



Issue Brief

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Tax Breaks Continue Despite Revenue Shortfall

Even though the Florida Legislature faced a shortfall of revenue needed to continue paying for current services, it passed an assortment of tax cuts that will diminish state funds even more in the future. In addition, it provided other tax breaks to businesses, continued the expansion of the tax-financed private school voucher program, and appropriated more than \$100 million for subsidies for businesses promising new jobs.¹

The reduction in funds through tax cuts and subsidies was accompanied by a \$300 million cut to universities and hospitals and nursing homes, whose payments were cut for the fifth consecutive year. The dollars forgone through tax cuts could have been appropriated to lessen those and other budget cuts imposed by the legislature.

House Bill 7087

The primary tax cut bill, House Bill 7087,² expanded a variety of tax exemptions and credits in the name of economic development. The tax breaks will cost the state treasury about \$70 million in the 2012-13 fiscal year, including about \$25.9 million in lower consumer taxes from a three-day sales tax holiday in August. In subsequent years, the bill's beneficiaries are businesses only; the tax cuts will reduce taxes paid by business by \$115 million a year.

Even as the legislature made major cuts to universities and hospitals and nursing homes, among other vital state services, it created new tax breaks for selected businesses and found the money to give subsidies to companies that promise to create jobs.

Other provisions of the bill raise its cost even higher. It also provides \$19.4 million of nonrecurring general revenue funds to various economic incentive programs and it adds another year to the existing Entertainment Industry Financial Incentive Program, costing the state \$42 million in the 2015-16 fiscal year. Local governments will lose about \$19 million a year from the provisions in HB 7087.

Major new business tax breaks in HB 7087 that will reduce state general revenue each year:

- Expansion of the sales tax exemption for the purchase of industrial machinery and equipment, \$46 million annually.
- Raising the amount of profit exempted from the state Corporate Income Tax from \$25,000 to \$50,000, \$29 million each year.
- Expanding the amount of tax credits available for the New Markets Development Program, a program providing breaks on the corporate income tax or insurance premium tax for investment in low-income communities, \$14 million each year.
- A new sales tax exemption for the purchase of materials used in manufacturing of aircraft engines and gas turbine engines, \$10 million a year.
- Expanding existing sales tax exemptions, including electricity used in a packinghouse and for repair and maintenance of aircraft, about \$6 million per year.
- Severance tax breaks on mature field recovery oil and phosphate, \$9 million annually.

The reduction in the Corporate Income Tax is the second enacted by the legislature in two years, and Governor Rick Scott has called for its total elimination.³ This follows the pattern used by the legislature beginning in 1999, when it started a phased multiyear effort that eliminated the intangibles tax in 2007. Ending the tax provided a tax break to the wealthiest Floridians while costing the state treasury about \$1 billion per year.⁴ Eventual elimination of the Corporate Income Tax would remove another \$2 billion from the state treasury each year. Governor Scott often refers to it as “the business tax,” although only a small share of Florida businesses – profitable corporations established as “C” corporations – pay the tax.⁵

Communications Services Tax Cut

House Bill 809 modifies the way the Communications Services Tax is imposed, including allowing communications companies to escape taxation on digital services if they are bundled with other items on customers’ bills that are subject to the tax. The changes will cost local and state government at least \$49 million a year, according to legislative staff estimates.⁶

Unemployment Insurance

Because of high unemployment, the state Unemployment Compensation (UC) Trust Fund has been running a deficit for more than two years, forcing the state to borrow more than \$2 billion from the federal government to pay unemployment benefits.⁷ That money must be repaid and the trust fund must be replenished for future unemployment claims. Unemployment insurance is funded primarily by employer taxes, which have increased since the recession. The legislature in 2010 and 2011 made changes in repayment requirements that prevented higher tax rates for employers and delayed the repayment schedule.

Senate Bill 1416 renames the Unemployment Compensation program the “Reemployment Assistance” program and again delays a rate increase, saving Florida employers about \$828 million over the next

three years. Eventually, however, employers will be required to pay higher rates to repay the federal loans. Florida is one of only four states that continues to use the minimum tax base allowed by the federal government, \$7,000. Of the 35 states that do not index the tax base the average amount is \$10,313.⁸

In the 2011 session the legislature further restricted access to benefits for unemployed workers in an effort to restore the trust fund to solvency.⁹ While SB 1416 adjusts state law to permit an additional federal extension of emergency benefits it does little to actually assist the state's 900,000 unemployed workers.

Insurance Tax Pre-Payment Tax Credits

A last-minute addition to House Bill 5505 created an Insurance Tax Pre-Payment Program under which the state could sell up to \$1.5 billion in credits against future taxes, with the proceeds of the sale applied to the Florida Hurricane Catastrophe Fund.¹⁰

The chief operating officer of the catastrophe fund says, however, that he doubts the program will help make up the shortfall in the fund. The only sure result, he said, is that the bank handling the program would make about \$20 million.¹¹

Florida Tax Credit Scholarship Program

House Bill 859 expanded the program that allows corporations to pay its taxes for private school vouchers instead of into the state treasury.¹² The maximum amount of credits was increased by \$10.5 million to \$229 million for 2012-13. The cap on credits will continue to rise 25 percent per year, as long as 90 percent of the credits are used. When the program began in 2002-03, the tax credit cap was \$50 million per year and the voucher was worth \$3,500 per student. The voucher amount is now \$4,011, and is scheduled to increase by 4 percent per year in each year in which tax credits of at least 90 percent of the cap are actually utilized.

The 1,181 private schools participating in the program are not required to abide by the same laws and rules as public schools. For example, they are not required to administer to their students the Florida Comprehensive Assessment Test, a large element in school grades issued to public schools.¹³

University Tuition

While not approving a general tuition increase, the legislature authorized higher tuition for the University of Florida and Florida State University, and conceivably for other state universities that meet certain academic and research excellence standards. Those universities may set tuition, with the approval of the Board of Governors, at "differential and market rates," above and beyond basic tuition

and a relatively recent add-on fee called differential tuition. It is not known whether UF and FSU will seek to impose the fee, or at what level.¹⁴

However, under existing law, each of the 11 state universities may propose a tuition differential increase of up to 15 percent to the Board of Governors. It is unclear which universities may request a differential increase and how much.

Direct Appropriations for Economic Development Subsidies

The budget appropriates \$119 million for “economic development tools” and projects. These dollars are in addition to appropriations for Enterprise Florida (\$16 million), Visit Florida and Space Florida (\$56 million combined), and the cost of tax laws that provide companies with subsidies in exchange for the promise of maintaining or creating new jobs.¹⁵

Legislature Takes No Action on Tax Modernization Proposals

Bills that would modernize Florida’s tax structure by closing corporate tax loopholes received no action.¹⁶

They included measures requiring “combined reporting” of all profits of corporations, which would generate about \$453 million each year, and adopting a “throwback rule” to capture sales made by multistate corporations, which would increase state revenue by another \$46 million.¹⁷

Similarly, bills to create a joint committee to review exemptions to the sales tax failed to receive a hearing in committees in either the Senate or House.¹⁸ A bill that would enforce collection of sales taxes owed on purchases made on the Internet moved through the committee process in the Senate, but was not considered in the House.¹⁹

Endnotes

¹ General Appropriations Act. http://www.myfloridahouse.gov/filestores/Adhoc/Appropriations/GAA/2012-House/CB_HB_5001.pdf

² Final Bill Analysis, HB 7087, Florida House of Representatives, March 19, 2012. <http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=h7087z.FTC.DOCX&DocumentType=Analysis&BillNumber=7087&Session=2012>

³ “Turn Florida Around,” Rick Scott’s 7-7-7 Plan. https://docs.google.com/file/d/0B4fjL1-OK8piZDlyZDViMTEtZWFiNi00NTdlLWFkYjgtZTBhNTc0MThmNzc1/edit?hl=en_US&pli=1

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- ⁴ “Unbalancing Florida’s Tax System: Eliminating Taxes on Wealth Has Shifted the Burden to Other Floridians,” Florida Center on Fiscal and Economic Policy, November 2010. <http://www.fcsep.org/attachments/20101108--Eliminating%20Taxes%20on%20Wealth.pdf>
- ⁵ “Keeping and Modernizing the Corporate Income Tax Will Best Serve Florida,” Florida Center for Fiscal and Economic Policy, February 2011. <http://www.fcsep.org/attachments/20110228--Keeping%20and%20Modernizing%20the%20Corporate%20Income%20Tax.pdf>
- ⁶ Final Bill Analysis, CS/HB 809, Florida House of Representatives, March 19, 2012. <http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=h0809z.FTC.DOCX&DocumentType=Analysis&BillNumber=0809&Session=2012>
- ⁷ Bill Analysis, CS/CS SB 1416, Florida Senate, March 1, 2012. <http://www.flsenate.gov/Session/Bill/2012/1416/Analyses/FsmVEe6618Vi05GYHI4uh8p/CQ8=|11/Public/Bills/1400-1499/1416/Analysis/2012s1416.bta.PDF>
- ⁸ ET Financial Data Handbook 394, U.S. Department of Labor. <http://workforcesecurity.doleta.gov/unemploy/hb394.asp>
- ⁹ Final Bill Analysis, CS/CS HB 7005, 2011 session. <http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=h7005z.EAC.DOCX&DocumentType=Analysis&BillNumber=7005&Session=2011>
- ¹⁰ 2012 Summary of Legislation Passed, Committee on Budget, Florida Senate. http://www.flsenate.gov/PublishedContent/Session/2012/BillSummary/Budget_BC5505bc_5505.pdf
- ¹¹ “Cat Fund Manager Sees Financing ‘Tool’ as Potential Headache,” The Florida Current, March 19, 2012. <http://www.thefloridacurrent.com/article.cfm?id=27028005>
- ¹² Final Bill Analysis, CS/CS/HB 859, Florida House of Representatives, March 14, 2012. <http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=h0859z.EDC.DOCX&DocumentType=Analysis&BillNumber=0859&Session=2012>
- ¹³ Ibid.
- ¹⁴ Final Bill Analysis, HB 7129. <http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=h7129z.EDC.DOCX&DocumentType=Analysis&BillNumber=7129&Session=2012>
- ¹⁵ General Appropriations Act. http://www.myfloridahouse.gov/filestores/Adhoc/Appropriations/GAA/2012-House/CB_HB_5001.pdf
- ¹⁶ Senate Bill 1590/House Bill 1335.
- ¹⁷ 2011 Florida Tax Handbook. <http://edr.state.fl.us/content/revenues/reports/tax-handbook/taxhandbook2011.pdf>
- ¹⁸ House Bill 907/Senate Bill 1832.
- ¹⁹ Senate Bill 1514.