FUNDING THE FUTURE

A South Carolina Proposal to Ensure Fiscal Stability and Statewide Economic Growth
The current tax code disincentivizes decisions based on economic foundations that promote long term growth.
AGENDA

Today’s discussion of resetting South Carolina on a path of opportunity and growth.

1. Using Data to Make Decisions
2. Simple, Stable, Fair Growth
3. How to Get from Here to There
1 | HOW CAN WE USE DATA?

A look at how we can use data to uncover trends and create solutions.
Using **data analysis**, we can develop data-driven, evidence-based models to make **informed decisions** for shaping the future financial system of the state.
SC’s GENERAL FUND
A brief history of key events.

- **Great Recession**
  November 2007 through June 2009.

- **General Sales Tax**
  Increased from 5% to 6%, with all revenue going to property tax relief.

- **Active Trade Tax**
  Reduced 7% to 3% between 2006 & 2013.

- **Income Tax**
  Lowest bracket reduced from 2.5% to 0%.

- **Unprepared Food Sales Tax**
  Reduced from 5% to 3% and then to 0%.

These trends increase complexity and reduce transparency.

*Off-budget items include property tax relief trust funds, EIA, and Lottery.
2 | REFORMING OUR TAX SYSTEM
Driving economic growth, providing stability, and restoring fairness.
SALES TAX

Over time, 80+ exemptions or caps have been individually legislated, now resulting in 65% of goods being exempt from tax.

Higher tax on fewer and fewer items.

Lower income families pay a greater percentage of their income on sales tax.

SC’s structure is evolving, in effect, into a 2-tier system with rates of 0% and 7%.

0% BRACKET
- paid no state income tax in 2014, up from 27.0% in 2000 and 31.8% in 2007.

7% BRACKET
- were in the 7% tax bracket in 2014, and accounted for 96.2% of the tax liability.
...but property taxes rose anyway. School district taxes increased 30.7% since 1993 or $161 per South Carolina resident (on a real 2015 US$, per capita basis).

PROPERTY TAX

And the burden shifted to fewer property types.

Property Tax Relief (1994) and Act 388 (2006)
Combined, these tax laws have eliminated property tax on owner occupied homes from school district taxes, replacing it with 3 “Tiers” of property tax reimbursement to counties from a 1% state sales tax.

Shifted Tax Burden
The 1977 local funding share formula based on district taxable property has been eroded by tax exemptions, shifting the local property tax burden to fewer properties, particularly rental and commercial.

Insufficient Sales Tax Swap
Act 388 1% sales “tax swap” has fallen short of required tax reimbursements in excess of $110m annually since FY10.

PROPERTY TAX BURDEN VARIES

A tale of two school districts’ tax burden.

<table>
<thead>
<tr>
<th></th>
<th>Abbeville County</th>
<th>Lexington County</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$57.9M</td>
<td>$1,336.1M</td>
</tr>
<tr>
<td>Value of 1 mil</td>
<td>$59,700</td>
<td>$1,107,525</td>
</tr>
<tr>
<td>Tax on $100k home</td>
<td>$124</td>
<td>$285</td>
</tr>
<tr>
<td>Tax on $100k store</td>
<td>$1,321</td>
<td>$2,216</td>
</tr>
<tr>
<td>Tax on $10k car</td>
<td>$132</td>
<td>$222</td>
</tr>
</tbody>
</table>

Note: Analysis assumes uniform appraisal methods across counties.
Millage rates, which are set locally, vary by county and school district, raising revenue in ways that create inequity in tax burden and in services delivered.

School district taxes on a $100k store vary up to 3 times as much across counties.

3 | THE ROAD FORWARD

How do we get from here to there?
Multiple urgent current **needs** create the perfect **opportunity** to achieve these **goals**.

**Fairness & Opportunity**
Successful education systems, coupled with equity in revenue and spending, will expand opportunities and equalize burden.

**Stability**
Constructing a well-coordinated, integrated government finance system is necessary to guarantee stable revenue and avoid “unintended consequence” pitfalls of the past.

**Economic Growth**
Raising revenue through efficient taxation, combined with effectively managing expenditure to fund schools and roads, will promote the growth of jobs and the state economy.
South Carolina faces an impending “perfect storm” of fiscal dilemmas.

Each of these issues is foundational to the economic future of our state. None can be solved independently of the other. Each demands proactive, well-thought out solutions. Proven ideas and bold leadership have never been more needed.
WHY COMPREHENSIVE?
Continual challenges to the distributional inequities of the tax code.
THANK YOU

To see interactive data, please visit http://acuitasecon.com/econLab.