

Briefings



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House and Senate Take Different Approaches to Sales Tax Exemption Review

As the 2002 Legislative sessions nears its scheduled end on Friday, one of the major differences between the House and Senate remains sales tax exemptions. It is now clear that the major overhaul proposed by Senate President John McKay will not pass this session. Instead both chambers have proposals for legislative review of exemptions, that while similar in concept, have some major differences.

It is almost certain that the Legislature will not finish its work by Friday. It is not know if this will result in an extended session or one or more special sessions. If they adjourn on Friday and come back in special session, the issues they may review will be limited to what is in the call.

The House first came up with a counter proposal to Senator McKay's plan. HB 2027 would create the Sales Tax Review Commission. It would be made up of 18 members-nine Senators and nine Representatives. The commission would review all sales tax exemptions and recommend whether each amendment should be retained, modified or repealed. It would take a two-thirds (12) vote of the membership of the commission to recommend a repeal. Without the twelve votes, it must recommend that it be retained or modified. The Legislature would then have to act to implement the commission's recommendations.

All exemptions would be subject to review. The bill requires that the commission review all exemption in three years. Its first report is due February 1, 2003, the second by February 2004 and its final report by February 1, 2005.

The House is also considering making this proposal a constitutional amendment.

Late yesterday, the Senate countered with a proposal to create the Joint Legislative Committee on Tax Exemptions comprised of 12 members-6 Senators and 6 Representatives. It would create a recurring 10-year review process for sales tax exemptions. It was amended on to one of the Governor's priorities, a bill creating technology centers at state universities (SB 1844).

The committee would assign each exemption to a category of similar exemptions and set up a schedule to review one or more categories each year before the regular session. By December 1, 2003 the committee must prepare proposed legislation to set the expiration date for each exemption

18 months after the year in which it is schedule for review. The committee is to complete its first set of reviews by December 1, 2004 and complete its initial review of all exemptions by December 1, 2009.

By December 1 of each year, the committee must submit its recommendations and a proposed bill to reinstate or repeal each exemption. Each reauthorized exemption would then expire after a period not to exceed ten years and the exemption will be review again at least 18 months prior to its expiration.

The bill does exclude from review exemptions for groceries, prescription drugs, health services, real property, intangible personal property, communication services, residential rent, employee salaries and goods purchased for resale or imported, produced or manufactured in this state for export.

Both the House and Senate proposals include these criteria for review: equity; compliance; promotion of competition; neutrality; stability; integration; and public purpose.

Florida TaxWatch supports the review of sales tax exemptions but certain elements of the proposals cause concern, particularly sunset provisions and continual uncertainty over what is taxed. The stability and certainty of our tax structure is of major importance to the economic climate of our state. Florida TaxWatch will review any legislation that passes on this issue and make a recommendation to the Governor as to the efficacy of the plan. In addition, beginning in June, 2002, the Center for a Competitive Florida at Florida TaxWatch will develop recommendations for the Governor and Legislature on how to modernize Florida's tax system through creation of a more conducive business environment for capital formation and job creation, one that will stabilize Florida's tax base and produce the vibrant, broad and diverse economy this is so critical to the state's long-term fiscal soundness.

Comparison of House and Senate Sales Tax Review Proposals

	House	Senate
Membership	9 Senators, 9 Reps	6 Senators, 6 Reps
One-time or recurring review	one-time	recurring
Sunset Provision	No	Yes
Deadline for review of all exemptions	Feb 1, 2005	Dec. 1, 2009
Exclude any exemptions from review	No	Yes
Vote needed to recommend repeal	two-thirds	majority
Includes criteria for review	Yes	Yes

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