

House Tax Package

On Thursday, the House Ways & Means Committee approved a proposed committee bill that contains the chamber's 2022 tax relief package. The package contains mostly non-recurring tax relief with a focus on individual taxpayers, with a relatively small amount targeted to businesses. The proposal has broad bipartisan support and passed unanimously.



The package is comprised of sales tax holidays, temporary sales tax exemptions, a sales tax cut for mobile homes, an exemption for green hydrogen, relief for the Surfside condominium collapse, changes to aquaculture property valuation, and some tax credit cap increases. Some of these provisions are contained in other bills, some of which have been approved in committees. And, as usual, there are some things that came out of nowhere, such as an exemption for Grand Prix race admissions, a tax credit for investments by shortline railroads, and a sales tax holiday for tools used by skilled workers. The package includes exempting federal loans in an emergency from doc stamps taxes. This was a recommendation of the COVID-19 Taxpayer Task Force, on which many of our Tax Advisory Council members also served. There is nothing included to address the corporate income tax increase that is beginning to take effect.

The package does include a corporate income tax piggyback provision, but only to adopt the new federal code, nothing to address the tax rate increase, QIP, like-kind exchanges, bonus depreciation, or the interest deduction limitation. In fact, adopting the federal code means adoption of the federal change that no longer allows for full deduction of research and experimental expenditures in the year they were incurred. Instead, they are required to be amortized over at least five years. This is estimated to increase revenue by nearly \$800 million over the next five years, although this was not mentioned in the meeting or in the staff analysis (see below). In his closing comments, Chair Payne said "we are still working on" corporate income taxes.

Only five of the roughly 22 provisions have been scored by the Revenue Estimating Conference, so there is not yet a total price tag for the package. Nearly all the tax savings are nonrecurring or local.

Tax Holidays

- **Back-to-school** – 14 days, which would be the longest ever. In addition to the usual clothing, footwear, wallets, and bags priced at no more than \$100, several new items were added or had their price limit increased. New items are learning aids (including puzzle books, electronic books, and blocks) and jigsaw puzzles (\$30). The price limit for school supplies would be increased from \$15 to \$50, and the price limit for computers and accessories from \$1,000 to \$1,500.
- **Disaster preparedness** - 14 days, which would be the longest ever. Supplies needed for evacuation of pets are included for the first time (the definition includes many everyday pet supplies.)

- **Freedom Week** – 7 days, same as last year. Exempt items are similar, a wide range of outdoor recreation supplies and admissions to concerts, sporting events, movies, museums, state parks, performances, festivals, fairs, and cultural events.
- **Tools and equipment needed in skilled trades** – 7 days. A new holiday, exempting tools, equipment, work clothing, industry textbooks, and other items.

Temporary Sales Tax Exemptions

- Impact-resistant windows, doors, and garage doors for residential properties – 2 years
- Baby and toddler clothing, shoes, and diapers – 1 years
- ENERGY STAR certified refrigerators, water heaters, and washers/dryers – 6 months
- Children’s books – 3 months

Permanent Sales Tax Exemptions

- Reduced tax rate on **new mobile homes** from 6% to 3%. This will reduce taxes by \$17.2 million annually.
- Exempt admissions to **Formula One Grand Prix races** and support races. The state currently exempts a number of sporting event admissions including NFL championships, the NCCA basketball Final Four, and All-Star games and related events.
- **Exemption for green hydrogen** – Green hydrogen is hydrogen that is produced through a process called electrolysis using renewable energy. This can result in zero green house gas emissions, but the process is capital intensive. Green hydrogen can be used for: replacing natural gas in some heating systems; an alternative fuel source; powering fuel-cell vehicles; energy storage; and oil refining, ammonia production, and steel making. The bill would exempt the sale of green hydrogen and machinery and equipment used to produce, transport, compress, or blend green hydrogen or ammonia derived from green hydrogen. It also exempts machinery and equipment used to produce electric or steam energy from burning hydrogen and hydrogen used as fuel in manufacturing, processing, compounding, or production. This is estimated to cost only \$0.3 million annually.

Property Taxes

- Abatement of all property taxes and non-ad valorem assessment for owners of **Surfside condominiums** and future unforeseen collapses.
- Provides for a pro-rated refund of property taxes on **residential properties rendered uninhabitable by a catastrophic event** for at least 30 days.
- Increase the exemption for **widows, widowers, blind persons, or totally and permanently disabled** from \$500 to \$5,000. An exemption of at least \$500 is currently authorized by the Florida Constitution, so this can be done statutorily. This will save those who qualify \$46.7 million annually.
- Modify assessment of **aquaculture property** - For the purposes of the income methodology approach to assessment of aquacultural property, structures and equipment located on the property used for producing aquacultural products are considered a part of the average yields per acre and have no separately assessable contributory value. This is estimated to save aquacultural landowners \$7.5 million annually.

Tax Credits

- **Strong Families Tax Credit** – This program provides tax credits for businesses that make donations to certain eligible charitable organizations that provide services focused on child welfare. The cap on total credits would be increased from \$5 million to \$10 million, and taxpayers are allowed to take the credit in FY 2021-22.
- **Community Contribution Tax Credit program** – The annual cap on total credits is increased from \$14 million to \$19 million. For projects that provide affordable housing for low-income and very-low-income households or for persons with special needs, the cap is increased by \$4 million, from \$10.5 million to \$14.5 million. All other projects get the other \$1 million increase.
- **New World Reading Initiative Tax Credit** – Created last year, this program provides tax credits for businesses that make donations to a literacy program that provides books to elementary school students in Florida who read below grade level. The bill would allow taxpayers to take credits for FY2021-22, and also provides a refund option for insurance premium taxpayers who have already submitted their tax payments for the 2021 tax year.
- **Short-line railroads** – Provides a new CIT credit for Class II and Class III railroads that invest in improving or maintaining tracks in Florida. The credit is equal to fifty percent of the investment in Florida in the prior calendar year and is limited to the total number of miles the railroad owns or leases in Florida multiplied by \$3,500. Unused credits can be carried forward.

Other

Documentary Stamp Taxes – Provides an exemption for any federal loan that is related to a state of emergency declared by the Governor. This was a recommendation of the Florida TaxWatch COVID-19 Taxpayer Task Force.

Corporate Income Piggyback – The bill updates the state corporate income tax code by adopting the Internal Revenue Code as in effect on January 1, 2022. This adopts the federal change to the deduction of research and experimental (R&E) expenditures. This is separate from the research and development tax credit. This change to the R&E deduction was included in the federal Tax Cut and Jobs Act of 2017, but only became effective this year. Previously, taxpayers could deduct the entire amount of qualified R&E expenditures in the year they were incurred. Now, those expenditures must be amortized and deducted over five years, or 15 years if the research was conducted outside the United States. In addition, software development and license costs in conjunction with R&E are also subject to this provision. Previously, the deduction for these costs could be taken immediately or amortized over three or six years. Now, they must be amortized over five or 15 years.

This is another base-expansion measure Florida's 5.5 percent tax will apply to. The fiscal impact of adopting this change was not mentioned in the committee meeting. The staff analysis listed the impact as indeterminate, but it has been scored by the Revenue Estimating Conference in conjunction with SB 1090. That adopted estimate predicts it will increase Florida CIT collections by \$797.8 million over the first five years, which will likely pay for the rest of tax package over five years (we will have to wait on the final estimates for all the provisions). This would make this a tax relief package that increases recurring state general revenue.