



Gov. Mark Sanford's Plan for Competitiveness

FLAT TAX

SEVEN OTHER STATES currently have a flat tax – all well below our marginal income tax rate of 7%, with Rhode Island in the process of providing an optional flat tax at a rate of 5.5%.

RHODE ISLAND's House Speaker, Democrat William Murphy, pitched the flat tax option this way: "The ultimate goal is to put more money directly into people's pockets both by giving relief to those who need it and by making Rhode Island a more attractive place for business."

People Vote with their Feet

In 2006, roughly 1,500 people each day moved to states that were highly competitive - with low taxes, spending and limited government intrusion - from states with the lowest competitiveness, according to the *Wall Street Journal*.

"The most valuable natural resource in the 21st century is brains. Smart people tend to be mobile. Watch where they go. Because where they go, robust economic activity will follow," — Rich Karlgaard, publisher of *Forbes Magazine*.

Competing in a Flat World

In our increasingly competitive world, change will happen either to us or by us. A competitive tax environment is key to staying ahead of the curve in attracting jobs and investment. Since enacting flat income tax rates, Slovakia's foreign investment has grown by more than 500%, Lithuania's unemployment has dipped and standard of living has risen, Russia's tax revenue has more than doubled, and Estonia has averaged 5% yearly growth.

"The world is being flattened. I didn't start it and you can't stop it, except at great cost to human development and your own future. But we can manage it, for better or worse." — Thomas Friedman in *The World is Flat*.

Lower Taxes Drive Growth

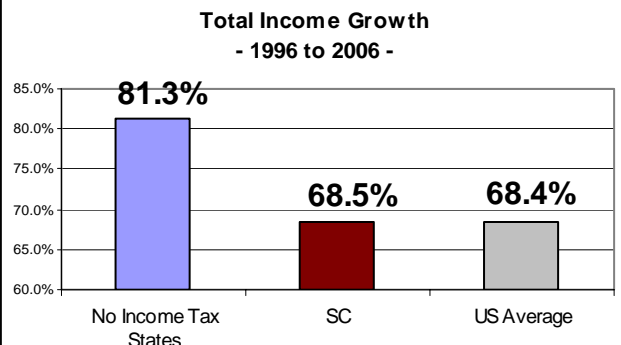
There's a documented connection between low income tax rates and better economic and employment growth.

A recent study from the *Atlanta Federal Reserve Board* said it this way: "Relative marginal tax rates have a statistically significant negative relationship with relative state growth."

Why we need it

- In 2005, the Governor's Office led the effort to reduce income taxes for South Carolina's almost 100,00 small businesses from 7% to 5% over a four-year period. This job-creating tax cut puts nearly \$124 million per year back in the hands of small business owners to spur investment and improve the job environment. We believe it's time to offer that same tax relief to individual South Carolinians—which will allow taxpayers to choose a simpler and fairer tax code.
- Burdened by the highest effective income tax rate in the Southeast, South Carolina is in danger of falling behind in the global competition for jobs and capital investment. Offering an optional flat tax will not only cut through much of the red tape that typifies our current tax code—including confusing paperwork for exemptions and deductions— but also attract economic and human capital to our state.
- The 10 states with the highest taxes, government spending and intrusive regulations experienced only half the population and job growth, and one-third the economic growth of the 10 states with the lowest taxes, government spending and regulations, according to Arthur Laffer and Stephen Moore in their "Rich States, Poor States" report for the *American Legislative Exchange Council*.

INCOME GROWTH IN STATES WITHOUT AN INCOME TAX FAR OUTPACE THE REST OF THE US



Our proposal

- The proposed "flat tax option" would allow individuals to either continue using the state's existing tax code, with all its exemptions and intricacies, or choose to go to a flat across-the-board income tax of 3.4%. This option would represent a 50% cut from the top marginal rate and would provide for \$107 million in annual tax relief to South Carolina taxpayers, with state revenue offset using a 30 cent increase in the cigarette tax.

COMPETITION WITH OTHER STATES

Highest Effective Income Tax Rates by State

