

BRIEFING

Session Spotlight



THE OUTLOOK FOR TAX RELIEF FROM THE 2017 LEGISLATURE

APRIL 2017

NOTE:

ANY BILL STATUS
REFERENCED IN THIS
PAPER IS CURRENT AS
OF APRIL 19

There is likely to be some tax relief passed by the Florida Legislature in 2017, but what that will look like, and how big it will be, is still very much uncertain. Following the patterns of recent sessions, the House has rolled out a big tax cut “package” while the Senate has taken a more measured approach, advancing several individual tax cut bills. The ultimate resolution of this issue will be tied up in the budget negotiations, and there is a large divide between the House and Senate budget plans. The Senate proposes to spend much more than the House, meaning they would have less left for tax reductions.

The House Ways & Means Committee has approved the House tax cut proposal (HB 7109), the cornerstone being a reduction in the Business Rent Tax (BRT) as recommended by Florida TaxWatch. Total state and local tax reduction in the first year is \$382.5 million, \$129.8 million of which are one-time cuts. The recurring amount is \$275.9 million.

Because the proposal would reduce the BRT rate by 1.5 percent (from 6.0 percent to 4.5 percent) for two years and then the increase the rate back up to 5.5 percent permanently, there is

\$513.3 million in non-recurring cuts for two years.

Below is a look at the provisions in HB 7109, along with the Senate bills that contain one of these provisions and that have cleared at least one committee. Following this analysis is an examination of several bills and proposed constitutional amendments dealing with property taxes that could also impact the taxes Floridians pay.

THE HOUSE TAX RELIEF PACKAGE AND RELATED SENATE LEGISLATION

Business Rent Tax - Florida TaxWatch strongly supports the reduction/elimination of the sales tax on commercial leases and rents (see our new report [here](#)). Florida is only state in the nation that levies the tax comprehensively. The House proposes to reduce the state sales tax rate on rental of commercial real estate from 6 percent to 4.5 percent for two years, beginning January 1, 2018. Beginning January 1, 2020, the tax would then go up to 5.5 percent permanently. While local option tax rates would not be affected,

local governments would lose some revenue sharing. The 0.5 percent reduction would save businesses \$152.6 million annually, \$17.5 million of which would be local revenue. The 1.5 percent reduction would be worth \$454.6 million a (calendar) year for two years.

Senate BRT Legislation

SB 484 - One percent rate reduction (from 6 percent to 5 percent). *Passed Community Affairs Committee, now in Appropriations Subcommittee on Finance & Tax.*

SB 378 - One percent rate reduction (to 5 percent), but coupled with the repeal of an insurance premium tax credit, which Florida TaxWatch research shows is unwise. *Passed Appropriations Subcommittee on Finance & Tax, now in Appropriations.*

SB 704 - Exempt separately stated property tax payments, that are part of the lease payments, from the BRT. This would reduce taxes by \$174.6 million annually. *Passed the Community Affairs Committee, now in Appropriations Subcommittee on Finance & Tax.*

Back-to-School Sales Tax Holiday – The House proposes a 10-day period (August 4-13, 2017) during which the following would be exempted from state and local sales taxes: clothing, footwear and bags costing \$100 or less; school supplies costing \$15 or less; and the first \$1,000 of the sales price of computers and accessories purchases for noncommercial use. Tax savings - \$70.3 million (one-time). [Read Florida TaxWatch's recent report on sales tax holidays.](#)

Senate Back to School Holiday Legislation

SB 490 has passed the Commerce & Tourism Committee and is now in Finance & Tax.

Disaster Preparedness Sales Tax Holiday –

The House proposes a nine-day sales tax holiday (May 27-June 4, 2017) for:

- portable self-powered light sources selling for \$20 or less;
- portable self-powered radios, two-way radios, or weather band radios selling for \$50 or less;
- tarpaulins or other flexible waterproof sheeting selling for \$50 or less;
- self-contained first-aid kits selling for \$30 or less;
- ground anchor systems or tie-down kits selling for \$50 or less;
- gas or diesel fuel tanks selling for \$25 or less;
- packages of AA-cell, C-cell, D-cell, 6-volt, or 9-volt batteries, excluding automobile and boat batteries, selling for \$30 or less;
- nonelectric food storage coolers selling for \$30 or less;
- portable generators that are used to provide light or communications or preserve food in the event of a power outage selling for \$750 or less; and
- reusable ice selling for \$10 or less.

Tax savings - \$6.7 million (one-time).

Senate Disaster Preparedness Holiday Legislation

SB 664 (7-day Holiday) has passed Commerce & Tourism Committee, now in Finance & Tax.

Veterans' Sales Tax Holiday – The House proposes an annual one-day sales tax holiday (November 11) for purchases made by veterans of clothing and footwear priced at \$60 or less (per item). Tax savings - \$1.7 million (recurring).

Senate Veterans' Tax Holiday Legislation

SB 263 has passed the Local, Federal & Veterans Affairs Subcommittee, now in Ways & Means.

SB 1202 has passed one committee and is now in Ways & Means.

Sales Tax Exemption for Admission Resales –

Florida levies its sales tax on the purchase of admissions. The House proposal would provide for an exemption for certain resales of admissions to a purchaser that is eligible for an exemption from sales tax. Tax savings - \$3.0 million (recurring).

Sales Tax Exemption for College Textbooks –

The House proposes a one-year exemption (July 1, 2017 through June 30, 2018) for textbooks and printed and digital materials required or recommended for a public or private college course. The 2015 Legislature also created a one-year exemption, which was not re-enacted last year. Tax savings - \$41.8 million (one-time).

Sales Tax Exemption for Diapers & Incontinence Products -

Effective January 1, 2018, diapers and incontinence undergarments, pads, and liners would be exempt from state and local sales taxes. Tax savings - \$3.0 million (recurring).

Senate Diaper and Incontinence Exemption Legislation

SB 176 has passed two committees and is now in Appropriations.

Sales Tax Exemption for Feminine Hygiene

Products - Effective January 1, 2018, products used to absorb menstrual flow would be exempt from state and local sale taxes. Tax savings - \$22.6 million in FY 2017-18 and \$54.1 recurring.

Senate Feminine Hygiene Exemption Legislation

SB 252 has passed the Commerce & Tourism Committee and is now in Finance & Tax.

Sales Tax Exemption for Items Used in Agriculture –

Numerous products for use in agriculture are currently exempt from the sales tax. Recent legislatures have added to that list. The House proposes to add, effective July 1, 2018, hog wire and nylon mesh, barbed wire fencing, and material used to construct or repair such fencing on beef or dairy cattle farms, compressed or liquified oxygen used in aquaculture, and animal and aquaculture health products. The current \$20,000 exemption on the purchase price of certain trailers would be increased to \$25,000. Tax savings - \$13.6 million (recurring).

Senate Agricultural Exemption Legislation

SB 1536 has passed the two committees and is now in Appropriations. This bill also increases the number of agricultural and forestry truck tractors that qualify for a lower registration fee and repeals a supplemental pesticide registration fee.

Sales Tax Exemption for Certain Sales to Related Parties (Dodd-Frank) –

The House proposes to exempt sales between certain large banks and insurers and the Shared Service Entities that these financial institutions are required to create under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Generally, Florida law provides no exemption for sales from a dealer to a related party. Tax savings - \$1.9 million in FY 2017-18 and \$8.5 million recurring.

Research & Development (R&D) Credit -

Florida allows a tax credit against the state corporate income tax (CIT) for businesses with qualified research expenses that received the federal R&D credit. The credit is 10 percent of the difference between the current year's R&D expenditures and the average over the previous four years. The tax credit may not exceed 50 percent of the CIT liability. Total tax credits provided by the state are capped at \$9 million a year. The 2016 Legislature passed a one-time increase of the cap to \$23 million. The House proposes another one-year increase in the cap, this time to \$20 million. Tax savings - \$11.0 million (one-time).

Brownfield Cleanup Tax Credit – Florida allows tax credits as an incentive for site rehabilitation in brownfield areas and to encourage voluntary cleanup of other types of contaminated sites. This CIT credit is 50 percent of the costs of voluntary cleanup activity, generally limited to \$500,000 per applicant per year. The total cap for the program is \$5 million, and applications have been exceeding that amount. The 2015 Legislature provided a one-time increase to \$21.6 million to clear up the backlog. The House is proposing an increase in the cap to \$20 million for FY 2017-18 and to \$10 million annually thereafter. Tax savings - \$15.0 million in FY 2017-18 and \$5.0 million recurring.

Community Contribution Tax Credit –

The Community Contribution Tax Credit Program (CCTCP) encourages community revitalization and housing projects. CCTCP offers tax credits taxpayers anywhere in Florida that contribute to projects undertaken by approved CCTCP sponsors, including housing organizations, historic preservation organizations, units of state and local government, and regional workforce boards. Eligible activities must accomplish one of the following purposes: construct, improve, or substantially rehabilitate affordable

housing; provide commercial, industrial, or public resources and facilities; or improve entrepreneurial and job-development opportunities for low-income persons. Eligible projects must be located in an enterprise zone or a Front Porch Florida Community, with limited exceptions. The credit is 50 percent of the taxpayer's annual contribution, limited to \$200,000 in credits. The credit may be used against corporate income tax, insurance premiums tax, or as a refund against sales tax. The CCTCP is slated to expire June 30, 2018. The House proposes to extend the program for one year. Tax savings - \$24.9 million (one-time, FY 2018-19).

Boat Trailer Fees – The House proposes an exemption from the annual license tax and surcharges for any marine boat trailer owned and operated by a nonprofit (501(c)(3)) organization. Tax Savings – Total savings would be less than \$50,000. The annual savings per trailer would be \$21.10.

Alcoholic Beverage Taxes – The House proposes to more closely align Florida's definitions of "beer" and "malt beverage" with federal law. This would apply the lower tax rate for beer (\$0.48 per gallon) to "spirituous seltzer beverages" (hard seltzer), instead of the higher tax rate for liquor (\$2.25 per gallon). Tax savings – Indeterminate.

Tangible Personal Property Taxes – The House proposes to amend the definition of inventory (which is exempt) to include construction and agricultural equipment weighing 1,000 pounds or more that is returned to a dealership under a rent to purchase option and held for sale to customers in the ordinary course of business. Tax savings - \$200,000 (recurring).

Property Tax Discount for Affordable

Housing – The House proposes to provide property used to provide affordable housing

a 50 percent property tax discount if the property: provides housing to extremely low, very low, or low-income persons; is part of a multifamily project in which at least 70 units are providing affordable housing; and is subject to an agreement with the Florida Housing Finance Corporation to provide affordable housing. Tax savings - \$25.8 million (recurring).

License Registration Fees - The House proposes the elimination of several license registration fees, including ones related to motor fuels, commercial air carriers, natural gas retailers, paper sales tax return filers and dry cleaning. These fee eliminations were part of the Department of Revenue's tax administration legislative recommendations. Tax savings - \$200,000 (recurring). *Note: there are multiple other bills in the House and Senate to reduce a myriad of fees (worth as much as \$6 million) that appear to be headed towards passage.*

Senate License Registration Fee Legislation
SB 1320 has passed the two committees and is now in Appropriations.

Tax Administration - The tax package also contains several tax administration changes that do not affect revenue. In addition, the bill provides that any estimated corporate income tax payment which would otherwise be due on the last Saturday or Sunday of June shall be paid on or before the last Friday of June. This situation will occur in each of the next two years. This speedup will result in \$83 million in CITs being remitted in FY 2017-18 instead of the next year and therefore being available for the budget. This helps lessen the first-year revenue impact of the tax package. Likewise, the bill repeals the 1 percent cigarette tax distribution to the Biomedical Research Trust Fund. Those funds (\$2.5 million annually) will instead go to the General Revenue Fund.

PROPERTY TAX BILLS

In addition to state tax relief, the Legislature is considering several local property tax relief measures. This includes the amount of property taxes used to fund public schools, two proposed constitutional amendments and two bills to implement constitutional amendments passed by voters last November.

School Property Taxes - The mix of state and local funding for public schools is a major difference between the House and Senate budgets. It is also the decision that will have the largest impact on the taxes Floridians pay. Although the Legislature does not appropriate local property taxes it does set the amount of Required Local Effort (RLE) in the budget each year. RLE is the amount of property taxes school districts must levy in order to participate in the Florida Education Finance Program (FEFP). Both chambers propose to put \$11.4 billion (a 1.4 percent increase) in state funds into the FEFP. The Senate proposes to keep the same RLE millage rate, which would result in \$627.6 million in additional local property taxes due to increased property values. The House calls that a tax increase, and proposes to reduce the millage rate, resulting in only \$92.3 million in additional property taxes. The Senate plan would increase public school funding by \$210 per student (2.9 percent), while the House proposes a \$19 (0.3 percent) increase. However, Floridians would pay \$532 million more in property taxes under the Senate plan.

Extension of the Property Tax Assessment Cap for Non-Homestead Property - Both chambers are advancing a very important proposed constitutional amendment to extended to 10 percent assessment cap, which was approved by the voters in 2008. However, it is slated to sunset in 2019. If the cap is allowed to expire, non-homestead property will see very substantial tax increases--nearly

\$700 million a year at current millage rates. The tax shift from homestead to non-homestead properties created by Save Our Homes will increase and could be further exacerbated by a proposed addition homestead exemption (see below). For more information on the potential repeal of the cap, see the Florida TaxWatch [blog](#).

HJR 21 has been approved by the full House and is expected to be approved by the Senate in Week 8 of Session.

Increased Homestead Exemption – SJR 1774 and HJR 7105 propose a constitutional amendment to provide an additional \$25,000 homestead exemption. Currently, homeowners get the original \$25,000 exemption plus an exemption for the value between \$50,000 and \$75,000. The amendment would exempt the value between \$50,000 and \$100,000 (does not apply to school property tax levies). While Florida TaxWatch supports the concept of holding down property taxes, homestead exemptions do not provide all the expected tax savings, since millage rates can be adjusted. When large exemptions are granted, the rolled-back rate may be a “rolled-up rate” to make up for lost revenue. The result of this is a shift of tax burden to non-homestead property, something our property tax system does regularly due to Save Our Homes. Florida TaxWatch is concerned the new homestead exemption could be approved by voters while the proposed amendment to abrogate the repeal of the 10 percent assessment cap for non-homestead property (see above) could fail. That situation would not bode well for non-homestead properties. The House bill implementing the amendment (HB 7107) would ensure the opposition of local governments. The bill provides that the rolled back rate used by local governments in FY 2019-2018 must be calculated as if the tax base not had been reduced by the increased homestead exemption. This would make it much more difficult to make up for the lost value by adjusting the

millage rate. This would help avoid the tax shift mentioned above, but, at current millage rates, this would cost local governments \$750 million. The bill does direct the Legislature to reimburse “fiscally constrained” counties for revenue losses from the new exemption. It is estimate this would cost \$15 million.

SJR 1774 has passed Community Affairs and is in the Appropriations Subcommittee on Finance & Tax.

HJR 7105 has passed the Ways & Means Committee (as a proposed committee bill).

Property Tax Exemption for Renewable Energy Devices – SB 90 and HB 1351 implement Amendment 4, passed by the voters last November. The bills expand the current property tax exemption for renewable energy devices from only residential property to all property. They also exempt these devices from tangible personal property taxes (TPP). The new language expires in 20 years – meaning no non-residential or TPP exemptions. The residential exemption would remain.

HB 1351 has passed all its committees

SB 90 is schedule for a vote in its final committee—Appropriations—on April 20.

Property Tax Exemption for First Responders - HB 455 and SB 764 implement a constitutional amendment that was passed last November by providing a 100 percent homestead tax exemption to first responders who became totally and permanently disabled in the line of duty. The bills also extend a 100 percent exemption to the surviving spouse of a totally and permanently disabled first responder.

HB 455 has passed all its committees.

SB 764 is in its last committee-- Appropriations.

This TaxWatch Briefing written by **Kurt Wenner**, Vice President of Research

Robert Weissert, Executive Vice President & Special Counsel to the CEO

Chris Barry, Director of Publications

David Mann, Chairman of the Board of Trustees, Florida TaxWatch

Dominic M. Calabro, President & CEO, Publisher & Editor

Florida TaxWatch Research Institute, Inc.

www.floridataxwatch.org

Copyright © Florida TaxWatch, April 2017