2016 Tax Cut Package Agreement

The final tax cut agreement is a significant reduction in the amount of tax relief from the original House package that was advertised as a $1 billion tax cut. That figure was reached by adding the annualized recurring (permanent) cuts and the non-recurring (one-time) cuts – some of which would not take effect until FY 2017-18. However, the total value of the cuts in the upcoming budget year would have been $352.1million (including both state and local revenue), rising to a peak $630.7 million in FY 2018-19.

The new proposal would provide recurring tax savings of $79 million and $50 million in one-time savings.

The following shows what provisions from the House tax package were retained in the new bill, what was modified, what was added, and what was left out.

IN

These provisions in the House tax cut package are retained in the new bill:

Sales Tax Exemption for Manufacturing Machinery and Equipment – The bill will make the exemption--set to expire April 30, 2017--permanent, saving taxpayers $73.1 million annually. There is no impact in the upcoming budget year. Florida TaxWatch has presented its research findings in several Committees. The Governor has also included this in his recommended tax package. This exemption is also moving in the Senate. Making this exemption permanent is a long-time recommendation of Florida TaxWatch.

Additional Industries Qualifying for the Machinery & Equipment Exemption – Machinery used by metal recyclers and "postharvest machinery and equipment" used by fruit and vegetable packinghouses would become eligible for the manufacturing machinery and equipment sales tax exemption. This will save these two industries $3.3 million annually.

Corporate Income Tax Piggyback – The Legislature annually passed a bill that conforms the state CIT code to federal tax changes. This year the feds passed increased expensing and depreciation deductions, as they have often in recent years. The Legislature has routinely allowed taxpayers to take the federal deductions but makes them add-back the deductions on their state returns over seven years. This year, the tax package does that for the accelerate depreciation deduction but it also fully adopts the new federal change that makes the larger expensing deduction permanent. It also adopts new federal due dates for the corporate income tax returns. Adopting the expensing provision will save corporations $3.2 in FY 2016-17 and $1.5 million annually after that. The due date change is not really a tax cut, but it will cost the state $13.6 million as some payments that would have been made in FY 2016-17 will be made in later years.

Veterans' Organization - The current sales tax exemption sales for food or drinks by qualified veterans' organizations in connection with customary veterans' organization activities would be extended to members of qualified veterans' organizations. The bill lists the American Legion and Veterans of Foreign Wars of the United States, as qualified veterans' organizations**.** This will save veterans $1.6 million annually.

Tax on Pear Cider - The bill equalizes the alcoholic beverage tax rate applied to pear and other ciders by amending the definition of cider to include pear cider. Pear cider would be taxed at a rate of $0.89 per gallon as opposed to the current rate of $2.25 per gallon. This will save pear cider producers and drinkers $100,000 annually.

Aircraft Registered in a Foreign Jurisdiction - The bill clarifies the requirements for the exemption from tax for aircraft that will be registered in a foreign jurisdiction. The purchaser must removes the aircraft from Florida to a foreign jurisdiction within 10 days and the aircraft can only be operated in Florida solely for the removal from the state to a foreign jurisdiction.

Cruise Lines - Cruise Lines must pay beverage tax and cigarette tax for products sold to passengers while in Florida ports and while the ship is in Florida waters. Due to administrative problems associated with determining if the sale is in Florida or international waters, the bill replaces the beverage and tobacco taxes that cruise lines currently pay with a new tax based on ship capacity and the number of times a ship embarks from Florida rather than volume of alcohol or tobacco sold at port. This has a one-time $100,000 negative impact on state revenues.

Aviation Fuel Tax – Beginning July 1, 2019 a tax credit given to certain airlines for increasing their Florida workforce would be repealed and the fuel tax rate would be reduced from 6.9 cents per gallon to 4.27 cents per gallon. The combination of the changes is expected to be revenue neutral. Only four airline qualify for the exemption and the House believes the credit is no longer needed. This would be a tax increase for those airlines currently receiving the tax credit, but a tax cut for all other airlines.

Enterprise Zones - The bill clarifies that the exemption may be granted to a new or expanding business located in an area which was designated as an enterprise zone as of December 30, 2015, but not a brownfield area, only if the new or expanding business was approved by the local governing body prior to December 31, 2015. The bill also clarifies that exemptions already granted prior to expiration of the enterprise zone program may continue for up to 10 years regardless of expiration of the enterprise zone program.

MODIFIED

The provisions are in the new bill, but changed from the original House package:

Back to School Sales Tax Holiday – The new plan includes a 3-day tax holiday (from August 5 to August 7, 2016), clothing, footwear, wallets and bags that cost $60 or less would be exempt from the state and local sales taxes. Also exempt would be school supplies costing $15 or less per item.

The previous version of the bill had a 10-day holiday and also included the first $750 of the sales price for personal computers and related accessories purchased for noncommercial home or personal use. The sales price limit on clothing, footwear, wallets and bags was previously $100 per item.

This original version of the holiday would have provided consumers with a one-time savings of $68.8 million. The new bill will reduce that amount.

Tobacco Taxes – The original bill clarified definitions related to tobacco products other than cigarettes and cigars. In effect, the bill codified the division's current administration of these laws with respect to domestically-manufactured products, and provided that the wholesale sales price for imported products must include the federal excise tax regardless of who first paid that excise tax. This was expected to increase revenues by $2.4 million annually.

Tourist Development Taxes – The original bill would have allowed coastal counties to use up to 10% of remaining tourist development tax revenues (after bond payments) to fund additional emergency medical and law enforcement services

that are required as a result of tourism, as long as such funds are not used to supplant pre-existing expenditures on such services. This issue was not part of the agreed upon amendment. However, another amendment was offered that would allow this in three counties, Okaloosa, Walton and Bay. After considerable objections and debate, the amendment was approved. Florida TaxWatch is concerned about the diversion of tourist development taxes to new uses.

NEW

These provision were not in the House package but were added to the new bill:

Data Centers – The new agreement includes a provision to extend the Economic Development Ad Valorem Tax exemption from 10 to 20 years, for data centers only.

Asphalt Tax – The new agreement phases out the tax on manufactured asphalt which is used for any federal, state, or local government public works project; beginning July 1, 2016, the indexed tax imposed by this paragraph on asphalt manufactured which is used for any federal, state, or local government public works project shall be reduced by 60 percent; beginning July 1, 2017, it would be reduced by 80 percent; and beginning July 1, 2018, the tax would be eliminated. When eliminated, businesses would save $2.0 annually.

OUT

These provisions were in the House package, but were removed from the new bill:

Business Rent Tax (BRT) – The House proposed to reduce the sales tax rate imposed on the rental of commercial property from six percent to five percent. The tax would have dropped to 4 percent for one calendar year beginning January 1, 2018, and then return to 5 percent. The 1 percent reduction would have saved businesses $298.5 million annually. **The reduction and eventual repeal of this tax, which is unique to Florida, is strongly supported by Florida TaxWatch.**

Small Business Saturday Sales Tax Holiday – The House proposed a one-day sales tax holiday on "Small Business Saturday," on November 26, 2016. During the holiday, a small business dealer could have opted to not collect sales on purchases of items that cost $1,000 or less. The bill defined "small business" as one that began operation no later than January 11, 2016, and that owed and remitted less than $200,000 in sales tax during the one-year period ending September 30, 2016. If the business has multiple locations, all locations are counted towards the $200,000 cap. This would have provided consumers with a one-time savings of $43.1 million.

Technology Sales Tax Holiday - On April 22, 2017, the first $1,000 of the sales price of the following items would have been exempt from the state and local sales taxes: personal computers (includes electronic book readers, laptops, desktops, handhelds, tablets, cellular telephones, or tower computers); and personal computer-related accessories (includes keyboards, mice, personal digital assistants, monitors, other peripheral devices, modems, routers, and nonrecreational software). The one-time tax savings was estimated at $28.1 million.

Hunting and Fishing Sales Tax Holiday - During the holiday (August 20, 2016), the following items would have been exempt from the state and local sales taxes: firearms (defined as rifles, shotguns, spearguns, crossbows, and bows);

ammunition for those firearms; camping tents; and fishing supplies (defined as non-commercial rods, reels, bait, and fishing tackle). The one-time tax savings was estimated at $3.3 million.

Data Centers – Once certified, a business would have a sales tax exemption on the purchase of datacenter equipment, electricity for a datacenter and building materials for the construction or expansion of a datacenter. A five-year capital investment of $75 million is required to be certified. This had a recurring revenue impact of $11.6 million.

Resale of Admissions - A person who has purchased a taxable admission and resells that admission to an entity with a valid exemption certificate from DOR (such as a non-profit organization) would have been allowed to seek a refund or credit of the tax paid on its initial purchase. This exemption would have been repealed on July 1, 2019. This will would have saved a total of $6.4 million over the three-year life of the exemption.

College Textbooks – The one-year exemption for textbooks created last year would have been extended for another year. This would have provided students (and parents) with a one-year savings of $40.9 million.

Book Fairs - A one-year exemption would have been created for the sale of books and other reading materials at book fairs on the premises of K - 12 schools. If the sales were made by a third-party vendor, the vendor must commit all or some of the profit to the school. This would have provided a one-year savings of $2.8 million.

Rural Areas of Opportunity - An exemption from sales and use tax would have been created for the purchase of building materials, pest control services, and the rental of tangible personal property used in new construction in Rural Areas of Opportunity. The exemption was provided in the form of a refund of taxes paid, and is capped at $10,000 per parcel. This exemption was worth $4.5 million a year.

Disabled Veterans Property Tax Exemption - A full exemption from ad valorem taxes currently exists on homestead property that is owned by an honorably discharged veteran with a service-connected total and permanent disability and is a permanent Florida resident. The House proposal would have provided that a veteran who received the exemption but moves his or her homestead to another property after January 1 of the same year, may transfer the exemption to the new property. The savings are indeterminate but expected to be minor and could actually result in minor increase in revenue.

Surviving Spouse Property Tax Exemptions - The bill would have expanded the eligibility of surviving spouses of disabled veterans for the current veteran homestead exemptions. It would have allowed the surviving spouse of a veteran who died from service-connected causes while on active duty to receive property tax relief, regardless of the veteran's state of residence on January 1 of the year in which the veteran died. An unremarried surviving spouse of a veteran who had a service-related total and permanent disability at the time of death would have also been eligible to receive property tax relief. This would have cost local governments $1.7 million annually, beginning in 2018.

Affordable Housing - The bill provided that certain property used to provide affordable housing will be considered a charitable purpose and qualify for a 50 percent property tax discount, notwithstanding the requirements of current law that restrict the exemption. This would have cost local governments $37.9 million annually, beginning in 2018.

Research & Development Tax Credit – Last year, the annual amount of these credits were increased from $9 million to $23 million for calendar year 2016. Businesses can receive an income tax credit of 10 percent of the difference between the current tax year's R&D expenditures in Florida and the average of R&D expenditures over the previous four tax years. The state tax credit taken in any taxable year may not exceed 50 percent of the company's corporate income tax liability. The House proposal would have increased the cap from $9 million to $18 million for calendar year 2017. **Florida TaxWatch research has supported research and development tax credits and exemptions.**

Brownfield Cleanup Tax Credit - The state provides tax credits of up to $500,000 per business to incentivize rehabilitation of brownfields and voluntary cleanup of other contaminated sites. Last year, the Legislature increased the annual cap for these credits from $5 million to $21.6 million for FY 2015-16. The House proposal would have increased the cap during FY 2016-17 to $10 million.

Renewable Energy Production Tax Credit - The current credit is allowed annually based on the taxpayer's production and sale of electricity from a new or expanded Florida renewable energy facility. Credits cannot be granted after FY 2016-17. The House would have extended the $10 million credit for one year.

Renewable Energy Technologies Investment Tax Credit – This credit is also slated for repeal in FY 2016-17. The program provides an annual corporate tax credit equal to 75 percent of all capital costs, operation and maintenance costs, and research and development costs in connection with an investment in the production, storage, and distribution of biodiesel, ethanol and other renewable fuel in the state. The credit, capped at $10 million a year, would have been extended another year.

Documentary Stamp Tax Exemption for Affordable Housing - Any note or mortgage given with respect to a loan made by or on behalf of a county housing finance authority would have been exempt. This would have saved $0.3 million annually.

Required Local Effort

Separate from the tax cut package, the Legislature also moved to hold down required local effort (RLE) property taxes for schools. RLE is the property taxes school districts must levy to participate in the public school funding program. The Legislature sets the dollar amount of the RLE in the budget. Both the House and the Senate budgets proposed to keep the same RLE millage rate as last year. The growth in property values would have provided more than $500 million in addition revenue, allowing the Legislature to reach a record funding level for per-student funding.

There was some resistance to these increased property taxes, especially in the Senate. The final agreement will reduce the RLE millage, and instead use more state revenue to reach the desired spending level. This will reduce the previously recommended $500 million increase in total RLE by $428 million. This is being characterized as property tax relief but in reality, only a portion of the $428 million should be considered a tax cut (the amount below the revenue that would be provided by the rolled-back rate.)

Florida TaxWatch commends the Legislature for avoiding the previously recommended property tax hike. Since state law provides that any increase over the rolled-back rate is tax increase, the Legislature should be clear to taxpayers what exactly the RLE proposal means.

New Tax Cut Package

Impact by Year - $ millions

	2016-17		2017-18		2018-19	
	State	Local	State	Local	State	Local
Manufacturing Machinery & Equipment	-	-	-62.8	-14.1	-66.0	-14.8
Fruit & Vegetable Packinghouses M&E	-0.8	-0.2	-0.9	-0.2	-0.9	-0.2
Metal Recyclers M&E	-1.7	-0.5	-1.8	-0.5	-1.9	-0.5
Back to School Sales Tax Holiday	-23.3	-5.4	-	-	-	-
Veteran's Service Organizations	-1.2	-0.2	-1.4	-0.2	-1.4	-0.2
Federal CIT Code Conformance*	-20.0	-	-5.8	-	-2.4	-
Aviation Fuel Tax changes	-	-	-	-	-	-
Bev/Tobacco Tax - Cruise Lines	-0.1	-	-	-	-	-
Beverage Tax - Pear Cider	-0.1	-	-0.1	-	-0.1	-
Asphalt Tax	-0.5	0.0	-1.0	-0.2	-1.5	-0.4
Tobacco Tax - OTP definition (increase)	2.4	-	2.4	-	2.4	-
Total	-45.3	-6.3	-71.4	-15.2	-71.8	-16.1

State totals include a very small amount of trust fund revenue, most is general revenue.

* the Federal Code Conformance provisions also reduce state revenue by $3.2 million in FY 2015-16.

Source: Florida TaxWatch using data from the Florida House of Representatives and the Florida Revenue Impact Conference, March 2016.