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September 28, 2009

Ms. Rena Grant  
Budget Analyst  
House Ways & Means Committee  
525 Blatt Building  
Columbia, SC 29202

Dear Rena,

This letter is in response to your request dated September 21, 2009 on behalf of the Chairman of the Tax Realignment Committee for advice on what the state sales and use tax rate would need to be if all of the current state sales and use tax exemptions were repealed using FY2008-09 as the base year?

Pursuant to Sections 12-36-2110, 12-36-2120, 12-36-2130, 12-36-2610, 12-36-2620, and recurring budget provisos, sales and use tax exemptions, including the maximum tax provisions for automobiles, totaled an estimated \$2,754,967,801 in FY2008-09. Based on the advice of the Department of Revenue, sales tax exemptions (1) and (2), exemptions prohibited by the US or SC constitutions, and tangible personal property sold to the federal government, may not be repealed. Also, Section 12-36-2120(77), the sales tax holiday on personal energy efficient products meeting or exceeding ENERGY STAR® program requirements, has been declared unconstitutional by the SC Supreme Court. After adjusting for the above changes, an estimated \$2,500,727,595 of sales tax exemptions remains. If taxed at 6%, this would represent an estimated \$41,678,793,250 in gross retail sales. In FY2008-09, the state collected \$3,341,596,466 from the general sales and use tax, the E.I.A. penny and the Homestead Exemption Fund penny. Dividing this figure by 6% yields an estimated \$55,693,274,430 of gross sales in FY2008-09. To raise the same \$3,341,596,466 of sales and use tax revenue in FY2008-09 from gross taxable sales of \$97,372,067,680 would have required a sales and use tax rate of an estimated 3.4 percent in FY2008-09.

If you have any questions, I will be happy to answer them.

Sincerely,

A handwritten signature in cursive script that reads "William Gillespie".

William C. Gillespie, Ph.D.  
Chief Economist

WCG/rwm

cc: Craig Parks

**Comparison of the Sales Tax Paid on the Sale of a Motor Vehicle**  
**South Carolina, North Carolina, and Georgia**  
**As of October 1, 2009**  
**(Dollars)**

State / Jurisdiction of Tax	(1) Tax Rate	Retail Price Paid for a Motor Vehicle 1/			
		(2) \$6,000	(3) \$16,000	(4) \$36,000	(5) \$56,000
<b>South Carolina 2/</b>					
State Tax 5/	5%	\$300	\$300	\$300	\$300
Local Tax 6/	0%	\$0	\$0	\$0	\$0
Total Tax		\$300	\$300	\$300	\$300
Effective Tax Rate (%) *		5.00	1.88	0.83	0.54
<b>North Carolina 3/</b>					
State Tax 7/	3%	\$180	\$480	\$1,080	\$1,680
Local Tax	0%	\$0	\$0	\$0	\$0
Total Tax		\$180	\$480	\$1,080	\$1,680
Effective Tax Rate (%) *		3.00	3.00	3.00	3.00
<b>Georgia 4/</b>					
State Tax 8/	4%	\$240	\$640	\$1,440	\$2,240
Local Tax 9/	1% to 3%	\$180	\$480	\$1,080	\$1,680
Total Tax		\$420	\$1,120	\$2,520	\$3,920
Effective Tax Rate (%) *		7.00	7.00	7.00	7.00

Notes: \* Effective Tax Rate is the total tax collected divided by the retail price paid for a motor vehicle.

1/ Price paid for a new or used vehicle is not adjusted for trade-in allowance, manufacturer's rebates, promotions, or the federal CARS program allowance.

2/ South Carolina collects a sales tax on the sale or lease of a motor vehicle equal to the lesser of 5% up to \$300 per vehicle. Additional local option or municipal option sales taxes are not permitted by law.

3/ North Carolina collects a 3% Highway Use Tax on vehicles in lieu of a state sales tax. The tax is assessed each time a title is transferred. The maximum tax for a commercial vehicles with a weight greater than 26,000 is \$1,000. The maximum tax for a recreational vehicle that is not subject to the \$1,000 maximum tax is \$1,500 per title.

4/ Georgia collects a 4% sales tax and counties may impose a local sales tax of 1%, 2%, or 3%, consisting of three 1% local option sales taxes, out of a set of five local option taxes. The City of Atlanta imposes an additional 1% municipal-option sales tax, but it is not permitted on the sale of motor vehicles.

5/ SC Code of Laws, Section 12-36-2110(A)(2)

6/ SC Code of Laws, Section 12-36-1110

7/ General Statutes of North Carolina, G.S. 105-187.2 and G.S. 105-187.3(a)

8/ Official Code of Georgia, O.C.G.A., Section 48-8-30(b)(1)

9/ Official Code of Georgia, Sections 48-8-80 through 48-8-144. Of the state's 159 counties, 7 counties collect a 2% local option sales tax and 152 counties collect a 3% local option sales tax.

Sources: South Carolina Code of Laws, South Carolina Department of Revenue, General Statutes of North Carolina, North Carolina Department of Revenue, Official Code of Georgia, Georgia Department of Revenue.