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MEMORANDUM

TO: Senator Vincent Sheheen (Co-Chairman)
Senator Sean Bennett (Co-Chairman)
Senator Glenn Reese
Senator Tom Davis
Senator John Scott
Senator Tom Corbin

FROM: Hugh K. Leatherman, Sr.

A handwritten signature in black ink, appearing to read "H. K. L.", written over the printed name "Hugh K. Leatherman, Sr.".

DATE: September 20, 2018

SUBJECT: Senate Finance Taxation System Review and Reform Subcommittee

The significant federal tax law changes of late 2017 have increased the complexity of our state's traditional, and usually noncontroversial, adoption of conformity with the federal tax code. The changes to the federal tax code eliminated personal exemptions, dramatically increased the standard deduction and rewrote many sections of the corporate tax code. Since our state income tax code begins the calculation of liability with federal taxable income, these federal changes dramatically impact our sources of revenue.

Knowing that significant adjustments must be made, the only question was whether the process should be one step or two steps, to use conformity with the federal code as a base for taxation reform or to initially attain simple conformity and then consider reforms to our taxation system. The latter path was chosen and the Finance Committee is poised to report H.5341. The task before us now is to consider reforms to our taxation system.

The issue of taxation reform is immense and complicated. And, before you begin to contemplate any changes, you likely will need a period of review to learn about the existing system. Therefore, I would suggest you begin this process by setting a work plan which disaggregates our taxes by

type. As you educate yourselves, I would also ask that you consider comparisons with surrounding states to insure that we are competitive.

Over the years, I have heard the reform slogan “a system for the 21st Century.” While the slogan is often misused, it is nevertheless appropriate for the task at hand. Our income tax is essentially a levy on wages, yet wages as a percentage of total income continues to erode. Likewise, our sales tax is a levy on tangible products, but services are an ever increasing portion of retail transactions. The way in which South Carolinians live, work and play has changed dramatically over the past 50 years. But, our taxation system is essentially the same configuration as five decades ago. As you develop a reform plan, please keep in mind these dramatic changes to our state’s economy.

During my 38 years of service, I have served on several taxation reform committees. So, I am aware that your task is difficult. Being thorough, deliberate and accommodating to each other’s views in the best tradition of the State Senate will offer you the best chance for a superior set of recommendations.

Thank you for your service for this most important task.