

SC Taxation Realignment Commission (“TRAC”)

AGENDA

Wednesday, September 30, 2009 at 10:00 AM

I. Welcome - *Chairman*

The meeting was called to order at 10:01 AM

In attendance:

- Bob Steelman
- Kenneth Cosgrove
- Burnie Maybank
- Brian Moody
- Don Weaver
- Ray Stevens
- Ben Kochenower
- Jimmy Addison
- Chares Way

Not in attendance:

- Jack Shuler
- Ken Wingate

II. Introductions/Opening Remarks - *Chairman*

- **Jimmy E. Addison**
- **Charles S. Way**

Rena clarified some issues related to the lobbyist provision adopted at our previous meeting. Commissioner Weaver had inquired about the expiration date of the lobbyist/commissioner provision. The provision will expire when the Commission dissolves, January 1, 2011, unless the Commission’s work is extended by the General Assembly. Commissioner Wingate asked that the “staff” referenced in the memorandum be specified. “Staff” refers to the staff of the House Ways and Means Committee, Senate Finance Committee, staff of the Board of Economic Advisors, staff of the Department of Revenue and staff of the Office of Research and Statistics.

Pertaining to the interaction between staff and lobbyists: As the Commission moves forward with its responsibilities as delegated by the General Assembly, staff, will, of course, need to

Speak with lobbyists regarding legislation for the upcoming session. The adopted provision does not prohibit such talks.

The memorandum is not intended to impede economic development in our state. The Commission acknowledges that specific negotiations may be taking place during the course of the Commission's work. This previously adopted memorandum does not preclude individuals from discussing such opportunities for economic development with legislators.

Chairman Maybank asks if there are any questions related to the matter from the audience or Commissioners.

There are no questions from the audience or Commissioners.

IV. Proposed Agenda - Staff

V. Adoption of Minutes from Previous Meeting - Staff

Chairman explains that the minutes from the previous meeting need to be adopted and posted immediately to the website. He also notes that no changes were requested or made.

Motion to adopt Minutes made by Charlie Way, Seconded by Vice Chair Bob Steelman.

Adopted by voice vote.

The minutes will be posted to the website following adjournment.

VI. Update of Notebook Materials - Staff

Craig explained the new additions made to the notebooks. This includes tab 3, tab 4, and updated tab 28.

Tab 3 is the FTA Survey of Services Taxation; Tab 4 is a 'cost' study of Total State and Local Business taxes, 50 state estimates for FY 2008; Tab 28 has had an updated cigarette tax matrix added.

Chairman would like to have the entity that produced the 50 state survey of business tax burdens (tab 4) to come present. This is Ernst and Young. He believes he may be able to secure a time when they can come. He will keep the Commission notified.

Craig clarifies that everything received by the Commission at that last meeting is posted on the website and new materials will be posted as well. He also explicitly explained how to find and navigate the website.

VII. Adoption of "Assessment Criteria"

- **Explanation of Criteria - Staff**

Craig explains assessment criteria and emphasizes that it will be objective. The statute gives guidance as to what criteria should be used and that includes adequacy (examines concepts of reliability and balance), equity (concepts of fairness and equal protection in or among various categories of tax payers), and efficiency (of the tax structure relative to its neutrality in impacting the tax payers decision making).

Chairman mentions a case study he would like to see on the agenda for the next meeting that he will explain. The case study relates to the Supreme Court decision regarding the constitutionality of sales tax exemptions.

Commissioner Steelman expresses concerns that the legislation directs that economic development should also be considered as criterion for the purpose of the Commission. He would like to see that more specifically tied in.

Craig believes that economic development fits under equity and efficiency and states that we can finely tune as needed.

Commissioner Kochenower also explains how it is an overarching principle.

Commissioner Steelman would like to see a fourth bullet of criteria as Economic Development.

Chairman approves and adds that Economic Development will be added as a criteria measure.

VII. "Revenue Situation" Presentation by William C. Gillespie, PhD, Chief Economist

Hand outs to Commission include the following: Percent Change in SC General Fund Revenues; General Fund Revenue Forecast from FY 06-07 to FY 09-10; Projection of State K-12 Education Funding; SC General Fund Sales tax Collections as a Percentage of Gross State Product; SC Services as a Percentage of Gross State Product; US Electronic Commerce as a Percentage of Total US Retail Sales; SC General Fund Sales tax Collections as a Percentage of Total Personal Income; SC Total Sales Tax Collections as a Percentage of Total Personal Income; SC Income Tax Collections as a Percentage of Total Personal Income; SC Corporate Income Tax Collections as a Percentage of US Collections.

Dr. Gillespie: The General Fund is down 12.2% in 2009 and the BEA is projecting a negative 5.2% growth. State Government has declined a total of 19% since the current recession began. SC is essentially a sales and income tax reliant state with 85% of SC revenues being derived from that. It will take \$317 million to bring the EFA back to where it should be based on a formula that includes the entire South East. SC's average growth is usually around 4 or 4.5% meaning it would take a full year of average growth just to restore the EFA. SC has a declining revenue base on a long run trend by a small amount because of sales tax. Sales tax as a percentage of

personal income is about the same as in 1970 but with a higher tax rate. SC is rapidly becoming a personal income tax state. With a graduated income tax system, the state has lost elasticity within the income tax structure.

Chairman would like to have revenues based on each exemption. Craig explains that this is already in the notebook.

Commissioner Way asks what revenue would be generated if we repealed all the sales tax exemptions. Dr. Gillespie explains that Craig requested that information. Staff then passed out the letter detailing that if all exemptions were repealed the new sales tax rate would be 3.4%.

Dr. Gillespie notes that he would like to make a clarification: He noted during his presentation that if all sales tax exemptions were removed there would be \$2.75 billion generated but this includes federal tax money that the state cannot touch. Ultimately SC would be looking at \$2.5 billion increase if all exemptions were removed.

IX. Sales Tax Exemptions (to include caps and exclusions) Technical Review (Part 1) by the Department of Revenue

- **Explanation of Technical Review Procedure - *Staff***
- **Elimination of All Sales Tax Exemptions Letter from BEA**

The Chairman explained that the Commission should look at all sales tax exemptions separately and decide which ones should be added back.

John McCormick with the SC Department of Revenue presents the Sales Tax Exemption Technical Review.

Craig clarifies that the Commission should follow Tab 21 in their notebooks for the presentation.

John McCormick clarifies that he will be focusing on exemption and exclusions. Maximum tax items can be found in 12-36-2110 of the code. The DOR brought sales and use tax manuals for the Commissioners. Things covered can be found in Ch. 8 - 10.

Chairman notes that the Commission has been provided a sheet on tax comparisons on automobiles. He would like to know how other southeastern states handle caps on boats, planes, and light construction material homes.

Commissioner Way would like to know the effective tax rates on a 56K car without local taxes. He would also like to know how much would SC raise if we took sales tax cap off cars and put it at the NC or GA level.

The Chairman would like to have this information at the next meeting.

Commissioner Stevens notes that John McCormick has only covered maximum tax items and would like to point out how difficult it will be to determine tax rates.

Commissioner Steelman would like more information on how carrier charges are taxed among different states in the region.

The Chairman clarifies that the Commission will be studying the sales tax exemption on gasoline in further detail at the next meeting.

The Chairman calls the Commission to be in recess from 12 PM to 1 PM.

The Chairman reconvenes the TRAC Commission at 1:09.

Craig explains a handout that has been put in the Commissioner's seats. It is a Gasoline Taxes in the South East spreadsheet.

Commissioner Weaver requests to know the years the different exemptions came into code. Craig explains that at the back of the BEA's handout there is a summary spreadsheet that specifies the enacted date.

The Chairman indicates he may like to take up the sales tax exemption on specific medical supplies, medicine, etc (exemption number 28), in more depth, at a separate meeting.

The Chairman and Commissioner Weaver would like information regarding where SC is compared to other states on the sales tax exemption to electricity, natural gas, fuel oil, kerosene, LP gas, coal, or any other combustible heating material for residents (exemption number 33).

John McCormick ends the presentation on sales tax exemptions at the half way point, exemption number 37.

X. Upcoming Meetings - Staff

Rena explains what will be covered at the upcoming meetings as follows:

October 28, 2009 Meeting

- Part II of the Sales Tax Exemption Technical Review
 - Secretary Kenneth Lay of the NC DOR
 - Representative from SCDOT
 - Public Testimony Procedure

November 12, 2009 Meeting

- Public Testimony on Sales Tax Exemptions

Chairman notes that tentatively scheduled is Secretary Kenneth R. Lay of the North Carolina Department of Revenue to brief the Commission on sales tax exemptions in North Carolina. There will also be a representative from the SC Department of Transportation to present and brief the Commission on SC's fuel tax and how its' structure compares to other states.

XI. Adjournment

Chairman adjourned at 1:51 PM.

SC Taxation Realignment Commission (“TRAC”)

Minutes

Wednesday, October 28, 2009 at 10:00 AM

The meeting was called to order at 10:07

In attendance:

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

I. Welcome

The Chairman explains there is overflow space for the audience in Room 207 of the Gressette building should Room 209 be at full capacity. Craig states that the next TRAC meeting will be November 12, in Room 308 of the Gressette building.

II. Adoption of Proposed Agenda

Commissioner Way moves to adopt the proposed agenda. Commissioner Shuler seconds his motion. The agenda is adopted by voice vote.

III. Adoption of Minutes from Previous Meeting

Commissioner Kochenower moved to adopt minutes from the 9.30.09 meeting. Commissioner Way seconds the motion. The minutes are adopted by voice vote with no additional corrections or comments.

IV. Presentation of the Unconstitutionality of Sales Tax Exemptions Supreme Court Case: *Ed Robinson Laundry and Dry Cleaning, Inc. v. South Carolina Dept. of Revenue* by Chairman Maybank.

Chairman Maybank offered a brief summary of the Robinson Dry Cleaning case, noting that Robinson narrowly lost on a 3-2 vote, with the now current Chief Justice, Justice Toal, actually writing a dissenting opinion, actually recommending remanding the case “to determine whether the entire retail tax exemption statute is unconstitutional based on its whimsical treatment of various entities for tax purposes.” Chairman Maybank notes that Toal comments further on the “arbitrary and capricious” nature of the (then) current exemptions”. He further notes that in 1951 there were only 19 sales tax exemptions, in 2003 there were 61 and today there are almost 80.

V. Sales Tax Exemptions (to include exclusions and caps) Technical Review (Part II) by the Department of Revenue

Commissioner Stevens presents and details the remaining sales tax exemptions and exclusions. Chairman Maybank explains that the sales tax exemptions can be found under tab 21 in the notebook. Commissioner Stevens has his own handout he is speaking from and will provide the Commission with.

*Chairman Maybank calls the Commission to recess at 10:35 to work on technical issues with sound in the room 207.

During recess staff provided copies of Commissioner Stevens’ handout to the commissioners.

*The Commission reconvened at 10:55 in room 105 of the Gressette Building due to the technical issues mentioned above.

There were no questions from commissioners about the remaining sales tax exemptions.

VI. Presentation by Secretary Buck Limehouse, SC Department of Transportation: Comparative Review of SC Fuel Tax Structure

Secretary Limehouse, SCDOT, Presentation on Gas/Fuel Tax in SC.

The Department of Transportation is funded almost solely from a motor fuel tax. SC is a donor state. At all times we receive less than we pay in. In some states 50% of DOT funding comes from General Assembly the other 50% comes from motor fuel tax. SC almost receives 100% funding from motor fuel tax. Electric and hybrid cars are problematic in essence because they do not purchase gasoline as often or at all, and essentially can use SC roadways for free or very little. The high price of gasoline has led to declining revenues while the cost of road maintenance rises. The last increase on the gas tax was in 1987 bringing it to the current level of 16 cents. NC charges 17 cents per gallon in conjunction with a 7% sales tax. They have a floor of 29.9 cents. North Carolina’s system of taxing gasoline generates twice the revenue as that of SC. DOT receives \$116K from the General Fund for mass transit and rest

areas. Secretary Limehouse notes that Utah has determined that 17% of their state sales tax was from vehicle and auto part usage. They now give 8% of sales tax revenues to their Department of Transportation.

Secretary Limehouse notes that South Carolina has a \$300 cap on the sales tax of vehicles. SC is now the only state with that cap. A 5% sales tax on cars would bring \$110 million to SC. North Carolina has a 3% tax, with a cap, that goes into their Highway Trust Fund and another portion to the NC General Fund. Virginia charges a 3% sales tax on vehicles, no cap. Secretary Limehouse also notes that Virginia and Florida charge a user fee on rental cars.

Chairman Maybank clarifies for the Commission and audience that South Carolina exempts motor fuel from sales tax and imposes a flat fee of 16 cents per gallon.

Secretary Limehouse notes that the SCDOT has \$1.1 billion budget. It has been increasing since 1987 due to increased consumption with a decline in the past two years due to higher gasoline prices resulting in decreased consumption. SCDOT collected \$30 million less in the past year. A 1 penny increase in the SC gasoline tax would generate \$32 million.

Chairman Maybank requests to know how the State Infrastructure Bank was originally funded and how/if it is funded now. Debra Roundtree, Executive Director of the State Infrastructure Bank explains that initially truckers in SC had to approve the fee that funded the SIB. The SIB is out of money and has been without funding for the past year.

South Carolina has the fourth largest state maintained road system with over 42K miles of roads in the system. In other states, local entities are more responsible for the upkeep and maintenance of roadways. Secretary Limehouse explains that there are many roads in the state system that should not be.

Commissioner Way asks about the stimulus money and how those funds have affected the SCDOT. Secretary Limehouse explains that we received \$500 million and those funds have a 'use it or lose it' policy. ARRA (stimulus) funds doubled SCDOT's construction budget with resurfacing, bridge repairs, safety projects, and state maintenance being the focus. This year's SCDOT budget is \$2 billion. Secretary Limehouse also reiterates that this is one time money.

Commissioner Kochenower asks if there are any payback provisions on stimulus money. Secretary Limehouse explains that there are no provisions for paying back the money in the ARRA Bill and that the only stipulation is the 'use it or lose it' policy. What states do not utilize in these funds will be redistributed to those states that did use all the funds available to them. Secretary Limehouse hopes to receive what other states have not used.

Commissioner Cosgrove notes that the Department of Health and Environmental Control needs \$40 million in SUPERB funding. He also notes with the gas tax, 16

cents goes to DOT and .5 cents to DHEC for underground tanks. There is 16.75 cents in total gas tax.

Chairman Maybank questions if DHEC spending more than they receive.

Commissioner Cosgrove submits that the .5 cents is being used for more than SUPERB fund cleanup.

Commissioner Weaver notes NC has a floor on the gasoline tax and questions if any state has a ceiling. Secretary Limehouse explains that they have a ceiling as well, for spikes and drops in gasoline prices.

Commissioner Addison would like to know an estimate of how much in SC fuel sales are for out of state purchases. Secretary Limehouse estimates that figure could be as high as one-third.

Commissioner Stevens questions what the pros and cons are of toll roads. Secretary Limehouse explains that a new toll road will struggle. He uses the Southern Connector in Greenville as an example. He explains that estimates were too optimistic. There is a lack of revenue to service bonds. He also mentions the I73 Project and explains that no Federal Funds are available for an interstate and they are looking at tolls to pay for it. Secretary Limehouse explains that SC does not have the traffic to support these tolls and citizens feel like they should not toll existing roads. New roads are always more acceptable as tolls.

No more questions from commissioners.

VI. Presentation by Secretary Kenneth R. Lay, North Carolina Department of Revenue: Taxation of Internet Provisions

Kenneth R. Lay from North Carolina Department of Revenue: Taxation of Internet Provisions: Online purchases, online referrals or click through. In 2009, there were \$128.9 billion in internet sales with \$3.8 to \$4 billion in internet sales in NC alone. Secretary Lay explains law on click through. Online retailers who have more than \$10K in sales through click throughs must pay sales tax in North Carolina. North Carolina replaced a term in existing law that was previously 'with mail order sales' to 'remote sales.' There is speculation that there will be legislation to grant collection authority to states. North Carolina is still fine tuning plans on how to enforce this law but the clarification has been enacted. There is the \$10K threshold so as to not unjustly target small business in NC.

Commissioner Kochenower wants clarification on whether the business representative must be in the state. Kenneth Lay says they must if they are trafficking business in NC.

Commissioner Kochenower would like details on the audit/verification process. Secretary Lay explains that it is not very simple at all. They are still learning and doing it day by day.

Chairman Maybank questions if any retailers threatened to pull out of North Carolina if the state enforced the new law. Secretary Lay comments that there will always be people threatening, offering their counter opinion but no one has left to date.

Commissioner Kochenower would like to know if we have a law similar to the one North Carolina altered to clarify the tax on internet sales. Chairman Mabank explains that there is a law similar.

Commissioner Stevens would like to know where NC is in terms of litigation from people/business who would be opposed to this. Secretary Lay explains that NC has not reached that part of the process but are looking ahead. He notes that those that threatened to pull their business out of the state are still in NC doing business.

Commissioner Weaver asks for clarification on whether local tax is also added in. Secretary Lay explains that it is.

Commissioner Wingate would like to know if there is difficulty from a compliance stand point or if they have added staff. Secretary Lay explains that they will be using the resources they have by reallocating resources, solidifying strategy, and increasing the focus of revenue generation indirectly and directly. Implementing their new tax system has allowed NC's General Assembly to approve public/private partnerships. A vendor is working to implement their new system and the vendor will get paid from the uplift of the revenue system. North Carolina is estimating they will bring in \$50 - \$60 million from the new revenue system.

Secretary Lay states that NC is at different stages of voluntary compliance and enforcement. The intent is to go after voluntary compliance but if that does not work they will go down 'enforcement route.'

Commissioner Moody inquires about the fiscal impact of how much North Carolina will collect through the internet sales. Secretary Lay states that it will fall between \$400-\$500 million annually.

Commissioner Kochenower would like to know projections on the cost of enforcement. Secretary Lay explains that North Carolina has not done a cost analysis on this. He believes that once NC begins to have success with the change, the cost of enforcement will decline dramatically.

VII. Update of Notebook Materials - *Staff*

Craig reviews the following materials for commissioners and the audience:

- A. Comparison of Gross and Net Taxable Sales FY 1999-FY2008*
- B. Consumer Expenditures Trend Comparison 1984 vs. 2007*
- C. The Tax Foundation - Updated State and Local Option Sales Tax*
- D. SC Car Tax Comparison to NC and GA*

E. SC Supreme Court Case - Ed Robinson Laundry vs. SCDOR

F. State and Local Government Sales tax Revenue Losses from Electronic Commerce

G. Tanking CD Sales Shutter Stores - March 19, 2009 Rolling Stone Article

F. Tab 23 UPDATE: Motor Fuel Tax and SC Local Hospitality and Accommodations Tax Collections by Count FY 07-08.

IX. Public Testimony Protocol

Rena details protocol for the public testimony meeting on November 12, 2009. There is a handout of protocol passed out. Rena specifies that for those who unable to sign up ahead of time, they will be able to do so at the meeting. Rena clarifies that the protocol will be made available online.

X. Future Meetings

- November 12, 2009, 10:00 AM, Room 308
- December 2, 2009, 10:00 AM, Room 105
- January 6, 2010, 10:00 AM, Room 105

XII. Adjournment

Meeting adjourned at 12:28 PM.

SC Taxation Realignment Commission (“TRAC”)

Minutes

Thursday, November 12, 2009 at 10:00 AM

The meeting was called to order at 10:04

The following were in attendance:

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

I. Welcome

II. Adoption of Proposed Agenda

Commissioner Way moved to adopt and Commissioner Kochenower seconded the motion.

The agenda was adopted by voice vote.

III. Adoption of Minutes from Previous Meeting

Commissioner Shuler notes an error on page five of the 10.28.09 minutes. Please see section below:

*Commissioner Moody inquires about the fiscal impact of how much North Carolina will collect through the internet sales. Secretary Lay states that it will fall between \$400-\$500 **million** annually.*

The error is noted and corrected.

Commissioner Way moved to adopt the corrected minutes and Commissioner Weaver seconds the motion.

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

Craig updates the Commission on the BEA's latest action regarding the general fund revenue forecast. The current year estimate was reduced by \$120 million or 2%. Forecasts for 2010/11 indicate flat or no growth. He reminds commissioners and audience that this does not equate to an absence of budget cuts; instead, with no new money the budget hole is \$400 million in FY 2011.

There were no questions from commissioners.

IV. Presentation by Dr. Quirk, USC School of Law, on Internet Taxation in SC

Dr. Quirk presents on Taxation of the Internet. Physical presence must be in the state in order collect tax on state level. Businesses purposefully directing activities to a specific state can remit state taxes through due process. Congress has the full power to regulate commerce clause and until they change the 'physical presence' clause, it would be very hard to enforce a sales tax on internet purchases. Several states have decided to tax internet sales without a change in Federal Law. This is referred to as the Amazon Statute and the following states have enacted it; NY, NC, RI. They believe physical presence is constituted by 'click through' advertisements on smaller websites with an actual presence in the state.

Commissioner Maybank asks if State Supreme Court is the entry level for lawsuits in NY state.

Dr. Quirk indicates that yes, the NY Supreme Court made that decision in January 2009. The next level is Superior Court. Dr. Quirk believes that in state courts the Revenue Department will have an advantage in law suits. Amazon has now begun cutting off affiliates found within states that are pursuing internet taxation.

Chairman Maybank questions the necessity of having affiliates in South Carolina and the possibility of pursuing other avenues of taxing internet sales.

Dr. Quirk clarifies that there is no other way to tax internet sales without changing the law.

Commissioner Kochenower wants to clarify that the US Congress is the only entity that can address this issue currently.

Dr. Quirk states that the statement is true unless the United States Supreme Court decides to intervene. He also states that at this time it does not appear that they have an inclination to intervene.

Chairman Maybank informs the Commission that a bill is introduced by the states, in Congress every year to address this issue.

Commissioner Moody inquires if there is an academic cure for internet taxation.

Dr. Quirk explains that would be a new way of doing business, federal tax, and federal income tax. The states could collect a use tax but there would be problems on the federal level with different states.

Commissioner Stevens asks about the likelihood of a streamlined sales tax and the legislation in Congress being enacted.

Dr. Quirk believes that the likelihood is slim. Opponents are pretty well armed and it would be difficult to pass.

No other questions from Commissioners.

V. Public Testimony on Sales Tax Exemptions (to include exclusions and caps)

Note: All presentations are available on the TRAC website (where written testimony was provided).

- Dr. Holley Ulbrich, Clemson Professor, speaking on the sales tax exemption on food, the admissions tax, and the sales tax cap on motor vehicles.
- Ashlie Lancaster, speaking on the STE for Energy Star and Manufactured homes.

Chairman Maybank inquires about SC being third in the nation for manufactured homes and being the 16th highest in energy consumption and 4th in the nation for consumption in residential electricity.

Ashlie indicates that SC is still at those same levels. She also clarifies that the increased cost for energy star manufactured homes is offset by the sales tax exemption.

Commissioner Kochenower asks who monitors energy star criteria.

Ashlie answers that the Federal Department of Energy is responsible for the criteria.

- Allen Hutto, General Council for Manufactured housing Institute of SC, speaking on the sales tax exemption for manufactured homes.

Commissioner Wingate inquires about the average price of standard, non energy star manufactured home?

Allen responds that \$55- 56K is the average.

Commissioner Steelman asks if Allen recommends deleting another exemption in order to retain his.

Allen does not have a specific recommendation.

Commissioner Weaver inquires about the accuracy of \$26 million figure that is indicated as the cost of this specific exemption.

Allen does not know how that figure was reached and it does not match his. Craig indicates that this was the official estimate of the BEA.

- William Rogers, Director of the SC Press Association, speaking on the newspaper sales tax exemption.

Commissioner Steelman asks what other states do regarding newspapers.

William answers that 36 states have exemptions. He believes if a new tax is placed, it will hurt circulation in this state.

Commissioner Steelman asks what exemption William would recommend deleting in order to retain the STE on newspapers.

He has no recommendations.

- Jason Gamel, speaking on the timeshare sales tax exemption. He notes that no other state has tax on time share exchange.

Commissioner Kochenower inquires about the number of people who actually use their time share and do not exchange it.

Jason states that 50 – 55% of time share holders use their time share and do not exchange it from year to year.

- Jameson Taylor, Director of Policy with SC Policy Council.

Jameson recommended that 100% of sales tax exemptions be deleted.

- Rick Todd, President and CEO of SC Trucking Association speaking on the fuel tax and the sales tax cap on commercial vehicles.

Commissioner Way inquires about intrastate fuel purchases.

Rick explains that South Carolina sees a lot of intrastate fuel purchases because of the low gas tax, as SC is the lowest in the South East.

Commissioner Wingate inquires about the Trucking Association's position on a fuel tax increase.

Rick explains that the association would not specifically state an amount they could be on board with but the tipping point would be for carrier's profitability purposes and should probably stay just under what SC's competitors charge. If SC were to go with an index, it should be pegged to average of states around us.

Commissioner Wingate inquires about neighboring state's rates.

Rick explains that Georgia's pump price is 28 to 36 cents per gallon. North Carolina tried to index and settled on cap of 29.9 cents per gallon rate. Tennessee is 17 cent for IFTA and 18.4 cents at the pump. IFTA does not calculate any fuel tax that is not levied by state or collected on uniform basis so it can be converted to per gallon rate.

Commissioner Wingate asks how much an increase would generate.

Rick explains that one penny would be \$32 million.

Commissioner Cosgrove inquires if the best option is to raise the tax to just below the neighboring states because of the other advantages in regard to truckers filling up in South Carolina.

Rick agrees and sees the benefits.

Commissioner Weaver asks if SC does not retain the \$300 cap on vehicle sales tax, would truckers buy their parts/trucks in other states.

Rick assumes that yes that could happen. Bordering states have outright exemptions, some are for interstate carriers only.

Commissioner Weaver if the association would support an increase in diesel fuel as well.

Rick informs the commission that they would support that as well.

- Dewey Roof, SC Medical equipment services association, sales tax exemption on medical equipment.

*Chairman Maybank calls for a five minute break at 12:00 PM. The meeting is called back to order at 12:15.

- Rick Doran, Newberry Dairy Farmer, speaking on agriculture sales tax exemptions.

Commissioner Cosgrove inquires about the average growth profit margin of a farm in SC.

Rick can only speak to his industry and it is negative growth right now.

- Jim Faulkenberry, Jeff Stoudt, speaking on sales tax exemption for machines used in manufacturing.
- Lewis Gossett, manufacturing exemption.
- Ted Creech, AT&T, speaking on the telecommunications tax policy.

Chairman Maybank clarifies that for sales tax purposes you are not considered a manufacturer.

Commissioner Stevens also clarifies that telephone was a service. Manufacturing is exempt because of tangible products.

Chairman Maybank inquires how many states have this exemption.

Ted replies that there are two, Georgia and South Carolina.

Commissioner Steelman asks for more information about call centers.

Ted explains that other states have brought a lot of jobs through this. SC is a very good place to bring a call center. Call centers provide variety of jobs, baseline jobs to very sophisticated jobs and employ a lot of people. Call centers often have high turnover leaving a fairly steady supply of jobs. There are ten to twelve call centers in Charleston and Berkley County.

- Pharmaceutical Work Group; With Jack Wells, MD., Jesse Anderson, Dr. Parker, Mary Lee Hutto; Speaking on a new exemption for physician administered medications.

Commissioner Kochenower inquires about the cost of the drug and what Medicare pays.

The actual cost is \$1950. Medicare pays cost plus 4% for handling of the drug. Doctors must pay \$137 in sales tax every time they buy a dose. The specific drug being used for example is for macular degeneration.

- Dr. Elizabeth Christian, Oncologist in Charleston speaking on exemption regarding prescription medicines used in the treatment of cancer. Also speaking is her patient, Betsy Parker.

Chairman Maybank asks why should cancer drugs be exempt and not HIV or Swine Flu?

Dr. Christian explains that cancer treatments are often IV drugs which are expensive. Most HIV medicines are given by mouth.

Commissioner Kochenower inquires about Medicaid reimbursement.

Dr. Christian explains that Medicaid does reimburse but the amounts have declined but that most cancer patients are on Medicare.

- Dr. Greg Niemer, Rhumatologist., speaking on exemption regarding intravenous drugs.

Chairman Maybank asks for the basis regarding exempting arthritis medications.

Dr. Niemer explains that these medications cost thousands of dollars and there are less than fifty Rheumatologist in this state. The practices are not large and therefore cannot absorb the tax.

- Melanie Hill, Outsource SALT, LLC. . Speaking on streamlining, sales tax exemption for postage on advertising for non- profits and the exemption for cooperative direct mail promotional advertising materials.

VII. Future Meetings

VIII. Adjournment

The meeting adjourned at 2:18 PM.