South Carolina governor unveils plan to slash corporate income taxes

A reporter
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On January 13, South Carolina Republican Governor Nikki Haley presented her executive budget proposal for the fiscal year beginning July 1, 2012. The $5.7 billion proposal contains a spending increase of 4.5 percent over the current year's $5.5 billion budget.

However, just to keep pace with inflation and the increase in the state's population, spending would have to be increased by 5.23 percent. Therefore, Governor Haley's proposal actually represents a spending decrease in real terms.

The most dramatic provision in the governor's proposal is a 25 percent decrease in the corporate income tax rate, the first installment in a plan to phase out corporate income taxes completely over a four-year period. The provision would result in a contraction of revenue by $62 million in the coming year alone.

South Carolina's flat tax rate for corporations stands at only 5 percent. Only seven other states have no corporate income tax, though four of these have a gross receipts tax. Only Colorado and Mississippi have lower rates than South Carolina does currently.

The governor hopes to make spending limits on the state budget permanent by passing legislation this year that will mandate a state spending cap. The cap would prevent per capita spending levels from rising, but would allow adjustments for inflation.

Haley's budget proposal also details changes in the individual income tax system, amounting to a revenue reduction of $78 million. The plan reduces the current six tax brackets to only three, a measure that would cut most people's taxes by about $84, whether they make as little as $20,000 or over $2 million a year.

The bill does not include any pay increase for state workers who have already gone four consecutive years without a raise. This omission may meet with some resistance by state lawmakers in both the house and the senate. Some lawmakers have already called for a pay increase, and they are likely to be joined by others.

However, support in the legislature for public employee raises should not be taken as a symptom of concern for the welfare of public employees. Rather, any raises would be offset by cuts to the state retirement system that are expected to pass later this year. This legislation would force state workers to pay more into the retirement fund, work longer before they are eligible to retire and provide them with smaller pensions when they do.

The budget proposal also outlines a number of cuts to state agencies, including a plan to decrease funding for state road maintenance by offering $75 million incentives to individual counties in exchange for taking over the maintenance of state roads that are not part of the primary highway system. Struggling local governments that accept these incentives would be expected to shoulder their maintenance on a permanent basis.

Haley's plan includes a funding decrease of $76 million for public schools, despite increasing need. The state's schools have been under protracted assault and thousands of teachers have been laid off since the beginning of the economic crisis. Just to maintain the current base student cost the state would have to spend an additional $15 million to keep pace with the population growth.

Haley's bill does not allocate any funds for new buses to revamp the state's decrepit school bus system. Two-thirds of the state's school buses have been in use since the mid-1980s, and legislators have failed to comply with the 15-year bus replacement cycle they enacted in 2007. According to State Superintendent of Education Mick Zais, complying with this law would require an additional allocation of $36 million over and above current spending.

Instead of providing for the purchase of new buses, Haley's budget would contribute $4.8 million toward the leasing of buses by individual districts. This proposal represents the first step in a plan that has been under consideration for some time to privatize the state's school bus system. Haley wants local school districts and regions to have the option to run their own operations (without additional funds for new buses) if they do not wish to contract with private companies.

The spending cuts and tax cuts for business contained in the new budget are aimed at further depressing costs for corporations doing business in the state under conditions where South Carolina's right-to-work laws and low unionization rate already make it an especially appealing location for investors.

In 2011, South Carolina received recognition for the rapaciousness with which it has pursued its pro-corporate policies, with *Forbes* ranking it as one of the most business friendly states in the country and *Business Facilities* citing the state for its subservience to corporate interests.