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The perfect storm?

Many say 2015 might be the right year for tax reform

By [Bill Davis](#), senior editor

EDITOR'S NOTE:

Today's news analysis is part two of a series on South Carolina's tax structure. [Part one](#) focused on how the state is struggling to find a balance in how it taxes.

SEPT. 19, 2014 -- If there ever is a year for tax policy reform, then 2015 may well be it, according to academics and observers.

Consider that 2015 will be a year when no one in state government will be up for reelection. The governor's last name will be either Haley or Sheheen or Ervin. All the statewide constitutional offices will be filled. The House elections are over and the Senate will be in the third year of its four-year election cycle.

In the rawest sense, it will be harder for politicians to hide behind politics. In turn, that means the more difficult and nuanced approaches to tax policy can be tackled outside of the usual "cut, cut, cut" and "make the rich bleed" mantras belonging to extremes of the state's political spectrum.



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facing instant backlash for difficult decisions, some might be willing to take a more complex approach” to addressing tax policy, said Winthrop political scientist Scott Huffmon. “Real reform is tough to explain to laymen, and it could only happen in a year like this.

“There’s an old saying in an election, ‘If you’re explaining, you’re losing,’” said Huffmon, who runs the state’s most influential polling center.

South Carolina, by many accounts, is facing a tough tax future. As the state adjusts to a more service-based economy, the tax structure will see its taxable base continue to shrink as demands – better roads, better public health programs and better K-12 education – increase, unless something is done.

Four years ago, the blue ribbon, mostly-GOP Taxation Realignment Commission (TRAC) was formed to address pressing tax policy issues, such as what to do about what billions in lost sales tax revenues due to exemptions. Then, the state lost \$2.7 billion annually to the special-interest tax breaks.

So far, little from the commission’s report has been implemented. And after a palsied effort in the House to remove less than \$20 million in exemptions

failed to pass, guess what? Sales tax exemptions have grown to \$3.1 billion.

So what could, should, and most likely will be done toward addressing the state's tax situation?

Coulda

Phillip Cease, executive director of the conservative S.C. Club for Growth and staffer of former Gov.

Mark Sanford, said there was a "partial" chance that some sort of incremental tax policy changes could happen, specifically as it relates to the state's gas tax.

That tax, referred to as a "user fee" by some, is one of the lowest in the nation. It is seen as a possible and logical funding source for the state's infrastructure needs. The federal government two years ago reported that South Carolina has more than \$27 billion in needed roads, bridges and infrastructure projects. More recently, transportation officials have pegged needs to be in excess of \$40 billion between now and 2040.

But in the last couple of years, the General Assembly has bonded out a half-billion to cover those costs, or a little less than 2 percent of the total needed.

When Former Lt. Gov. Glenn McConnell was still in state office and not leading the College of Charleston as its president, he said the gas tax was the only place left where the state could turn to for that kind of big money, as he said the state's General Fund was tapped out.

But Cease, like other conservative voices, said the only way a gas tax increase would be palatable on the right was if there were an equal cut in state spending or

taxation, rendering it “revenue neutral.” He said conservatives would favor a reduction, if not a doing away with, the state personal income tax altogether.

Critics contend that seeking revenue neutrality is a way to mask a benefit to disproportionately benefit the wealthy.

In fact, cutting the state’s personal income tax is exactly the opposite of what the state should do, according to Holley Ulbrich, a senior economist at the Strom Thurmond Institute at Clemson.

Shoulda

“We have got to stop fiddling with the state income tax and leave it alone,” said Ulbrich, referencing many other more prosperous states that have income taxes. She said positions like Cease’s do not take into account the relatively large amount of exemptions the state allows before it begins to tax income, rendering it among the lower effective rates in the country.

- **Services.** Ulbrich also champions increasing the number of services that are taxed, as they would more directly affect deeper-pocketed taxpayers.

“By taxing services like pet grooming or lawn care, it actually protects the middle- and lower-income families” as those who can afford those services and resulting taxes are already spending less of their discretionary income on taxes in the first place, she said.

Ulbrich does favor

increasing the gas tax, pointing out that many trucker groups have said they were in favor of paying more if the payoff is better roads.

- **Internet sales.** Burnet Maybank III, the former state Revenue head who led the TRAC effort, said the first and best thing residents of South Carolina should do was to write letters to their federal congressmen to demand they vote to pass a U.S. Senate bill ensuring state taxation of Internet marketplace sales.

Maybank also said a subtle structural change in how the legislature writes tax codes could deliver major benefits. He said some taxes should have hard-wired into their legislation automatic cost-of-living adjustments so state government funding could rise and fall with the rest of the economy.

- **Be cautious.** As the director of the Appleseed Justice Center, which advocates for the poor, Sue Berkowitz's middle name could well be "should." She is cautious about across-the-board taxation cuts or increases as she said they might affect the lower classes more immediately.
- **Property tax fix.** At the other end of the economic ladder, Otis Rawl, president of the state

Chamber of Commerce, said something should be done to reduce the burden of paying for public K-12 education that was shifted onto businesses and manufacturing as the result of Act 388.

Act 388 stopped localities from taxing owner-occupied real estate for purposes of funding local education in favor of a statewide special 1-cent sales tax.

That has meant localities have had to increase taxes on commercial property and second homes to offset cuts in education funding, exacerbated by the legislature's common habit to cut per-pupil funding.

- **Or do nothing.** In some ways, people who agree with Ashley Landess, the executive director of the conservative budget hawk S.C. Policy Council, will want to see nothing happen at all.

Why? Because, as Landess sees it, state government is already broken, and throwing good money after bad makes no sense whatsoever. She pooh-poohs the gas tax as a panacea, pointing out that a few counties -- mainly Charleston, Greenville, Horry and Richland -- have taken the lion's

share of the state's
infrastructure
spending.
Woulda

So what's the answer? If you take the suggestions related above it would be a bit of a Frankenstein's monster: a wide base of taxable sales with a limited number of exemptions to buffer the working poor (like groceries, medicine and power), while cutting businesses some property tax slack to speed expansion and a gas tax increase to fix roads offset but cuts elsewhere.

Landess and Cease are part of the ongoing debate within the state's body politic as to what size state government should be. They want it to be smaller. Voices like Ulbrich and Berkowitz call out for it to be larger.

In general, the consensus likely will be for incremental, glacial change, which has been Columbia's approach to most pressing issues, according to many.

A bellwether may be on the horizon when the House selects Harrell's replacement. The frontrunners appear to be Speaker Pro Tempore Jay Lucas (R-Hartsville) and former Majority Leader Kenny Bingham (R-Lexington), who chairs the Ethics Committee.

Whoever becomes speaker, that person could set the tone of the 2015 legislative session by creating a special committee to look into tax policy, many observers said.

If such a committee is stocked with powerbrokers in the House, the game is on. If there is no subcommittee or its members are backbench milquetoasts, then the state can expect more of the same.

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