

BRIEFING

Session Spotlight

Florida
TaxWatch



THE 2017 LEGISLATIVE TAX CUT PACKAGE

*THE FINAL TAX CUT
PACKAGE PASSED BY THE
LEGISLATURE*

MAY 2017

THE LEGISLATURE DECIDED ON A FINAL TAX PACKAGE (HB 7109) that reduces the Business Rent Tax (BRT), creates two sales tax holidays, creates several new, mostly small, sales tax exemptions, increases three tax credits and provides some limited, targeted property tax relief. There are a multitude of different tax reductions, but most of them are small and have a very narrow application. The bill creates \$134.7 million in recurring tax cuts and \$45.0 million in one-time reductions. The final package was significantly scaled back from the original House version which cut taxes by \$275.9 million on a recurring basis and had an additional \$158.7 million in one-time cuts. The original House package also had a two-year, 1.5 percent cut in the BRT, which would have provided \$640 million in additional nonrecurring cuts over two years.

After the House passed HB 7109, behind the scenes negotiations-- tied up in behind the scenes budget negotiations-- resulted in a Senate amendment that kept or changed many of the House provisions, eliminated some and added some minor tax reductions. The Senate, which proposed to spend more than the House, scaled-back the bill to allow for \$167.3 million more general revenue to be avail-

able for the new state budget than the original bill did. The Senate subsequently amended the bill on the floor to add back a sales tax holiday for disaster preparedness items and slightly lessen two tax credit cuts.

The tax cut agreement between the House and Senate also includes separate legislation proposing a constitutional amendment to create another \$25,000 homestead exemption. If passed by the voters in 2018, the tax savings would far exceed those of the HB 7109 (see Property Tax Bills section at the end of this report.)

Below is a look at the provisions in HB 7109, comparing the final tax package to the original House bill. Following this analysis is an examination of other bills and proposed constitutional amendments dealing with property taxes that have passed and could also reduce the taxes Floridians pay.

PROVISIONS THAT CHANGED

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 comprehen-

sively. The bill would reduce the state sales tax rate on the rental of commercial real estate from 6 percent to 5.8 percent, beginning January 1, 2018. While local option tax rates would not be affected, local governments would lose some revenue sharing. The 0.2 percent reduction would save businesses \$61.0 million annually, \$7.0 million of which would be local revenue.

Original House Bill

The state sales tax rate on rental of commercial real estate would have been reduced from 6 percent to 4.5 percent for two years, beginning January 1, 2018. Beginning January 1, 2020, the tax would have then gone up to 5.5 percent permanently. This would have reduced taxes by approximately \$900 million over the first two years, and then by \$152.6 million annually thereafter.

Back-to-School Sales Tax Holiday – A **three-day** sales tax holiday (August 4-6, 2017) holiday, during which the following would be exempted from state and local sales taxes: clothing, footwear and bags costing **\$60** or less; school supplies costing \$15 or less; and the first **\$750** of the sales price of computers and accessories purchases for noncommercial use. Tax savings - **\$34.8 million** (one-time). [Read Florida Tax-Watch's recent report on sales tax holidays.](#)

Original House Bill

A **10-day** (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).

Disaster Preparedness Sales Tax Holiday – A three-day sales tax holiday (June 2-4, 2017) is created for items including: portable self-powered light sources; self-powered radios, two-way radios, or weather band radios; tarpaulins or

other flexible waterproof sheeting; first-aid kits; ground anchor systems or tie-down kits; gas or diesel fuel tanks; batteries; portable generators; and reusable ice. Tax savings - **\$4.5 million** (one-time) for the three-day holiday.

Original House Bill

The House proposed a nine-day holiday on the same items. Tax savings - **\$6.7 million** (one-time).

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. Effective July 1, 2017, the bill adds an exemption for animal and aquaculture health products. **Tax savings - \$2.6 million annually.**

Original House Bill

The House proposed to add, effective July 1, 2018, exemptions for 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 have been increased to \$25,000. **Tax savings - \$13.6 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 \$9.0 million a year. The 2016 Legislature passed a one-time increase of the cap to \$23.0 million. The bill provides another one-year increase in the cap, this time to \$16.5 million. **Tax savings - \$16.5 million (one-time).**

Original House Bill

The House proposed a one-year increase in the cap, this time to \$20.0 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 \$5.0 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 bill will increase in the cap from \$5.0 million to \$10.0 million annually. **Tax savings - \$5.0 annually.**

Original House Bill

The cap would have been increased 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 for projects undertaken by approved sponsors, including housing organizations, historic preservation organizations, units of state and local government, and regional workforce boards. The credit is 50 percent of the taxpayer's annual contribution, limited to \$200,000 in credits. The credit may be used against the corporate income tax, the insurance premiums tax, or as a refund against the sales tax. The CCTCP is limited to \$24.9 million per year and is slated to expire June 30, 2018. The tax package will make the program permanent, but reduce the cap to \$10.5 million per year. **Tax savings - \$10.5 million annually**

Original House Bill

The program would have been extended for one-year. **Tax savings - \$24.9 million (one-time, FY 2018-19).**

PROVISIONS THAT WERE ELIMINATED

Veterans' Sales Tax Holiday – The House proposed 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 (annually).**

Sales Tax Exemption for College Textbooks – A priority of the Governor, the House proposed 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 have been exempt from state and local sales taxes. **Tax savings - \$54.1 million (annually).**

Sales Tax Exemption for Certain Sales to Related Parties (Dodd-Frank) – The House proposed 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.**

PROVISIONS THAT WERE RETAINED

Sales Tax Exemption for Feminine Hygiene Products – Effective January 1, 2018, products used to absorb menstrual flow will be exempt from state and local sales taxes. **Tax savings - \$4.8 million in FY 2017-18 and \$11.2 million recurring.**

Boat Trailer Fees – A new exemption from the annual license tax and surcharges is provided 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 – Florida’s definitions of “beer” and “malt beverage” will be more closely aligned with federal law. This will result in the lower tax rate for beer (\$0.48 per gallon) being applied 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 definition of inventory (which is exempt) is amended 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 – Property used to provide affordable housing will receive 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 - Several license registration fees would be eliminated, 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.

Sales Tax Exemption for Admission Resales – Florida levies its sales tax on the purchase of admissions. An exemption will be provided for certain resales of admissions to a purchaser that is eligible

for an exemption from sales tax. Some language was changed concerning the process and related companies. **Tax savings - \$3.0 million (recurring).**

Sales Tax Exemption for a Municipal Golf Course – Sales made to governments are exempt for the sales tax if payment is made directly to the vendor by the government entity. The bill would create an exemption for purchases by an entity under contract to operate a municipal golf course. The qualifications for the exemption are very narrow—it must be located in a county with a population of at least two million (Miami-Dade) and also be used to provide youth education programs by a non-profit entity. This narrow exemption has a somewhat surprising fiscal impact. **Tax Savings - \$300,000 in the first year and \$200,000 recurring.**

NEW PROVISIONS ADDED

Sales Tax Exemption for Data Centers – An exemption is created for property purchased or rented by data center owners or tenants if the property is used to construct, maintain or operate computer servers. The data center must make a capital investment of at least \$150 million and have at least 15 megawatts of power. **Tax Savings - \$2.6 million annually.**

Property Tax Exemption for Non-Profit Assisted Living Facilities – Non-profit (501(c)(3)) nursing homes, hospitals and homes for special services are currently exempt from property taxes. An exemption for 501(c)(3) assisted living facilities will be added. **Tax Savings - \$6.9 million annually.**

Property Tax on Charter Schools - Property used for educational purposes by a charter school is generally exempt from property tax. The bill clarifies that the exemption also applies when the charter school makes a payment directly to a third party and extends the time for a charter school to apply for exemption on property that it leased in 2015 and owned in 2016. **Tax Savings - \$200,000 in the first year, then \$100,000 annually.**

Rural Areas of Opportunity (RAO) - Sales tax exemptions are created for building materials, pest control services, and the rental of tangible personal

property used in new construction in Rural Areas of Opportunity. The exemption is limited to \$10,000 for any single parcel. A RAO is an area that has been adversely affected by an extraordinary economic event, a natural disaster, or severe or chronic distress. An area that presents a unique economic development opportunity of regional impact may also be a RAO. **Tax Savings - \$2.6 million annually.**

Fingerprint Services for Concealed Carry License Applications – The bill exempts fingerprint services that are used to obtain a concealed weapons license from the sale tax. **Tax Savings – insignificant.**

PROPERTY TAX BILLS

In addition to state tax relief, the Legislature passed several local property tax relief measures. This includes two proposed constitutional amendments and two bills to implement constitutional amendments passed by voters last November.

Extension of the Property Tax Assessment Cap for Non-Homestead Property – Voters will have a chance to extend the current constitutional 10 percent assessment cap, which is slated to sunset in 2019. HJR 21 contains a very important proposed constitutional amendment which would abrogate the repeal. If the cap is allowed to expire, non-homestead property will see very substantial tax increases (approximately \$700 million annually at current millage rates). This cap has also slowed the tax shift cause by Save Our Homes. Its repeal would increase the inequities of Florida's property tax system. The proposed amendment will be on the November 2018 ballot. For more information on the potential repeal of the cap, see the Florida TaxWatch blog.

Increased Homestead Exemption – Floridians will also be voting on a proposed constitutional amendment (contained in HJR 7105) to provide an additional \$25,000 homestead property tax exemption. Currently, homeowners get the original \$25,000 exemption plus an exemption for the value between \$50,000 and \$75,000. The amend-

ment would mean the first \$25,000 and the value between \$50,000 and \$100,000 would be exempt (does not apply to school property tax levies). While Florida TaxWatch supports the concept of holding down property taxes, homestead exemptions generally shift tax burden to non-homestead property, something our property tax system does regularly due to Save Our Homes and other preferences.

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) ensures 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 estimated this would cost \$15 million. The proposed amendment will be on the November 2018 ballot.

Property Tax Exemption for Renewable Energy Devices – SB 90 implements Amendment 4, passed by the voters last November. It expands the current property tax exemption for renewable energy devices from only residential property to all property. These devices will also be exempt from tangible personal property taxes (TPP). The new language expires in 20 years – meaning the residential exemption would remain but there would not be non-residential or TPP exemptions. There was debate over language proposed by the house (HB 1351) that the sponsor said was for consumer protection but that critics contended created barriers for solar power development.

A compromise was reached to mitigate some of the opposition from solar advocates. SB 90 was amended on the Senate floor to reduce both exemptions to 80 percent of the device's value.

Property Tax Exemption for First Responders - HB 455 also implements a constitutional amendment that was passed last November. The bill provides a 100 percent homestead tax exemption to first responders who became totally and permanently disabled in the line of duty. The bill also extends a 100 percent exemption to the surviving spouse of a totally and permanently disabled first responder.

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