

## Making Florida a Major Manufacturing State

April 2013

Duplicative tax policy has caused Florida to have significantly less productive capital than it should have in one of the nation's most influential economic drivers, the manufacturing sector.

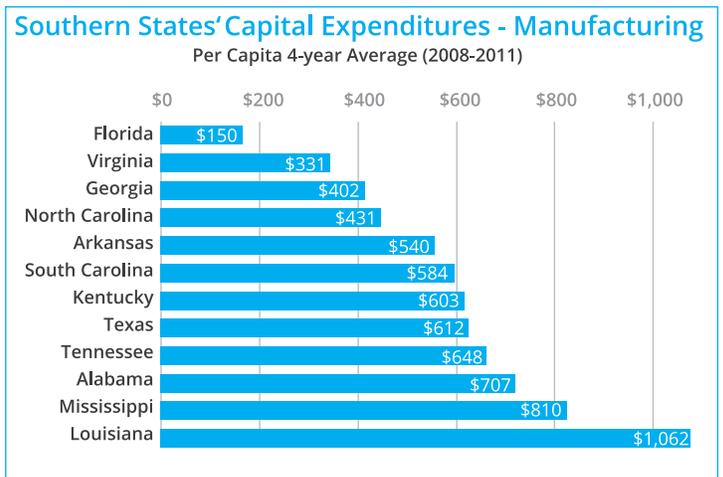
The 2011 Florida TaxWatch Research Report *Manufacturing: An Economic Driver for Jobs and Florida's Future* showed that higher capital industries typically have higher productivity, which leads to higher wages and a more diversified economy. Florida, however, has restricted itself from becoming a major manufacturing state by taxing capital at higher rates than many other U.S. states.

Essentially, Florida taxes many manufacturing companies twice for the same equipment. First, most manufacturing businesses are taxed on the initial purchase of machinery & equipment (M&E) through sales and use taxes,<sup>1</sup> and then they may be taxed for the equipment through the Tangible Personal Property Tax.

Manufacturing companies typically have significant capital requirements compared to most other industries. Taxing capital twice increases the financial risk that companies take when they make investments, which is leading to reduced capital investment in a sector that could have a substantial effect on Florida's economic success.

### National and Regional Comparisons

Regionally, Florida is far below any other Southern state in the amount of capital spent on manufacturing. The second-lowest state in the region, Virginia, has more than double the per-capita expenditures on



<sup>1</sup> Currently, sales and use tax exemptions are available for machinery and equipment, they apply only to new and expanding businesses.

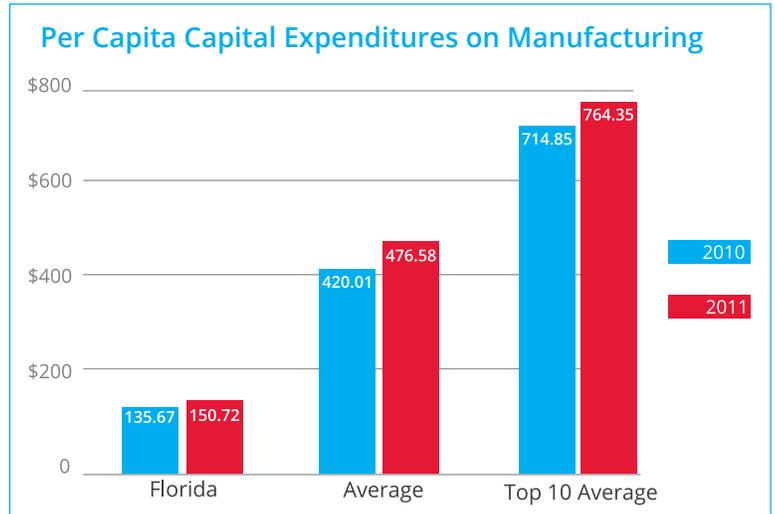
manufacturing that Florida does. Including Florida, five Southern states levy a tax on purchases of machinery and equipment.<sup>2</sup>

### Florida's Position in the U.S.

Nationally, Florida manufacturers invest less in productive capital on a per capita basis than almost every other state. For both 2010 and 2011, Florida was 49<sup>th</sup> out of 50 states (trailing only Hawaii) in capital expenditures on manufacturing.

Florida companies spent \$135.67 and \$150.72 on manufacturing capital expenditures in 2010 and 2011 respectively.<sup>3</sup> This works out to approximately 32 percent of the U.S. average, leaving Florida significantly behind in manufacturing capital formation.

Florida actually spends less than one-fifth as much on manufacturing capital expenditures, when compared to the average of the top 10 states.



Overall, a sales and use tax on machinery and equipment is highly correlated with the states that have the lowest capital formation in manufacturing on a per capita basis.

### Why Manufacturing is Important

There are also other important considerations, such as:

- Manufacturing has the highest “economic multiplier” of any Florida industry. This means that creating one manufacturing job creates more indirect and induced jobs than any other industry in Florida;
- Approximately 70 percent of private-sector research & development is performed by manufacturers, even though manufacturing makes up only around 11 percent of the U.S. economy. Studies show that many discoveries and improvements made by companies become public, and can be used by other companies to improve productivity;
- Domestic manufacturing is important to national defense, and the increased dependence on foreign manufacturers increases U.S. vulnerability to receiving counterfeit goods;
- Florida is making significant infrastructure investments to increase our freight-handling capacity. A significant amount of containers come to Florida with goods in them, yet leave empty. Expanding Florida’s manufacturing sector can help make Florida’s logistics system more efficient;

<sup>2</sup> AL, KY, MS, NC, and FL charge some form of sales or use tax on manufacturing M&E.

<sup>3</sup> For this section, all expenditures are per capita

- According to the National Association of Manufacturers, manufacturing made up 95 percent of Florida's exports in 2011. Exports contribute substantially to the balance of trade for Florida and the U.S.; and
- Manufacturers, due to their higher levels of capital expenditures, are often unable to qualify for many of the other economic development programs. Current economic development programs like QTI (Qualified Target Industry) require the creation of a minimum of 10 jobs. Reducing the up-front costs and risks to these small startup businesses, by allowing them to purchase productive capital without the additional cost of sales and use tax, can help them get started.

## The Benefits of Repealing the Sales and Use Tax on Manufacturing M&E

Currently, sales and use tax exemptions are possible for some manufacturers' machinery and equipment, but they apply only to new and expanding businesses under specific circumstances.

Fully eliminating the sales and use tax would level the playing field between existing companies looking to replace outdated equipment and those looking to expand or start a business in Florida. Repealing this tax would allow Florida's existing companies to invest in newer, safer, more productive machinery, and the increased reliability of those newer machines can lead to lower operating and maintenance costs, helping Florida manufacturers be more competitive in world markets.

In turn, being more competitive will lead to higher production and outputs and the creation of new manufacturing jobs, plus the transportation and logistics jobs that would be required to distribute this higher output.

### Conclusion

Encouraging an increase in manufacturing would allow Florida to further diversify its economy and produce more high-wage jobs for Floridians. The Florida Legislature can help diversify Florida's economy and create more high-wage jobs by eliminating the sales and use tax on machinery and equipment for manufacturing.

## ABOUT FLORIDA TAXWATCH

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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