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POLICY SPOTLIGHT

Securing South Carolina's Migration-Driven Growth

Tax, housing, and labor reforms to sustain prosperity

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Americans made nearly 34 million interstate moves between 2018 and 2023, redistributing population, income, and economic activity among the states. South Carolina ranked 2nd in net interstate migration, gaining over 289,000 residents and more than \$19 billion in income.¹ Research suggests tax burden and economic freedom, alongside housing supply constraints, are the key factors behind state migration outcomes. South Carolina's strong performance reflects its relatively competitive tax environment and abundant housing supply—advantages the state must actively preserve and build on to sustain its attractiveness.

Tax Policy Reforms

The competitive landscape

South Carolina levies a two-bracket income tax with a top marginal rate of 5.21% and a marriage penalty, making it less competitive than neighboring North Carolina's lower-rate flat tax. The state does, however, maintain a competitive 5% flat corporate income tax. Further reductions of the top individual rate are tied to revenue growth. Policymakers should preserve this path, as lower income taxes help attract interstate migrants.

North Carolina	Flat individual income tax of 3.99% with no marriage penalty; scheduled reduction to 3.49% by 2027. No corporate income tax as of 2030 under current law.
South Carolina	Two-bracket individual income tax; top marginal rate of 5.21% (reduced from 6.3% since 2023) with automatic triggers to reduce toward elimination. Marriage penalty applies. Flat corporate rate of 5%.

Recommended reforms

- **Protect the automatic income tax rate-reduction triggers**, which lower the top rate toward 1.99%—and potentially to elimination—as revenues grow. Policymakers should avoid suspending the triggers or spending commitments that could hinder future rate reductions.

¹ See Jack Salmon, "Interstate Migration Trends in the United States, 2018–2023: Where Are Americans Moving, and Why?" (Mercatus Policy Brief, Mercatus Center at George Mason University, July 2026). For the full analysis including sources, scan the QR code on the next page.

- **Eliminate the marriage penalty** by adjusting bracket thresholds for married filers. Eliminating the penalty improves fairness and remove a structural disincentive to settlement by married households.
- **Reduce corporate income tax** to remain competitive with North Carolina, which is on track to eliminate its corporate tax altogether.

Housing Policy Reforms

The supply gap

South Carolina ranks 4th in the nation for housing permit issuance per capita, issuing approximately 8 housing permits per 1,000 residents annually—nearly double the rate of nearby Virginia (approximately 4 per 1,000). This strong supply pipeline has been a key contributor to the state’s migration success. As South Carolina continues to attract new residents, policymakers should ensure that housing supply keeps pace with demand and regulatory barriers do not erode the state’s affordability advantage.

Recommended reforms

- **Permit residential and mixed-use housing development by right in commercially zoned areas.** This would expand housing supply, reduce commuting costs, and support local businesses while helping fast-growing communities accommodate continued in-migration by making better use of existing infrastructure and underutilized land.
- **Establish a statewide maximum on minimum lot size in sewer-served areas,** where density poses fewer environmental constraints. This would prevent localities from using lot size rules to suppress housing supply.
- **Permit lot splits where infrastructure capacity exists.** Allowing existing lots to be subdivided when adequate sewer and water capacity is available would increase the number of buildable parcels without requiring new infrastructure investment, thereby lowering the cost of adding new homes in established neighborhoods.

Labor Market Freedom Reforms

The portable benefits gap

Roughly 450,000 South Carolinians work independently, yet many lack access to benefits because companies risk legal liability when providing benefits to nonemployees. Importantly, survey evidence shows that 80.3% of self-employed workers in the United States want to remain independent while 80.1% want access to portable benefits. Portable benefits legislation in the state would allow workers to access benefits without compromising worker flexibility or exposing companies to legal risk.

Recommended reform

- **Enact portable benefits legislation** that allows workers to create portable benefits accounts while enabling firms to contribute without triggering worker reclassification rules. This reform would modernize workforce policies, empowering businesses to innovate and enabling workers to thrive.



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