



LINCOLN INSTITUTE
OF LAND POLICY

South Carolina's Property Tax System: Complex, Inequitable, and Uncompetitive

For Home Builders Association of South Carolina

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About the Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy seeks to improve quality of life through the effective use, taxation, and stewardship of land



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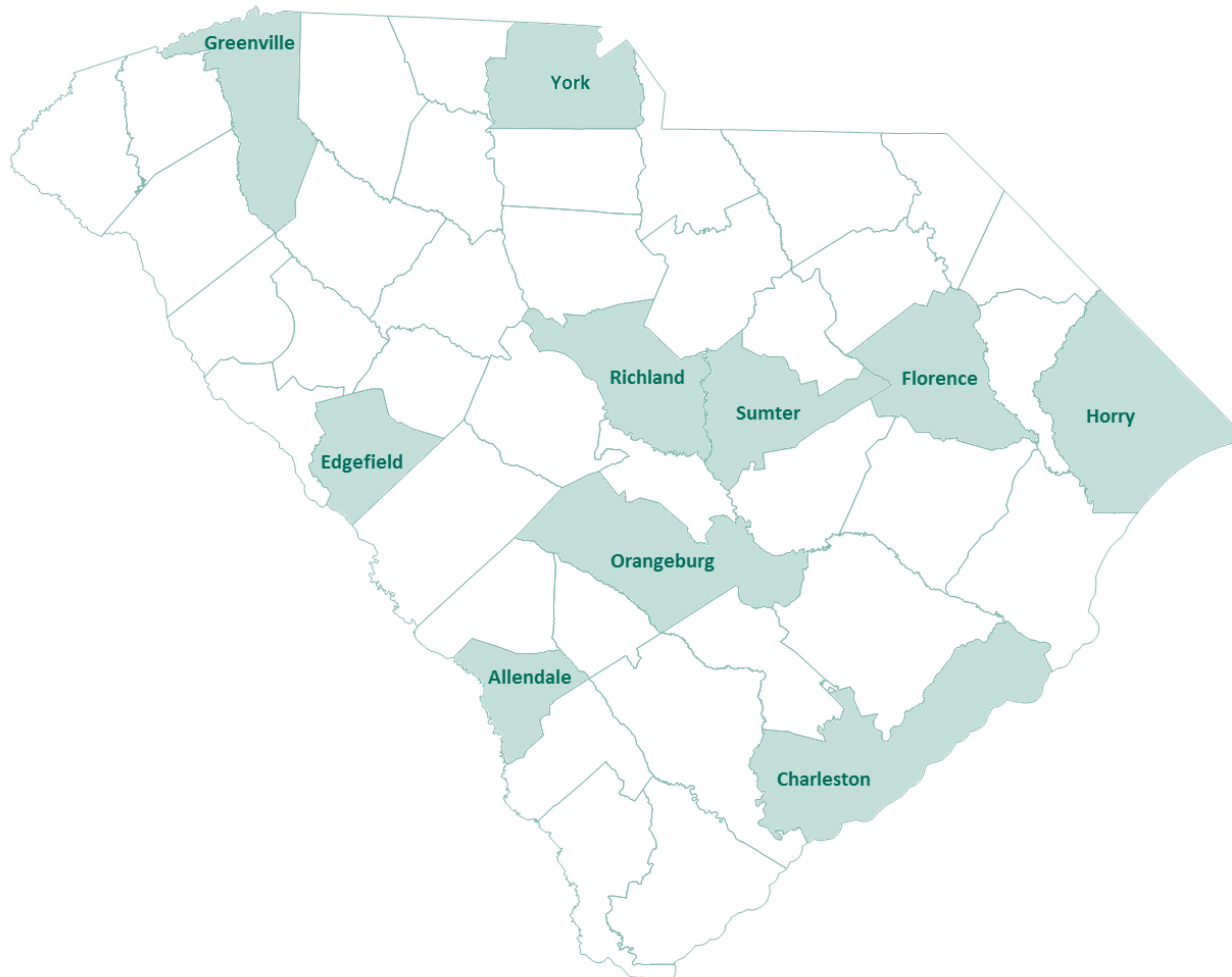
- A nonprofit private operating foundation whose origins date to 1946, the Lincoln Institute researches and recommends creative approaches to land as a solution to economic, social, and environmental challenges
- Through education, training, publications, and events, we integrate theory and practice to inform public policy decisions worldwide
- The Lincoln Institute has offices in Cambridge, Phoenix, Washington, DC, and Beijing

This research was conducted by Lincoln Institute experts and consultants and funded jointly by the South Carolina Chamber Foundation and the South Carolina Realtors.

Methodology of Study in Brief

- Ten diverse focus counties chosen
- Multiple new data sets analyzed
- Interviewed a range of public finance experts and stakeholders in South Carolina
- Nine authors
- Seven reviewers
- Two volumes totaling 410 pages
- Executive summary and policy options in Volume 1

South Carolina Focus Counties



SC's Disparate Property Tax Treatment of Different Forms of Housing is:

- Unusual
- Unfair
- Administratively complex

Disparities in Effective Tax Rates: Focusing on Primary Homes vs. Other Residential (including apartments)

Effective Tax Rate (ETR)

- Effective Tax Rate (ETR) = $\frac{\text{Tax Payment}}{\text{Market Value}}$
- A homeowner who pays \$1,000 in property taxes on a home valued at \$100,000 faces an ETR of 1%

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.

Constitutional Assessment Ratios by Land Use Type

Land Use Type	Ratio
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

Property Tax Bills Calculated in 3 Basic Steps

1. Property is assigned its fair market value or appraised value
2. Appraised value is multiplied by the appropriate assessment ratio to produce the assessed value
3. Assessed value is multiplied by the total millage rate to derive the property tax bill

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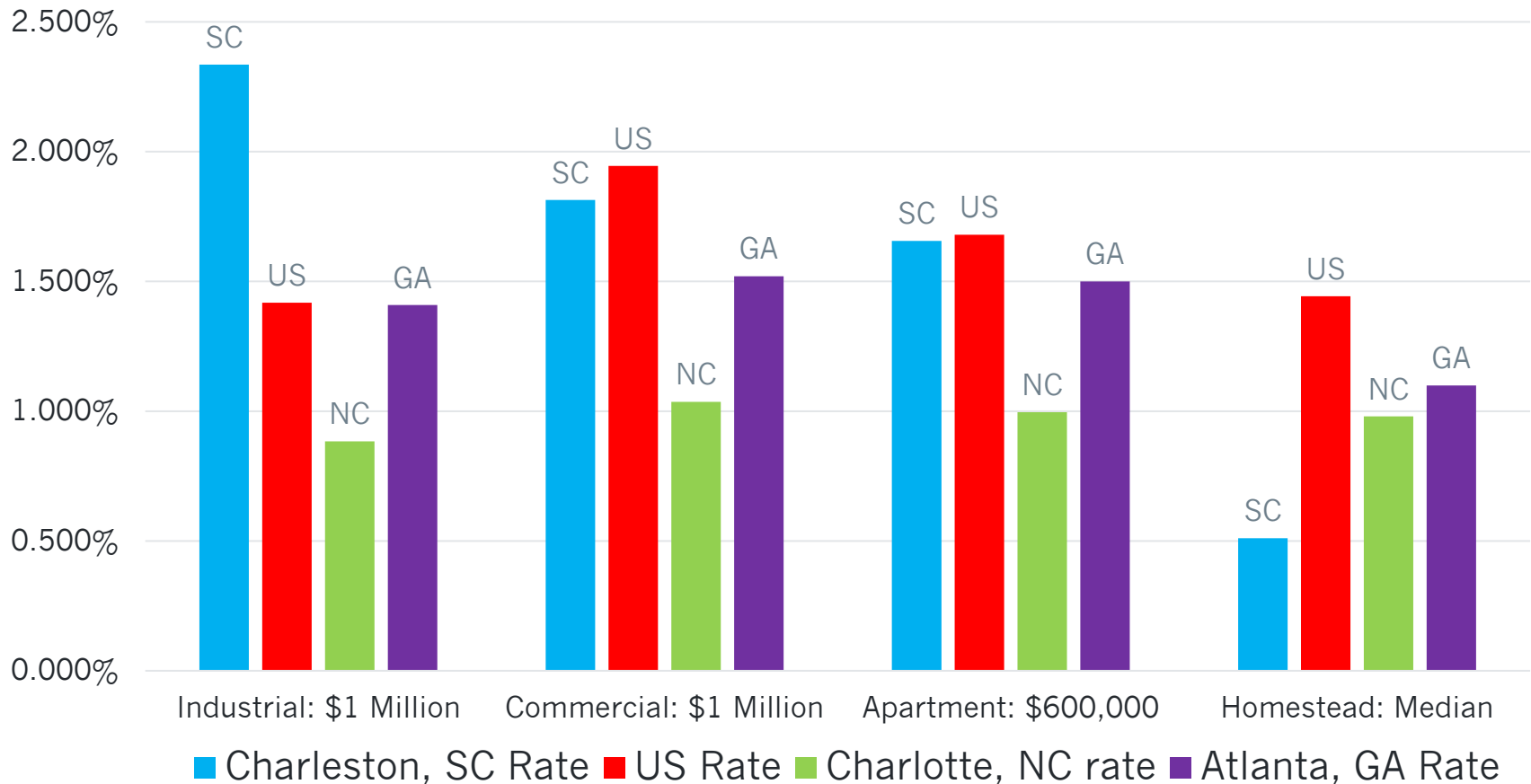
Source: Author's calculation

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O&M Exemption

- The “O & M exemption” is the removal of the school operation portion of a primary homeowner’s property tax bill. O & M is shorthand for “operations and maintenance.”
- SC is the only state in the country that does not levy property tax on primary residences to cover school operating costs

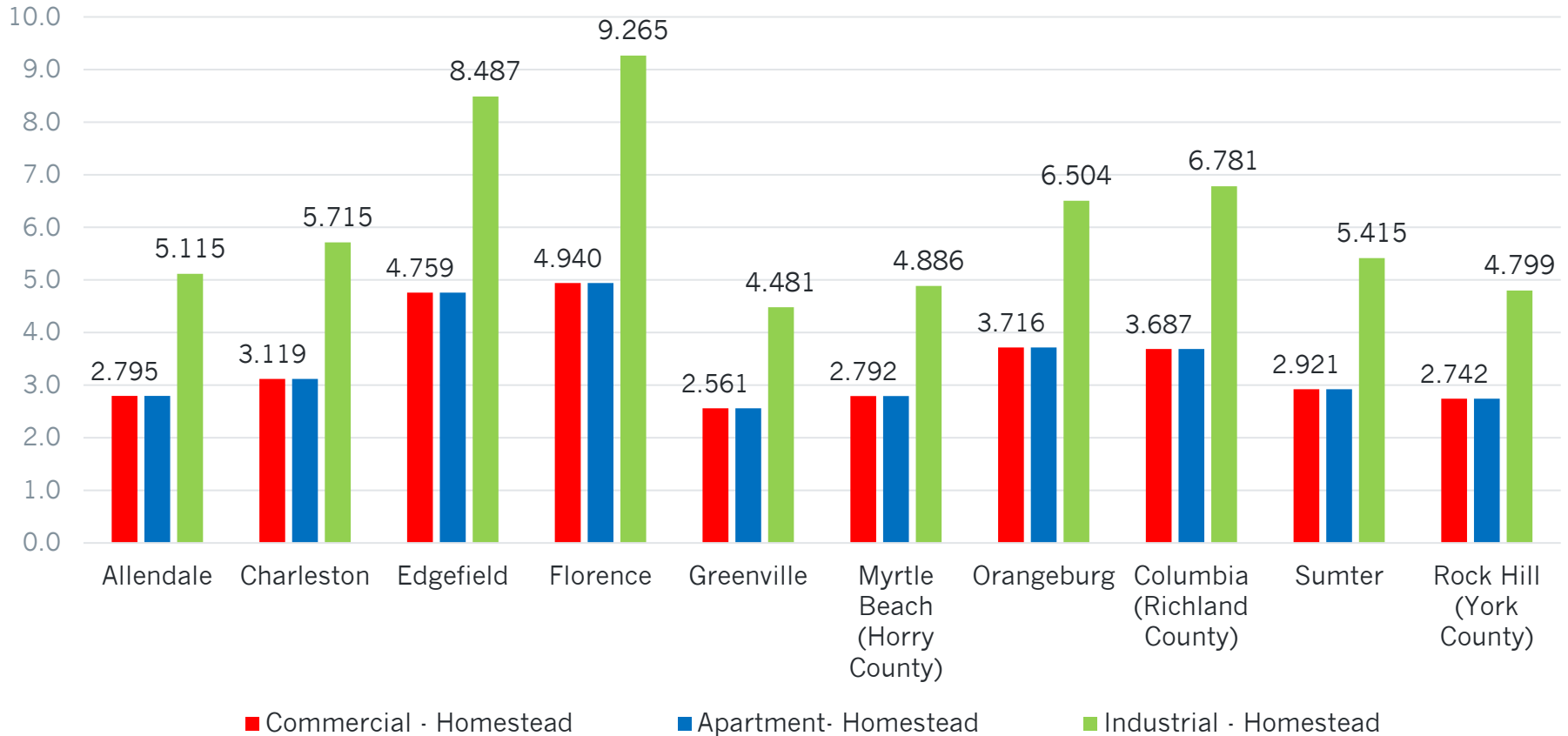
Effective Tax Rates by Property Type, 2018



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.

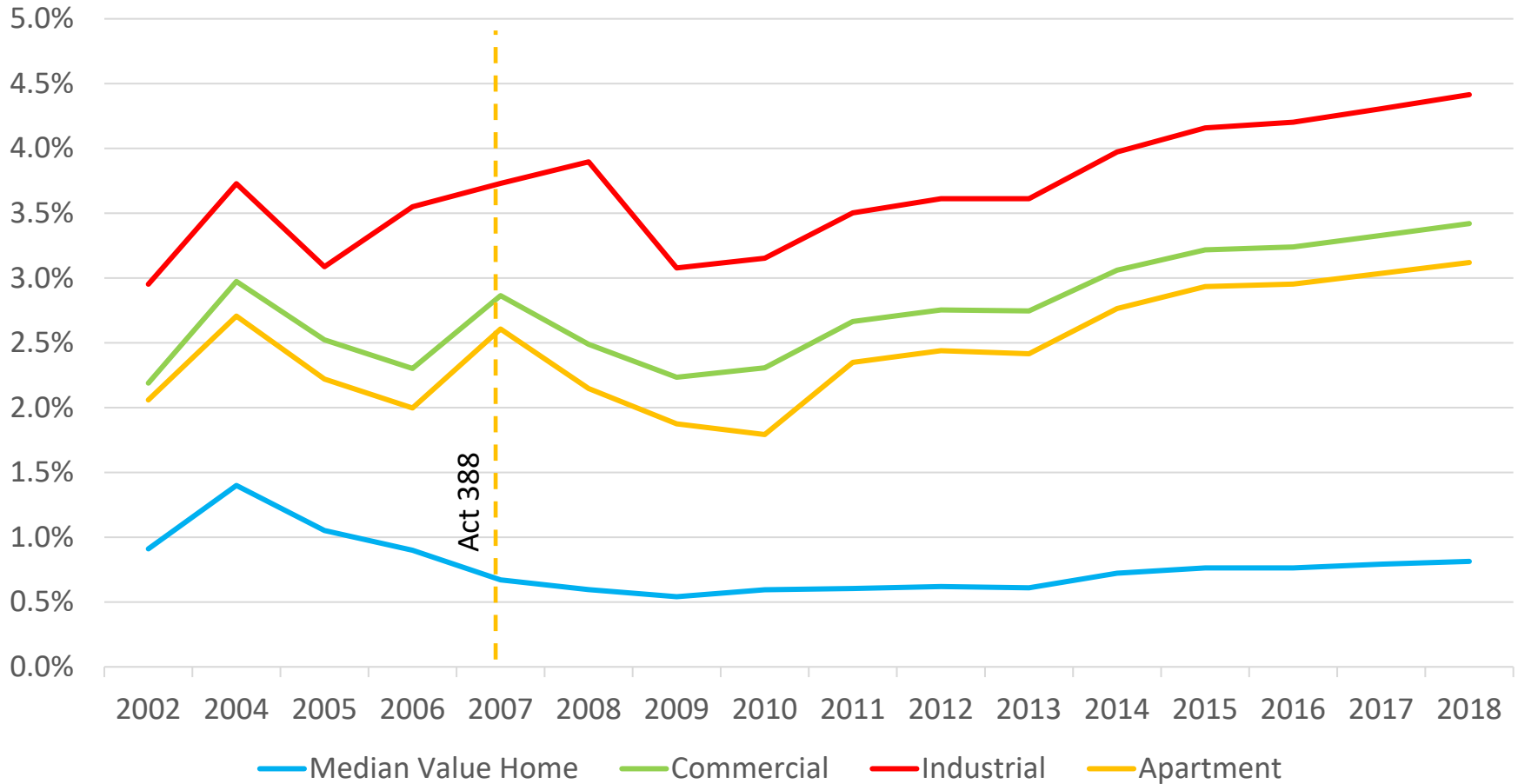
10 County Comparison of Effective Tax Rate Ratios



Source: Minnesota Center for Fiscal Excellence

The apartment-homestead ratio of ETR is high in the largest cities in each of our focus counties.

Columbia, South Carolina Effective Tax Rates by Class, Selected Years, 2002-2018



Source: Minnesota Center for Fiscal Excellence

Note: Effective tax rates are reported for a median-value homestead, a \$1 million commercial property, and a \$1 million industrial property, with 50% personal property

Top Five Apartment-Homestead Ratios of Effective Tax Rates, 2018

City	Rate	<i>Rank</i>
Charleston (SC)	3.119	<i>1</i>
New York (NY)	2.550	<i>2</i>
Indianapolis (IN)	2.425	<i>3</i>
Birmingham (AL)	2.183	<i>4</i>
Charlestown (WV)	2.148	<i>5</i>

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

SC's Disparate Property Tax Treatment of Different Forms of Housing is **Unusual**:

- 25 states assess all property types at the same percent (do not classify property)
- Some states that use classification (like North Carolina) use it in only a limited way
- South Carolina is the only state to exempt primary homeowners from paying property taxes for school operating costs.

SC's Disparate Property Tax Treatment of Different Forms of Housing is **Unfair**:

- Primary homeowners benefit from schools but do not pay property taxes to operate schools
- Homeowners typically have higher incomes than renters, but face lower property tax rates
- Apartments are taxed at over 3 times the rate of primary homes (the highest apartment-homestead differential in the U.S.)

SC's Disparate Property Tax Treatment of Different Forms of Housing is **Complex**:

- Some real estate buyers do not know about the sizeable property tax reductions available to primary homeowners
- A new buyer must apply for primary homeowner status
- Assessment offices must devote considerable resources to prevent fraud so that property owners do not misreport residential property as their primary home

Policy Recommendations

- Reduce Disparities in Effective Tax Rates
- Modify the School O&M Exemption
- Repeal the Assessment Cap

Reduce residential non-owner-occupied homes from 6% assessment ratio to match owner-occupied residences at 4%

- Effective property tax rate for apartments is more than 3 times higher than primary residences – the highest apartment-homestead differential in the country
- Substantial county resources devoted to prevent fraud to determine primary residence

Modify the School O&M Exemption

O&M Exemption Problems

- Only state in the country that does not levy property tax on primary residences to cover school operating costs
- Study identified substantial shifting of tax burden from primary residential to other property types

O&M Policy Options

- Cap the amount of property value entitled to the exemption OR
- Replace O&M Millage for all property types with a State Education Property Tax which would equalize funding based on student head count rather than zip code and allow the entire education system to benefit from economic growth (similar to Michigan model) OR
- Replace O&M Millage for all property types with a local millage for school operating costs

Repeal the 15% Assessment Cap

The 15% assessment cap limits the increase in appraised value to 15 percent within 5 years.

Repeal the 15% Assessment Cap

- Small proportion of properties benefit from the cap
- But properties that do receive a benefit, receive significant benefit
- Cap has shown very little impact on overall tax base
- Eliminates the assessable transfer of interest (ATI) at point of sale
- Requires a constitutional amendment

Summary

- In South Carolina, property tax rates on apartments are over three times that for primary homes
- This is unusual, unfair and administratively complex

Forthcoming

- Next 50-State Property Tax Comparison Study by Lincoln Institute of Land Policy & Minnesota Center for Fiscal Excellence due to be published June 2021

Extra Slides

Data and Methodology—Data Sets

- Effective tax rate estimates from Minnesota Center for Fiscal Excellence
- Significant Features of the Property Tax
- Appraised & assessed values by property category from county assessors and auditors
- Sales data from county assessors
- Parcel level real estate data from CoreLogic
- School district revenue and expenditure data from National Center for Education Statistics

Data and Methodology—Data Sets

- County and School District Comprehensive Annual Financial Reports (including GASB 77 data)
- SC Association of Counties, Dept of Commerce, Dept of Education, Dept of Revenue, Revenue & Fiscal Affairs Office
- US Dept of Commerce, Dept of Education
- Confidential taxpayer data from large SC property taxpayers, used with permission and not attributed
- Ernst & Young

Data and Methodology—SC Interviews

- Assessors
- Auditors
- Economic development officials
- School officials
- Realtors
- Business tax specialists
- Public finance experts

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Thank you

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