

A LOOK AT THE HOUSE TAX CUT PACKAGE & TAX REDUCTION LEGISLATION MOVING IN THE SENATE

The House has announced its tax cut proposal for the 2015 session. It contains 26 different tax reductions and totals \$689.2 million tax savings. The centerpiece of the proposal is a **\$470.5 million reduction in the communications services tax**, a long-time Florida TaxWatch recommendation. Other provisions supported by Florida TaxWatch research include a **reduction in the sales tax on commercial leases and an increase in the research and development tax credit**. The package also includes three different sales tax holidays.

The rest is a patchwork of many different tax cuts, some of them very small and many that had not been part of any legislation so far this session. The House Finance and Tax Committee approved it as a proposed committee on March 31, and it has been filed as HB 7141.

The proposal includes:

TAX RATE REDUCTIONS

The bill provides a reduction in the **state communications services tax (CST)** on wireless phone, cable and satellite television and non-residential landline phone services rate by 3.6 percentage points, from 6.65 percent to 3.05 percent (the rate on direct-to-home satellite is reduced from 10.8 percent to 7.2 percent). Local CST rates are not affected and revenue sharing distributions are revised to ensure that local governments do not see a revenue reduction from the state tax. In fact, they will receive an additional \$0.3 million annually. The gross receipts tax rate, which also applies to communication services, is not affected. This cut has a first-year impact of \$431.3 million and a recurring impact of \$470.5 million. **Florida TaxWatch research has shown that reducing the CST is the best way to give broad-based tax relief, since it affects almost all Florida families and the high tax rate is discriminatory and distortional.**

The bill provides a small reduction in the sales tax on **commercial leases** from 6 percent to 5.8 percent. **Florida TaxWatch supports the reduction because this affects the competitiveness**

of Florida businesses —Florida is the only state to impose this tax. A larger decrease would certainly be preferable, but there appears to be legislative support to continue to reduce or eliminate this tax in the future. This will save businesses \$22.1 million the first year (it is not effective until January 1, 2016) and \$53.1 million annually.

SALES TAX EXEMPTIONS

The bill adds several items to the current exemption for **agricultural items** from the sales tax: irrigation equipment, costs of maintenance and repairs of irrigation and power farm equipment; stakes used in planting, and the sale price below \$20,000 of a trailer weighing 12,000 pounds or less used exclusively in agricultural production or transporting farm products. It also adds aquaculture species to the definition of livestock to allow for aquaculture feed to be exempt. This will save \$12.4 million the first year and \$13.4 million annually.

The bill creates an exemption for **book fairs at K-12 schools**. If the sales are made by a third-party vendor, the vendor must commit all or some of the profits for the benefit of the school. This will save \$2.8 million annually.

The bill exempts **food and beverage concessions** in support of extra-curricular activities at public, parochial, or nonprofit schools that teach grades K through 12. This will save \$1.7 million annually.

The bills exempts **textbooks** and printed or digital instructional materials required or recommended for public or private colleges and universities. This will save students \$43.7 million annually.

The bill adds **machinery and equipment that is used for metal recycling** to the current exemption for manufacturing machinery and equipment. The equipment must have a depreciable life of 3 years or more. This provides a non-recurring savings of \$0.9 million as the current exemption is still set to expire on April 30, 2017.

The bill exempts **admissions and membership fees for gun clubs**. The term “gun club” is defined as an organization whose primary purpose is to offer its members access to target or skeet shooting ranges. This will save \$1.2 million annually.

The bill provides a sales tax exemption for any **motor vehicle purchased** and used for six months or longer in a foreign country by an active **member of the United States Armed Forces** or that member’s spouse. Currently, no credit for Florida tax is given for use in or taxes paid in another country. This will save military personnel \$0.9 million.

SALES TAX HOLIDAYS

The bill creates another three-day **back to school sales tax holiday** from July 31 to August 2, 2015. During the holiday, clothing, footwear, wallets and bags that cost \$100 or less are exempt from the state and local sales taxes. Also exempt are school supplies costing \$15 or less per item, and the first \$750 of the sales price for personal computers and related accessories purchased for noncommercial home or personal use. This will provide consumers with a one-time savings of \$44.0 million.

The bill provides for a new one day **small business sales tax holiday** on November 28, 2015. On that day, items priced \$1,000 or less that are sold by small businesses will be exempt from sales taxes. The bill defines “small business” as one that began operation no later than March 3, 2015, and that owed and remitted less than \$200,000 in sales tax during the one-year period ending September 30, 2015. If the business has multiple locations, all locations are counted towards the \$200,000 cap. This will provide consumers a one-time savings of \$40.3 million.

Another new “**outdoor sportsman**” **sales tax holiday** is created by the bill. During the one day tax holiday on July 4, 2015, rifles, shotguns, spearguns, crossbows, bows and ammunition for those items will be exempt. Also exempt will be camping tents and fishing supplies. This will provide consumers with a one-time savings of \$3.2 million.

PROPERTY TAXES

The bill increases the exemption for **widows, widowers, blind, or totally and permanently disabled persons** from \$500 to \$5,000. It will reduce property taxes by \$41.3 million annually (beginning with the tax year beginning January 1, 2016.)

The bill updates and expands the partial homestead exemption available to **military servicemembers deployed overseas**. It adds 11 new military operations that qualify. This will save an additional \$0.2 million annually (beginning this tax year.)

Currently, if a property appraiser determines someone is **improperly receiving the homestead exemption** because the person is also receiving one in another state, that person must repay the Florida taxes, plus penalties and interest. The bill would allow those persons to keep the Florida homestead exemption (and tax benefits already received) if that person is a bona fide resident of Florida and has repaid the other state. The taxes must be repaid to the other state within 30 days of the denial of the Florida exemption. This is expected to save those persons \$5.3 million annually.

CORPORATE INCOME TAXES

The bill increases the annual amount of **research and development tax credits** from \$9 million to \$23 million in calendar years 2016, 2017, and 2018. Businesses meeting the definition of a Qualified Target Industry can receive an income tax credit of 10 percent of the difference between the current tax year's R&D expenditures in Florida and the average of R&D expenditures over the previous four tax years. The state tax credit taken in any taxable year may not exceed 50 percent of the company's corporate income tax liability. This will save business \$14.0 million in each of the next three years. **Florida TaxWatch research has supported research and development tax credits and exemptions.**

The bill creates the **Defense Works in Florida Incentive** to encourage defense contractors receiving federal contracts to select Florida-based subcontractors by providing tax credits. Up to \$250 million in total qualified subcontract awards for a single Florida prime contractor are allowed per tax year, total qualified subcontract awards for all applicants is capped at \$2.5 billion. This would save defense contractors \$5.5 million annually.

The state provides tax credits of up to \$500,000 per business to incentivize **rehabilitation of brownfields and voluntary cleanup of other contaminated sites**. There is a current annual cap of \$5 million for these credits. There is a current backlog of approved credits of \$11.9 million. The bill provides a one-year increase of the annual cap to \$17 million. This will clear up the backlog and save businesses that perform voluntary brownfields clean-up \$12.0 million.

The bill extends the **Community Contribution Tax Credit Program**, scheduled to sunset June 30, 2106, for one year. The program encourages private sector participation in community revitalization and housing projects. The bill provides \$13.3 million for credits in 2017.

OTHER TAXES

The bill equalizes the **alcoholic beverage tax rate** applied to apple and **pear cider** by amending the definition of cider to include pear cider. Pear cider would be taxed at a rate of \$0.89 per gallon as opposed to the current rate of \$2.25 per gallon. This will save pear cider producers and drinkers \$0.5 million annually.

The bill revises the expiration date of the insurance premium tax exemption for portions of **title insurance premiums** retained by agents or agencies from December 31, 2017 to December 31, 2018. This one-year extension will save \$4.5 million.

The bill creates an exemption from the 6.9 cents per gallon **aviation fuel tax for fuel used by Florida higher educational institutions** for flight training. The bill creates a new distribution from General Revenue to the State Transportation Trust Fund (STTF) to offset the impact to the STTF. This will save those schools (there are four that qualify) \$200,000 annually.

The bill eliminates the \$5 fee associated with obtaining a **permit for a vehicle used by a vendor to transport alcoholic beverages**. The fiscal impact of this provision is “insignificant” (less than \$50,000).

The bill also removes the **estate tax** from Florida law. The Florida Constitution prohibits any estate tax upon Florida residents in excess of the amount that may be credited upon or deducted from the federal estate tax. Since the federal government phased-out the credit for state estate taxes beginning in 2002, Florida has effectively not had an estate tax since 2005.

The total tax savings in this package is \$689.2 million, of which \$36.5 million is local government revenue. This includes the first year impacts of provisions that take effect in FY 2015-16 as well as those that take effect in later years. These changes do not have a significant effect on state trust funds, so the \$653.7 million state impact is all general revenue. The recurring impact is \$576.0 million to the state and \$64.0 million to local governments. Some of these tax cuts are one-time, such as the sales tax holidays.

The first year impact of the tax cuts on revenues for the new budget is \$607.4 million in general revenue. Some of the above estimates may change as they have not all been adopted by the Revenue Impact Conference.

MEANWHILE, IN THE SENATE

The Senate does not want to release its tax proposals until some of the budget issues, especially in health care, are sorted out. However, several tax cut bills already passed out of the Senate Finance and Tax Committee. These include:

Communications Services Tax (SB 110) – Provides a 3.6 percentage point reduction, the same as the House.

Sales Tax on Commercial Leases (SB 140) – Provides a 1 percentage point reduction in the tax, which is larger than the House cut.

Sales Tax Exemption for Manufacturing Machinery & Equipment (SB 544) – The 2013 Legislature passed a three year exemption, set to expire April 30, 2017. This bill would make the exemption permanent. **This is a long-standing recommendation of Florida TaxWatch.** The House does not have this in its tax cut package.

Corporate Income Tax Reduction (SB 138) – Increases the standard corporate income tax exemption from \$50,000 to \$75,000, as was recommended by Governor Scott. This is not part of the House plan.

Agricultural Exemptions (SB 398) – Provides the same exemptions as in the House.

Small Business Sales Tax Holiday (SB 384) – This caps the value of exempt items at \$500, while the House has a \$1,000 cap.

Deduction for Defense Contractors (SB 980) – Creates create the Defense Works in Florida Incentive. The limits in the Senate are half of those in the House.

Aviation Fuel (SB 722) – Reduces the tax on aviation fuel from 6.9 cents per gallon to 5.4 cents per gallon and makes some changes to a tax refund program. This is not part of the House package but a similar bill (HB 595) has passed House Finance and Tax. It no longer includes the rate reduction but it does change the refund program.

There are also bills that have passed committees in the Senate to provide the college textbook exemption (SB 938) and to extend the Community Contribution Tax Credit Program (SB 302). However, they have not been heard in Finance and Tax.

It remains to be seen what ends up in the Senate tax cut proposal. It is doubtful that all the above cuts, at least at the current levels, will be included.

CONCLUSION

Florida TaxWatch commends the House for including the communications services and commercial lease tax cuts and the increase in the research and development tax credit in its tax package and recommends that the Senate also approves those tax relief measures. We urge the Legislature to try to increase the commercial lease tax reduction and to also make the sales tax exemption for manufacturing machinery and equipment permanent.

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Kurt Wenner, Vice President for Tax Research, is a mainstay on the Tallahassee state budget watchdog scene and is the second-longest serving staff member of Florida TaxWatch. Kurt has authored all of the major tax publications produced by Florida TaxWatch, including pieces on Florida's Intangibles Tax, and general sales, property, and business tax issues. Kurt is the author of TaxWatch staples "How Florida Compares," the annual "Taxpayer Independence Day" report on tax burdens, and the annual "Budget Turkey Watch."

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As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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