



Paying for Government in South Carolina

A Citizen's Guide

Holley Hewitt Ulbrich and Ada Louise Steirer

**Strom Thurmond Institute of Government and Public Affairs
Clemson University**

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by

Holley Hewitt Ulbrich
Ada Louise Steirer

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About the Authors

Dr. Ulbrich is Alumna Professor Emerita of Economics at Clemson University and Senior Fellow of the Strom Thurmond Institute. She has written extensively about tax policy. Ms. Steirer is a research associate in community and economic development at the Institute. Both have experience as elected and appointed officials.

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Before You Read This Booklet

the purpose

► This booklet has been written to help citizens of South Carolina understand how their state and local tax system works and why we use the revenue sources we do. Understanding how the system works may not change how you feel about taxes. But it should help you to take part more effectively in the ongoing conversation about taxes and the public services they pay for.

a tax “system”

► The parts of a revenue system are connected. You can't single out a particular tax or fee for change without affecting the whole system. A change, large or small, can shift the tax burden, change the amount of revenue raised, and have unforeseen consequences. Some problems we have with our revenue system right now are from changing a piece at a time without thinking about the big picture.

► For example, legislators invited us to vote in a referendum to reduce the assessment rate on cars from 10.5 percent to 6 percent over six years, from 2001 to 2006. Most of us happily voted yes on cutting taxes. But car taxes were about 16 percent of the local tax base in 2000, more in some smaller counties and cities. Where are local governments going to find revenue to make up for this loss? How are school districts going to meet state mandates for class size and teacher pay?

► If we, and our legislators, had thought about how taxes on cars fit into the overall revenue system, we still might have cut car taxes, but done it differently.

state and local connections

► State taxes and fees and local taxes and fees are part of a single system. All local governments depend on state aid to fund their budgets, especially school districts. Both the state and many cities and counties use the sales tax to raise revenue, so anything the state does to change the sales tax affects local governments as well.

- ▶ The legislature tells local governments what taxes they may levy and under what conditions. It has control over the rules governing the property tax, the main source of local revenue.
- ▶ Taxes collected at the state level in one state may be used by local governments in others. In some states, state government collects more revenue than in South Carolina, but it also sends more aid back to cities, counties, and school districts. Some services are provided by states in one place and by local governments in another.
- ▶ By thinking about state and local revenue and services as a single system, we can do a better job of comparing South Carolina to other states.

The Ideal Revenue System

the challenge

▶ When we get up in the morning, and water doesn't come out of the faucet, what do we do? Call public works at City Hall. When our cars are out of alignment from the potholes on the way to work, we call our county council member. When we are unhappy with our local school, we call our school board member. And when we discover the hours at our favorite state park have been cut, we call our state legislator. Government equals services in the minds of citizens.

▶ Putting together a plan to pay for the services people want from government isn't easy for elected officials. Taxes are never popular, and raising taxes is even less popular. But state legislators face the challenge of raising revenue every legislative session. Local elected officials have to address the same question at budget time every year. There's no getting around it.

▶ Suppose we had the opportunity to start from scratch, to design a tax and fee system from the ground up. How would we do it? We could start by looking at some basic ideas about what kind of system works well. These ideas could be the basic guides to decisionmaking.

revenue sources

▶ Governments must decide whether to tax spending, income, or wealth or some combination of the three. They also need to set the rate of taxation.

▶ Governments also charge fees for particular government services.

▶ Some levels of government provide grants, often to promote national or state priorities.

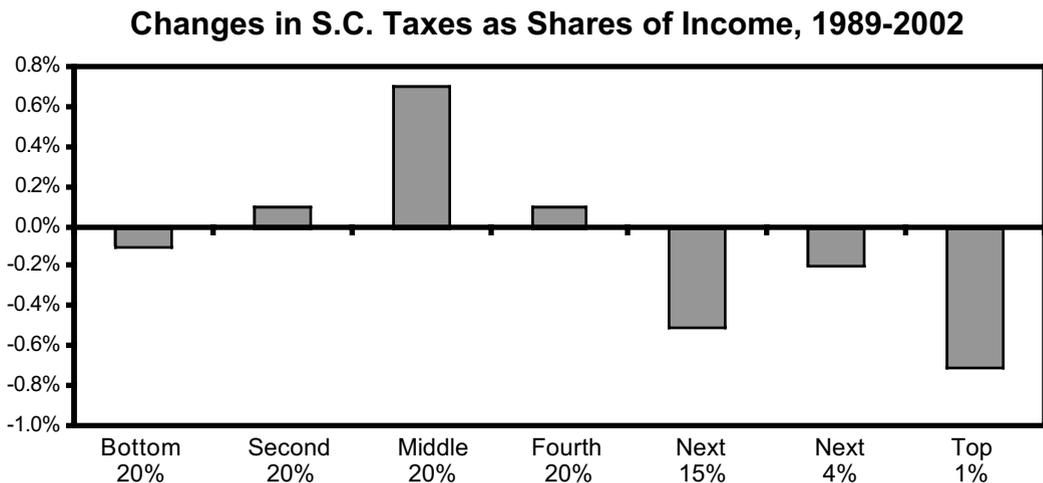
rating a tax

▶ Each tax has its own set strengths and weaknesses. If there were a perfect tax, it would have these qualities:

Adequacy: A perfect tax would bring in a steady, dependable stream of revenue, adequate for public needs.

Equity: A perfect tax would be distributed fairly among different kinds of taxpayers based on their ability to pay and to some degree on their demand for public services. If the state collects a higher proportion of income in tax

from taxpayers with a higher ability to pay than from those with less ability to pay, a tax is called *progressive*. *Circuit breakers* can increase tax equity for lower-income citizens by providing tax credits that are phased out as income rises. If citizens with lower-income spend a higher percentage of their income to pay a tax than higher-income citizens do, the tax is a *regressive* tax. South Carolina tax laws since 1990 have shifted the tax burden away from the top income groups toward middle-income taxpayers. This change makes the tax system more regressive.



Source: Institute on Taxation & Economic Policy, January 2003

Efficiency: A perfect tax would not discourage desirable activities like building a house or moving a business firm to the state or to a particular county or city, but it might be used to discourage an undesirable activity like smoking or gambling.

Cost of compliance: A perfect tax would be easy to administer and inexpensive to collect.

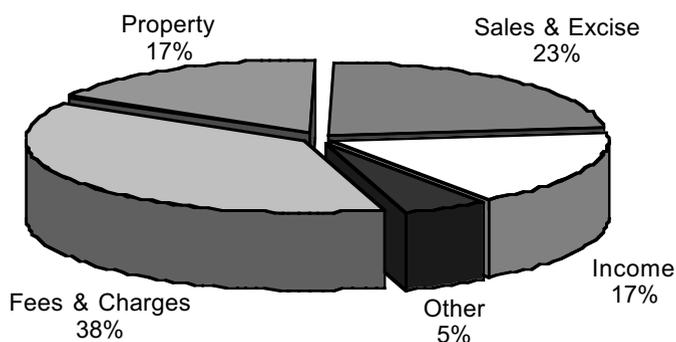
a perfect tax?

► When we look at various taxes, no tax fits all criteria of a *perfect* tax. So there is no perfect tax. The positives of one tax, then, will need to balance the negatives of another to create a *good* revenue system. The answer is a revenue system based on a mix of taxes and fees.

SC's system

► South Carolina's overall revenue system is pretty balanced. The state and local governments together depend on roughly equal shares of taxes on wealth like real estate and personal property, taxes on what we buy and use, taxes on income, and fees for public services.

S.C. State and Local Revenue, 2000



Source: Institute on Taxation & Economic Policy, January 2003

► The state, in 2000, got the revenue for its general fund from individual income taxes (42%), sales and use taxes (40%), corporate income taxes (4%), and other sources (14%).

► South Carolina uses all major taxes and most minor taxes, as well as fees at the state and local levels. Using minor taxes can offset some of the weaknesses of the income, sales and property taxes. Taxes and fees aimed at tourists can get visitors to pay for some of the local services that they use. Taxes on gasoline ensure that the people who use highways heavily pay a larger share of the cost of building and maintaining highways. Taxes on luxuries can shift some of the burden to higher income families.

► States that do not use a mix of sales, income and property taxes have a particularly hard time weathering economic downturns. States like Tennessee with no income tax and a very high sales tax and Oregon with 75 percent of its revenue from the income tax have had problems bringing in enough revenue because of the state of the economy.

Answering Tax Questions

the challenge

- ▶ When citizens think about taxes and tax revenue, they usually want to know how their taxes compare to other citizens' taxes in their own states and in other states.
- ▶ It may seem that these questions can be easily answered by using simple math and comparisons. But numbers by themselves don't mean a lot. So, readers of statistics must be careful.

per capita tax

- ▶ **The question.** How much does the average person in South Carolina pay in state and local taxes and fees?
- ▶ **The math.** Divide the total revenue from state and local taxes and fees by the number of people living in the state including children. The answer is called the *per capita revenue*.
- ▶ **The answer.** In 2000, South Carolinians paid \$3,826 per capita in state and local taxes and fees. That's \$614 less than the national average, \$160 dollars less than in North Carolina, and \$159 dollars less than in Georgia.
- ▶ **The rank.** South Carolina ranked 38 among the states. South Dakota, Arkansas, and Tennessee were at the bottom. Alaska topped the list at \$12,171 per capita.
- ▶ **Cautions.** Per capita revenue doesn't mean every South Carolinian paid \$3,826 in taxes and fees in 2000. People from other states who vacation, shop, work, or own property here paid taxes in South Carolina, too. Nonresidents are not included in figuring this statistic. Alaska and Wyoming, also ranked near the top, have revenue related to oil and minerals. Delaware, the home of many out-of-state corporations because of favorable incorporation laws, receives a lot of corporate income tax revenue.

growth in per capita taxes

- ▶ **The question.** Are taxes and fees taking a larger share of the average person's income than in the past?

► **The math.** Use the same math as in question 1 but data for the year 1991. Subtract the answer for 1991 from the answer for 2000.

► **The answer.** In 1991, per capita taxes and fees were \$2,371. Taxes per capita in 2000 increased by \$1,455, but much of the increase was from inflation. Taking inflation into account, taxes and fees per capita rose 27.9 percent from 1991 to 2000 or 2.6 percent per year.

► **The rank.** South Carolina rose from 44 to 38 in per capita taxes and fees.

► **Cautions.** Although taxes and fees over the decade of the 1990s rose steadily, South Carolina remained well below the national average.

taxes & income

► **The question.** How much of an average person's income goes to taxes and fees?

► **The math.** Divide state and local taxes and fees paid by state residents by the average personal income received by state residents. The answer is called *taxes as a percent of personal income*.

► **The answer.** In 2000, South Carolina state and local revenue as a percent of personal income was 15.8 percent. That's higher than the national average of 14.9 percent, and higher than in North Carolina (14.7 %) and in Georgia (14.1 %). In 1990, South Carolina's state and local revenue was 16 percent of personal income. The increase in this number means that taxes grew a little faster than personal income over the decade of the nineties.

► **The rank.** In 2000, South Carolina ranked 20 in taxes as a percent of personal income. Missouri, Tennessee, and New Hampshire shared the bottom. Alaska topped the list again at 43.6 percent.

► **Cautions.** Our state ranks higher when taxes ranked as a percent of income are used to compare the states because our incomes are low, not because our tax rates are high. Our income is about 80 percent of the national average.

data sources

► Federation of Tax Administrators: <http://www.taxadmin.org>

Governing Magazine (management): <http://governing.com/#>

Institute of Taxation and Economic Policy (Who Pays) : <http://www.ctj.org/itiep/index.htm>

National Association of State Budget Officers: <http://www.nasbo.org/publications.php>

Tax Foundation: <http://www.taxfoundation.org/statefinance.html>

Tax Policy Center: <http://www.taxpolicycenter.org/taxfacts>

U.S. Census Bureau: <http://www.census.gov>, <http://quickfacts.census.gov/qfd/>

National Center for Education Statistics: <http://nces.ed.gov>

► S.C. Comptroller General: <http://www.cg.state.sc.us/>

S.C. Home Page (choose government section): <http://www.mysc.gov.com>

S.C. Department of Commerce (publications on business incentives and S.C. property tax rates): <http://www.teamsc.com/library.html>

S.C. Department of Revenue: http://www.sctax.org/annual_report/tables.htm

S.C. Office of State Budget: <http://www.state.sc.us/osb>

S.C. State Department of Education (Rankings, etc.): <http://www.sde.state.sc.us>

S.C. School Boards Association: <http://www.scsba.org>

State Sales and Use Taxes

taxation of

- ▶ Retail sales of tangible goods at a rate of 5 percent paid by the buyer.
- ▶ Out of state purchases that have not been taxed by the state of purchase, such as internet and catalog sales, at the same rate as retail sales.
- ▶ Goods and services found in Title 12, Section 36 of the S.C. Code of Laws.

revenue

- ▶ \$2.0 billion in sales taxes, about 36 percent of general state revenue in 2001.
- ▶ \$16.5 million in use taxes in 2001.

features

- ▶ Retail businesses collect the tax for the Department of Revenue.
- ▶ Use taxes must be reported by the taxpayer on the state income tax form.
- ▶ The state by statute is able to declare tax holidays.

exemptions

- ▶ Most services are not subject to the sales tax. Some are subject to excise taxation.
- ▶ Food stamp purchases are exempt by federal regulation.
- ▶ Prescription drugs, Bibles, textbooks, sale of livestock, and toll charges for transmission of messages are not taxed.
- ▶ Purchases by business and agricultural operations for resale, for use in production, or for further processing are exempt.
- ▶ The sales tax on motor vehicles, boats, and airplanes is capped at \$300—the most controversial exemption. The purchaser of a \$6,000 used car pays the same tax as the purchaser of a \$60,000 luxury car. The revenue loss from this exemption was about \$92.6 million in 2003.

cautions

- ▶ Tax holidays and adding new exemptions cause revenue loss for the state.
- ▶ Increased spending on nontaxed services, use of catalogs and internet sales mean that sales tax growth does not keep pace with inflation and population growth.

- ▶ Catalog purchases and internet sales, which are mostly untaxed, are a revenue loss and unfair to local Main Street merchants.
- ▶ High state rates combined with local sales taxes can encourage out-of-state shopping, especially in the state's 20 counties bordering North Carolina and Georgia.
- ▶ Too many exemptions can erode the tax base and require a higher tax rate to bring in the same revenue.
- ▶ Failure to tax services favors middle- and high-income households and adds to the inequity of the sales tax.

other states

- ▶ Forty-one states tax general retail sales. About two-thirds of these states exempt food. No other state places a ceiling on taxes for cars, boats, and airplanes. New Mexico, Hawaii, and South Dakota and a few other states tax many services. South Carolina's state sales tax rate of 5 percent is lower than the national average rate of 5.25 percent.

evaluation

- ▶ ***Adequacy:*** The tax receives highest marks for adequacy because tax revenues grow as personal income grows.
- ▶ ***Equity:*** The tax is regressive because taxable purchases are a higher percentage of income for lower-income households. The taxation of food and the cap on taxes on vehicles, boats, and airplanes makes the tax harder on the poor.
- ▶ ***Cost of compliance:*** The sales tax is not too expensive to administer, although much of the cost of collection falls on merchants. Sales taxes are paid in small amounts over time, making them more acceptable than other taxes to taxpayers. The consumer can also decide whether or not to purchase taxed items. Collection of the use tax depends on reporting by the taxpayer. The state forgoes revenues from the use tax because it has not developed a more efficient collection system.
- ▶ ***Efficiency:*** If rates get too far out of line with those in other states, cross-border shopping and catalog and internet shopping may increase.

Local Sales Taxes

taxation of

- ▶ Retail sales of tangible goods by local option at a rate of one percent, paid by the buyer.
- ▶ Retail sales of tangible goods at a rate of 1 or 2 percent to specifically fund capital projects, transportation, and schools, paid by the buyer.

revenue

- ▶ \$143.7 million in general local option sales taxes in 2001. More than 71 percent goes to property tax reduction each year.
- ▶ \$46.6 million allocated to specific county projects in 2001.

features

- ▶ Municipalities and counties in 27 counties benefit from the general local option sales tax. Citizens must approve its use in a county referendum.
- ▶ Only counties and school districts can levy sales taxes for specific purposes.
- ▶ At least 71 percent of revenue from local option taxation of retail sales goes to reduce county and municipal real estate taxes. Some counties and municipalities devote 100 percent of the revenue to reducing taxes. In others, the remainder goes to fund county and municipal budgets.
- ▶ The revenue from local option sales tax used for property tax reduction is distributed based on market value of properties, rather than assessment for tax purposes, so homeowners get a proportionately higher share of the relief.
- ▶ Sales taxes levied for specific purposes end when the bonds associated with the projects are repaid.

exemptions

- ▶ Vehicles, boats, and airplanes are exempt from local sales taxes. Other items and services exempt from state sales taxes also are exempt locally.

cautions

- ▶ Changes in state sales tax exemptions can adversely affect local revenue.
- ▶ The cautions related to the state retail sales tax apply to local retail sales taxes.

other states

▶ The state's combined state and local retail sales tax rate of 6 percent in counties with the local option sales tax is less than the national average of about 8 percent. North Carolina and Georgia also have a 6 percent combined rate.

evaluation

▶ **Adequacy:** The sales tax receives high marks for adequacy because tax revenues grow as personal income grows, but a little more slowly than income.

▶ **Equity:** The sales tax is regressive because taxable purchases are a higher percentage of income for lower-income households. The taxation of food adds to that inequity.

▶ **Cost of compliance:** The local sales tax is not too expensive to administer because merchants already report sales to the state. Most of the cost of collection falls on merchants.

▶ **Efficiency:** Retailers may choose to locate in counties without the sales tax, but if they do, they may find that their property taxes are higher.

State and Local Excise Taxes

taxation of

▶ A good or service, like gasoline, usually based on the unit sold rather than the dollar value of the sale.

revenue

▶ \$922.1 million in state excise taxes in 2000, about 6.0 percent of state revenue.

▶ \$782.5 million in local excise taxes in 2000.

features

▶ The state collects most excise taxes and sends some of them back to counties and municipalities.

▶ The state levies excise taxes on gasoline, distilled spirits, beer, wine, tobacco products, admission to entertainment and sporting events, public utilities, coin-operated devices, and bingo games.

▶ Local governments are allowed to tax public utilities, accommodations, and restaurant meals. Excise taxes on accommodations and restaurant meals are based on the dollar value of the purchase, rather than on the number of units sold.

▶ A 2 percent accommodations tax is levied statewide and distributed to the counties and cities of origin. Counties and municipalities may also levy accommodations taxes as long as the total local tax does not exceed 2 percent.

▶ The revenue from the excise tax on gasoline is earmarked for building and maintaining highways and public transportation.

▶ Addictive activities like smoking and drinking alcohol are attractive targets for excise taxes. States may have dual purposes in taxing addictive substances: reducing consumption and benefitting from consumption. Revenue from excise taxes on alcohol goes into the general fund.

▶ The accommodations tax is used to pay local government costs created by visitors like law enforcement and litter control. It also funds the promotion of tourism and tourism facilities.

cautions

▶ If excise taxes are not routinely adjusted, this inaction amounts to an annual tax cut. When the excise tax is based on the unit, for example, on a gallon of gasoline, the value of the excise tax falls every year because of inflation. As prices rise, the excise tax remains the same. Government needs to increase excise taxes periodically just to keep up with inflation. The excise tax on cigarettes, 7 cents per pack, has not been raised since 1972.

other states

▶ Every state has accommodations taxes at some level.

▶ State and local governments in South Carolina received 9.7 percent of their tax revenue from excise taxes in 2000. North Carolina brought in 12.5 percent from excise taxes in 2000 compared to Georgia's 7.6 percent.

▶ In Nevada, 26.2 percent of state and local revenue came from excise taxes in 2000, not surprising for a state with high tourism rates and casinos. West Virginia's excise tax supplied 21.1 percent of state and local revenue. Massachusetts and New York each collected less than 7 percent of revenue from excise taxes.

evaluation

▶ **Adequacy:** Over time as prices rise, the excise tax remains the same, becoming a lesser percentage of the sales price of the good or service.

▶ **Equity:** Many excise taxes are regressive.

▶ **Cost of compliance:** Most of the cost falls on producers or retailers.

▶ **Efficiency:** Consumers may purchase and use fewer undesirable goods. The gasoline tax ensures that highway users pay a portion of their highway use.

Local Property Taxes

taxation of

► Real and personal property based on a percentage of market value at rates from 4 percent to 10.5 percent depending on the classification of property.

revenue

► \$3.4 billion in local property tax collections in 2000. \$416.3 million of this total came from state funds to pay local governments for property tax reduction.
► \$2.0 billion for school districts, \$935 million for counties, \$237.4 million for municipalities, and \$138.1 million for special purpose districts.

property classification

► Property taxes are assessed on a percentage of the market value of property based on a classification system set up in the state's constitution.
► The classification systems sets assessment percentages at:
 4 percent for owner-occupied housing and farm land.
 6 percent for rental and commercial property and commercial agriculture.
 9.5 percent for companies offering transport for hire.
 10.5 percent for manufacturing, utilities, and personal property.
► The assessment system reflects a legislative decision about how the burden of the property tax should be shared among different groups. However, since the midyears of the 1990s the legislature has made changes in tax laws that have shifted the relative burdens between groups. New and expanding industries can negotiate a fee in lieu of taxes to reduce their assessments to as low as 4 percent. Homestead and school tax exemptions have reduced tax burdens on owner-occupied houses.

features

► The state authorizes local governments to levy the property tax and sets up the rules for the operation of the tax.
► Counties normally administer property taxes for school districts, municipalities, and special districts.
► The property tax is a tax on assets, but not all assets are taxed. Land and buildings including mobile homes are taxed. Investments, bank accounts, and personal possessions and furnishings are not taxed. Cars, boats, airplanes, motor-

cycles, manufacturing equipment, business vehicles, farm equipment, and furnishings for commercial and rental properties are taxed as personal property.

► County and municipal taxes pay for services which protect or enhance the value of property, such as police protection, fire departments, street lights, street maintenance, zoning administration, and parks. Excellent public services also enable owners of rental property, who in turn can pay higher taxes, to charge higher rents. Special district taxes pay for specific services such as fire protection, street lights, or recreation.

► The state usually reimburses local governments for lost property tax revenues when it passes legislation that reduces their property tax income. The reimbursements include money to pay for revenues lost when the legislature ended the tax on merchants' inventories, adopted homestead exemptions for the elderly, and passed property tax relief from school taxes for the first \$100,000 value of owner-occupied houses. The state is not reimbursing local governments for the loss of personal property tax revenues brought about by the legislative phase down of the tax rate on automobiles from 10.5 percent to 6 percent.

exemptions

► The first \$50,000 of market value of an owner-occupied house is exempt from city, county, and school property taxes for persons over 65 years of age—a homestead exemption. The state reimburses local governments for the lost revenue. The state believes that older people are more likely to be on fixed incomes and less able to pay property taxes. The exemption is also considered a strategy for attracting retirees to South Carolina.

► The first \$100,000 of the market value of all owner-occupied houses is exempt from property taxes for education at the tax millage rate in effect in 1995 when the exemption was granted by the legislature. This exemption is in addition to the homestead exemption. The state does not fully fund the exemption, so some of the cost falls on schools districts.

► New industries can negotiate with counties to pay a fee in lieu of taxation at the assessment rate of 10.5 percent. In some cases, fees effectively reduce industrial tax assessment rates to 4 percent, the residential property rate. Under fee-in-lieu agreements, industry can be exempt from tax increases for an agreed upon period of time.

cautions

► In granting tax exemptions, care must be taken to learn whether a person is really economically burdened by a tax. Not all elderly persons are poor. For

example, in South Carolina poverty is higher among younger families than among those over the age of 65. South Carolina could use circuit breakers rather than blanket exemptions to protect lower-income taxpayers.

▶ The strategy of attracting retirees with low taxes also needs to be carefully considered because retirees can also add to services costs. The frail elderly can increase demands on the state health care system.

▶ In recent years the state has not fully reimbursed school districts for the tax loss caused by cutting real estate taxes. The state, however, requires school districts to give taxpayers the total exemption. When the state does not reimburse local governments for exemptions created at the state level, local governments must raise taxes or cut services to cover the lost funds.

▶ Reimbursing local governments for cuts in property taxes is creating a considerable drain on the state budget. In 2003, the state budgeted \$465.4 million to repay local governments for revenue lost as a result of state action.

▶ Schools districts with less taxable wealth must tax themselves at higher rates to provide the same level of education as districts with larger property tax bases. The state offsets the difference by giving more money per pupil to poorer districts.

other states

▶ Every state levies property taxes. In most states the tax is local and a large share finances education. South Carolina state governments exercise much more control over local real estate taxes than in other states.

▶ South Carolina and 16 other states assess property at different rates depending on classification rather than at a single flat rate.

evaluation

▶ **Adequacy:** The tax receives fair marks for adequacy because it is a stable tax that grows somewhat slowly. Tax revenue on new property lags one or two years behind its completion.

▶ **Equity:** The tax on real property is regressive because many low-income families live in rental housing which is assessed at a higher rate than owner-occupied homes. Housing is also a higher percentage of income for low-income households. Only homeowners get the tax exemption for property tax for the schools. Breaks for the elderly are generous, but not all elderly people have low incomes. Taxes on cars are also somewhat regressive.

▶ **Cost of compliance:** The property tax system is expensive to administer.

▶ **Efficiency:** High property taxes in poorer school districts make it hard to attract industry. Firms like locations with both low tax rates and good schools.

State Income Tax

taxation of

- ▶ Income of individuals at rates ranging from 2.75 percent to 7 percent.
- ▶ Income of corporations at 5 percent of profits or net income.

revenue

- ▶ \$2.5 billion from individuals in 2001, about 46 percent of state revenue to the general fund.
- ▶ \$213 million from corporations in 2001.

features

- ▶ The income tax is a progressive tax rather than a single rate tax.
- ▶ South Carolina bases its definition of gross income on the federal definition, using the same adjustments, deductions, and exemptions. When the federal rules change, so does the state form.
- ▶ The tax is adjusted for inflation by the state every year. The federal tax is also adjusted for inflation yearly.
- ▶ The tax on individuals is mildly progressive; that is, the amount of taxes paid increases as income increases.
- ▶ The revenue from corporate income tax is quite low because of business location incentives.

tax breaks

- ▶ New and expanding firms receive credits against the corporate income tax for creating jobs and making capital investments.
- ▶ The biggest individual income tax breaks go to retirees. All social security income is exempt. Pension income up to \$3,000 is not taxed for persons up to age 65. Persons 65 or older can exempt \$15,000 in retirement income.
- ▶ Children under the age of six receive double exemptions. The state also offers a child care credit for children under 15 years of age.

cautions

- ▶ The income tax can be easily adjusted to account for ability to pay and to support special concerns for the elderly, children, or the environment. How-

ever, this flexibility invites lobbyists for special interests to seek changes that reduce revenue and lessen the fairness of the system.

▶ Lowering the highest percentage payable would make the system less progressive.

▶ Changes in the federal tax system, carried over into the state system, may reduce (or increase) revenue from the tax.

other states

▶ Thirty-three of the 41 states with income taxes have progressive systems. Montana taxes income at the highest rate of 11 percent. South Carolina's range of rates is about average, but the income level of \$11,000 where the highest rate begins is lower than in many other states. Some states also have local income taxes.

evaluation

▶ **Adequacy:** The tax receives highest marks for adequacy because it produces a lot of revenue, but it is very vulnerable to economic downturns with falling revenues. As personal income grows, tax revenues grow slightly faster.

▶ **Equity:** As the only progressive tax in the state tax system, this tax helps to offset regressive taxes. Tax breaks for the elderly shift the burden to younger taxpayers, creating some inequity.

▶ **Cost of compliance:** The tax is less expensive to administer and easier for taxpayers to file because of its link to the federal tax system.

▶ **Efficiency:** This tax may discourage higher-income persons from relocating to South Carolina or remaining here.

Fees and Charges

fees charged

► In exchange for a government service available to all taxpayers or for a service that only a part of the community uses or values, for example, garbage collection versus tennis courts in parks.

revenue

► \$4.3 billion or about 28 percent of state and local own-source revenue in 2000.

► \$340.3 million to counties, \$325.9 million to municipalities, and \$248.9 to school districts in 1998.

► Over the past decade, fees and charges have grown faster than tax revenues at every level of government in the state.

features

► Fees are collected for many purposes: car registration, drivers' licenses, use of recreational facilities, garbage collection, fire inspection, speeding fines, parking, and building permits.

► Many local governments provide water and sewer services for fees based on how much is used. The fee is supposed to cover the cost of providing services. Tax revenues normally are not spent on these services. The services are run like private enterprises. The fees are kept separate from a government's other revenue funds as *enterprise funds*.

► Fees enable governments to offer services that only a few citizens use, to require registration for activities that are related to public safety, or to finance services that are universal to all citizens.

► Municipalities are the biggest user of fees and charges, followed by counties. Municipalities sometimes charge nonresidents fees that are higher than fees to residents for using municipal facilities and services.

► Some services are financed by a combination of fees and taxes as in incentive to encourage use of the service. Low transportation fares and garbage collection fees encourage use of services that benefit the community by reducing congestion and keeping the community clean and healthy.

► Fees provide an alternative revenue source when taxpayers object to additional taxes or the legislature limits the use of certain taxes.

cautions

- Many government services should be available to everyone, regardless of ability to pay. Because low-income citizens rely more on public services, some services can be provided on sliding fee scales based on income.
- Citizens are sometimes confused about what taxes cover and why they pay fees as well as taxes.

other states

► South Carolina's governments rank well above the national and southeastern average in the use of fees. State and local governments in South Carolina collect over \$1,000 per resident in fees and charges. This amount is about one-third more than the national average and higher than any other state in the Southeast.

evaluation

- **Adequacy:** Fees and charges provide adequate revenue for financing of particular services.
- **Equity:** Overall, fees and charges are more of a burden to lower-income citizens when fees are the same for all income households. Fees are also regressive because low-income households tend to rely more on public services.
- **Cost of compliance:** Fees are relatively inexpensive to collect; however, adequate accounting controls are necessary when cash payments are accepted.
- **Efficiency:** A subsidy from taxes makes the price very low or even zero. Fees and charges can ensure that users pay for services and keep demand from getting too high.

What Can a Citizen Do?

the challenge

- ▶ A democratic system of government depends on the participation of informed citizens. Citizens who are aware and informed on public issues are an important counterweight to special interests seeking more money for their own purposes or trying to lower their own tax burdens. Citizens must represent the general interests when decisions are being made not only about the appropriate level of taxes, but also the quality of public services like education, transportation, and public safety.
- ▶ Citizens also need to make sure that the interests of families and children, the poor and the elderly, communities and people with special needs get an equal place at the tax policy and budgeting table. Without concerned citizens expressing their views, legislators and local officials only hear from self-serving special interests.
- ▶ Tax policy matters very much to every citizen and every household. Tax policy determines how much you pay in taxes, who bears the costs, and what resources our state, cities, counties and school districts have with which to provide quality public services.
- ▶ If you've been interested enough to read this booklet, you might be one of those active citizens who wants to make a difference.

state budgeting

- ▶ The state builds its budget in the spring. The legislative session runs from January to June, and the new fiscal year starts July 1. However, legislators are also considering new ideas and proposals in the off-season. So watch for emerging developments during the late fall, particularly in election years as new ideas are being developed to catch the voters' attention.
- ▶ The formal budget process starts when the governor puts together his budget proposals. His budget is the basis for the state-of-the-state address and is forwarded to the House, where budgets must begin by law. The House sends its budget to the Senate. After the Senate prepares its version, the budget goes to a joint committee of the House and Senate that prepares the

final version for the House to vote upon. It is then sent to the governor for his signature or vetoes. The governor can veto individual items (line-item veto).

local budgeting

▶ Most local governments build their budgets in the spring, from March through June, because most of them operate on a fiscal year from July 1 to June 30. Others budget on the calendar year or from October 1. Watch for budget hearings. Get acquainted with local public officials and with the basic outline of where the money comes from and how it is spent.

▶ Local governments are required by law to have an annual audit, to publish and hold hearings on their final budgets before adoption, and to adopt a balanced budget.

get information

▶ On the state level, you can get directly to the state legislature at www.scstatehouse.net. Choosing the legislative manual will take you to a legislator's telephone number, e-mail address, and postal address. If you are looking for budget bills and other tax policy legislation, you'll find it here. Choosing the government section at www.firstgov.com, the state Web page, will also take you to the state legislature.

▶ Many local governments have Web sites to let you know when budget and tax decisions are being made. Local newspapers carry schedules for meetings and work sessions where many decisions are made. The Municipal Association and the Association of Counties also follow tax policy of interest to local citizens. An easy way to get to local governments and the associations is through www.myscgov.com/SCSGPortal/ where links are found. Don't overlook the link to the your Regional Council of Government.

▶ If you don't have a computer or don't know how to use one, drop by your local library for help in getting on the internet.

▶ South Carolina tax policy research by Clemson University's Strom Thurmond Institute of Government and Public Affairs is found at www.strom.clemson.edu. USC's Institute for Public Service and Policy Research has produced reports on tax policy found at www.iopa.sc.edu.



Strom Thurmond Institute of Government and Public Affairs
Pearman Boulevard
Clemson, South Carolina 29634
www.strom.clemson.edu
864-656-4700