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# Finance and Tax Subcommittee

Wednesday, December 5, 2012

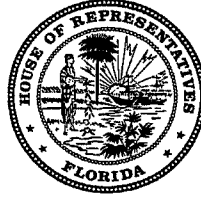
1:00 p.m.

Morris Hall

MEETING PACKET

# The Florida House of Representatives

## Finance and Tax Subcommittee



**Will Weatherford**  
**Speaker**

**Ritch Workman**  
**Chair**

### **AGENDA**

December 5, 2012

1:00 p.m.

Morris Hall

- I. Call to Order/Roll Call
- II. Chair's Opening Remarks
- III. Overview of the State Tax Structure
- IV. Closing Remarks and Adjournment

# Overview of the State Tax Structure

Florida House of Representatives  
Finance and Tax Subcommittee  
December 5, 2012

# **FLORIDA STATE TAX STRUCTURE**

## OUTLINE

- ✘ Taxes and fees anchor the state revenue system
- ✘ The tax/fee system is complex
- ✘ The tax/fee system is dynamic
- ✘ Florida is not a high tax state and has a unique structure compared to most other states

# WHY IS THIS INFORMATION IMPORTANT?

- ✘ Taxes & fees are the primary determinants of the size of state government
- ✘ Design of the system impacts:
  - + Who pays for government and how
  - + (Dis)incentives for economic growth and development
  - + Cost of administering the system
  - + Predictability of revenues

# STATE TAXES & FEES—WHERE DO THEY FIT?

## State Government Revenues

|                                      | FY 2011-12                  |                     |
|--------------------------------------|-----------------------------|---------------------|
|                                      | Receipts<br>(Billion of \$) | Percent of<br>Total |
| Taxes, Licenses and Fees*            | 39.0                        | 57.9%               |
| Federal, County & Other Grants       | 22.6                        | 33.6%               |
| Lottery Ticket Sales                 | 4.5                         | 6.6%                |
| Investment Earnings                  | 0.3                         | 0.4%                |
| Fines, Forfeitures, Judgments        | 0.8                         | 1.1%                |
| <u>Other</u>                         | <u>0.2</u>                  | 0.3%                |
| <b>TOTAL</b>                         | <b>67.4</b>                 |                     |
| *Net of General Revenue Fund Refunds |                             |                     |

# FLORIDA'S TAX & FEE SYSTEM TODAY

- Established in law
  - Constitutional
  - Statutes/Laws of Florida/Rules
  - Case Law
  - Federal Law (statutory and constitutional)

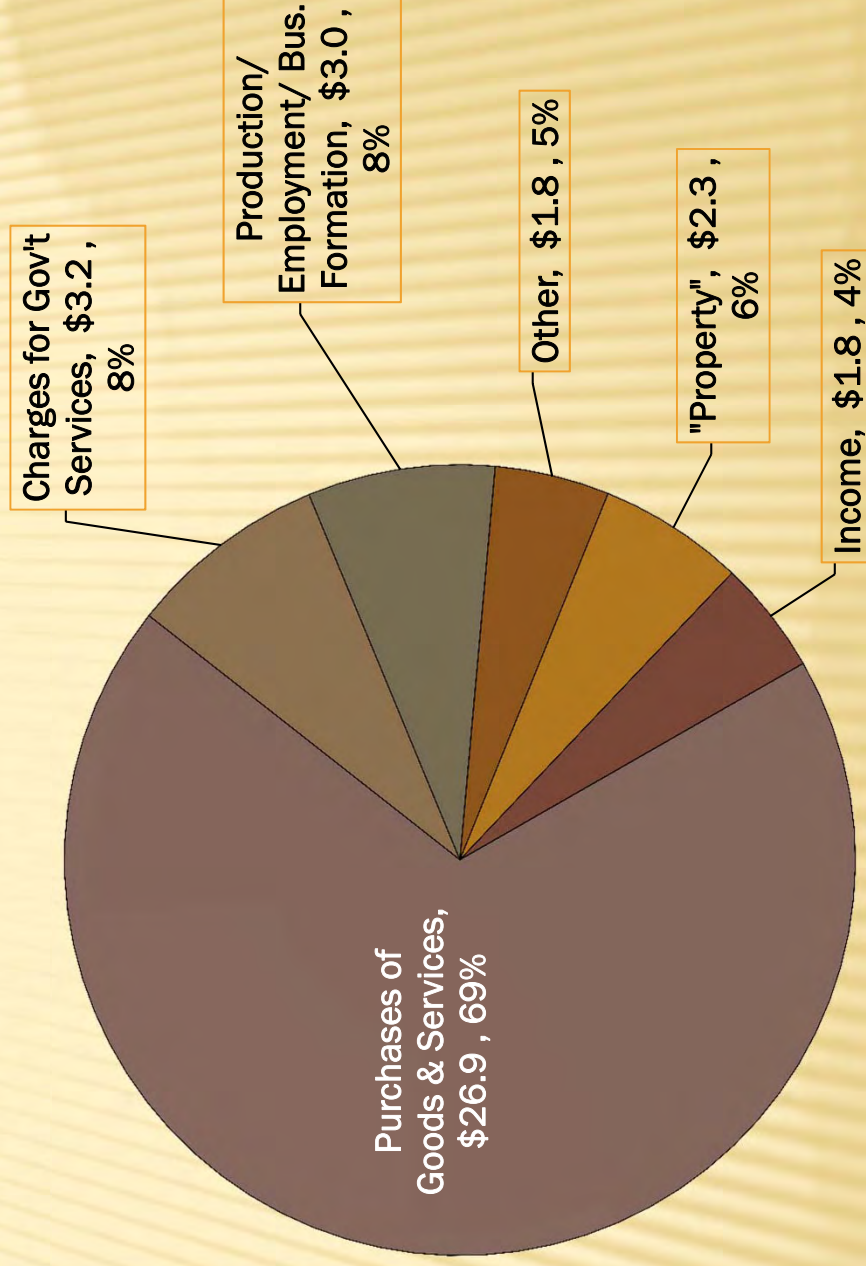


# FLORIDA'S TAX & FEE SYSTEM TODAY

- Broad Categories of Taxes & Fees: What is the levy based on?
  - Purchases of Goods and Services
  - Income
  - Employment/Production/Business Formation
  - Charges for Government Services/Privileges/Regulation
  - Ownership or Transfer of Property

# FLORIDA'S TAX & FEE SYSTEM TODAY

Florida's Taxes and Fees: \$39 Billion, FY 2011-12



# FLORIDA'S TAX & FEE SYSTEM TODAY

|  | <b>2011-12<br/>(mil \$)</b> | <b>% of Total</b> |
|--|-----------------------------|-------------------|
| Sales and Use Tax*                           | 18,536.4                    | 47.5%             |
| Motor Fuel Taxes                             | 2,218.2                     | 5.7%              |
| Tobacco Taxes                                | 1,240.9                     | 3.2%              |
| Gross Receipts Tax                           | 1,035.3                     | 2.7%              |
| Communications Services Tax                  | 1,020.0                     | 2.6%              |
| Insurance Premiums Tax*                      | 835.5                       | 2.1%              |
| Beverage Licenses and Taxes                  | 564.7                       | 1.4%              |
| Hospital Tax                                 | 492.0                       | 1.3%              |
| Motor Vehicle Fees & Charges                 | 432.9                       | 1.1%              |
| Pollutant Taxes                              | 233.1                       | 0.6%              |
| Slot Machine Fees, Licenses, and Taxes       | 156.5                       | 0.4%              |
| Other Purchases of Goods & Services          | 114.1                       | 0.3%              |
| <b>SUBTOTAL: PURCHASES OF GOODS/SERVICES</b> | <b>26,879.6</b>             | <b>68.9%</b>      |
| Motor Veh. & Mobile Home Licenses            | 1,348.9                     | 3.5%              |
| Documentary Stamp Tax (Part)                 | 794.8                       | 2.0%              |
| Intangible Personal Property Tax             | 184.6                       | 0.5%              |
| <b>SUBTOTAL: PROPERTY-BASED</b>              | <b>2,328.4</b>              | <b>6.0%</b>       |

\* Net of General Revenue Refunds

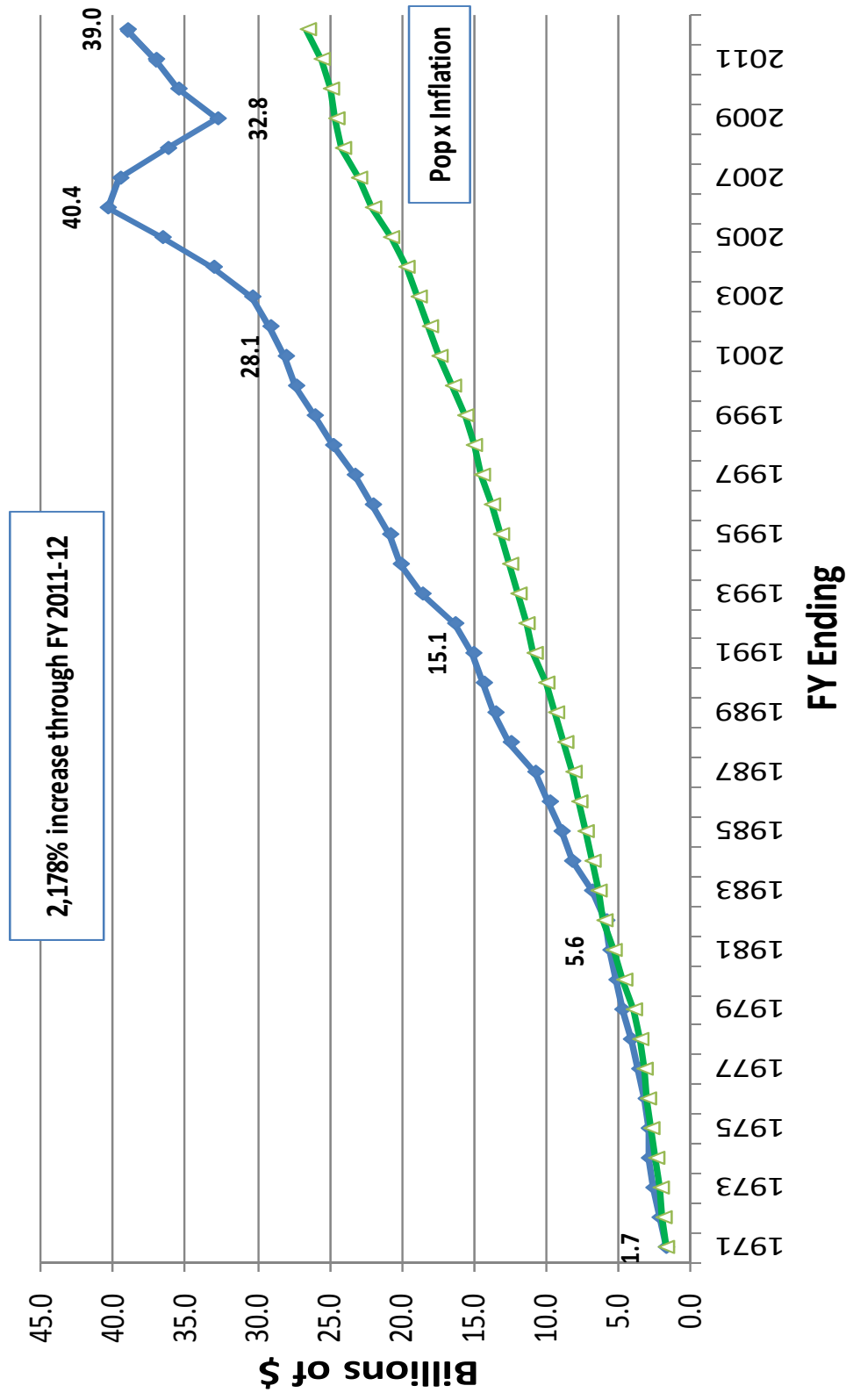
# FLORIDA'S TAX & FEE SYSTEM TODAY

|  | <b>2011-12</b>  | <b>% of Total</b> |
|--|-----------------|-------------------|
| Unemployment Compensation Tax                | 2,156.2         | 5.5%              |
| Documentary Stamp Tax (Part)                 | 466.8           | 1.2%              |
| Corporate Filing Fees                        | 275.8           | 0.7%              |
| Solid Mineral Severance Tax                  | 42.3            | 0.1%              |
| Citrus Taxes                                 | 34.5            | 0.1%              |
| Oil and Gas Severance Tax                    | 13.5            | 0.03%             |
| <b>SUBTOTAL: PRODUCTION/EMPLOYMENT</b>       | <b>2,989.1</b>  | <b>7.7%</b>       |
| <b>CORPORATION INCOME TAX*</b>               | <b>1,817.4</b>  | <b>4.7%</b>       |
| Local Govt Contributions--Medicaid-Related   | 1,207.4         | 3.1%              |
| Article V Charges                            | 592.1           | 1.5%              |
| County Medicaid Reimbursements               | 235.3           | 0.6%              |
| Auto Title & Lien Fees                       | 367.9           | 0.9%              |
| Drivers Licenses & Fees                      | 331.6           | 0.8%              |
| Pre-trial Detention Charges--County Payments | 68.2            | 0.2%              |
| Other Charges for Govt Services              | 387.3           | 1.0%              |
| <b>SUBTOTAL: GOVERNMENT SERVICES</b>         | <b>3,189.8</b>  | <b>8.2%</b>       |
| <b>OTHER</b>                                 | <b>1,829.0</b>  | <b>4.7%</b>       |
| <b>TOTAL STATE TAXES &amp; FEES</b>          | <b>39,033.2</b> |                   |

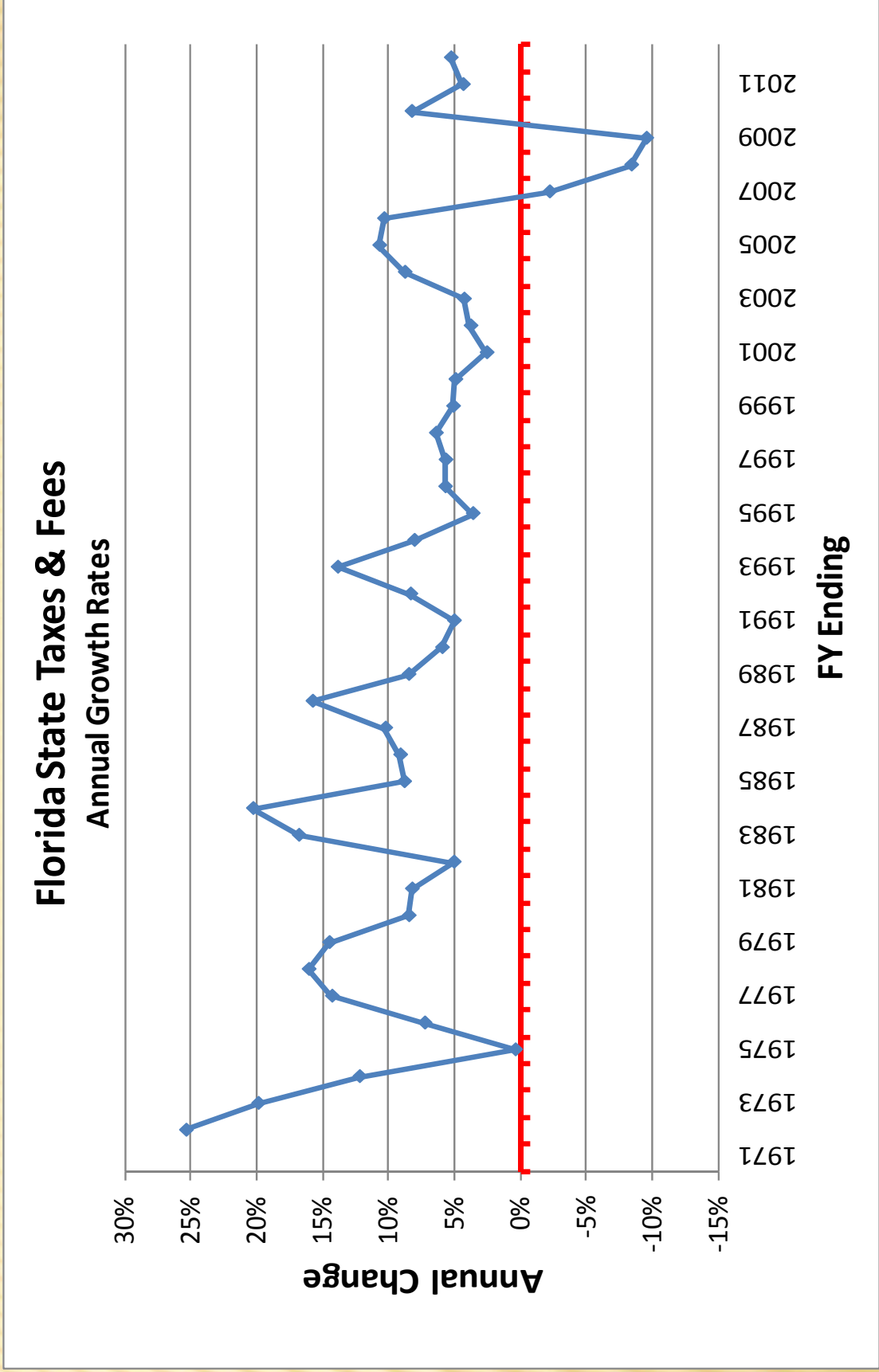
\* Net of General Revenue Refunds

# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

Florida State Taxes & Fees



# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

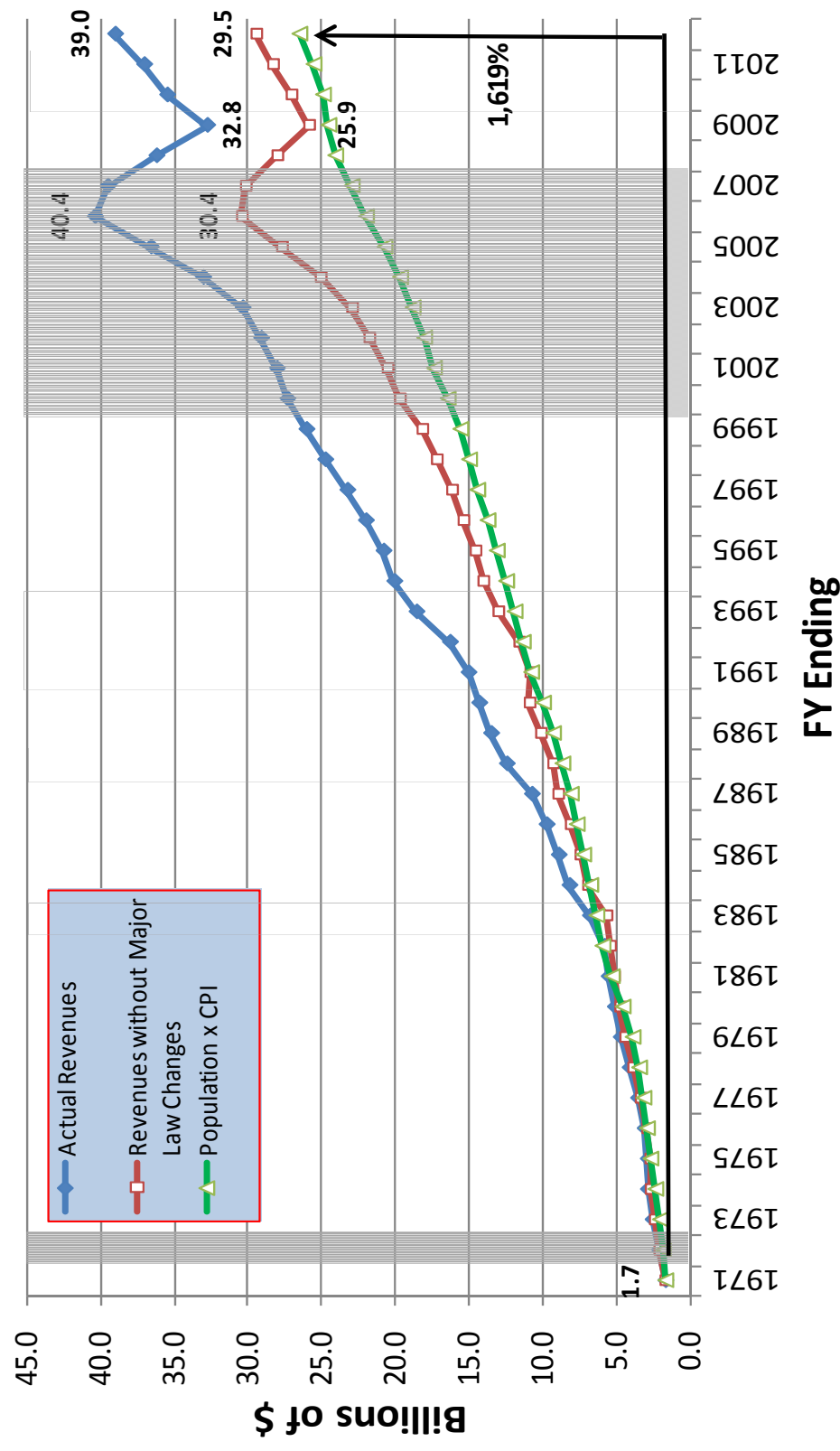


# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

- DYNAMIC #1: Changes in the Elements of the System
  - Law Changes—Statutory & Constitutional
  - Court Cases
  - State and Federal

# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

Law Changes Have Been Significant



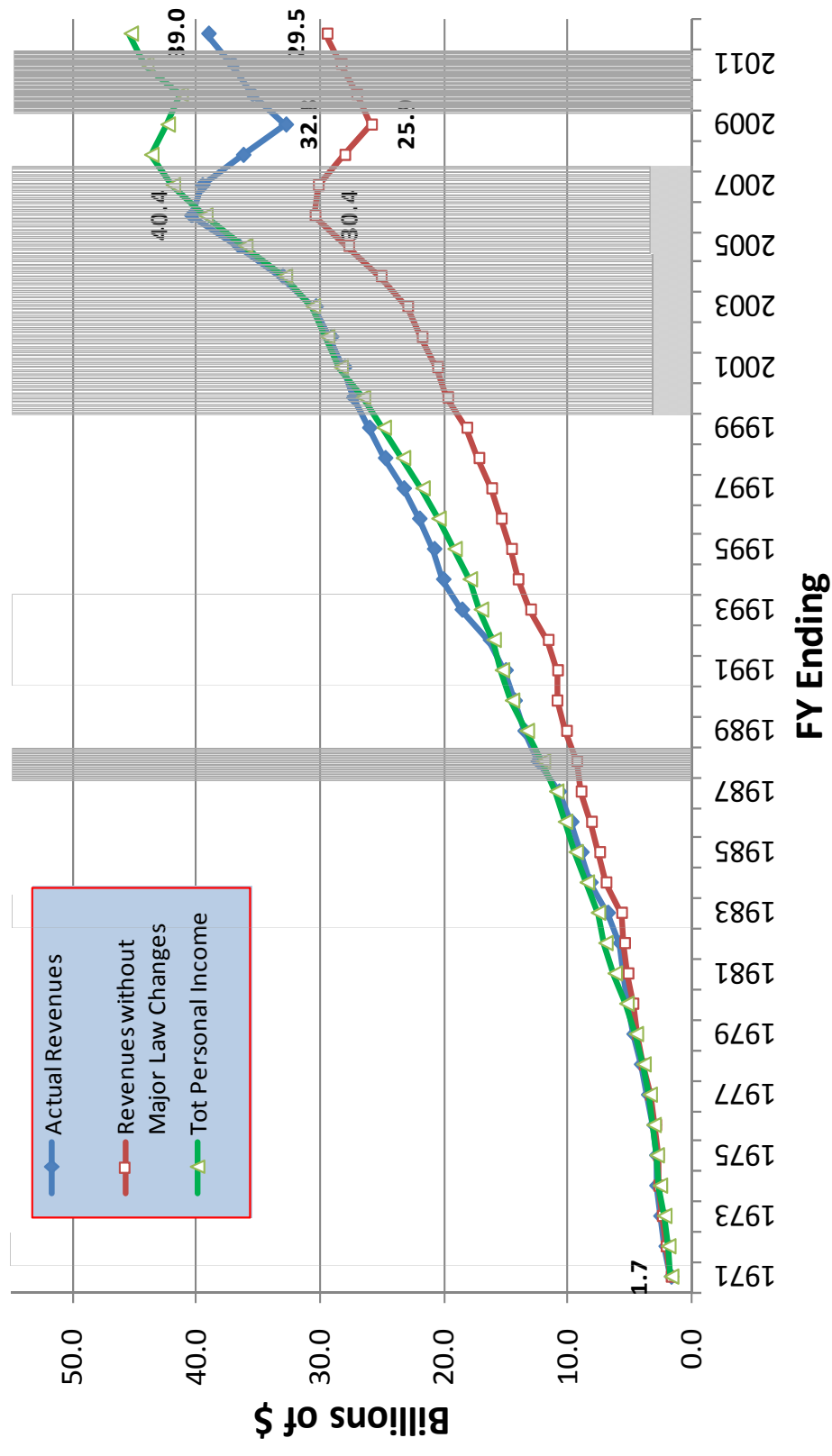


# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

- DYNAMIC #2: Changes in the Economic Activity
  - From Which the System Draws
    - Population Growth
    - Population Composition
    - Inflation
    - Real Income per Capita Growth
    - Technology, Market Evolution, Spending Patterns
    - The Business Cycle

# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

Revenues Have Grown With the Economy (Mostly)



# HOW FLORIDA COMPARES TO OTHER STATES

| <u>State Tax Revenue (2011 data)</u>                  |  | <u>U.S.</u> | <u>South</u> | <u>Florida</u> | <u>Rank</u> |
|---|--|-------------|--------------|----------------|-------------|
| Per Capita  |  | \$2,456     | \$2,163      | \$1,708        | 43          |
| % of Personal Income                                  |  | 6.2%        | 6.6%         | 4.5%           | 47          |
| <b><u>State and Local Tax Revenue (2010 data)</u></b> |  |             |              |                |             |
| Per Capita  |  | \$4,105     | \$3,675      | \$3,495        | 32          |
| % of Personal Income                                  |  | 10.7%       | 9.9%         | 9.6%           | 39          |

Source: Federation of Tax Administrators

## State and Local Tax Collections by Source (2010) (Percent of Total)

|                | <u>Property</u> | <u>Sales</u> | <u>Selective Sales</u> | <u>Individual Income</u> | <u>Corporate Income</u> | <u>Other</u> |
|----------------|-----------------|--------------|------------------------|--------------------------|-------------------------|--------------|
| <b>U.S.</b>    | 34.8%           | 22.4%        | 11.5%                  | 20.5%                    | 3.4%                    | 7.4%         |
| <b>Florida</b> | 42.9%           | 30.0%        | 16.9%                  | n.a.                     | 2.7%                    | 7.4%         |

Source: Federation of Tax Administrators

# Questions?

# Other Information

# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

- Major Law Changes
  - 1971-72: Corporate Income Tax enacted
  - 1982-83: Sales Tax rate increase from 4% to 5%
  - 1987-88:
    - Sales Tax on services enacted and repealed
    - Sales Tax rate increase from 5% to 6%

# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

- Major Law Changes (continued)
  - 1990-91, Major Increases in:
    - Gross Receipts Utilities Tax
    - Documentary Stamp Tax
    - Cigarette Tax
    - Alcoholic Beverage Tax
    - Intangible Personal Property Tax
    - Motor Fuel Tax and other transportation-related revenues
  - 1991-92: Documentary Stamp Tax rate increased

# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

- Major Law Changes (continued)
  - 1992-93:
    - Documentary Stamp Tax rate increased
    - Sales Tax rate increased on utility services purchased by businesses
    - Pollutants Tax rate increased
  - 1999-2000 through 2006-07, Various Tax Reductions:
    - Annual Intangibles Tax repeal
    - Estate Tax repeal
    - Alcoholic Beverage Surtax repeal
    - Numerous Sales Tax exemptions enacted



# FLORIDA'S TAX & FEE SYSTEM DYNAMICS

- Major Law Changes (continued)
  - 2009-10:
    - Highway Safety Taxes & Fees increased
    - Tobacco Taxes increased
    - Unemployment Compensation Tax increased
    - Court Fees increased
  - 2010-11:
    - Unemployment Compensation Tax decreased
    - Film and Entertainment Credit expansion
    - Scholarship Funding Organization tax credit expansion



# **Finance and Tax Subcommittee Overview**

**December 5, 2012**

# Contents

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## Subcommittee Jurisdiction

- The purview of the Finance and Tax Subcommittee encompasses all state and local taxes and select non-tax revenue sources.
- In general, the subcommittee addresses statutory and constitutional policy regarding tax rates, tax base design, and collection and enforcement parameters.
- The subcommittee also has some responsibility for debt financing policy and miscellaneous revenue issues.
- In terms of policy focus, the subcommittee's work may entail activities such as furtherance of economic development goals, changing funding levels for the budget, easing tax administration burdens for state and private entities, or enhancing enforcement capabilities.
- Further, subcommittee staff represents the House of Representatives on the economic and revenue consensus estimating conferences.

## Subcommittee Staff

- Don Langston, Staff Director.
- Vince Aldridge, Attorney, is the lead analyst on Property Tax and Corporate Income Tax issues, among others.
- Bill Wilson, Legislative Analyst, is the lead analyst on general tax administration, Reemployment Assistance Tax (formerly the Unemployment Compensation Tax) and Documentary Stamp Tax issues, among others.
- Ben Flieger, Attorney, is the lead analyst on Sales Tax, Communications Services Tax, and Gross Receipts Tax, among others.
- Rosa Dorsey, subcommittee Administrative Assistant.

## Select Recent Major Legislation

The following is a selection of significant passed legislation in which the Finance and Tax Committee played a major role. Unless otherwise indicated, these were actions of the 2012 Legislature.

### Property Taxes

#### **CS/HJR 93 (by Harrison) - Homestead Property Tax Exemption for Surviving Spouse of Military Veteran or First Responder**

This amendment to the Florida Constitution, which was approved by the voters in November 2012, allows the Legislature to provide ad valorem tax relief to the surviving spouse of a veteran who died from service-connected causes while on active duty as a member of the United States Armed Forces and to the surviving spouse of a first responder who died in the line of duty. The amount of tax relief, to be defined by general law, can equal the total amount or a portion of the ad valorem tax otherwise owed on homestead property.

The 2012 Legislature passed CS/HB 95 to implement the amendment should the voters approve it. The estimated statewide impact is estimated to be annual reductions in local government tax revenues of \$0.6 million, beginning in FY 2013-14, assuming current millage rates.

#### **CS/HJR 169 (by Oliva)- Additional Homestead Tax Exemption for Seniors**

This amendment to the Florida Constitution, which was approved by the voters in November 2012, allows the Legislature by general law to permit counties and municipalities to grant an additional homestead tax exemption equal to the assessed value of homestead property to certain low income elderly home owners.

To be eligible for the additional homestead exemption, the following conditions must be met:

- the county or municipality must have granted the exemption by ordinance;
- the property must have a just (market) value of less than \$250,000;
- the owner must have title to the property and maintained his or her permanent residence thereon for at least 25 years;
- the owner must be age 65 years or older; and
- the owner's annual household income must be less than \$27,030 (adjusted annually for inflation).

The 2012 Legislature passed CS/HB 357 to implement the amendment should it be approved by the voters. The estimated statewide impact is estimated to be annual reductions in local government tax revenues of \$9.1 million, beginning in FY 2014-15, and rising to \$9.4 million in FY 2015-16, assuming current millage rates.

### **CS/HJR 1003 (by Eisnaugle) - Tangible Personal Property Tax Exemptions**

Currently, the Florida Constitution allows for a twenty-five thousand dollar exemption from ad valorem taxes on the assessed value of tangible personal property. CS/HJR 1003 proposed an amendment to the Florida Constitution that would provide an additional exemption from ad valorem taxes on tangible personal property valued between twenty-five thousand and fifty thousand dollars.

In addition, the amendment would have allowed counties and municipalities, pursuant to general law enacted by the Legislature, to provide additional exemptions from ad valorem taxes on tangible personal property by ordinance.

The measure was not approved by the voters in the November 2012 general election.

Providing an additional exemption from ad valorem taxes on tangible personal property valued between twenty-five thousand and fifty thousand dollars would have had a negative impact on local government revenues of -\$20.1 million beginning in FY 2013-14, assuming current tax rates.

### **CS/HB 7097 (by Finance & Tax Committee; Caldwell) - Administration of Property Taxes**

The bill mainly contained recommendations by the Department of Revenue for property tax oversight improvements. Among other things, the bill clarified ambiguous language, deleted obsolete statutory provisions, and eliminated unneeded reporting requirements in the property tax statutes. The bill also:

- amended statutory requirements for scheduling value adjustment board hearings;
- allowed a husband and wife who abandon jointly titled homestead property to designate the percentage that is attributed to each spouse of the differential between just (market) value and assessed value that is portable to a new homestead property;
- allowed certain disabled veterans and other disabled persons to apply for property tax exemptions before they have received required documentation from certain agencies of the federal government;
- amended the current order in which homestead tax exemptions are to be applied in a way that results in the lowest taxable value;
- provided that, effective retroactively to the 2012 tax roll, all property of municipalities of this state shall be exempt from ad valorem taxation when used as an essential ancillary function of a facility constructed with financing obtained in part by pledging proceeds from the tax authorized under s. 212.0305(4), F.S., that is upon exempt or immune Federal, State or County property;
- provided an exemption for certain property used exclusively for educational purposes;
- clarified that rental of all or substantially all of a dwelling previously claimed to be a homestead constitutes abandonment of such dwelling as a homestead;

- updated the list of operations for which certain deployed servicemembers may receive an additional homestead exemption;
- clarified that certain nonhomestead property is to be assessed at just value when it is subject to a new assessment limitation.

The bill is estimated to have a negative local government revenue impact of -\$4.3 million beginning in FY 2013-14.

**CS/CS/CS/CS/CS/HJR 381 (By Dorworth) - Additional Homestead Exemption; Property Value Decline; Reduction for Nonhomestead Assessment Increases**

This proposed amendment to the Florida Constitution, approved by the Legislature in 2011, was on the general election ballot in November, 2012, but was not approved by the voters. It would have done several things related to property taxes:

Non-Homestead Assessment Limitation

Reduce the current limitation on annual growth in the assessed value of certain non-homestead property from 10 percent to 5 percent.

Prohibition of Increases in Assessed Value Where Market Value Has Declined

Allow the Legislature by general law to prohibit increases in the *assessed* value of homestead property and certain non-homestead property in any year that the market value of the property decreases.

Additional Homestead Exemption for “First-Time” Homesteaders

Allow individuals who are entitled to a homestead exemption under s. 6(a), Art. VII of the State Constitution, and have not received a homestead exemption in the previous three calendar years to receive an additional temporary homestead exemption. The additional exemption would be equal to 50 percent of the just value of the homestead property, capped at the median just value for homestead property in the county where the property is located. This exemption would apply only to non-school property taxes. The exemption would be reduced each year and would diminish to zero in five years or less.

**State Taxes**

**CS/HB 809 (by Grant) - Communications Services Taxes**

The bill updated and modified a number of provisions regarding the manner in which the communications services tax is levied, including revision of several definitions.

Statutory provisions that govern the liability of a communications services tax dealer in cases of incorrect assignment of customers to local taxing jurisdictions were revised. The liability of a communications services tax dealer in the cases of underpayment of the tax resulting from that dealer assigning a service address to the incorrect local taxing jurisdiction is limited to only



those situations where the dealer did not use an approved geographic service address assignment method and the Department of Revenue has determined the net amount underpaid among all jurisdictions served by that dealer.

The bill made these revised definitions and liability provisions retroactive and remedial. It also created a nine member working group to review various aspects of the communications services tax and to identify options for addressing specific issues.

The changes to dealer liability for incorrectly assigned service addresses are estimated to have a negative impact to local governments of -\$4.3 million in FY 2012-13 and a recurring negative impact of -\$4.7 million. Other changes made by the bill will have a negative indeterminate effect on state and local government revenues.

#### **HB 5701 (By Finance & Tax Committee; Precourt) - Taxation**

Current law allows documentary stamp tax receipts that are dedicated for other uses to be available to pay debt service for bonds issued before January 1, 2010. The bill extended this provision to bonds issued before January 1, 2013.

The bill limited the sales tax dealer's collection allowance to those tax dealers who file returns and pay taxes by electronic means. The dealer collection allowance compensates sales tax dealers up to \$30 per return for keeping records, filing timely tax returns and properly accounting for and remitting taxes.

The bill updated the Florida Income Tax Code to reflect changes Congress made to the U.S. Internal Revenue Code of 1986 by adopting the Internal Revenue Code as in effect on January 1, 2012. This change will apply retroactively to January 1, 2012.

The bill also revised the date on which an estimated corporate income tax payment is due. Currently estimated payments are due on the last day of the applicable month; if the last day of the month falls on a Saturday, Sunday, or legal holiday these payments are not credited to the state until the next business day. The bill provides that the estimated tax payment due on Sunday, June 30, 2013, must be paid on or before June 28, 2013.

The one-time estimated corporate income tax "speed up" provision is estimated to impact General Revenue by a positive \$100 million in FY 2012-13 and a negative \$100 million in FY 2013-14. The provision related to elimination of the collection allowance for certain sales tax dealers is estimated to have a positive impact on state revenues of \$7.9 million, and a positive impact on local government revenues of \$1.9 million in FY 2012-13.

**HB 7087 (By Finance & Tax Committee; Precourt; Albritton; Grant; Workman; Smith; Roberson; Crisafulli) - Economic Development**

HB 7087 was an omnibus economic development bill. Some of the more prominent provisions included the following:

Cigarette Tax Distributions—The bill provided that beginning July 1, 2013, through June 30, 2021, one percent of net cigarette tax collections will be directed to be used by the Department of Health in conjunction with the Sanford-Burnham Medical Research Institute for biomedical research. The bill further provided that beginning July 1, 2013, through June 30, 2033, the current H. Lee Moffitt Cancer Center and Research Institute funding distribution will increase from 1.47 percent to 2.75 percent of net cigarette tax collections.

New Markets Development Program—The bill increased the total amount of tax credits available to be allocated to the program from \$97.5 million to \$163.8 million over seven years. The bill also made clarifying changes to conform certain aspects of the state program to the federal program.

Sales Tax Exemptions—The bill modified several sales tax exemptions and created two additional exemptions:

- The current exemption for electricity used for production or processing of agricultural products on the farm was expanded to include electricity used in a packinghouse where fruits, vegetables, or meat from cattle or hogs are packed or otherwise prepared for market or shipment.
- The increase in productive output required to qualify for the current sales tax exemption for industrial machinery and equipment used by an expanding business was lowered from 10% to 5%.
- The current minimum aircraft weight requirement for the sales tax exemptions on repair and maintenance parts and labor for aircraft was lowered from 15,000 pounds maximum certified takeoff weight to 2,000 pounds maximum certified takeoff weight.
- A new exemption was created for the purchase of certain chemicals, parts, and other items used and consumed in the manufacture of aircraft engines and gas turbine engines.
- A new exemption was created for the sale or lease of taxicabs equipped with a device designed to enable the transportation of physically disabled persons.

Entertainment Industry Financial Incentive Program—The bill substantially revamped the priority and eligibility of high-impact television series for tax credits under this program. It also created and revised several definitions to expand the program to include certain interactive websites. The program was extended for an additional year and \$42 million in tax credits in FY 2015-16.

Corporate Income Tax Exemption—The bill increased the current corporate income tax exemption from net income from \$25,000 to \$50,000.

#### Government Procurement Preferences to Florida Businesses

- The bill provided a five percent preference for Florida vendors in purchases of printing and commodities by state agencies, universities, colleges, school districts and other political subdivisions of the state, excluding counties and cities. For commodities purchases, if the low bid is submitted by an out-of-state vendor whose home state grants a preference to in-state businesses, the preference to the Florida business shall equal that preference amount.
- The bill provided an exemption from the competitive bidding requirement in current law to Florida statewide nonprofit corporations that provide statewide public service announcement programs, with a guaranteed documented match of at least \$3 to \$1.
- The bill provided that a vendor whose principal place of business is in Florida may not be precluded from being an authorized reseller of information technology commodities of a state contractor if certain criteria are met.

Sales Tax Holiday—The bill established a three day period, August 3, 2012 through August 5, 2012, during which clothing and shoes that cost \$75 or less, and school supplies that cost \$15 or less are exempt from the state and local sales taxes.

Appropriation—The bill appropriated \$14.9 million of nonrecurring General Revenue funds to the State Economic Enhancement and Development Trust Fund for various economic development incentives.

The total estimated FY 2012-13 revenue impacts of the bill are -\$65.3 million (-\$115.3 million recurring) to state government, and -\$13.0 million (-\$18.7 million recurring) to local governments.

#### **CS/HB 7099 (By Finance & Tax Committee; Grant) - Tax Administration**

This bill mainly contained revisions to general tax administration and tax enforcement provisions related to the Department of Revenue (Department). The bill:

- Clarified that the storage of towed vehicles resulting from a "lawful impoundment" by a law enforcement agency is not taxable;
- Clarified the application of current criminal penalties regarding any persons who fail to collect taxes, who make false returns with willful intent, or who willfully fail to register;
- Provided that the Department can require individuals and entities seeking a dealer's certificate of registration to post a bond or other security if that business will be operated at an identical location of a previous business that would have been required to post such security;

- Clarified provisions requiring clerks of the court to transmit court-related collections electronically by the 10th of the month immediately following the month of collection;
- Provided definitions for “automated sales suppression device” or “zappers” and “phantom-ware,” and criminalizes the knowing sale, purchase, installation, transfer, or possession of such software or software devices that can be used to falsify the records of electronic cash registers and other point-of-sale systems;
- Provided an absolute defense to sales tax dealers in lawsuits brought by taxpayers if the tax was collected on delivery charges and related tax liability issues are resolved in accordance with a settlement agreement with the Department;
- Clarified the term “qualified capital expenditure” related to use in single sales factor apportionment for corporate income tax;
- Provided the Department can use driver’s license images for use in establishing positive identification for tax administration purposes;
- Revised the local enactment deadline for changes in the local option fuel taxes each year from July 1 to October 1;
- Established a requirement for employers to comply with all work records requested during an audit as a prerequisite to earn the lower, reemployment assistance tax contribution rate. The bill further standardizes the interest rate provisions for reemployment assistance tax and makes them the same rate as is applied to other taxes administered by the Department;
- Provided a \$5 million annual sales tax distribution to the Florida Institute of Technology for the purpose of operating a space exploration research institute, beginning July 1, 2013.

Several provisions of the bill were estimated to have positive, but indeterminate state and local revenue impacts. One provision was estimated to have a -\$0.1 million recurring impact on the Unemployment Compensation Trust Fund beginning in FY 2012-13.

The Governor vetoed the bill based on objections to the \$5 million annual distribution to the Florida Institute of Technology.

## Possible Future Policy Issues

Below is a sample of policy issues that the subcommittee might address over the course of the next two years.

### Communications Services Taxation

The past two legislative sessions have seen considerable discussion of potential changes to state and local taxation of communications services. Below are some of the ideas that may be brought forward.

- Overall tax rate reduction—To address the argument that the overall (state + local) tax rate on communications services is excessive.
- Local government tax rate consolidation/simplification—The local government tax rate structure is very complicated, making administration by industry and the Department of Revenue very cumbersome (there are over 480 local taxing jurisdictions with nearly 100 different individual rates). One idea is to consolidate the many local tax rates into a single statewide rate (or a handful of rates) and distribute money to local governments via formula.
- Clarification of how prepaid calling arrangements are to be taxed—Prepaid phone service is a rapidly growing segment of the industry. The taxation of these services under current law poses substantial administrative problems for service providers and the Department.

Pursuant to 2012 legislation a workgroup has been deliberating on issues related to this tax and will be submitting a report to the Legislature and the Governor by February 1, 2013.

### Corporate Income Tax

Annual “Piggyback” Bill-- This is the yearly update of Florida statutory references to the Federal tax code. Federal Taxable Income for Florida taxpayers is the starting point for Florida income tax calculations. Consequently, some federal actions that affect federal taxable income will also affect Florida taxes. The update assures that Federal Taxable Income for Florida taxpayers reflects the most recent federal law changes. Florida “piggybacks” the federal code in this way in order to simplify tax computation and compliance for taxpayers.

Governor’s Proposal—Governor Scott has recently proposed a further increase in the amount of exempt income under the Corporate Income Tax. Presently, the first \$50,000 in net income is exempt from the tax. The Governor is proposing an increase to \$75,000.

## **Gambling Taxes**

Both the Speaker of the House and the Senate President have indicated a desire to undertake a two-year, comprehensive review of gambling policy in Florida. This review will likely encompass in some way Florida's taxation of gambling activities.

## **Reemployment Assistance Tax (formerly the Unemployment Compensation Tax)**

At the direction of the 2012 Legislature, a working group of interested private sector and governmental parties has been deliberating in recent months concerning possible redesign of tax rates and base to more evenly spread the costs of the Reemployment Assistance Program across employers, and to possibly reduce the volatility of tax liabilities over time. The group will present its recommendations by the end of December 2012.

## **Sales Tax**

*Taxation of Internet Sales*—Lost revenues from and unequal tax treatment of remote commerce (i.e., taxation of sales via the internet and catalogs) are an ongoing concern to Florida's retailers and many legislators. Two basic approaches attempt to alleviate the problem:

- *Streamlined Sales Tax Compact*—This approach entails modifying Florida's tax laws to conform with simplification requirements of the "Streamlined Sales and Use Tax Agreement." This would allow Florida to join a multistate compact that has enrolled many remote sellers on a voluntary basis to collect and remit taxes on sales to residents of the member states.
- *"Amazon" Laws*—This includes several different approaches to try to expand the conditions under which remote sellers are deemed to have a "substantial physical presence" in Florida, thereby allowing the Department of Revenue to compel them to collect and remit sales tax on sales to Florida residents.

*Sales Tax Holiday*—Some form of the now regularly occurring back-to-school tax holiday on clothes and school supplies can be expected.

## **Miscellaneous Taxes**

*Economic Development Package*—In recent years, each Legislature has enacted measures aimed in various ways at improving Florida's economic performance. These packages, either in a single bill or as a group of bills, typically make changes to a variety of taxes and appropriations-based incentive programs.

*Public Education Capital Outlay Funding Options*—Weakness in Gross Receipts Tax collections in recent years has dried up the state's capacity to fund new public school and higher education facilities construction. There will probably be numerous ideas for alternative funding sources or mechanisms, especially for higher education facilities construction.

*Department of Revenue (Department) Administrative Issues*—The Department often brings forth a set of legislative proposals, approved by the Governor and Cabinet. These proposals are generally intended to clean up the tax statutes from an administrative perspective. Since the Governor vetoed the bill containing many of Department’s 2012 legislative concepts (for unrelated reasons), a re-submittal of some of those ideas, in addition to any new ones is expected.

### **Local Government Taxes**

*Property Taxes*—Though several major constitutional changes to property taxation were recently rejected by voters, interest in making changes to Florida’s property tax system persists, and will likely result in new proposals. One example, which received some attention in the Senate in 2012 is an additional homestead exemption, based on a percentage of home value. The value of the exemption would slowly erode as a homestead’s “Save Our Homes” differential increases.

*Local Business Tax Repeal or Reform*—Many cities and counties levy and administer an annual business registration tax. In recent years there has been some legislative interest in either repealing the local business tax, or in reforming the tax to make it more flexible, consistent, and easy to administer across jurisdictions.