

Briefing



COMPARING THE HOUSE, SENATE & GOVERNOR'S TAX CUT PROPOSALS

APRIL 2014

Tax cuts have been one of the leading issues of the 2014 Florida legislative session. With the House, Senate and Governor all pledging to cut taxes by at least \$500 million, the only question heading into session was which taxes would be cut. Governor Scott released his tax proposals in January and while legislative leaders were receptive, they let it be known they had some ideas of their own. The House and Senate now have their initial tax packages put together and there are some significant differences, meaning this is an area in which compromise will be needed before session ends. Moreover, while there are different ways to count total tax reductions, it certainly could be argued that neither the House nor Senate have reached the \$500 million goal.

HOUSE, SENATE & GOVERNOR'S TAX CUT PROPOSALS

\$ MILLIONS

First Year Savings (FY2014-15)

| | State Revenue | Local Revenue | Total |
|----------|---------------|---------------|---------|
| House | \$343.4 | \$29.3 | \$372.7 |
| Senate | 365.7 | 10.6 | 376.3 |
| Governor | 507.7 | 25.9 | 533.7 |

Annualized Recurring Savings

| | State Revenue | Local Revenue | Total |
|----------|---------------|---------------|---------|
| House | \$414.8 | \$32.6 | \$447.4 |
| Senate | 465.6 | 9.1 | 474.7 |
| Governor | 560.6 | 13.4 | 574.0 |

There has been agreement on the largest tax cut: reducing motor vehicle fees. Both chambers have already passed SB 156 to roll back the annual motor vehicle license renewal registration fee increase that was part of a \$1 billion increase in motor vehicle taxes and fees enacted by the 2009 Legislature to offset the budget shortfall. This issue arose last session, when Senate Appropriations Chair Joe Negron filed a bill to roll back some of the annual motor vehicle license fees by half. The Governor included a full roll back of some of the fees in his recommendations and House and Senate leaders were quick to agree. The lower fees will save drivers between \$20 and \$25 each—depending on size and type of vehicle—with total savings of \$394.5 million annually. Because the bill would go into effect on September 1, it will only reduce revenue by \$307.2 million next budget year.

SENATE TAX CUT PACKAGE

The rest of the Senate tax cut package is comprised of two issues: a three-day "Back to School" sales tax holiday and a small reduction in the communication services tax (CST). Florida TaxWatch supports all three tax reductions in the Senate plan, especially the CST rate cut, which is a long-time TaxWatch recommendation.

Finance and Tax Committee Chair Dorothy Hukill said these two tax reductions—along with the motor vehicle fee cut—will be the Senate's tax cut package, but acknowledged it was still early in the session

and the House may have different ideas, so her committee will still consider other tax bills.

Back to School Sales Tax Holiday – SB 792 would create a three-day back-to-school sales tax holiday during August 1-3. During this period, no sales tax would be applied to purchases of school supplies (\$15 or less per item), clothing (\$75 or less per item) and computers and accessories for non-commercial use (\$750 or less per item). These sales tax holidays have proven popular with both retailers and consumers, and the Legislature has approved one in eight of the last ten years, ranging from three to ten days. It is estimated this holiday would save taxpayers \$39.0 million; thereby reducing state general revenue by \$31.8 million and local government revenues by \$7.2 million. The Governor recommended a 10-day holiday, which would save \$59.9 million.

Communications Services Tax (CST) – SB 266 would reduce the state portion of the CST from 6.65 percent to 6.07 percent and the CST rate

on direct-to-home satellite from 10.8 percent to 10.22 percent. The CST is levied on the sales of communications services including telephone (landline, mobile and voice over internet), cable television and other video service, and direct-to-home satellite television. The bill originally cut the tax by 2 percentage points, but it was amended to the relatively small reduction of 0.58 percent. Florida TaxWatch [research](#) has called for a reduction in the CST, pointing out that this regressive tax (which can exceed 16 percent including the local levy) is much higher than the sales tax rate on other retail purchases in Florida. Our recently released [How Florida Compares](#) shows that Florida has the fourth highest state and local CST rate in the nation. Lawmakers would be hard-pressed to find a more justifiable way to provide broad-based state tax relief than a reduction in the CST. Florida TaxWatch recommends that the House join the Senate in reducing the CST and look for ways to make the reduction larger.

SENATE PROPOSED TAX CUTS

REVENUE REDUCTIONS IN \$ MILLIONS

| Tax | State Revenue | | Local Revenue | | Total | |
|------------------------------------|----------------|----------------|---------------|--------------|----------------|----------------|
| | First Year | Recurring | First Year | Recurring | First Year | Recurring |
| Motor Vehicle Fees* | \$307.2 | \$394.5 | - | - | \$307.2 | \$394.5 |
| Communications Services Tax | 26.7 | 71.1 | 3.4 | 9.1 | 30.1 | 80.2 |
| Sales Tax Holiday - Back to School | 31.8 | - | 7.2 | - | 39.0 | - |
| Total | \$365.7 | \$465.6 | \$10.6 | \$9.1 | \$376.3 | \$474.7 |

* Already approved by Legislature

HOUSE TAX CUT PACKAGE

The House multi-issue proposal is contained in one bill (HB 5601). The bill has a number of smaller proposals and includes four separate sales tax holidays.

Back to School Sales Tax Holiday – Like the Senate, the House proposal is for a three-day holiday when no sales tax would be collected purchases of clothing, school supplies and computers. However, the House bill sets a limit of \$100 per clothing item (\$75 in Senate) and exempts the first \$750

of a computer purchase (the Senate exempts computers worth \$750 or less). Consequently, the House holiday has a slightly larger impact at \$39.6 million.

Hurricane Preparedness Sales Tax Holiday– The House proposes a one-time sales tax holiday from June 1-12 for the following hurricane preparedness items: portable light sources, generators and radios, tarps or other waterproof sheeting, anchor or tie-down kits, gas or diesel cans, first-aid kits, batteries, coolers, and reusable ice. There are various price limits ranging from \$10 for ice to \$750 for generators. This would save \$3.7 million. The Governor recommended a 15-day holiday in his budget proposal.

Energy and Water Efficient Appliance Sales Tax Holiday – From September 19-21, 2104 no sales tax would be collected on the first \$1,500 of the sales price for a new Energy Star or WaterSense product. Eligible Energy Star products are room air conditioners, air purifiers, ceiling fans, clothes washers and dryers, dehumidifiers, dishwashers, freezers, refrigerators, water heaters, swimming pool pumps, and light bulbs. Eligible WaterSense products are bathroom sink faucets, faucet accessories, high-efficiency toilets and urinals, showerheads, and weather or sensor-based irrigation controllers. For the items costing \$500 or more, consumers would be limited to one of each specific item. This holiday would save consumers an estimated \$2.0 million.

Physical Fitness Club Membership Sales Tax Holiday – From September 1-8, 2014 sales tax would not be collected on athletic, exercise, and physical fitness facility memberships. The facility must be registered as a health studio with the state. This somewhat surprising addition is worth \$5.0 million.

Sales Tax Exemptions – In addition to the one-time sales tax holidays, new permanent sales tax exemptions would be created for child car seats and youth bicycle helmets. Cement mixer drums and any parts or labor used to affix the drums to trucks would be added to the exemption for manufacturing machinery and equipment (which Florida TaxWatch research helped establish). This would be a recurring exemption, but the M & E exemption is scheduled for sunset in 2017. These three exemptions would save taxpayers \$6.6 million.

Increasing the Corporate Income Tax Exemption – The House includes another of the Governor’s tax priorities: increasing the standard exemption from \$50,000 to \$75,000. Since taking office, Governor Scott has been committed to eliminating the corporate income tax. The standard exemption was increased from \$5,000 to \$25,000 in 2011 and to \$50,000 in 2012. This new increase would totally exempt another 2,163 corporations, which is equal to nearly one-fifth (19 percent) of those companies currently paying the tax. This would save corporations \$21.7 million annually. Because the increased exemption is effective as of January 1, 2015, the loss to state general revenue in the upcoming budget year (FY 2014-15) is only \$8.8 million.

New Market Tax Credits – Modeled after the federal New Markets Tax Credit Program, Florida’s program encourages investment in rural and urban low-income communities by allowing federally certified Community Development Entities to take credits against the corporate income tax or the insurance premium tax. The House bill would increase the program’s lifetime cap to \$227.55 million, which would allow an addition \$10 million in tax credits annually.

Community Contribution Tax Credits– Florida’s existing program provides a corporate income tax credit or refund equal to 50 percent of donations by Florida businesses toward community development and housing projects for low-income persons. A single corporation may receive a maximum credit of \$200,000 a year. The program is slated to expire on June 30, 2015, and the House bill would extend the program for a year. This would not have a fiscal impact in the upcoming budget year but would allow another \$14 million in tax credits during FY 2015-16.

Prepaid Calling Agreements – While the House does not include a reduction in the CST, it does include an important CST tax modernization

issue. Currently, prepaid arrangements are subject to the sales tax, not the CST, but only cards used exclusively for phone calls are clearly treated this way. However, the taxation of prepaid calling cards has become problematic, as prepaid providers began offering not just phone calls, but services such as text, data and video. The House bill would clarify the definition of prepaid arrangements to ensure that they are subject to the sales tax and not to the CST. Levying the CST would pose significant administrative problems for both providers and the state. The recurring fiscal impact of this change is estimated at \$18.3 million. Florida TaxWatch commends the House for including this important tax modernization solution.

HOUSE PROPOSED TAX CUTS

REVENUE REDUCTIONS IN \$ MILLIONS

| Tax | State Revenue | | Local Revenue | | Total | |
|---|----------------|----------------|---------------|---------------|----------------|----------------|
| | First Year | Recurring | First Year | Recurring | First Year | Recurring |
| Rollback Motor Vehicle Fees* | \$307.2 | \$394.5 | - | - | \$307.2 | \$394.5 |
| Sales Tax Holiday - Back to School | 32.3 | - | 7.3 | - | 39.6 | - |
| Sales Tax Holiday - Gym Memberships | 4.1 | - | 0.9 | - | 5.0 | - |
| Sales Tax Holiday - Hurricane Preparedness | 3.0 | - | 0.7 | - | 3.7 | - |
| Sales Tax Holiday - Energy Efficiency | 1.7 | - | 0.3 | - | 2.0 | - |
| Sales Tax Exemption - Car Seats & Bike Helmets | 2.2 | 2.4 | 0.5 | 0.5 | 2.7 | 2.9 |
| Sales Tax Exemption - Cement Mixers | 3.3 | - | 0.4 | - | 3.7 | - |
| Sales Tax on Electricity - Change to Gross Receipts | **(19.2) | **(20.9) | 19.2 | 20.9 | 0.0 | 0.0 |
| Corporate Income Tax Exemption | 8.8 | 21.6 | - | - | 8.8 | 21.6 |
| New Markets Tax Credit | - | 10.0 | - | - | - | 10.0 |
| Prepaid Calling Cards | - | 7.1 | - | 11.2 | - | 18.3 |
| Community Contribution Tax Credits*** | 12.6 | - | 1.4 | - | - | 14.0 |
| Total | \$343.4 | \$414.7 | \$29.3 | \$32.6 | \$372.7 | \$447.3 |

* Already passed by House and Senate

** This change will increase state revenue, offset by local revenue reduction

*** One year extension. Not included in total. One year (FY 2015-16) savings only

The proposal also contains some appropriation issues:

Transportation Funding – To provide a boost for transportation funding, sales tax revenue of \$100 million that now goes to General Revenue (GR) would be directed into the State Transportation Trust Fund.

Television Production Loans – The Qualified Television Loan Fund (QTLF) would be created, providing a \$20 million revolving loan program to assist television productions in Florida. These loans would be secured, with a term of no more than 36 months and could cover up to 30 percent of production costs.

PECO Funding – The sales tax on electricity would be reduced from 7 percent to 4 percent and the gross receipts tax on that electricity would be increased by the same amount, the effect being a transfer of \$187 million annually from General Revenue to the Public Education Capital Outlay Fund. This change will actually increase state revenue by \$20.9 million but local revenue losses will offset those state gains, making it revenue neutral for the taxpayer. This results in local governments effectively helping to fund the state's educational facilities.

Overall, this package will reduce state and local taxes by \$65.5 million in the first year (FY 2014-15) and \$52.8 million annually thereafter. Add the motor vehicle fee reduction that has already passed, and state and local taxes will be reduced by \$372.7 million in FY 2014-15 and \$447.3 million annually thereafter. State revenues will only be reduced by \$343.4 million in the next budget year.

THE GOVERNOR'S TAX PROPOSALS

The cornerstone of Governor Scott's "It's Your Money Tax Cut Budget" recommendation was over \$570 million in recurring tax reductions and \$74.7 million in one-time tax savings (see table below).

His recommendation to reduce motor vehicle license fees has already been passed by the House and Senate. The Back to School Sales Tax Holiday is also part of both chambers' proposed tax package, although he recommended a ten-day holiday, while the Legislature is proposing three days.

The House also picked up two more of the Governor's recommendations: the corporate income tax exemption increase and the Hurricane Preparedness Sales Tax Holiday. The Governor's recommended holiday was 15 days, the House proposes 12 days.

The Governor's recommendations that are not included in neither the House nor Senate tax cut packages:

Sales Tax on Business Rents – Reducing the sales tax on commercial leases by 0.5% would save businesses more than \$104 million annually. Florida is the only state that applies sales tax to commercial rents at an increased cost to businesses of about \$1.4 billion per year. Governor Scott proposes that this be the first step in the future elimination of this tax.

Corporate Filing Fees – The Governor recommends the corporate filing fee be lowered so that every form of business pays the same amount and reducing the late filing penalty, by basing it on the length of the delay. This would save corporations \$33.3 million annually.

THE GOVERNOR'S PROPOSED TAX CUTS

REVENUE REDUCTIONS IN \$ MILLIONS

| Tax | State Revenue | | Local Revenue | | Total | |
|--|----------------|----------------|---------------|---------------|----------------|----------------|
| | First Year | Recurring | First Year | Recurring | First Year | Recurring |
| Rollback Motor Vehicle Fees* | \$312.5 | \$401.3 | - | - | \$312.5 | \$401.3 |
| Sales Tax on Commercial Rents | 95.7 | 104.4 | 12.2 | 13.4 | 107.9 | 117.8 |
| Reduced Corporate Filing Fees | 29.8 | 33.3 | - | - | 29.8 | 33.3 |
| Corporate Income Tax Exemption | 8.8 | 21.6 | - | - | 8.8 | 21.6 |
| Sales Tax Holiday - Back to School | 48.8 | - | 11.0 | - | 59.9 | - |
| Sales Tax Holiday - Hurricane Preparedness | 12.1 | - | 2.7 | - | 14.8 | - |
| Total | \$507.7 | \$560.6 | \$25.9 | \$13.4 | \$533.7 | \$574.0 |

Estimates from the Governor's 2014-15 Budget Recommendations or Revenue Estimating Conference where available

* Already passed by House and Senate

CONCLUSION

Taxpayers can count on their tax burden being reduced in 2014, and TaxWatch commends the Governor and Legislature for making that happen. A final decision on how that will be done will likely not be made until the conference committee meetings at the end of session. Now that the economy is improving, reducing the motor vehicle fees that were increased to balance the budget during the recession makes sense. The Back to School Sales Tax Holiday has proven to be popular with taxpayers and beneficial to retailers. It appears these two tax cuts are going to happen.

After that, nothing is certain. Florida TaxWatch strongly supports the Senate's proposed communications services tax reduction and the House's modernization of the taxation of prepaid calling arrangements. We recommend the Legislature find a way to increase the relatively small (0.58 percent) proposed reduction in the CST.

Florida TaxWatch also supports two non-tax provisions in the House package. Adding \$100 million to transportation funding will provide a boost to the economy and help reduce the backlog on needed infrastructure improvement.

Changing the sales tax on electricity to a gross receipts tax will add \$187 million to the funding for construction and maintenance of the state's educational facilities without further burdening the taxpayer. Florida TaxWatch has called for the Legislature to find a way to address falling PECO appropriations and the lack of bonding capacity of the fund.

There is a long way to go this session and there are a number of other tax bills that are still alive in the committee process. There are also bills dealing with property taxes that may provide some limited, targeted relief. Depending on how you count it, there may be some more room under the \$500 million tax cut goal. Moreover, the \$500 million goal could be always be exceeded. Increasing state revenues have led to an increasing number of requests for local member projects, some of which have already found their way into one or the other chamber's budget. Many more are likely to still be considered. The Legislature should weigh the benefits of funding projects that benefit a small part of the state against the value of providing tax cuts that benefit the majority of Floridians.

For information on other tax bills and to follow developments in this year's tax cutting process, see Florida TaxWatch's weekly [Legislative Update](#).

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As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

Florida TaxWatch is supported by voluntary, tax-deductible memberships and private grants, and does not accept government funding. Memberships provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves for the last 33 years.

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