

Special Report

February 2002



Florida TaxWatch Position Paper: Modernizing Florida's Tax System

Florida TaxWatch commends Senate President John McKay for his vision and courage in proposing Sales Tax Reform (SJR 938). His initiative gives new life and a heightened visibility to the debate over how to modernize Florida's tax system. However, while an informed tax debate would be good for Florida and its citizens, there is little hope that this will happen in the climate of acrimony and sound-bite mentality that already has emerged over the McKay initiative. The economic assumptions upon which the claims for revenue neutrality and improvement in tax incidence of households and businesses need further clarification and verification, and the data upon which they are based must be revealed and validated.

The proposal to use Florida's Constitution as the vehicle for major tax reform is simply wrong. Florida TaxWatch has a long and consistent history of opposing attempts to legislate by constitutional amendment, especially when the state constitution already allows the statutory enactment of such a proposal. The Legislature should not abdicate its responsibility on such a weighty matter nor tie the hands of yet-to-be-elected lawmakers who will face so many uncertainties in the new economy.

A thoughtful, comprehensive reform of Florida's tax structure calls for more than just a hasty "rearranging of the attic." To rush through such a revolutionary change—one of the most radical in some seventy years—in any one legislative session without the requisite due diligence and coalition building is not just questionable; it is problematical and precarious in an election year beset by economic recession, the fallout and uncertainties triggered by "9-11," and legislative redistricting. Clearly, the Florida Legislature this year has its hands full without having to take up major tax reform. There just is not enough time to do justice to an issue of such far-reaching importance in the next sixty days.

Any such monumental change to Florida's tax system requires concerted forethought, independent review (including a highly rigorous consensus examination of the economic impacts, revenue estimates and dependable tax receipts) and a comprehensive framework for tax modernization accompanied by a deliberate and thorough debate by lawmakers and the public concerning the potential ramifications on people and businesses. Promoting tax reform first and foremost to stabilize the state tax structure's revenue-generating capacity addresses only one piece of a very complex puzzle and fails to ask the right questions. How will tax reform affect Florida's economy, both in the short-term and over the long haul in an exponentially changing economy? Will individual Floridians be better or worse off as a result? How will Florida tourists—from out of state and in-state resident tourists—be effected, and how will that affect

Florida's economy? Are the economic assumptions upon which the study is based clear, sound and acceptable? Is the stated principal of revenue neutrality justified in today's unstable economy? Will Florida's business climate be a casualty or beneficiary of tax modernization? Do the proposed changes promote a world-class business climate? How will capital formation, personal income, job growth, savings and corporate profits be affected?

Such important questions cannot be answered with confidence in just one eleventh-hour legislative initiative and without thorough review and deliberation-especially not this year. During these turbulent times, reform of Florida's tax system does not deserve a rush to judgment in pursuit of a vague, ill-framed concept of tax stability.

State legislative leaders have asked Florida TaxWatch to independently review the impact that modernizing the state's tax structure will have on Florida households, businesses, the state's business climate and its ability to be a competitive force to be reckoned with in the new economy. TaxWatch made its position on modernizing Florida's tax system known to the Senate President as early as last November and to a number of leading lawmakers and groups: the Governor, House Speaker, The Florida Council of 100, Associated Industries of Florida, the Florida Chamber of Commerce, the Florida Retail Federation, and others.

Building upon its recent policy accomplishments, Florida TaxWatch's Center for a Competitive Florida already is doing an independent, review and comprehensive analysis of how to best modernize Florida's tax system. Enlisting the best coalition of minds, professional expertise and experience from senior TaxWatch staff, and the public and private sectors, the Center Advisory Committee will meet four to five times following the current legislative session to study how to best promote, through fair, efficient, stable and accountable tax policy, Florida's ability to adapt competitively to the dynamics of the new economy and the needs of the people and Florida businesses. On February 11, 18 and 25, the Center will be releasing several *Special Reports* in its ongoing series on *Modernizing Florida's Tax System*.

The Center study will take into account a variety of interlocking variables: capital formation in current and emerging markets, the distribution and increasing fluidity of factors of production, e-commerce, the geographic mobility of firms and interjurisdictional tax competition, the taxation of remote sales over the Internet, deregulation of telecommunications, the deregulation of electricity and gas, the declining production of tangible goods relative to services, tort reform, etc. All current and potential sources of revenue are on the table for the Center to comprehensively review and analyze: the sales and use tax, corporate income tax, personal income tax, other state taxes, nontax revenue sources, and currently exempted or untaxed goods and services.

Any responsible and nurturing modernization of Florida's tax system requires the nonpartisan, independent assessment being done by the Center for a Competitive Florida. The study will determine through fact-based research how Florida, its citizens, and the state's business climate will fare once modernized. It will assess the particular combination of tax system factors that work best toward achieving tax fairness among Florida households and businesses, one promoting an understandable

system that is understandable, fosters tax compliance and is inexpensive to operate. Absent such knowledge Florida risks not being able to effectively compete in the emerging global, substate-regional or interstate markets, foster free enterprise and create a business climate that will attract and retain the high-value jobs Florida residents and businesses deserve.

While Florida TaxWatch applauds President McKay for provoking debate on this important issue, it remains opposed to legislating with the State Constitution, especially given the enormously complex and dynamically changing issues included in this constitutional initiative. Even if done legislatively, TaxWatch nonetheless has other strong reservations about radically changing the sales and use tax proposal without examining both the intended and unintended consequences such a major tax change may have on Florida's people and economy.

By assembling the best of Florida's business community, professional and civic leadership, the Center for a Competitive Florida will be positioned to better assess the ability of Florida's tax system to meet the competitive requirements of Florida in the 21st Century. The Center will offer its finest research in the form of a critically examined Fiscal Blueprint for consideration by our elected officials and other constituencies, giving due diligence to this issue of such paramount importance to the business community and to the competitive future of Florida's economy.

The Second in a series of *Special Reports* on Modernizing Florida's Tax System
By
The Center for a Competitive Florida

This *Special Report* was written by Keith G. Baker, Ph.D., Senior Vice President and Chief Operating Officer.

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