adopt the proposal.

Commissioner Weaver would like to amend draft with the following changes and make those motions at the appropriate time:

- 1) After testimony from the Retail Federation at the previous meeting, he believes it possible for retailers to code their system properly for retailers to add school clothing and footwear to be continued as tax exempt during the sales tax holiday and limit it just to school aged children and clothing suitable for school use. Commissioner Steelman would support this change as well but believes it would also be necessary to streamline for this to be effective.

Steelman seconds the motion to amend the draft. Motion passes.

- 2) Commissioner Weaver has unease about adding a new tax on water and electricity as these are necessities of life and would like to motion to remove this portion. He believes these exemptions are worthwhile enough to keep. Water is already taxed in the city through the "storm water" fee.

Commissioner Weaver motions to continue 100% exemption. The Chairman explains that is where the money is. Removing these from the proposal would change the proposed lowered sales tax rate. Commissioner Addison agrees that if we are going to broaden the base then we must include these taxes in the proposals. He states that he supports taxation of electricity.

Commissioner Kochenower motions to table the motion made by Commissioner Weaver, Commissioner Cosgrove seconds the motion to table.

The motion to table amendment passes via voice vote.

Commissioner Moody inquires to whether the Commission believes they are making proposals the General Assembly will be able to push and adopt. When the line from revenue neutral to revenue positive is crossed, is there anything preventing the commission from recommending what is done with any 'surplus' dollars generated? The Chairman states that while that is ideal but doesn't really does fit the TRAC purview as that is on the expenditure side and would be the responsibility of the General Assembly.

Commissioner Steelman states that the commission's ideal is to expand the base and lower the ST rate in order to help stimulate the economy but the BEA has to evaluate proposals under their rules on a static basis. He inquires if TRAC could have a prepatory clause to gently urge what any revenue would be intended for. The Chairman states that the bill does say recommendations should be revenue neutral. The new rate will be filled in once final recommendations are made.

The Chairman clarifies that the commission has already approved the Simplified Sales and Use Tax Act.

V. Final Vote on Sales and Use Tax Exemption Proposal

Commissioner Way thanks the subcommittee members and staff for their hard work. He is delighted with the compromise, especially on RX drugs. He believes the proposal is fair to everyone concerned. He would like it noted that the subcommittee was disappointed about not receiving testimony from the Automobile Dealers Association regarding the sales tax on automobiles.

Commissioner Kochenower also expresses appreciation to staff and commissioners. He is proud of the product and proud of the amount of testimony the subcommittees and full commission received.

Commissioner Stevens, as a non-voting member on the commission, notes that to a tax administrator, voluntary compliance is of utmost importance. He believes the recommendation is very good and that DOR will have no problems administering it. He is in full favor.

Motions to adopt and second can be found above as they were made.

Way: Aye

Addison: Aye

Shuler: Aye

Cosgrove: Aye

Stelman: Aye

Maybank: Aye

Kochenower: Aye
Weaver: No
Moody: Aye
Wingate: Aye

VI. Final Vote on Services/Intangibles Subcommittee Proposal

Commissioner Kochenower motions to adopt the proposal. Commissioners Way and Addison second motion.

Commissioner Weaver inquires whether the committee heard testimony from trade organizations on these recommendations. The Chairman clarifies that the full commission did not hear testimony but the meetings were posted in advance as well the subcommittee meetings.

Way: Aye
Addison: Aye
Shuler: Aye
Cosgrove: Aye
Steelman: Aye
Maybank: Aye
Kochenower: Aye
Weaver: Aye
Moody: Aye
Wingate: Aye

VII. Final Vote on Fuel Subcommittee Proposal

Commissioner Cosgrove begins by thanking the commissioners that served on the subcommittee and also SCDOT. The subcommittee's goal was to improve roads while also being considerate to the tax payer, a revenue neutral proposal. The proposal includes a hybrid tax similar to NC and Georgia, but the subcommittee also gave other options to the General Assembly. The first proposal lowers the excise tax to 7 cents, with a floating rate adjusted to price of fuel. The ceiling would be lower than NC as that will keep SC competitive with neighboring states.

The General Assembly could also raise the gas tax 5 cents, that would raise about \$150 M.

Each of these proposals includes .5 cent tax to stabilize SUPERB fund until that fund is stable again. Then, the .5 cents would be removed.

Additional recommendations including addressing the prevalence of alternative fuel vehicles and also looking at the model found in Arkansas.

Commissioner Addison is very supportive recommendations. He would also like to note that SC may be a little incomparable to neighboring states because they have much fewer miles of roads in their state system than SC.

Commissioner Steelman inquires if the rate will be adjusted annually or semi-annually? Commissioner Stevens explains that DOR will handle the rate adjustment as reliable data is readily available. Administratively this concept could work very well.

Commissioner Wingate comments that the committee has done great work and a smart job on a way to meet difficult goals.

Commissioner Weaver notes that the Truckers Association is in favor of an increase as long as revenue goes to roads.

Commissioner Shuler motions to adopt the proposal, Commissioner Kochenower seconds the motions.

Way: Aye
Addison: Aye
Shuler: Aye
Cosgrove: Aye
Stelman: Aye
Maybank: Aye
Kochenower: Aye
Weaver: Aye
Moody: Aye
Wingate: Aye

VIII. Other Business

Meeting Schedule:

- Immediately upon adjournment today, Individual Income Tax Subcommittee will meet in Room 307
- 09.10.10 is the next full TRAC meeting. Mike Shealy will be doing a presentation on other funds and Dr. Mike Fanning will also be presenting.

Commissioner Weaver asks who is on the income tax subcommittee: Commissioner Kochenower, Commissioner Cosgrove, and Chairman Maybank (ch).
Corporate Income Tax Subcommittee: Commissioners Steelman, Wingate, Way, and Kochenower

Property Tax will be handled by full TRAC on the 09.22.10 meeting.

Commissioner Kochenower requests the meeting on the 22nd to be moved possibly to 09.29.10.

Commissioner Weaver inquires if TRAC is taking public testimony on the 09.22.10 meeting. The Chairman believes so.

- 17 September: Local "A" and "H" Subcommittee will meet in Charleston at Nexsen Pruet from 10:00 AM to Noon. Please get written testimony in to staff beforehand and let staff know if you would like to attend.

- TBD September: Corporate Income Tax Subcommittee will meet

- **22 September: Full Commission Meeting**

- **29 September: Full Commission Meeting**

VIII. Adjournment

Meeting adjourned at 11:30 AM.