



## Improving Fiscal Condition Allows the Legislature to Address Previous Budget Cuts and Increase Tax Fairness

As legislative committees meet in preparation for the 2014 legislative session that begins in March, lawmakers enjoy a much-improved state budget situation for their construction of a new state budget for the next fiscal year.

This fact provides legislators with the opportunity to take a fresh look at making investments in the future of Florida and assuring that the state's tax system is both fair and sufficient to meet state needs.

### The State of Florida Finances Today

**Florida has not yet fully recovered from the recession.** State economists depict a state still struggling in many ways. Unemployment remains high by historical standards. About half of the improvement in the unemployment rate is the result not of the creation of new jobs, but because discouraged Floridians have dropped out of the labor force. It would take the creation of 900,000 additional new jobs, economists say, for the same percentage of the state population to be working as at the pre-recession peak. The new jobs that have been created are heavily concentrated in low-paying service jobs. Floridians' average wage, which historically has fallen below the national average, fell even further behind in 2012.<sup>1</sup>

*Today's financial outlook is "the most encouraging in the seven-year history" of Florida's Long-Range Financial Outlook, economists from the legislature and governor's office report.*

**Yet the state's budget picture has brightened.** Today's financial outlook is "the most encouraging in the seven-year history" of Florida's Long-Range Financial Outlook, economists from the legislature and governor's office report.<sup>2</sup> This is due in part to the resumption of growth in tax revenues, now on a path to equal pre-recession levels.

**However, much of the improved outlook is the product of squeezed budgets and outright cuts in spending** that resulted in a failure to meet needs in prekindergarten, K-12, and higher education,<sup>3</sup> in protection of the environment, and in providing affordable health care to millions of uninsured

Floridians. The costs of policymakers' failure to invest in these and other programs essential to the well-being of Floridians and the state's future are discussed in the section below.

Nevertheless, the state has moved from four years of multi-billion dollar budget gaps – the difference between anticipated revenues and funds needed to continue existing programs – to a positive balance of almost \$2 billion in the current 2013-14 fiscal year. Even after all the so-called “Critical and Other

*When the state budget is put together, the “new normal” for programs is the amount in the current budget, no matter how much they may have been cut over four years, or how inadequate funding is to meeting needs for quality services. Even an increase in funding for a program may still leave it far behind the level that existed before the recession, which may have been inadequate to start with. Often no attempts are even made to restore past cuts, much less to fully address need.*

High Priority Needs” are funded in the 2014-15 budget AND \$1 billion is set aside in reserve funds, a balance of another nearly \$1 billion will exist. Looking further ahead, “sufficient funds exist to meet all Critical and Other High Priority Needs identified for the three years contained in the [Long-Range Financial] Outlook,” the state economists report.<sup>4</sup>

These fund balances are not built at the expense of setting aside sufficient reserve funds to cover unexpected needs. In fact, Florida **state government reserves far exceed the standard recommended** by credit rating agencies – an amount equal to 8 percent of general revenues.<sup>5</sup> And the total level, combining unspent general revenues, the Budget Stabilization Fund, and trust funds, totals 12.8 percent, or more than half again as large as considered adequate by fiscal experts.<sup>6</sup>

**In short, fund balances exist for the legislature to either (1) begin reinvesting in programs cut severely during the recession or (2) to provide further tax breaks, similar to those in the last several years that have been targeted largely to already profitable big businesses.<sup>7</sup>**

## The Condition of Florida Today

As mentioned above, a large part of Florida's improved fiscal situation is the result of budget cuts and freezes that result in the expenditure of less money for each student or other Floridian provided services by state government. In effect, when the pie becomes smaller, each slice also is reduced in size. The amount available for each person in an existing program is lessened even more by the increase in population served – for example, the number of students, the unemployed, persons with disabilities, and those on lengthy waiting lists for services for which they are eligible.

When the state budget is put together, the “new normal” for programs is the amount in the current budget, no matter how much they may have been cut over four years, or how inadequate the funding is to meeting needs for quality services. Even an increase in funding for a program may still leave it far

behind the level that existed before the recession, which may have been inadequate to start with. Often no attempts are even made to restore past cuts, much less to fully address need.

Because of these factors, **Florida continues to rank at the bottom of the states in many measures of investment in the state's social infrastructure and the well-being of Floridians.**

For example:

- **More than three million Floridians lived below the federal poverty level**, according to the 2010 Census. About 1.4 million lived at 50 percent of the poverty level or less. Among children under 18, 23.5 percent lived in poverty.<sup>8</sup>
- Florida is the nation's **second most poverty-stricken state**, at 19.5 percent, according to the U.S. Census Bureau's supplemental poverty measure.<sup>9</sup>
- Florida has the **second-highest percentage of uninsured adults under 65** among the states —about 3.8 million people, or 25 percent of its population, according to the U.S. Census.<sup>10</sup>
- Florida ranks in the **bottom 10 of the states in measures of the quality of its health care system** on a variety of measures, including 47th for child health care, according to a 2013 study by The Commonwealth Fund.<sup>11</sup>
- Florida's **food stamp enrollment is second** in the nation, behind only California.<sup>12</sup>
- From 2001-02 to 2011-12, **average teacher salaries in Florida fell** 7.3 percent in constant dollars, the sixth-largest drop in the nation.<sup>13</sup>
- Florida **ranked 42nd** in the nation in average teacher salary in 2011-12, and **45th** in average salary as a percentage of the national average in 2010-11.<sup>14</sup>
- The state **ranked 48th** in public school revenue per student in 2011-12.<sup>15</sup>
- Florida **ranked 50th** in state and local revenue for public schools per \$1,000 personal income in 2010.<sup>16</sup>
- In 2011, Florida **spent 77 percent of the national average per capita on higher education.**<sup>17</sup>
- Because of **restrictive unemployment insurance laws** enacted by the Florida Legislature in 2011, the percentage of new applicants who receive unemployment benefits in the state dropped to 39 percent in the 2nd quarter of 2013, from a historical average of about 60 per cent. (The national rate was 72 percent and Georgia's 63 percent.)<sup>18</sup> In addition, the maximum time to receive state benefits has been cut from 26 to 19 weeks.

- In the past 12 months, Florida’s unemployment insurance program paid an **average weekly benefit of \$231.71, 48th in the nation**. That payment replaced just 28.5 percent of Florida workers’ average weekly wage, 44th in the nation. Florida’s “exhaustion rate” – the percentage of recipients who drew their final unemployment payment – was 73.7 percent, by far the highest in the U.S.<sup>19</sup>
- **Florida’s maximum unemployment insurance payment, \$275, is lower than all but four other states.**<sup>20</sup>
- Florida is **one of only 12 states that have refused to modernize the unemployment system** by adopting the alternative base method of calculating eligibility for benefits. This method allows low-wage and seasonal workers to count their most recent earnings in determining their wage base.<sup>21</sup>

## Florida’s Tax System: Insufficient, Unfair and Skewed to Big Business

The state’s unenviable condition on measures of Floridians’ well-being listed above exists in the context of a **tax system more attuned to large corporations and wealthy residents** than the vast majority of working Floridians.

This contributes to Florida’s rank as the fifth-worst state in 2010 on the GINI Index, a measure of income inequality used by economists to measure the gap between those making most of the income and those making the least.<sup>22</sup>

Also contributing is the fact that **the state’s tax system is the second-most regressive** in the nation, hitting low- and middle-income Floridians harder than upper-income residents.<sup>23</sup>

*The state’s unenviable condition on measures of Floridians’ well-being exists in the context of a tax system more attuned to large corporations and wealthy residents than the vast majority of working Floridians.*

In addition, **Florida is a low-tax state overall, if not for low- and middle-income Floridians**. Florida ranked 47th among the states and the District of Columbia in state tax revenue per capita in 2012 and 48th in the percentage of state tax revenue per capita. Those rankings have worsened since 2010, when they were 42nd and 46th.<sup>24</sup>

Florida does rank highly in one category, however – the state’s so-called business tax climate, as measured by the conservative Tax Foundation. It finds Florida has the fifth-best tax climate for business,<sup>25</sup> in part because it has no personal income tax, which is a progressive tax. But Florida is ranked highly because of its restrictive unemployment insurance tax system and a corporate income tax system riddled with loopholes that enable large, profitable multistate and multinational corporations to avoid paying their fair share of corporate income taxes – or in some cases, any at all.<sup>26</sup>

Despite that ranking, Florida’s governor and legislator **continue to push tax breaks for business, often with no evidence that they actually produce jobs.**<sup>27</sup> The latest evidence of large profitable corporations

taking advantage of tax money is misuse of a tax-incentive program created for high-crime areas, but used instead as corporate subsidy.<sup>28</sup>

Tax subsidies to corporations continue in Florida despite the negative judgment on them from many organizations, including the Tax Foundation, which otherwise advocates for low business tax rates: “Economic development and job creation tax credits complicate the tax system, narrow the tax base, drive up tax rates for companies that do not qualify, distort the free market, and often fail to achieve economic growth.”<sup>29</sup>

And **Florida big business is back for more** in the run-up to the 2014 legislative session, lobbying for various additional tax breaks.<sup>30</sup> Included are a “\$282 million cut in communication services taxes (cell phone and cable TV service taxes), a \$100 million cut in health insurance premium taxes, [and] a possible elimination of the sales tax on commercial rents worth \$1.4 billion a year....”

## Recommendations for Tax Fairness and Investments in Florida’s Well-Being

It is in the interests of all Floridians to make Florida’s tax structure both adequate and fair. Now that the state is again showing a healthy balance of funds that are expected to recur and increase, **a top priority should be investing again** in the social infrastructure. The legislature can begin by restoring some of the previous budget cuts to address Florida’s unenviable rank at the tail end of the states on measures of quality of life.

*Now that the state is again showing a healthy balance of funds that are expected to recur and increase, a top priority should be investing again in the social infrastructure.*

The legislature could also **give average Floridians a slight tax break** by reducing motor vehicle taxes and fees increased in 2009. To make up for the loss of that revenue, some of the outdated, unfair exemptions, exclusions, credits and deductions in state taxes could be eliminated.

In addition, it may be that some of the state’s existing business taxes – those that amount to double taxation – could be addressed to adhere to sound tax policy.

However, if the legislature considers new business tax breaks in the name of fairness, it should also **look at existing loopholes** that pick winners and losers among businesses and allow some to profit from tax dollars at the expense of other taxpayers, including other businesses.

Among these is enacting laws that **ensure that Florida receives its fair share of taxes on revenue earned in the state and that Florida-based businesses are not placed at a competitive disadvantage**. The state loses an estimated \$536 million in corporate income tax revenue each year by allowing corporations to shift taxable profits earned in Florida to other states that tax profits at a lower rate or not at all. Closing that loophole with a law requiring “**combined reporting**” of all of a corporation’s

income, preventing it from shifting income to a lower-or no-tax state and taxing profits earned in Florida, would yield about \$486 million each year. Moreover, adopting a “**throwback rule**” – allowing Florida to collect corporate income tax on profits earned in the state that are not taxed anywhere because of a technicality – would provide another \$50 million annually.<sup>31</sup>

Also ripe for passage in the name of tax fairness is collecting sales tax on purchases made on the Internet. Requiring out-of-state retailers to collect the tax would level the playing field for Florida-based brick- and- mortar companies and strengthen the state’s tax structure. However, because the sales tax is regressive, taking more of the income of low- and moderate-income workers, the tax should not be used as replacement money for more business tax cuts.

## Conclusion

After years of tight, inadequate budgets that frayed the state’s social safety net and cut spending on everything from education to purchases of land for conservation purposes, Florida is regaining its financial footing. The state has a substantial positive balance of revenues, even after setting aside far more money for reserves than experts consider necessary.

The 2014 state budget can use that fund balance either to reinvest in Floridians and the state’s future, or fritter it away in further ineffective tax cuts to large, already profitable corporations. The Florida Chamber Foundation made the case for investments as far back as 1990 in its report, “CROSSROADS, Designing Florida’s Tax Structure,” reciting state rankings little different from today’s:

Whereas it [Florida] ranks 4<sup>th</sup> lowest in taxes and 7<sup>th</sup> lowest in low labor costs, it ranks 34<sup>th</sup> in available workforce, 49<sup>th</sup> in education, and 44<sup>th</sup> in transportation. In short, Florida’s good rankings on the cost side are at the expense of investments in the quality side....**It is clear that a low tax burden, by itself, cannot constitute a good business climate.**<sup>32</sup> (*Emphasis added.*)

The opportunity exists, as 2014 budget deliberations begin, for the conversation to take a new direction – one that recognizes that the fiscal picture is stronger and the needs are greater, and that new approaches exist to make Florida’s tax structure more fair and adequate while improving the state’s overall quality of life.

Researched by Alan Stonecipher,  
Communications/Analyst  
Karen Woodall, Executive Director  
Greg Mellowe, Health Analyst

## Endnotes

- <sup>1</sup> “Florida: Long-Range Financial Outlook” PowerPoint presentation, Office of Economic and Demographic Research, Florida Legislature, September 2013. [http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013\\_9-12-13.pdf](http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013_9-12-13.pdf)
- <sup>2</sup> “Florida: Long-Range Financial Outlook” PowerPoint presentation, Office of Economic and Demographic Research, Florida Legislature, September 2013. [http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013\\_9-12-13.pdf](http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013_9-12-13.pdf)
- <sup>3</sup> “Legislature Continues Record of Disinvesting in Higher Education,” Florida Center for Fiscal and Economic Policy, February 2012. <http://www.fcsep.org/attachments/20120221--Legislature%20Continues%20Record%20of%20Disinvesting%20in%20Higher%20Education>
- <sup>4</sup> “Florida: Long-Range Financial Outlook” PowerPoint presentation, Office of Economic and Demographic Research, Florida Legislature, September 2013. [http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013\\_9-12-13.pdf](http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013_9-12-13.pdf)
- <sup>5</sup> “State of Florida 2012 Debt Affordability Report,” Division of Bond Finance, December 2012. [http://www.sbafla.com/bondfinance/LinkClick.aspx?fileticket=tvIaA-Gb\\_h4%3D&tabid=1055](http://www.sbafla.com/bondfinance/LinkClick.aspx?fileticket=tvIaA-Gb_h4%3D&tabid=1055)
- <sup>6</sup> “Florida: Long-Range Financial Outlook” PowerPoint presentation, Office of Economic and Demographic Research, Florida Legislature, September 2013. [http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013\\_9-12-13.pdf](http://edr.state.fl.us/Content/presentations/long-range-financial-outlook/3YearPlanLBCPresentationFall2013_9-12-13.pdf)
- <sup>7</sup> “State Tax and Budget Policies Provide Billions in Benefits to Select Businesses Every Year,” Florida Center for Fiscal and Economic Policy, November 2011. <http://www.fcsep.org/attachments/20111122--State%20Provides%20Billions%20to%20Business%20Each%20Year.pdf>
- <sup>8</sup> U.S. Census Bureau, 2010 American Community Survey.
- <sup>9</sup> “California Poverty Rate Highest in Nation Based on New Census Department Figures, Huffington Post. [http://www.huffingtonpost.com/2012/11/14/california-poverty\\_n\\_2132920.html](http://www.huffingtonpost.com/2012/11/14/california-poverty_n_2132920.html)
- <sup>10</sup> “Florida is No. 2 in Nation for Rate of Uninsured,” Miami Herald/Kaiser Health News, August 30, 2013. <http://www.kaiserhealthnews.org/Stories/2013/August/30/Florida-uninsured.aspx>
- <sup>11</sup> “Health Care in the Two Americas: Findings from the Scorecard on State Health System Performance for Low-Income Populations, 2013,” The Commonwealth Fund, September 18, 2013. <http://www.commonwealthfund.org/Publications/Fund-Reports/2013/Sep/Low-Income-Scorecard.aspx>
- <sup>12</sup> “Monthly Number of Persons Participating in the Food Stamp Program,” State Health Facts, Kaiser Family Foundation. <http://kff.org/other/state-indicator/monthly-participation-in-fs-program/>
- <sup>13</sup> “Rankings and Estimates,” National Education Association, December 2012. December 2012. [http://www.nea.org/assets/img/content/NEA\\_Rankings\\_And\\_Estimates-2013\\_%282%29.pdf](http://www.nea.org/assets/img/content/NEA_Rankings_And_Estimates-2013_%282%29.pdf)
- <sup>14</sup> Ibid.
- <sup>15</sup> Ibid.
- <sup>16</sup> Ibid.
- <sup>17</sup> Ibid.
- <sup>18</sup> “State Policies Affecting UI Access for Low-Wage Workers,” PowerPoint presentation, Claire McKenna, National Employment Law Project. [http://nelp.3cdn.net/2cf345e85e3432daea\\_2gm6b3111.pdf](http://nelp.3cdn.net/2cf345e85e3432daea_2gm6b3111.pdf)
- <sup>19</sup> “Unemployment Insurance Data Summary,” U.S. Department of Labor, Employment and Training Administration. [http://ows.doleta.gov/unemploy/content/data\\_stats/datasum13/DataSum\\_2013\\_1.pdf](http://ows.doleta.gov/unemploy/content/data_stats/datasum13/DataSum_2013_1.pdf)
- <sup>20</sup> “Significant Provisions of State Unemployment Insurance Laws, Effective January 2013,” U.S. Department of Labor, Employment and Training Administration. <http://workforcesecurity.doleta.gov/unemploy/content/sigpros/2010-2019/January2013.pdf>

- 
- <sup>21</sup> “Modernizing Unemployment Insurance: Federal Incentives Pave the Way for State Reforms,” May 2012. National Employment Law Project [http://nelp.3cdn.net/a77bc3b5988571ee4b\\_dfm6btygh.pdf](http://nelp.3cdn.net/a77bc3b5988571ee4b_dfm6btygh.pdf)
- <sup>22</sup> U.S. Census Bureau, 2010 American Community Survey.
- <sup>23</sup> “Who Pays: A Distributional Analysis of the Tax Systems in All 50 States,” Institute on Taxation and Economic Policy, January 2013. <http://www.itep.org/pdf/whopaysreport.pdf>
- <sup>24</sup> “2012 State Tax Revenue,” Federation of Tax Administrators. <http://www.taxadmin.org/fta/rate/12taxbur.html>
- <sup>25</sup> “2014 State Business Tax Climate Index,” Tax Foundation, October 9, 2013. <http://taxfoundation.org/article/2014-state-business-tax-climate-index>
- <sup>26</sup> “Large Florida-Based Companies Are Among Corporations Cited in New ‘Tax-Dodging’ Report,” Florida Center for Fiscal and Economic Policy/Institute on Taxation and Economic Policy and Citizens for Tax Justice. <http://www.fcfe.org/attachments/Release.%20Florida%27s%20Corporate%20Tax%20Dodgers.pdf>
- <sup>27</sup> “Transparency, Accountability, and Tax Modernization Needed to Ensure Big Business Pays Its Fair Share of Taxes,” Florida Center for Fiscal and Economic Policy, December 011. <http://www.fcfe.org/attachments/20111201--Ensuring%20Big%20Business%20Pays%20Its%20Fair%20Share.pdf>
- <sup>28</sup> “Legislators Scrutinize Companies’ ‘High-Crime-Area Tax Breaks,” Orlando Sentinel, November 2, 2013. <http://touch.orlandosentinel.com/#section/1504/article/p2p-78026631/>
- <sup>29</sup> “2014 State Business Tax Climate,” Tax Foundation, October 9, 2013. <http://taxfoundation.org/article/2014-state-business-tax-climate-index>
- <sup>30</sup> “Surplus Going Fast as Lobbyists Line Up for Tax and Fee Cuts,” Tampa Bay Times, October 10, 2013. [http://www.tampabay.com/blogs/the-buzz-florida-politics/surplus-going-fast-as-lobbyists-line-up-for-tax-and-fee-cuts/2146572?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed%3A+tampabay.com%2Fblogs%2Fbuzz+%28The+Buzz+|+tampabay.com%29](http://www.tampabay.com/blogs/the-buzz-florida-politics/surplus-going-fast-as-lobbyists-line-up-for-tax-and-fee-cuts/2146572?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+tampabay.com%2Fblogs%2Fbuzz+%28The+Buzz+|+tampabay.com%29)
- <sup>31</sup> 2013 Florida Tax Handbook, Florida Revenue Estimating Conference. <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2013.pdf>
- <sup>32</sup> “CROSSROADS, Designing Florida’s Tax Structure,” Page 10, Florida Chamber Foundation, December 1990. <http://www.flchamber.com/wp-content/uploads/Crossroads-Designing-FL-Tax-Structure.pdf>