



# The Property Tax-School Funding Connection: South Carolina

Lincoln Institute of Land Policy Webinar

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Laura Dawson Ullrich, PhD  
Regional Economist  
Research Department  
Federal Reserve Bank of Richmond

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# Property Tax Reform in SC

- 1993: The case *Abbeville School District et al. v. South Carolina* is filed and the property tax revolt begins to gain steam as people anticipate a finding for the plaintiffs
- 1995: Homestead exemption eliminates school property taxes on the first \$100,000 of the market value of owner-occupied homes
- 2000: Motor vehicle assessment rates were decreased from 10.5 percent to 6 percent
- 2005: The anti-property tax movement gained steam as property values (especially on the coast) began to increase
- **2006: Act 388 is passed**
- 2014: The South Carolina Supreme Court ruled in favor of the plaintiffs in *Abbeville School District et al. v. South Carolina* stating that SC had failed to provide a “minimally adequate” level of education
- 2017: The South Carolina Supreme Court suddenly vacated the 2014 decision and ruled in favor of the state

# Act 388 and Related Legislation

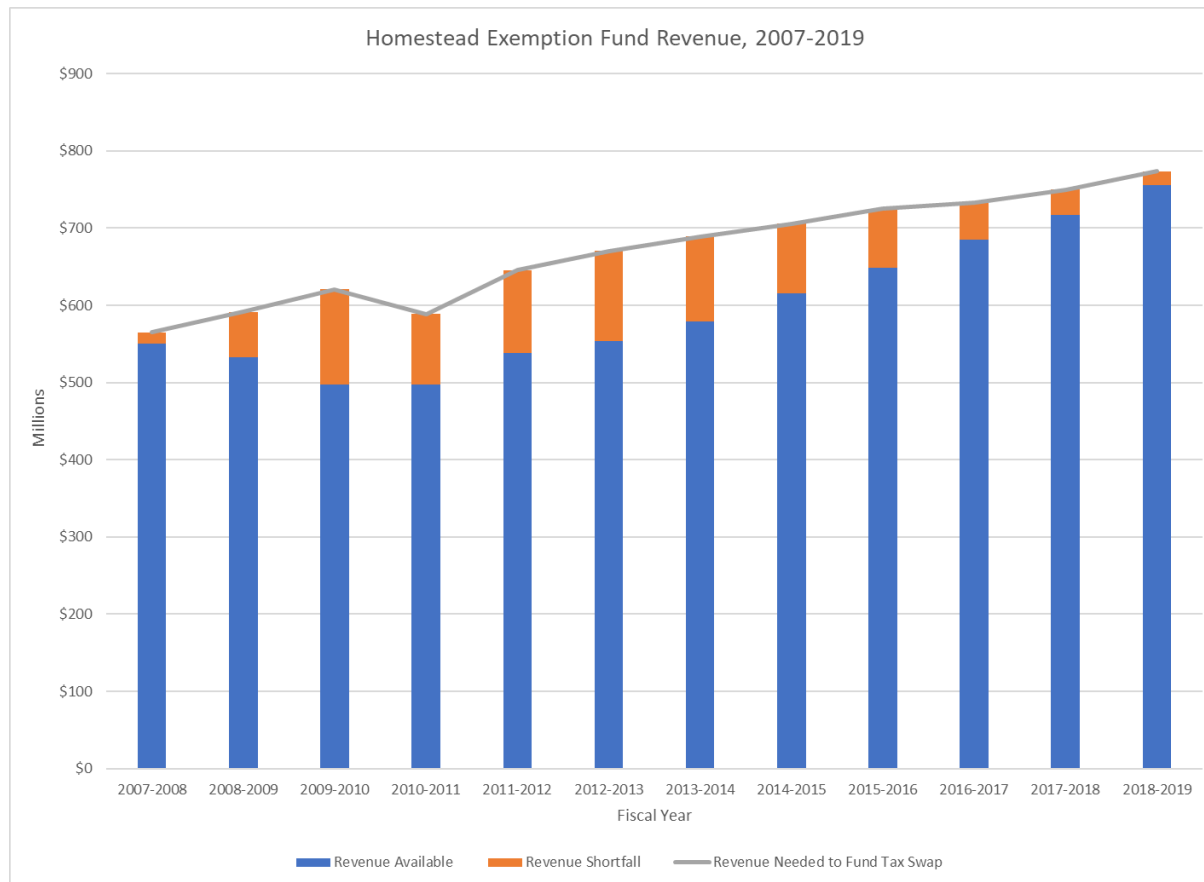
- Act 388 and related legislation contains several property tax related caps and exemptions
  - **Tax Swap**
    - **The homestead exemption on owner-occupied homes was expanded to the full value of the home. In short, owner-occupied homes were no longer subject to the school portion of the property tax.**
      - **Rental homes, vacation homes, apartments were not included.**  
**Additionally, commercial properties did not receive the exemption.**
    - **In exchange for this reduction in property taxes, the state sales tax was increased from 5 to 6 percent.**
  - **Elimination of Sales Tax on Food**
    - Act 388 eliminated the sales tax on unprepared food as of November 1, 2007
    - South Carolina has an exceptionally high number of sales tax exemptions. They exempt more potential sales taxes than they collect.
    - This includes a very low cap on motor vehicles sales tax of \$500 (was \$300 until 2017).

# Act 388 and Related Legislation

- Act 388 and related legislation contains several property tax related caps and exemptions
  - Property Assessment Cap
    - A constitutional amendment was passed alongside Act 300 which limits property tax assessment growth rates to 15 percent over any 5 year period.
    - An exception is made for homes that are sold during that time period (point-of-sale assessment)
    - This can result in horizontally inequitable property tax liabilities.
  - Property Tax Rate Cap
    - Act 388 also included a cap on property tax rate growth equal to inflation plus population growth.
    - If school districts fail to raise rates in a given year they are not allowed to catch-up in future years.
    - Strong population growth has made this a more minor issue.

# Reality of the Tax Swap

- Lawmakers in 2006 claimed that there would be a \$84 million surplus in 2009 post-swap. Actual data showed a \$50 million deficit that worsened throughout the recession and into the early years of the recovery.



# Reality of the Tax Swap

- Eliminating the property tax for schools on owner-occupied homes leads to serious inequities across property types and locations
- Not surprisingly, districts with less commercial/rental property and fewer second homes are the ones hurt most

## Allendale, SC; Allendale County

	<u>Owner-Occupied Home</u>	<u>Non-Owner Occupied Home or Commercial Property</u>
Appraised Value of Property	\$250,000	\$250,000
Assessment Ratio	4%	6%
Assessed Value	\$10,000	\$15,000
Total Millage Rate	0.696	0.696
Property Tax Owed w/o Act 388	\$6,960	\$10,440
Homestead Exemption from Act 388	(\$2,880)	\$0
<b>TOTAL PROPERTY TAX PAID</b>	<b>\$4,080</b>	<b>\$10,440</b>

## Hilton Head Island, SC; Beaufort County

	<u>Owner-Occupied Home</u>	<u>Non-Owner Occupied Home or Commercial Property</u>
Appraised Value of Property	\$250,000	\$250,000
Assessment Ratio	4%	6%
Assessed Value	\$10,000	\$15,000
Total Millage Rate	0.2461	0.2461
Property Tax Owed w/o Act 388	\$2,461	\$3,692
Homestead Exemption from Act 388	(\$1,140)	\$0
<b>TOTAL PROPERTY TAX PAID</b>	<b>\$1,321</b>	<b>\$3,692</b>

# What has happened since?

- Many legislators readily admit that voting for Act 388 was a mistake.
  - "I don't know of any vote I regret more than that for Act 388, I recognize it's done far more damage than good."
  - "It hasn't worked."
  - "One of the things I've learned since then is that when you have a complicated bill that is very controversial and creates a lot of ripple effects, you can't tweak it the next year or the year after that to work out those kinks."
- But when presented with alternative proposals, all of which raise tax revenues through rate increases or tax base increases....
  - "It'll probably pass somewhere around Neveruary." Rep. Bakari Sellers



# What has happened since?

- There have been several groups who have been tasked with looking at how to ‘fix’ the issue.
  - South Carolina Taxation Realignment Commission (2010)
    - Findings:
      - SC is a low tax state that is “plagued with structural deficiencies”
      - That tax bases needed to be expanded considerably
      - They were unable to consider Act 388 (per statute), but they did comment on the complexity of the SC property tax system
  - The Tax Foundation (2018)
    - Findings related to sales and property taxes:
      - The sales tax base must be broadened or it will continue to erode annually
      - Business inputs should be excluded from the sales tax base to avoid tax pyramiding
      - Property taxation should be more equally balanced among different classes of property (residential v. commercial)
      - Assessment limitations create serious inequities and can limit mobility or property improvements
      - The assessment ratios on different types of properties should be narrowed
      - Reliance on personal property taxes (e.g. business machinery, equipment, etc) should be reduced
  - Lincoln Institute of Land Policy (2020)
    - Recommendations to be made regarding the property tax given the limitations around Act 388 repeal

# Is Change Afoot?

- In January 2019 the Governor, House Speaker and Senate President asked the Executive Director of the Office of Revenue and Fiscal Affairs to create a new education funding model.
  - The existing model has been used since 1977.
  - The new proposed model puts all state funds under one formula that distributes to school districts on an “equity basis” based on local property tax wealth.
  - Under the proposed plan, 55 school districts get more funding from the state and 26 get less.
- It doesn't appear that there is political will to pass it at this time.
  - “I don't expect anything to be passed out this legislative season. It's too big of a decision affecting too many people.” Sen. Ross Turner, R-Greenville
  - “It's not going anywhere fast. Once legislators figure this out, they should be sent to Washington to create peace in the Middle East.” Sen Gerald Malloy, D-Hartsville

*Questions?*  
*... and thank you!*

Dr. Laura Dawson Ullrich  
Regional Economist  
[Laura.Ullrich@rich.frb.org](mailto:Laura.Ullrich@rich.frb.org)

