



Issue Brief

January 2011

Paying More for Less:
**More Cuts Will Hurt Floridians Who Rely on State Services
While Florida's Tax System Remains Unfair and Unbalanced**

Florida's new governor and legislative leaders have indicated that they will rely solely on spending cuts to balance the state budget in the legislative session beginning next March. Once again Florida faces a gap – this one estimated at \$3.5 billion – between anticipated revenue and the costs of continuing current state services.

Since 2007, the legislature has taken a series of actions to balance the budget in response to the recession. Included are cuts to services depended upon by Floridians and imposing new fees and taxes that hit middle- and low-income Floridians disproportionately. The result is that these Florida residents are being asked to pay a heavier tax burden for a reduced level of public services.

Vital Public Services and Investments Depend on State Funding

State-financed services are in place because Florida state government has long-standing responsibilities to provide services to the people of Florida under the state Constitution and state and federal laws.

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These are among the vital services funded by state government:

- the **education** costs for more than 3.7 million students in public schools and publicly funded prekindergarten and in state universities and colleges, together with more than 400,000 teachers, faculty, and staff members¹
- **health** services for about three million low-income children and adults in the Medicaid program and for other services to **children and families**²
- the costs to incarcerate 100,000 prisoners in state **prisons**,³ including correctional officers and staff
- **substance abuse and mental health services** for more than 450,000 Floridians⁴
- **road and highway** construction

- a multitude of other services necessary for a well-ordered society: the **juvenile justice** system, **environmental protection**, state **parks**, **wildlife conservation**, **agricultural services**, regulation of businesses, state **law enforcement** officers, and state **courts**.

Previous Budget Gaps Have Been Closed With Short-Term Fixes

The recession strained the ability of Florida state government to pay for those services it had traditionally funded – even at levels already inadequate on many rankings of quality and comparisons with other states.⁵ In the last three years, the governor and legislature have chosen a mixture of fixes to balance the budget, which is required by the Florida Constitution:

Any new reductions to the state budget will come on top of billions of dollars cut previously. Cuts can hurt those relying on state services in hard times as well as all Floridians who benefit from good schools, good roads, protection from crime, and services necessary for a good standard of living.

- cutting programs such as K-12 education, universities and state colleges, Healthy Start, and community care for the elderly
- shifting more of the costs of public schools to local school districts and local taxpayers
- not providing the final \$350 million needed to complete implementation of the 2002 class-size reduction constitutional amendment
- relying on billions of dollars in federal Recovery Act funds
- raising tuition
- increasing a variety of motor vehicle and court fees
- hiking the tax on cigarettes and other tobacco products
- spending down the state’s emergency fund, the Budget Stabilization Fund

- sweeping money from state trust funds and using it for purposes other than the specific uses for which they were created
- expanding gambling

Any new reductions to the state budget will come on top of billions of dollars cut previously.⁶ New cuts can further harm the growing number of Floridians forced to rely on state services to get by during hard times.⁷ Cuts also affect *all* Floridians, who benefit from good public schools and colleges, decent roads, protection from crime, and other publicly funded services necessary for a good standard of living. Less state spending can also reduce the flow of federal money into the Florida economy if state matching funds do not maximize potential federal revenue.

Regressive Taxes and Fees Have Risen, Despite “No New Taxes” Pledges

To fulfill its obligations to provide services, the state collects a variety of taxes and fees. As controversial as taxation is, most Floridians recognize that some level of state taxation is required to pay for public services that support a decent quality of life. They expect both individuals and businesses to share the

cost of public services and they expect elected officials to make wise choices about the level of taxation and the mix of taxes to use. Ideally, the result of all those choices is the creation of a tax structure that is fair, balanced, and adequate to provide the services expected by the people of Florida.

Florida's system, however, is seriously out of balance – second-worst in the nation in terms of fairness,⁸ relying on the very regressive sales tax more than any other state.⁹

Instead of making the state's tax system more fair and balanced, policymakers have moved the other way. Over the last decade state and federal elected officials have subtracted \$12 billion from the revenue available to meet the needs of the state, cutting taxes paid primarily by wealthy Floridians while requiring people with limited means to pay a greater share.¹⁰

Fees and taxes imposed by the legislature in 2009 cost Floridians about \$2 billion each year – or roughly the same amount no longer being collected each year from taxes on wealth.

In addition, the legislature added to the regressive nature of Florida's tax system in 2009. It increased highway safety licenses and fees by \$1 billion each year, making it more expensive to obtain motor vehicle licenses and registration, drivers licenses, and titles.¹¹ These fees will provide more than four percent of general revenue this year, becoming the third-largest general revenue source after making up a much smaller proportion historically.¹² They are considered regressive because they cost taxpayers the same whether they obtain title and registration for a modern luxury car or

a 10-year-old used vehicle.

The 2009 legislature also imposed a "surcharge" of \$1 per pack on cigarettes and increases on other tobacco products, estimated to yield about \$1 billion a year.¹³ Although most goes into a trust fund instead of the general revenue fund, that money makes more general revenue available for other purposes.

Cigarette taxes are considered highly regressive. Just as the general sales tax and taxes such as the gasoline tax consume a greater share of the income of poor people than of wealthy people, so do other selective sales taxes like those on tobacco.¹⁴ (Many support increased tobacco taxes regardless of their regressivity because of both the benefits to individual smokers and cost-saving from treating fewer smoking-related illnesses in the Medicaid program. If higher cigarette taxes lead to less smoking, the revenue generated from the increased tax will decline, so it cannot be relied upon as an ongoing source of revenue at current levels.)

Combined, the fees and taxes imposed by the legislature in 2009 cost Floridians about \$2 billion each year – or roughly the same amount no longer being collected each year from the intangibles and estate wealth taxes.

Tax Breaks Help Some While Reducing Revenue for Services

What policymakers have not done during the last few years of balancing the budget: modernizing the tax structure or reforming inequities in a revenue system already considered unfair and inadequate.

Since 1998, the legislature has enacted almost 100 exclusions, exemptions, deductions, and credits to the state sales tax¹⁵ -- more than a third of the 240-plus sales tax breaks now existing in Florida law. Many, such as those exempting groceries, rent, and medicine, serve a public good and are important in reducing the regressive effect of the sales tax. A few benefit nonprofit organizations and others involve relatively insignificant amounts of revenue.

Some, however, exempt items totaling tens of millions of dollars in taxes each year: for example, \$42 million annually for newspaper and magazine inserts, \$42 million for bottled water, and \$24 million in annual subsidies to Florida professional sports teams, the golf hall of fame, and a game fish association center. All these are part of the \$10.4 billion in annual breaks on the Florida sales tax. Another \$20.4 billion in services are not subject to the sales tax.¹⁶

No ongoing process is in place to review these breaks to justify their continuation. A bill introduced in 2009 (Senate Bill 2576), titled the Florida Sales Tax Fairness Restoration Act, would have created a process for “comprehensive, periodic reviews of all exemptions from the general state sales and use tax and exclusions of sales of services.” The bill died without being heard, however.

What policymakers have not done is modernize the state tax structure or act to reform inequities in a revenue system already considered unfair and inadequate.

These tax breaks are considered “tax expenditures” because they are similar to government spending programs. These breaks make the state’s tax system less fair, more complicated, and less capable of raising money to fund vital public services. Because the state must balance its budget, any tax revenue not collected must be made up either by taxing others or by cutting spending in some area of the state budget, leading to reduced services.

In addition to these preferences in the sales tax, Florida’s corporate income tax laws contain numerous provisions that reduce the taxes paid by businesses. The state will collect about \$1.9 billion from the tax this year – about eight percent of all general revenue. But exemptions for specific types of corporations (limited liability companies and Chapter S corporations) cost the state about \$1.1 billion each year. About \$100 million annually is lost through deductions and credits for corporations.¹⁷ Another \$140 million in corporate taxes will not go into the state treasury this year but instead will fund vouchers for private schools.

A 2003 Florida Senate report found that the state lost \$250 million to \$500 million each year from the corporate income tax because of “tax avoidance behavior” by corporations. The report said businesses

such as large multistate corporations avoid paying the tax by using such strategies as transferring profits to a subsidiary in another state that does not tax particular types of income; creating “nowhere income” not taxable in any state; and incorporating offshore.¹⁸ Remedies such as “combined reporting,” which many states have adopted to level the playing field for all businesses, have been proposed in the Florida Legislature without success.

The legislature also has considered, but not passed, another tax modernization measure: the national Streamlined Sales Tax Project. It would make it easier eventually to collect sales taxes on out-of-state or remote purchases of goods and services through the Internet and mail-order. Modernizing Florida’s tax laws would allow Florida to join other states in a streamlined system for collection of sales taxes on purchases made in their states. Florida loses an estimated \$2 billion each year in legally owed sales taxes not paid by purchasers, and the state’s bricks-and-mortar stores are placed at a competitive disadvantage when they, but not remote sellers, are required to collect sales taxes on goods they sell.¹⁹

Conclusion

No proposals to produce new revenues are in the plans of current legislative leaders. In fact, the revenue measures most discussed by the governor-elect and legislators for 2011 – such as reducing or eliminating the corporate income tax – would actually lower tax collections.

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As the state rebuilds after the recession, residents and policymakers can choose from a variety of possible actions to enhance the common good and build the kind of state Floridians desire and deserve.

Modernizing the tax structure to strengthen Florida as it rebuilds from the recession would maximize federal funding to pay for services to Floridians, including \$444 million available in federal funds for unemployment benefits to those who’ve lost their jobs but who have been unable to access Florida’s outdated employment system. Proposed reforms would more closely match the tax structure to the modern economy; broaden the base of taxation to keep tax rates and fees as low as possible; and relieve the tax burden on those least able to pay by asking everyone to pay their fair share while providing adequate revenue for vital state services.

This report was researched and written by Alan Stonecipher. It was funded in part by the Kellogg, Stoneman Family and Annie E. Casey Foundations. The report and its findings do not necessarily reflect the views of the foundations or the FCFEP Board of Directors.

Endnotes

¹ Public schools enrolled 2,643,396 students in Fall 2010 and state universities 240,102. More than 830,000 different students enrolled in courses at state colleges and community colleges in 2007-08. Public schools employed 323,782 faculty and staff in Fall 2009 and state universities 58,669. State college/community college faculty and staff totaled 44,951 in 2008. Sources: Florida Department of Education; Board of Governors, State University System.

² Florida serves more than 2.5 million people in the Medicaid program and hundreds of thousands more in other programs: for example, 43,000 in adult protective services, 176,000 counseled in the domestic violence program of the Department of Children and Families, and 230,000 newborns receiving health screening. ACCESS Florida, Department of Children and Families (<http://www.dcf.state.fl.us/programs/access/>); Government Program Summaries, Office of Program Policy Analysis and Governmental Accountability (<http://www.oppaga.state.fl.us/profiles/5052/>); Children's Medical Services, Department of Health (<http://www.cms-kids.com/families/families.html>).

³ "Trends in Prison Admissions and Populations," Florida Department of Corrections, <http://www.dc.state.fl.us/pub/pop/monthly/index.html#details>

⁴ Department of Children and Families, "Substance Abuse and Mental Health Program, Once a Year Data Snapshot as of January, 2010," <http://www.dcf.state.fl.us/programs/samh/docs/SAMHOnceaYearDataf201001.pdf>

⁵ "Troubling Trends Threaten Florida's Well-Being," FCFEP, July 2009, http://www.fcfep.org/attachments/022_FINAL%20WELL-BEING%20REPORT.pdf

⁶ "Lower Budget Gap Due in Part to Previous Program Cuts," http://www.fcfep.org/index.php?option=com_jaggyblog&view=jaggyblog&Itemid=227

⁷ "The Poor and Near-Poor in Florida Increase; Income of Those at the Top Rises," FCFEP, October 2010, <http://www.fcfep.org/attachments/20101011--Poor%20and%20Near-Poor%20Increase>

⁸ "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, Third Edition," Institute on Taxation and Economic Policy, November 2009, <http://www.itepnet.org/whopays3.pdf>

⁹ 2009 State Tax Collection by Source, Federation of Tax Administrators, <http://www.taxadmin.org/fta/rate/09taxdis.html>

¹⁰ "Unbalancing Florida's Tax System: Eliminating Taxes on Wealth Has Shifted the Burden to Other Floridians," FCFEP, November 2010, <http://www.fcfep.org/attachments/20101108--Eliminating%20Taxes%20on%20Wealth.pdf>

¹¹ Fiscal Analysis in Brief, 2009 Legislative Session, Florida Legislature, <http://edr.state.fl.us/Content/revenues/reports/fiscal-analysis-in-brief/FiscalAnalysisInBrief2009.pdf>

¹² Fiscal Analysis in Brief, 2010 Legislative Session, Florida Legislature, <http://edr.state.fl.us/Content/revenues/reports/fiscal-analysis-in-brief/FiscalAnalysisInBrief2010.pdf>

¹³ Fiscal Analysis in Brief, 2009.

¹⁴ "Poor Smokers, Poor Quitters, and Cigarette Tax Regressivity," Dahlia K. Remler, Ph.D., *American Journal of Public Health*, 2004, <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1448232/>

¹⁵ 2010 Tax Handbook.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Florida Senate, Interim Project Summary 2004-137, "Why Did Florida's Corporate Income Tax Revenue Fall While Corporate Profits Rose?" November 2003, http://www.flsenate.gov/data/Publications/2004/Senate/reports/interim_reports/pdf/2004-137ft.pdf

¹⁹ “Streamlined Sales Tax Project - Implementing Language,” Interim Project Report 2003-126, Committee on Finance and Taxation, Florida Senate, January 2003,

http://www.flsenate.gov/data/Publications/2003/Senate/reports/interim_reports/pdf/2003-126ft.pdf