



# State of South Carolina

## Office of the Governor

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GOVERNOR

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June 14, 2007

The Honorable André Bauer  
President of the Senate  
State House, 1<sup>st</sup> Floor, East Wing  
Columbia, South Carolina 29202

Dear Mr. President and Members of the Senate:

I am hereby vetoing and returning without my approval S. 91, R-107.

We believe this bill is another example of, at times, a fragmented approach to economic development in South Carolina that does not serve the taxpayer well – or fit with the coordination essential to competing effectively in the times in which we live.

We applaud the notion of constant refinement to make our economy more competitive as this administration has focused on changing the economic soil conditions to position us to be more competitive in the global marketplace. We have advocated a whole host of changes ranging from efforts to reduce taxes on small business owners to reforming the tort system to creating a venture capital fund to help finance potential growth companies in this state. It has all been within the deliberative process of legislative committees, and, unfortunately, there is not the same level of debate on many ideas in these so called “BAT” bills.

At the end of virtually every legislative session, there is an attempt to put several narrowly-crafted incentives on a host of bills, and this bill continues this practice. As an example of this tradition, last year the General Assembly sent several pieces of legislation that provided a sales tax reimbursement for a single retail establishment, Cabela’s – among other objectionable items. The legislation used tax dollars to finance competition to small businesses already operating in this state. Despite my objection, the provision became law and now sits on the books. Since then, not only has this establishment not come to South Carolina, but several other states are looking to reclaim some or all of their taxpayer-funded economic dollars from the company.

Yet that statute sits on the books and there appears to be efforts to modify the provision to benefit another company that now wants to draw down tax dollars. We believe the more coordinated approach to economic development, as envisioned by Carroll Campbell, with economic

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development legislation vetted by one Department of Commerce rather than what may be in the interest of a few House or Senate members, could avoid these sorts of pitfalls. So on procedural grounds, I oppose this legislation.

There are two particular provisions that concern us.

First, S. 91 carves out language for a tire manufacturer in at least one economic impact zone. While the company in question is one of the best in our state, this legislation would create a precedent that would inevitably be applied to companies that don't make the contribution to our state that this one does. Specifically, this legislation is an unprecedented break from past practices as, for the first time, a company would be able to apply its tax credits against employee withholdings. In other words, once a company has completely eliminated its corporate income tax liability, it will be able to use any remaining tax credits against amounts it owes in payroll taxes. This is moving dangerously close to fully eliminating any direct tax revenue from a corporation here in the state. While one could even argue the merits of this company and this case, this sets us down a road that I don't think we have fully debated as a state. Does it make sense to eliminate essentially all taxes for large corporations and not do the same for small businesses? What does this mean in determining future shifts in the tax load between large and small companies – or between indigenous and foreign owned?

It also opens new ground in changing what has been an historic benchmark in our incentive packages – job creation in our state. In this instance, the requirement of the company is to invest \$500 million between last year and 2011 – and employ 5,000 people – but not create jobs. Currently, the company in question employs approximately 8,000 people in South Carolina – so we do not even expect them to grow their workforce in order to qualify for this benefit. Again, you might argue the merits of this company and situation, but where it leads I think has not been argued enough.

S. 91 also carves out a sales tax exemption for an amusement park that makes a capital investment of at least \$250 million at a single site and creates at least 250 full time jobs and at least 500 part-time jobs. The sales tax exemption is broad and applies to all aspects of construction of the park. We are pleased this amusement park is coming to South Carolina and believe it will serve as a good addition to our tourism economy. We have pledged other incentives to attract the company here in the first place and this is, in essence, adding icing to the cake after the ribbon has been cut. If the situation were reversed, we could not, in good faith, change the terms of an agreement to a company once they relocated here. As impressed as I am with the operators of this company, I once again struggle with the implications down the road in other economic development deals if we get into the practice of changing the deal after the deal has been signed.

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Last year, I expressed my concerns that our tax code has far too many incentives carved out for only one area of the state or for one business that may come to our state. To this end, I asked the Department of Commerce to review our incentive system and make recommendations. Commerce Secretary Joe Taylor reported back that "some of the current incentives contained within the tax code have become obsolete or have been amended to the point that they no longer serve their original purposes." I ask every member of the General Assembly to review the recommendations put forth by the Department of Commerce and work with this Administration to clean up the incentives currently in the state code and work with us to improve overall economic soil conditions of the state.

For these reason, I am vetoing S. 91, R-107.

Sincerely,

A handwritten signature in black ink, appearing to be 'Mark Sanford', written over a horizontal line.

Mark Sanford