

April 1998

Including Phosphate in the New and Expanding Business Incentive is Fair and Economically Sound

The 1978 Legislature promoted job creation in Florida by exempting new and expanding businesses from the sales tax on purchases of machinery and equipment. However, a number of industries were excluded from the benefits of this exemption -- presumably because the Legislature believed they did not need an incentive to expand or locate in this state.

One of the industries excluded from the sales tax exemption is phosphate mining. Legislation is being considered by the 1998 Legislature to include the phosphate industry in this economic development effort. An analysis of the present situation shows that including phosphate is the right move.

While Florida currently houses the lion's share of the nation's phosphate mining, international competition is becoming stronger. Florida's biggest competition comes from the country of Morocco. According to the Florida Phosphate Council, Moroccan phosphate (which is not subject to the environmental rules and regulations or the multiple taxes as Florida phosphate) can be shipped more cheaply to processing plants along the Mississippi river than Florida phosphate can be shipped from the state's mines to the Port of Tampa.

The proposed legislation (SB 1600 and HB 4689) would remove the exclusion of phosphate from the sales tax exemption for machinery and equipment used by new and expanding manufacturers. The current law has provisions that limit the exemption to ensure that the equipment is used to increase productive output, and therefore increase jobs. For new business, the equipment must be purchased prior to beginning its operations. For expanding manufacturers, the exemption applies to tax in excess of \$50,000 per calendar year upon a showing by the taxpayer to the satisfaction of the Department of Revenue that the equipment is used to increase the productive output of the expanded business by at least 10%.

The proposed legislation has an added provision for the phosphate exemption to further ensure that a granting of the exemption will mean a net benefit to the state. Under the proposed law, the phosphate exemption would take the form of a proposed credit against the operation's severance taxes.

A February 1998 study by Professors Roger D. Blair and Mark Rush of the University of Florida examined the economic impact of two proposed new phosphate mines in DeSoto and Hardee Counties. The study estimates that if the mines are opened, they will increase the total production of goods and services in Florida by \$1.28 billion. When fully operational, they will boost production by more than \$360 million annually.

It is estimated the two mines will directly create between 600 and 650 new jobs in DeSoto and Hardee Counties and lead to 3,100 jobs throughout the state. The report points out that these two counties are two of the poorest in Florida, with an unemployment rate of 10.3% in 1996. These 600 to 650 direct new jobs represent 3% of the total jobs in the two counties. These jobs also have a median income before fringes of \$45,000.

In addition, it is estimated that the mines would provide Florida \$20-\$25 million in added severance taxes annually. Florida would also collect \$71.7 million in other tax revenue during the construction phase and \$20 million annually during the operations phase.

These estimated economic impacts are hard to ignore, particularly when they occur in areas of the state that are in real need of an economic boost.

Since phosphate is not the "captive" industry some contend, consideration should be given to ways to promote it. Treating phosphate like many other manufacturers by giving them an incentive to locate or expand in Florida is an example of a sound tax incentive.

This report was researched and written by Kurt Wenner, Senior Research Analyst under the direction of Dr. Neil S. Crispo, Senior Vice President, Research and Operations.

Joseph P. Lacher, Chairman; Dominic M. Calabro, President and Publisher

Daniel E. Sprague, Publications Director and Research Analyst

Copyright Florida TaxWatch, April 1998

For more information on this report, please call:

(850) 222-5052

OR

write Florida TaxWatch at:

P.O. Box 10209

Tallahassee, FL 32302