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RESEARCH REPORT

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Sales Tax and Education in South Carolina*

Summary

The General Retail Sales Tax has traditionally been used to finance and improve the education system in South Carolina. The sales tax and the quality of education are once more of great concern around the State House and throughout the State. This report is designed to provide a basic history of the sales tax in the Palmetto State. It will touch on the forces behind implementing such taxes and their opposition.

Background

Prior to the middle of the twentieth century, most improvements in the S.C. education system were accomplished locally by politically organized educators and administrators. Legislation concerning education, and in particular funding for education, was not a high priority of the State. "Let local governments control and fund school systems," was the prevailing attitude.

True, there were educators and legislators who pushed for increased State support, especially to equalize the funding between rich and poor districts. Their efforts were generally unsuccessful until relatively recent years.

In 1948, the national Peabody Commission report on education recommended that the state finance a program to equalize tax imbalances among the school districts, consolidate the 1,700 districts, and create a program for renovation and construction of school buildings. This was dismissed by the legislature as too expensive but a committee, chaired by then State Representative Fritz Hollings, was created to study the issue of education.

In 1950, a sales tax was proposed, backed by educational forces. Apparently the issue was sensitive enough so that proponents referred to it as a "scaled tax." A one cent tax was to be levied on all sales, excluding medicines, between 14 and 50¢, 2¢ on all sales between 51¢ and \$1.00, and an additional 1¢ on every 50¢ exceeding \$1.00. Of this tax, 1/3 of the revenue was to go to schools, 1/3 to the counties, and the remaining 1/3 to hospitals, health centers, and public welfare. This proposal failed.

* This Research Report was prepared by Patti Knöff, University of South Carolina, an Intern with the House Research Office.

The 1950's—the first education sales tax

In 1951, the Hollings committee called for a 3% sales tax to aid public education. The State's leaders were determined to meet the "separate but equal" standard in the school system. Governor James Byrnes was a major actor in passing the 3¢ sales tax. He said, "We must provide schools substantially equal for both white and Negro pupils. We should because it is right."

Debate on the first sales tax centered mainly on the various exemptions from the tax. The bill was opposed by several merchant's associations, and various labor groups, who claimed the tax was unjust, unwarranted, and placed the heaviest burden on those least able to pay.

The law stated that, "The revenue derived from the tax shall be credited to the State Public School Building Fund for the purposes provided for in this Act and any sum above that so required shall be placed to credit of the General Fund and shall be used for school purposes only." The law created an Education Finance Committee, consolidated the 1,700 school districts into 109, built new schools, and provided school bus transportation enabling rural black students to attend the consolidated schools. Approximately 21% of the revenue from the tax went to building construction; the remainder went to the bus system, teacher's salaries, and other expenditures.

In 1956, the Fiscal Survey Commission was created by the Legislature to conduct a "self-study" of State Government and its operations. The Commission stated that, "During the past five years, S.C. has made wonderful progress in improving physical facilities of her schools. We are also of the opinion that considerably less credible progress has been made in improving the quality of education in these schools."

In 1961, a strong push was made for a 1/2¢ increase in the sales tax, if no other funds were available, to finance a necessary stepped-up school building program. The increase would have generated \$16 million annually. A supporter of the increase remarked, "It is extremely important that we embark on another 10 year building program to keep pace with educational needs and to maintain our separate but equal school facilities." Governor Hollings did not endorse this increase and urged the counties to raise more revenue locally and not to depend on State aid for additional funds. The increase failed in the legislature.

At that time, there was still considerable public opinion across the South in favor of maintaining dual school systems, and Southern states labored to support two school systems, and make substantial improvements in both systems. This effort to support two systems diluted the State's overall educational resources. Several observers note that, by the time substantial school integration was achieved in the early 1970's, South Carolina had already fallen behind in educational progress. In many ways, these observers claim, the State has been struggling against an "education deficit" for decades.

The 1969 sales tax

In 1969, Governor Robert E. McNair, upon consideration of a 1968 Moody Investors Report, proposed a 1¢ increase in the sales tax, which included an \$800 teacher salary hike (average S.C. teacher pay at that time was \$6,800) and a \$20 million kindergarten program. The law was to become effective at 12:01AM June 1, 1969.

There was a filibuster to block the passage of the bill in the Senate which lasted past the midnight deadline. The debate centered around exemptions from the tax and the kindergarten program. The House exemption of prescription drugs was one topic of the filibuster; opponents again included merchants and labor associations.

Despite the fact that the bill did not clear the legislature until 3 hours after it was supposed to be effective, the Attorney General Daniel R. McLeod issued an advisory opinion June 2, declaring that the new 4% sales tax had become effective June 1. Opponents claimed that the increase was invalid because it was not signed into law until after the effective date; it was ex post facto, but the law still stands.

In 1971 a further 1¢ increase to facilitate teacher pay hikes was proposed. The increase was estimated to generate an additional \$52-53 million to the \$210 million per year the tax was producing at that time. Governor John West was very vocal in his opposition to any new taxes and the bill did not pass.

Current projections of income

Currently, estimates are the General Retail Sales Tax will generate some \$862 million. Other revenues which are earmarked for education are: Alcoholic Liquors Tax, \$20,084,279; Beer and Wine Tax, \$123,235; Soft Drinks Tax, \$15,612,150; Cable TV Fees, \$7,500; and Commercial Nuclear Waste Tax, \$4,800,000. (Estimates current as of 2/17/84).

Expenditures include the State Education Department, currently recommended for \$864,627,696 in the appropriations package; and these other areas: Technical and Comprehensive Education, Educational Television, Will Lou Gray Opportunity School, School for the Deaf and Blind, John de la Howe School, and Debt Service on school bonds.

Conclusion

Since the 1950's, the sales tax has been set aside to fund education in South Carolina. This was accomplished amidst considerable debate, and each increase has generated heated controversies. History does repeat itself.

Around the House

New Sessions Receptionist

We are pleased to announce that Helen Childers will begin work Monday, February 27 as a sessions receptionist for the House.

Ms. Childers, a graduate of U.S.C., has held a number of interesting and challenging positions: for several years she was Administrative Assistant with the U.S. District Court in the S.C. District. Before that she was Personal Secretary and Administrative Assistant to the U.S. Attorney, and also worked as a Control Clerk with the Internal Revenue Service. Ms. Childers has also worked successfully as a real estate agent.

We would like to welcome her aboard.