



January 4, 2007

The Honorable Mark Sanford
Office of the Governor
Columbia, SC 29211

Dear Governor Sanford:

On behalf of the more than 5,000 members of the National Taxpayers Union (NTU) in South Carolina, I write first and foremost to applaud your plan to provide much-needed income tax relief in your upcoming Executive Budget. Once again you have demonstrated both your grasp of pro-growth economic policy and your concern for the overburdened taxpayers of your state.

As you know, South Carolina's punitive income tax structure features a top rate that ranks 14th-highest in the country. According to Bureau of Economic Analysis statistics, South Carolina ranks in the bottom third of the 50 states for personal income growth between 2005 and 2006. If the Palmetto State is ever to move beyond a sluggish income expansion rate and an unemployment rate far higher than the national average, the tax penalties for working harder, investing, and starting small businesses must be rolled back.

Your \$205 million income tax relief plan would provide a very substantial start in this direction, made even more so by your always-prudent view of the expenditure side of the budget ledger. NTU members across the nation have spent countless hours trying to compel state spending restraint by limiting spending growth to the rate of inflation plus population increases. While many public officials have sought to undermine such a concept, you have courageously decided to stand by this sound formula. Your commitment is expected to save taxpayers at least \$92 million.

Aside from these savings, substantial additional funds for your income tax relief plan are expected to come from a 30-cent per pack increase in the cigarette tax. While some consider excise taxes a less economically damaging form of taxation, we would advise caution.

For one, Congress's Joint Committee on Taxation has concluded that more than 2/3 of all federal tobacco taxes come from those earning less than \$40,000 per year (a regressive pattern that also applies to state-level tobacco taxes). Tobacco tax hikes could also prove detrimental to small grocers who rely on tobacco sales income to help stay afloat. Finally, a 30-cent increase would make the state's tobacco tax more burdensome than that of nearby Tennessee, encouraging South Carolina consumers to move their purchases to lower-tax states or the Internet.

Instead of more cigarette taxes, we urge you to consider additional spending restraint in your plan. NTU is also committed to reminding citizens that income tax relief can in itself generate higher overall revenues due to the more vigorous economic activity that results. For these reasons, we look forward to working together and delivering the maximum benefits to the taxpayers of South Carolina.

Sincerely,

Kristina Rasmussen
Senior Government Affairs Manager