Property Tax Assessment Rates

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Taxation of real (land and buildings) and personal (equipment) property in all states and throughout the world is based on its market value in some way. Some countries tax the income from the property (including an estimate of rental value for property that is used by the owner), but most base the tax on what this property or a similar property would sell for or has recently sold for in the market. The property is then entered on the tax rolls at its full market value in some places, or at some percentage of its market value in others. If the value entered on the tax rolls is some percentage less than 100%, that percentage is called the assessment rate.

In South Carolina, different classes of property have different assessment rates for tax purposes. Seventeen states have similar systems, although none of them have as many classes and rates as South Carolina. The purpose of a classified assessment system is to distribute the tax burden according to some additional criteria besides just the market value of property owned. Preferential assessment is given to owner-occupied residential property and farm and forest land, both of which are assessed at only four percent of market value (or for farm and forest land, use value, which is much less than market value). A higher rate of six percent is applied to rental and commercial property and personal vehicles. Even higher rates of 9.5% and 10.5% apply to utility and manufacturing property and business equipment, including business vehicles. In practice, most manufacturing property pays less than the 10.5% would imply, because of favorable depreciation schedules for older manufacturing property and fee in lieu agreements on newer manufacturing property that reduce the effective assessment rate to 4% or 6%.

The assessment rates and property classes are embodied in the Constitution since the mid-1970s. Prior to that, they were simply common practice, but a lawsuit by manufacturers forced the state to formalize this practice of differential assessment.

The purpose of differential assessment is to alter the distribution of the property tax burden so that more of it falls on business property and less on households. The argument for this arrangement is that business firms generate a cash flow from their use of property with which to pay the property tax,
whereas households do not. A weakness in this argument is that the property tax on residential rental property is reflected in the rent, so that even if renters don’t write a check for property taxes, they do pay those taxes in their monthly rent.

Since Act 388, the difference in taxes on owner-occupied and rental homes that resulted from different assessment rates has been magnified. Owner-occupied homes are exempt from taxes for school operations, while rental property is not. A $100,000 home that is owner-occupied would be assessed for $4,000 and pay about $538 in city and county taxes at 2006 average mill rates, while the same home rented would be assessed for $6,000 and pay $1,786 in city, county and school taxes. Since renters are often younger, lower-income households, this very large tax difference between owner-occupied and rented homes makes the property tax more regressive.

Any preferential treatment for one group automatically becomes discrimination against all other groups that are not favored. Some of the negative impact of higher assessment rates on utility and manufacturing property have been mitigated by fee in lieu agreements and rapid depreciation as well as tax breaks on their corporate income taxes for job creation, although these benefits accrue mainly to new or expanding firms. The categories of property that are most adversely affected by differential assessment in South Carolina are rental and commercial property, which are important to the state’s tourism industry and to local governments, because of the additional local revenue generated by sales taxes, accommodations taxes, and business licenses. It is claimed that this adverse effect is particularly significant in the state’s urban border areas (near Charlotte, Augusta and Savannah) because the tax burden is higher on commercial and rental property and lower on owner-occupied property in South Carolina than it is in the adjacent states of North Carolina and Georgia. Firms considering location on one side of the border or the other could be influenced by the tax difference for rental property, office space and commercial facilities.

The other harmful effect of a classified system is the incentive created to qualify for a lower assessment ratio. Owners of vacant land seek to get an agricultural classification so that they will be taxed at the much lower use value rate. Owners of rental property seek to get it reclassified as owner-occupied to not only reduce the assessment rate but also qualify for exemption for taxes for school operations. There has been significant conversion of property to an owner-occupied classification since the passage of Act 388, sometimes by putting the property in the name of another family member. The result of these reclassifications is a substantial loss of local government revenue, particularly to schools.

Because the classifications are in the Constitution, they are difficult to change and rarely come up for review. But in a competitive interstate business environment, and with local governments (especially schools) struggling to pay the bills, a review of the rationale for and effects of the state’s classified property tax system may be worth the effort.
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