

SOUTH CAROLINA AT A GLANCE

South Carolina is one of the few Southern states that indexes the income tax for inflation. But numerous other aspects of the tax system are ripe for modernization, including income tax brackets, the sales tax base and cigarette taxes.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	🕒
2. Modernized sales taxes?		<input checked="" type="checkbox"/>	🕒
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	🕒
4. Enacted Earned Income Tax Credit?		<input checked="" type="checkbox"/>	🕒
5. Modernized income tax bracket?		<input checked="" type="checkbox"/>	🕒
6. Dealt with hidden income tax increases?	✓		
7. Rethought senior tax preferences?		<input checked="" type="checkbox"/>	🕒
8. Eliminated corporate loopholes?		<input checked="" type="checkbox"/>	🕒
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	🕒
10. Strengthened accountability?		<input checked="" type="checkbox"/>	🕒
11. Conducted a performance review?	✓		🕒

A better South Carolina...

Idea 1: Broaden the sales tax base. South Carolina should abolish sales tax holidays and review sales tax exemptions to eliminate those that don't meet contemporary economic needs. South Carolina's sales tax holiday will cost an estimated \$5.2 million in 2006.

Idea 2: Modernize sales taxes for the new economy. South Carolina should modernize its policy on taxing services. In 2004, it taxed 34 out of 168 possible services. It also should approve the Streamlined Sales and Use Tax Agreement.

Idea 3: Raise cigarette taxes to promote public health. South Carolina should raise its lowest-in-the-nation cigarette tax (7 cents per pack) to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so likely would cause 30,600 current adult smokers to quit. Long-term health savings from both adult and youth smoking declines would be \$1.1 billion.

Idea 4: Enact a state Earned Income Tax Credit. South Carolina should enact a refundable earned income tax credit to help to bring working families' incomes above poverty. Some 414,707 South Carolina taxpayers in 2003 claimed the federal earned income tax credit for a total of \$779,353,959. A refundable state EITC would cost an estimated \$76 million if set at 10 percent of the federal credit.

Idea 5: Modernize state income brackets. South Carolina should modernize its income tax structure by broadening brackets and consider the creation of a new top rate to provide progressive balance. The state's top tax bracket is 7 percent for income \$12,650 and above for single filers.

Idea 6: Account for inflation. South Carolina is one of the few Southern states that indexes several parts of its income tax system for inflation.

Idea 7: Rethink senior tax preferences. South Carolina should redesign tax codes to provide fair relief to seniors based on *ability-to-pay* instead of age alone. The state, which will grow to having an estimated senior population of 22 percent in 2030, currently provides seniors with a full exemption for Social Security income, a private pension income exemption, an additional deduction/exemption, and property tax preferences.

Idea 8: Eliminate corporate tax loopholes. South Carolina should review and update its corporate income tax structure to eliminate tax loopholes and promote *fairness*. It should enact combined reporting and a throwback rule.

Idea 9: Connect property taxes and *ability-to-pay*. South Carolina should consider enacting a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. In 2006, lawmakers insisted on property tax relief, but threw out consideration of a property tax circuit breaker.

Idea 10: Strengthen accountability. South Carolina should annually publish an accessible and comprehensive tax expenditure report to provide more accountability and information to lawmakers so they can make better-informed decisions.

Idea 11: Review the performance of government. In the last five years, South Carolina has conducted a volunteer-driven performance review. While this review provided some useful information, a more thorough effort is needed and would involve creating a permanent review system.