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# Research Report

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## Mixed Benefits from Proposed Property Tax/Sales Tax Swap

### Summary

Florida's property tax system is unsustainable and comprehensive change is needed. Double-digit increases in real estate values have given rise to significant increases in property tax burdens. The Save Our Homes (SOH) amendment has led to many tax inequities and, as a result the burdens for these increases are being borne by only a portion of the taxpayers. SOH has also created situations where some people feel they can not afford to move. Since most voters are homesteaded, they do not feel the increased spending and property tax pressures and have thus far allowed these unusual tax and spending increases to go unchallenged. In response, a wide range of proposals relating to property taxes are being considered this legislative session. Florida TaxWatch commends the Governor and the Florida Legislature for committing to address these problems but cautions that all proposals must be fully analyzed before action is taken.

The purpose of this report is to identify and analyze the individual impact of one of these proposals – the House leadership's proposed property tax/sales tax swap. In addition to calling for a major roll-back of current property tax rates, it includes replacing some or all property taxes on homesteaded property with a 2.5 cent (42%) increase in the sales and use tax rate.

Florida TaxWatch determined that the individual financial impact of the proposed property tax/sales tax swap varies dramatically. Nearly all individuals living in homesteaded property will benefit from a property tax/sales tax swap. Generally, individuals with high wages, who recently purchased a home, will receive the greatest overall benefit. Individuals who live in rental properties will be adversely affected should the proposed swap be approved. For example, the research determined that an attorney, age 50, living in Miami who purchased a home in 2005 will realize an annual reduction of \$10,496 in the total amount of property and sales taxes paid, which represents about 8% of his/her income. Conversely, a typical 35-year-old waiter living in a Miami rental property will see an increase of nearly \$260 in the overall amount of taxes paid or about 2% of his/her total income.

## Florida Property Taxes are Based on Market Values

Property taxes are levied annually by local governments based on the value of property. The taxable value of property is the fair market (just) value of the property adjusted for any exclusions, differentials or exemptions. The Florida Constitution prohibits state property taxes, while directly authorizing counties, school districts, and municipalities to levy local property taxes. It also provides that special districts may be created and authorized by law to levy property taxes within their jurisdictions.

Generally, Florida law requires all property in Florida to be assessed at just or fair market value. However, the Save Our Homes assessment increased limitation<sup>1</sup> results in most homesteaded property having an “assessed value” that is less than just value. “Taxable value” is equal to assessed value minus the value of any exemptions.<sup>2</sup> This is the value to which local government millage rates are applied. Very broadly speaking, the essential operation of Florida’s property tax system is depicted in Exhibit 1.

**Exhibit 1:  
The Taxable Value of a Homesteaded Property is Determined by Adjusting for the Save Our Homes Limitations and Subtracting the Homestead Exemption Amount.**



<sup>1</sup> For more information on the Save Our Homes amendment and the impact it has had, see Florida TaxWatch Report: [Controlling Escalating Property Taxation and Local Government Spending and Revenue](#), December 2006.

<sup>2</sup> Millage rates is the rate in mills (1 mill = one dollar per thousand or 0.1%) at which property is taxed. For example, if the value of your property is \$100,000 after adjusting for homestead and other exemptions, and the millage rate is 5 mills, your tax is calculated as follows: \$100,000 X .005 = \$500 in tax. The millage rate is set by local governments as required under Florida law. Cities and counties may levy no more than 10 mills. These limits can be exceeded only by voter referendum.

## Current House Property Tax/Sales Tax Swap Proposal Has Three Components

The House proposal has several features, including a significant property tax roll-back, limits on future tax growth and a \$25,000 tangible personal property tax exemption for businesses. This analysis focuses only on the proposal to replace homesteaded property taxes with an increased sales tax. The original House proposal included a constitutional amendment to replace all property taxes (including those supporting school districts) on homesteaded property with a 2.5 cent (42%) increase in the state sales tax rate, increasing the rate from 6% to 8.5%. With local option sales taxes, the tax rate in some Florida counties would be as high as 10.5%.

This original proposal has been amended to allow for more local control and flexibility to reduce property taxes on homestead properties. The currently proposed property tax/sales tax swap legislation includes three major components (all components are constitutional amendments and would require voter approval):

1. **Abolish the required local effort** (RLE) school board tax on all homesteaded properties and replace it with a one cent sales tax.<sup>3</sup> The RLE tax comprises about of 25% of property taxes statewide.
2. By local county referendum, voters may choose to further reduce homestead property taxes by **replacing the discretionary millage for school boards** with a ½ cent sales tax. The referendum must be held by 2010.
3. By local county referendum, voters may adopt an additional reduction of homestead property taxes by **replacing all remaining property tax levies** (i.e., county/city, special districts, etc.) with a 1 cent sales tax. The referendum must be held by 2010.<sup>4</sup>

If the constitutional amendment and both county referendums pass, all homesteaded properties in the given jurisdiction will be exempt from ad valorem taxes. The new total will increase sales tax rate 2.5 cents higher, bringing the state rate to 8.5 cents, plus any local option sales tax. County governments will distribute sales tax funds within their county based on the existing sales tax distribution model.

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<sup>3</sup> The Legislature annually determines the level of overall education funding as part of its budget development process. The portion of this funding that comes from local property taxes is known as the Required Local Effort (RLE). This is the amount that each county must produce in order to participate in the FEFP. While the General Appropriations Act only establishes the total required funding level, there is necessarily an implied statewide millage rate that generates that amount. Supporting work papers show the required funding level attributed to each county and the associated millage rate needed to achieve it. That result is calculated by multiplying school taxable values for each county by the projected millage rate established by the Legislature.

<sup>4</sup> As specified in House Joint Resolution 909.

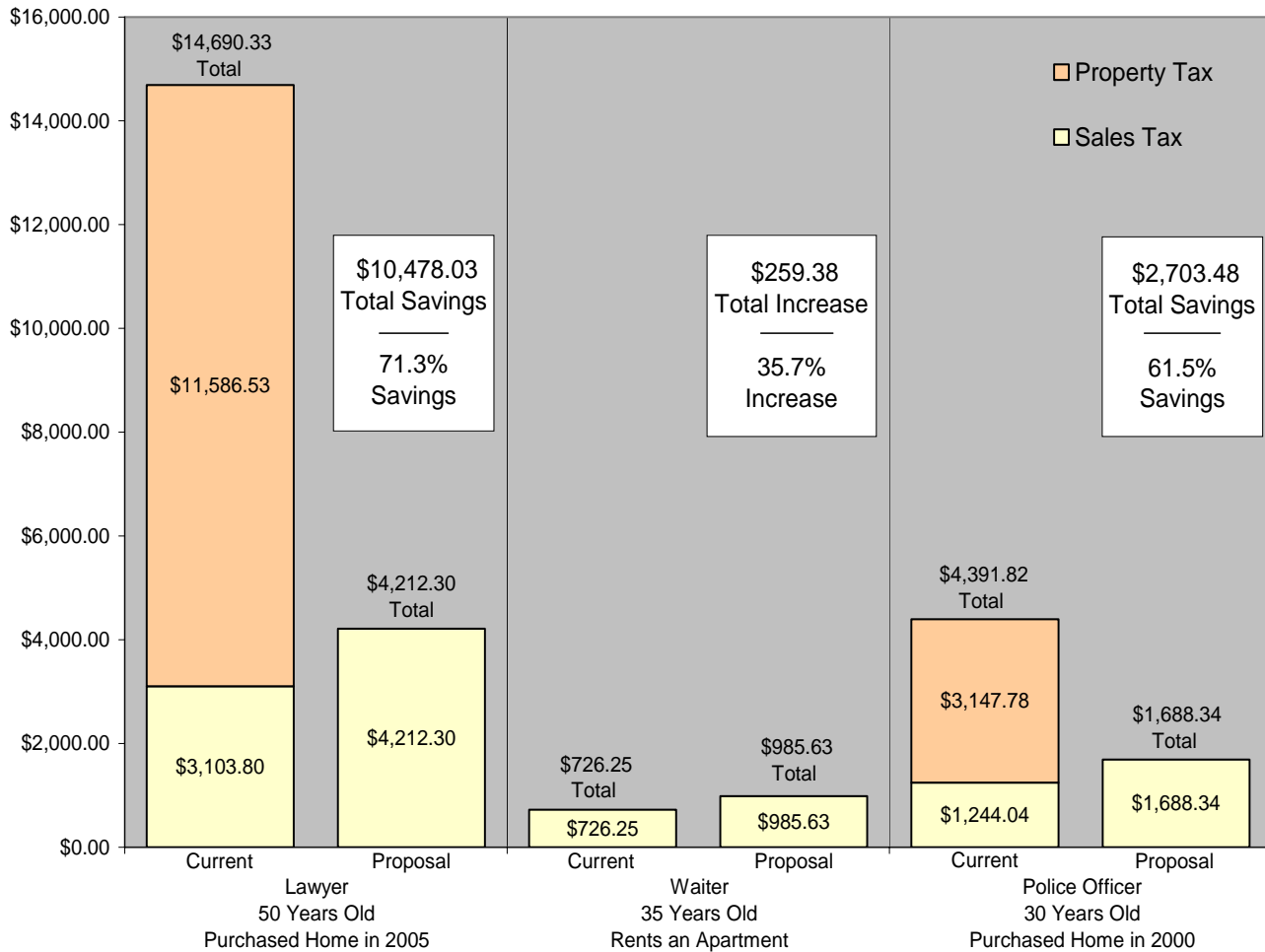
## **Individual Impact of Proposed Property Tax/Sales Tax Swap Varies Dramatically**

The research found that the individual financial impact of the proposed property tax/sales tax swap varies dramatically. Nearly all individuals living in homesteaded property will benefit from a property tax/sales tax swap. Generally, individuals who recently purchased a home will receive the greatest overall benefit. These individuals will realize the greatest reduction in property tax obligations, which will almost certainly be significantly greater than the corresponding increase in the amount of sales and use tax paid. For the approximately 30% of Florida's population living in a rental property, they will be adversely affected should the proposed swap be approved. These citizens will realize little or no benefit from the replacement of property taxes, at least in the short-term, but will be obligated to pay more sales and use taxes.

To illustrate the differences in the impact of the proposed property tax/sales tax swap among the citizens of Florida, Florida TaxWatch created a series of individual profiles with different occupations and consumption patterns throughout the state. For example, Exhibit 2 demonstrates the change in the property and sales and use tax obligations for three typical residents of Miami: a 30-year-old policeman who purchased a home in 2000, a 35-year-old waiter who rents, and a 50-year-old attorney that purchased a home in 2005. Exhibit 2 compares the current amount of property and sales and use tax obligations for these three individuals with their projected obligations should voters approve the proposed constitutional amendment and both county referendums, thus eliminating all property tax on homesteaded properties and increasing the total sales and use tax by 42% or 2.5 cents to a 8.5% sales and use tax state rate, plus local option sales taxes of up to an additional 2 cents. (Appendix 1 provides a comparison of the impact in five other Florida cities.)

As shown, both the attorney and policeman who own homes would benefit from a property tax/sales tax swap. The 50-year-old attorney who purchased a home in 2005 that was valued at \$480,000 will reap an annual benefit of nearly \$10,500, while the benefit to the 30-year-old policeman that purchased his home in 2000 will be approximately \$2,700 per year. Conversely, for the 35-year-old waiter, who rents an apartment, approval of the proposed property tax/sales tax swap will result in an annual increase of about \$260 in taxes paid. As with all renters, elimination of property taxes will not provide any benefit, while the amount of tax paid will be increased by 42% or 2.5 cents for all goods and services purchased that are subject to sales and use tax.

**Exhibit 2:  
Individuals with Homesteaded Properties Will Benefit the Most from the Proposed  
Property Tax/Sales Tax Swap.**



Source: Florida Tax Watch Analysis of 2005 housing and income data for residents of the City of Miami.

## **Conclusion**

The findings of Florida TaxWatch determined that the individual financial impact of the proposed property tax/sales tax swap varies dramatically. Nearly all individuals living in homesteaded property will benefit from a property tax/sales tax swap. Generally, individuals with high wages, who recently purchased a home, will receive the greatest overall benefit. Individuals who live in rental properties will be adversely affected should the proposed swap be approved.

The appendix provides profiles representative of individuals within broad socio-demographic classifications in different geographical locations. Florida TaxWatch researchers can and would provide Legislators and policymakers with other profiles for specific socio-demographics characteristics and different geographical locations if asked.

## APPENDIX

### Individual Impact Analysis of Property Tax/Sales Tax Swap Proposal

#### Daytona Beach

Profile	Salary	Home Value
50-year-old attorney	\$109,481	\$394,959
35-year-old waiter	\$13,800	\$50,019
30-year-old policeman	\$26,159	\$96,847

#### Change in Tax Obligation No Property Tax, 2.5 ¢ Sales Tax Increase

Occupation	Renter	Home Purchased 2005	Home Purchased 2000
50-year-old attorney	\$913	(\$7,828)	(\$3,722)
35-year-old waiter	\$242	(\$350)	\$170
30-year-old policeman	\$367	(\$1,330)	(\$323)

#### Ft. Myers

Profile	Salary	Home Value
50-year-old attorney	\$131,566	\$475,035
35-year-old waiter	\$13,760	\$49,871
30-year-old policeman	\$32,966	\$88,758

#### Change in Tax Obligation No Property Tax, 2.5 ¢ Sales Tax Increase

Occupation	Renter	Home Purchased 2005	Home Purchased 2000
50-year-old attorney	\$1,097	(\$8,640)	(\$4,118)
35-year-old waiter	\$240	(\$298)	\$177
30-year-old policeman	\$453	(\$926)	(\$81)

**APPENDIX (Continued)**  
**Individual Impact Analysis of Property Tax/Sales Tax Swap Proposal**

**Gainesville**

Profile	Salary	Home Value
50-year-old attorney	\$100,562	\$362,974
35-year-old waiter	\$13,741	\$49,797
30-year-old policeman	\$28,379	\$102,859

**Change in Tax Obligation**  
**No Property Tax, 2.5 ¢ Sales Tax Increase**

Occupation	Renter	Home Purchased 2005	Home Purchased 2000
50-year-old attorney	\$838	(\$7,471)	(\$3,544)
35-year-old waiter	\$241	(\$369)	\$170
30-year-old policeman	\$390	(\$1,524)	(\$411)

**Miami**

Profile	Salary	Home Value
50-year-old attorney	\$132,993	\$479,859
35-year-old waiter	\$14,819	\$53,730
30-year-old policeman	\$41,005	\$148,574

**Change in Tax Obligation**  
**No Property Tax, 2.5 ¢ Sales Tax Increase**

Occupation	Renter	Home Purchased 2005	Home Purchased 2000
50-year-old attorney	\$1,109	(\$10,478)	(\$5,100)
35-year-old waiter	\$259	(\$472)	\$130
30-year-old policeman	\$444	(\$2,703)	(\$1,038)

**APPENDIX (Continued)**  
**Individual Impact Analysis of Property Tax/Sales Tax Swap Proposal**

**Pensacola**

Profile	Salary	Home Value
50-year-old attorney	\$96,904	\$349,764
35-year-old waiter	\$14,180	\$51,355
30-year-old policeman	\$27,960	\$101,300

**Change in Tax Obligation**  
**No Property Tax, 2.5 ¢ Sales Tax Increase**

Occupation	Renter	Home Purchased 2005	Home Purchased 2000
50-year-old attorney	\$808	(\$6,223)	(\$2,892)
35-year-old waiter	\$248	(\$322)	\$167
30-year-old policeman	\$382	(\$1,270)	(\$305)

**Tampa**

Profile	Salary	Home Value
50-year-old attorney	\$130,471	\$470,656
35-year-old waiter	\$13,820	\$50,094
30-year-old policeman	\$34,980	\$126,755

**Change in Tax Obligation**  
**No Property Tax, 2.5 ¢ Sales Tax Increase**

Occupation	Renter	Home Purchased 2005	Home Purchased 2000
50-year-old attorney	\$1,090	(\$9,355)	(\$4,501)
35-year-old waiter	\$242	(\$346)	\$170
30-year-old policeman	\$481	(\$1,904)	(\$597)

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## *About Florida TaxWatch*

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Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 28 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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