

Property Tax Relief
Issues for School Districts and Taxpayers

By
Ellen W. Saltzman

For
AAUW-LWV-SCSIC State Legislative Day
February 27, 2007
Columbia, South Carolina



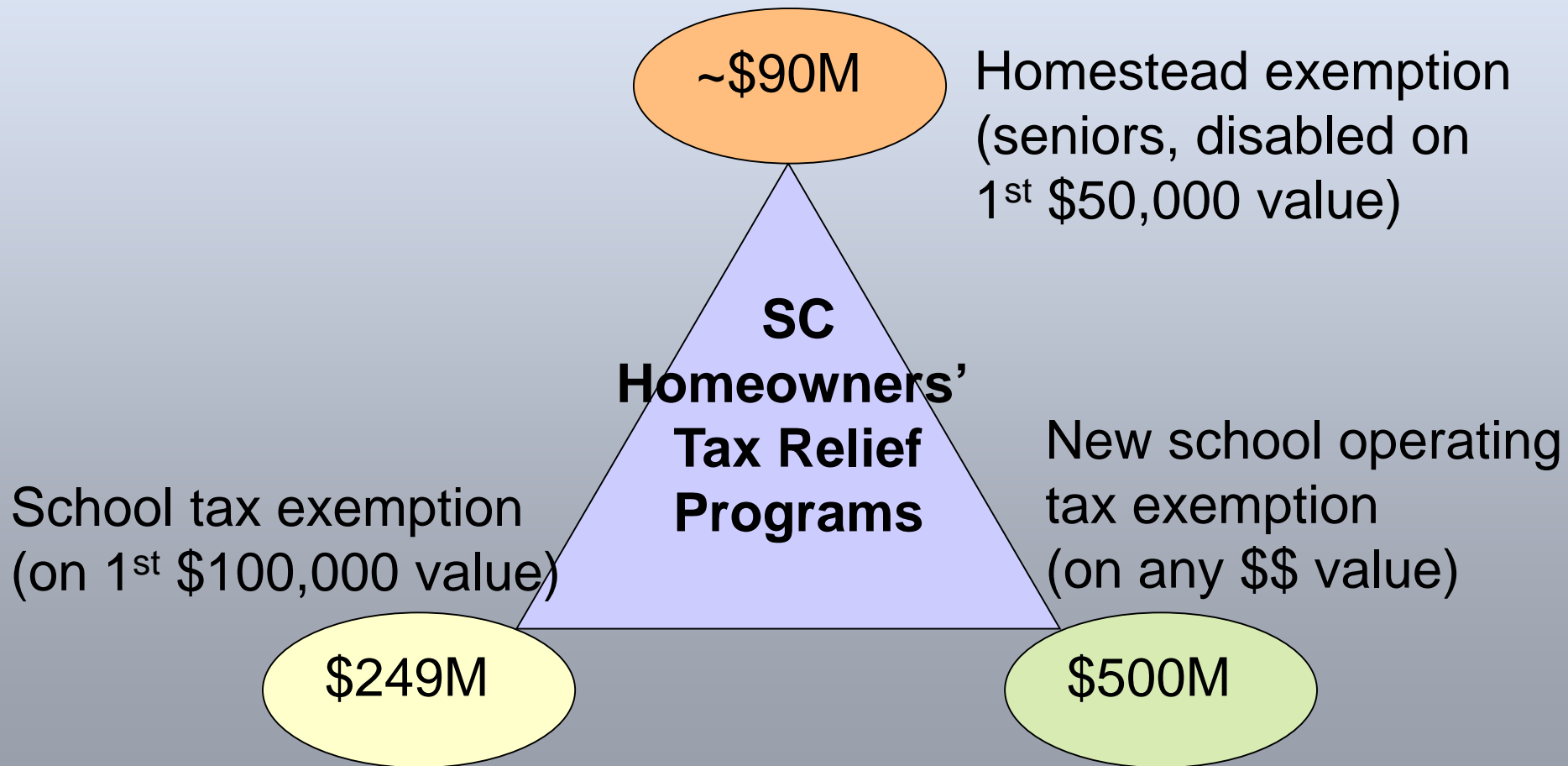
What's New?

- Act 388 of 2006 – “Tax Swap”
- Act 402 of 2006 – Real property assessment
- November 2006 referendum on reassessment (15% cap)

Act 388 Basics

- State sales tax increased to 6% (6-1-07).
- Owner-occupied residential property exempt from school operating taxes (TY 2007).
- Schools reimbursed for operating tax exemption and homestead property tax exemption.
- Other: new LST, tax limitation, valuation.

Act 388 Adds to Existing School Tax Relief



Act 388 Timeline

- June 2007+: Homestead Exemption Fund.
- TY 2007: Owner-occupied residential property exempt from school operating taxes.
- FY 2007-08: Schools reimbursed from HED for residential taxes not collected (2006 mills?).
- FY 2008-08+: Schools reimbursed by formula.

Reimbursement Formula FY 2008-09+

- Inflation factor = $\Delta \text{CPI} + \Delta \text{SC population}$.
- Current year total SC reimbursement =
(previous year reimbursement * inflation factor).
- Distribution to school districts =
(district WPU / state WPU).
- WPUs include 20% poverty weighting.

School Issue #1: Inflation Factor

Period	SC Pop Growth (%)	CPI-South Growth (%)	Inflation Factor (%)	SD Tax Rev. Growth (%)
1998 to 1999	1.2	2.0	3.2	8.8
1999 to 2000	3.5	3.2	6.8	9.3
2000 to 2001	0.9	2.3	3.3	8.5
2000 to 2002	1.0	1.3	2.3	10.3
2002 to 2003	1.0	2.3	3.3	7.3
2003 to 2004	1.3	2.5	3.8	6.1

School Issue #2: Sales Tax Revenue

Period	Inflation Factor Growth (%)	Sales Tax Growth (%)	Difference
1998 to 1999	3.2	8.5	Above
1999 to 2000	6.8	4.8	Below
2000 to 2001	3.3	1.0	Below
2000 to 2002	2.3	1.3	Below
2002 to 2003	3.3	2.1	Below
2003 to 2004	3.8	6.3	Above

School Issue #3: Assessed Property Value

Period	Owner-Occ. Resid. APV Growth (%)	All Other APV Growth (%)
1998 to 1999	10.0	8.9
1999 to 2000	5.8	4.2
2000 to 2001	13.3	7.4
2000 to 2002	7.5	0.4
2002 to 2003	6.0	3.7

Schools: A Very Preliminary Analysis

- 20 countywide districts.
- **WHAT IF** the Act 388 tax swap was implemented starting in TY 2001 (FY 2001-02)?
- How would reimbursements compare to actual collections from owner-occupied residential property?

Preliminary Findings: Does tax swap replace revenue collected in years 2 & 3 (formula) of implementation?

Year 1 = FY2003 Year 2 = FY2004 20 districts	Gain \$\$ Both years	Lose \$\$ Both years	Gain/Lose or Lose/Gain
Districts qualifying for minimum \$2.5M distribution	6	0	1
Districts above minimum distribution	0	9	4

Anticipated Outcomes in Small, Poor Districts

- Big revenue boost for some in early years.
- Smaller districts gain the most.
- Budgeting issues.
- Nonresidential tax base gets a break?

Anticipated Outcomes in Not So Small, Not So Poor Districts

- Districts with slow residential APV growth
→ Smaller revenue loss (or gain) over time.
- Districts with rapid residential APV growth
→ Larger revenue loss when sales tax substituted for residential property tax.
- Nonresidential tax base takes a hit?

Recap: School Districts

- New tax relief \neq school funding reform
- Loss of control (sources and rates)
- Equity among taxpayers (who pays?)
- Equity among school districts
(who gains, who loses? how is the money distributed around the state?)

Act 388 and Taxpayers

- Homeowners, renters, business firms
- Income effect
- Tax rate effect
- Equity among taxpayers

Keep in Mind...

Higher income households spend a smaller share of their income on taxable goods than lower income households.

Homeowners and renters both pay sales and property taxes!

Findings for Homeowners

- **Most will gain** (reduced net tax burden).
- **At any income**, homeowners in high tax districts will benefit more.
- **At any mill rate**, homeowners with higher incomes will benefit more.

Act 388: Estimated Change in Annual Tax Burden from (Sales + Property Tax) in Homeowner Family, 2005

School District	School Operations Mills 2005	Lowest 20% of Income Distribution	Middle 20% of Income Distribution	Top 20% of Income Distribution
Beaufort	77.5	-\$24	-\$69	-\$391 & up
Kershaw	151.2	-\$58	-\$189	-\$910 & up
Hampton 2	308.0	-\$132	-444	-\$2,015 & up

Findings for Renters

ALL WILL LOSE!

Final Thoughts

- New tax relief \neq school funding reform.
- Tax swap & current school funding.
- 15% reassessment cap & current school funding.
- Equity is multidimensional.

www.strom.clemson.edu

The South Carolina Tax Swap: The Estimated Impact of Act 388 on Homeowners and Renters (Saltzman 2006)

What Hath the General Assembly Wrought? The Consequences of Act 388 and H4450 (Ulbrich 2006)

The Fiscal Impact of a 15 Percent Reassessment Cap in Beaufort County, South Carolina (Saltzman 2004)