

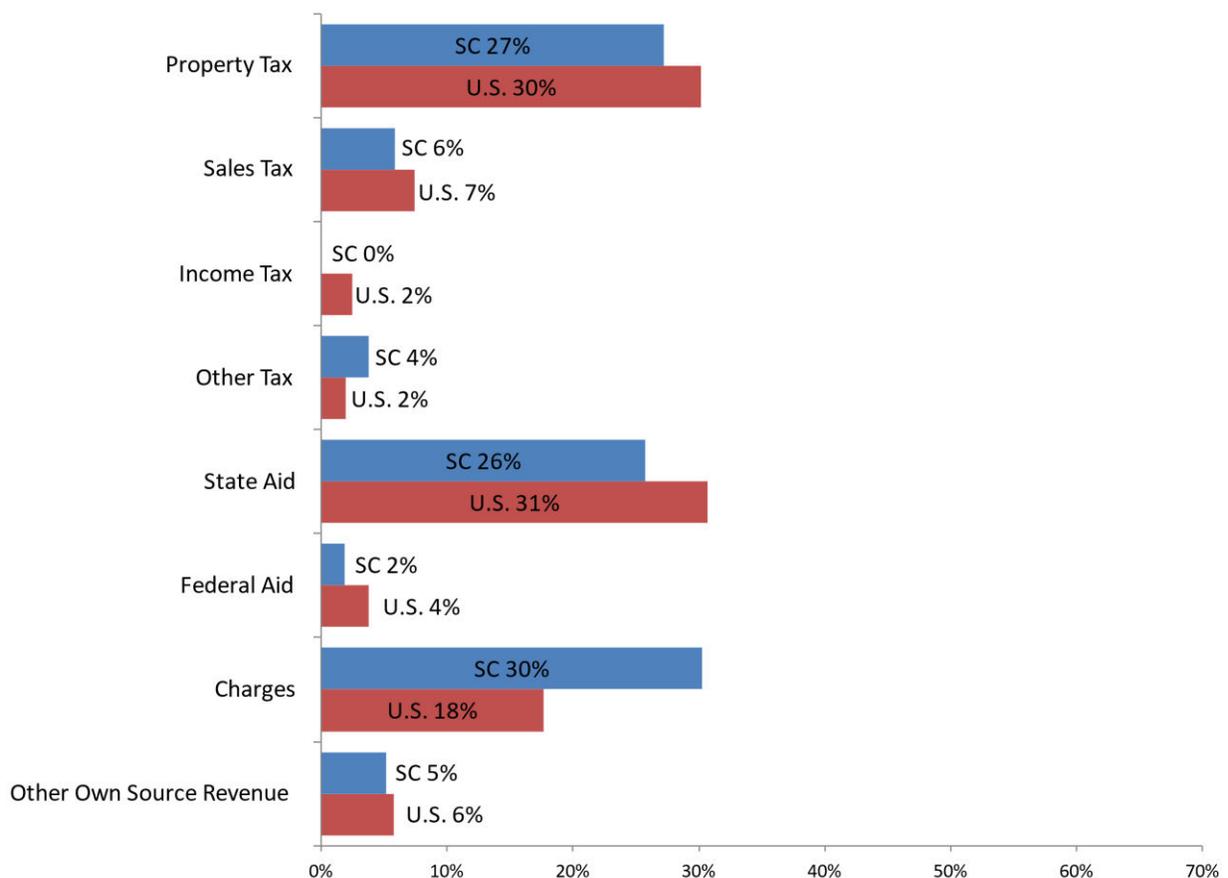
South Carolina

Highlights

South Carolina has long had a classified property tax, with fractional assessment ratios well below 100 percent. For example, residential property is currently assessed at 4 percent of market value, so that a home with a market value of \$100,000 is assessed at \$4,000.

Between 1995 and 2006, the legislature passed significant changes in its property tax structure that substantially reduced homeowners' property tax burdens, increased state-local dependence on the general sales tax, and decreased reliance on the property tax. South Carolina became the only state to exempt homeowners from property taxes to fund school operations (SC Chamber Foundation, SC Realtors, and Lincoln Institute of Land Policy 2020). Reliance on the property tax among South Carolina local governments is slightly lower than the U.S. average (figure SC-1).

Figure SC-1
Sources of Local General Revenue, South Carolina and U.S., 2019



Source: U.S. Census via Significant Features of the Property Tax

Because of the tax benefits afforded to owner-occupied homes, local governments rely more heavily on the taxation of commercial businesses, manufacturing and utility companies, and non-owner-occupied property than most other states. The effective property tax rate for a median value home in Charleston is the lowest among the largest cities in each of the 50 states and DC, and the effective tax rate on manufacturers in Charleston is the 4th highest (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2020).

Property Tax Reliance

In 2019, property tax as a percentage of state and local revenue was lower in South Carolina than the national average and ranked 30th out of 51 (table SC-1). The effective tax rate on the median value owner-occupied home in South Carolina is about half of that typically seen in the United States and ranks 46th in the nation.

Table SC-1
Selected South Carolina Property Tax Statistics, 2019¹

	South Carolina	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,272	\$1,758	34
Property tax percentage of personal income	2.8%	3.1%	27
Total property tax as percentage of state-local revenue	14.1%	16.6%	30
Median owner-occupied home value ²	\$162,300	\$217,500	38
Median real estate taxes paid for owner-occupied home ²	\$924	\$2,471	47
Effective tax rate, median owner-occupied home ³	0.6%	1.1%	46

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2015-2019.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In South Carolina, property taxes are levied by local taxing districts, including county governments, cities, towns, independent school districts, and special districts. Assessments are conducted primarily at the county level with assessing responsibility split between assessors, auditors, and the state department of revenue. Property is revalued every five years (table SC-2).

The state's system of property tax classification employs eight property classes, with assessment ratios ranging from 10.5 percent for manufacturers, utilities, mines, and personal property not included in another property class to 4 percent for owner-occupied homes and agriculture.

Limits on Property Taxation

Act 388, adopted in 2006, introduced several tax limitations, including an assessment cap. Assessed value cannot increase more than 15 percent over a five-year period unless the property is sold. When a property is sold, the state's Assessable Transfer of Interest (ATI) law requires that most property be reassessed at fair market value for the current year. South Carolina offers an exemption of 25 percent of value for non-owner-occupied residential properties but the owner must submit an application (Lincoln Institute of Land Policy 2020).

South Carolina also has a property tax rate limitation. Property tax rates may not increase by a rate greater than population growth plus inflation in any given year, and there is no catch-up provision if a taxing entity chooses to forego an increase one year. This may incentivize taxing districts to increase rates more frequently than would have previously been seen.

Property Tax Relief and Incentives

Act 388 provides significant property tax relief to property owners for their owner-occupied homes. The School Property Tax Exemption for All Homeowners exempts owner-occupied homes from the property taxes levied for school operating costs. South Carolina does not provide for targeted property tax relief through a circuit breaker program.

South Carolina allows a wide array of property tax exemptions for economic development, including tax increment finance. State law allows companies to apply for a five-year exemption from county property tax levies (except for school operating taxes) if they make an investment of at least \$50,000 in manufacturing facilities, research and development facilities, corporate headquarters that have at least 75 new jobs, or distribution facilities (South Carolina Department of Commerce 2021).

Three fee in lieu of property tax (FILOT) statutes authorize county governments to offer manufacturers payments in lieu of property taxes for new investment in the county of at least \$2.5 million. Counties may reduce the 10.5 percent assessment ratio to 6 percent for businesses that invest at least \$2.5 million and to 4 percent (a "super fee") for businesses that invest over \$400 million, or over \$150 million plus 125 jobs, for up to 50 years. Property already subject to South Carolina property taxes is generally ineligible unless the investment is greater than \$45 million, so this program is intended to encourage and support new investments (South Carolina Department of Revenue 2017). This is the state's largest property tax incentive for businesses. The value of property benefiting from FILOTs more than tripled between 1997 and 2016 (Lincoln Institute of Land Policy 2020).

Table SC-2
Property Tax Features of State Governments, United States, 2020

Feature	South Carolina	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	18
Circuit breaker property tax relief program	No	31

Sources: Significant Features of the Property Tax

Key Property Tax History

In 1995, a battle over residential property taxes resulted in a major policy change in South Carolina. That year, the legislature passed state-funded relief from school taxes on the first \$100,000 of market value of an owner-occupied home. It is important to note that median home value in South Carolina was around \$80,000 at the time of passage, and therefore the majority of South Carolina primary residences were completely exempt from school property taxes under the 1995 legislation.

Significant changes to the South Carolina tax code continued into the new millennium. In 2000, intense pressure to reduce the property tax on personal vehicles led to a constitutional amendment that significantly reduced assessment rates. The rate on motor vehicles was reduced from 10.5 percent to 6 percent, and new rates were phased in between 2001 and 2006. Considering that the personal vehicle portion of total property tax revenues was equal to 20 percent in 2000, this resulted in an 8.3 percent reduction in the property tax.

In 2006, Act 388 was passed in South Carolina, which drastically altered the property tax system within the state. The major property-tax-related components of the act are as follows:

- **Tax Swap:** Act 388 eliminated the property tax on owner-occupied homes for all school expenditures other than debt service and increased the state sales tax from 5 percent to 6 percent. The tax swap substantially reduced many homeowners' property tax obligations, some in excess of 50 percent.
- **State Tax Reimbursement:** For the first year of implementation, the state of South Carolina was required to reimburse local school districts dollar for dollar for the monies lost by the elimination of the school property tax on owner-occupied homes. After the first year, reimbursements were to grow at the rate of population growth plus inflation.

- **Reimbursement Guarantee:** Act 388 guarantees that the one percentage point increase in the sales tax will be used to fund reimbursements to local school districts and will be placed in the Homestead Exemption Fund. If the fund has a shortfall (e.g., the increased sales tax revenue is insufficient to cover reimbursements), the reimbursements must be taken from the general revenue fund.
- **Property Assessment Cap:** A 15 percent cap was placed on the growth of property tax assessments over a five-year period unless the property is sold during that time. This change to the tax code was passed as a constitutional amendment.
- **Property Tax Rate Cap:** Act 388 imposes a cap on the rate at which property tax rates can increase in a jurisdiction. Rate increases are capped at inflation plus population growth.

An important issue with Act 388 is that while the law was marketed as being revenue neutral, experience since its passage does not support that assertion. The law went into effect at the start of the Great Recession, and the sales tax base fell rapidly. Because property tax revenues are more stable than sales tax revenues in an economic downturn, the 1 percent increase in the sales tax did not fully cover the revenue lost in the tax swap.

Recent Developments

Groups such as the South Carolina Chamber of Commerce and the South Carolina Realtors continue to put pressure on the legislature to repeal or replace the current property tax laws. They believe that current law makes South Carolina less appealing for commercial businesses as well as for those looking to invest in real estate. In addition, many school districts have been fighting the laws, as they believe that Act 388 has exacerbated the already difficult state budget situation. Although some lawmakers in South Carolina theoretically support the repeal of the law, since Act 388 reduced many homeowners' tax bills by more than 50 percent, raising them back to their original levels is likely not a viable political reality. A 2020 study by the Lincoln Institute of Land Policy found that South Carolina's complex and unconventional policies have led to a system that is unfair and inefficient, shifting the burden of the tax disproportionately onto businesses and renters (SC Chamber Foundation, SC Realtors, and Lincoln Institute of Land Policy 2020).

In 2017, the legislature passed a manufacturing property tax break as part of an infrastructure funding bill that increased the state's second-lowest-in-the-nation gas tax, the first increase in 30 years, and replaced the motor vehicle sales tax with an "infrastructure maintenance fee" based on a vehicle's purchase price. The manufacturing tax incentive exempts 19.05 percent of the value of qualifying property, but the tax break does not apply to manufacturers with FILOT agreements. The state will use gas tax revenue to reimburse counties for the associated tax loss, estimated at \$48.6 million (Helline 2017; Jenkins 2017).

In a win for businesses, a South Carolina appeals court ruled in 2020 that counties must extend the ATI exemption to eligible property owners even if they do not apply for the exemption in the initial year of eligibility. In *Fairfield Waverly, LLC v. Dorchester County Assessor*, a taxpayer sued Dorchester County

over denial of an ATI exemption application filed over a year after the property changed hands (Baker 2020).

Resources

Baker, Kevin. 2020. "South Carolina Court of Appeals Extends ATI Filing Deadline." *POER Report*, September. <https://www.mfpoer.com/poer-report/2020/2020-09-sc-extends-ati-filing-deadline.html>.

Boyd, Donald, and William F. Fox. 2008. *Selected Issues in South Carolina's Tax and Education System*. www.scstatehouse.gov/Archives/CitizensInterestPage/TRAC/SelectedIssuesInSouthCarolina'sTaxAndEducationSystem.pdf.

Helline, Meredith. 2017. "South Carolina Prepares for New Taxes, but Taxpayer Breaks Attached to New Bill." WMBF News. June 30. www.wmbfnews.com/story/35788195/south-carolina-prepares-for-new-taxes-but-taxpayer-breaks-attached-to-new-bill.

Jenkins, Chris. "SC Green Lights New Tax Break for Manufacturers, but How Many Will Qualify?" South Carolina CPAs. (May 27).

Lincoln Institute of Land Policy. 2020. "A Deep Dive on South Carolina's Property Tax: Complex, Inequitable, and Uncompetitive." Volume 2. Cambridge, MA: Lincoln Institute of Land Policy. August. <https://www.lincolninst.edu/publications/other/deep-dive-south-carolinas-property-tax>.

Paquin, Bethany. 2020. Appendix to "Property Tax Assessment Practices in South Carolina" by Michael E. Bell. In "A Deep Dive on South Carolina's Property Tax: Complex, Inequitable, and Uncompetitive." Cambridge, MA: Lincoln Institute of Land Policy. https://www.lincolninst.edu/sites/default/files/pubfiles/sc_volume_2_chapter_2.pdf.

Significant Features of the Property Tax. www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

South Carolina Association of Counties. South Carolina Property Tax Rates by County. www.sccounties.org/property-tax-rates.

South Carolina Taxation Realignment Commission. 2010. Final Report. (December). www.scstatehouse.gov/Archives/CitizensInterestPage/TRAC/FinalDocuments/TRACFinalReport.pdf.

State of South Carolina, Budget and Control Board, Revenue & Fiscal Affairs Office. 2020. *2019 Local Government Finance Report*. (December 5). <https://rfa.sc.gov/media/6183>.

State of South Carolina, Department of Commerce. 2021. "Business Incentives." https://www.sccommerce.com/sites/default/files/2021-07/SCCommerceBusinessIncentivesBooklet_Jan2021_Web.pdf.

State of South Carolina, Department of Commerce. 2010. "Property Tax: Statewide Economic Growth and Taxation Issues in South Carolina."

State of South Carolina, Department of Revenue. 2020. "South Carolina Tax Incentives for Economic Development, 2020 Edition." (March). https://dor.sc.gov/resources-site/lawandpolicy/Documents/SCTIED_Complete.pdf.

Walczak, Jared. 2018. "South Carolina: A Road Map for Tax Reform." Tax Foundation. (December 3). <https://taxfoundation.org/south-carolina-tax-reform/>.

Publication Date

June 2021, data updated February 2022