

I. TAXES-2003

A. South Carolina's Corporate Income Tax

Companies pay a state corporate income tax on income allocated to South Carolina operations (interest, dividends, royalties, rents, property sale gains and losses, and personal services income) and income apportioned to the operations. South Carolina uses a double weighting of S.C. Sales in income apportionment:

- 25% S.C. property vs. all property.
- 25% S.C. payroll vs. all payroll.
- 50% S.C. sales vs. all sales.
- 15-year net carry-forward for losses in S. C.

A **5% corporate income tax rate** is applied to the sum of these incomes, and the resulting figure is a company's state corporate income tax. In South Carolina, **only the state** has the authority to tax corporate income.

B. South Carolina's Corporate License Fee (Franchise Tax)

All corporations-foreign and domestic-must pay an annual fee to the State Department of Revenue. The rate is one mil per dollar (\$0.001) of a proportion of total paid-in-capital and paid-in-surplus, plus \$15. **Earned surplus (retained earnings) is not included in the base in calculating this tax.** For corporations doing business outside the state, the license fee is determined by apportionment, in the same manner employed in computing the state corporate income tax. The minimum corporate license fee is \$25.

C. Retail Sales Taxes

South Carolina levies a 5% retail sales tax. Major exemptions from the tax include certain items used in farming, prescription drugs, electricity and machinery used in manufacturing. The entire proceeds of this tax are pledged to the construction and operation of the South Carolina School System. Voters in Florence County in 1993 approved an additional 1 % local option sales tax to reduce property tax rates. One hundred percent of the tax is used as a credit against taxes on all types of property.

D. Florence County Property Taxes

Property taxes in South Carolina are levied by local entities only. There are no state property taxes. Included in the list of local entities allowed to levy property taxes are counties, municipalities, school districts, technical colleges and certain special service districts such as water, sewer and drainage control authorities. Following is the basic formula for the computation of property taxes and an explanation of each component:

Fair Market Value of Property (\$)	X	Property Assessment Ratio (%)	=	Assessed Valuation (\$)
Assessed Valuation (\$)	X	Millage Rate in the Specific Tax District	=	Property Tax Subtotal (\$)
Property Tax Subtotal (\$)	-	Any Applicable Credits (\$)	=	Property Tax (\$)

1) Fair Market Value:

The determination of **Fair Market Value** of real and personal property in South Carolina is determined in a variety of ways depending upon the type of property. Following is a summary of the various mechanisms:

- **Personal Property of Individuals and Businesses Such as Vehicles, Boats, Campers and Airplanes:**

The South Carolina Department of Revenue annually publishes *Fair Market Valuation* guidebooks for personal property of this nature. Each county utilizes the Department of Revenue's guidebooks in determining the *Fair Market Value* for purposes of local property taxation.

- **Real and Personal Property of Businesses Such as Land, Buildings Machinery, Equipment and Fixtures:**

The South Carolina Department of Revenue determines the *Fair Market Value* of all business-related property. The Department of Revenue generally follows I.R.S. code in determining the depreciated value of such property. On the average, an 11% annual depreciation is utilized. South Carolina allows manufacturers and other qualifying businesses to depreciate personal property down to a base of 10% of original value. There is no scheduled depreciation for real property of businesses. Periodically, the Department of Revenue will review business real property values and will adjust the *Fair Market Values* to reflect local market conditions.

- **Residential Real Property:**

South Carolina law requires counties to perform reassessment at least every five (5) years. This is ensure that true real estate market values are kept in line with *Fair Market Valuations*.

2) Assessment Ratios:

Assessment Ratios are set by the South Carolina General Assembly and cannot be altered by local taxing authorities. The *Assessment Ratio* is applied to the *Fair Market Value* of taxable property to derive an *Assessed Value*. Following are the *Assessment Ratios* for various types of property in South Carolina:

<u>Property Type</u>		<u>Assessment Ratio</u>
• Real Property	Manufacturing	10.5%*
	Commercial	6.0%
	Owner Occupied Residential	4.0%
	Non-Owner Occupied Residential	6.0%
• Personal Property	Commercial & Individual Personal Property	10.5%**

* New and expanding manufacturers and certain other types of businesses in Florence County with minimum capital investments of \$5 million may negotiate a Fee-In-Lieu-of-Taxes agreement which can reduce the *Assessment Ratio* for both Real and Personal Property to as low as 6%. For new and expanding companies investing in excess of \$400 million, the *Assessment Ratio* can be negotiated to as low as 4%.

** A state constitutional amendment voted on November 7, 2000 reduces the assessment ratio of personal motor vehicles commencing in 2002 over a 6 year period from 10.5% until it reaches 6%. Beginning January 1, 2003, the assessment ratio on personal motor vehicles is 9.0%. The assessment ratio as of January 1, 2004 will be 8.25%.

3) Assessed Valuation:

Assessed Valuation is simply a function of the *Fair Market Value* multiplied by the *Assessment Ratio*.

4) Millage Rates:

Millage Rates are established annually by local taxing authorities, including city and county governments, school districts and certain special purpose districts. In simplistic terms, these rates are calculated by dividing the total *Assessed Value* of property by the projected financial needs of the various users of property tax revenues in the district. They vary widely across the county depending upon whether the property is located inside a municipality, the financial needs of the local school district and other factors. There are **thirty(30)** separate tax districts in Florence County. The table below displays the 2003 *Millage Rates* in each of these districts:

Florence County, South Carolina - Millage Rates for Tax Year 2003

District #	Cities	County Mills	Municipal Mills	Total Millage	Less New & Expanding Industry Millage*
100		236.7		236.7	166.7
110	Florence	231.7	60.8	292.5	222.5
120	Quinby	236.7	12.5	249.2	179.2
130		241.7		241.7	171.7
200		285.3		285.3	215.3
210	Pamplico	262.3	88.0	350.3	280.3
220		272.3		272.3	202.3
230		285.3		285.3	215.3
300		244.4		244.4	174.4
301		261.4		261.4	191.4
310		244.4		244.4	174.4
311		261.4		261.4	191.4
320	Lake City	226.4	165.9	392.3	322.3
330	Olanta	226.4	55.1	281.5	211.5
340	Coward	244.4	-0-	244.4	174.4
341	Coward	261.4	-0-	261.4	191.4
350	Scranton	226.4	-0-	226.4	156.4
351	Scranton	243.4	-0-	243.4	173.4
360		244.4		244.4	174.4
361		263.8		263.8	193.8
371		263.8		263.8	193.8
380		231.4		231.4	161.4
381		248.4		248.4	178.4
390		231.4		231.4	161.4
391		250.8		250.8	180.8
400		277.8		277.8	207.8
410	Timmonsville	262.8	90.0	352.8	282.8
420		267.8		267.8	197.8
500		332.0		332.0	262.0
510	Johnsonville	307.6	52.8	360.4	290.4

* For tax year 2003, a total of 70.0 mills are exempted for qualifying new and expanding business and industry.

South Carolina allows municipalities to also offer an exemption on municipal millages to new and expanding business and industry. The Town of Olanta is the only municipality in Florence County

that currently has the necessary ordinance in place to offer this incentive.

5) 2003 Florence County Effective Property Tax Rates*:

- **Manufacturing (Real and Personal Property)**

	Standard Taxes- No 5 Year Exemption	Taxes Including 5 year Exemption**	Taxes With Fee-in-Lieu Agreement***
Least Case****	2.38%	1.64%	1.36%
Median Case****	3.10%	2.365%	1.71%
Highest Case****	3.82%	3.09%	2.06%

- **Commercial (Real Property)**

Least Case**** **1.67%**
Median Case**** **2.135%**
Highest Case**** **2.60%**

- **Residential (Owner Occupied Real Property)**

	Fair Mkt. Value <\$100,000	Fair Mkt. Value >\$100,000
Least Case****	.62 %	.76%
Median Case****	.805%	.945%
Highest Case****	.99%	1.13%

- **Personal Property (Commercial and Private Individuals)**

Least Case**** **2.38%**
Median Case**** **3.10%**
Highest Case**** **3.82%**

* Effective Tax Rates are expressed as a percentage of the *Fair Market Value* of the property.
** South Carolina requires counties to exempt new and expanding industries from county operating taxes for the first five years.
*** For investments of \$5 million or greater, Florence County may negotiate a Fee-In-Lieu-of-Taxes Agreement with the company which can reduce the *Assessment Ratio* to as low as 6%. Companies are not allowed to take advantage of both the five year exemption (*) and the Fee-In-Lieu-of-Taxes incentives.
**** The variance in Effective Tax Rates is due to variances in *Millage Rates* across the county. There are thirty (30) different tax districts in Florence County. The "Least Case" is based on the district with the lowest *Millage Rate*, while the "Highest Case" is for property located in the district with the highest *Millage Rate*. The "Median Case" is based on a theoretical district wherein exactly one-half of the *Millage Rates* in the various districts are higher and one-half are lower.

E. Property Tax Credits

There are two credits available to property owners in Florence County against their property tax bills:

- 1) Local Option Sales Tax (L.O.S.T.)**

South Carolina allows units of local government to increase the statewide retail sales tax (5%) by an additional penny (1¢). Florence County voters approved the LOST program in 1993. Revenues from the L.O.S.T. program are totally dedicated to reducing taxes on all property owners in Florence County. The impact of the L.O.S.T. program on property tax revenue has been significant. L.O.S.T. credits are applicable county-wide and are based on the following credit factors for 2003:

City of Florence	.002437000
City of Lake City	.002962821
Town of Johnsonville	.004557413
Town of Olanta	.004173673
Town of Pamplico	.004703151
Town of Quinby	.006591862
Town of Timmonsville	.005262058
Unincorporated Florence County	.001862476

The above credit factors are applied against the *Fair Market Valuation* of property to derive the dollar value of the credit. For example, a residence with a *Fair Market Valuation* of \$100,000 located in Unincorporated Florence County would receive a L.O.S.T. credit for 2003 taxes of \$186.25 (\$100,000 X .001862476 = \$186.25).

2) State Property Tax Relief

The State of South Carolina remits monies to all school districts in the state which are applied as a credit against school operating taxes to the first \$100,000 of *Fair Market Valuation* of owner occupied residential property. For example in tax year 2003, an owner occupied residence in Florence County with a fair market valuation of \$100,000 would receive a minimum credit of \$286 and a maximum credit of \$414 depending upon their tax district within the county.

F. Sample Property Tax Calculations

- **Manufacturing Property**

The 2003 millage rate for District 100 of 236.7 with a millage exemption of 70.0 and a L.O.S.T. Credit of .001862476 are used to illustrate the sample calculations.

Initial Investment

Real Property (Land & Buildings)	\$3,900,000
Personal Property (Machinery & Equipment)	\$7,500,000
Inventories (Raw Materials, Goods-In-Process & Finished Goods)	\$1,600,000
Total Initial Investment	\$13,000,000

Fair Market Value (Year 2, Tax Year 1*)

Real Property	\$3,900,000
Personal Property **	\$6,675,000
Inventories ***	-0-
Total Fair Market Value	\$10,575,000

* Taxes are payable in operating year 2 for property owned as of December 31 of the previous year.

** Average Depreciation of 11% per year.

*** Inventories of Raw Materials, Goods-in-Process and Finished Products are exempt from property taxes in South Carolina.

	Standard Taxes- No Five Year Exemption*	Taxes With Five Year Exemption*	Taxes With Fee-In-Lieu Agreement**
Total Fair Market Value	10,575,000	10,575,000	10,575,000
X	X	X	X
Assessment Ratio	10.5%*	10.5%*	6.0%**
Total Assessed Value	1,110,375	1,110,375	634,500
X	X	X	X
Millage Rate	.2367	.1667	.2367
Subtotal	262,826	185,100	150,186
Less L.O.S.T. Credit***	19,696	N/A	N/A
= Property Taxes (Year 2-Tax Year 1)	243,130	185,100	150,186
Effective Tax Rate =	2.30	1.75	1.42

* South Carolina requires counties to exempt new and expanding industries from county operating taxes for the first five years.

** For investments of \$5 million or greater, Florence County may negotiate a Fee-In-Lieu-of-Taxes Agreement with the company which can reduce the assessment ratio to as low as 6%. Companies are not allowed to take advantage of both the five year exemption and the Fee-In-Lieu-of-Taxes incentive.

*** Florence County levies an additional 1 cent Local Option Sales Tax (L.O.S.T.) which is credited back to all property owners in the county. This is applied

against the Fair Market Value to calculate the applicable credit.

- Commercial Property**

The 2003 millage rate for District 100 of 236.7 and L.O.S.T. Credit of .001862476 are used to illustrate the sample calculations.

Initial Investment:	Real Property (Land & Buildings):	\$800,000
	Personal Property (Machinery & Equipment):	\$400,000
	Inventories:	<u>\$300,000</u>
	Total Initial Investment:	\$1,500,000

Fair Market Value: (Year 2, Tax Year 1*)	Real Property:	\$800,000
	Personal Property**:	<u>\$356,000</u>
	Inventories***:	-0-
	Total Fair Market Value:	\$ 1,156,000

* Taxes are payable in operating year 2 for property owned as of December 31 the previous year.

** Average Depreciation of 11% per year.

*** Inventories are exempt from property taxes in South Carolina.

Assessed Value:	Real Property	Personal Property
Total Fair Market Value:	\$800,000	\$ 356,000
Assessment Ratio:	<u>X 6.0%*</u>	<u>X10.5%**</u>
Assessed Value:	\$ 48,000	\$ 37,380

Total Assessed Value: \$85,380

* Commercial Real Property Assessment Ratio

**Personal Property Assessment Ratio

<u>Property Taxes:</u>	
Assessed Value:	\$85,380
Millage Rate:	<u>X.2367</u>
Subtotal:	\$20,209
Less L.O.S.T. Credit*	<u>-2,153</u>
Property Tax:	\$18,056

Effective Tax Rate: 1.56%

*Florence County levies an additional 1¢ Local Option Sales Tax (L.O.S.T.) which is credited back to all property owners in the county. This is applied against the *Fair Market Value* to calculate the applicable credit.

- Residential Property**

The 2003 millage rate for District 100 of 236.7, L.O.S.T. Credit of .001862476, and state tax credit of 71.5 mills are used to illustrate the sample calculations.

	<u>Single- Family Residential</u>		<u>Rental Residential</u>	<u>Multi- Family Rental</u>
Fair Market Values:	\$ 50,000	\$ 200,000	\$ 75,000	\$1,000,000
Assessment Ratio:	<u>X 4.0%</u>	<u>X 4.0%</u>	<u>X 6.0%</u>	<u>X 6.0%</u>
Assessed Value:	\$ 2,000	\$ 8,000	\$ 4,500	\$ 60,000
Millage Rate:	<u>X .2367</u>	<u>X .2367</u>	<u>X .2367</u>	<u>X .2367</u>
Subtotal:	\$ 473	\$1,894	\$1,065	\$14,202
Less L.O.S.T. Credit*:	- 93	- 372	- 140	-1,862
Less State Property Tax Relief**:	<u>- 143</u>	<u>- 286</u>	<u>N/A</u>	<u>N/A</u>
Property Tax:	\$237	\$1,236	\$925	\$12,340
Effective Rate: (% of Fair Market Value)	.47%	.62%	1.23%	1.23%

- Personal Property**

The 2003 millage rate for District 100 of 236.7 and L.O.S.T. Credit of .001862476 are used to illustrate the sample calculations.

	Example 1	Example 2	Example 3
	Personal Motor Vehicles***	Boat	Airplane
Fair Market Values:	\$ 20,000	\$ 50,000	\$ 150,000
Assessment Ratio:	<u>X 9.0%</u>	<u>X 10.5%</u>	<u>X 10.5%</u>
Assessed Value:	\$ 1,800	\$ 5,250	\$ 15,750
Millage Rate:	<u>X .2367</u>	<u>X .2367</u>	<u>X .2367</u>

Subtotal:	\$ 426	\$ 1,243	\$ 3,728
Less L.O.S.T. Credit*:	<u>- 37</u>	<u>- 93</u>	<u>- 279</u>
Property Tax:	\$ 389	\$ 1,150	\$ 3,449
Effective Tax Rate:	1.94%	2.30%	2.30%
(% of Fair Market Value)			

* Florence County levies an additional 1¢ Local Option Sales Tax (L.O.S.T.) which is credited back to all property owners in the county. This is applied against the Fair Market Value to calculate the applicable credit.

** South Carolina remits monies to all school districts in the State which is applied as a credit against school operating property taxes to the first \$100,000 of *Assessed Valuation* of owner occupied residences.

*** A state constitutional amendment voted on November 7, 2000 reduces the assessment ratio of personal motor vehicles commencing in 2002 over a 6 year period from 10.5% until it reaches 6%. Beginning January 1, 2003, the assessment ratio on personal motor vehicles is 9.0%. The assessment ratio as of January 1, 2004 will be 8.25%.