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Sales Tax Exemption for Repair of Equipment is a Positive Step in the State's Effort to Promote Florida's Lagging Manufacturing Sector

It's no secret that Florida has not been a manufacturing state. This sector of Florida's economy, while already relatively small compared to other states, has far less jobs than it did in the 1980s. In recent years, the Florida Legislature has undertaken an effort to promote Florida manufacturing by removing some non-competitive tax provisions.

This year, another positive change is being considered. Proposed legislation (CS/HB 397 and SB 992) would provide a new exemption from the state sales and use tax for parts, materials and labor used in the repair of manufacturing equipment. The exemption would be phased-in over four years. As of July 1, 1999, 25% of the charges for repair parts and labor would be exempt. On July 1, 2000, 50% would be exempt, on July 1, 2001 75% would be exempt and on July 1, 2002, all such charges would be completely exempt. It is estimated that this exemption would reduced total sales tax revenues in the first year by \$3.2 million. The recurring impact (when the full exemption takes effect) is estimated at \$14.0 million.

Florida TaxWatch finds that this legislation is consistent with the state's effort to make Florida manufacturers more competitive by bringing the taxation of this industry sector more in line with other states.

According to Enterprise Florida, most states have complete sales tax exemptions for manufacturing machinery and equipment. Florida only exempts the manufacturing machinery and equipment bought by new and expanding businesses, not repair or replacement.

The Florida Legislature has taken some steps to reduce the tax burden on manufacturers. In 1996, a sales tax exemption was provided for electricity used in manufacturing. In 1998, steam was added to that exemption. Also in 1998, the Legislature created sales tax exemptions for pollution control equipment and parts and equipment used in the maintenance or repair of aircraft (labor used in aircraft repair was already exempt).

Florida TaxWatch examined these issues and recommended that the exemptions be provided. In 1995, during the debate on the electricity issue, Florida TaxWatch released a report entitled "Florida's Manufacturing Job Losses Can Be Stemmed With a More Competitive Tax Structure." The report pointed to an alarming decline in Florida

manufacturing employment over the previous eight years. A 10.5% decline in jobs was reported from 1989 to 1993 -- a loss of 57,000 jobs. Compared to the eleven states in the southeast region, Florida ranked last in employment change and was one of only three states with declining employment in manufacturing industries.

An update of the data shows that, while experiencing some improvement in recent years, Florida's manufacturing sector is still lagging behind. As of January 1999, Florida had more than 43,000 fewer manufacturing jobs than in 1989 (the high point for Florida). This 8% decrease over the ten-year period is the smallest growth of any southern state. Texas and Kentucky led with growth of 13.9% and 13.1%, respectively. The south as a whole (excluding Florida) had a 1.9% increase in jobs.

Despite the ten-year job loss, Florida has shown steady, but minor, improvement since 1996. A strong economy, perhaps with help from the aforementioned tax changes, contributed. During the 12-month period ending in January 1999, Florida's manufacturing jobs increased by 0.9%.

Still, Florida's manufacturing sector is by far the smallest, in relative terms, in the south. Georgia and North Carolina, two states that are roughly half the size of Florida, far exceed Florida in total manufacturing jobs. Florida has 33 manufacturing jobs per 1000 population. The next smallest is Louisiana, with 44 jobs-per-thousand and the largest is North Carolina with 108 jobs-per-thousand. There are many reasons why Florida has not been a manufacturing intensive state. Tourism was developed as the major industry and geographic and demographic factors play a major role in limiting the size of the manufacturing sector.

While many factors affect a company's decision as to where to locate its operations, taxes can play a major role. It has been reported that this legislation can help tip the scale in Florida's favor as a major U.S. corporation makes its upcoming decision on a \$100 million plant location. Additionally, representatives of a company that recently closed a pulp and paper mill in Jacksonville report that such an exemption can help make that mill economically viable again. The closing of the mill resulted in 325 lost jobs, representing a payroll in excess of \$20 million.

Diversifying Florida's economy is important. A healthy manufacturing sector, which produces high wage jobs, can help the state decrease its dependency on any one industry. Florida TaxWatch concludes that this legislation can provide another positive step in the direction of increasing the competitiveness of Florida manufacturing and realizing the attendant economic benefits.

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