

Briefings



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Florida Should "Piggyback" Its Corporate Tax Code With the New Federal Economic Stimulus Provisions: Promotes a More Competitive Business Climate And Improved Tax Administration Efficiency

On March 9, President Bush signed into law the "Job Creation and Worker Assistance Act of 2002," which includes some corporate income tax relief to help spur business investment. The Florida Legislature must now decide whether to continue to "piggyback" the state's corporate income tax code with the federal tax changes. Florida TaxWatch concludes that the state should allow this tax deferral to extend to state taxation to help Florida businesses and their employees and customers be more competitive and avoid additional compliance costs and provide additional incentive for businesses to invest so that the full benefits of the federal economic stimulus bill can be achieved throughout Florida.

The federal Act provides businesses with a special "bonus" depreciation allowance and allows a 5-year carryback of real operating losses (instead of two years). It also provides an additional 13 weeks of extended unemployment benefits to workers in any state with an insured unemployment rate of at least 4%. And lastly, it provides some additional tax benefits for the "Liberty Zone"-- the area of New York City damaged in the September 11 attacks.

The major provision is the depreciation allowance. This allows businesses (and individuals) to take a 30% deduction in addition to the normal Section 179 and regular depreciation deductions. For example, on a \$100,000 investment in qualifying property a taxpayer may take:

- 1) the Section 179 deduction of \$24,000;
- 2) the new bonus depreciation of \$22,800 (\$100,000 - \$24,000 times 30%); and
- 3) regular depreciation on the remaining cost.

Eligible property must be subject to regular Modified Accelerated Cost Recovery System (MACRS) depreciation rules and must either have a life of less than 20 years, be computer software that is normally depreciated, be leasehold improvement property, or be "water utility property." To qualify, the taxpayer must buy (or begin to construct) the property between September 11, 2001 and

September 10, 2004, and the property must be placed into service before calendar year 2005.

Because this is basically a speed-up of the deduction for equipment and property, there will be a short-term tax revenue loss that will begin to be offset in later years. Congress estimates that the provision will cost \$35 billion in 2002, \$32 billion in 2003 and \$29 billion in 2004. Beginning in 2005, as property becomes fully depreciated, businesses will begin paying for this current relief, and tax collections are expected to be greater than previously estimated. Overall, Congress estimates a total ten-year revenue loss of \$15.8 billion.

Florida Should Continue its Practice of Piggybacking With Federal Corporate Income Taxes

The Florida Legislature routinely passes a bill to "piggyback" Florida's corporate income tax code with federal government law for determining taxable income, picking up any federal changes to make it easier for businesses to comply with the tax. Without it, businesses would have to keep two sets of books and tracking two different tax systems would be difficult and confusing. Piggybacking also allows for better auditing by the state, which depends heavily on federal audits. Even during times of economic downturn as during the early '90s, Florida chose to piggyback with the Federal corporate tax laws. The last time Florida did not piggyback was 1981, more than 20 years ago.

But this is an instance where piggybacking will have a significant negative impact on state tax collections. In an already challenging budgetary debate environment, this will have to be addressed when the Legislature comes back into special session to pass a budget in late April/early May 2002. The Governor and House leaders favor piggybacking, while many in the Senate want to "decouple" from the federal law and use the money in the FY 2003 budget.

The state revenue estimators recently projected state tax losses from the provision to be \$126.1 million in 2002, \$146.0 million in 2003 and \$124.2 million in 2004. Since there are differences in state and federal fiscal years, the state also estimates a small loss in 2005 of \$32.1 million. The losses in the first two years means that there would be \$272.1 million less for the FY 2003 state budget.

Although this revenue loss is significant, Florida TaxWatch contends that the tax relief is important and recommends that the Legislature piggyback with the federal changes and offset revenue losses by well-documented and demonstrated constructive government cost savings.

There are ways to plug the General Revenue hole and still have the money to fund important state services such as public education, health care and smart childrens' intervention services. The Legislatures is considering and could use money from other trust funds or some of the tobacco settlement money. In addition, Florida TaxWatch in October 2001 released two publications detailing over \$1 billion in well-documented, constructive government cost savings and budget cut ideas to help balance the budget. This includes over \$300 million from more than 500 ideas from the 1999, 2000 and 2001 Davis Productivity Awards program. These ideas have already been successful in various state agencies and could be adapted for wider implementation. (See *Guiding Florida*

through Our Fiscal Storm: TaxWatch Offers \$700 Million Budget Cuts, October 2001 and Florida TaxWatch Offers Additional Ideas to Deal With Budget Shortfall, October 2001 at www.floridataxwatch.org.)

Keeping down the cost of administration (for both businesses and the state) is the underlying reason behind Florida's policy of corporate income tax piggybacking. In addition, there are two other important reasons to adopt this particular federal change.

It is vital that Florida maintains a competitive business environment. Adopting the change would ensure that Florida businesses do not lose ground in this area. Twenty-three of the 45 states with corporate income taxes are currently planning to accept the federal changes and more may follow suit.

Lastly, adopting the federal measure will help to achieve the laudable goals of the federal economic stimulus package. There are examples of changes to depreciation rates sparking capital spending: Many credit the corporate depreciation rate cuts of the early 1980s with sparking a real-estate boom, and President John F. Kennedy's use of "investment tax credits," essentially accelerated depreciation to boost the economy in the 1960s.

By piggybacking, Florida can provide businesses with additional incentive to increase investment to give the economy a boost that will help the citizens of both our state and the nation.

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