

## **Why South Carolina Needs Economic Development Incentives**

By Burnet R. (“Burnie”) Maybank, III

One can hardly pick up a newspaper or view an internet blog in South Carolina today without reading criticism of South Carolina’s economic development incentives. The criticism comes from the Governor, Editorial Boards and various libertarian think tank groups. Does South Carolina need incentives for manufacturers, warehouse and distribution facilities? Is there ever a situation where incentives are appropriate for commercial and even retail facilities? Is South Carolina a give-away state?

Simply put, South Carolina requires economic development incentives because we have among the highest property tax rates in the nation. In fact, our property tax rates are higher – sometimes considerably higher – than our neighboring states even after incentives.

Very few 50-state property tax rankings exist because of the complexity built into each state’s property tax laws. Perhaps the most sophisticated study in the nation was recently done in April 2009 by the Minnesota Taxpayers Association. The National Association of Manufacturers also does an annual ranking typically referred to as the Competitiveness Redbook.

The Minnesota study analyzed different types of industrial property by capital investment. The study also broke down the capital investment by real property and machinery and equipment as many states tax machinery and equipment differently than real property. The first comparison was a manufacturer with a capital investment of \$100,000, with \$40,000 of that being machinery and equipment and another ten thousand of fixtures (50% personal/property). South Carolina had the highest taxes of the 53

jurisdictions surveyed. (The Survey included 3 cities.) The next survey was a \$1,000,000 capital investment, composed again of 50% personal property. South Carolina again was the highest. The third survey was a \$25 million capital investment composed of \$18,750,000 in machinery and equipment, \$15 million in inventories and \$2.5 million in fixtures. South Carolina again ranked number one. Georgia was 21<sup>st</sup> and North Carolina was 39<sup>th</sup>.

Since some states tend to tax personal property differently than real property the survey looked at \$100,000, \$1 million and \$25 million manufacturing facilities with 60% personal property. South Carolina again was dead last. With regards to the latter, Georgia was the 17<sup>th</sup> highest and North Carolina ranked 39<sup>th</sup>. The next comparison was for urban industrial property taxes with certain state-specific personal property shares and values for a manufacturer with \$100,000 capital investment. South Carolina again was number one with Georgia being 19<sup>th</sup> and North Carolina ranked 39<sup>th</sup>.

The next comparison was a one million dollar facility, with certain state specific features. Again South Carolina had the highest taxes in the country. The last comparison was a \$25 million industrial property. No surprise, South Carolina had the highest taxes in the country. (Georgia was 21<sup>st</sup> and North Carolina 40<sup>th</sup>.)

Another study of interest is the 2009 Competitiveness Redbook. It annually tracks a wide variety of factors including cost of doing business, R&D spending and union membership. While South Carolina does quite well in a number of the rankings, again it fairs very poorly on property taxes. The Redbook annually surveys a manufacturing facility with a capital investment of \$25 million, with \$12.5 of that being

machinery and equipment. No surprise South Carolina is ranked the highest in the country. (Georgia is 20<sup>th</sup> and North Carolina 37<sup>th</sup>.)

Well, what about commercial and even retail? Where do they fare on a national basis? The Minnesota Taxpayers Association surveyed the property taxes on both a \$100,000 valued commercial property with \$20,000 in fixtures as well as \$1 million-valued property with \$200,000 of fixtures. South Carolina was the twelfth highest in both. (Georgia was 30<sup>th</sup> and North Carolina 40<sup>th</sup>.) The Redbook has South Carolina as 7<sup>th</sup> highest, with Georgia 28<sup>th</sup> and North Carolina 40<sup>th</sup>.

Why do we have the highest property taxes in the nation on manufacturers, and amongst the highest on commercial? Simply put, because we now have amongst the lowest taxes in the country for residential primary residence, and the property tax burden has been shifted to everyone else.

The Minnesota Taxpayer's Association surveyed a \$150,000 home as well as a \$300,000 home. We ranked 48<sup>th</sup> and 48<sup>th</sup>. It also surveyed taxes on a median value home listed by net tax payable for 2008. South Carolina was the lowest - - 53<sup>rd</sup> - - in the country for tax rank, and 47<sup>th</sup> for rate rank.

This tax shift from residential to manufacturing and commercial is accomplished by a number of legal factors including different assessment ratios and a variety of credits which are given to primary residences but not other classes of property. And the shift is occurring on an annual basis.

Given the highest property taxes in the nation on manufacturers of every shape, color and size, and amongst the highest in the nation for warehouse and distribution (7<sup>th</sup> in one survey, 12<sup>th</sup> in another) what manufacturer/warehouse/or distribution would ever

locate here without the tax incentives? Sure, we have amongst the lowest unionization rate in the country, but so does North Carolina and the many other southeastern states with which we compete. South Carolina is blessed with many other highly competitive factors as well as a super quality of living but this state is simply not going to compete for capital intensive projects without significant economic development incentives.

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