Research Report

March 1999

Improving Florida's Competitive Position By Eliminating the Intangible Personal Property Tax

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A Report to the Governor and Legislature
by
The Second Florida Intangibles Tax Task Force

The Florida Intangibles Tax Task Force was created in 1998 by Florida TaxWatch, at the request of the legislative leadership, to examine the impact Florida's Intangible Personal Property Tax has on the economic development and competitive position of this state and to suggest changes to help remove any impediment to economic development the tax might create. The Task Force made a number of recommendations, most of which were enacted into law by the 1998 Florida Legislature (see Appendix A). These include phasing in an exemption for accounts receivable, exempting banks and insurance companies and increasing the minimum payment.

This success prompted the Legislature to request that Florida TaxWatch reconvene the Task Force to develop another set of recommendations for consideration during the 1999 General Session.

The 1999 Task Force was Chaired by David McIntosh, CEO of Barricade International, Inc. and immediate past Chairman of Florida TaxWatch and Chair of the 1998 Intangible Tax Task Force. Senate President Toni Jennings was represented by Senator Jim Horne, House Speaker John Thrasher was represented by Rep. Ken Pruitt and Governor Jeb Bush was represented by Jim Robinson, CPA/ABV. In addition, the 15-member Task Force was comprised of representatives of Florida's business community. A full listing of the membership is included at the end of this report.

The Task Force was staffed by Florida TaxWatch and received assistance from staff of the Legislature and Governor's Office. This report was prepared by Kurt R. Wenner, Senior Research Analyst, Florida TaxWatch, under the direction of Dr. Keith G. Baker, Senior Vice President and Chief Operating Officer and Dominic M. Calabro, President and Chief Executive Officer.

While last year's Task Force concentrated on addressing barriers to economic development created by various aspects of the intangibles tax, this year's focus was more comprehensive. The impact the tax as a whole has on Florida was considered. **The overriding conclusion reached by the Task Force was that the Florida intangible personal property tax's drawbacks far outweigh its benefits and the State should take steps to eliminate the tax.**

The time is right for action on the intangibles tax. The problems it creates are real and widely understood. There is significant legislative consensus that the problems associated with the tax need to be addressed. The Governor has voiced concerns about the tax and has included a major intangibles tax reduction in his proposed tax relief package. Moreover, this year, unlike past years, enough money is available to do something significant.

Summary of Task Force Recommendations

The Florida Intangibles Tax Task Force recommends phasing out the recurring (annual) portion of the intangible personal property tax. This should be a accomplished using a four-year reduction in the tax rate. The rate would fall to 1.5 mills in 2000, 1.0 mill in 2001, .5 mill in 2002. Finally, the tax would be repealed in 2003.

The Task Force recommends that the one-time intangibles tax on mortgages and other liens secured by Florida realty remain as is.

- The Legislature should continue the three-year phase-in of the intangibles tax exemption for accounts receivables. One-third was made exempt by the 1998 Legislature effective January 1, 1999. Two-thirds should become exempt on January 1, 2000 and all accounts receivable should be exempt on January 1, 2001.

The following two recommendations are considered important issues that shouldn't have to wait until the tax is repealed to be addressed. They should have no significant revenue impact.

- The law governing limited liability companies (LLCs) should be clarified and an intangibles tax exemption be provided for investment in these companies. It should also be clear that intangible assets owned by LLCs are taxable.

- When a business does not have an intangibles tax liability, that business should not be required to file a return. Currently, individual taxpayers with no liability are not required to file, but business taxpayers are required to file a "zero return." This will decrease the paperwork burden for approximately 250,000 businesses.

The Task Force also considers the following two recommendations to be important and in need of reform. Both were recommended last year but were removed from the legislation that passed due to fiscal constraints. It, therefore, is recommended that during the 1999 Legislative Session these two issues be taken up separately from the phase-out proposal and debated on their own legitimate merits.

- Exempt any trust administered by any Florida-domiciled fiduciary, including bank trust departments and independent trust companies. Florida-domiciled beneficiaries holding a taxable interest in the trust would still be required to file a return and pay the intangibles tax on their portion of the trust. No tax would be imposed on those trusts in which no Florida beneficiary has a taxable interest.

- To promote investment advisory and similar businesses in Florida, the exercise of discretion over intangible assets owned by a non-resident of Florida should not subject those assets to the tax.

What is the Intangibles Tax?

Florida's intangible personal property tax, enacted in 1931, is a tax on "property which is not in itself intrinsically valuable, but which derives its chief value from that which it represents." Stocks, bonds, loans and accounts receivable make up most of the taxable intangible property. Many intangible assets are exempt, including cash, bank deposits, government bonds, retirement accounts and most partnership interests. Both individuals and businesses are subject to the tax.

The tax is an annual tax, based on a taxpayer's asset value on January 1 of each year. The intangibles tax rate is 2 mills ($2 per $1000 of value.) There also is a one-time tax of 2 mills on mortgages and other obligations secured by liens on Florida realty. The intangibles tax rate is capped at 2 mills by the Florida

Task Force Findings

Florida's intangibles tax is unique. While a few states tax intangible assets to some degree, no state has a tax similar to Florida's. In addition, four states have repealed intangibles taxation since 1995 North Carolina, Georgia, Kentucky, and West Virginia. Those states have promoted the repeal as an economic development benefit.

The fact that Florida is alone in taxing intangible assets the way it does puts a major blemish on our state's image as a business-friendly place.

It must be noted the Task Force concluded that the non-recurring intangibles tax the one-time, 2 mill tax on mortgages and other obligations secured by Florida real estate would not be altered as part of the Task Force's recommendations. This tax, producing about 17% of all intangibles tax revenue, is not seen as a disincentive for, or deterrent to, economic growth and does not appear to pose the problems that are created by the recurring tax.

The recurring tax on the intangible assets of businesses accounts for most significant barriers to economic development. In the national marketplace, the intangibles tax puts Florida companies at a distinct disadvantage to their out-of-state competitors. When corporations

Constitution. For individuals, the statutes provide that the first $20,000 (for each spouse) of intangible assets are fully exempt and the first $100,000 (for each spouse) is exempt from one mill of the tax.

The intangibles tax is expected to raise $1.074 billion in FY 1999-00. After administrative costs, Florida counties receive 37.7% of revenues and 62.3% is deposited in the state General Revenue fund.

For more background information and history of the intangibles tax, see last year's Florida Intangibles Tax Task Force report " Improving Florida's Competitive Position Through Changes in the Intangible Personal Property Tax," available from Florida TaxWatch. < tr>

consider various states for locating their operations, many factors are taken into account. One of these factors is relative state tax policies. Although one tax cannot be considered in a vacuum, specific tax aspects can be "deal- breakers."

Enterprise Florida, the state's economic development arm, reports that the intangibles tax has resulted in major employers deciding to locate in states other than Florida. Last year, the Task Force heard two examples of companies choosing to locate in other states with the deciding factor being the significant liability the intangibles tax created for these companies.

According to Enterprise Florida, the estimated loss of jobs from the two companies identified as not locating in Florida is 850 direct jobs and 1,114 indirect jobs for a total of 1,964 new jobs lost. It estimated that the two companies would have added $27.3 million in direct annual earnings and $55.8 million in total direct and indirect earnings to Florida. The tax impact of this is estimated they believe conservatively at $5.1 million annually.

Enterprise Florida stresses that these are only two companies that it knows about and thinks that other companies may be crossing Florida off their lists of potential states for relocation because of the intangibles tax. Other companies may also be taking into account the impact of intangibles tax liabilities on corporate executives. Since these are the decision makers, they are likely taking their personal potential tax liabilities into account. Still other companies may be locating smaller parts of their operations in Florida and keeping their intangible assets in other states.

A study of Florida's business climate by Arthur Andersen Consulting cites the uniqueness of Florida's intangibles tax and adds, "This severely affects companies that have their commercial domicile in Florida and specifically deters companies from locating their corporate headquarters (or operations with significant receivables) in Florida. Because of the intangibles tax, Florida will be ruled out in many corporate headquarters projects."

While the tax on business is the major obstacle, the recurring tax on individuals can also have a significant impact on economic development. Business decision-makers are less likely to relocate desirable businesses to this state due to the imposition of this tax on their personal assets. The tax treatment of Florida-domiciled trusts leads to huge amounts of assets leaving Florida to be managed in other states. The intangibles tax also creates a deterrent to the attraction and retention of investment advisors and similar industries to and in our state.

It is not just business location decisions that are impacted by the intangibles tax. It can also have a negative effect on the decisions of wealthier individuals as to where they chose to live.

The intangibles tax on individuals has many other shortcomings. It discourages investment by punishing people who have saved and invested for their future. Florida's many retirees are burdened by the tax on their assets which can reduce the only source of income many of them have their life savings.

Questions of fairness also arise. Both legal and illegal steps to avoid the tax create equity problems. Because it is a very difficult tax to administer and enforce, many avoid the tax with little fear of being caught, while others dutifully pay their obligations. There are also many legal strategies to avoid paying the intangibles tax. However, these strategies often are only known to, or feasible for, wealthier and more sophisticated taxpayers.

Compliance also is difficult and costly, and this inefficiency is borne by taxpayers especially small businesses and individuals of modest wealth.

Public support of the tax is practically nonexistent. Florida TaxWatch solicited public input regarding the tax, and the response was unanimously negative. The many letters, e-mails and phone calls were unequivocally critical of the tax. Citizens attending the Task Force meetings both businesses and individuals also spoke out against the intangible tax.

Task Force Recommendations

Eliminate the Annual Intangibles Tax
Eliminating the intangibles tax not only would have the immediate impact of reducing citizens' tax bills; it also would garner long-term benefits for businesses and individuals alike. Florida should seek to attract, nurture and maintain all sources of capital formation and job growth in industries providing "above-average" compensation levels. Economic development through capital formation and growth in high-paying jobs is in the best interest of all Florida taxpayers and citizens. The intangibles tax makes achieving this type of growth in Florida more difficult.

The Task Force reached a consensus that the best method for eliminating the tax is through a phase-out. Several phase-out options were considered. Obviously, the sooner the state can remove the problems the tax creates the better. However, fiscal considerations cannot be ignored, and a $890 million revenue loss is viewed as unaffordable in one year. Still, the phase-out period should not be of such duration as to lose its targeted impact.

A four year phase-out with an annual half-mill rate reduction shows a real commitment to repeal the tax. Although it would be preferable to write the complete phase-out into law, the realities of the state budget process make that unlikely. As was the case with the phasing out of the tax on accounts receivable last year, only the first year will likely be included in order to keep the recurring fiscal impact of the bill low. The result would probably be legislation with a one-year rate roll-back with legislative intent language stipulating that the remain portion of the tax will be rolled-backed over succeeding years. Under this scenario, a significant first step and shorter time-frame for completion is preferable. Moreover, since most business planning cycles are not longer than five years, the duration of the phase-out optimally would fall within that time frame.

The Task Force also considered phasing out the tax by increasing exemptions. However, it was concluded that a rate reduction is preferable. First, it is a cleaner, more straightforward method that is more easily understood. In addition, a rate reduction approach to phase-out clearly has a stronger economic development rationale. Whereas an increased exemption would have the benefit of getting people with smaller tax liabilities off the tax rolls immediately, the rate reduction would have an immediate impact on business decisions and lessens the impetus for assets to leave the state as a means of avoiding the tax.

Another important concern is political. When a phase-out is dependent on future legislatures for its continuation, having more people paying the tax at a lower rate is preferable to having fewer people paying at a higher rate. The public support for continuing the repeal would still be there. Alternately, if exemptions are increased, the final steps of the phase-out could be misconstrued as "only helping the wealthy."

The Florida Intangibles Tax Task Force recommends that the recurring intangible personal property tax be phased out through a four-year rollback of the tax rate. The rate would be reduced from 2 mills to 1.5 mills on January 1, 2000. The tax rate would then go to 1 mill in 2001, 0.5 mills in 2002, and the tax would be repealed in 2003.

Continue the Phase-In to Completely Exempt Accounts Receivable from the Tax
The key recommendation of last year's Task Force was to exempt accounts receivable from the intangibles tax using a three-year phase-in of the exemption. Taxing accounts receivable was seen as the most unjustified and harmful aspect of the tax. Non-investment assets generated through the normal course of business operations should not be taxed. This was considered a significant barrier to economic development that should be addressed first.

There also are inherent questions of fairness that are raised when businesses are taxed based on the amount of accounts receivable they happen to hold on January 1 of each year.

Under current law, if two similar businesses make a similar sale in December and one customer pays in cash and one with credit, the latter business will face an intangible tax obligation while the former one will not. This is in addition to the sales tax the business collects on the sales and corporate income tax it pays on profit from the sale. Moreover, because some accounts receivable will never be collected, taxing them is tantamount to taxing bad debt.

Another question of equity stems from the practice of many businesses resorting to methods that allow them to legally avoid the tax. By transferring its accounts receivable out of state before January 1, a business can reduce its intangible tax liability. While some businesses may have the knowledge, ability and a tax liability large enough to make such a transfer feasible, many do not.

The 1998 Legislature exempted one-third of the value of accounts receivable from the intangibles tax. The next two years of the exemption phase-in originally in the bill were removed due to fiscal constraints and replaced with legislative intent language stating that the rest of the phase-in would take place in the future. Consequently, the 1999 Legislature will have to pass legislation before this will happen. Clearly, should the Legislature fail to honor its commitment, this would generate negative perceptions concerning the instability of Florida's economic climate.

The Florida Intangibles Tax Task Force recommends that the phase-in of exemption from the intangibles tax for accounts receivable be continued. One-third of accounts receivable are currently exempt. If the phase-out is continued, two-thirds would be exempt as of January 1, 2000 and all accounts receivable would be exempt from intangibles taxation as of January 1, 2001.

It currently is estimated that a one-half mill reduction in the tax rate would cost $205 million. Continuing the phase-out of the tax on accounts receivables is estimated to cost $83.0 million over two years, or $41.5 million a year. If the two are done in tandem there would be some overlap of fiscal impact. The following table shows the fiscal impact of a four-year phase-out of the intangibles tax while continuing the phase-in of the accounts receivable exemption. The total first-year impact of the proposal would be $237.5 million.

Revenue Impact of a Four-Year Phase-Out of the Intangibles Tax and Continuing the Phase-In of the Accounts Receivable Exemption

(dollars in millions)

Fiscal Year	1999-00	1999-00	2000-01	2001-02	2002-03
.	No Change	1.5 mills	1 mill	.5 mill	0 mills
Recurring "B&D" receipts (less accts/rec)	$807.0	$620.6	$443.6	$221.3	$0.0
Accounts rec	83.0	31.9	0.0	0.0	0.0
Non-recurring "C" receipts	184.0	184.0	191.9	200.2	210.5
Refunds	(11.0)	(11.0)	(8.1)	(5.5)	(2.7)
Administrative expense	(42.0)	(42.0)	(43.3)	(44.6)	(30.0)
Total to be distributed	1,021.0	783.5	584.1	371.5	177.8
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State general revenue*	636.1	488.1	363.9	231.4	110.7
Counties revenue*	384.9	295.4	220.2	140.0	67.0
.					

Loss from rate roll-back	.	196.0	405.9	657.4	908.6
Loss from accounts rec. phase-out	.	41.5	83.0	83.0	83.0
Total revenue loss	.	**$237.5**	**$488.9**	**$740.4**	**$991.6**

The tax rate would be rolled back on the recurring B&D tax (including accounts receivable).
The tax rate on the non-recurring tax would stay at 2 mills.
** assumes no change in the state/county revenue split*
Source: Florida TaxWatch and the Florida Consensus Estimating Conference, February 1999.

Exempt Investment in Limited Liability Companies (LLCs)

Limited liability companies (LLCs) are a type of business entity. Other examples of business entities include corporations and partnerships. A fairly recent phenomenon, LLCs are attractive to many business owners because of federal income tax flexibility and the limited liability they provide to their members (owners.) As a limited liability company, the taxpayer can decide how it will be treated for income tax purposes. It can be treated as a taxable entity (like a corporation) or as a flow-through entity where the entity does not pay the tax, but the member is taxed on the income of the LLC (like a partnership or branch/division.) Most new LLCs are choosing to be treated as partnerships or branches/divisions of their members.

Until last year, Florida did not conform with the federal tax treatment of LLCs, and these entities were not common in this state. However, a change in the law last year now affords LLCs the same state income tax treatment as is available on the federal level. This will lead to LLCs becoming much more popular in our state. There is speculation that they may even become the business "entity of choice."

Although the state intangibles tax law is unclear, LLCs in Florida could be tax traps, because taxpayers' investments in LLCs may be taxable. Interest of a partner in a partnership is generally exempt from the intangibles tax. But if it should switch to LLC status or if a new LLC is formed, the taxpayer may be surprised that their investment in an LLC is subject to the intangibles tax.

The Florida Intangibles Tax Task Force recommends that the law governing LLCs be clarified and an intangibles tax exemption be provided for investment in a limited liability company. It should also be clear that intangible assets owned by LLCs are taxable. Since LLCs are generally a new phenomenon in Florida, the revenue impact of this change should be minimal. Interest in partnerships (and interest in sole proprietorships which are not a separate legal entity) already are exempt from the tax, so the choice to be organized as an LLC, instead of a partnership or sole proprietorship, would not significantly affect intangibles tax collections.

Eliminate Filing of "Zero Returns" by Businesses

The requirement that taxpayers must file annual returns even though they do not owe intangibles taxes (or owe less than the minimum payment required) is confusing. The statutes provide that individuals who owe less than $60 do not have to file the annual return. Nonetheless, the Department of Revenue recommends that taxpayers who receive a pre-addressed form should file in order to avoid further contact from the department. A "zero return" can be filed over the phone.

As for corporations, the rules are even more confusing. The statutes state that if a taxpayer owes less than $60, "...an annual return is not required, unless the taxpayer is a corporation...." However, it further stipulates that a corporation which has no intangible tax liability and which is required to file an annual report with the Secretary of State, is not required to file an annual intangibles tax return.

All corporations doing business in Florida must file an annual report with the Secretary of State. The report requires that the corporation declare whether it has an intangibles tax liability or not. A list of all corporations declaring no liability is to be provided by the Secretary of Sate to the Department of Revenue (DOR).

DOR's position in this matter is that all corporations are required to file a return regardless of whether or not they have a tax liability, but the declaration of no-tax-due in a corporation's annual report satisfies the requirement to file.

It should be noted, however, that DOR's instructions on intangibles tax returns for businesses say that "every corporation authorized to do business or doing business in Florida is required to file this return. If the calculated tax due on Line 7 of the return is less than $60.00, no tax payment is required; however, the return must still be filed." In addition, many corporations are required to file information notices with DOR.

Eliminating the need for businesses to file a return when no tax is due would be a step in the direction of reducing unnecessary costs of government regulation. When the minimum payment was increased to $60 last year, 179,000 more individual Florida taxpayers were relieved of the burden of filing an intangibles tax return. However, the additional 96,000 mostly small businesses that fell under the new $60 minimum still have to file returns, even though they do not have to pay.

The Florida Intangibles Tax Task Force recommends that businesses owing less than $60 in intangibles tax should not be required to file an annual return. This will decrease the paperwork burden for approximately 250,000 businesses.

Exempt Trust Operations and Assets Managed by Investment Advisors

One of the most obvious economic development obstacles created by the intangibles tax is the taxation of trust operations. The current law unfairly puts Florida trustees at a competitive disadvantage with out-of-state trustees. This issue was raised by the 1998 Task Force, and this year's Task Force echoes those concerns.

Under current law, Florida-domiciled trustees pay the intangibles tax on the assets of trusts, regardless of where the beneficiaries reside. A foreign domiciled trustee does not pay the tax. If the foreign domiciled trust has a Florida beneficiary with a taxable beneficial interest, then that beneficiary must pay tax on that interest.

Since Florida is one of only a few states imposing this tax on trust operations, the state clearly discourages commercial trust business. Because trust departments and companies compete nationally, states without an intangibles tax have an advantage over Florida in that trusts can easily be managed from other states.

The popularity of trusts as estate planning vehicles is growing. As more and more people retire in Florida, a strong economy and robust stock market are creating a huge demand for trust management. Unfortunately, Florida trust operations report large amounts of trust capital leaving Florida to other states in order to avoid the intangibles tax. Paradoxically, trust operations are the type of industry that Florida seeks to foster clean ones that create high-paying jobs.

An exemption from the intangibles tax should be created for all trustees. This would treat all trustees alike, leveling the playing field for Florida-domiciled trustees and foreign ones. In Florida, commercial and noncommercial trustees also would be on equal footing.

It is estimated that an exemption for all trustees would have a negative fiscal impact of $18 million to $38 million (at the current 2 mill rate.) However, this is an example of where economic development benefits can produce tax revenue, both directly and indirectly, to offset intangibles tax losses. In addition, the fiscal impact does not take into account the inevitable reduction in taxes collected due to the trend of dramatic increases in trust capital leaving the state.

A limited survey of Florida law firms by the Florida Bankers Association reports more than seven billion dollars of assets held in trusts that, whereas they were created by Florida firms, out-of-state trustees were chosen because of intangibles tax concerns. About half of the phenomenon was attributable to commercial trustees. This suggests that Florida-domiciled trustees are losing a significant amount of business to other states. The increased franchise (income) tax that would be paid by commercial trustees, had they retained this business, would be substantial. State economists have confirmed that a loss of trust capital results in a notable loss of direct state tax revenues. There also would be indirect tax benefits from the added economic activity.

The Florida Intangibles Tax Task Force recommends that an exemption from the intangibles tax be created for all trustees. Florida-domiciled beneficiaries with a taxable beneficial interest in such a trust would still be required to pay the tax on their portion of the trust. No tax would be imposed on a trust in which no Florida resident has a taxable beneficial interest.

A similar situation exists if an out-of-state person hires a Florida investment advisor or manager. Although not expressly addressed in statute or rule, DOR has held that if the Florida advisor has discretionary authority over the assets, then those assets are subject to the intangibles tax in Florida. The Task Force finds no justification for taxing the management of other peoples' assets, and this practice discourages a highly desirable industry in Florida. Exercising discretion over intangible assets owned by an unrelated nonresident of Florida should not create taxability of those assets.

It is estimated that an intangibles tax exemption for investment advisors would have a negative fiscal impact of less than $5 million. The Task Force contends that the economic development benefits of this proposal would exceed the cost.

The Florida Intangibles Tax Task Force recommends that an exemption from the intangibles tax be created for investment advisors. An investment advisor who does not own, but has authority to invest money on behalf of a principal, would not be required to file a return and pay tax on the intangible personal property with respect to the assets which the advisor purchases with the principal's funds. Further, if an investment advisor acts as a fiduciary or an agent of a principal, intangible personal property of the principal should not have a taxable situs in the State of Florida simply because the investment advisor who manages the funds is located here.

Appendix A

Summary of 1998 Task Force Recommendations and Legislative Action

Based on the work of Task Force, the 1998 Florida Legislature passed Senate Bill 1450 which made a number of changes to the intangibles tax law. The legislation enacted the majority of the Task Force's recommendations.

The following is a summary of the Task Force's recommendations and the final action by the 1998 Legislature.

1. Exempt accounts receivable from the intangibles tax. This should be done with a three year phase-in to minimize the first year fiscal impact. One-third of accounts receivable would be exempt in the first year, two-thirds in the next year and all accounts receivable would be exempt in the third year and thereafter. **Enacted. The law only mandates the first year of the phase-in, with one-third of the value of accounts receivable becoming exempt on January 1, 1999. The legislation states that it "is the intent of the Legislature" that the rest of the phase-in occurs. However, the 1999 Legislature will have to pass another bill to make this happen.**

2. Exempt banks and insurance companies from the intangibles tax. The credit provided to these industries against the franchise (corporate income) tax and the insurance premium tax, respectively, makes the net revenue impact of this proposal minimal. **Enacted.**

3. Increase the minimum payment from the current $5 to $60. If a taxpayer owes less than $60, that taxpayer does not have to pay the tax or file a return. Corporations with a less than a $60 liability would not have to pay but would still have to file a return. **Enacted.**

4. Exempt any trust administered by a Florida commercial fiduciary, including bank trust departments and independent trust companies. Florida-domiciled beneficiaries holding a taxable interest in the trust would still be required to return and pay the intangibles tax on their portion of the trust. No tax would be imposed on those trusts in which no Florida beneficiary has a taxable interest. **Not enacted.** (Although this did not make the final bill, language was included providing that if a bank acts as a fiduciary or agent of a trust other than as a trustee, the trust will not have taxable situs in Florida solely by virtue of management or control.)

5. To promote investment advisement and similar businesses in Florida, the exercise of discretion over intangible assets owned by an unrelated non-resident of Florida should not subject those assets to the tax. **Not enacted.**

6. Provide a statutory definition to reinforce a currently proposed Department of Revenue rule that processing of intangible property such as a credit card servicing company does not constitute management or control of that property and is, therefore, not taxable. **Enacted.**

7. Reduce the excessive penalties on late intangibles tax payments to conform them with the penalties for corporate income taxes. This would limit the combination of late payment and late return penalties to 10% of the tax due per month up to a maximum of 50%. The penalty for omitting or undervaluing assets would be reduced from 30% to 10%. **Enacted.**

8. Reduce the statute of limitation period applicable in a self-disclosure of tax liability to five years, as proposed by the Department of Revenue. Currently, a taxpayer could be required to pay tax and interest for whatever time the taxpayer was subject to the tax. This should improve voluntary compliance. **A tax administration bill that also passed - House Bill 4413 - gives the Dept. of Revenue greater authority to compromise tax and interest due under self-disclosure for all taxes. This effectively limits a taxpayer's liability in a self-disclosure to five years.**

9. Hold counties "harmless" by increasing the portion of intangibles tax revenue going to county governments. **The counties' share was increased to lessen the fiscal impact of these changes.**

In addition, a few provisions not considered by the Task Force were included in the final bill. These include exemptions for real estate mortgage investment conduits (REMICs), financial asset securitization trusts (FASITS) and Roth IRAs. An exemption also was provided for certain stock options if the employee cannot transfer, sell or mortgage the option. (Go back to the beginning of the report.

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View the summary and findings of the 1998 Intangibles Tax Task Force.

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