



A DEEP DIVE ON SOUTH CAROLINA'S PROPERTY TAX SYSTEM

COMPLEX, INEQUITABLE AND UNCOMPETITIVE

Volume 1

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¹Volume 1 summarizes the chapters in Volume 2. Volume 1 also includes key findings, the executive summary, and policy options. Some material, such as the definitions section, appears in both volumes.

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A photograph of a street scene in a small town, likely in South Carolina. The image is dimly lit, possibly during dusk or dawn. On the left, there are historic, multi-story buildings with many windows. Some windows have awnings, and one has a sign that says "LIVE". A tree without leaves stands in front of the buildings. In the center, a street sign for "Sylvia" is visible. On the right, a large, ornate street clock stands on a sidewalk. The clock face shows the time as approximately 10:10. The clock has "CITY OF YORK, SC" written on its top. The street is paved and has a yellow double line down the middle. A few cars are parked further down the street. The overall atmosphere is quiet and historic.

South Carolina's Property Tax System

KEY FINDINGS

Robert Mills House, Photo Courtesy of Experience Columbia

Key Findings

South Carolina's property tax system is an outlier compared to the rest of the United States. For example:

- South Carolina is the only state in the country which exempts primary homeowners from paying property taxes to fund school operating costs.
- The effective property tax rate for a median value home in Charleston ranks 51st lowest among the largest cities in each of the 50 states and the District of Columbia.² (Effective property tax rate is equal to property taxes paid divided by property value. A property owner paying \$1,000 in property taxes on a \$100,000 home faces an effective property tax rate of 1%.)
- Manufacturing in Charleston, South Carolina faces the 4th highest effective property tax rate among the largest cities in each of the 50 states and the District of Columbia. (This does not take fees in lieu of taxes into account.)
- The ratio of the effective property tax rate for apartments to that for primary home owners is over three. This means that apartments are taxed at over three times the rate of primary homes. This is the highest apartment-homestead differential in the country.

South Carolina's disparate effective property tax rates are both unfair and inefficient.

- The differential between the effective property tax rates for primary residential and other residential property is so great that assessment offices must devote considerable resources to prevent fraud since the prospect of a dramatically lower tax bill can tempt property owners to dishonestly report residential property as their primary home.
- Because of the high effective property tax rates on manufacturing, South Carolina uses FILOTs and other tax abatements to level the playing field and make South Carolina more attractive as a business location. But FILOT deals are uncertain, time consuming, and entail legal expenses. Also, FILOTs are only available for companies making substantial new capital investments.

²Charleston is currently the most populous city in South Carolina. That is the reason that we report the effective property tax rate for Charleston in our most recent national data on effective property tax rates.

- The fact that primary homeowners do not pay property taxes to operate schools is unfair in two respects. Homeowners are the primary beneficiaries of school spending, so it is fair that they should help pay to operate schools. Second, homeowners typically have higher incomes than renters. South Carolina taxes apartments the same as commercial property so renters are paying taxes at an effective rate three times higher than homeowners.

South Carolina's property tax lacks transparency because of fragmented property tax administration, inconsistent language, and varying land use codes.

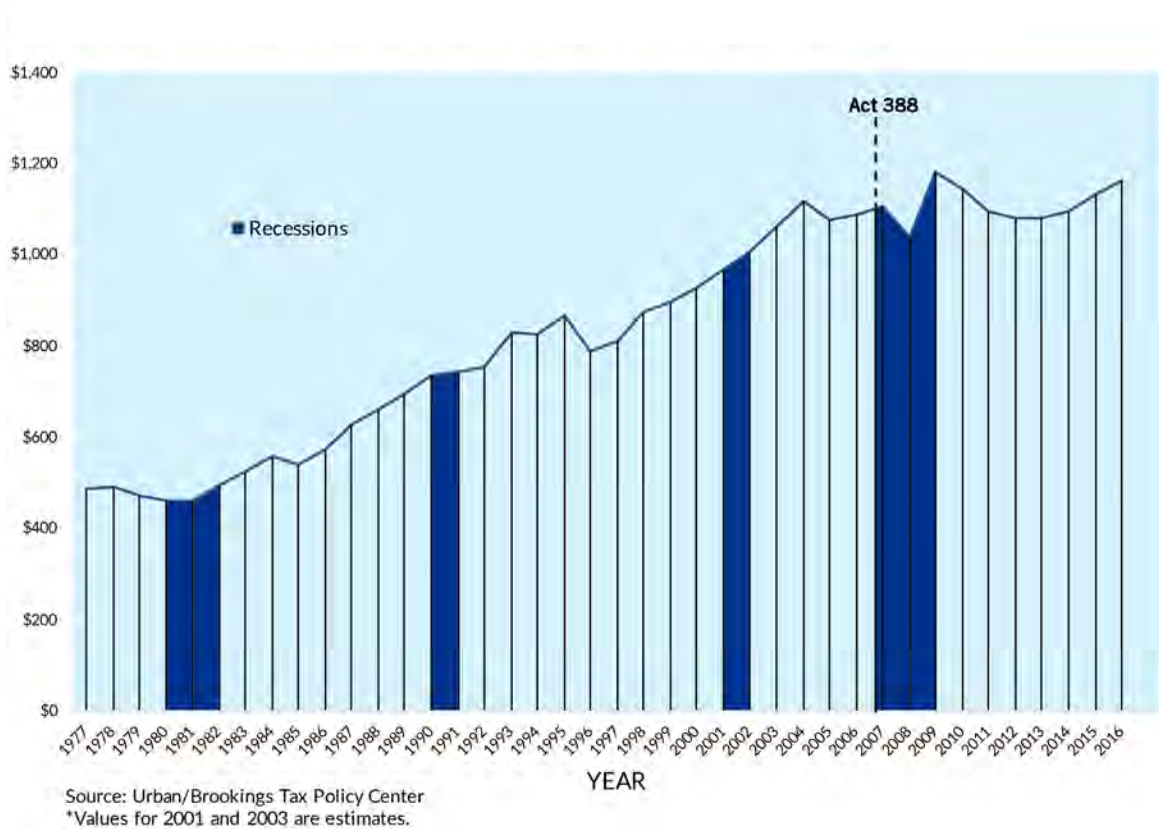
- Assessment authority is divided among assessors, auditors, and the Department of Revenue. No single entity holds the entire property tax roll for a county.
- The term "taxable value" means different things in different counties. This is not the only instance of inconsistent language.
- Each county has different land use codes. For example, York County has 23 land use codes and Horry County has 225 land use codes.
- Many counties do not use separate land use codes for properties subject to different assessment ratios. For example, in Greenville County one land use code includes both primary residential property (assessed at 4 percent) and other residential property (assessed at 6 percent).

Executive Summary

This report concludes that South Carolina's property tax system is complex, nontransparent, unfair, and inefficient. South Carolina's Act 388 passed in 2006 with the aim of providing property tax relief to certain homeowners. However, by shifting greater property tax burdens from homeowners to businesses and renters, it increased the disparity in property tax rates and made South Carolina's property tax system more of an outlier compared to the rest of the U.S.

The property tax is an important revenue source in South Carolina, raising \$5.8 billion per year (U.S. Census). Property tax collections have fluctuated since 2002 because of policy changes and economic cycles but have consistently comprised 14 to 15 percent of South Carolina state and local general revenues, both before and after the enactment of Act 388. Real per capita property tax revenue growth has slowed since the passage of Act 388. The average rate of growth before 2007 was 2.9 percent; between 2009 and 2016, it was just 1.6 percent (figure ES.1).

Figure ES. 1 South Carolina Real Per Capita State and Local Property Tax Revenue, 1977-2016



About half of South Carolina's property tax dollars are used to fund schools and since Act 388, most of the property tax revenue for schools is paid by businesses. County governments, which administer the property tax, typically receive only about twenty percent of total property tax revenue. In the ten focus counties listed below, about a quarter of property taxes collected goes to counties, 22 percent goes to municipalities, and 53 percent goes to schools. Nationally, just over half of local property taxes collected fund K-12 education; the rest is split between counties, municipalities, and special taxing districts (U.S. Department of Education 2018 and U.S. Census via *Significant Features of the Property Tax*).

South Carolina's share of property tax revenue allocated to schools is close to the U.S. average, but it is the only state in which homeowners' primary residences are fully exempt from property taxes for school operating costs. Consequently, non-homestead properties, such as commercial, industrial, and apartment properties, bear a disproportionate share of the school property tax burden.

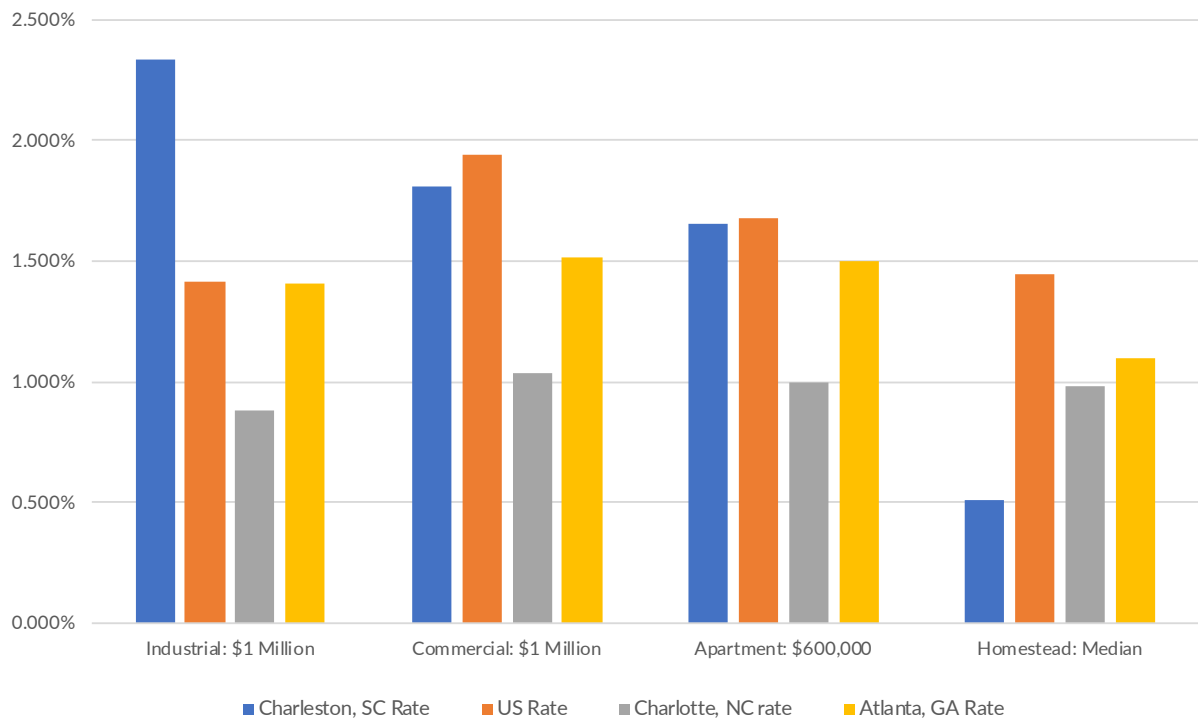
Annual reports for seven of our focus counties reported their largest taxpayers; in six of these seven counties the largest tax bill in the county belonged to an energy/utility company. The top ten taxpayers in these counties accounted for 3 to over 17 percent of the total assessed value in each county.

Act 388 of 2006 made five major changes to South Carolina's property tax system and its system for financing elementary and secondary schools:

- 1) It exempted homeowners' primary residences from property taxes for school operating costs and raised the sales tax by one penny. This tax swap decreased reliance on a stable tax source and increased reliance on a less stable tax source.
- 2) During the first year, the state fully reimbursed school districts for their loss in property tax revenue. After the first year, reimbursements were required to grow at the rate of population growth plus inflation.
- 3) If the penny sales tax was insufficient to pay the reimbursements to local school districts, funding from the state's general fund must cover the shortfall.
- 4) Act 388 imposed a limit on the amount that appraised value—the starting point for calculating property taxes—can increase in any five-year period. Growth in appraised value is capped at 15 percent over five years, unless a property is sold. When a property is resold, it is reappraised at market value.
- 5) The act set a millage cap that keeps localities from raising their property tax rates (or millage rates) at a higher rate than the increase in the consumer price index adjusted for population growth.

This study looks at property tax assessment practices, tax burden effects of Act 388, school budget effects of Act 388, property tax abatement policies, and treatment of tax-exempt nonprofit and government properties. The research reveals that South Carolina's complex property tax system is neither equitable nor competitive. Act 388 has directly contributed to the imbalance; South Carolina has one of the lowest effective tax rates in the nation on owner-occupied residential properties and one of the highest effective tax rates in the nation on manufacturers. South Carolina manufacturers pay property taxes at an effective rate over four times higher than the rate on primary residences (figure ES.2).

Figure ES. 2 Effective Tax Rates by Property Type, 2018



Source: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2019

Note: Median home values vary across states. The median home value for Charleston was \$344,600; the median home value in Charlotte was \$215,500; and the median home value in Atlanta was \$299,400.

Data and Methodology

This report relies on analysis of previously unexamined data sets by Lincoln Institute staff and distinguished scholars; an extensive review of relevant reports; and in-person or phone interviews with South Carolina assessors, auditors, economic development officials, school officials, realtors, public finance experts, and taxpayers.

To put South Carolina's property tax system in context, this study compares it to property tax systems in five other states: North Carolina, Georgia, Florida, Tennessee, and Virginia. In order to evaluate the local effect of the state's property tax structure and Act 388, this study examines ten diverse South Carolina counties: Allendale, Charleston, Edgefield, Florence, Greenville, Horry, Orangeburg, Richland, Sumter, and York. This group of counties, which range in size, geography, and economic status, are referred to as focus counties. The focus counties encompass rural and urban counties from all over the state with varying income levels and rates of economic growth.

An important measure of property tax burden that appears throughout this report is *effective property tax rate* (ETR)—property tax liability divided by market value of property.

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Tax Payment}}{\text{Market Value}}$$

Thus, a homeowner who pays \$1,000 in property taxes on a home valued at \$100,000 faces an effective property tax rate of 1 percent.

One primary source for comparing effective tax rates is the *50-State Property Tax Comparison Study*, an annual report by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence. That study calculates effective property tax rates for the largest city in each state. It also reports rates, ratios, and rankings for homestead, commercial, apartment, and industrial classes of property with a range of values. The study relies on rankings of the largest cities in each of the 50 states and Washington D.C. to compare South Carolina to other states. The 50-state report ranks 53 cities, including two cities each in Illinois and New York since property tax policies in Chicago and New York City are very different from the rest of the state. This data source is important because it provides a comparison of South Carolina's property tax policy to other states and provides a snapshot of South Carolina's property tax policy over time.

Chapter 2 describes a second key data set. It consists of data on the composition of the property tax base in the focus counties and sales files for selected counties. Data on the composition of the property tax base was used to generate information on tax shifting from primary residential property to utility and other types of property. The sales files were used to measure the quality of property tax assessment and how it changed over the five-year reevaluation cycle.

A third critical data set was the data set on appraised values and tax payments from CoreLogic, the premier supplier of U.S. parcel level real estate data. Data were available on 1,086,577 parcels in the ten focus counties. When matched with the assessor data used for Chapter 2, analysts were able to identify properties benefiting from the assessment cap. This data set also allowed further investigation of tax shifting and differences in effective property tax rates, with an emphasis on residential and commercial property.

Chapter 1: Introduction and Overview of South Carolina's Property Tax System

Upon examination of the principles of a sound tax system—equity, efficiency, stability, and transparency—this study finds South Carolina's property tax system falls short. It is complex, inequitable, inefficient, lacks transparency, and it disproportionately burdens private enterprise. South Carolina's method for calculating the property tax illustrates the complexity and inequities of its system. Properties are subject to assessment ratios that set taxable value at some proportion of market value, which varies depending on the type of property. Business properties are subject to higher rates than owner-occupied residential properties. Tax liability is calculated by multiplying assessed value by total millage rate (sum of county, municipal, school district, and special district taxes). Because primary residences are exempt from most school taxes, which are the largest portion of the millage rate, taxes are not applied uniformly. Businesses (commercial, manufacturing, and rental housing) are paying much higher effective tax rates.

Act 388 of 2006 contributed to the disparity between taxes levied on businesses and primary residences by exempting owner-occupied homes from paying property taxes for school operating costs. Policies enacted after Act 388 have attempted to address equity issues but have instead added to the complexity of the system. The outcome is a convoluted system that creates wide disparities between effective tax rates on primary residences and businesses.

Chapter 1 findings:

(1) South Carolina's property tax system is an outlier among the 50 states:

- Charleston, South Carolina, ranks fourth in the nation among the most populous cities in each state for the effective property tax rate on manufacturing. Additional evidence presented in the report indicates that this high effective property tax rate on manufacturing is typical of the state as a whole and typical of the largest cities in each of the focus counties. (Estimates of effective property tax rates do not take into account the state's extensive use of *fees in lieu of taxes* (FILOTs) to promote economic development.)
- South Carolina is one of only two states that systematically taxes industrial property at a higher rate than commercial property (the other state is Wyoming).
- South Carolina is the only state that does not levy property taxes on primary residences for the purpose of financing school operating costs.
- Charleston, South Carolina, ranks fifty-first (first being the highest rate) in the nation among the most populous cities in each state and the District of Columbia for effective property tax rate on median valued homesteads.
- Charleston, South Carolina, ranks first in the nation (first being the highest) among the most populous cities in each state for the ratio of effective property tax rate for apartments compared to owner-occupied homes.

(2) Act 388, passed in 2006, made South Carolina's property tax more of an outlier:

- Before Act 388, commercial property in South Carolina was taxed at just over twice the rate of primary residences. Since then, commercial property has been taxed at a rate at least three times higher than homestead property.
- Before Act 388, apartment property was taxed at just over twice the rate of primary residences. Since then, apartment property has been taxed at a rate that is at least three times higher than the homestead rate.

Chapter 2: Property Tax Assessment Practices in South Carolina

Researchers contacted assessors from each of the focus counties and visited or interviewed many of them. When possible, they obtained and analyzed county property sales files. In South Carolina, the process of valuing property for the purpose of levying the property tax is divided among three different entities: county assessors, county auditors, and the Department of Revenue. There is no single entity responsible for the complete property tax roll for an individual county. South Carolina has a five-year assessment cycle (although in some instances counties can use a six-year cycle). In addition, when property is sold, it is revalued at market value. This practice, referred to as *assessable transfer of interest* (ATI), is required and defined by Act 388.

Chapter 2 findings:

- (1) Assessment practices and methods between counties are inconsistent
 - No two counties used the same land use codes.
 - Counties use important property tax terms inconsistently, which makes comparison between counties difficult and reduces the transparency of the property tax.
- (2) Assessment quality measures for estimating fair market value of residential properties are generally consistent with recognized professional standards.
- (3) Assessment quality measures for valuing vacant commercial properties are mixed and less consistent with recognized professional standards.
- (4) The five-year revaluation cycle undermines the equity of the property tax.

Chapter 3: Who Bears the Burden of the Property Tax and the Impact of Act 388

We obtained a parcel-level data set from Core Logic, the premier supplier of U.S. parcel level real estate data, for our ten focus counties. Our analysis was limited because of missing data for some counties, the ten different property tax classification systems used in the focus counties, and the difficulty or impossibility of determining which categories of residential property were primary residential in some counties. We were able to analyze the effect of the assessment cap enacted as part of Act 388 for eight of the ten focus counties. That cap limits an increase in appraised market value to no more than 15 percent over a five-year period. We were able to estimate effective property tax rates by various categories of residential and commercial property for ten counties. We were able to estimate tax shifting from residential to commercial property for seven counties.

Chapter 3 findings:

- (1) The assessment cap has not had a significant impact on the tax base to date. However, the small minority of properties benefiting from the cap receive significant reductions in their appraised value and thus in tax payments.
- (2) The effective tax rates for commercial properties for Edgefield County, Richland County, and York County is at least two and a half times that for residential properties.
- (3) We identified substantial tax shifting from residential to commercial taxpayers for these counties in 2018: Allendale, Edgefield, Florence, Horry, Orangeburg, Richland, and York.

Chapter 4: Effects of Act 388 on School Budgets

Researchers examined twenty school districts in the ten focus counties to determine how school district budgets have changed since Act 388. They also examined various measures of student achievement.

Chapter 4 findings:

- (1) Beginning in 2008, the year after Act 388 was implemented, at least half of the twenty school districts experienced slower growth in property tax revenue and total revenue per pupil.
- (2) Thirteen school districts experienced slower growth in instructional expenditure per pupil since 2008, and only one district experienced faster growth in instructional expenditure per pupil.
- (3) Six school districts experienced slower growth in total expenditure per pupil since 2008.
- (4) School districts in fast-growing counties were more likely to have a statistically significant decline in their total revenue per pupil after 2008.
- (5) Rock Hill School District (York 3) experienced declines in property tax revenue, total revenue per pupil, instructional expenditure per pupil, and total expenditure per pupil growth since 2008.

Chapter 5: Property Tax Abatements, Focusing on FILOTs

South Carolina's effective business property tax rates are high relative to those of South Carolina homesteads and high relative to effective business property tax rates in other states. Property tax exemptions and abatements make it possible for South Carolina county governments to improve South Carolina's competitive position to some extent by reducing the property tax liability of firms that make new investments and create jobs in the state.

There is no comprehensive data on the use and benefits of the various types of property tax exemptions and abatements. Our phone interviews with individuals working in the economic development and property tax administrative fields in South Carolina, as well as preliminary data in county, school district, and municipal comprehensive annual financial reports (CAFRs) suggested that the most widely used and important property tax incentive for business is fees in lieu of taxes (FILOT), sometimes combined with Special Source Revenue Credits or Multicounty Industrial Park incentives.

In 2015, the *Governmental Accounting Standards Board* (GASB) issued GASB Statement No. 77 in order to provide more transparency around tax abatements. The first GASB tax abatement filings in South Carolina were in 2017. We were able to obtain GASB 77 data of varying quality for county governments and school districts for most of the ten focus counties.

Chapter 5 findings:

- (1) Reported value of property tax abatements ranged widely from \$89,000 for Edgefield County to \$67 million for Greenville County. When property taxes abatements were compared to total property taxes levied, the abatements for two counties exceeded 10 percent of total property taxes.
- (2) The use of FILOTs has grown significantly over time. According to Department of Revenue data, the amount of property assessed under FILOT programs grew from a little more than \$400 million in 1997 to \$1.4 billion in 2016. According to the best information available, the value of property under FILOT programs actually surpassed the assessed value of manufacturing properties in 2008.
- (3) South Carolina has a disproportionately high number of jobs in the manufacturing sector compared to other industry sectors and has experienced declines in manufacturing employment that closely correspond to declines in comparison states.

Chapter 6: Nonprofit and Government Properties Exempt from Real Property Taxes in South Carolina

The final chapter of the study considers nonprofit and governmental properties exempt from real property taxes. The report looks at property tax treatment of government and nonprofit property across the United States and examines South Carolina's laws in that context.

Under South Carolina law, properties that are exempt from property taxes are also exempt from the assessing process, which limits the availability of usable data. Based on data that are available, some municipalities have a substantial percentage of land that is tax exempt. For example, a Clemson dissertation reported that more than 40 percent of the land area in Columbia, North Charleston, Rock Hill, and Sumter is exempt from the property tax. These figures do not include acreage used by the federal government.

Although qualifying nonprofits are exempt from the property tax in all 50 states, in some states certain nonprofits make voluntary contributions to local governments to help pay for services received, such as police and fire protection. These voluntary contributions are typically known as *payments in lieu of taxes* (PILOTs). The most recent comprehensive survey of PILOTs across the United States found that PILOT programs have been implemented by at least 218 localities in at least 28 states from 2000 to 2012.

One city in South Carolina, Greenwood, has a viable PILOT program in place. Under Greenwood's PILOT program, four nonprofits voluntarily contribute approximately \$200,000 per year towards the cost of city services.

Chapter 6 findings:

- (1) Data on the importance of the nonprofit exemption is difficult to find because the state does not track exempt property and county assessors are not required to track or appraise exempt parcels.
- (2) Private research suggests large shares of nonprofit property in our focus counties. According to estimates, more than 40 percent of land is exempt in the cities of Columbia, North Charleston, Rock Hill, and Sumter.
- (3) The research identified only one South Carolina municipality that collects PILOT contributions. Neighboring states have more PILOT activity than South Carolina.

Policy Options

The following policy recommendations are the result of analysis contained in the report's six chapters. The objective is to improve the equity, efficiency, and transparency of South Carolina's property tax system.

The reform options described in this chapter range from fundamental changes to South Carolina's property tax system to smaller changes that would improve a broken system. Each option includes an explanation of advantages and disadvantages. This section notes other states that have enacted similar reforms. Volume 2 of this report provides a lengthy description of policy details in some cases.

Property Tax Structure

Reduce Disparities in Effective Tax Rates

The state's current schedule of assessment ratios and the primary homeowners' exemption from paying school operating costs (sometimes called the O & M exemption), create a wide variation in effective property tax rates.³ Manufacturing properties and utilities that don't participate in FILOTs are taxed at the highest rate (10.5 percent assessment ratio), other commercial properties are taxed at 6 percent and primary residences are taxed at the lowest rate (4 percent assessment ratio plus the exemption from property taxes for school operating costs). This wide variation in tax burdens makes the state's property tax system unfair, uncompetitive, and administratively complex. There are various ways to reduce the disparity in effective property tax rates. Some approaches are more feasible than others.

Two methods to fix the disparity in assessment ratios are: (1) a 2/3 vote of the legislature to directly change assessment ratios or (2) enacting legislation (similar to what the General Assembly did in 2015) adding a special exemption to adjust effective assessment ratios in the manufacturing sector. Legislation exempting 14.3 percent of manufacturing property from property taxation (phased in over six years) enacted in 2015 will eventually reduce the effective assessment ratio for manufacturing property not receiving FILOTs to 9 percent from its original 10.5 percent.

The Simplest Approach: Lower Assessment Ratios through Exemptions

Ideally, the effective property tax assessment rate on manufacturing property should eventually be lowered to 6 percent. This proposed exemption would apply to any manufacturing property that does not participate in a FILOT program. Because most manufacturing properties are already participating in a FILOT, the proposed exemption would have less of financial effect than it might otherwise. Adjusting the assessment rate using exemptions is the easiest property tax reform to implement. The manufacturing sector is taxed and collections are made at the state level, through the South Carolina Department of Revenue. Legislatively enabled exemptions also occur at this level of government. Changing assessment ratios directly through a supermajority vote of the legislature would be the most transparent option. Changing the effective assessment ratio through a "back door" exemption is more complex and less transparent but requires only a majority vote of the legislature.

³O & M stands for operations and maintenance

Lowering the assessment ratio for the manufacturing sector would make South Carolina more competitive with other states in its property tax treatment. A lower effective property tax rate would be provided instead of FILOTs, which would reduce the number of FILOTs, saving both county governments and businesses the time and expense of negotiating FILOT terms.

A similar approach could be applied to utilities, which also are subject to the 10.5 percent assessment ratio, but which were not included in the 2015 phase-down legislation described above.

Residential renters, who typically have lower incomes than homeowners, pay property taxes as part of their rent. Renters are disadvantaged relative to primary homeowners in two ways. The assessment ratio for rental property is 50 percent higher at 6 percent versus owner-occupied homes at 4 percent. Renters or secondary homeowners do not receive the exemption from school operating millage. The legislature could consider two options to address this inequity: a supermajority legislative change reducing the assessment ratio for residential rental property to 4 percent or enacting a special exemption for residential rental property to reduce its effective assessment rate from 6 percent to closer to 4 percent.

A similar approach could be applied to residential property that is neither primary residential nor rental property so that all residential property is effectively assessed at 4 percent.

This option has the advantage of making South Carolina less of an outlier, compared to other states, in its property tax treatment of residential rental property. This change would improve equity, because it would remove a regressive feature of South Carolina's property tax since charging renters more than homeowners levies lower taxes on high income families than low income families. If all residential property were assessed at 4 percent, this option would make it easier for counties to administer the property tax because it eliminates the need to certify whether housing is primary residential or not. A disadvantage of this option is that it requires a two-thirds vote of the legislature or the legislature's approval of an additional special exemption, which would not improve the transparency of South Carolina's property tax system.

Between 1997 and 2002, the State of Minnesota implemented property tax reforms that significantly reduced disparities in effective property tax rates. See Volume 2, Chapter 1, Appendix D for a discussion of this history.

The Elephant in the Room: Act 388

Exempting primary homeowners from paying property taxes for school operating costs through property taxes makes South Carolina unique in the nation. The O & M exemption should be phased out and replaced with a state-funded circuit breaker, which provides selective property tax relief to those who truly need it. A circuit breaker is a property tax relief program that provides households with direct property tax relief that increases as household income declines for a given property tax bill. The best circuit breakers include homeowners and renters of all ages.

Phasing out the O & M exemption has the advantage that it would improve the equity of South Carolina's property tax system. The O & M exemption is unfair because primary

homeowners, who benefit the most from schools, do not pay property taxes to operate the schools. Homeowners who cannot certify their home as their primary residence do not qualify for the O & M exemption. Also, rental property is not eligible for the O & M exemption. One advantage of this option is that circuit breakers are the best method to direct property tax relief to where it is most needed. Another advantage of changing the O & M exemption is that it would reduce the costs of administering the property tax. Currently, each county must maintain staff to certify primary residence status and reduce fraud. A major disadvantage of this option is that it is politically difficult to repeal property tax relief once it has passed. Voters are very reluctant to reverse property tax relief in any form.

If phasing out the O & M exemption is not possible, an alternative policy would be to cap the amount of property value entitled to the exemption. This would improve equity between homeowners and renters but add additional property tax revenue mostly in high wealth districts.

Replace O&M Millage for all Property Types with a State Education Property Tax

Passage of a state education property tax could be used to fund schools in a way that does not exacerbate disparities in funding. It can narrow the range of effective property tax rates as follows. Currently, only primary homeowners are exempt from paying property taxes for school operating costs. This exemption could be extended to all property types at the same time a state education property tax is enacted. It would provide additional funding for schools from a broader tax base and narrow the differential in effective property tax rates at the same time.

Enacting a state education property tax would provide equalized funding based on student head count rather than zip code and allow the entire education system to enjoy the benefits of economic growth as opposed to one district. A disadvantage of this option is that it adds an additional state property tax and requires voter support. However, it should be easier to enact a new tax whose goal is to make the system fairer and whose revenue is targeted for education. For comparison, see Volume 2, Chapter 1, Appendix E for a description of Michigan's state education property tax.

An alternative to a state education property tax could be an equivalent required local millage for school operating costs. The advantage of this option would be that it gives more control over funding to local governments. A disadvantage of this alternative is that it would make it more difficult to redistribute this additional property tax revenue from wealthy to poor school districts.

Repeal the Assessment Cap

Although the research concluded that only a small fraction of properties is subject to the assessment cap (the requirement that appraised value of property not increase more than 15 percent over 5 years), this could be partly because the assessment cap has not had time to demonstrate its long-term effects. Shortly after enactment of Act 388, the country experienced the Great Recession, a time when one would expect property values to be falling instead of rising.

Although assessment caps are intended to provide property tax relief, they are perhaps the worst mechanism for providing such relief. They primarily benefit property owners whose property has gained the most value. Because Act 388 also imposed limitations on increases in millage, the assessment cap should not be necessary. Repeal of the assessment cap would also allow the ATI to be eliminated as appraised values moved toward a more uniform market value. A disadvantage of repealing the assessment cap is that this would require an amendment to the constitution.

The experiences of Minnesota, Idaho, Oregon, Montana, and Cook County, Illinois demonstrate that repealing an assessment cap is achievable. These states and county successfully lifted restrictions on property tax assessments. See Volume 2, Chapter 3, Appendix D for a description of the assessment caps in these jurisdictions, their successful repeal efforts, and potential lessons for South Carolina.

Property Tax Administration

Revalue Property More Frequently

The general property revaluation cycle is five years (sometimes six). The South Carolina code requires each county to “appraise and equalize all properties under its jurisdiction” every five years. There are at least two ways that the state could revalue property more frequently. The state could adopt a shorter revaluation cycle, perhaps two or three years. Alternatively, the state could forgo shortening the revaluation cycle, but impose other requirements for keeping appraised values current, such as using sales ratio studies to trigger reappraisal, if necessary, as Tennessee does. This would require annual, rather than every five-year, ratio studies. Either reform would move the state closer to best practices recommended by the International Association of Assessing Officers (IAAO 2010).

Adopting either of these reforms would improve the equity of the property tax. This analysis concludes that a five-year revaluation cycle, with no mechanism for updating appraised values within the revaluation cycle, leads to both horizontal and vertical inequities. A disadvantage of this option is that it would require the state to provide guidance and transitional assistance to assessors as they adapt to a new system. It could also require additional assessment staff.

Provide Guidance to Assessors to Help Make the Property Tax More Uniform and Transparent

We found that no two county assessors among the focus counties use the same land use codes. There should be one general framework for land use codes, and it should follow the general framework in the Constitution. There is confusion regarding terms that are critical to South Carolina’s current property tax structure. For example, the assessment cap dictates that the assessment ratio applies not to fair market value but rather to property tax value. Although “property tax value” is South Carolina Code’s name for a limited or capped value, few property tax professionals use that term. The publication of a well-written, widely available manual for assessors, along with additional guidance and oversight from the

Department of Revenue, could solve this challenging problem. In addition, the Department of Revenue could require commercial businesses to provide income and expense information for the purposes of the property assessment process. This could help alleviate the issue, found in this analysis, that assessment quality is worse for commercial properties than for residential properties.

In general, South Carolina could look to the models of some of its neighboring states or to the various property tax standards published by the International Association of Assessing Officers for potential improvements to the various features of its system of property tax administration, ranging from assessment standards and use of sales ratio studies to property tax appeals. See the appendix to Chapter 2, Volume 2 for a case study of property tax administration in Tennessee which notes some of that state's exemplary features which South Carolina may choose to consider.

This option has the potential advantage that it might not require legislation and would make South Carolina's property tax more transparent and easier to administer. A disadvantage of this option is that it would require additional resources.

Enhance Transparency on Property Tax Abatements

The current system of property tax abatements in South Carolina is opaque. Fortunately, the advent of the GASB 77 requirement to report revenue not collected due to property tax abatements in comprehensive annual financial reports is an excellent opportunity to increase transparency. Currently, the available information is inconsistent and sometimes contradictory. The state could encourage compliance with GASB 77 and provide guidance so that reports by counties, school districts, and municipalities are more consistent.

It is important for the general public to understand the costs of property tax abatements so they can weigh the benefits against the costs. Otherwise, the escalating use of property tax abatements may inadvertently narrow the tax base, shift property tax liability to others, and produce little economic benefit. This is the major argument in favor of enhanced transparency for property tax abatements. A counterargument is that these reporting measures require additional staff time.

Provide Guidance on PILOT Programs to Local Governments Bearing a Disproportionate Burden from Tax-Exempt Property

Certain localities are disproportionately affected by the presence of tax-exempt state government or nonprofit property. The property tax burden is shifted to remaining taxpayers who do not qualify for tax exemption. The state should provide guidance so that localities can opt to create PILOT (payments-in-lieu of taxes) programs whereby nonprofits can voluntarily subsidize the public services they benefit from. The state could also help or encourage local governments to value tax-exempt property. The first step in alleviating any disproportionate burden from tax-exempt property is to be able to estimate the extent of that burden. The South Carolina statute which explicitly exempts tax exempt property from the assessment process may be an impediment to that valuation exercise.

An argument in favor of providing guidance for voluntary PILOT programs is that they have worked in other parts of the country (for example, in Boston) and work in at least one municipality in South Carolina. An argument against this approach is that it does not provide compensation for the tax base loss due to state-owned government property.



Summary of
Chapter 1:

INTRODUCTION AND OVERVIEW OF SOUTH CAROLINA'S PROPERTY TAX SYSTEM

By Daphne A. Kenyon, Ph.D. and Bethany P. Paquin

Introduction

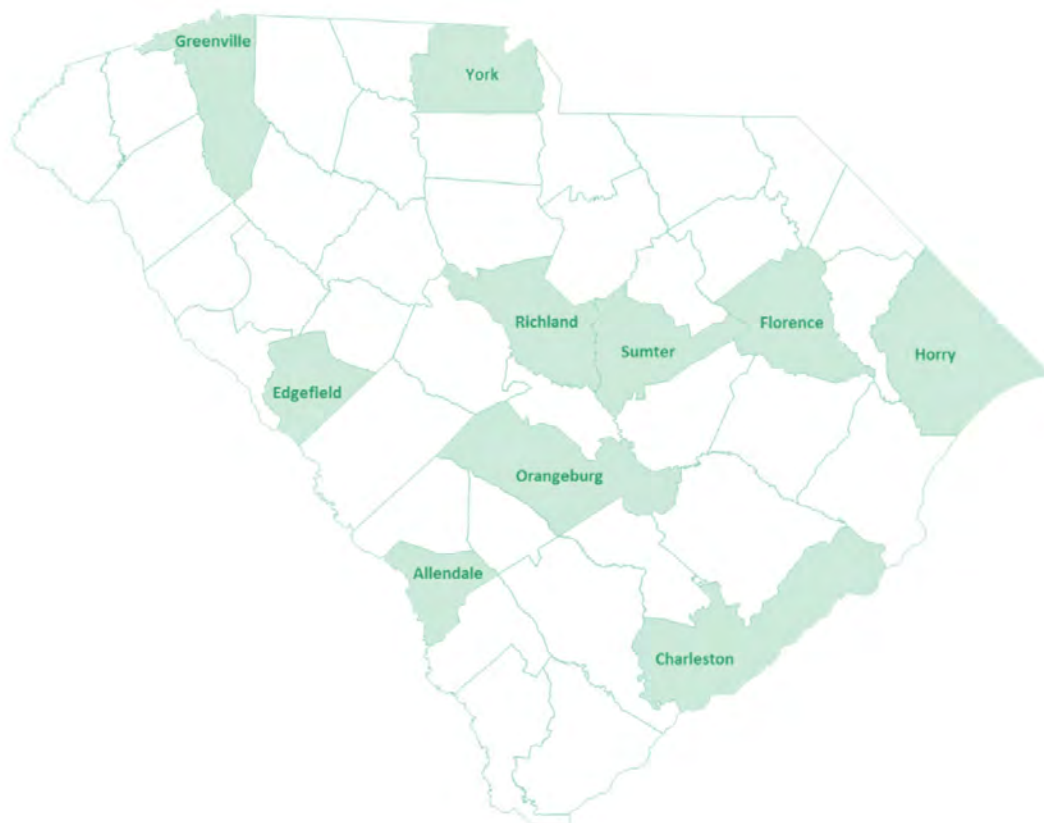
South Carolina has a property tax system that is unique among the 50 states. As this report will show, South Carolina's property tax system is complex, nontransparent, inequitable, and noncompetitive. Act 388 passed in 2006 with the ostensible aim of providing property tax relief to homeowners, but it has exacerbated the problems with South Carolina's property tax system.

This introductory chapter first presents criteria for a good tax system. Next, it provides an overview of the South Carolina property tax system and Act 388. The third section will describe revisions to the property tax since Act 388. The next section discusses outcomes of Act 388 and South Carolina's property tax system, paying special attention to effective tax rates. Some of the data illustrate how the property tax has changed since Act 388 went into effect. The final section notes some of the ways that South Carolina's property tax system is an outlier among the 50 states.

This analysis includes data from 10 focus counties: Allendale, Charleston, Edgefield, Florence, Greenville, Horry, Orangeburg, Richland, Sumter, and York (Figure 1.1). These counties vary in size, geography, and economic status to provide a representative cross-section of South Carolina's property tax systems.⁴

Figure 1.1

Map of Focus Counties



⁴Volume 2 provides a description and comparison of these ten focus counties.

Criteria for a Good Tax System

Studies of state and local tax systems traditionally present underlying principles of sound tax policy as a guide for tax policy choices. South Carolina policymakers should evaluate any reform proposals in the context of these principles.

Equity

Equity or fairness is fundamental to sound tax policy. Two theories of tax fairness, the *benefit principle* and the *ability-to-pay principle*, present distinct approaches to equity. The benefit principle ties equity to benefits received. The ability-to-pay principle ties equity to each taxpayer's financial resources. The terms *horizontal equity* and *vertical equity* describe two components of the ability to pay principle. Horizontal equity implies that taxpayers in similar situations face similar tax liability. Vertical equity implies that taxpayers in dissimilar situations face dissimilar tax liability (Cordes 2005 and Ebel 1990). In other words, equitable tax systems impose higher tax rates on taxpayers with more income and wealth and similar tax rates on taxpayers with similar resources.

Efficiency

An efficient revenue system is marked by neutrality. An efficient tax minimizes unintended interference with markets by avoiding policies that alter personal or business behaviors and decisions. In aiming for neutrality, governments should favor policies that uniformly apply low rates to a broad base (Ebel 1990). Efficient systems also minimize the costs of administering and complying with tax systems for governments and taxpayers.

Stability

Tax revenues rise and fall to varying degrees as economic conditions fluctuate. The more stable a tax or system of taxes is, the steadier the revenue stream will be in times of economic change (Almy, Dornfest, and Kenyon 2008).

Transparency

A tax is transparent when information on the process of taxation is publicly available, the tax is understandable, and all information is disclosed. Taxpayers should clearly understand what is taxed (the tax base), what they must pay, and when a tax is payable.

Overview of South Carolina Property Taxes and Act 388

South Carolina's Property Tax System

The method by which South Carolina's tax bills are calculated reveals the complexities of the state's property tax system. In very basic terms, a South Carolina property tax bill is determined in three steps:

- (1) The property is valued at its fair market value (also known as appraised value).
- (2) The property is assigned an assessment ratio. South Carolina has a property tax classification system under which different types of property are taxed at different ratios of assessed value (Table 1.1). Primary residences and private agriculture receive the lowest assessment ratio—4 percent—while manufacturing, utility, and personal property receive the highest assessment ratio—10.5 percent.⁵ The fair market value is multiplied by the assessment ratio to produce the assessed value. The assessment ratio for primary residences in South Carolina is 4 percent, so a homeowner's primary residence valued at \$100,000 would be assigned an assessed value of \$4,000.
- (3) Assessed value is multiplied by the total millage rate to derive the property tax bill. The total millage rate is the sum of the tax rates of the county, municipality, school district, and other taxing entities.

Table 1.1 Constitutional Assessment Ratios by Class of Property

Property Classification	Tax Rate (%)
Owner-Occupied	4.0
Agricultural (Private)	4.0
Agricultural (Corporate)	6.0
Commercial/Rental	6.0
Personal Property (Vehicles)	6.0
Other Personal Property	10.5
Manufacturing	10.5
Utility	10.5
Business Personal	10.5
Motor Carrier	9.5

Source: South Carolina State Constitution

⁵Throughout this report "owner-occupied" will mean the same as "primary residence." Definitions of these terms and others can be found in the Definitions section at the end of the report.

Table 1.2 presents a simplified property tax bill calculation for two South Carolina residential properties, both with a fair market value of \$150,000. The owner-occupied residence has an assessment ratio of 4 percent while the rental property has an assessment ratio of 6 percent. Even if the two properties are in the same taxing jurisdiction, they will not face the same total millage rate because the owner-occupied property is exempt from millage for school operating costs. So, in this stylized example, the total millage rate for the owner-occupied primary residence is 0.2022 and the millage rate for the rental property is 0.4590. As of result of varying assessment ratios and the school exemption, these two properties with identical market values face two very different tax rates and tax bills. The tax on the rental property of \$4,131 is three-and-a-half times that of the owner-occupied property (\$1,213).

Table 1.2 Comparison of Tax Bills for Two South Carolina Residential Properties

	Owner-Occupied	Rental
Fair Market Value	\$150,000	\$150,000
Assessment Ratio	4%	6%
Assessed Value	\$6,000	\$9,000
Millage Rate	0.2022	0.459
Property Taxes	\$1,213	\$4,131
Effective Tax Rate	0.81%	2.75%

Source: Author's calculation

Note: Owner-occupied primary residences have an assessment ratio of 4.0% and rental property has an assessment ratio of 6.0%. Owner-occupied property is exempt from property taxes for school operating costs so is subject to a lower millage rate.

Differentially high taxation of rental property compared to primary residential property is inequitable for two reasons. First, homeowners typically have higher incomes than renters. Thus, the differentially heavy taxation of renters fails the ability to pay principle. Second, homeowners are the primary beneficiaries of school spending. Thus, exempting primary residences from paying for school operating costs fails the benefit principle.

Act 388

Act 388, passed in 2006, limited property tax revenue in three major ways:

- It eliminated property tax liability on primary residences for school operating costs known as the “O & M” (operation and maintenance) exemption. Homeowners are still liable for property taxes for school debt service. Since Act 388, non-homestead property owners bear the burden of school operating costs funded by property taxes. Act 388 raised the sales tax one percentage point to offset the revenue loss, mandating state reimbursement of local government tax loss.
- It placed a 15 percent cap on the growth of appraised value of property tax over a five-year period unless the property is sold (assessable transfer of interest or ATI). If a property is sold, it is revalued at its fair market value.
- It placed a cap on the rate of growth of jurisdiction-specific property tax rates. The maximum millage cap limits increases in local millage rates for operating purposes. Under the law, a locality may not increase its millage rate by more than the increase in the consumer price index plus its population growth percentage in the previous year (*Significant Features of the Property Tax*).

Revisions to South Carolina's Property Tax System Post-Act 388

Since enactment of Act 388, South Carolina adopted a number of legislative or administrative “patches” to its property tax system. We make no attempt to provide a comprehensive list of these revisions but try to highlight some of the most important ones.

- The fees in lieu of taxes (FILOTs) program, which reduces property tax liabilities of firms that make new investment and create jobs in the state, predates Act 388, but the use of FILOTs has expanded considerably since Act 388 was enacted. Nominally, industrial property is assessed at 10.5 percent while commercial property is assessed at 6 percent. Under the FILOT program, industrial property is able to obtain an assessment rate of 6 percent, and sometimes 4 percent, as well as other property tax relief. The FILOT program is further discussed in Chapter 5.
- Recent legislation used a phase-in scheme to exempt 14.3 percent of manufacturing property from property taxation and effectively reduce the effective assessment rate on manufacturing property to 9 percent. This statutory change is targeted at investments that are not eligible for FILOTs. Although the stated assessment ratio applying to utilities, like manufacturing, is 10.5 percent, utilities were not included in this legislation.

- When property is sold, South Carolina's ATI law requires that it be reassessed at market value. Because of the state's 5-year revaluation cycle, this means that recently sold property can be valued much higher than similar property that has not been recently sold. There is a special exemption of 25 percent of market value for properties assessed at a 6 percent rate that would otherwise qualify as ATIs. However, the property owner must apply to receive this exemption and apparently some taxpayers are unaware of this provision.

These changes to the property tax system attempt to reduce the differentially heavy property tax burden on manufacturing and commercial property. However, each of these revisions can be considered "patches" as they increase the complexity of the property tax system and reduce its transparency.

South Carolina's Property Tax is Characterized by Disparate Tax Rates

Effective Tax Rates

An effective tax rate compares the tax paid (tax liability) to the value of the property on which the tax is levied (tax base). Another way to think of effective tax rate is the tax bill as a percent of the property's market value.

Much of the analysis in this chapter relies on an annual report examining the property tax by category of property for the largest city in each state (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2019).⁶ This data source reports effective property tax rates for cities within states, and not for states as a whole. Nevertheless, for many states, examining the property tax in the largest city in the state, as these data do, provides a reasonable measure of the property tax burden for the state as a whole.

⁶In addition to published estimates, the staff of the Minnesota Center for Fiscal Excellence calculated some additional estimates for the purposes of this report.

Figure 1.2 Effective Tax Rates by Property Type, 2018

Source: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2019

Note: Median home values vary across states. The median home value for Charleston was \$344,600; the median home value in Charlotte was \$215,500; and the median home value in Atlanta was \$299,400.

Charleston, South Carolina has an effective tax rate for industrial property that is extremely high compared to the U.S. average and its counterpart cities in neighboring North Carolina and Georgia (Figure 1.2). Charleston's commercial and apartment effective tax rates are close to the U.S. average but higher than its neighbors. Its homestead effective tax rate is very low compared both to the U.S. average and its neighbors.

Commercial-to-homestead, apartment-to-homestead, and industrial-to-homestead ratios of effective property tax rates show the disparity in tax rates for different property classes. Some states, like North Carolina, tax all property at the same rate. Therefore Charlotte, North Carolina's commercial-to-homestead ratio and apartment-to-homestead ratios both equal 1. It is not unusual to tax either apartment or commercial property at a higher rate than homestead property as seen in Florida, Georgia, and Tennessee. However, it is unusual to tax apartment or commercial property three times higher than homestead property as South Carolina does.

Effective tax rates can vary within a property category like industrial. For the United States as a whole, industrial properties valued at \$100,000 are typically taxed at a somewhat lower rate than those properties valued at \$25 million. Charleston's effective property tax rate for industrial property consistently ranks fourth among the largest cities in each of the 50

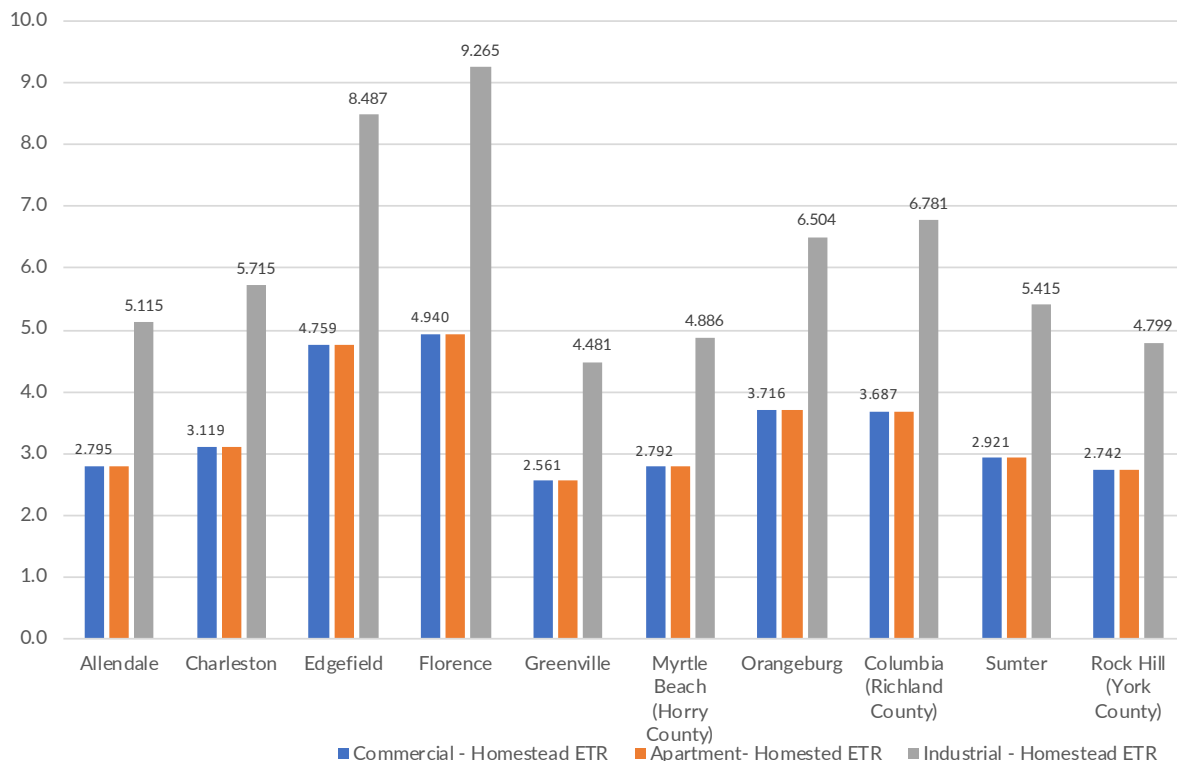
states (very high). Its effective tax rate for commercial properties ranks from twenty-fourth to twenty-seventh (about average), its effective tax rate for apartments ranks nineteenth (somewhat above average) and its effective tax rate for residential ranks either fiftieth or fifty-first (very low).

County Effective Property Tax Rate Comparison

The annual report of the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence reports effective tax rates for selected cities. One might wonder whether effective property tax rates reported for Charleston (now the most populous city in South Carolina) or Columbia (which used to be the most populous city in South Carolina) are representative of the state as a whole. Therefore, special calculations done by the staff of the Minnesota Center for Fiscal Excellence present information on ratios of effective property tax rates for the largest city in each of the ten focus counties.

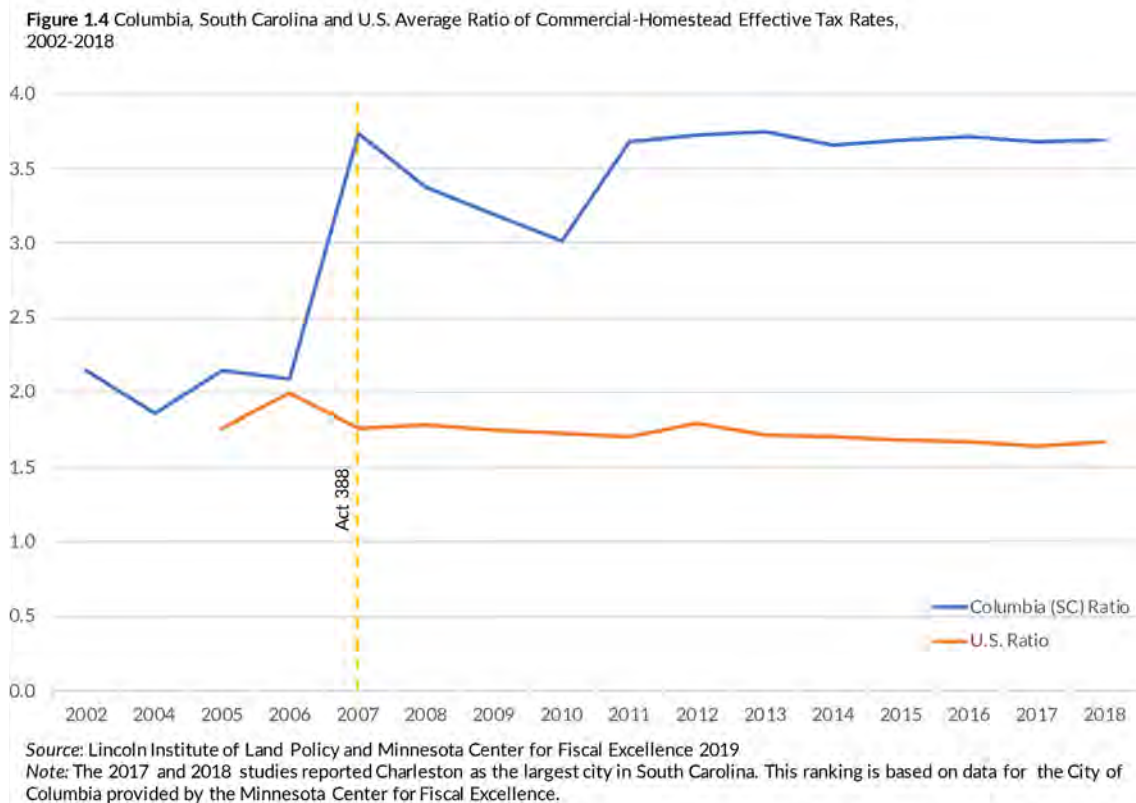
Ratios of effective tax rates for commercial, apartment, or industrial property to homestead property vary among the largest city in each county, however, in all of the 10 focus counties, commercial and apartment property is taxed at an effective rate two-and-a-half to five times higher than homestead property; industrial property is taxed at an effective rate four-and-a-half to nine times higher than homestead property (Figure 1.3). Since South Carolina taxes apartments at the same rate as commercial properties, the effective tax rate ratios of commercial and apartment property to homestead rates are identical.

Figure 1.3 ETR Ratios for Largest City in 10 Focus Counties

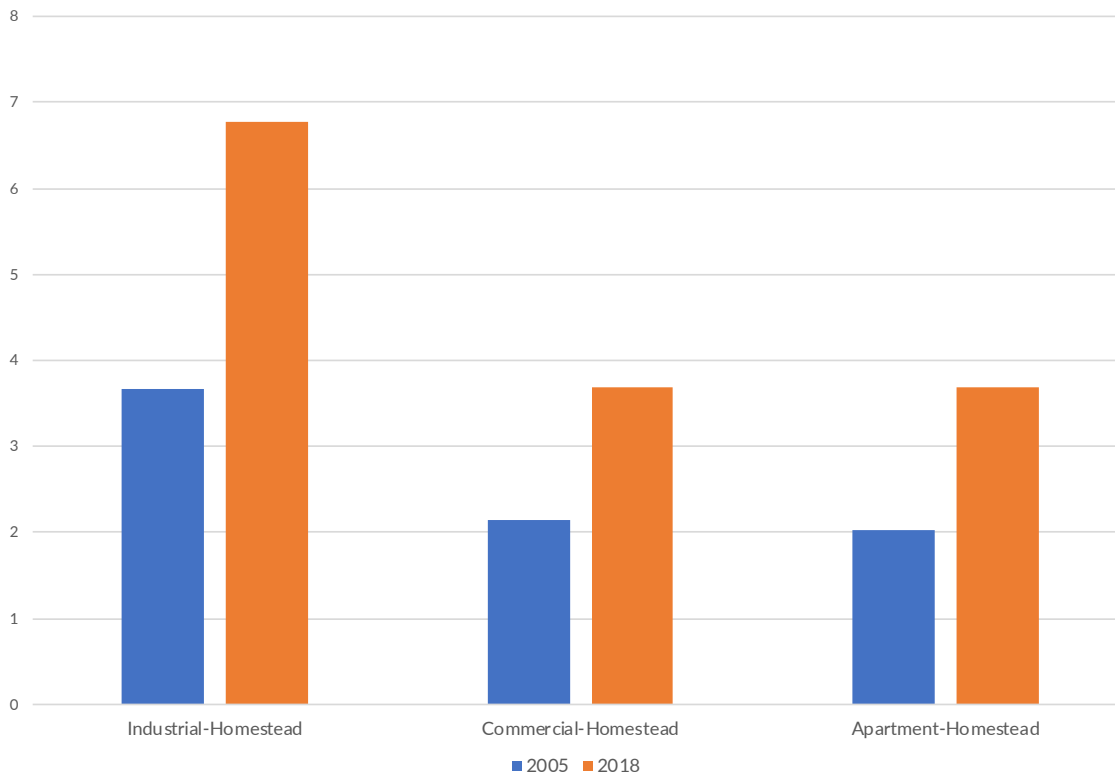


Changes in Effective Tax Rates since Act 388

In 2002, commercial property in Columbia, South Carolina, was taxed at just over twice the rate of homestead property. In 2007, after the passage of Act 388, commercial property was taxed at nearly four times the rate of homestead property (Figure 1.4). Although the ratio of commercial-to-homestead effective tax rates has varied from 2007 to 2018, post-388 commercial property has been taxed at a rate at least three times higher than the residential tax rate.



Apartment to homestead ratios of effective tax rates show a similar trend. In 2002, apartment property in South Carolina was taxed at just over twice the rate of homestead property. In 2007, after the passage of Act 388, apartment property was taxed at nearly four times the rate of homestead property. Although the ratio of apartment-to-homestead effective tax rates has varied from 2007 to 2018, post Act 388 with the exception of 2010, apartment property has been taxed at a rate at least three and a half times higher than the residential tax rate.

Figure 1.5 The Impact of Act 388: Changing Ratios of Effective Property Tax Rates

Source: Minnesota Center for Fiscal Excellence

Figure 1.5 presents three ratios of effective property tax rates for 2005 and 2018. This clearly shows that South Carolina's disparities in effective property tax rates were exacerbated by enactment of Act 388:

- Before Act 388, industrial property was taxed at about three and a half times higher than homestead property. After Act 388, industrial property has been taxed at nearly seven times the rate of homestead property.
- Before Act 388 commercial and apartment property was taxed at over two times the rate of homestead property. After Act 388, commercial and apartment property has been taxed at about three and a half times the rate of homestead property.

South Carolina's Property Tax System is an Outlier

Both the structure of South Carolina's property tax system and its outcome make South Carolina an outlier among the fifty states.

South Carolina's unique policy that fully exempts primary homesteads from property taxes for school operating costs contributes to the high ratios of industrial, apartment, and commercial property tax rates compared to homestead property tax rates. Michigan is the only other state that exempts primary homesteads from local property taxes for school operating costs. However, Michigan imposes a statewide property tax that captures revenue for schools from all property classes.

South Carolina is one of only two states where the property tax system treats commercial properties preferentially compared to industrial properties (the other state is Wyoming) (Minnesota Center for Fiscal Excellence).

Charleston ranks fourth highest in the United States with respect to its effective property tax rate for industrial property. In contrast, South Carolina's largest city ranks fifty-first lowest with respect to its effective property tax rate on median-valued homes.⁷ None of South Carolina's neighbors have a pattern of effective tax rates that is skewed in this way.

South Carolina's disparate property tax rates are also reflected in various ratios of effective tax rates:

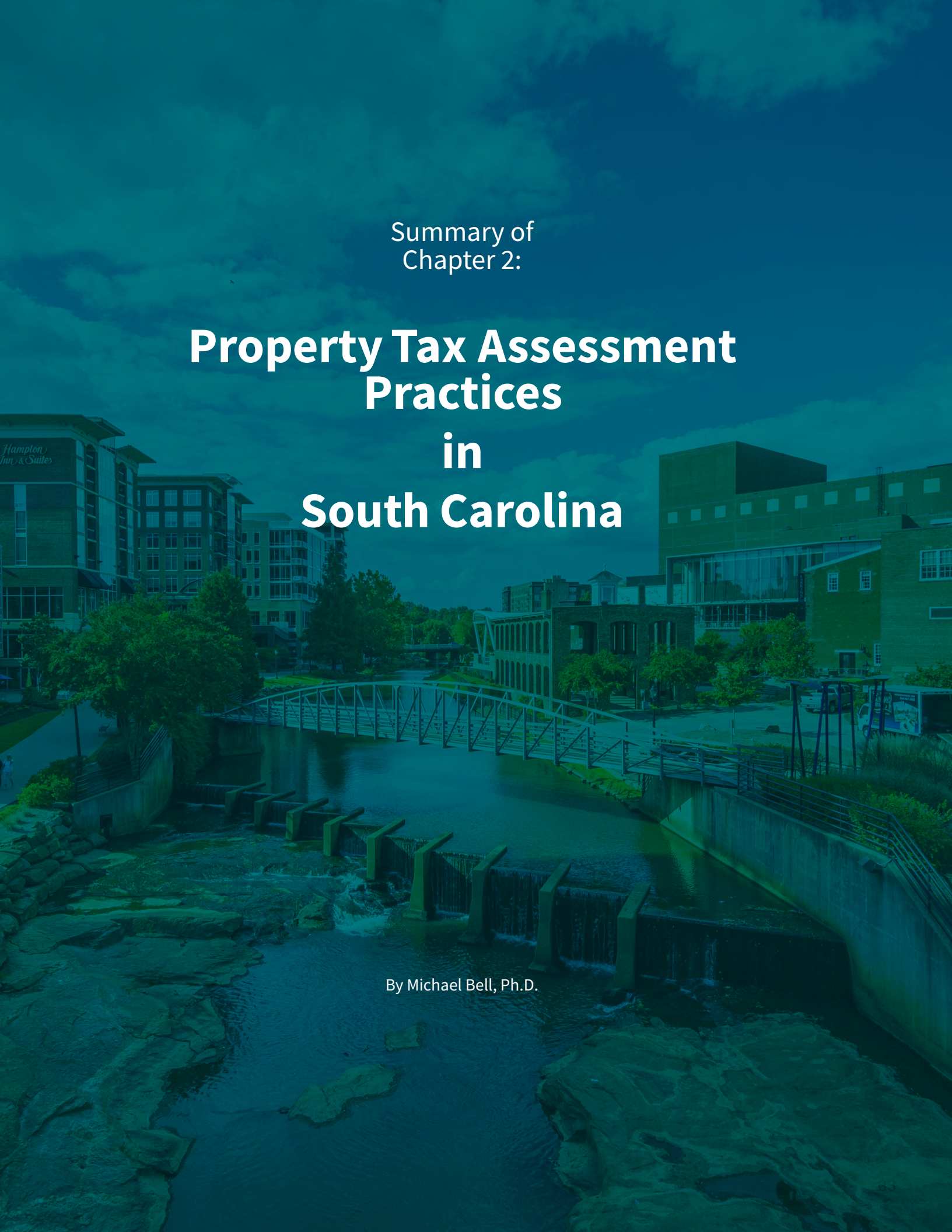
- In 2018, Columbia, South Carolina had the highest ratio of industrial-to-homestead effective property tax rates in the nation.⁸ Columbia's ratio of industrial-to-homestead effective tax rates has ranked highest in the nation since 2013.
- Columbia, South Carolina's commercial-to-homestead ratio of effective tax rates ranked fourth highest among largest cities in 2018 and has ranked among the top five highest ratios since 2010.
- Charleston, South Carolina's apartment-to-homestead ratio of effective property tax rates ranked highest among the largest cities in 2018.

Conclusion

Data on South Carolina property taxes reveal a complex and unusual system under which businesses and apartments bear a proportionally greater share of the property tax than owner-occupied residential properties. Taxation of property in the state is subject to assessment ratios and exemptions that have led to widely disparate effective tax rates on homestead and non-homestead property. South Carolina has the highest-in the nation ratio of industrial-to-homestead property tax rates. Its policy for taxing industrial property differently from commercial property is highly unusual. The state's exemption of all primary homeowners from school operating taxes is unique among the 50 states and a primary cause of South Carolina property tax imbalance. The property tax system lacks the characteristics of equity, efficiency, and transparency that are foundational to a sound tax system.

⁷See Volume 2 for additional comparisons of effective tax rates by property type for South Carolina and comparison states.

⁸These rankings rank the largest city in each state plus Washington, DC and two additional cities in New York and Chicago. Two cities are used to reflect property tax policy in Illinois and New York since Chicago's and New York City's property tax systems are significantly different from the rest of the state. Since 53 cities are included in total, ranks range from 1 to 53.



Summary of
Chapter 2:

Property Tax Assessment Practices in South Carolina

By Michael Bell, Ph.D.

Introduction

Unlike the income or sales tax, the property tax does not have a readily observable base. The tax base needs to be estimated, usually by an assessor. Good assessment quality is critical for the equity or fairness of the property tax. A good quality assessment system can also help make the property tax more transparent.

This high-level summary of Chapter 2, Volume 2, provides an overview of the state's system of property tax administration. It also presents the results of an independent evaluation of assessment quality in selected counties, with an emphasis on how assessment quality changes over the five-year assessment cycle. This summary focuses on real property, not personal property.⁹ It does not discuss the various approaches that South Carolina assessors use to value property.

Structure of South Carolina's Property Tax Assessment System

South Carolina's classified property tax system was discussed in Chapter 1. Table 2.1 illustrates the different property classifications and their respective assessment ratios and also notes the government entity that values each type of property. In South Carolina, the valuation task is split between the county assessor, county auditor, and Department of Revenue. The county assessor values or appraises most real property (primary residential or owner-occupied and commercial/rental). The county auditor appraises personal property including vehicles. The Department of Revenue appraises manufacturing, utility, business personal, and other specified real property types. Partly because the valuation process is divided between three different organizations, no single entity has complete information for the property tax roll in any individual county.

Property Classification	Assessment Ratio	Appraised By
Owner-Occupied	4.0	County Assessor
Agricultural (Private)	4.0	County Assessor
Agricultural (Corporate)	6.0	County Assessor
Commercial/Rental	6.0	County Assessor
Personal Property (Vehicles)	6.0	County Auditor
Other Personal Property	10.5	County Auditor
Fee-in-Lieu	NA*	NA
Manufacturing	10.5	Department of Revenue
Utility	10.5	Department of Revenue
Business Personal	10.5	Department of Revenue
Motor Carrier	9.5	Department of Revenue

Source: South Carolina Revenue and Fiscal Affairs Office (2018)

*Assessment ratios for Fee-in-Lieu are negotiable and vary by agreement. The minimum ratio is 4.0 percent.

⁹Real property is all land and the buildings, structures, and improvements on the land. Personal property includes cars, trucks, boats, motorcycles, and airplanes. It also includes furniture, fixtures and equipment used by business. Definitions for these terms and others used in this summary are in a separate section labeled Definitions.

South Carolina law requires counties to revalue property once every five years. Property valuation should be complete at the end of the fourth year and newly appraised values implemented in the fifth year. A county can postpone the implementation of new values resulting from the revaluation by one year.

An important exception to the every-five-year revaluation of property, which was enacted as part of Act 388, is the assessable transfer of interest (ATI). Four pages of details in the South Carolina code specify types of transfers that do and do not qualify as an ATI. If a transaction qualifies as an ATI, the assessor must reappraise the property in the year of transfer and record the new appraisal as the fair market value of the property as of December 31 of that year.

Act 388 has affected the work of county assessors in two specific ways. First, there is an increased workload resulting from the requirement to revalue ATIs in the year of the transaction. Second, local assessors must address a significant increase in the number of applications for residency. This arises because primary homeowners have their homes assessed at 4 percent rather than 6 percent. In addition, they qualify for the exemption of property taxes for school operating and maintenance expenses. Together these two property tax features are applicable for primary residences only and provide a tremendous incentive for homeowners to take advantage of the property tax benefits of residency.

Another change that took place after enactment of Act 388 was the end of annual sales ratio studies. Because state law requires that “all property must be assessed uniformly and equitably through the State,” the Department of Revenue is required to perform sales ratio studies to determine if a county complies with this requirement. Prior to 2008, these sales ratio studies were performed annually. Since 2008, sales ratio studies have been conducted only in the year a county performs a reassessment.

Differences among the Counties in their Assessment Systems

The real estate markets differ from county to county among the ten focus counties. For example, Allendale County has a relatively stable real estate market, with only seven building permits issued for new construction in 2018. On the other hand, York County has a relatively dynamic real estate market, with approximately 7,500 arms-length real estate sales in 2018, or just over 6 percent of total real estate on the property tax roll.

Property tax assessment systems also differ among the counties. Table 2.2 presents the

number of real property parcels valued by the county assessor in each county. These range from 9,000 in Allendale County to 265,000 in Horry County. The table also notes the year of the most recent reassessment for each county. Note that counties conduct reassessments in different years.

Table 2.2 Real Property Parcels by County

County	Number of Real Property Parcels Valued by the Assessor	Most Recent Reassessment
Allendale	9,000	2018
Charleston	195,000	2019
Edgefield	22,000	2015
Florence	NA	NA
Greenville	205,000	2019
Horry	265,000	2018
Orangeburg	65,000	2017
Richland	170,000	2018
Sumter	64,000	2015
York	121,000	2019

Source: Author's interviews with assessors.

It is difficult to compare assessment practices and assessment quality among counties for two major reasons. First, the terms used to talk about the property tax and valuation process vary across counties. Everyone agrees that the starting point for the valuation process is to determine the *appraised* or *fair market value* of a property. Because of the 15 percent assessment limit, however, the appraised value is not always the starting point to calculate the assessed value of a property. For properties subject to the assessment limit there is also a *capped value* which can be referred to as the *capped* or *limited value*. The South Carolina code refers to this value as the *property tax value* but this term is rarely used. Sometimes capped value is referred to as *taxable value*. Other times taxable value is used interchangeably with assessed value, which is the value the auditor uses to calculate property tax liabilities.

A further problem is that no two counties use the same list of land use codes. For example, Allendale uses 135 land use codes and York County uses 23 land use codes. Their methods of classifying properties also differ. Allendale County land use code 100 contains owner-occupied residential properties with assessment ratios of 4 percent and land use code 200 contains non-owner-occupied residential properties with assessment ratios of 6 percent. Greenville County, on the other hand, puts both owner-occupied and non-owner-occupied residential properties in land use code 1100. This variation among counties in how properties are classified is unusual and complicates transparency.

Shifting the Property Tax Burden

To compare the composition of the property tax base across the ten focus counties, information was solicited from the assessor and auditor in each county. They were provided with a standard template and asked for information on the appraised and assessed value for each land use classification included in the constitution. This exercise was challenging for some of the reasons given in the section above.

Charleston, Edgefield, Greenville, and Richland counties provided all the information requested on the composition of the property tax base in 2018. Allendale and York counties provided assessed value for all property types, but appraised value only for real property. Horry and Sumter counties provided appraised and assessed values for real properties valued by the county assessor. Florence and Orangeburg counties did not provide information on the composition of their tax base.

The focus of Table 2.3 is the comparison between the share of appraised value and the corresponding share of assessed value for each land use classification. The differences, when viewed through the lens of equity and uniformity, indicate whether property taxes paid equal the share of appraised value.

Table 2.3 Selected Land Use Shares of Appraised and Assessed Values by County, 2018

PROPERTIES VALUED BY COUNTY ASSESSORS						
	Primary Residential		Other Residential		Commercial	
	Appraised Value (%)	Assessed Value (%)	Appraised Value (%)	Assessed Value (%)	Appraised Value (%)	Assessed Value (%)
Allendale	NA	14.9	NA	8.4	NA	3.7
Charleston	45.9	33.8	29.8	32.9	17.8	19.7
Edgefield	55.6	41.7	NA*	NA*	17.1	19.2
Greenville	54.6	41.6	7.3	8.4	23	26.9
Richland	51.1	42.4	NA*	NA*	31.2	38.7
York	NA	39.1	NA	8.2	NA	17.4
PROPERTIES VALUED BY AUDITORS AND DEPARTMENT OF REVENUE						
	Vehicles		Manufacturing		Utilities	
	Appraised Value	Assessed Value	Appraised Value	Assessed Value	Appraised Value	Assessed Value
Allendale	NA	8.2	NA	30.2	NA	21
Charleston	2.4	5.9	0.2	0.4	1.6	3.1
Edgefield	12.4	13.9	3.3	6.6	5.8	11.4
Greenville	9	11.1	1.8	3.6	1.9	3.7
Richland	8.8	11.8	1.7	3.5	4.3	9.3
York	NA	9.7	NA	3	NA	14

Source: Data provided by assessor and/or auditor in each county.

Note: Each value is the percentage of total land use in the county. For example, Primary Residential property in Allendale is 14.9 percent of total assessed value in the county.

*For Edgefield and Richland Counties "Other Residential" is included with "Commercial."

Some themes emerge when looking at the data on the composition of the property tax base for the four counties providing full information in Table 2.3 (Charleston, Edgefield, Greenville, and Richland):

- The primary residential property share of total assessed value is between 9 and 14 percentage points lower than its share of total appraised value.
- The other residential property share of assessed value is between 1 and 3 percentage points higher than its share of appraised value.
- The commercial property share (which includes rental residential properties in Edgefield and Richland Counties) of assessed value is between 2 and 7.5 percentage points higher than its share of appraised value.
- The vehicles share of assessed value is between 1.5 and 3.5 percentage points higher than its share of appraised values.
- The manufacturing share of assessed value is approximately twice as high as their share of appraised value.
- The utility share of assessed value is approximately twice as high as their share of appraised value.

The classified property tax system in South Carolina, together with other features of the property tax, shifts the burden of financing locally provided goods and services through the property tax. This shift is sometimes significant, moving the burden from owner-occupied residential properties to non-owner-occupied residential properties as well as commercial, manufacturing, and utility properties.

Quality of Assessment and the Five-Year Cycle

As part of this project, sales files were requested from each of the 10 focus counties for 2015 and 2018 to evaluate assessment quality and to consider the effect of the five-year assessment cycle on the uniformity and equity of the property tax. The hypothesis is that, over five years, markets within a county will change at different rates for different land use types and different locations. These market shifts will cause the selling price of a parcel to diverge in varying degrees from the estimated fair market value implemented in the first year of the five-year cycle.

To test this hypothesis three standard metrics for measuring assessment quality are computed using two years of sales in the reassessment cycle. In the following paragraphs, each of the three most commonly used metrics for measuring assessment quality are described in turn. Then the quality standard put forth by the International Association of Assessing Officers (IAAO) is described. Then data for selected counties displayed in Table 2.4 is described and compared to the IAAO standard.

Measures of Assessment Quality

The first measure of assessment quality is a measure of the level of appraisal vis-à-vis market values. We use the median appraisal/sales ratio. The median of the individual ratios is the

value in the middle of the ratios when sorted into ascending or descending order. According to the IAAO *Standard on Ratio Studies*, the median appraisal/sales ratio should be between 0.9 and 1.1. Table 2.4 reports median appraisal/sales ratios for several counties for 2015 and 2018 in columns two and five.

Table 2.4 Appraisal Outcomes for Properties Providing Sales Files for 2015 and 2018, by County

Residential Properties						
County (1)	2015			2018		
	Median Appraisal/ Sales Ratio (2)	COD (3)	PRD (4)	Median Appraisal/ Sales Ratio (5)	COD (6)	PRD (7)
Allendale	NA	NA	NA	0.985	14.65	1.027
Charleston	0.899	11.43	1.007	0.794	13.89	0.999
Greenville	0.941	12.38	1.024	0.783	16.31	1.012
Horry	0.915	13.43	1.026	0.807	13.45	1.009
York	0.937	4.94	1.008	0.96	4.46	1
Vacant Commercial Properties						
Allendale	NA	NA	NA	NA	NA	NA
Charleston	NA	NA	NA	NA	NA	NA
Greenville	0.997	35.52	1.102	0.907	36.69	1.189
Horry	1.205	32.73	1.045	0.933	34.65	1.018
York	0.938	22.27	1.027	0.973	11.75	1.102

Source: Author's computations based on assessor sales files.

Note: COD is coefficient of dispersion. PRD is price related differential.

In 2015, residential properties in all four counties had median appraisal/sales ratios that were consistent with IAAO standards. By 2018, however, all of the median appraisal/sales ratios had declined (except for York County) and were no longer consistent with IAAO standards. In 2015, commercial properties in Greenville and York Counties had median appraisal/sales ratios consistent with IAAO standards, but the ratio for Horry County exceeded the standard. By 2018, the median ratios for Greenville County, Horry County, and York County were all consistent with IAAO standards.

The second measure of assessment quality is the coefficient of dispersion (COD). This is a measure of horizontal equity, or the extent that similar properties are treated the same. IAAO recommends that CODs for residential property range between 5.0 and 15.0. IAAO recommends that CODs for income-producing, or commercial property, range from 5.0 to 20.0. Table 2.4 reports CODs for several counties for 2015 and 2018 in columns three and six.

For all counties, the COD for residential properties is generally consistent with IAAO standards. The CODs increased slightly from 2015 to 2018 in all counties except York, indicating that the horizontal equity of appraisals had deteriorated somewhat from 2015 to 2018. In 2015, the COD for vacant commercial property in each county was outside IAAO standards (significantly for Greenville County and Horry County). By 2018, the CODs for Greenville County and Horry County increased, while the COD for York County decreased bringing it into compliance with the IAAO standards.

The third measure of assessment quality is the price related differential (PRD). This statistical measure is used to gauge vertical equity. The PRD tests to see if lower and higher valued properties are assessed at the same level. According to IAAO, the PRD should be between 0.98 and 1.03. A PRD greater than 1 indicates that high value properties are undervalued and a PRD less than 1 indicates that low value properties are undervalued. Table 2.4 reports PRDs for several counties for 2015 and 2018.

For residential properties for the five counties reported in the table, the PRDs in 2015 and 2018 were consistent with IAAO standards. There was no bias in the appraisals in terms of vertical equity. The results were mixed for commercial property. For 2015, the PRDs in Greenville County and Horry County indicate that low-valued properties tend to be overvalued compared with high-valued properties. For York County's vacant commercial property, the PRD was consistent with IAAO standards. By 2018, Horry County's PRD was in compliance with IAAO standards, but neither Greenville County nor York County had PRDs in compliance with IAAO standards.

Residential Assessment Better than Commercial

For the five county results presented in the table, the assessment quality measures for residential properties are generally consistent with IAAO standards of performance in 2015 and 2018, with the exception of the median appraisal/sales ratios in 2018. For vacant commercial properties in 2015 and 2018, the results are mixed and less consistent with IAAO standards.

Assessment Quality Deteriorates over the Five-Year Assessment Cycle

With respect to assessment quality over the five-year assessment cycle, there is a decline across the board in median assessment/sales ratios, some CODs, and some PRDs from 2015 to 2018. These results suggest that the five-year assessment cycle undermines the equity of the property tax.

Models for Quality Assessment Practices

Chapter 1 in Volume 2 compares South Carolina's property tax to other states along a number of dimensions. One of those dimensions is the length of the revaluation cycle. Nationwide, 20 states have laws requiring annual revaluation. Among South Carolina's comparison states, both Florida and Georgia require annual revaluation for the purposes of property tax administration. Virginia has revaluation requirements that vary by the size of the jurisdiction, with cities required to re-value property every two years. Tennessee has a revaluation cycle that ranges from four to six years but includes other requirements which help keep appraisals close to market value. For example, counties with a six-year revaluation cycle must update values if a review in the third year of the cycle finds that the overall level of appraisal is less than 90 percent of market value. This can be determined because the state is required by statute to conduct sales ratio studies for each county every two years.

The International Association of Assessing Officers (IAAO) produces standards on many aspects of property tax administration and policy. Earlier, this summary of Chapter 2 referenced the IAAO *Standard on Ratio Studies*. The IAAO *Standard on Tax Policy* puts forth the principle of annual assessment. According to that standard:

...it is necessary to observe and evaluate, but not always to change, the assessment of each property each year in order to achieve current market value. It is recommended that assessing officers consider establishing regular reappraisal cycles or at least appraisal level and uniformity (vertical and horizontal equity) thresholds that trigger reappraisal (IAAO 2010, 13).

A third IAAO standard that could provide useful guidelines is the IAAO *Standard on Assessment Appeal* (IAAO 2016). As that standard notes, "Assessment appeals are an important component in the assessment process." It puts forth sensible advice such as, "Timeliness of decisions is critical to all involved, especially if the decision is subject to further appeal."

Conclusion

Researchers contacted assessors for each of the focus counties and visited and interviewed many. One data-gathering challenge is that the process of valuing the property tax is divided among three different entities: county assessors, county auditors, and the Department of Revenue. As a result, no entity has the complete property tax roll for an individual county. Another challenge which undermines transparency is that no two counties use the same land use codes for classifying parcels for appraisal. South Carolina has a five-year assessment cycle. The analysis found that the five-year assessment cycle undermines the equity of the property tax. Assessment quality is better for residential properties than it is for commercial properties.

An aerial photograph of a city, likely San Francisco, showing a dense urban landscape with numerous buildings, including churches with prominent spires. A large body of water is visible in the foreground and background, with a bridge spanning across it. The text is overlaid on the city scene.

Summary of
Chapter 3:

Who Bears the Burden of the Property Tax and the Impact of Act 388

By Mark Skidmore, Ph.D. and Camila Alvayay Torrejón

Introduction

This chapter makes use of a special parcel-level data set to examine three questions:

- How does the assessment cap impact equity in property tax burdens among different types of property and within individual types of property?
- How do effective property tax rates vary by type of property by county?
- How much property tax burden has been shifted from residential taxpayers to business taxpayers?

Detailed parcel level data on appraised values and tax payments are available from CoreLogic (2019). CoreLogic is considered to be the premier supplier of U.S. parcel level real estate data that includes information on last sales date and price, property characteristics, appraised values, property tax payments, and geographic location information.

Using CoreLogic data expands our analysis beyond the counties for which assessors supplied sales data sets as described in Chapter 2. Some of the same definitional issues which plagued the analysis in Chapter 2 were apparent in our analysis for this chapter.

For purposes of this evaluation, we define the effective tax rate for each parcel as $\frac{\text{Tax Payment}}{\text{Appraised Value}}$. We will use this measure of tax burden throughout the chapter. Effective tax rates are typically calculated by dividing the total tax liability by the market value. Where feasible, it is desirable to use actual sales price as the measure of true market value. However, for purposes of understanding the scope and nature of tax burden for several counties, use of sales price limits the number of observations to only those parcels that recently sold. A reasonable substitute is the appraised value calculated by assessors, but the degree to which appraised value will offer a good estimate of true market value depends on the quality of assessment. Fortunately, information on assessment quality presented in chapter 2 of this report indicates that the quality of assessment is reasonably good, particularly after a reassessment, but more so for residential property than for other property. The fact that we use appraised value rather than sales value in the calculation of effective property tax rates should be considered when interpreting our results.

Information Available for Focus Counties

CoreLogic data provided appraised values, sales prices, and property tax payments for 2018 for most real property in each of our focus counties.

The property categories differed for each of the ten counties. For example, the Horry County data included nine different categories of residential property; the Sumter County data included only one category of residential property—residential land. More concerning was the fact that the data for most of the counties did not include information regarding which residential property was primary residential and thus eligible for the 4 percent assessment ratio and the exemption from paying property tax for school operating costs. This makes it difficult to compare effective property tax rates from county to county.

Although Core Logic data for most counties includes residential, commercial, manufacturing, farm, and other property categories, some property type data are missing for some counties. For example, neither the Richland County nor the Edgefield County data includes information on industrial or manufacturing and the Greenville County data are missing on farm properties.

We focus on data on residential and commercial properties partly because together these property types account for more than three-fourths of all properties. But, in addition, there are some data questions for three other property categories—farmland, manufacturing, and utilities. Use value taxation of farmland substantially reduces the tax base of agricultural lands. Although CoreLogic provides data on manufacturing properties, the analysis in Chapter 2 raises questions about the quality of these data. When we attempted to identify utility properties in this data set it became apparent that it was not possible to easily identify a large proportion of those properties.

By using an assessor data set for York County together with Core Logic data, we were able to find capped value for most counties. We define capped value as appraised value as limited by the assessment cap. We were unable to find capped values in the CoreLogic data for Charleston and Orangeburg Counties, so we omitted those counties from the analysis. Importantly, we are able to conduct an evaluation for commercial and residential property classes on the ratio of capped value to the appraised value $\frac{\text{Capped Value}}{\text{Appraised Value}}$ to determine which properties enjoy tax relief from the assessment cap and which do not, and if so how much.

Impact of Assessment Cap

We estimated that for the eight counties for which we had information on capped value (all counties except for Charleston County and Orangeburg County) 26 percent of the residential properties benefited from the assessment cap and 31 percent of the commercial properties benefited from the assessment cap. The percentage of properties benefiting from the cap varied widely. Only 3 percent of commercial properties in Edgefield County and only 8 percent of commercial properties in Sumter County benefited from the assessment cap. During the past decade Edgefield's population has grown very modestly and Sumter's population has declined slightly. In comparison, 28 percent of commercial properties in fast-growing York County benefited from the assessment cap.

York County

York County is in the north-central part of the state. As noted in chapter 1, York County has also experienced population growth, leading to modest pressure on real estate prices in some parts of the county. Thus, we expected that the assessment cap could have been binding in certain areas within York County.

Table 3.1 includes information for York County residential and commercial property on the following: number of parcels, average appraised and capped values, the ratio of capped to appraised value, and percent reduction in the tax base.¹⁰ Note also that this table includes this information for all parcels (top half of the table) as well as for parcels receiving reduced tax burdens generated by the assessment cap (bottom half of the table).

To estimate the impact of the assessment cap, consider first residential properties and in particular primary residence parcels (as noted by "Residential Improved OC" in the table).¹¹

¹⁰In York County capped value is referred to as "limited taxable value." We use the term capped value here to be consistent with the rest of the report.

¹¹According to the York database, in 2015 residential properties are divided into several categories: Residential Improved, Residential Improved Letter, Residential Improved Occupied, Owner-occupied/No exemptions, and Residential Vacant. Therefore, from the total residential properties (90,802), the occupied residential properties, which are also considered primary residential, correspond to 70.2% of the parcels. Recall that parcels categorized as primary residential are assessed at 4% whereas all other residential properties are assessed at 6%.

York County's last reassessment occurred in 2014, taking effect in 2015. Thus, appraised values were adjusted upward, but capped values were only adjusted to a maximum of 15% since 2009. The data we consider are for 2018, which reflects the revaluation. The next reassessment occurred in 2019 and will take effect in 2020; with a robust housing market it may be that more properties will have an appraised value that is greater than capped value. For 2018, note that just 3,454 of 63,395 parcels (about 5.4%) enjoy a lower capped value relative to appraised value, and thus received lower property tax obligations (see Column 2 in Table 3.1).

Table 3.1 Estimated Impact of Assessment Cap for Selected York County Property, 2018

	Type of Property	Number of Properties	Mean Appraised Value (1)	Mean Capped Value (2)	Ratio (2)/(1) (%)	% Reduction in Tax Base
All Properties	RESIDENTIAL IMPROVED OC	63,395	191,805	186,697	97.3	2.7
	COMMERCIAL IMPROVED	3,546	1,101,731	1,042,775	94.6	5.4
Properties with Ratio <1	RESIDENTIAL IMPROVED OC	3,454	250,196	156,455	62.5	37.5
	COMMERCIAL IMPROVED	992	1,067,177	856,435	80.3	19.7

Source: These data are a subset of a larger database from CoreLogic, which has property tax information for all counties in South Carolina.

In aggregate, capped value is about 97.3% of market value for the primary residential properties in the county, indicating that the cap reduces taxable base by just 2.7 percent. Of the group of properties that do have a differential, on average they received a 37.5% lower tax bill in 2018 as compared to those properties with no benefit. Given that just 5.4% of properties have a differential between capped value and appraised value, and that capped value is 97.3% of appraised value overall, we conclude that Act 388 has not resulted in significant differences in effective tax rates across primary residential properties. However, it is important to recognize that the relatively few property owners who do benefit from the cap enjoy substantial tax reductions compared to those who do not. In addition, the residential properties benefiting from the cap tend to be higher valued properties. As Table 3.1 shows, the average value of all primary residential properties in York County in 2018 was \$191,805 while the average value of primary residential properties benefiting from the cap was \$250,196, about 30 percent higher.

Turning to commercial property, we see that 28% of properties (992 of 3,546) had a differential between capped value and appraised value. Notice that total capped value was at 94.6 percent of total appraised value. That is, 5.4 percent of the tax base is lost due to the cap. So, compared to residential properties, a greater percentage of commercial properties benefit from the cap and since the taxable base is reduced by a greater percentage, commercial properties on average benefit more from the cap than do residential properties.

As with residential properties, those properties that did receive protection from the cap received a large benefit. The assessment cap reduced the tax burden by 19.7 percent, on

average, for commercial properties benefiting from the cap. However, unlike the case of residential properties, those commercial properties benefiting from the cap were on average lower value properties. Commercial properties benefiting from the cap were slightly less valuable (3 percent less) than all commercial properties.

Other Counties

We were able to do a detailed analysis of the impact of the cap on residential and commercial properties in Edgefield County and Richland County. The details are presented in Volume 2, but the overall conclusions are described here. As in the case of York County, a minority of residential and commercial properties benefited from the assessment cap. For both Edgefield County and Richland County, a greater benefit accrued to commercial properties than to residential properties. Those properties benefiting from the cap received a substantial reduction in taxes that ranged from 13.6 percent for residential properties in Edgefield to 43.5 percent for commercial properties in Edgefield.

Assessment Caps in Other States

Our analysis of the effect of assessment caps above is broadly consistent with Haveman and Sexton's (2008) review of 30 years of experience with assessment caps in twenty states across the U.S. They conclude that, "Assessment limits benefit those whose property values have increased rapidly, with the greatest reductions going to those whose property has risen fastest in value. At best, these limits restrict aid to those who have increased property wealth and provide no relief to those whose values are stagnant or declining."

Although the impact of assessment limits varies depending upon how restrictive the limit is (e.g., limiting growth in property values to no more than 2 percent annually will have a greater impact than a 10 percent annual limit) and upon the state of the real estate market, Haveman and Sexton note some other general problems with assessment limits. They can create horizontal inequities in property tax burdens, substantial and unpredictable tax shifts, and reduce economic growth.

Variation in Effective Tax Rates

York County

Because we are able to ascertain that the Residential Improved OC class in York County is primary residential property, it is useful to compare the estimated effective property tax rate for residential property to that for commercial property. As shown in the last column of Table 3.2, for all primary residential properties, the effective tax rate was 0.74 and for all commercial properties, the effective tax rate was 2.32. This means that commercial property in York County is being taxed at over three times the rate applied to primary residential property.

The effective property tax rates for both primary residential and commercial property are lower for those properties benefiting from the assessment cap. The average effective tax rate for capped primary residential properties is 0.45 and for commercial properties, 2.04. This means that commercial property in York County that benefits from the assessment cap is being taxed at over four times the rate that applies to primary residential property benefiting from the cap.

Table 3.2 Comparing Effective Tax Rates for Selected York County Property, 2018

	Type of Property	Number of Properties	Mean Appraised Value (1)	Mean Tax Payment (3)	Effective Tax Rate (3)/(1) (%)
All Properties	RESIDENTIAL IMPROVED OC	63,395	191,805	1,424	0.74
	COMMERCIAL IMPROVED	3,546	1,101,731	25,505	2.32
Properties with Ratio <1	RESIDENTIAL IMPROVED OC	3,454	250,196	1,119	0.45
	COMMERCIAL IMPROVED	992	1,067,177	21,791	2.04

Source: These data are a subset of a larger database from CoreLogic, which has property tax information for all counties in South Carolina.

Other Counties

Volume 2 presents detailed data on residential and commercial effective tax rates for both Edgefield County and Richland County. These data are summarized here. Importantly, it was possible to identify the category of residential property that was primary residential in Edgefield County but not in Richland County. For both counties the effective property tax rate for commercial property was at least two and a half times higher than for commercial property.

Evidence of Tax Shifting

Since we have data on appraised value and taxes paid for residential and commercial properties in most counties, we can provide evidence of tax shifting from residential to commercial properties. Since our data are from 2018 and we do not have data from prior years, we are unable to determine how much tax shifting was caused by Act 388. However, our data are able to show how much current tax shifting exists.

Table 3.3 compares residential property as a percent of a county's total appraised value to residential property as a percent of a county's total property taxes paid for these counties: Allendale, Edgefield, Florence, Horry, Orangeburg, Richland, and York. It also compares commercial property as a percent of a county's total appraised value to commercial property as a percent of a county's total property taxes paid.

If there were no tax shifting, if residential property were 50 percent of appraised value, it would pay 50 percent of total property taxes. Likewise, with no tax shifting, if commercial property were 15 percent of total appraised value it would pay 15 percent of total property taxes.

Table 3.3 Comparison of Share of Appraised Value to Share of Taxes Paid

	Residential % of		Commercial % of	
	Appraised Value	Taxes Paid	Appraised Value	Taxes Paid
Allendale	39	17	12	25
Edgefield	67	37	10	23
Florence	51	34	22	50
Horry	43	31	18	23
Orangeburg	36	32	11	22
Richland	55	40	23	30
York	60	37	19	37

Source: These data are a subset of a larger database from CoreLogic, which has property tax information for all counties in South Carolina.

Note: Where possible, “residential” represents primary residential only. Charleston, Greenville, and Sumter Counties are omitted because it was not possible to separate primary residential from other residential.

As Table 3.3 shows, there is considerable tax shifting from residential to commercial properties. For example, in Edgefield County residential property accounted for 51 percent of appraised value but only 34 percent of property taxes paid. In comparison, in Edgefield County commercial property accounted for only 10 percent of total appraised value but 23 percent of total property taxes paid. Similarly, in York County residential property accounted for 60 percent of appraised value compared to 37 percent of property taxes paid; commercial property accounted for 19 percent of appraised value, but 37 percent of property taxes paid.

Where possible, the residential category in Table 3.3 includes primary residential property only. Charleston County, Greenville County, and Sumter County are omitted from the table because we had information that those counties combined primary residential (subject to a 4 percent assessment ratio) and other residential property (subject to a 6 percent assessment ratio) in the same land use classification.


Conclusion

Each county has its own property classification system; there is no common statewide property classification standard. It is therefore much more difficult to compare and evaluate property tax bases and tax burdens across counties. A valuable policy step would be to create a common statewide property classification system.

Based on information from the counties where we were able to distinguish between capped value and appraised value, we see that the assessment cap has not had a significant impact on the tax base to date. However, depending on the rate of property price growth in the future, it could have a larger effect. Despite not having a large effect on the overall tax base, it is clear that a few property owners are receiving significant reductions in tax base and thus tax payments from the assessment cap.

A comparison of effective property tax rates of commercial to residential properties shows that the effective property tax rate for commercial properties is at least two and a half times that for residential properties. The ability to compare effective property tax rates for each county is compromised by the fact that it was not always possible to identify which category or categories of property were primary residential. Only primary residential is assessed at the lowest assessment ratio (4 percent) and is exempt from paying property taxes for school operating costs.

Although the data set used for this chapter could not identify tax shifting arising from the passage of Act 388, it was able to identify substantial tax shifting from residential to commercial taxpayers in 2018.



Summary of
Chapter 4:

Effects of Act 388 on School Budgets

By John E. Anderson, Ph.D.

Introduction

Like the rest of the United States, South Carolina depends heavily on the property tax to fund its schools. Currently about one-third of K–12 school funding in South Carolina comes from the local property tax. The focus of this chapter is how Act 388 made significant changes in the property tax that have affected school funding.

First, Act 388 is summarized. Next, the difficulty of directly estimating the effects of Act 388 on schools and school funding is explained. Then, data from the National Center for Education Statistics is used to describe: (1) changes in state revenue as a percentage of total budgets of the twenty school districts within the ten focus counties; and (2) how the budgets of those same school districts were affected in the following areas:

- Property tax revenue
- Total revenue per pupil
- Instructional expenditure per pupil
- Total expenditure per pupil

Finally, the question of the effect of school spending on student achievement is addressed.

Summary of Act 388

Act 388, passed in 2006, drastically altered South Carolina's property tax system and its system for financing elementary and secondary schools.

Tax Swap

Act 388 eliminated the property tax on primary residences for all school expenditure, other than debt service, and increased the state sales tax from 5 percent to 6 percent. This tax swap substantially reduced many homeowners' property tax obligations. It also decreased reliance on a stable tax source (the property tax) and increased reliance on a less stable tax source (the sales tax).

Reimbursement for School Districts

During the first year of implementation (FY 2007–2008), the state of South Carolina was required to reimburse local school districts dollar for dollar for operating-expense monies lost after the school property tax was eliminated for owner-occupied homes. As Table 4.1 shows, state-funded school property tax relief for primary residences increased by more than \$500 million in that year. After the first year, reimbursements were scheduled to increase at the rate of population growth plus inflation. This growth in reimbursement is distributed across school districts based on their share of total weighted pupils.

Relationship of Reimbursement Guarantee to State Budget

Act 388 stipulated that the additional sales tax penny be placed in the Homestead Exemption Fund and used to fund the reimbursements to local school districts. If the sales tax revenue is insufficient to cover the required reimbursements, the funds must be taken from the general revenue fund. As shown in Chapter 4, Volume 2, the additional sales tax revenue from the one cent increase fell short of the required reimbursement in every year from FY2007-2008 to FY 2018-2019 (South Carolina Board of Economic Advisors).

Table 4.1 Act 388 Tax Swap, First Year Changes

	Before	After
State-Funded Primary Residential Property Tax Relief	\$333.7 million	\$895.0 million
State Sales Tax	5 percent	6 percent
Sales Tax on Groceries	5 percent	3 percent

Source: Saltzman and Ulbrich 2012

Assessment Cap

Act 388 placed two new limits on the property tax.

The first limit was an assessment cap, the effects of which were analyzed in Chapter 3. The assessment cap, which passed as a constitutional amendment, limits the growth in fair market value to 15 percent over a five-year period, unless a property is sold. If the property is sold, assessors are required to revalue the property at market value (the ATI requirement is described in Chapter 2). This ATI requirement offsets somewhat the limitation on growth in property taxation that the assessment cap imposes.

Millage Cap

The second limit on the property tax is a new millage cap. The existing millage cap was amended to cap growth in millage rates at the rate of inflation plus population growth. It also changed the requirements for the governing body of a taxing jurisdiction to override the millage cap. Prior to Act 388 a governing body could exceed the millage cap with a majority vote. After Act 388, a two-thirds vote is required, and the millage cap can only be lifted for certain restricted purposes such as a financial emergency.

Challenges of Estimating the Effect of Act 388 on Schools

Unfortunately, for those who are interested in the effect that Act 388 had on schools in South Carolina, the housing market bubble burst just after Act 388 was implemented, and the economy fell into recession. The *Great Recession*, which occurred from December 2007 through June 2009, had major effects on state revenues, state funding of schools, and federal funding for schools across the United States. It may have also had some impact on property tax revenues.

Because Act 388 eliminated the obligation for owner-occupied homes to pay property taxes for school operating costs, falling housing values from 2008 to 2010 were unlikely to have directly affected school district property tax revenues. However, there were other effects resulting from the Great Recession. For example, the recession likely drove down market values for other types of property, which could have reduced property tax receipts. On the other hand, a national study of the impact of the Great Recession and public education found that, “the property tax fared much better than other state and local taxes” during that downturn (Evans, Schwab, and Wagner 2019, 306).

State and local tax revenue in total, however, was heavily impacted, particularly compared with the two previous recessions. According to Evans, Schwab, and Wagner (2019, 304), “It was not until eighteen quarters after the start of the recession that state and local tax revenues returned to pre-recession levels.” One result of the decline in state revenue is that

most states cut school funding (Leachman, Masterson and Figueroa 2017). South Carolina was no exception. Although the state kept its Act 388 reimbursement commitment, in the FY2009 year it cut other K-12 funding by \$365 million (Ullrich 2012).

In addition, the American Recovery and Reinvestment Act (ARRA) of 2009 provided stimulus funds for state and local governments from 2008 to 2010. \$100 billion of ARRA funding was dedicated for education (Evans, Schwab and Wagner 2019, 317).

Because of these influencing factors, declines in school district revenue and expenditures since 2007 cannot be directly attributed to Act 388. Nevertheless, trends from 2008 to 2016 compared to those from 2002 to 2007 provide a broad estimate of the effect of Act 388 on K-12 school funding.

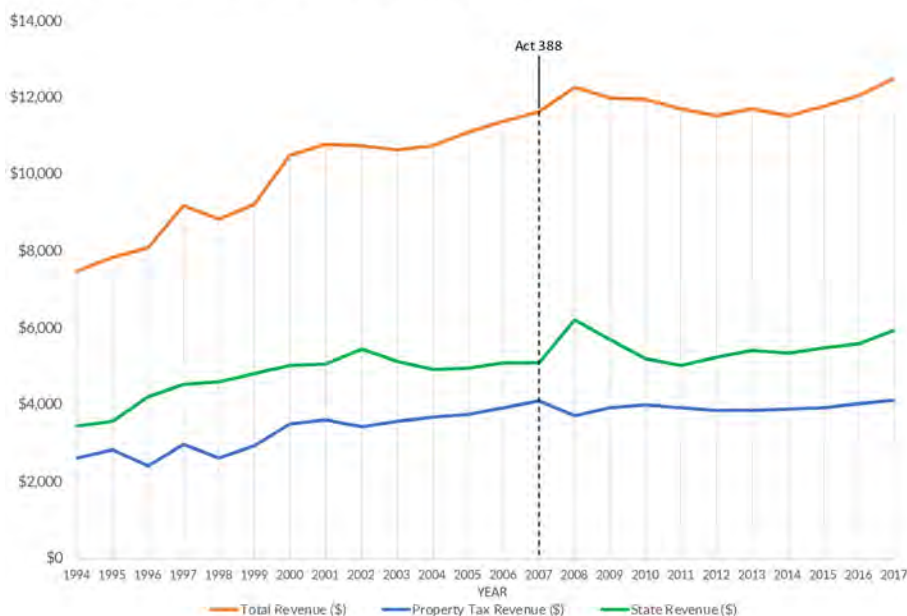
State Overview

Figure 4.1 shows how real (inflation adjusted) total per pupil revenue, property tax revenue per pupil, and state revenue per pupil has changed from 1994 to 2017. It is clear that there is a break in trend lines from 2007 to 2008. There was a substantial increase in real per pupil state revenue, a modest drop in real property tax revenue per pupil, and a modest increase in total real per pupil revenue.

It may be of greater interest to compare trends before and after the year when Act 388 was enacted and the Great Recession began to get some idea of how the school finance system in South Carolina changed. Total revenue per pupil grew at an average 3.6 percent rate from 1994 to 2007; from 2008 to 2017 it grew at a 0.2 percent rate. Property tax revenue per pupil experienced a similar decline in growth rates—averaging 4 percent per year in the early period and 1.2 percent per year in the later period. State revenue per pupil grew at a 3.2 percent annual rate from 1994 to 2007 and fell at an average annual rate of 0.4 percent from 2008 to 2017.

All three revenue measures indicate slower growth in per pupil inflation-adjusted revenue after 2008.

Figure 4.1 South Carolina Real Per Pupil Revenue, 1994-2017



Source: U.S. Census and National Center for Education Statistics percent from 2008 to 2017.

State Revenue Shares from 2002-2016, by District

By using data from the National Center for Education Statistics we can compare various revenue and expenditure trends for individual school districts. Data from the same ten focus counties identified in Chapter 1 were used, and specific school districts within those counties were examined. Within the focus counties there are twenty school districts. Some counties, like Charleston, have a single school district. Others, like York, have multiple school districts (York County currently has four school districts).¹

Table 4.2 State Revenue Shares of School District Budgets, 2002-2016

School District	State Revenue Share Average 2002-2007 (%)	State Revenue Share Jump in 2008 (%)	State Revenue Share Average 2009-2016 (%)	% Change State Revenue Shares
Allendale	55.4	0.3	51.2	-4.2
Charleston	34	10.8	29.9	-4.1
Edgefield	55.7	2.2	51.2	-4.5
Florence 1	48.9	8.9	51.7	2.8
Florence 2	52.2	3.3	60.8	8.6
Florence 3	56.6	4	55.6	-1.0
Florence 4	55.6	3	47.3	-8.3
Florence 5	51.8	3.9	57	5.2
Greenville	44.4	8.8	49.1	4.7
Horry	36.9	3.7	34	-2.9
Orangeburg 3	51.1	0.8	44	-7.1
Orangeburg 4	51.2	0.8	44	-7.2
Orangeburg 5	50.3	2.6	46.3	-4.0
Richland 1	38.9	0.5	31.9	-7.0
Richland 2	44.1	11.1	48.6	4.5
Sumter	56	3.9	53.5	-2.5
York 1	53.6	5.4	50.3	-3.3
York 2 (Clover)	26.5	10.9	35.7	9.2
York 3 (Rock Hill)	48.7	8.1	51.4	2.7
York 4 (Fort Mill)	41.2	11.8	48	6.8

Source: Author's computations based on NCES data

¹In two cases, the districts in this analysis have been affected by mergers. First, note that the tables list Orangeburg 3, 4, and 5 districts which were created from eight districts via consolidation in the 1990s. Hence, there are no Orangeburg 1 and 2 districts listed. As of July 1, 2019, Orangeburg 3, 4, and 5 merged into one consolidated district. This merger does not affect the analysis in this report, however. Second, the Sumter district was created in 2011 by merging Sumter 2 and Sumter 17. Data in this report combine Sumter 2 and Sumter 17 for the years prior to the merger.

The first measure we examine is the share of state revenue in the budgets of the twenty school districts, shown in Table 4.2. The first column shows the average state share from 2002 to 2007. It is clear that the state revenue share for most districts is substantial, but that the state share also varies considerably from 26.5 percent in York 2 (Clover) School District to 55.4 in Allandale School District.

The table shows the state revenue share jump in 2008, but also that the state revenue share in 2009 to 2016 was less for most districts than the state revenue share in 2002 to 2007.

School District Revenue Trends Since 2008, by District

In order to examine revenue trends since 2008, *total property tax revenues*, and *total revenue per pupil* were examined. Total revenue per pupil includes property tax revenue, non-property tax local revenue, state funding, and federal funding.

Property tax revenue for the twenty districts within the ten focus counties rose from 2002 to 2016, generally in the range of 2 to 4 percent per year. Table 4.3 shows the percent change in property tax revenue growth since 2008. The column only reports changes that are statistically significant.² These data indicate that Act 388 may have slowed the rate of growth in property tax revenue for half of the districts, with a substantial negative effect in several districts. For example, property tax revenue in the Charleston School District grew 8.2 percent less since 2008 compared to 2002 to 2007.

Total revenue per pupil rose in all focus school districts during the period from 2002 to 2016. Increases were generally in the range of 3 to 5 percent per year. Table 4.3 shows the percent change in total revenue per pupil since 2008. These data indicate that Act 388 may have had the effect of slowing the rate of growth in total revenue per pupil for about half the districts. For example, in the York 4 School District (Fort Mill) total revenue per pupil grew by 3 percent less since 2008 than it grew from 2002 to 2007.

We examined the pattern among school districts that experienced slower growth in property tax revenue or total revenue per pupil since 2008. The second column of Table 4.3 shows the percentage of pupils in each school district that received free or reduced-price lunches. This measure is a proxy for the extent of poverty in a school district. In ten school districts, 100 percent of the students received free or reduced-price lunches. The free and reduced-price lunch percentage in other school districts ranged from 18 percent (York 4, the Fort Mill School District) to 85 percent (Florence 5 School District). Four districts with 100 percent free and reduced-price lunches experienced slower growth in property tax revenue; five districts with 100 percent free and reduced-price lunches did not experience significantly slower growth in property tax revenue.

There is no apparent correlation between the extent of poverty in a school district and the degree to which property tax revenue slowed after 2008. In addition, there does not appear to be a correlation between the extent of poverty in a school district and the degree to which total revenue per pupil slowed after 2008.

²Volume 2 describes the methodology for these estimates. If an estimated relationship is statistically significant, we can be highly confident that it is caused by something other than chance.

Table 4.3 also reports the percentage change in student enrollment from 2008 to 2016. There is a substantial difference in student enrollment growth among these school districts, with student enrollment growth in York 4 exceeding 73 percent and student enrollment decline in Allendale School District of almost 30 percent.

There does not appear to be any relationship between enrollment growth and change in property tax revenue from 2008 to 2016. However, it does appear that school districts in fast-growing counties were more likely to have a statistically significant decline in their total revenue *per pupil* after 2008. Seven of the nine districts with growing student enrollment had slower growth in total revenue per pupil after 2008. This group of school districts with growing enrollment and statistically significant declines in total revenue per pupil from 2008 to 2016 include: Charleston School District (5.1 percent slower growth after 2008), Greenville School District (2.4 percent slower growth), and Horry School District (4.1 percent slower growth.)

There are two likely reasons why school districts in fast-growing counties experienced slower growth in total revenue per pupil after 2008. First, the millage cap constrained increases in property tax rates. Second, as Boyd and Fox (2008) describe, the way the O & M reimbursement is structured disadvantages fast growing districts.

Table 4.3 Change in Rate of Growth in School District Revenue and Expenditures, 2008-2016

School District	% of Free and Reduced Lunch Students	% Change in Enrollment	% Change in Revenue Growth		% Change in Expenditure Growth	
			Property Tax Revenue	Total Revenue Per Pupil	Instructional Expenditure Per Pupil	Total Expenditure Per Pupil
Allendale	100	-29.5	*	*	*	*
Charleston	56	15.9	-8.2	-5.1	-2.5	*
Edgefield	74	-16.9	-1.8	*	*	*
Florence 1	74	6.4	-3.8	-3.4	-4.4	*
Florence 2	100	-7.4	-4.7	*	-3.4	*
Florence 3	100	-7.0	*	-4.2	*	-2.8
Florence 4	100	-30.9	*	*	*	*
Florence 5	85	-19.1	*	*	*	*
Greenville	53	8.7	*	-2.4	*	-7.8
Horry	65	20.1	-10.2	-4.1	-3.5	*
Orangeburg 3	100	-17.4	-2.7	-3.6	-3.2	*
Orangeburg 4	100	-11.9	*	-2.9	-2.7	*
Orangeburg 5	100	-4.7	-3.4	*	-4.8	2.3
Richland 1	100	-2.7	-4.6	-5.1	-5.0	-10.9
Richland 2	48	18.7	-4.2	-2.3	-2.8	-7
Sumter	100	-5.3	*	*	-3.6	-5.1
York 1	63	0.7	*	*	-3.3	*
York 2 (Clover)	32	24.7	*	*	2.4	*
York 3 (Rock Hill)	60	2.3	-2.2	-2.1	-2.5	-6.5
York 4 (Fort Mill)	18	73.1	*	-3.0	-2.6	*

Sources: U.S. Department of Education, South Carolina Department of Education, Author's computations based on NCES data

* Not statistically significant at the 5 percent level.

School District Expenditure Trends Since 2008, by District

Two expenditure trends that were examined in this study are *instructional expenditure per pupil* and *total expenditure per pupil*. Total expenditure includes both operating and capital expenses.

Trends for instructional expenditure indicate that all but three districts experienced increasing trends over the period from 2002 to 2016. The exceptions were the Allendale, Florence 4, and York 2 school districts. Table 4.3 reports how the percent change in instructional expenditure per pupil changed since 2008. Only statistically significant changes were reported. These data indicate that Act 388 may have had the effect of slowing the rate of growth in instructional expenditure per pupil for 13 districts. The largest effect was seen in the Richland 1 School District where instructional expenditure per pupil grew by 5 percent less beginning in 2008 compared to the period 2002 to 2007. In a single school district, York 2, the percentage change in instructional expenditure per pupil increased beginning in 2008.

For the total expenditure per pupil column, six school districts experienced a statistically significant decrease in growth after 2008: Florence 3, Greenville, Richland 1, Richland 2, Sumter, and York 3. A single school district, Orangeburg 5, experienced an increase in the growth after 2008.

There does not appear to be a correlation between the extent of poverty in a school district and the degree to which instructional expenditure per pupil or total expenditure per pupil slowed after 2008. In addition, there does not appear to be a correlation between student enrollment growth and the degree to which instructional expenditure per pupil or total expenditure per pupil slowed after 2008.

Three school districts experienced the most consistent declines in measures of revenue and expenditure growth since 2008. Richland 1, Richland 2, and York 3 all experienced declines in property tax revenue, total revenue per pupil, instructional expenditure per pupil, and total expenditure per pupil growth since 2008.

Relationship between School Funding and Student Achievement

There have been over one hundred studies of the impact of school spending on student achievement, but that research has produced mixed results. Some of those mixed results arise because of the difficulty of conducting empirical work in this area. For example, it is difficult to untangle the impact of school spending from the impact of family background. In addition, resources that impact student achievement play out over a number of years. That is, an excellent first grade teacher can set a student on a better path through high school.

Eric Hanushek, one of the most well-known scholars researching the economics of education concludes that “there is no clear, systematic relationship between resources and student outcomes” (Hanushek 2015). At the same time, he concludes that improvements in teacher quality would greatly increase economic growth rates for most states. It is important to note that data availability and quality of econometric techniques have improved over the years so one might want to take most seriously some of the more recent studies. One of the most recent studies in the field finds that increasing per pupil spending in Texas has a positive impact on test scores, graduation rates, and college enrollment and a negative impact on dropout rates (Kreisman and Steinberg 2019).

Unfortunately, there is no solid time series that measures student achievement in South Carolina school districts both before and after Act 388. Chapter 4 in Volume 2 discusses and presents available data from the South Carolina High School Assessment Program, ACT tests, the Palmetto Achievement Challenge Test, and the Palmetto Assessment of State Standards. These achievement indicators present district-by-district measures, but do not provide a time trend for before and after Act 388.

There is one test which enables policy analysts and policy makers to compare educational performance in one state compared to another: the National Assessment of Educational Progress (NAEP) exam, which is widely known as the *Nation's Report Card*. The NAEP is one of the most commonly cited measures of educational performance. In 2001, when the *No Child Left Behind Act* was reauthorized, the law mandated that every state participate in NAEP reading and mathematics evaluations for grades four and eight every two years. The various available test scores for South Carolina school districts and the NAEP scores for South Carolina compared to other states are presented in Volume 2.

Conclusion

Since Act 388 was implemented many of the twenty school districts in our ten focus counties experienced slower growth in property tax revenue, total revenue per pupil, instructional expenditure per pupil, and total expenditure per pupil.

Half of the twenty school districts experienced slower growth in property tax revenue and eleven school districts experienced slower growth in total revenue per pupil. Thirteen school districts experienced slower growth in instructional expenditure per pupil since 2008, and six districts experienced slower growth in total expenditure per pupil 2008.

School districts in fast-growing counties were more likely to have a statistically significant decline in their total revenue per pupil after 2008. Richland 1, Richland 2, and York 3 (Rock Hill) all experienced declines in property tax revenue, total revenue per pupil, instructional expenditure per pupil, and total expenditure per pupil growth since 2008.



Summary of
Chapter 5:

Property Tax Abatements, Focusing on FILOTs

by David Merriman, Ph.D. and Daphne A. Kenyon, Ph.D.

Introduction

As noted previously, South Carolina's effective business property tax rates are high relative to homestead property taxes and neighboring states' business property taxes. These relatively high taxes are largely the product of two factors:

(1) South Carolina's system of classification, which assesses manufacturing and utility parcels at 10.5 percent of market value (effectively a bit lower for manufacturing due to recently passed legislation), other business properties at 6 percent of market value, and owner-occupied homes at 4 percent of market value and;

(2) Act 388, which exempts the primary residences of homeowners from property taxes for school operating costs.

Together these two factors have the effect of shifting the responsibility for property tax payments away from homeowners and toward business—especially manufacturing and utilities.

Certain provisions of South Carolina law make it possible for local governments to level the playing field to an extent by reducing the property tax liabilities of firms operating in the state. South Carolina has prepared a number of publications that describe the many business tax incentives that may be available. This chapter focuses on the most widely used business tax abatement, known as a fee-in-lieu of property taxes or FILOT.

Fees in Lieu of Taxes (FILOTs)

FILOT agreements make it possible for South Carolina county governments to reduce the property tax liability of firms that make new investments and create jobs in the state. In many cases, FILOT agreements require payment of a fee in place of the property tax payment and effectively reduce the assessment level of new manufacturing (and in some cases nonmanufacturing) property to 6 percent. FILOTs can also freeze the property tax millage rate for an extended period. Property subject to the fee usually consists of land, improvements to land, and/or machinery and equipment (excluding some mobile property) located at a project. An in-depth technical description of the rules for FILOT agreements is not included in this study since that information is readily available elsewhere.

A brief nontechnical description is provided for readers that may be unfamiliar with FILOTs and similar economic incentive programs. Although there are several flavors of FILOT the basic idea behind each of them is similar—a potential investor agrees to make a substantial new investment in productive capacity (generally, but not always, manufacturing) in South Carolina during a five-year period. The county where the new investment is located signs an agreement with the investor that lowers the assessment rate to six percent for a period of up to 40 years. The county and the investor may also agree to freeze the property tax millage on the new investment at its current level. For very large (so called “super”) investments of \$500 million or more the investment period may be lengthened to eight years, the assessment ratio may be lowered to four percent, and there is an added requirement that at least 1,000 jobs must be created.

Such an arrangement can significantly reduce the property tax liability of a firm. For example, under a FILOT agreement between York County and Oerlikon Balzers Coating Inc., dated March 7, 2016, the investor agreed to invest at least \$15 million and create 18 jobs by investing in an industrial park located in York County over the five-year period beginning the day the agreement was put into effect. The county agreed that the assessment ratio would be lowered to 6 percent and the tax rate would be frozen at 391.6 mills for a period of 30 years.

To understand the significant benefits of such an agreement, a simplified example is provided. Assume the entire \$15 million investment was committed to a project on the first day the agreement went into effect, and no further investments were made after that date. Under existing law, the \$15 million investment would be assessed at 10 percent or \$1,500,000.³ Applying the tax rate of 391.6 mills the tax liability on the investment would be \$587,400. If the assessment ratio were reduced to just 6 percent the assessed value would be \$900,000 and, applying the millage rate of 391.6, the tax liability on the investment would be \$352,440 saving the company \$234,960 as shown in Table 5.1. If we assume that the firm would achieve these same savings in each year and assume that future savings are discounted at a rate of five percent the present value of 30 years of savings would be approximately \$4 million. Therefore, in this simplified example, the FILOT mechanism has reduced the effective cost of the initial investment from about \$15 million to about \$11 million, a reduction of about 25 percent.

Table 5.1 Property Tax Calculation Example

	Normal Calculation	Fee-in-Lieu Calculation (Simplified)
Total Investment	\$15,000,000	\$15,000,000
Assessment Ratio	10.0%	6%
Assessed Value	\$1,500,000	\$900,000
Millage	391.6	391.6
Tax Due	\$587,400	\$352,440
Savings Relative to Normal		\$234,960

Source: Author's calculation

Of course, the example is simplified in a number of ways: the investor is unlikely to make the entire \$15 million investment on the day the agreement is culminated. A delay in making the investment could reduce the investors' savings. The 5 percent discount rate may be either too high or too low to represent the real opportunities facing this investor. The frozen millage rate of 391.6 mills could change over time in the absence of the FILOT and the assumption—implicit in this calculation—that it does not, is likely to understate the benefit to the investor. It is, therefore, difficult to measure precisely the benefits of a FILOT agreement to an investor, but it is reasonable to suggest that, for many investors, FILOTs may reduce the cost of investment by as much as 25 percent.

Estimates of Property Taxes Abated

In 2015, the Governmental Accounting Standards Board issued GASB Statement No. 77 in order to provide more transparency around tax abatements. The first filings by local

³Although the assessment ratio for manufacturing is nominally 10.5 percent, Act 40 of 2017 created a special exemption for manufacturing which reduces the effective assessment ratio, on a phased in schedule from 2018 to 2023. In 2019 the effective assessment ratio for manufacturing is 10 percent (SC Revenue Ruling #18-13).

governments in South Carolina were expected in late 2017 (Klinger 2017). It is important to note, though, that not all tax abatements are covered under GASB 77 and the use of tax increment finance (TIF, which is typically a way to earmark funds for dedicated use rather than a tax abatement device) is not covered by GASB77. It is also important to note that preliminary reporting in local government CAFRs (Comprehensive Annual Financial Reports) is spotty. This is the first time that many tax abatement programs throughout the country have had any estimates of tax revenue foregone at all.

Table 5.2 Property Tax Abatements, County Governments, 2018

County	Property Taxes Abated (\$)	Total Property Tax Levy (\$)	Amount Abated as a % of Total Property Tax
Allendale	NA	NA	NA
Charleston	3,061,712	126,556,746	2.4
Edgefield	89,073	27,926,438	0.3
Florence	948,780	34,850,908	2.7
Greenville	6,699,788	598,191,409	1.1
Horry	177,567	149,757,000	0.1
Orangeburg	4,100,000	39,438,463	10.4
Richland	4,249,673	769,604,459	0.6
Sumter	3,200,000	28,048,465	11.4
York	3,433,000	119,500,000	2.9

Source: County Comprehensive Annual Financial Reports

See Table 5.2 for reported property tax abatements for nine of the ten focus counties. Reported property taxes abated vary widely from \$89,000 in Edgefield to \$6.7 million in Greenville. The table also reports property taxes abated as a percentage of total property tax revenue. Again, the percentages vary widely. However, two counties report that 2018 property taxes abated exceeded 10 percent of total property taxes.

See Table 5.3 for estimates by school district. Several school districts did not report property taxes abated in their CAFRs or annual audit reports, and the reported numbers vary widely. However, it is of interest to note that the largest property tax abatement numbers in the school district table far exceed the largest property tax abatement numbers in the county table. Greenville School District and Charleston School District report over \$30 million in property taxes abated in 2018. Some, but not all, of the difference in the reported property tax abatements for school districts compared to county governments can be explained by the fact that school district mills are about twice county government mills in our focus counties (South Carolina Association of Counties 2018).

Table 5.3 Property Tax Abatements, School Districts, 2018

County	School District	Property Taxes Abated (\$)
Allendale	Allendale	NA
Charleston	Charleston	30,297,939
Edgefield	Edgefield	230,613
Florence	Florence 1	12,839,651
	Florence 2	NA
	Florence 3	NA
	Florence 4	NA
	Florence 5	7874
Greenville	Greenville	37,542,000
Horry	Horry	502,846
Orangeburg	Orangeburg 3	NA
	Orangeburg 4	449,000
	Orangeburg 5	NA
Richland	Richland 1	11,529,903
	Richland 2	9,965,699
Sumter	Sumter	6,000,000
York	York 1	54,832
	York 2	436,000
	York 3	463,976
	York 4	873,198

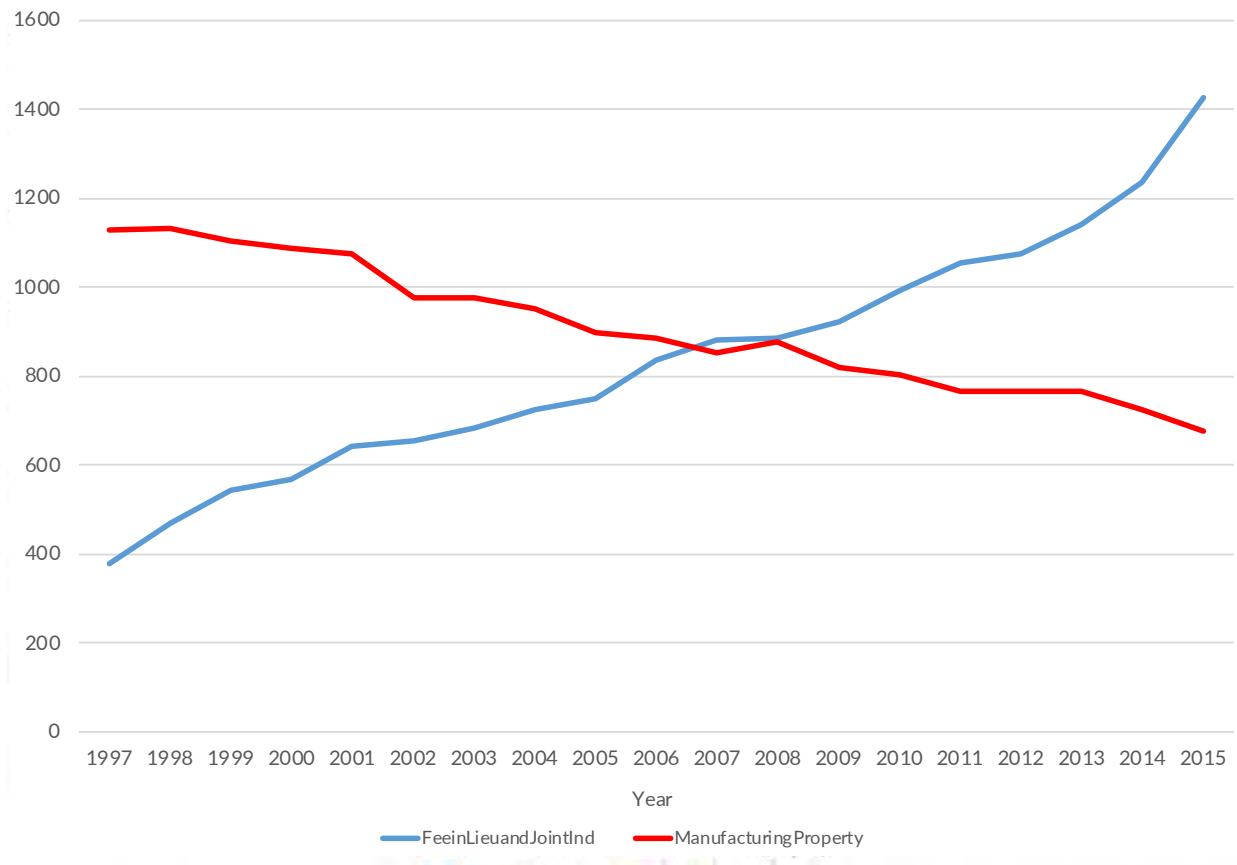
Source: School District Annual Audit Reports and Comprehensive Annual Financial Reports

Growth in Use of FILOTs

FILOT has been a popular tool and the assessed value of property under FILOT has grown dramatically over time. Figure 5.1 shows the nominal assessed value of property in South Carolina that is assessed as manufacturing⁴ and is assessed under FILOT⁵.

⁴Non-manufacturing properties are sometimes included in FILOT arrangements. Unfortunately, we were unable to obtain any information about what share of FILOT properties are manufacturing versus non-manufacturing. Local informants told us that they believed most FILOT properties are manufacturing.

⁵The South Carolina Department of Revenue (DOR) determines assessments for properties subject to FILOT. The process for determining such assessments differs in substantial ways from the method of determining assessments for other properties of the same class (usually manufacturing) and may be related to the fair market value of the property in complex ways. The Appendix A in Chapter 5 in Volume 2 explains this in more detail.

Figure 5.1 Estimated Assessed Values Over Time (in millions of nominal dollars)

Source: South Carolina Department of Revenue and author's calculations

As shown in the graph, the assessed value of non-FILOT manufacturing property has fallen over time in South Carolina from about \$1.1 billion dollars in 1997 to around \$700 million in 2016 (most recent data available). During the same period, the amount of property assessed under FILOT has grown from a little over \$400 million dollars in 1997 to more than \$1.4 billion in 2016. The value of property under FILOT actually surpassed the value of manufactured assessed properties in 2008.⁶

What Economic Effects Does Growth in FILOTs Have?

One might ask whether the use of FILOT has led to an improvement in South Carolina's ability to attract and retain economic activity. The FILOT program might be thought of as an attempt to counter South Carolina's relatively unfavorable property tax treatment of manufacturing activity. Although it is difficult to isolate a specific factor that is responsible for a state's economic environment, we can provide some relevant information by comparing South Carolina's economic performance to the economic performance of nearby states as follows: Florida, Georgia, North Carolina, Tennessee, and Virginia.

⁶The rate of growth in FILOT assessments was slightly greater after enactment of Act 388. The annual rate of growth from 1997 to 2006 was 6.3 percent, and from 2007 to 2016 was 6.7 percent.

The growth of total employment in all the states has been positive but was noticeably slowed by the recessions that began in 2001 and the great recession that began in 2007. South Carolina's total employment grew by about 25 percent between 1997 and 2016. This rate of growth placed it above Tennessee, about equal with Virginia and North Carolina but below Florida and Georgia.

With respect to manufacturing employment specifically, which would be expected to be most highly related to the use of FILOTs, South Carolina's manufacturing employment has fallen like all of the comparison states. Again, South Carolina is in the middle of the pack and had less relative decline than North Carolina, Virginia, and Tennessee but more decline than Florida and Georgia.

The bottom line when looking at these figures is that South Carolina's total and manufacturing employment performance looks very similar to its neighboring states. Macroeconomic factors such as recessions and recovery strongly influence all states' performance. Other factors, including South Carolina's property tax policy, are apparently over-ridden by these important and powerful macro-economic trends.

South Carolina has a high share of total employment in the manufacturing sector. Going back to 1997, the only comparison state with a higher share of employment in manufacturing was North Carolina. Consistent with national and international trends, all of the comparison states have seen some decline in the share of employment in manufacturing. The decline in the share of manufacturing jobs in South Carolina has not been much different from declines experienced by North Carolina or Tennessee. South Carolina continues to have a larger share of jobs in manufacturing than other states in the comparison group.

In summary, South Carolina has seen a large increase in FILOT assessments and a large decline in non-FILOT manufacturing assessments. While South Carolina has seen overall job gains, this is not extraordinary and is similar to the comparison states. South Carolina has a disproportionate share of its employment in manufacturing and has experienced declines in manufacturing employment that closely align with comparison states.

This information on relative job growth in South Carolina and comparison states is consistent with our hypothesis that FILOTs help the state "level the playing field" compared to the disadvantage South Carolina would have had if its estimated effective property tax rates were not offset by some property tax abatements.

Table 5.4 presents some additional information consistent with that hypothesis. In the course of one interview with the tax director of a large multistate company that does business in Alabama, Georgia, Indiana, North Carolina, and Oklahoma in addition to South Carolina we were able to obtain confidential information on that company's effective property tax rates in those states. As noted in the table, once FILOTs and other property tax abatements are taken into account, South Carolina's effective property tax rate is not out of line with its competitor states. South Carolina's effective property tax rate, taking property tax abatements into account, is higher than the rate in Alabama, North Carolina, and Oklahoma, but lower than the rate in Georgia, and Indiana.

Table 5.4 Average Effective Property Tax Rates for a Large Multistate Company

State	Average Effective Tax Rate (%)
South Carolina*	1.42
Alabama	0.70
Georgia	1.62
Indiana	1.63
North Carolina	1.05
Oklahoma	1.09

Source: Confidential

Note: Effective tax rates are calculated by dividing property taxes by appraised value

*This includes FILOTs and SSRCS

Conclusion

South Carolina's effective business property tax rates are high relative to homestead property and neighboring states' business property taxes. Fee-in-lieu of property taxes or FILOT makes it possible for South Carolina county governments to reduce the property tax liabilities of firms that make new investments and create jobs. Because FILOTs are complex and involve more than a reduced assessment ratio, the property tax benefits they provide are not very transparent. Nevertheless, recent CAFRs provide some information on property tax foregone due to FILOT. In 2018, two counties reported property tax abatements exceeding 10 percent of total property taxes collected. FILOT has grown a great deal in recent years, with the assessed value of property under FILOT now surpassing the assessed value of manufacturing properties.



Summary of
Chapter 6:

Nonprofit and Governmental Properties Exempt from Real Property Taxes in South Carolina

By Daphne A. Kenyon, Ph.D. and Semida Munteanu

Introduction

Chapter 6 concerns property that is exempt from property taxation because it is owned by government or nonprofits. This chapter looks at policies regarding tax exemption of federal and state-owned property but mostly focuses on property owned by nonprofits.

Governments can benefit when nonprofits provide services that might otherwise be the government's responsibility. Conversely, because nonprofits do not pay taxes, the cost of public services they consume (such as fire and police protection), falls to other property owners. The exemption can alter decisions about where a nonprofit locates and is concentrated among land-owning nonprofits. These issues have led to a growing interest in nonprofit payments in lieu of taxes (PILOTs). One municipality in South Carolina and neighboring states currently use this policy mechanism.

This chapter first summarizes property tax treatment of government and nonprofit property across the United States, and then it briefly describes South Carolina's policies. After describing issues that arise from tax exemption, this chapter explores various policies that offset the loss to local governments, including (PILOTs) and payments by state and federal governments. We also lay out policy recommendations for nonprofit PILOTs.

Tax Treatment of Government and Nonprofit Property: United States and South Carolina

Every state in the United States exempts government property and nonprofit property from real property taxes. Policies for taxing nonreligious nonprofits vary from state to state. South Carolina's constitution mandates exemption for certain categories of nonprofits and even specific organizations. The constitution is unusual in that it authorizes county and municipal governments to charge nonprofits fees for fire protection and to collect payments in lieu of taxes from nonprofit housing corporations.

Data on exempt property in South Carolina is difficult to find. In the absence of a centralized state database, a 2016 Clemson University dissertation was used (see Table 6.1). It provided data on exempt property in the 26 most populous South Carolina municipalities. The dissertation was used to analyze the importance of exempt property to South Carolina local governments in the focus counties (Keisler 2016). Among the 17 cities included in the Keisler analysis that were located in our focus counties, the share of land owned by state government, local governments, or nonprofit entities was substantial, exceeding 40 percent of all property in four cities. Because South Carolina law does not require assessors to appraise tax exempt property, we received no information on the value of exempt property from assessors except from Allendale County, the least populous of our focus counties.

Table 6.1 Percentages of Tax Exempt Land in Select South Carolina Municipalities, 2013*

Municipality	% of Land Property Tax Exempt
Aiken	23.2
Anderson	15.1
Bluffton	47.5
Cayce	27.1
Charleston	33.5
Clemson	14.6
Columbia	42.3
Conway	NA
Easley	17.8
Florence	18.1
Goose Creek	36.4
Greenville	23.8
Greenwood	38.5
Greer	28.8
Hanahan	18.0
Hilton Head Island	16.1
Lexington	15.0
Mauldin	26.2
Mount Pleasant	23.7
Myrtle Beach	NA
North Myrtle Beach	NA
North Augusta	12.2
North Charleston	43.9
Orangeburg	NA
Rock Hill	44.6
Simpsonville	24.0
Spartanburg	26.2
Summerville	18.2
Sumter	40.6
West Columbia	28.1

Source: Keisler (2016)

*Cities shaded in gray are located in our focus counties. The City of North Charleston is located in three different counties, including Charleston.

Issues Raised by Exemption of Government and Nonprofit Property

Governments benefit when nonprofits provide services to the public that would otherwise be the responsibility of government. The nonprofit exemption can be viewed as a subsidy to encourage these activities. However, the property tax is used to fund services that benefit all properties—for example, public safety, fire protection, and street and road maintenance. When government and nonprofit properties fail to contribute funding for such services, other property owners bear an increased property tax burden. This is particularly problematic when a well-funded nonprofit, such as an elite college, is located in a city with many low-income residents. It may not seem fair for the low-income renters to pay higher property taxes because the college is exempt from property taxation, particularly if the college enrolls students from across the country or around the world.

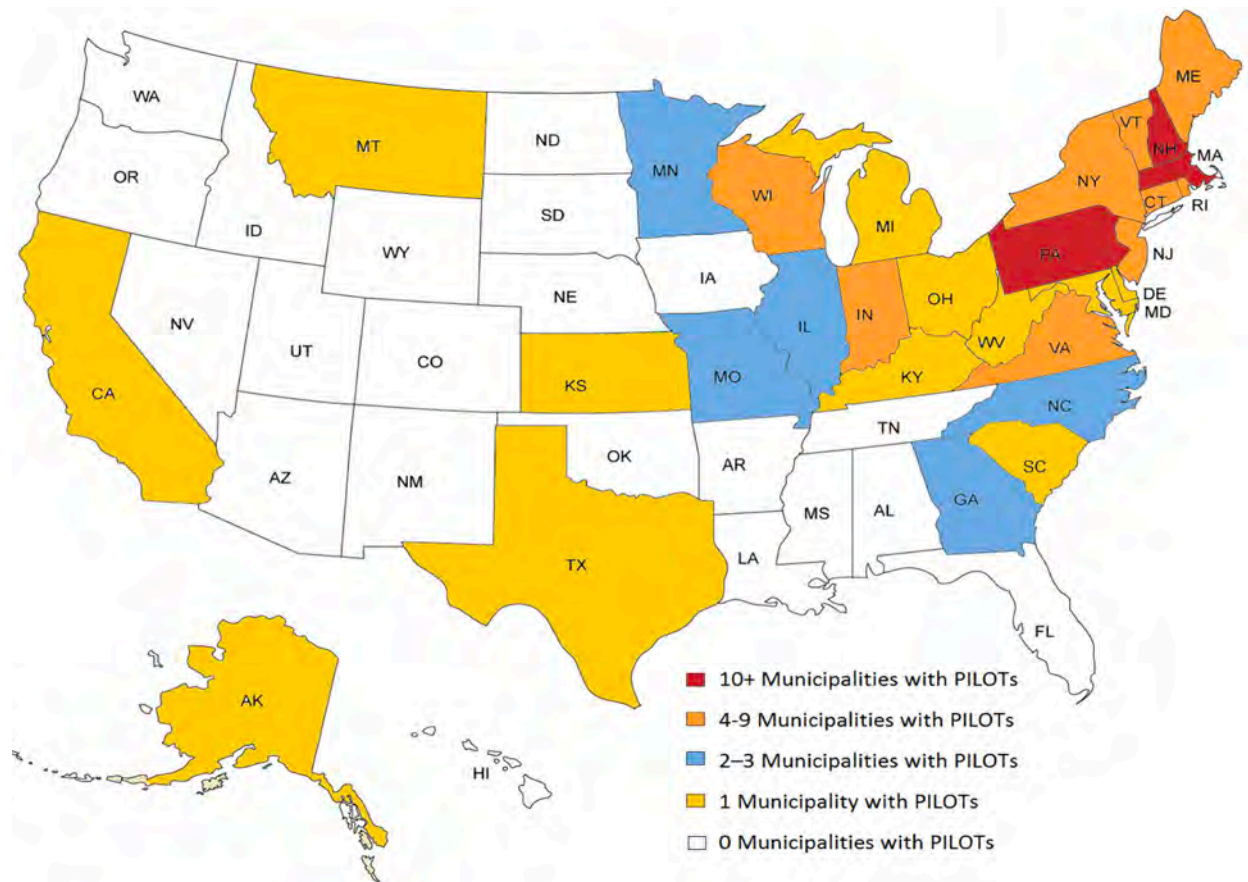
When the exemption of nonprofits from the real property tax is viewed as a subsidy, one can raise questions regarding the efficiency of that subsidy. Because nonprofits are not liable for property taxes, they may be more likely to locate to areas where property is expensive, such as in city centers. Also, the exemption from real property taxation benefits only those nonprofits that own property, such as colleges and hospitals, and not small nonprofits, with meager budgets, that are more likely to rent, such as soup kitchens.

Nonprofits and PILOTs

To address the issues that arise from nonprofit exemption, some local governments ask nonprofits to make voluntary payments in lieu of taxes, commonly referred to as PILOTs. The most recent comprehensive survey of PILOTs across the United States found that at least 218 localities in at least 28 states had received PILOTs from 2000 to 2012 (Langley, Kenyon, and Bailin 2012).

Figure 6.1

Map of States Collecting PILOTS, 2002-2012



Source: Langley, Kenyon, and Bailin 2012

Although the Northeast is the region with the greatest incidence of PILOTS, as Figure 6.1 shows, South Carolina has one city that receives PILOTS (Greenwood in Greenwood County), both Georgia and North Carolina have two municipalities that receive PILOTS, and three localities in Virginia receive PILOTS (see Table 6.2). Nationally, and in the region, colleges, universities, and hospitals are the types of nonprofits that most often contribute PILOTS; they are also the types of nonprofits that contribute the greatest percentage of total PILOT revenue.

To our knowledge Greenwood City is the only municipality in South Carolina that receives PILOTS from nonprofits (Cranney 2018). The city enacted a PILOT program in 2011. Currently, four health-related nonprofits contribute a total of just under \$200,000 annually to help fund city services.⁷

⁷ See Appendix A to Chapter 6 in Volume 2 for a description of how and why Greenwood City enacted a PILOT program in 2011.

Table 6.2 PILOT Activity in South Carolina and Comparison States*

State	Locality	Nonprofit	Sector	Revenue (\$)	Year
Georgia	Decatur	Clairemont Oaks	Housing	36,500	2018
	Decatur	Philips Towers	Housing	23,500	2018
	DeKalb County Schools	Emory University	Educational	2,500,000	2010
North Carolina	Davidson	Davidson College	Educational	45,000	2016
	Davidson	The Pines at Davidson	Housing	87,561	2012
	Durham	Duke University	Educational	400,000	2016
South Carolina	Greenwood	Carolina Health Centers	Health	9,500	2019
	Greenwood	Self Regional Healthcare	Health	175,000	2019
	Greenwood	Wesley Commons	Health	9,500	2019
	Greenwood	Greenwood Genetic Center	Health	3,000	2019
Virginia	Lexington	Washington & Lee University	Educational	132,021	2011
	Lexington	Virginia Military Institute	Educational	35,882	2011
	Lynchburg	Westminster Canterbury	Housing	52,900	2018
	Winchester	Crisis Pregnancy Center	Health	516	2011
	Winchester	Feltneer Community Foundation	Social Services	180	2011
	Winchester	French & Indian War Foundation	Arts/Culture	326	2011
	Winchester	Habitat for Humanity	Housing	154	2011
	Winchester	Our Health	Health	3,187	2011
	Winchester	Shenandoah Arts Council	Arts/Culture	120	2011
	Winchester	Westminster-Canterbury of Winchester	Housing	45,876	2011
	Winchester	Valley Health System	Health	351,865	2011

Source: Langley, Kenyon, and Bailin (2012)

*The data in the original source has been updated based on information from city budgets that are publicly available.

While PILOTs provide compensation for revenue lost due to the charitable nonprofit exemption, they are not appropriate for all municipalities and not appropriate for all nonprofits. PILOTs are more appropriate for municipalities that are highly reliant on property taxes and which have a high share of nonprofit property. PILOTs are best applied to nonprofits that: own a large amount of property, are financially secure, and predominantly serve clients outside of the municipality where they are located. In any case, municipalities and nonprofits should work closely to negotiate PILOT agreements that consider the financial constraints of each nonprofit.

If South Carolina policymakers decide to encourage local governments to adopt PILOT programs, these are recommendations for establishing programs that are efficient and equitable:

- Adopt a systematic, multi-year program.
- Establish clear criteria for the type of nonprofits that would be eligible to participate—either by identifying a list of general principles and excluding nonprofits that do not meet them, or by setting a threshold level of appraised value or operating revenue to make a nonprofit eligible for inclusion in the program.

Since PILOT programs are not recommended for all municipalities, often it is best to consider alternatives such as state grants and user fees when seeking the best means of compensating for lost revenue:

- **State Grants:** Both Connecticut and Rhode Island state governments have long made payments to municipalities to help compensate for exempt property owned by nonprofit medical and educational institutions. Sometimes these programs are referred to as GILOTs (grants-in-lieu-of-taxes) to distinguish them from PILOTs paid by nonprofits.
- **User Fees:** Nonprofits are generally exempt from paying property taxes as described previously. However, they are not generally exempt from paying user fees for services like garbage collection, water, and sewer. Thus, a municipality can obtain more revenue from the nonprofit sector by shifting the financing of some services from the property tax to user fees.

Payments in Lieu of Taxes on State Real Property and Federal Property

State Property

Tax-exempt state property also presents a revenue issue for local governments. There are various state programs that compensate local governments for the loss of their tax base due to state ownership of land. The most recent compilations of state PILOT programs across the United States were completed in 1990 and 1994. They are no longer accessible but were consolidated and described by the New York State Department of Taxation and Finance (1996).

The New York State Department of Taxation reports that at least 22 states had some sort of state PILOT program in the early 1990s. None of South Carolina's comparison states had such a program, but South Carolina was reported to have three state programs compensating local governments for state-owned property, with an annual cost of approximately \$1.5 million (U.S. Advisory Commission on Intergovernmental Relations 1991, 143). Through a web search we found evidence of current use of state PILOT or PILT programs in Connecticut, Massachusetts, Michigan, North Dakota, and Vermont.

Federal Property

The last comprehensive examination of payments in lieu of taxes on federal real property appears to have been a study by the U.S. Advisory Commission on Intergovernmental Relations published in 1981. That study noted that, “Congress has recognized a responsibility to some local governments for making some form of tax or in lieu of payment to account for the federal presence, but the result has been the creation of a patchwork of uncoordinated and ad hoc special tax payment programs which have developed over the years.” At that time there were 57 different federal programs that could be characterized as payment in lieu of tax programs. The most commonly known program in the last category is the Payments in Lieu of Taxes (PILT) program, managed by the U.S. Department of the Interior (DOI).

The federal government owns approximately 640 billion acres of land across the United States and 95 percent of this land is managed by four agencies: Bureau of Land Management, National Park Service, Fish and Wildlife Service within the DOI, and Forest Service within the Department of Agriculture (Gorte and Corn 2012, 11). The DOI makes annual PILT payments for land managed by these agencies, as well as for federal water projects and some military installations. These annual payments are calculated based on a formula that considers population, revenue-sharing payments, and the amount of federal land within the local government boundaries. In FY2019, the DOI paid South Carolina \$845,000 for approximately 800,000 acres of federal land through a PILT program. Only half of the focus counties received funding in 2019 from the PILT program, and the amounts they received were small. The focus county receiving the most funding from PILT in 2019 was Charleston, with almost \$127,000 received.

Conclusion

South Carolina does not tax property owned by the federal government, state government, religious nonprofits, and most other nonprofits. Because South Carolina does not maintain a centralized database of exempt property or require assessors to appraise exempt property, we know little about the effect of the exemption on local governments. However, among the focus counties, several have cities in which over 40 percent of property is exempt from taxation because the property is owned by state government, local government, or nonprofits. South Carolina has one municipality that receives payments in lieu of taxes from nonprofits. PILOTs, when designed properly, can address some the issues arising from nonprofit tax exemption.

DEFINITIONS

Ad Valorem Tax— (Latin for “toward value”) A tax imposed on properties in proportion to their values. The most common are the ad valorem taxes imposed on real and personal property.

Appraised Value—The estimate of the value of a property before application of any fractional assessment ratio.

Assessable Transfer of Interest (ATI) —A transfer of an existing interest in real property that subjects the real property to reappraisal. For purposes of this definition, an existing interest in real property includes a life estate interest.

Assessed Property Value—The amount of a property's value that is subject to be taxed, as determined by the assessor. To determine the assessed value, the property tax value (PTV) is multiplied by the appropriate assessment ratio as noted below.

- Owner-occupied and agricultural properties are assessed at 4 percent of their appraised value.
- Commercial and non-owner-occupied residential properties are assessed at 6 percent of their appraised value.
- Manufacturing properties are assessed at 10.5 percent of the appraised value (determined by the S.C. Department of Revenue).

Assessment—The official act of discovering, listing, and appraising property, usually by an assessor.

Assessment Ratio—The ratio applied to the appraised value of property depending on the use of the property. Assessment ratio qualifications are set forth by state law. Real property (excluding manufacturing and utility property) is assessed in South Carolina at either a 4 percent or 6 percent ratio.

Capped Value--See Property Tax Value.

Coefficient of Dispersion (COD)—The coefficient of dispersion is commonly used to measure horizontal uniformity. It calculates the variation in appraisal/sales ratios around the measure of central tendency by computing the variation of each parcel's appraisal/sales ratio from the median ratio and then expressing it as a percent of the median ratio.

Fair Market Value (FMV) —Value as defined by §12-37-930 which states that “All property must be valued for taxation at its true value in money, which in all cases is the price that the property would bring following reasonable exposure to the market, where both the seller and the buyer are willing, are not acting under compulsion, and are reasonably well informed of the uses and purposes for which it is adapted and for which it is capable of being used.”

Horizontal Equity—Horizontal equity is the principle that people in similar circumstances should be treated the same by the tax system. In the context of the property tax, horizontal equity means that people with properties of similar value should pay similar property taxes. For example, in the context of horizontal equity, if two houses are each valued at \$100,000, they should pay the same property tax, regardless if one is owner-occupied and the other is non-owner-occupied. (See discussion of Coefficient of Dispersion)

Market Value—The amount that property can reasonably be expected to sell for on the open market with a willing buyer and a willing seller.

Millage Rate—The number of mills levied in order to meet the budget of a school district, county, city, or other political subdivision. One mill equals 1/1000 of a dollar or 1/10 of a cent. If the tax rate is 501 mills, multiply .501 by the assessed value to determine the amount of property tax due.

O & M Exemption—The removal of the school operation portion of a primary homeowner's property tax bill. O & M is shorthand for "operations and maintenance."

Owner-Occupied—In South Carolina, often used interchangeably with "primary residence." Otherwise, this term means "used as a dwelling by the owner." Outside of South Carolina, "owner-occupied" is not synonymous with "primary residence" or the legal term for primary residence which is "domicile."

Personal Property—All things other than real estate which have value such as cars, trucks, boats, motorcycles, and airplanes. Also, items used in a business such as furniture, fixtures, and equipment.

Price Related Differential (PRD)—A statistic used to measure vertical uniformity of appraisals. It is calculated by dividing the mean appraisal/sales ratio by the aggregate ratio for an entire group of properties.

Primary residence---That particular locality where a person is legally deemed to have his or her true home or place of abode. A person always has one, and only one, primary residence. Primary residence is synonymous with the legal term "domicile."

Property Tax Value (PTV) or Capped Value—"Each political subdivision shall value real property by a method in which the value of each parcel of real property, adjusted for improvements and losses, does not increase more than fifteen percent every five years unless an assessable transfer of interest occurs." Property Tax Value, according to §12-37-3155 means fair market value as it may be adjusted downward to reflect the limit imposed pursuant to Section 12-37-3140(B).

Reassessment—Process required by state law to determine the change in market value of property over a certain period of time in order to provide equity among taxpayers. Reassessment is a revaluation of real estate. Presently South Carolina state law requires each county to reassess every five years.

Real Property—All land and the buildings, structures, and improvements on that land.

Sales Ratio Study—A study of the relationship between appraised values and sales values. These studies focus on the level and uniformity of appraisals.

Tax Bill Number—A “Bill Number” identifies an individual tax bill issued for each Tax Year. The “Bill Number” is used to link the billing and payment records for each tax bill. The “Bill Number” appears twice on a tax bill: on the third line of the information listed at the top right corner of the bill, and at the left side of the third line down from the perforation (detach line) at the bottom of the bill.

Tax Year—The year that the tax bill is received, payable by January 15 of the next year.

TMS (Tax Map System), TMS—The “TMS” number links ownership and map location information. This information is maintained by the county assessor’s office. This includes “tax maps” that show all the parcels of land in the county, each labeled with its own TMS number that links to current ownership information for each parcel.

Vertical Equity—Vertical equity, in the context of the property tax, means that high- and low-valued properties should be appraised in the same relationship to actual sales prices. To the extent appraisal/sales ratios for high- and low-valued properties are not the same, vertical equity is undermined. (See discussion of Price Related Differential.)

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