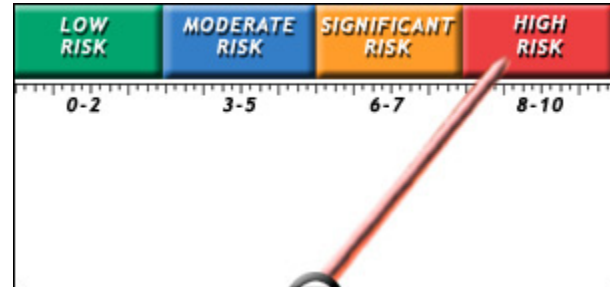


CENTER ON BUDGET AND POLICY PRIORITIES

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SOUTH CAROLINA

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. South Carolina is rated as having a high risk of a structural deficit based on its score of ten on the risk scale for structural deficits.



- In South Carolina, the percent of sales subject to sales tax declined by 13.4 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points. Moreover, South Carolina's sales tax covers less household services than the average state.
- In South Carolina, corporate income taxes as a share of total taxes declined by 6.6 percentage points from 1979-2002, surpassing the US average decline of 5.5 percentage points. Also, its corporate income tax has significant loopholes.
- South Carolina could lose an estimated \$252 to \$395 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.
- South Carolina's income tax preferences for its seniors exceed the US average. South Carolina also provides preferences to seniors in its property tax, regardless of their income level.
- The top bracket of South Carolina's income tax starts at a relatively low level making it a less progressive tax. An individual earning \$30,000 in South Carolina pays income tax at the same rate as someone earning \$300,000.
- South Carolina faces spending pressures from: a growing elderly population, the number of non-elderly disabled people, and the number of students with special needs.
- During 1994-2000, South Carolina reduced taxes and these tax cuts were primarily personal income tax reductions. This is problematic since income taxes provide stronger growth over the long term than other types of taxes.
- South Carolina has a constitutional spending limit that restricts expenditures to the greater of average growth in personal income or 9.5% of personal income for the previous year.
- South Carolina remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$49.5 million per year. South Carolina's income taxes are also linked to the federal standard deduction, so that any increase in the federal standard deduction results in an increase in the South Carolina standard deduction, which reduces South Carolina tax revenue.
- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that South Carolina has a structural gap.