

Research Report

August 1998



Legislative Report Card

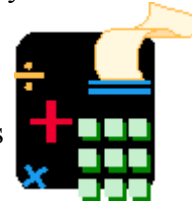
Florida Taxpayer Accomplishments During the 1998 Legislative Session

★ **Changes to the Florida Intangibles Tax Law**

The Florida Intangibles Tax Task Force, created and staffed by Florida TaxWatch, examined the effect Florida's intangible personal property tax has on the economic development and competitive position of this state. It considered the extent to which the tax -- which is unique to Florida -- acts as an incentive or disincentive to capital formation and job growth.

Certain features of the Florida intangibles tax act as impediments to economic development and can put in-state companies at a competitive disadvantage to ones in other states. The Task Force recommended statutory changes to help remove some of those impediments. The 1998 Legislature passed a bill that included the majority of the Task Force's recommendations. The new law does the following:

- The tax on accounts receivable, exempting one-third of their value next year.
- Exempt banks and insurance companies from the intangibles tax.
- Increase the minimum payment from the current \$5 to \$60. This would remove 270,000 individual and small businesses from the tax rolls.
- Provides that a trust shall not have taxable situs in Florida if a bank acts as a fiduciary or agent, other than as a trustee.
- Provide a statutory definition to clarify that processing of intangible property -- such as a credit card servicing company -- does not constitute management or control of that property and is, therefore, not taxable.
- Reduce the excessive penalties on late intangibles tax payments to conform them with the penalties for corporate income taxes.



The House Speaker-designate and the Senate President are encouraging Florida TaxWatch to reconstitute the Intangibles Task Force to seek constructive ways to repeal the recurring portion of this increasingly counterproductive tax source over the next several years to improve Florida's competitiveness.

★ **Privatization of State Services: Child Support Enforcement**

During the 1998 Legislative Session, Florida TaxWatch developed a policy paper concerning the privatization of child support enforcement. That report, "Child Support Enforcement: Direct the Work to Those Who Provide the Greatest Return, May 1998"

was written in response to efforts by the Department of Revenue to cancel private contracts which had obvious and significant cost benefit ratios in the area of location and collection of child support payments. As a result of that analysis, the Legislature included proviso language in the 1998-99 General Appropriations Bill prohibiting the cancellation of those contracts contingent on proof by a study that the Agency could produce better cost benefit numbers than the contractors. Cost benefits produced by the contracts included \$92 million collected for children and families at a cost of \$2.1 million in General Revenue with the remainder of \$12.7 million in contract costs earned from the federal government by the collection process. The cost-benefit ratio ranged from \$6 collected to \$1 spent on collections to \$44 collected to \$1 spent, depending on whether the expenditure included the earned federal dollars.

High Technology Investment

The Florida TaxWatch *Research Report* entitled "Florida's Investment in High Technology Should Produce Significant Benefits" released in April, 1998 noted the state's lagging employment in the high tech sector. The report analyzed the economic benefits that would occur if a \$1.0 billion silicon technology plant, employing 1,000 employees was located in Florida. Identified benefits included: more than 2900 new full and part-time jobs, increased earnings of \$250.0 million and increased state and local tax revenues of \$317.0 million (over a ten-year period). The report enhanced economic development efforts that resulted in the 1998 Legislature enacting an investment tax credit program benefitting the silicon technology industry and increased funding for the I-4 Corridor high technology initiative.

Sales Tax Exemption for Steam Used in Manufacturing

A 1998 TaxWatch report supported legislation being considered by Legislature to exempt charges for steam used in manufacturing from the state sales and use tax. This new exemption for steam is in addition to the exemption for electricity used in manufacturing TaxWatch helped get enacted in 1996. This will help Florida manufacturers and treat companies that use different energy sources to power their manufacturing processes equitably. The new law also removes the requirement that if electricity is not separately metered, it is presumed that 50% of total electricity is used for exempt purposes. Instead, the new law provides that to qualify for the full exemption, 75% of the electricity used at the fixed location must be used for exempt purposes. This legislation was passed by the 1998 Legislature.

Sales Tax Exemption for Pollution Control and Abatement Equipment

Florida currently levies the full sales and use tax on pollution control and abatement equipment purchased by manufacturers. A 1998 TaxWatch report pointed out that the taxation of this equipment further puts the manufacturing sector of Florida's economy at a competitive disadvantage. Most states offer at least some exemption and Florida is the only southeastern state to tax pollution control equipment. The 1998 Legislature passed a law to provide an exemption from the sales tax for pollution control equipment. This will

remove a barrier that has been identified as one factor that hurts Florida's competitive position in attracting business to the state.

★ Lottery Advertising

Florida TaxWatch issued a report on lottery advertising, recommending that the Legislature not put restrictions on how the Florida Lottery spends its advertising dollars. At that time, the Florida Senate was proposing to cut lottery advertising funding and further mandating that the Lottery more than double its spending on outdoor advertising and no longer produce its television game show. TaxWatch concluded that these actions could result in reduced lottery sales and therefore reduce the funding available for education. The final budget passed by the Legislature provides roughly the same level of advertising funding as last year and does not mandate increasing spending on outdoor advertising.

Other Issues of Note:

<i>What Passed?</i>

🗳️ State Budget - *Provides \$18 billion in General Revenue; \$27.3 billion Trust; Total of \$45.3 billion. Up 7.8% in GR and 6.4% overall. (Of this, the Governor vetoed \$27 million GR; \$69.1 million Trust; Total vetoes \$96.2 million.)*


🗳️ Board of Regents - Shortens Regents terms from 6 years to 4 years.


🗳️ Charter Schools - Doubles limits on number of charter schools school districts may create and appropriates \$5 million from PECO for charter school capital outlay.


🗳️ Charter Technical Centers - Authorizes community colleges and school districts to sponsor charter technical centers for secondary or postsecondary vocation education or both.


🗳️ Children's Health - Expands subsidized health coverage to 256,000 more children from low-income families.


🗳️ Child Welfare - Eliminates the statewide system of foster care, adoption and child protection and replaces it with community-based organizations. The privatization effort will begin this year in Pasco and Pinellas counties and will take effect in other counties by January 1, 2000.

 Class Size - Continues to require school districts to reduce class size to 1:16 in K-3 grade in state-designated "critically low-performing schools" and 1: 24 in K-3 in regular schools.


 Community Colleges - Enables some community colleges to plan for and implement upper level course work on community college campuses. The study of baccalaureates on community college campuses is included.


 Excellent Teaching - Provides fee subsidies up to \$1800 per teacher, \$150 incentive for each teacher, and annual ten percent bonuses to teachers seeking and achieving National Board of Professional Teaching Standards certification and a ten percent annual bonus to national board teachers who mentor other teachers for 12 work days.


 Summer Sales Tax Break - Provides a sales tax break for one week this summer from 12:01 a.m. August 15 through midnight August 21 for a shopping spree for clothing under \$50. Issue skirts the concern for on-going tax relief.


 Tuition - Increases tuition for undergraduate state university students and community college students by 7 percent.

<i>What Failed?</i>


 \$50 Rebate - Provides \$50 rebate for all property owners . (Failed by Governor's veto.)


 Bright Futures - Increases the requirements for high school seniors who seek the lottery funded scholarships.

 Consumer Lawsuits - Limits liability for rental car companies and for people or business who are ruled just partly responsible for an injury and sets caps on punitive damages that consumers can be awarded (Failed by Governor's veto.)

 Defined Contribution Retirement Option - Allows local public employers to offer employees a defined contribution alternative basic pension plan that is fully portable, immediately vested and fully funded on a current basis from employer contributions.

 Smaller School Districts - Allows Florida's biggest counties to split into smaller school districts.

 Teacher Merit Pay - Provides a \$2000 bonus to the top ten percent of teachers in each school in each district.

 Vouchers - Allows disadvantaged children with low skills to get vouchers to go to a private kindergarten.

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