Taxes and Budgets in SC

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Board of Trustees

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Higher Education

• In FY 2000, higher education received $747 million in state General Fund appropriations.
• In FY 2010, higher education received $657 million in state General Fund appropriations, after budget cuts and including $100 million in federal stimulus money.
• In FY 2011, higher ed appropriations are $587 million, including $110 million in stimulus funds. There are no budget cuts--yet.
• In FY 2012, the stimulus money is gone, so higher education is braced for further cuts.

Source: SC Office of State Budget
And Scholarships, Tuition & Fees Fill the Gap...

Thanks to the lottery, state scholarships have risen from: $ 74 million in FY 2000 to: $271 million in FY 2010

BUT tuition is now very expensive
- Clemson $11,078 last year
- USC $ 9,156 last year
- Four year schools average $8,725
- Technical colleges average $3,293

Source: SC Office of State Budget and SC Commission on Higher Education
Budget Overview
SC General Fund appropriations were:

$1,229 per capita in 1999-2000
$1,401 per capita in 1999-2000, adjusted for inflation

$1,269 per capita in 2009-10
$1,156 per capita in 2009-10, adjusted for inflation

Source: SC Office of State Budget; 2009-10 figures before budget cuts.
General Fund Appropriations Per Capita 1983 - 2011

Appropriations Per Capita

- $714
- $1,175
- $1,100
- $1,156
- $1,200
- $1,250
- $1,300
- $1,350
- $1,400
- $1,450
- $1,500
- $1,550
- $1,600

Constant Dollars (2005)
Current Dollars

Taxes and Budgets in SC  2/2/2011

6
General Fund Appropriations
% of Total 1983 - 2010

Taxes and Budgets in SC
2/2/2011
# Revenue: How Does SC Compare? (FY 2008)

<table>
<thead>
<tr>
<th></th>
<th>SC</th>
<th>GA</th>
<th>NC</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and local tax burden (taxes as % of personal income)</td>
<td>9.0% (47)</td>
<td>10.0% (38)</td>
<td>10.2% (34)</td>
<td>10.9%</td>
</tr>
<tr>
<td>State and local tax revenue per capita</td>
<td>$2,923 (51)</td>
<td>$3,468 (39)</td>
<td>$3,591 (34)</td>
<td>$4,371</td>
</tr>
<tr>
<td>State and local own-source revenue as % of personal income</td>
<td>16.6% (17)</td>
<td>14.8% (38)</td>
<td>15.1% (35)</td>
<td>15.9%</td>
</tr>
<tr>
<td>State and local own-source revenue per capita</td>
<td>$5,388 (39)</td>
<td>$5,141 (44)</td>
<td>$5,340 (40)</td>
<td>$6,388</td>
</tr>
</tbody>
</table>

Source: www.taxpolicycenter.org
## Spending: How Does SC Compare? (FY 2008)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>State and local general spending per capita</td>
<td>$7,473 (29)</td>
<td>$6,732 (43)</td>
<td>$6,852 (40)</td>
<td>$7,901</td>
</tr>
<tr>
<td>State and local spending on higher education per capita</td>
<td>$733 (32)</td>
<td>$567 (46)</td>
<td>$928 (12)</td>
<td>$734</td>
</tr>
<tr>
<td>State and local spending on higher education % of total</td>
<td>9.8% (29)</td>
<td>8.4% (38)</td>
<td>13.5% (4)</td>
<td>9.3%</td>
</tr>
<tr>
<td>State and local spending on health and welfare % of total</td>
<td>33.1% (3)</td>
<td>25.7% (27)</td>
<td>29.9% (6)</td>
<td>25.5%</td>
</tr>
</tbody>
</table>

Source: www.taxpolicycenter.org
### The Overall SC Budget Appropriations

<table>
<thead>
<tr>
<th></th>
<th>1997-98 (billions)</th>
<th>1999-2000 (billions)</th>
<th>2008-09 (billions)</th>
<th>2010-11 (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Funds</td>
<td>$4.67</td>
<td>$4.94</td>
<td>$5.63*</td>
<td>$5.08</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>$3.45</td>
<td>$3.53</td>
<td>$7.09</td>
<td>$8.27</td>
</tr>
<tr>
<td>Other Funds</td>
<td>$4.27</td>
<td>$4.53</td>
<td>$7.03</td>
<td>$7.76</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12.39</strong></td>
<td><strong>$13.00</strong></td>
<td><strong>$20.86</strong></td>
<td><strong>$21.12</strong></td>
</tr>
</tbody>
</table>

Source: SC Office of State Budget  
* Excludes $1.106 billions originally appropriated dollars.
Moving Funds Off Budget

Source: SC Office of State Budget
The Revenue Side of the Story
General Fund Revenue Collections
(includes TFTR, excludes ARRA)

Source: SC Office of State Budget
General Fund Revenue Outlook (includes TFTR, excludes ARRA)

- 2010  $5,719 million
- 2011  $5,804 million
- 2012  $5,864 million
- 2013  $5,984 million
- 2014  $6,074 million

Projected % change from 2010 to 2014: 6.2% in current dollars

What about population growth and inflation?
SC General Fund Revenue 2009-10

Source: SC Board of Economic Advisors
Federal Stimulus Money in the General Fund

In FY 2010, the state had $754 million in stimulus funds.

In FY 2011 (current year), the state has $837 million in stimulus funds.

In FY 2012, the state will have NO stimulus funds.

Source: SC Office of State Budget
### Where did the Stimulus Funds Go?

<table>
<thead>
<tr>
<th>Category</th>
<th>2009-10 (millions)</th>
<th>2010-11 (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARRA: State Fiscal Stabilization</td>
<td>$348</td>
<td>$346</td>
</tr>
<tr>
<td>K-12 education</td>
<td>$185</td>
<td>$174</td>
</tr>
<tr>
<td>Higher education</td>
<td>$100</td>
<td>$110</td>
</tr>
<tr>
<td>Other govt. services</td>
<td>$63</td>
<td>$62</td>
</tr>
<tr>
<td>ARRA: Medicaid FMAP</td>
<td>$406</td>
<td>$491</td>
</tr>
<tr>
<td>Medical/Health</td>
<td>$406</td>
<td>$371</td>
</tr>
<tr>
<td>Other</td>
<td>$0</td>
<td>$120</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$754</td>
<td>$837</td>
</tr>
</tbody>
</table>

Source: SC Office of State Budget
How Did We Get Here?

It’s the recession

And

The structure of the state revenue system—tax bases are shrinking

And

Tax relief and spending policies.
Sales & Income Tax Revenue for SC General Fund

Source: SC Board of Economic Advisors
Structural Issues with Sales and Excise Taxes

- Growth of services as share of consumer spending (1970, 30%; 2008, 45%)
- Growth of internet and catalog sales
- Food tax exemption starting in 2007
- Failure to index or adjust most excise taxes for inflation
Structural Issues with the Income Tax

• Low yield relative to state personal income (effective tax rate is 2.8%, 34th among 41 states with income tax)

• Large number of tax expenditures

• Link to federal income tax can be costly
Tax Policy

What have we done to the South Carolina revenue system in the last 35 years?
Some Useful Principles of Taxation

• Broad base, low rate is better than narrow base, high rate
• Multiple bases creates a more stable and equitable revenue system than fewer bases
• We should look at the equity of the revenue system as a whole, not the particular tax
• Tax preferences/tax expenditures need to be reviewed as regularly as expenditures
• Earmarking reduces budget flexibility in hard times
1984-1990: A Few Selective Tax Increases

- EIA penny, 1985

- Expanded local tax options—sales and accommodations—1984, 1990

- But on the other side, indexing income taxes, 1985, and the tax cap on cars, 1984
The Last 20 Years: Broad Scale Tax Decreases

• 1994: Fee in lieu of property tax
• 1994: Homeowner tax relief I, the first $100K in market value exempted
• 1997-2002: Phase out of soft drink tax
• 2000-2002: Property tax relief on cars
• 2006: Eliminated bottom bracket on income tax
The Last 20 Years: Broad Scale Tax Decreases

- 2006: Changed tax treatment of unincorporated firms
- 2007: Eliminated sales tax on unprepared food
- NOW: Proposed elimination of corporate income tax
Annual Revenue Losses from State Tax Cuts Since 2005 to 2009

- Eliminated bottom bracket of income tax: $86 million/yr.
- Eliminated tax on groceries over two years: $354 million
- Reduction of income tax on small business: $129 million

Total: $569 million and counting!
Act 388 and the General Fund

• Act 388 raised the sales tax to 6% to fund additional school tax relief for homeowners, but did not generate enough extra revenue.

• Act 388 requires distribution of 2006 property tax base plus adjustments for increases in population and inflation.

• Penny generated $496 million in 2010, but $621 million was required, General Fund had to make up $124 million.
The Cost of Tax Relief and the Recession

Revenue remaining after homeowner tax relief:

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$6.6 b</td>
<td>-$510 m</td>
</tr>
<tr>
<td>2008</td>
<td>$6.4 b</td>
<td>-$520 m</td>
</tr>
<tr>
<td>2009</td>
<td>$5.5 b</td>
<td>-$527 m</td>
</tr>
<tr>
<td>2010</td>
<td>$5.2 b</td>
<td>-$529 m</td>
</tr>
<tr>
<td>2011*</td>
<td>$5.2 b</td>
<td>-$546 m</td>
</tr>
</tbody>
</table>

From its peak in 2007, General Fund revenue collections have dropped $1.4 billion, or 23.6%

*SC Board of Economic Advisors 11/2010 estimate
Property Taxes Have a Role!

- Act 388 places budgetary demands on the General Fund to pay for property tax relief.
- Conversion of 6% to 4% property stresses school districts in funding K-12 education.
- Housing bust and assessment caps have both sharply curtailed growth of property tax revenue for local governments.
- Change in assessment rate on cars has cost local governments revenue.
What We Didn’t Do in the Last 35 Years

• Adjust excise tax rates—failure to adjust for inflation is a tax cut
• Control the growth of fees and charges, which are very regressive
• Protect vital state services from the effects of recessions
TRAC Recommendations: Sales Tax Exemptions

• Autos: remove $300 cap over 4 years
• Groceries: partial tax (on 59% of purchase)
• Some prescriptions
• Residential electricity, gas & water: tax 25% of gross proceeds
TRAC Recommendations: Sales Tax on Services

• SC taxes only 35 services today, the average state taxes 57
• TRAC proposes expansion of consumer but not business services
• 60 additional services proposed
• Recommended expansions include personal care, residential & commercial cleaning & repair, climate control, computer & office equipment, digital downloads
TRAC and Excise Tax
Recommendations: Gas Tax

• The problem: hasn’t changed since 1987

• 1997-2009: tax revenue up 2% per year
  Population + inflation up ~4% per year
  Price of oil up 10% per year

• SC depends on gas tax to fund road repair, construction & federal match

• Two options offered: +5 cents per gallon, or hybrid tax, partly based on price
TRAC Recommendations: Individual Income Tax

• 41% of SC residents pay no income tax (6th highest in US)
• Expand 6% bracket
• Reconsider generous deductions & exemptions & tax preference for elderly
• Reduce capital gains exclusion
Where are the opportunities?

- Sales tax—broaden the base by expanding coverage of services, reducing exemptions
- Sales tax—phase out the cap on cars, boats, planes
- Sales tax—revisit excise taxes
- Sales tax—internet taxation
- Income tax—increase yield by reducing tax preferences
- Property tax relief—reduce drain on general fund by strengthening local tax bases
The mission of the Strom Thurmond Institute of Government and Public Affairs at Clemson University is to initiate conversation and promote movement on critical issues facing South Carolina, the Southeast and the Nation.

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http://www.clemson.edu/water_resources