

## A defining debate for 2006

*Published in the Chronicle-Independent, January 2, 2006*

As we start a new year, it is appropriate that I begin the discussion about the issue that will likely dominate the 2006 legislative session: the property tax. The property tax has become a very important tax for two reasons: 1) it is tied to education funding and 2) it is an important revenue source for local governments.

Any proposal to reform property tax is going to be controversial. Reducing this tax will require an increase in taxes somewhere else and affect the delicate balance of the entire tax system. Homeowners, local governments, school districts, and the business community all have different perspectives on how our tax system should work based on how taxes affect their interests.

To begin sorting out the issue, Speaker Bobby Harrell appointed an ad hoc property tax study committee that convened during the fall. (The Senate also formed its own committee to study this issue.) The action taken by the House committee has not been formalized into legislation at this point, which means that the proposal may change between now and when legislation sponsored by the committee is filed. However, for discussion purposes, the proposal that shaped up in the House ad hoc committee includes roughly the following provisions:

- 1) Eliminates the city, county and school operating property tax on owner-occupied homes. The portion attributable to bonded indebtedness will remain intact.
- 2) Imposes an additional 2 percent sales tax, bringing the total state sales tax rate to 7 percent. Accommodations and groceries are exempted from the increase. Any revenue collected in excess of the Board of Economic Advisors' revenue estimate for the additional 2 percent sales tax will be put into a reserve fund.
- 3) Removes entirely the sales tax on groceries.
- 4) Changes the reassessment method so that property is only reassessed when ownership is transferred or it undergoes substantial improvements, with certain exemptions, such as for spouse-to-spouse or court-ordered transfers.
- 5) Requires that current local option sales tax measures adopted for property tax relief must now be applied to property tax relief for the remaining categories of real property. (Real properties are divided into the following categories: owner-occupied, private and corporate agricultural, commercial/rental, manufacturing, and utility. Each has a different rate of assessment.)
- 6) Provides that property tax replacement funding in the first year will go back to local governments, dollar for dollar, based on tax assessments for the last record year on owner occupied property. In the following years, state support will grow by the same rate as the Consumer Price Index (CPI) plus the population growth factor, not to exceed 6 percent in any one year. Local governments are allowed to increase the millage rate on the remaining categories of property so that their funds grow at the CPI plus population growth factor . A local government can exceed the allowed increase with a supermajority vote by council.
- 7) Requires that all sales tax exemptions will be reviewed every 10 years starting in 2010.

This proposal would require a combination of legislation and constitutional amendments to be fully implemented.

Several important concerns have emerged from this preliminary proposal:

- The committee has not adopted a replacement methodology for school operating funds.. Devising a distribution formula for school districts should be a primary consideration, and not an afterthought. An alluring concept behind the tax shift of school operating funds from property tax to sales tax is that the state will then have the ability to provide educational adequacy statewide, an issue put in controversy by the case of Abbeville v. The State of South Carolina, the equity funding lawsuit brought by poor, rural school districts.
- Another concern is the weakening of local governments. This proposal would violate the intention of home rule by restricting local governments and thwarting their ability to operate without interference from the state government. Local governments provide critical services such as police and fire protection, EMT, recreation, street lights, road maintenance, and trash collection. County and city governments also engage in economic development and community planning by providing utilities and infrastructure for increased and continued prosperity. These services are most efficiently administered, monitored, and funded by representative, responsive, and accountable local governments.
- A third concern is the threat of additional burdens that such a scheme would impose on the categories of property other than owner-occupied homes, such as commercial, manufacturing, rental, and agricultural properties. If local governments can tax and raise the millage only on these types of properties, as the proposal indicates, then these property owners could be shouldering a disproportionate share of the tax burden. According to the Strom Thurmond Institute of Government and Public Affairs, currently, SC property taxes are in the middle, nationwide. The state's overall tax burden per taxpayer, on average, compares favorably to other states and is 5 percent to 8 percent below the national average as a percentage of personal income. However, the SC Chamber of Commerce points out that SC taxes on industrial property is the highest in the nation and the 8<sup>th</sup> highest on commercial property. The business community is concerned that a potentially greater property tax burden on business property, in addition to a 7 percent state sales tax, may make South Carolina less competitive for investment and development.

Other concerns may emerge as the debate evolves, and I plan to keep you informed. Whatever changes we make should be an overall improvement and not be to the detriment of any one group. I hope that the final analysis will show that any changes made will be fair and equitable to all taxpayers and will contribute to the lasting economic health of the State.

--END--