

LAC

A Limited-Scope Review of the Residential Property Tax Relief Program

May 1999

Members of the General Assembly asked us to review the accuracy of property tax reimbursement requests submitted annually to the state by county governments acting for their local school districts. The state has been required since 1995 to reimburse school districts for the revenue they lose due to a state-mandated exemption from a portion of school operating property taxes. This tax exemption is granted to homeowners only and is sometimes referred to as “residential property tax relief.”

We found that the state does not have adequate controls to ensure that property tax reimbursements are calculated and spent in accordance with state law, and the reimbursement process is unnecessarily complex. Because the annual cost of this program is about \$240 million, the potential cost of any shortcomings can be significant.

REIMBURSEMENT PROGRAM LACKS CONTROLS

*L*ack of Program Regulations

The Department of Revenue has not enacted state regulations for implementing the residential property tax relief program. Instead, the department has issued advisory opinions which may not be binding on counties and school districts, allowing them to disregard DOR interpretations. By not enacting formal regulations, DOR has prevented the General Assembly and the public from having input that accompanies the enactment of official regulations, and has decreased the likelihood that local governments will interpret property tax laws in a consistent manner.

*R*equests Based on Inflated Millage Rates

School district operating tax rates have historically been inflated to compensate for individuals who do not pay their taxes. For example, a school district’s tax rate may be set at 104 mills to ensure the collection of 100 mills. When local taxpayers were replaced with the fiscal strength of the state, it was no longer necessary to use a factor for uncollectible accounts in establishing the school operating millage. Requests have been based on inflated millage rates because §12-37-251 of the S.C. Code of Laws did not account for the inflated millage rate in place in 1995. As a result of this situation, from tax year 1995 through estimated tax year 1998, the reimbursement required by the General Assembly may have been as much as \$35.6 million more than necessary.

*C*omptroller General Timely

South Carolina Code §2-37-251(B) requires the state to pay 90% of each school district’s property tax reimbursement by December 1 of each tax year. In the 1997 tax year, the last complete year of distribution, the state made its reimbursement payments in accordance with the time limits stipulated in the law.

*R*eceipt of Revenues by Districts

There is inadequate assurance that county governments transfer to school districts all state reimbursements in the year the reimbursements are received from the state. Based on our review of selected counties, approximately \$594,000 may not have been distributed in FY 96-97 to school districts and for FY 97-98, approximately \$1.7 million may not have been distributed. State law requires the comptroller general’s office to pay the county treasurers reimbursement funds for the accounts of the school districts. However, the state does not ensure that all state reimbursement revenues are disbursed by the counties in accordance with the state’s intent. Also, the amount of reimbursement revenues affects the amount of funds the county is required through the Education Improvement Act to raise per pupil through property taxes.

Controls Over Expenditures

Section 12-27-251 (A) (1) does not permit school operating property tax reimbursement payments to be spent on debt service or capital construction. However, constraints of the accounting system that the State Department of Education requires school districts to use make it difficult to ensure compliance with this restriction. In addition, it is not clear how this restriction applies since school districts classify reimbursement payments as Education Finance Act funds, which can be used for debt service or capital construction.

No Statewide Taxpayer Database

The state does not have an adequate database to prevent the payment of more than one reimbursement per homeowner. An individual with more than one home could obtain multiple property tax exemptions with low risk of detection.

No State Auditing

The state does not audit school operating property tax reimbursement requests. As a result, there is reduced assurance that they are based on accurate data. State law appears, however, to authorize audits by both the Department of Revenue and the comptroller general's office.

SYSTEM UNNECESSARILY COMPLEX

The system used by South Carolina to reduce school property taxes is unnecessarily complex. For example, two state agencies charged by law with administering the reimbursement process — the Department of Revenue and the comptroller general's office — have responsibilities that overlap. In addition, there are a number of officials who work in the 46 county governments and, to a lesser extent, the 86 school districts who help administer the process.

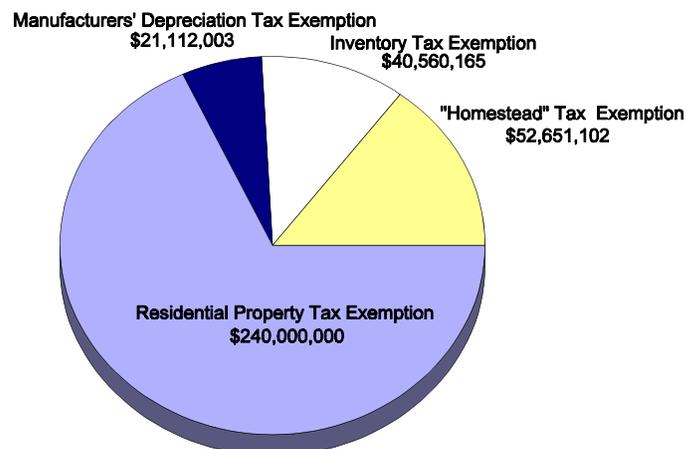
Such complexity, without significant controls and oversight, can decrease accountability and increase the potential for abuse.

We found that some states have less complex reimbursement systems. In addition, we found states that have reduced property taxes without a reimbursement system.

RECOMMENDATIONS SHOULD BE CONSIDERED IN CONTEXT

Residential property tax relief is only one program in South Carolina's complex state and local government tax system. For example, there are currently four programs in which the state reimburses local governments for the revenue they lose due to state-mandated property tax exemptions. Because state and local taxes are complex and have interrelated programs, changes in one part of the system can have unintended consequences elsewhere. Our recommendations, therefore, should not be considered alone but as they relate to the overall goal of making a more efficient and equitable tax system.

State Tax Relief Reimbursements to Local Governments
FY 98-99



This document summarizes our full report, *A Limited-Scope Review of the Residential Property Tax Relief Program*. Copies of the full report and all LAC audits are available free of charge. Audit reports and agency information are also published on the Internet at www.state.sc.us/sclac. If you have questions, contact George L. Schroeder, Director.