Options for Raising Revenue in South Carolina

Introduction

The current recession has significantly reduced revenues to the State of South Carolina, producing a significant decline in General Fund Revenues from $7.1 billion in FY2007 to $5.7 billion in FY2010 just completed. Although federal stimulus dollars have helped staunch the bleeding to some extent, the coming fiscal year represents what Senate Finance Budget Director Mike Shealy describes as "The Breach". We could retail the cuts to education, the shortfalls in Medicaid funding, cuts to agencies and critical services that assist our state's poor, our consumers and vulnerable populations, deep cuts to public safety and a crumbling infrastructure, but we all know the what's been happening.

We are promised a budget shortfall of another $700 million dollars when the General Assembly begins budgeting for FY2012. Some would look only to further cutting, looking for more "fat". We are long past the point where this fat in our budget. We have been consuming the muscle for a good while. Now we are cracking open the bones and sucking the marrow. Just cutting further is a far too inadequate response that promises not only current pain but undermining progress we have made in education, health care and economic development and cutting off hope of progress to a better future for South Carolina.

Although asking South Carolinians to pay more taxes in hard times will face resistance, the reality is that bad schools, poor health and discouraged economic development exact an even larger tax on all of us.

We have to do better than just more cutting. We have to embrace a balanced approach that includes increasing revenues to ensure a better future for South Carolina's families.

Some Reasonable Approaches

1. Change our income taxes to:
    a. Add an additional tax bracket at 9 % for those with taxable incomes above $200,000;
    b. Eliminate the 44 % discount on capital gains income;
    c. Convert South Carolina's itemized and standard deductions to a credit equal to a percentage of the deduction's value, impose a limit on the amount of itemized deductions that can be claimed while increasing the state's standard deduction. ($529 million)
2. Adopt all of the TRAC Commission's sales and use tax exemption repeals and changes except:
    a. Focus on raising critical revenues before buying down tax rates;
    b. Exclude sales tax on prescription drugs purchased in pharmacies;
    c. Balance regressive effects with a refundable tax credit for lower-income tax payers. ($686 million)
3. Adopt the TRAC proposals on taxing services without making them revenue neutral. (Not priced yet.)
4. Raise Corporate Income Tax Rates ($50 million)
5. Change Rules on Corporate Income Tax to Capture Avoided Taxes (Not priced)
6. Require Transparency for Business Tax Credits (Not priced)
7. Repeal Act 388 of 2006 ($125 million not counting local effects)
8. Convert motor fuel tax to hybrid of excise and sales tax with net increase of 6 cents per gallon by present method (Not priced)