Special Report

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Econometric Modeling Illustrates the Impact of Not Fixing Florida's Corporate Income Tax Law

Data from Sample of Taxpayers Shows Significant Loss of Jobs, Output, and Taxes

The 2008 Florida Legislature passed HB 5065, which did not extend the corporate income tax relief provisions of the federal economic stimulus package (a 50% bonus depreciation deduction and an additional expense allowance) to Florida taxpayers in order to avoid the resulting loss of state tax revenue in the 2008-09 budget year. The law will result in some severe and unintended consequences. If taxpayers elect to take the bonus depreciation on their federal taxes, they will lose 50 percent of their depreciation deduction from their state taxes permanently. Businesses will also lose state deductions if they choose to take the additional expense allowances. (For more information about this issue, see Florida TaxWatch Briefing ***Special Session is Needed to Clarify Corporate Income Tax Law: Legislature Must Act Immediately to Avoid Potential Loss of Jobs and Further Harm to Florida's Economy***, November 2008, available at www.FloridaTaxWatch.org.) This was not the intention of the Legislature and the leadership has acknowledged the need to correct it. However, the fix cannot wait until the 2009 General Session and should be clarified by December 15, 2008, when companies must make their estimated federal tax payments.

The Department of Revenue has recommended that the Cabinet consider an emergency rule to give the law the full effect of the Legislature's intent to have taxpayers retain the same depreciation and expensing deductions that they had prior to the 2008 law. The Governor has approved the request and the rule is on the agenda of the December 9, 2008 Cabinet meeting.

In preparation, the Governor's Office asked Florida TaxWatch to assess the economic impact of not fixing the law.

A statewide projection of the impact is not determinable, since corporate tax data is confidential and it is not known how all companies would react to the prospect of losing state tax deductions. However, Florida TaxWatch has received confidential estimates from 17 Florida companies of the impact on each of them of not correcting the issue. This impact is either increased federal tax burden from electing to not take the additional depreciation and expensing deductions or increased state taxes from the permanent loss of depreciation for state purposes by electing to take the federal provisions.

The tax impact for these 17 companies alone is $93.6 million. These companies represent varied economic sectors.

Florida TaxWatch used the input-output model IMPLAN (Version 2.0) to estimate the total economic impact of the reduction in expenditures as a result of higher corporate tax income payment by Florida's companies.[1] **The impact from this relatively small 17-company sample is significant – showing a total loss of $154 million in output, 925 jobs, and almost $6 million in state and local government revenue.**

Higher corporate income taxes will reduce total expenditures in the state economy. The total economic impacts of this reduction in expenditures are the sum of direct, indirect, and induced impacts. Direct economic impacts are expenditures a firm or industry makes in the state/local economy. Indirect economic impacts are expenditures made by firms that sell goods and/or services to the firms that make direct expenditures. The induced economic impacts are purchases that occur because the employees, business owners, and others earn income and spend it within the state on consumer goods and services, such as food, clothing, and housing, as a result of the direct and indirect expenditures.

As seen in Table 1, the cost to the state economy will be $154 million ($93.6 direct, $27.3 indirect, and $32.9 induced) in the total output, which will result in the loss of 925 jobs in 2009.

Table 1: Direct, Indirect, and Induced Economic Impacts

Impacts	Direct	Indirect	Induced	Total
Employment	-437	-199	-289	-925
Output	-$93,605,000	-$27,317,878	-$32,885,780	-$153,808,657
Value Added	-$51,540,008	-$13,798,498	-$19,733,078	-$85,071,583

Table 2 shows the loss of almost $6 million in tax revenues for the state and local governments if Florida companies do not benefit from the bonus depreciation.

Table 2: Tax Impact on State and Local Governments

Employee Compensation	-$87,705
Household Expenditures	-$284,572
Enterprise	-$1,144,389
Indirect Business Tax	-$4,440,521
Total	-$5,957,187

[1] IMPLAN (Impact Analysis for Planning) estimates output at the state level by using value-added data reported by U.S. Bureau of Economic Analysis as proxies to allocate U.S. total gross output. IMPLAN also allocates state total gross output to counties based on county employment earnings. The model generates two types of multipliers: Type I multipliers and Type III multipliers. The difference between Type I and Type III multipliers is an induced consumption effect. IMPLAN's Type III multiplier differs from the standard Type II multiplier because the consumption function is nonlinear. That is, the marginal propensity to consume is not constant, decreasing as income in the region rises. Population completely responds to employment changes and drives consumer spending. Multipliers are generated for employment, output, value added, personal income, and total income.

The Total Statewide Impact Would Be Much Larger

It must be remembered that these estimates reflect the tax impact reported to Florida TaxWatch by only 17 companies. The statewide tax impact would be much larger; therefore the economic loss would also be much larger.

There are other probable negative impacts that cannot be accurately quantified. One is postponed asset purchases and the purchasing and placing of assets in states other than Florida. Also, if a company elects to take the federal bonus, it will have to report an increased state tax expense on its financial statements. This results in decreased earning per share which results in decreased market capitalization and decreased shareholder value.

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