

Tax proposal makes sense

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Gov. Mark Sanford, House Speaker David Wilkins and about 90 other state legislators have embraced an income tax reduction plan that has many appealing features. The proposal unveiled Tuesday is modest in its immediate impact on the state budget, has the potential of firing up this state's suffering economy and puts the state in the business of cutting the right tax.

If the Income Tax Relief Act is adopted by the Legislature this year, the top income tax rate will drop from 7 per cent to 4.75 per cent over time, maybe even as quickly as 10 years. In every year in which state revenues grow 2 percent or more, the tax rate will be cut by .225

percent. In years in which the revenue growth doesn't reach 2 percent, the income tax rate won't decline.

This is a sensible income tax rate reduction plan.

South Carolina's individual income tax rate is high, and worse, it's generally higher than what is paid in neighboring states. The top tax rate of 7 percent kicks in on taxable income of \$12,300. Such a tax takes a big bite out of the pockets of many individual taxpayers, but it also puts a drag on small businesses.

Gov. Sanford ran for office in 2002 with the goal of cutting this high tax that hurts not only individuals, but also small businesses. The latter point — that most businesses in South Carolina pay the high 7 percent rate for individual taxpayers — quickly got lost this week.

We cannot afford to overlook that point in this debate. Small businesses are the backbone of this state's economy, and they do not benefit from the more reasonable 5 percent rate paid by corporations. South Carolina must create a more favorable climate for small businesses if this state is to improve its economic base and increase the wealth of its citizens. It's that simple, really.

Many opponents of Sanford's plan are focusing on the relatively minor amounts of money that many individuals will save in the short term under the plan, and they are completely ignoring what this proposal will mean to the many mom-and-pop businesses in our state.

The average small business in our state has 20 employees. For some of them, an income tax cut will mean they can hire another person. For others, it will mean they don't have to lay off an employee. For others, it could be the difference between staying open or closing.

Income tax cuts have the ability to fuel the economy. Tucked inside *USA Today* on Tuesday was this story, "Most economists credit Bush's tax cuts in rebound." It's quite likely that if the Legislature passes the Income Tax Relief Act, a similar headline will be found in South Carolina newspapers in a few years.

This is the right tax for the Legislature to cut. A cut in the income tax in South Carolina could spark consumer spending, and if it does, South Carolina will reap the reward in an increase in sales tax revenue. Small businesses can add employees, and the state will benefit from an increase in income tax revenue.

An income tax cut actually could produce an increase in both sales tax and income tax revenue.

But this is the right tax to cut for another reason. State income taxes pay for state services that are controlled by state government. Many legislators are tempted to cut property taxes because those taxes are so unpopular with many people. But property taxes pay for local services overseen by local governments, and the reins for those taxes should be in the hands of elected local officials.

South Carolina has suffered more than many states during the recession. On a percentage basis, our state has lost more jobs than any other state.

Sanford, Wilkins and other legislative leaders (including House Ways and Means Chairman Bobby Harrell and Senate President Pro Tem Glenn McConnell) have proposed a tax cut that could aid this state in its economic recovery and make it a more attractive place for small businesses.

All South Carolinians will be the winner if this income tax relief plan achieves its objectives. The potential benefits of this income tax cut justify its approval this legislative session.