LINCOLN INSTITUTE OF LAND POLICY

# South Carolina

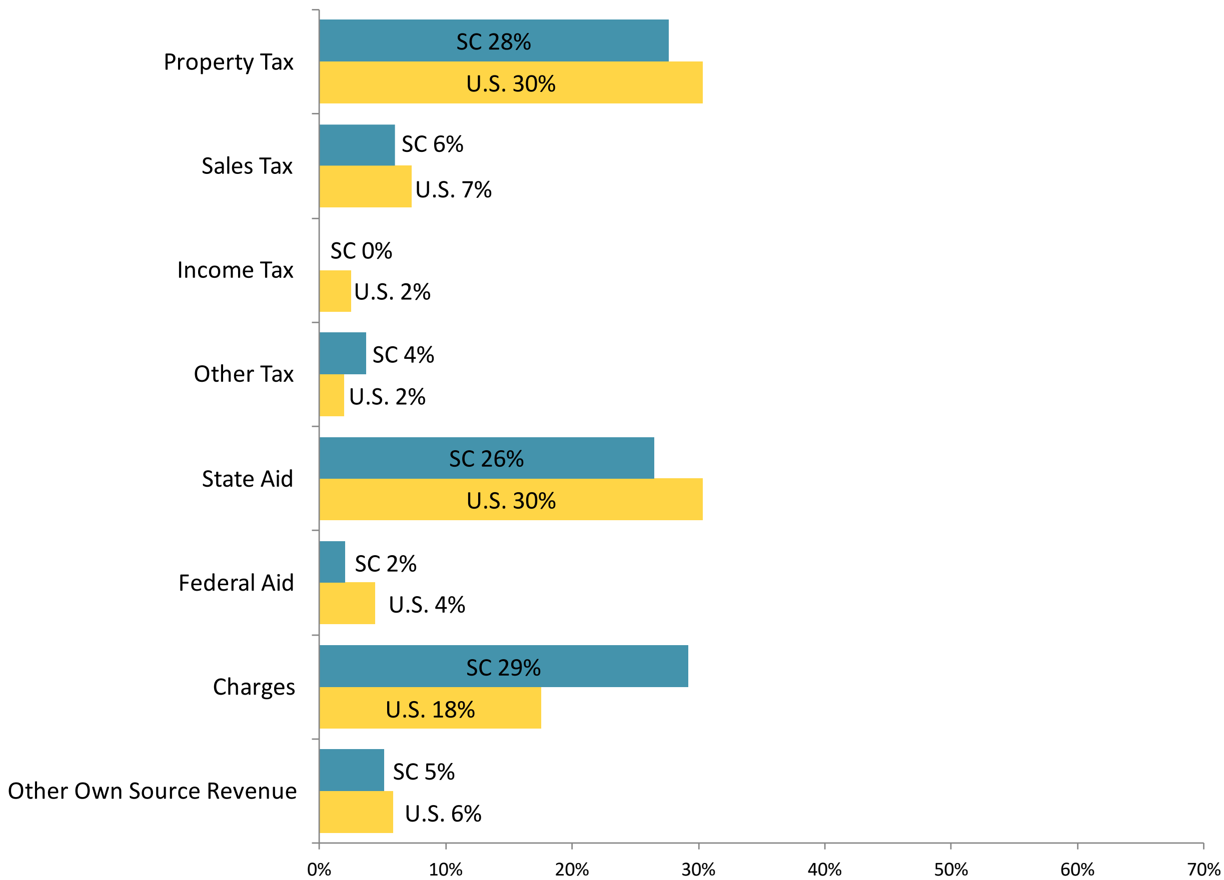
## Highlights

South Carolina has long had a classified property tax, with fractional assessment ratios well below 100 percent. For example, primary residences are 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., 2020**




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 second lowest among the largest cities in each of the 50 states and DC (only Honolulu is lower), and the effective tax rate on manufacturers in Charleston is the 4th highest (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2023).

## Property Tax Reliance

In 2020, property tax as a percentage of state and local revenue was lower in South Carolina than the national average and ranked 31st 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 47th lowest in the nation.

**Table SC-1**
**Selected South Carolina Property Tax Statistics, 2020[1]**

| | South Carolina | U.S. Average | Rank (of 51) *1 is highest* |
|---|---|---|---|
| Per capita property tax | $1,314 | $1,810 | *34* |
| Property tax percentage of personal income | 2.7% | 3.1% | *31* |
| Total property tax as percentage of state-local revenue | 13.5% | 16.6% | *31* |
| Median owner-occupied home value[2] | $170,100 | $229,800 | *37* |
| Median real estate taxes paid for owner-occupied home[2] | $962 | $2,551 | *47* |
| Effective tax rate, median owner-occupied home[3] | 0.6% | 1.1% | *47* |

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 2016–2020.

[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 a 25 percent ATI exemption 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 also provides exemptions for seniors and disabled homeowners. 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 create at least 75 new jobs, or distribution facilities (South Carolina Department of Commerce 2023).

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, 2021**

| 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 | 17 |
| 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 and school finance 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, the sales tax revenue failed to fully fund state reimbursements (Kenyon, Paquin, and Reschovsky 2022). 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 (Kenyon and Munteanu 2022).

## Recent Developments

In 2022, South Carolina enacted several property tax measures, some in response to recent court rulings. Act 236 of 2022 enacted and expanded property tax exemptions and gave local governments broader authority to impose fees in place of property taxes. The new law exempted barns, chicken coops and other structures that house livestock, poultry, crops, and farm equipment or supplies. The fiscal impact note for the original legislation estimated that up to 50 percent of all agricultural assessed value in the state could be exempt under this legislation (South Carolina Revenue and Fiscal Affairs Office 2022). The law also amended the property tax exemption for disabled veterans, police officers, and firefighters to extend surviving spouse benefits to spouses, regardless of ownership status (South Carolina Department of Revenue 2022a).

South Carolina enacted broader authority for local governments to impose fees in order to avert property tax increases after the South Carolina Supreme Court ruled in 2021 that county road maintenance fees and telecommunications network fees were invalid. In *Burns v. Greenville*, the court found that the fees in question were in fact taxes since payers did not receive a substantially different benefit than the general public. Since state law prohibits counties from imposing taxes other than ad valorem property taxes—and neither of the fees was based on value—the court struck them down. In response to the ruling, the legislature passed an amendment through Act 236 that permits local governments to impose fees "even if the general public also benefits." The law states that local governments that approved new property tax millage for road maintenance following the Supreme Court decision must repeal the millage before imposing new road maintenance fees (Passiment and Kirven 2022).

Finally, Act 228 of 2022 enacted a 42.8751 percent exemption for real and personal manufacturing property. The exemption is to be reimbursed by the state up to $170 million per year. The law replaced a repealed six-year phased 14.2857 percent manufacturing exemption. The new law excludes utility-owned property from this exemption even if the property is used for manufacturing. That exclusion follows an October 2021 administrative law court decision in which Duke Energy was denied the since repealed manufacturing exemption. The Department of Revenue had denied the exemption, claiming the property was classified as utility property, not manufacturing property (*Duke Energy Carolinas LLC v. Department of Revenue* and *Duke Energy Progress LLC v. Department of Revenue*).

## Resources

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