



Recurring Tax Cuts Will Reduce Investments in Social Safety Net Programs in This Budget and for Years to Come

One of the key issues that must be resolved in the remaining weeks of the legislative session is the size and composition of tax cuts – and how much they will reduce revenue in future years for investing in state services.

The House of Representatives has passed a \$992 million tax cut.¹ The total approaches the more than \$1 billion recommended by Governor Rick Scott, although the composition of the reductions differs.² The Senate has not yet passed a tax-cut package, but Senate President Andy Gardiner has indicated that the

Senate total may be about \$250 million.³

The questions concerning tax cuts include how much recurring state general revenues – those that come in year after year – will be cut, as compared with nonrecurring, one-time reductions.

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The Scott budget proposal, called “fiscally irresponsible” by Senate leaders,⁴ would reduce recurring general revenue by \$991 million annually, \$770 million of which would come from eliminating the corporate income tax on manufacturers and retailers. His other business-friendly recurring cuts would create a permanent exemption from the sales tax for manufacturers and retailers, at a cost of \$60 million, and permanently reduce the sales tax on commercial rents, at a cost of \$92 million.

The House tax cut includes \$330 million in recurring state general revenue funds – most from \$256 million in commercial rent reductions and \$60 million from permanently eliminating the sales tax on manufacturing and retailing. The House cuts also include many one-time cuts, among them \$116 million for back-to-school, small business, and hunting and fishing sales tax holidays, and \$33.3 million for an extension of the sales tax exemption for college textbooks purchases.⁵

The final tax cut package eventually negotiated between the Senate and the House and signed by the Governor has ramifications beyond the 2016-17 fiscal year, when the cuts will go into effect. The size of any recurring tax cut is compounded year after year. A \$10 million cut in taxes one year will also reduce revenues by that amount in the next year, and the one after that.

State economists have calculated the average recurring tax cut in the last three legislative sessions and have shown their cumulative impact.⁶ The average recurring cut for the 2013-14, 2014-15 and 2015-16 fiscal years is \$234.5 million. (In those years, the largest recurring general revenues cuts were motor vehicle fee reductions in 2014-15 and the Communications Service Tax cut in 2015-16.)

The \$234.5 million average cut will cost that amount in 2016-17, but \$469 million in 2017-18 and \$703.5 million in 2018-19 as the reduction recurs year after year.

A tax cut is a tradeoff; corporations benefit when their taxes are cut, but at the expense of Floridians who rely on state support for their well-being.

Thus the decisions made about tax cuts in this legislative session will impact the amount available for

appropriations to meet state needs not only this year, but also future years. Scott's proposals would cut \$1 billion from the budget year after year and the House budget almost \$1 billion over the next three years. The Senate tax cuts being considered would take a smaller bite, the amount depending on how much are recurring reductions and how much nonrecurring.

Safety Net, Other Programs Not Funded Adequately

Recurring revenues are particularly important because they are used to fund the ongoing, day-to-day operations and functions of government services such as education, mental health treatment, support for people with disabilities and corrections.

Every dollar of recurring revenue that is not collected because of a tax cut is unable to be used for those services. A tax cut is a tradeoff; corporations benefit when their taxes are cut, but at the expense of Floridians who rely on state support for their well-being. Funding services for individuals and families creates jobs and is an investment in the economies of local communities and the state.

After years of budget cuts during the recession, some areas of state government, such as K-12 education, are nearing their prerecession funding level (although not when accounting for inflation). Many other institutions remain woefully unfunded. For example:

- The House budget removes funding for 718 jobs in the Department of Health, which oversees county health departments and many other programs.⁷
- Underfunding of the child welfare system leads to inadequate efforts to prevent child removals, delays in reuniting families and increased cost to taxpayers, as outlined in a recent study:

For many years, the statewide core funding for the state’s community-based child welfare system has been relatively stagnant or even reduced. Accounting for inflation, funding for community-based care providers has decreased by almost 13 percent....This lack of adequate financial resources drives up caseloads and leads to case manager workforce instability. These service and workforce issues contribute to increased demand for child welfare and result in longer stays in the system and negative child permanency outcomes, at great taxpayer expense.⁸

- Long waitlists of about 20,000 exist for services for people with disabilities, and some wait as long as 10 years.⁹
- 6,538 people died in the 2014-15 fiscal year while on waiting lists for programs to keep the elderly in community or home care and out of nursing homes.¹⁰
- Florida ranked second-to-last among the states and the District of Columbia in per capita funding dedicated to mental health. The Department of Children and Family Services’ needs assessment estimates that the unfunded mental health service need (the actual cost of services being provided to persons currently served) is \$78.2million. The funding required to meet the needs of persons who are not currently able to access services is \$355.7 million, leaving a gap of \$434.9 million in dedicated mental health funding.¹¹
- Budget cuts have led to inadequate staffing of prisons by the Department of Corrections. A recent audit found that DOC “manages an inmate population that has been largely stable over the last six years with significantly fewer correctional officers than it has used to manage its facilities in the past.” Furthermore, turnover in the department leads to a workforce not adequately trained, creating “challenges in maintaining a safe and secure system.”¹²

The state could gain potentially billions of dollars annually by enacting fair corporate tax legislation.

Issue Begins to Reverberate in Legislature

The question of how much tax reduction the state can afford is beginning to reverberate in the halls of the Capitol. Some senators are willing to call a halt to large recurring cuts, after consistent reductions in the last few years without restoring funding to social service programs cut heavily in the recession years. The Senate budget contains \$1 billion more in spending on education, child welfare and prevention services than the House plan.¹³

Meanwhile, state tax preferences – exemptions, credits and deductions – total almost \$18 billion, most in the state sales tax but also \$1.2 billion in the corporate income tax. Another \$25 billion in potential revenue is excluded from the sales tax.¹⁴

In addition, the state could gain potentially billions of dollars annually by enacting fair corporate tax legislation: for example, about \$478 million from requiring combined reporting of profits by corporations;¹⁵ \$54 million by adopting the “throwback rule,” \$562 million by no longer exempting Chapter S corporations and limited partnerships; and \$212 million from imposing a \$200 minimum tax on C and S corporations.¹⁶

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Endnotes

¹ Staff Analysis, PCB FTC 16-04. Florida House of Representatives.

<http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=pcb04b.FTC.DOCX&DocumentType=Analysis&CommitteeId=2856&Session=2016>

² Measures Affecting Revenues, Florida First Budget, Office of the Governor.

<http://www.floridafirstbudget.com/web%20forms/OtherInfo/reports/Measures-Affecting-Revenues.pdf>

³ “Lawmakers Closing in on Big Tax Cuts,” Sarasota Herald- Tribune, February 3, 2016.

<http://politics.heraldtribune.com/2016/02/03/lawmakers-closing-in-on-big-tax-cuts/>

⁴ “Florida House and Senate Approve Budgets At Odds With Each Other and Governor Rick Scott,” Tampa Bay Times, February 11, 2016. <http://www.tampabay.com/news/politics/stateroundup/house-senate-prepare-to-approve-budget-plans-with-big-differences-to/2264983>

⁵ Staff Analysis, PCB FTC 16-04. Florida House of Representatives.

<http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?FileName=pcb04b.FTC.DOCX&DocumentType=Analysis&CommitteeId=2856&Session=2016>

⁶ Long-Range Financial Outlook, Fiscal Years 2016-17 through 2018-19, Fall 2015 Report as Adopted by the Legislative Budget Commission. http://edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2015_1617-1819.pdf

⁷ “House Budget: Decision to Cut Positions at Dep’t of Health Questioned,” Florida Politics, February 10, 2016.

<http://floridapolitics.com/archives/201353-house-budget-decision-to-cut-positions-at-department-of-health-questioned#>

⁸ “Challenges Facing Florida’s Community-Based Child Welfare System,” Florida TaxWatch, November 2015.

<http://www.floridataxwatch.org/resources/pdf/ChildWelfareFINAL.pdf>

⁹ “Florida’s Special-Needs Families Find Waitlist Up to 10 Years Long,” Orlando Sentinel, October 17, 2015.

<http://www.orlandosentinel.com/opinion/os-florida-medicaid-waiver-scott-maxwell-20151017-column.html>

¹⁰ “Florida House, Senate Approve Budgets at Odds With Each Other and Governor Rick Scott,” Miami Herald, February 11, 2016., <http://www.miamiherald.com/news/politics-government/state-politics/article59862996.html>

¹¹ “Return on Disinvestment: State’s Threadbare Mental Health System Exemplifies the Case Against Tax Cuts,” Florida Center on Fiscal and Economic Policy, January 2016.

<http://www.fcfep.org/attachments/Return%20on%20Disinvestment%20in%20Mental%20Health.pdf>

¹² “Study of Operations of the Florida Department of Corrections,” November 2015. Florida Legislature, Office of Program Policy Analysis and Government Accountability. Prepared by: CGL, 2485 Natomas Park Drive, Suite 300, Sacramento, CA 95833. <http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/15-FDC.pdf>

¹³ “Legislators Make Few Repairs to Florida’s Safety Net But Push Back on Tax Cuts,” Miami Herald, February 12, 2016. <http://www.miamiherald.com/news/politics-government/state-politics/article59982906.html>

¹⁴ 2016 Florida Tax Handbook, Florida Revenue Estimating Conference.

<http://edr.state.fl.us/content/revenues/reports/tax-handbook/taxhandbook2016.pdf>

¹⁵ 2015 Florida Tax Handbook, Florida Revenue Estimating Conference.

<http://edr.state.fl.us/content/revenues/reports/tax-handbook/taxhandbook2015.pdf>

¹⁶ 2016 Florida Tax Handbook, Florida Revenue Estimating Conference.