

South Carolina Taxes Hit Poor & Middle Class Harder than the Wealthy

Low- and middle-income families in South Carolina pay a higher share of their income in state and local taxes than do the richest families, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, South Carolina has an unfair tax system.”

South Carolina’s Tax Code: Tax the Poor & Middle Class Far More Than the Rich

When all South Carolina taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of South Carolina families—with average incomes of \$626,000—is 7.7% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.5%.
- The average tax rate on families in the middle of the income distribution—those earning between \$22,000 and \$35,000—is 9% before the federal offset and 8.8% after, one and a half times the effective rate the richest pay.
- The tax rate on the poorest South Carolina families—those earning less than \$13,000—is 7.9%, noticeably above the effective rate on the best-off South Carolinians.

“South Carolina’s income tax fails to completely offset the regressivity of its sales and excise taxes, giving the state a typically regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the poorest should pay a smaller share of their earnings in tax, not the most, as is the case in South Carolina.”

Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of South Carolina taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- A new 2.5% bracket was a small progressive change that was countered by a regressive capital gains exclusion.
- Counties were allowed to enact local sales taxes essentially adding another half cent to sales tax rate.

"Low- and middle-income taxpayers in South Carolina were forced to take the money they saved by the new lower bracket and pay most of it right back in local tax hikes. Meanwhile, the new capital gains tax break significantly reduced the taxes on the wealthiest," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

Two pages of tables detailing the South Carolina findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

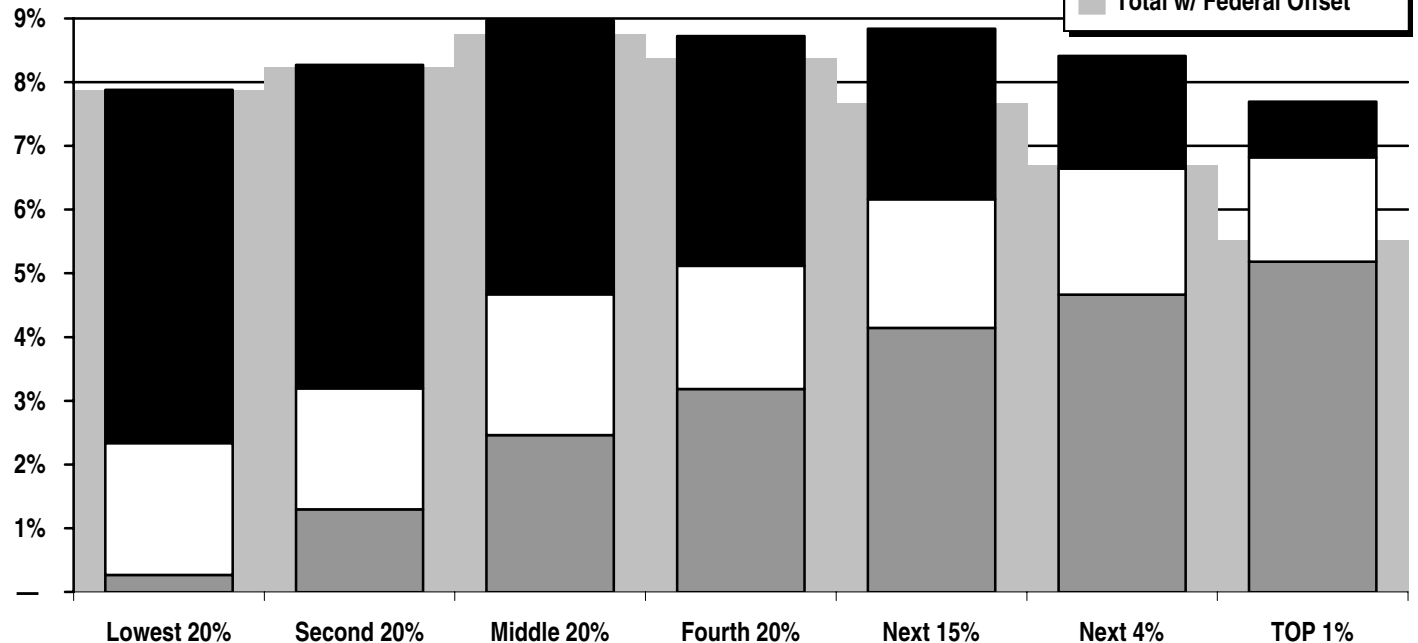
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE . . .

South Carolina

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$13,000	\$13,000 – \$22,000	\$22,000 – \$35,000	\$35,000 – \$59,000	\$59,000 – \$110,000	\$110,000 – \$232,000	\$232,000 or more
Average Income in Group	\$8,000	\$17,600	\$27,800	\$45,900	\$77,300	\$147,000	\$627,000
Sales & Excise Taxes	5.5%	5.1%	4.3%	3.6%	2.7%	1.8%	0.9%
General Sales—Individuals	3.7%	3.4%	2.9%	2.4%	1.8%	1.2%	0.6%
Other Sales & Excise—Ind.	1.0%	1.0%	0.8%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	0.8%	0.7%	0.6%	0.5%	0.3%	0.2%	0.1%
Property Taxes	2.1%	1.9%	2.2%	1.9%	2.0%	2.0%	1.6%
Property Taxes on Families	2.0%	1.8%	2.1%	1.8%	1.8%	1.6%	0.8%
Other Property Taxes	0.1%	0.0%	0.1%	0.1%	0.2%	0.4%	0.8%
Income Taxes	0.3%	1.3%	2.5%	3.2%	4.1%	4.7%	5.2%
Personal Income Tax	0.2%	1.3%	2.4%	3.2%	4.1%	4.6%	5.1%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	7.9%	8.3%	9.0%	8.7%	8.8%	8.4%	7.7%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.3%	-1.2%	-1.7%	-2.2%
TOTAL AFTER OFFSET	7.9%	8.2%	8.8%	8.4%	7.7%	6.7%	5.5%

Note: Table shows 2002 tax law at 2000 income levels.

South Carolina Tax Trends

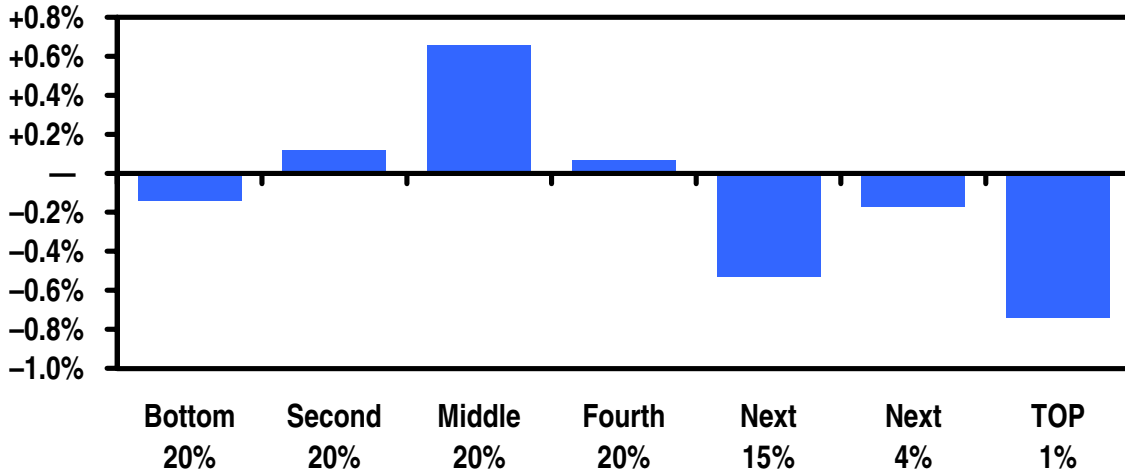
Progressive Features

- ✓ Tax brackets indexed

Regressive Features

- ✗ Sales tax applies to groceries
- ✗ Capital gains exclusion

Changes in Taxes as Shares of Income, 1989 – 2002

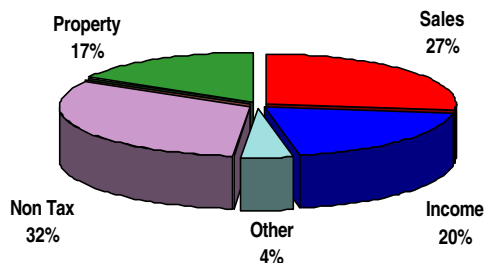


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.4%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%
Property	+0.3%	+0.3%	+0.7%	+0.3%	-0.2%	-0.0%	-0.0%
Income	-0.1%	+0.1%	+0.2%	+0.0%	+0.0%	+0.1%	-0.3%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.1%	-0.2%	-0.1%	-0.4%
Overall Change	-0.1%	+0.1%	+0.7%	+0.1%	-0.5%	-0.2%	-0.7%

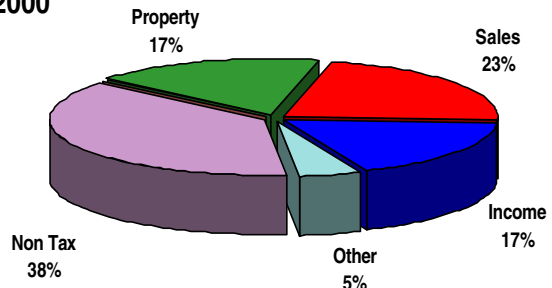
Tax reform in 1991 introduced a 2.5% bottom bracket, a small progressive change that was matched with a regressive capital gains exclusion. Even though the brackets are indexed, they still don't increase enough to keep pace with rising incomes, pushing lower-income residents into the upper brackets over time. Also effective in 1991, counties were allowed to enact local sales taxes. The cumulative impact of these local sales taxes over the decade has been nearly a half cent hike. These hikes in the general sales tax were offset by inflationary erosion of excise taxes.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census