SOUTH CAROLINA TAX BASE

REQUESTED BY

SENATE FINANCE TAXATION SYSTEM
REVIEW AND REFORM COMMITTEE

December 4, 2018
SOUTH CAROLINA POPULATION PYRAMID
Estimated 2020

Source: Revenue and Fiscal Affairs Office: CPA 1/20/2016
SOUTH CAROLINA POPULATION BY COUNTY
Estimates as of July 1, 2017

Source: U.S. Census Bureau, Population Estimates; RFA - 224 - LPW-10/4/18
PERSONAL INCOME
SOUTH CAROLINA TOTAL PERSONAL INCOME

Source: US Department of Commerce, Bureau of Economic Analysis RFA 171-EM/11/19/18
SHARES OF PERSONAL INCOME COMPONENTS
in South Carolina

222/BEA/EM/10/04/18
Notes: Personal Income

• S.C. personal income is growing at close to its 20-year average.
• S.C. is experiencing a shift in the components of personal income.
• Wages as a component of total personal income have decreased from 62 percent to 47 percent.
GENERAL FUND REVENUE
SOUTH CAROLINA GENERAL FUND REVENUE
as a Percentage of Total Personal Income

Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34F-EM/11/19/18
FY 2017-18 GENERAL FUND REVENUE BY TYPE
Categories in Excess of $25 Million

Values: Revenue, Percentage of Total General Fund

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue (Millions of Dollars)</th>
<th>Percentage of Total General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>$4,108,503</td>
<td>50.3%</td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>$2,896,355</td>
<td>35.5%</td>
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<tr>
<td>Corporate Income Tax</td>
<td>$320,3.9%</td>
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<tr>
<td>Insurance Taxes</td>
<td>$238,2.9%</td>
<td></td>
</tr>
<tr>
<td>Beer and Wine Tax</td>
<td>$110,1.3%</td>
<td></td>
</tr>
<tr>
<td>Alcoholic Liquor Tax</td>
<td>$77,1.1%</td>
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<tr>
<td>Corporation License Tax</td>
<td>$68,0.9%</td>
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</tr>
<tr>
<td>Bank Tax</td>
<td>$53,0.6%</td>
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<tr>
<td>Documentary Tax</td>
<td>$52,0.4%</td>
<td></td>
</tr>
<tr>
<td>Security Dealer Fees</td>
<td>$31,0.4%</td>
<td></td>
</tr>
<tr>
<td>Tobacco Tax</td>
<td>$30,0.3%</td>
<td></td>
</tr>
<tr>
<td>Earned on Investments</td>
<td>$26,0.3%</td>
<td></td>
</tr>
<tr>
<td>Admissions Tax</td>
<td>$26,0.3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: S.C. Revenue and Fiscal Affairs Office - 225/EM/10/30/18
Policy Issues – General Fund

• Adequacy
• Administrative Ease
• Economic Competitiveness
• Fairness
• Neutrality
• Simplicity
• Transparency
Notes: General Fund Revenue

• S.C. General Fund revenue as a percentage of total personal income has declined from 6.8 percent in FY 80 to approximately 4.1 percent in FY 18.

• Sales and individual income tax revenue account for approximately 85 percent of total General Fund revenue.
SALES TAX
SOUTH CAROLINA STATE AND LOCAL SALES TAXES

(Millions of Dollars)

Source: Revenue and Fiscal Affairs BEA Monthly General Fund Revenue Reports and Local Government Finance Report 227-lhj/11/01/2018
SOUTH CAROLINA TOTAL AND GENERAL FUND SALES TAX COLLECTIONS as a Percentage of Total Personal Income

- Maximum cap on autos and EIA additional 1% in 1985
- Sales tax on food to 3% in 10/2006 and 0% in 11/2007
- Additional 1% for residential property tax relief in FY 2007-08

Source: SC sales tax collections and U.S. Department of Commerce, Bureau of Economic Analysis. RFA 32- EM/11/19/18
SOUTH CAROLINA PERSONAL INCOME, PERSONAL CONSUMPTION, AND TAXABLE SALES

Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Revenue and Fiscal Affairs Office 171A-EM/10/05/18
FY 2017-18 SALES TAX EXEMPTIONS AND EXCLUSIONS
In Excess of $25 Million

Source: SC Revenue and Fiscal Affairs 172 - LJ/02/06/17
ESTIMATED E-COMMERCE SALES TAXES
Collected and Uncollected

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Collected</th>
<th>Uncollected</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014-15</td>
<td>$274.8</td>
<td>$91.8</td>
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<tr>
<td>FY 2017-18</td>
<td>$346.2</td>
<td>$94.2</td>
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<tr>
<td>FY 2018-19 Before Wayfair</td>
<td>$374.6</td>
<td>$103.9</td>
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<tr>
<td>FY 2018-19 After Wayfair</td>
<td>$449.0</td>
<td>$29.5</td>
</tr>
</tbody>
</table>

Source: Revenue and Fiscal Affairs Office/GOS/10-22-18
ESTIMATED ANNUAL INCREASE IN E-COMMERCE SALES AND USE TAX - $74.4 MILLION

- General Fund: $40.2 million
- Local Sales Tax: $14.0 million
- Education Improvement Act Fund: $10.1 million
- Homestead Exemption Fund: $10.1 million
- Uncollected Sales Tax with Small Seller Exemption: $29.5 million

Source: S.C. Revenue and Fiscal Affairs Office/GOS/10-22-18
Source: U.S. Census Bureau, 2012 Economic Census; U.S. Bureau of Economic Analysis, Industry Economic Accounts, Input-Output, 2012; and S.C. DOR net taxable sales; Calculations by RFA GOS/12/03/2018
Policy Issues - Sales Tax

• Bodman case – rational basis test

• Exemptions – end user, business input, alternate tax

• Tangible property – Music = CD vs. download
Notes: Sales Tax

• Sales tax accounts for 35 percent of total General Fund revenue.

• Sales tax as a percentage of total personal income has declined from almost 2.5 percent to less than 1.5 percent.

• Total statewide sales tax collections at 6 percent equaled 2.1 percent of total personal income in FY 17 compared to 2.5 percent for the 4 percent rate in FY 80.

• Local sales taxes account for an increasing percentage of total state and local sales tax, increasing from 3 percent in FY 96 to 14 percent in FY 16.

• Consumer spending is about 83 percent of total personal income. Taxable sales equal approximately 35 percent.

• The three largest sales tax exemptions are prescription medicine, motor fuel, and unprepared food. These items account for approximately 48 percent of exemptions.
SOUTH CAROLINA INDIVIDUAL INCOME TAX REVENUE

Source: S.C. Revenue and Fiscal Affairs Office 34A-EM/11/19/18
SOUTH CAROLINA INCOME TAX COLLECTIONS
as a Percentage of Total Personal Income

Indexation of tax brackets beginning in FY 91

Lowest bracket of 2.5% reduced to 0% for FY 08

Internal Revenue Code conformity effective FY 86

Job development/retraining fee enacted for FY 96; Large scale use of credits beginning in FY 2001; Credits totaled $88.5 million in FY 09

Phased-in reduction of maximum 7% tax rate on pass-through trade and business income to 5% beginning in FY 07 and fully implemented in FY 10. Beginning in FY 13 maximum rate is further reduced to 4.33% will be reduced to 3.67% in FY 14 and 3% in FY 15

Source: SC General Fund individual income tax collections and U.S. Department of Commerce, Bureau of Economic Analysis. RFA 34-EM/11/19/18
MEASURES OF SOUTH CAROLINA INCOME
Tax Year 2016

S.C. Revenue and Fiscal Affairs 186-LHI/10/26/2018
STATE DEDUCTIONS FROM FEDERAL TAXABLE INCOME
Tax Year 2016

Federal Taxable Income, $84.4 B
- Active Trade Or Business Income, $5.0 B
- Over 65 Income, $4.9 B
- Social Security (Federal Taxable), $3.9 B
- Capital Gains, $2.6 B
- Other State Deductions, $6.6 B

South Carolina Taxable Income, $60.5 B

Source: S.C. Dept. of Revenue Individual Income Tax Returns  RFA 186C-LHJ/10/26/2018
DISTRIBUTION OF TAX RETURNS AND LIABILITY
By Tax Liability, Tax Year 2016

Source: Dept. of Revenue Individual Income Tax Returns, TY 2016 SC Revenue and Fiscal Affairs LHJ/10/26/2018
PERCENTAGE OF FEDERAL ADJUSTED GROSS INCOME AND STATE TAX LIABILITY
By Federal Adjusted Gross Income Range

Note: Federal AGI attributable to SC for nonresident filers.

Source: Department of Revenue 2016 Individual Income Tax Return Sample RFA/lhj/11/01/2018
EXAMPLE 1: FLAT TAX OF 3.27% ON FEDERAL ADJUSTED GROSS INCOME
Projected 2018 Tax Liability by Federal Adjusted Gross Income

Notes: Federal AGI attributable to SC for nonresidents. Retains out-of-state adjustments and credit for taxes paid to another state. Eliminates all deductions, exemptions, other credits, and active trade or business rate. Estimates adjusted for Act 266 of 2018.

Source: Department of Revenue 2016 Individual Income Tax Return Sample RFA/lhj/11/30/2018
EXAMPLE 2: TOP MARGINAL RATE OF 4.95% ON FEDERAL TAXABLE INCOME
Projected 2018 Tax Liability by Federal Adjusted Gross Income Range

Notes: Federal AGI attributable to SC for nonresidents. Retains out-of-state adjustments and credit for taxes paid to another state. Eliminates all state deductions, exemptions, other credits, and active trade or business rate. Estimates are adjusted for Act 266 of 2018.

Source: Department of Revenue 2016 Individual Income Tax Return Sample RFA/lhj/11/30/2018
Policy Issues – Income Tax

• Optics v. Reality
OTHER TAXES
SOUTH CAROLINA TOTAL CORPORATE INCOME TAX COLLECTIONS

(Millions of Dollars)

Fiscal Year

Source: SC. Revenue and Fiscal Affairs Office 34B- EM/11/19/18
SOUTH CAROLINA TOTAL CORPORATE LICENSE TAX COLLECTIONS

(Fiscal Year)

(Millions of Dollars)

Source: S.C. Revenue and Fiscal Affairs Office 34D- EM/11/19/18
SOUTH CAROLINA BEER & WINE AND ALCOHOLIC LIQUORS TAXES

Source: SC. Revenue and Fiscal Affairs Office 230- LHJ/11/27/18
Notes: Other Taxes

• Corporate income tax is the third largest revenue item in the General Fund and the most volatile.

• For comparison, the S.C. Education Lottery contributes $434.8 million to the state compared to $375.2 million from corporate income tax in FY 18.

• Corporate license tax has been a growing but volatile revenue source for the General Fund.
PROPERTY TAXES
PROPERTY TAX REVENUE AND STATE REIMBURSEMENTS

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>School Districts</th>
<th>Counties</th>
<th>Municipalities</th>
<th>Special Purpose Districts</th>
<th>State Reimbursements</th>
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<td>$1,000</td>
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<td>$750</td>
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<td>$600</td>
<td>$900</td>
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<td>$650</td>
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<td>$850</td>
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<td>$1,200</td>
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<td>$950</td>
<td>$1,250</td>
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</table>

ANNUAL GROWTH IN PROPERTY TAX REVENUE AND REIMBURSEMENTS
Revenue Reported by School Districts, Counties, Municipalities, and Special Purpose Districts and All State Reimbursements

Pre-Act 388 of 2006 and Recession
6.9% Annual Growth

Post-Act 388 of 2006 and Recession
3.2% Annual Growth

ESTIMATED PERCENTAGE OF TOTAL PROPERTY TAX REVENUE
By Assessment Classification

Other: Motor Carrier, Agricultural Real Property (corporate and private)

TOTAL MILLAGE RATE INCREASE LIMITATION
FY 2007-08 to FY 2018-19

Note: Population estimates based upon Census Bureau estimates from 2010 to 2016

Source: RFA Millage Rate increase Limitations
RFA-229/mkg/08/02/2018
ASSESSED VALUE BY COUNTY
Tax Year 2015

Source: Revenue and Fiscal Affairs  229/mkm/11/19/18
South Carolina Value of One Mil

Tax Year 2016
School district value of one mil excluding owner occupied property.
COMMERCIAL & RENTAL PROPERTY ASSESSED VALUE
Tax Year 2016

Source: Department of Revenue, Local Government Report, 2018 RFA-MKM/05/11/18
OWNER-OCCUPIED PROPERTY ASSESSED VALUE
By County - Tax Year 2016

Source: Department of Revenue, Local Government Report, 2018 RFA-MKM/05/11/18
The Trust Fund tax exemption reimbursements include: $100K residential school operating exemption, Homestead Exemption (age 65+) Manufacturer's Depreciation Reimbursements, Merchant's Inventory Tax Exemption, and Manufacturer's Exemption of 14.285 percent (phase-in in six equal and cumulative percentage installments beginning in FY 19).
PROJECTED OVER 65 HOMESTEAD EXEMPTION REIMBURSEMENTS
2007 to 2030

Source: S.C. Revenue and Fiscal Affairs Office 229/mkm - 11/06/2018
Policy Issues – Property Tax

• Act 388 of 2006

• Millage Cap Issues – annexation

• Disparities in tax base
  • Value of one mil range: $6,120 to $2,329,918
LOCAL GOVERNMENT FUND
Source: S.C. Revenue and Fiscal Affairs Office - 194A/lpw/11/16/18
AID TO SUBDIVISIONS APPROPRIATIONS
Percent of Previous Fiscal Year's Actual General Fund Revenue

Source: S.C. Revenue and Fiscal Affairs Office - 194B/lpw/11/16/18
LOCAL GOVERNMENT FUND
Comparison of Actual Funding to Statutory Formula

FY 2019-20:
Estimated difference of $140.7 million

Source: S.C Revenue and Fiscal Affairs Office - 193/lpw/11/16/18
COUNTY AID TO SUBDIVISIONS FUNDING
As a Percent of Total County Revenues - FY 2015-16

Note: Data are based upon actual aid to subdivisions funding from the State Treasurer's Office and revenues from the Local Government Finance Report. Revenues exclude bond proceeds.
IMPACT OF 2020 CENSUS

• Local Government Fund allocations are based on the most recent official US Census

• 2020 Census will likely cause a major reallocation of existing funds

• Entities that grew faster than state average will gain additional funds; entities that grew slower than state average will lose funding
Note: Population figures are based on 2010 U.S. Census Bureau data and 2017 U.S. Census population estimates.

Source: S.C. Revenue and Fiscal Affairs Office - 192B-lpw/11/16/18
ESTIMATED IMPACT ON LOCAL GOVERNMENT FUND FOR COUNTIES
Change from 2010 Census vs 2017 Estimates

Note: Local Government Fund estimates are based upon recurring funds of $222,619,411 as ratified by the General Assembly on June 29, 2018. The population figures are based on 2010 U.S. Census Bureau data and 2017 U.S. Census population estimates.

Source: S.C. Revenue and Fiscal Affairs Office - 192A-lpw/11/16/18
MUNICIPAL LOCAL GOVERNMENT FUND CENSUS POPULATION IMPACT
Funding with 2010 Census vs Estimated Population

Note: Local Government Fund estimates are based upon recurring funds of $222,619,411 as ratified by the General Assembly on June 29, 2018. The population figures are based on 2010 U.S. Census Bureau data and 2017 U.S. Census population estimates.

Source: S.C. Revenue and Fiscal Affairs Office - 192E - lpw/11/16/18
Any Questions?