



Ways and Means Committee

Tuesday, January 24, 2017

2:30 p.m. – 4:30 p.m.

Morris Hall

MEETING PACKET

The Florida House of Representatives

Ways and Means Committee



Richard Corcoran
Speaker

Jim Boyd
Chair

AGENDA

January 24, 2017
2:30 p.m. – 4:30 p.m.
Morris Hall

- I. Call to Order/Roll Call
- II. Chair's Opening Remarks
- III. Sales Tax Overview (staff presentation)
- IV. Corporate Income Tax Overview (staff presentation)
- V. Property Tax Overview (staff presentation)
- VI. Closing Remarks and Adjournment

Overview of Sales and Use Tax

Florida House of Representatives
Ways and Means Committee
January 2017

Why is Florida's Sales Tax Important?

- ▶ Largest state tax source
 - \$24 billion in FY 2015–16
 - 55% of total state taxes & fees (75% of General Revenue)
- ▶ Major revenue source for local governments
- ▶ Everyone pays it

Outline

- ▶ History/Context
- ▶ What we tax—Tax Base
- ▶ What we don't tax—Exemptions/Exclusions
- ▶ Where the money goes
- ▶ Local Option taxes

History: Emergence of State Sales Taxes

- ▶ States began enacting sales taxes in the 1930s
- ▶ In 1932 Mississippi was the first
- ▶ By 1938 twenty five states had a sales tax
- ▶ *Florida's sales tax was created in 1949*
- ▶ Forty five states currently levy a sales tax

History: Florida's Early Years

- ▶ Originally levied mainly on the retail sale of goods
- ▶ Exemptions have been there since the beginning
 - Groceries, health care items, and long-term residential rental are among the items initially exempt from sales tax
- ▶ Also, the sale of most services was excluded

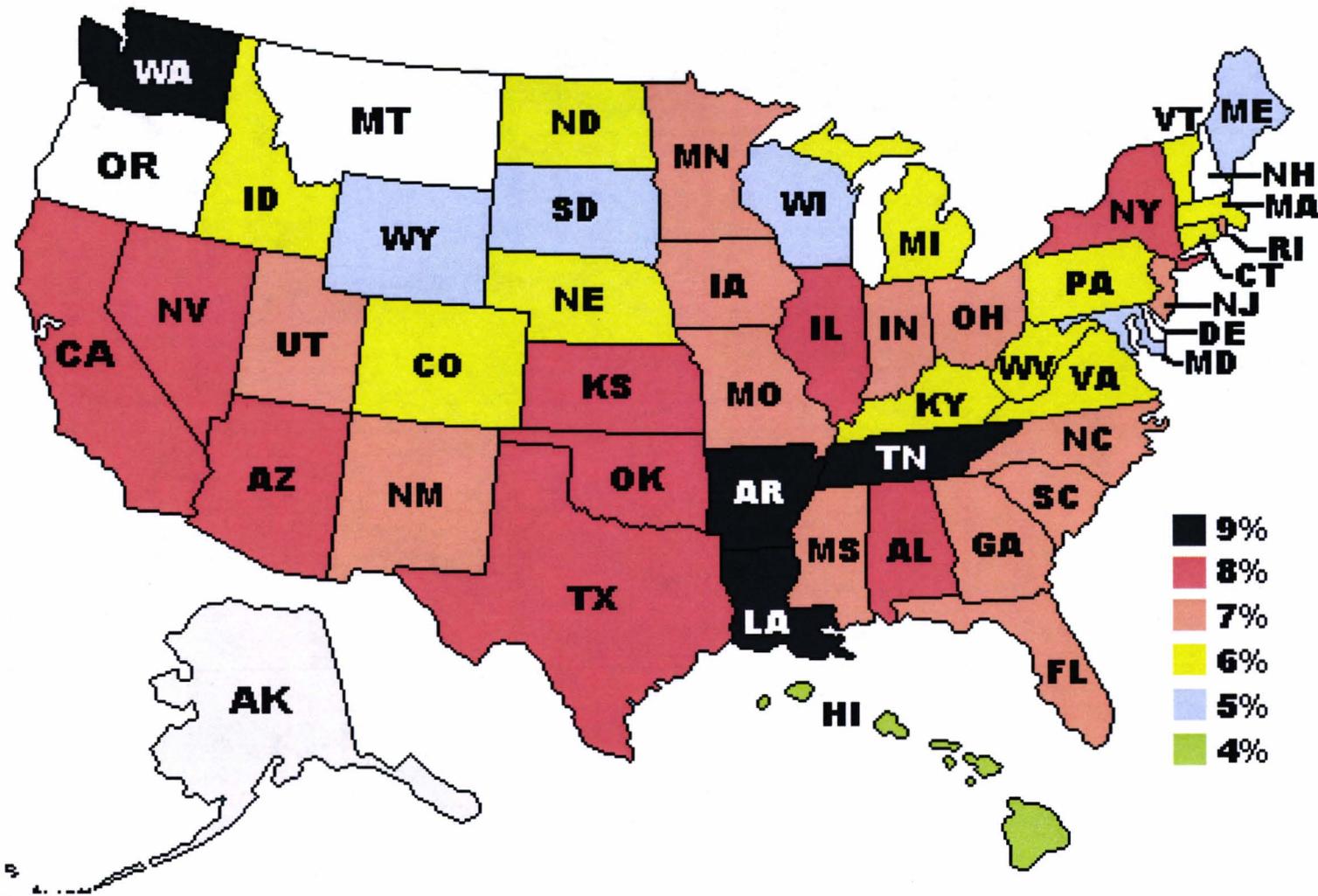
History: Florida's Sales Tax Rate

- ▶ 3% (from 1949 – 1967)
- ▶ 4% (from 1968 – 1981)
- ▶ 5% (from 1982 – 1987)
- ▶ 6% (since 1988)

Other States Today

- ▶ No state sales tax – Alaska, Delaware, Montana, New Hampshire, and Oregon
- ▶ State tax rates vary from 2.9% to 7%
- ▶ Twenty four states have state rates the same as or higher than Florida's
- ▶ Twenty six states have higher effective combined state and local rates than Florida's

Effective State Plus Local Tax Rates

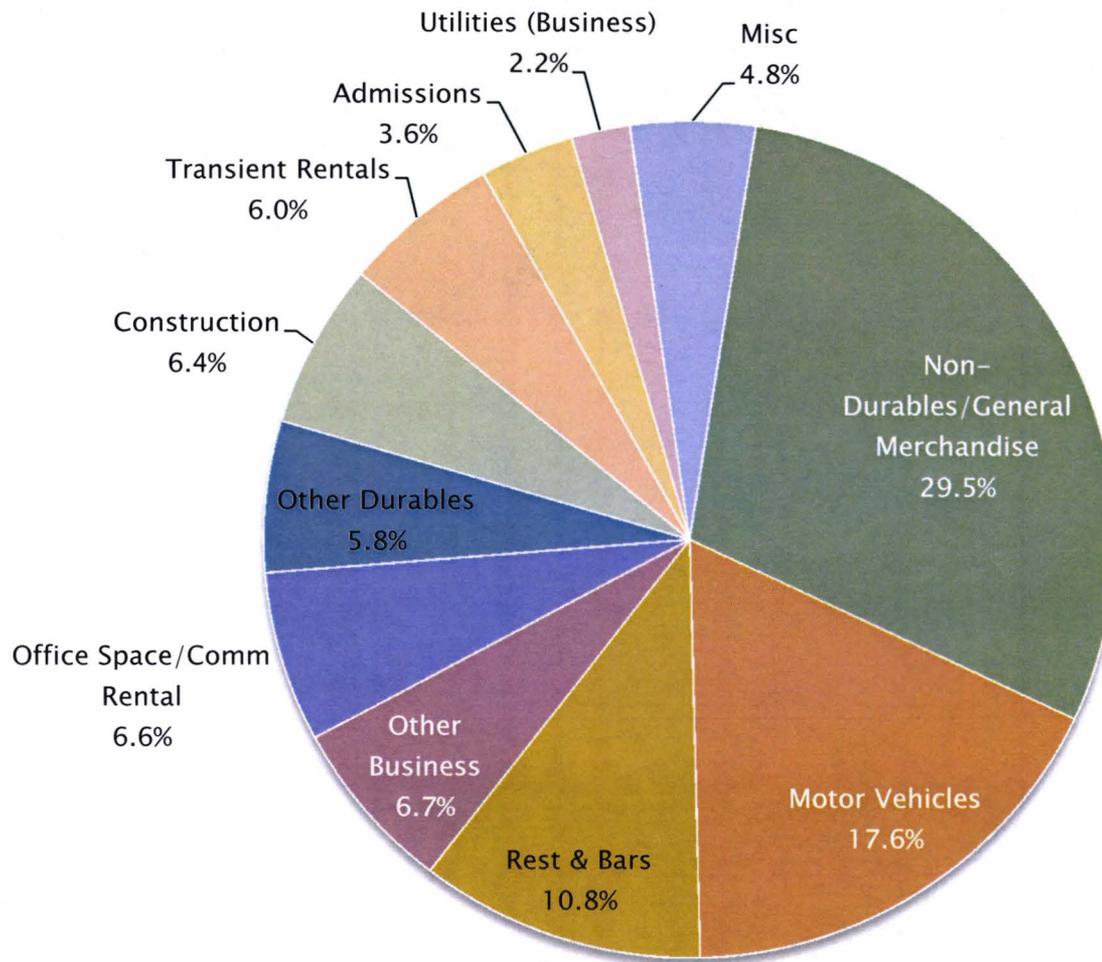


Source: Sales Tax Clearinghouse

Tax Base: What We Tax

- ▶ Retail sale of tangible personal property (TPP) in Florida
- ▶ Rentals of TPP
- ▶ Admissions to amusements
- ▶ Real property rentals:
 - “Transient rentals” (e.g. hotels & motels)
 - Commercial real estate rentals
- ▶ Non-residential electricity
- ▶ Some services, especially when sold in conjunction with taxable TPP

Florida Sales Tax by Type of Transaction FY 2015-16



Tax Base: Services

- ▶ Most services are excluded by definition because they aren't TPP
- ▶ EXCEPT for services sold with taxable TPP, such as many repair services
 - Doesn't apply if TPP is inconsequential
- ▶ AND explicitly taxed services
 - Admissions to various amusements/recreational activities
 - Rental of TPP and certain real property
 - Detective, burglar, and other protection
 - Nonresidential cleaning and pest control

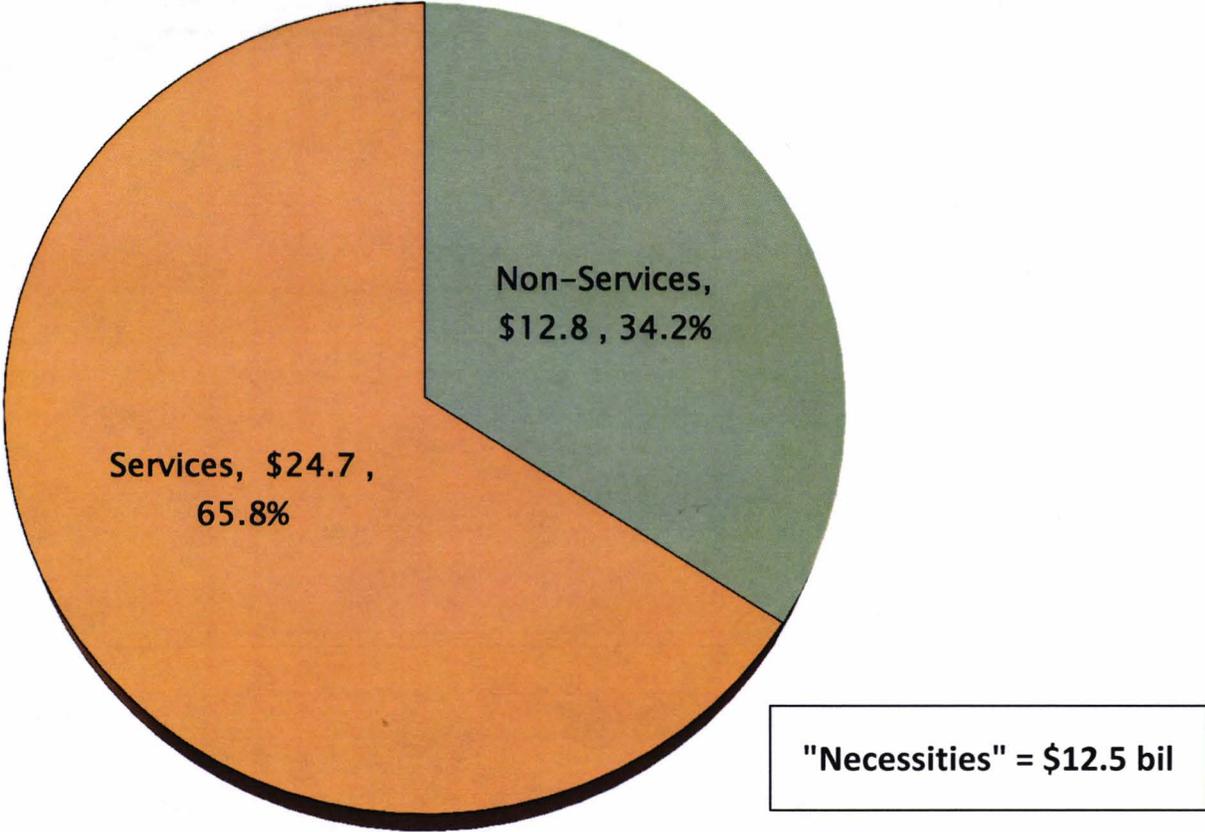
Tax Base: Use Tax

- ▶ Tax on TPP not sold in Florida but otherwise subject to the sales tax and “used, consumed, distributed, or stored for use” in Florida
- ▶ Purchaser (user) is liable for tax if the seller does not collect and remit
 - Example: sales over the internet

Exemptions

- ▶ Exemptions have various purposes:
 - Mitigate regressiveness
 - Avoid pyramiding
 - Promote economic development
 - Encourage civic and charitable behaviors

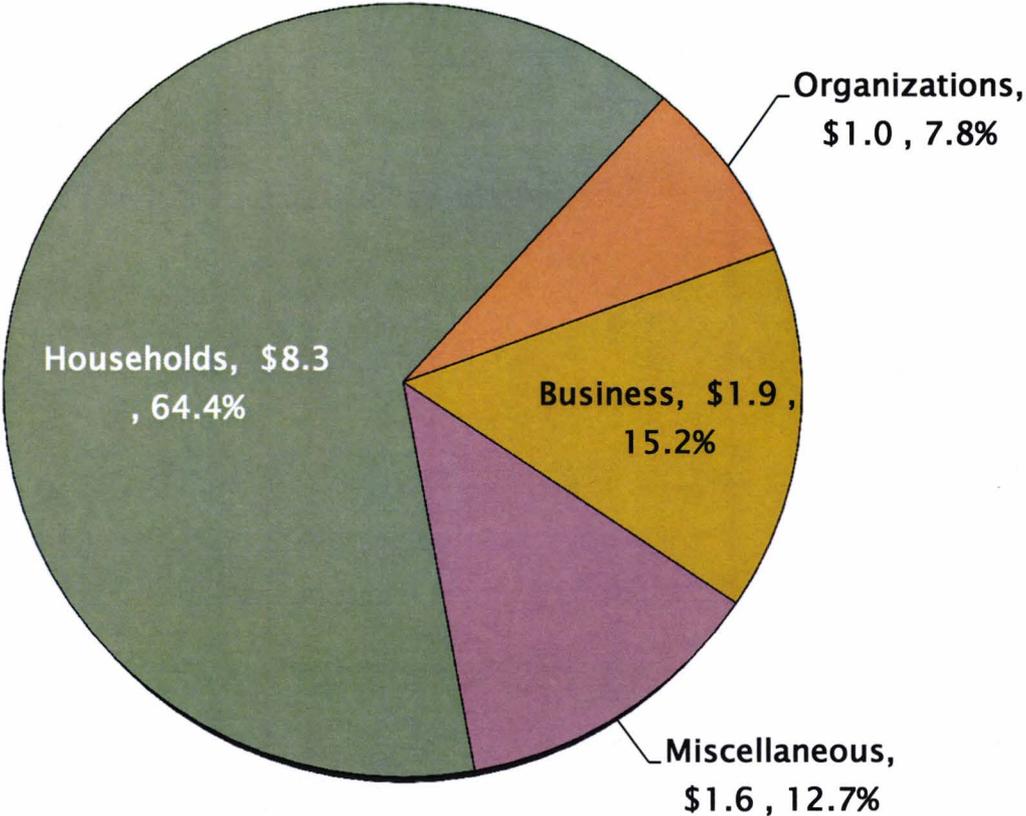
**Estimated Exclusions, Exemptions and Credits from
the Sales and Use Tax
FY 2016-17 = \$37.5 Billion**



Source: 2016 Florida Tax Handbook

Estimated Non-Services Exemptions and Credits from the Sales and Use Tax

FY 2016-17 = \$12.8 Billion



Source: 2016 Florida Tax Handbook

Non-Services Exemptions: Business – \$1.9 Billion

Largest Business Exemptions

Energy-Related	399	20.5%
Machinery and Equipment	386	19.8%
Airplanes & Boats	180	9.3%
Purchase of agricultural items (pesticides, seeds, fertilizers, etc.)	98	5.0%
The sale or use of satellites or other space vehicles.	85	4.4%
Airport property used for landing, taxiing, or loading.	67	3.4%
Non-retail drug sales	63	3.3%

Non-Services Exemptions: Households – \$8.3 Billion

Largest Household Exemptions

Food	3,541	42.9%
Health Care	2,150	26.0%
Rent paid by permanent residents	1,852	22.4%
Utilities	600	7.3%
Other	121	1.5%

Non-Services Exemptions: Organizations – \$1.0 Billion

Largest Organizations Exemptions

Direct purchases by government	482	48.1%
Section 501(c)(3) organizations	311	31.1%
K-12 schoolbooks and lunches.	57	5.7%
Charges for certain meals provided by non-profit orgs.	34	3.4%

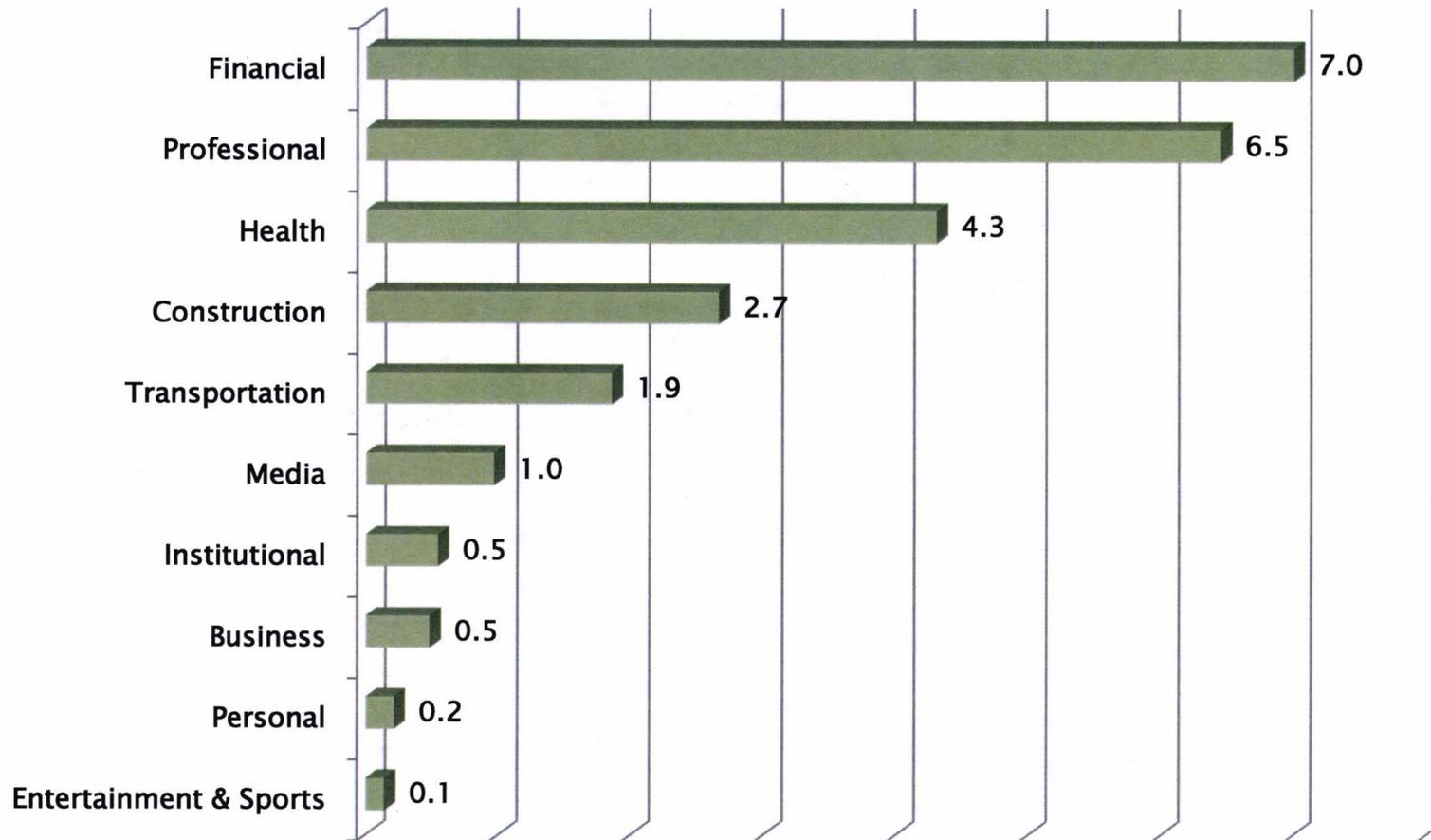
Non-Services Exemptions: Miscellaneous – \$1.6 Billion

Largest Miscellaneous Exemptions

Trade-in Allowance	769	47.3%
Metered Water	393	24.2%
Imported items, first used in other states	158	9.7%
Toll road charges.	89	5.5%
Bottled Water (except carbonated)	57	3.5%
Credit for tax paid to other states	46	2.8%
Motor Vehicles sold to out-of-state residents (partial)	39	2.4%

Estimated Services Exclusions from the Sales and Use Tax

FY 2016-17 = \$24.7 Billion



Sales Tax Exempt “Necessities”

Residential Rent	\$1.852 billion
Groceries	3.464
Drugs & Med Supplies	1.688
Hospital Meals/Rooms	0.599
Residential Utilities	0.567
Health Services	<u>4.318</u>
	\$12.488 billion

Where the Money Goes: FY 2015-16

DISTRIBUTIONS TO LOCAL GOVERNMENT (mil \$)	2,670	10.8%
Local Government Half Cent	1,902	7.7%
County Revenue Sharing	446	1.8%
Municipal Revenue Sharing	292	1.2%
Fixed Distribution to Counties	30	0.1%
Small County Emergency Dist.	21	0.1%
DISTRIBUTIONS TO STATE (mil \$)	22,043	89.2%
General Revenue	21,998	89.0%
Sports Facilities Distribution	22	0.1%
PERC TF	2	0.01%
State Transportation TF	0.2	
TOTAL DISTRIBUTIONS (1)	24,713	

(1) Distributions include Communications Services Tax

Local Option Sales Tax

- ▶ 9 different local option taxes (infrastructure, health care, small counties, schools capital outlay, emergency services, pension funding)
- ▶ Legislature sets parameters
- ▶ Revenue sources for county and municipal governments and school districts
- ▶ Most, but not all, must be affirmed by local referendum

Local Option Sales Tax

- ▶ Currently levied tax rates vary from 0.5 to 2%
- ▶ Maximum possible tax rates are as high as 4.0% in some counties
- ▶ Only six counties do not levy at least one of the 9 available taxes
- ▶ Collections were approximately \$2.2 billion for State Fiscal Year 2015–16

Questions



Corporate Income Tax Overview

Florida House of Representatives

Ways and Means Committee

January 2017

FLORIDA CORPORATE INCOME TAX

OUTLINE

- ✘ The Big Picture
- ✘ Six Steps to Calculating the Tax

BIG PICTURE: WHAT IS THE TAX?

- ✘ Took effect in 1972
- ✘ 5.5% of Net Income *Earned in Florida* by certain corporations
- ✘ As such, it is a *tax on the earnings of capital*

BIG PICTURE: HOW MUCH IS PAID?

- ✘ Almost \$2 billion in FY 2015-16
- ✘ All proceeds to General Revenue Fund (7% of GR sources)

BIG PICTURE: WHO PAYS?

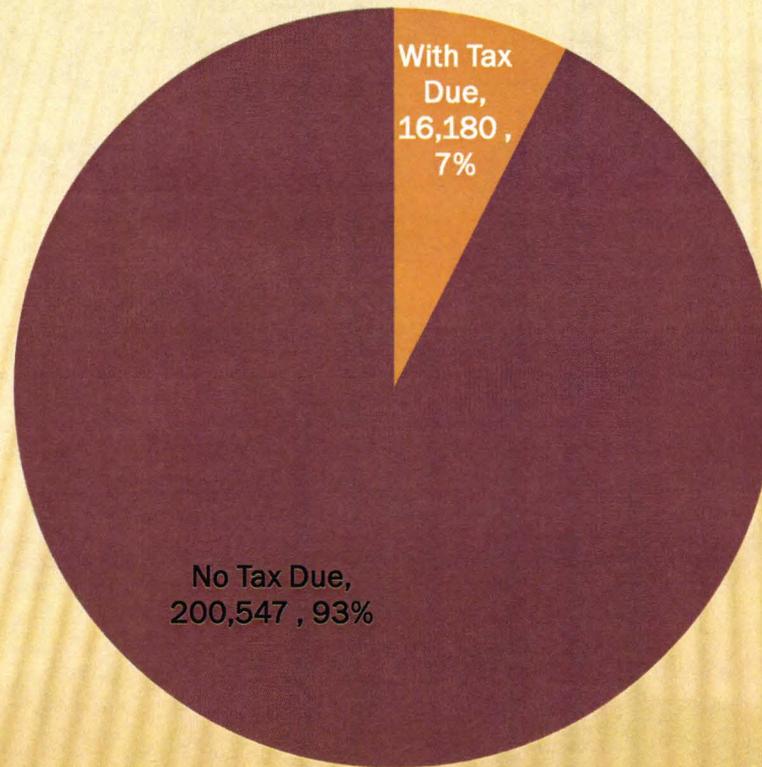
- ✘ Only C-corporations with “*nexus*” in Florida
- ✘ Most Florida businesses *do not pay*:

Corporate Income Tax Filers (2014)	216,727
Active Business Entities (July 2016)	
Domestic For-Profit Corporations	809,219
Limited Partnerships	20,339
Limited Liability Companies	1,072,189
General Partnerships	15,813

BIG PICTURE: WHO PAYS?

✘ Most C-Corporations *do not pay*:

Florida Corporate Income Tax, Number of Returns,
Tax Years Ending in 2014



BIG PICTURE: WHO PAYS?

✘ Some Sectors of the Economy Pay more:

Florida Corporate Income Tax, 2014 Tax Due		
Selected Economic Sectors		
	Tax (mil\$)	% of Total
Finance & Insurance	\$490	26%
Retail Trade	\$275	15%
Manufacturing	\$219	12%
Management of Companies & Enterprises	\$203	11%
Wholesale Trade	\$152	8%
Information	\$107	6%
		78%

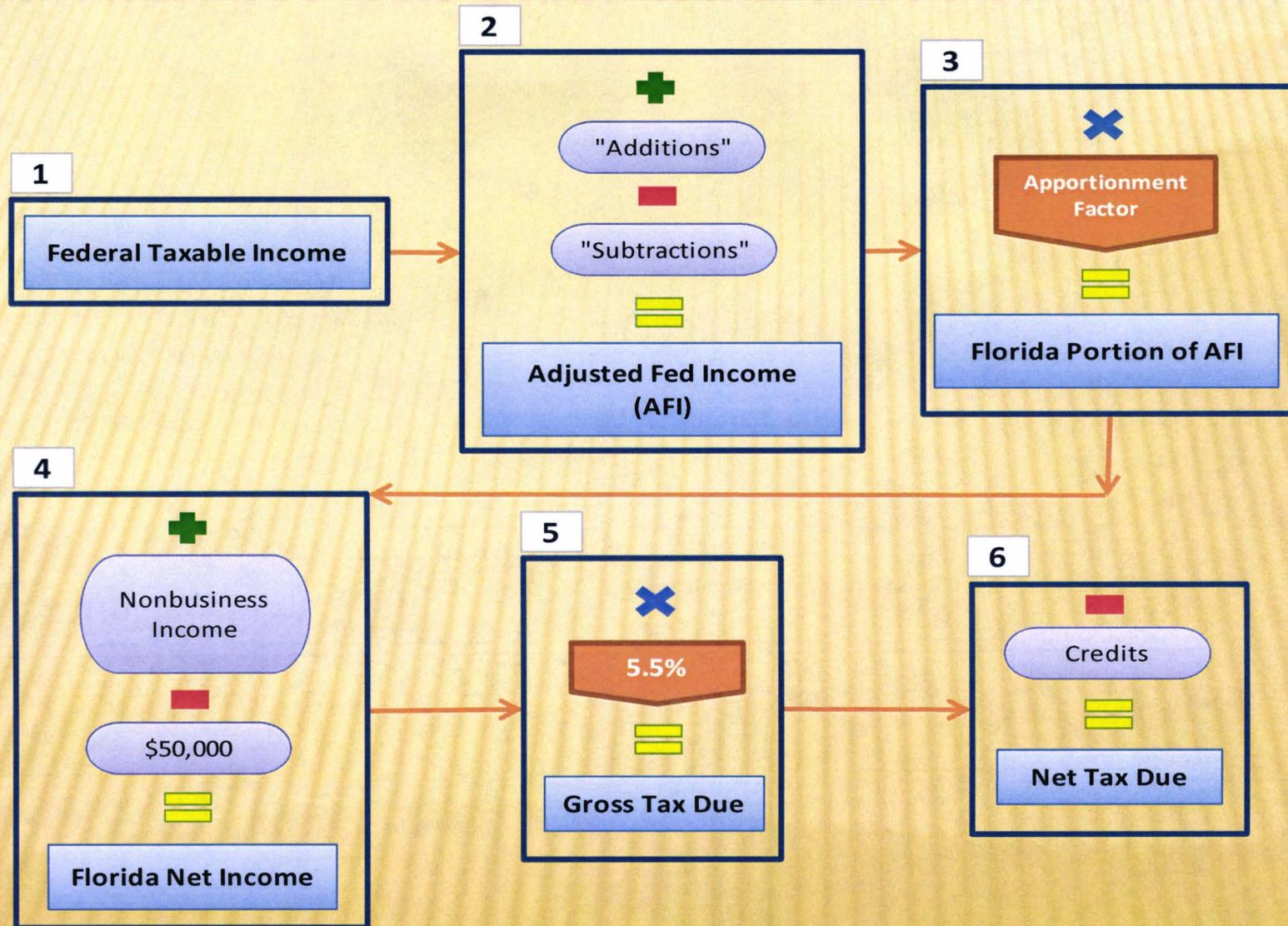
BIG PICTURE: WHEN IS IT PAID?

- ✘ When is the Tax Paid?
 - + *Annual Tax*, depends on company's tax year
 - + *Four estimated payments are made throughout the year*
 - + *True-up after tax year is over*

BIG PICTURE: FLORIDA VS. OTHER STATES

- ✘ No tax: Nevada, South Dakota, Washington (state) and Wyoming
- ✘ Flat tax rates (32 states)
 - + Rates range from 4.0% to 9.99%.
- ✘ Graduated rates (13 states)
 - + Most ranges fall completely between 1.0 and 9.4 percent.
 - + Iowa goes up to a 12 percent maximum rate.

CORPORATE INCOME TAX CALCULATION



STEP 1: THE STARTING POINT

- ✘ Florida tax calculations start with *Federal Taxable Income*
- ✘ Who's taxable income?
 - + Single companies?
 - ✘ This is the general rule
 - + Groups of companies?
 - ✘ Related companies can elect to file as a consolidated group

STEP 2: ADJUSTMENTS TO FED INCOME

- × Federal taxable income is adjusted
- × Additions to taxable income include:
 - + Federal deductions for state and local taxes
 - + To the extent expenses related to certain Florida tax credits are deductible for federal purposes. For example:
 - × Credits for contributions to nonprofit scholarship-funding organizations
 - × Entertainment industry financial incentive program credits
- × Subtractions from taxable income include:
 - + Certain foreign source dividends
 - + Certain foreign source income

STEP 3: DETERMINE FLORIDA'S SHARE

- ✘ What portion of adjusted federal income is taxable in Florida (i.e., “apportionment”)
 - + Three Factor Apportionment formula for most taxpayers
 - + Florida share of company U.S. totals:
 - ✘ Payroll (25% weight)
 - ✘ Property (25% weight)
 - ✘ Sales (50% weight)

STEP 4: FLORIDA NET INCOME

- ✘ To Florida' share of adjusted federal income:
 - + Add "allocated nonbusiness income"
 - + Subtract a \$50,000 exemption.
- ✘ Nonbusiness income = income not arising from transactions and activities in the regular course of the taxpayer's trade or business.
- ✘ Example: A taxpayer is engaged in a multistate glass manufacturing business.
 - + Holds a portfolio of stock and interest-bearing securities, the acquisition and holding of which are unrelated to the manufacturing business.
 - + The dividends and interest income received are nonbusiness income.

STEP 5: APPLY THE TAX RATE

- ✘ *Gross tax due* is calculated by multiplying Florida net income by the corporate income tax rate of 5.5%.

STEP 6: NET OUT THE CREDITS

- ✘ The final step to determine the *net tax due*, is to subtract any allowable credits from gross tax due. Such credits include:
 - + Rehabilitation of Contaminated Sites tax credit
 - + Nonprofit scholarship funding organization tax credit
 - + Research and Development tax credit

Q & A

FLORIDA PROPERTY TAX: OVERVIEW

Florida House of Representatives
Ways and Means Committee
January 2017

OUTLINE

1. **Constitutional Basis of Property Tax**
2. **Importance to Local Government**
3. **What are the Determinants of Tax Revenues**
 - + Tax base (property value)
 - + Tax rate (millage)
4. **Historical Perspective on Revenues**

FOUNDED IN THE FLORIDA CONSTITUTION – ARTICLE VII

Property taxes are reserved for local governments

- ✘ Prohibits a state property tax on real estate and tangible personal property (s. 1)
- ✘ Counties, school districts, and municipalities shall be authorized by law to levy ad valorem taxes and special districts may be authorized. (s. 9)

Important structural components are set forth

- ✘ Tax rates are capped at 10 mills each for county, city, or school district purposes (10 mills = 1%)
 - + Voters can exceed for: (1) payment of bonds, or (2) up to 2 years of operations
- ✘ Property valuation standards are set
 - + Fair Market value (“just value”) unless otherwise allowed
- ✘ Certain Exceptions to fair market value (and assessments) of property are allowed
- ✘ Exemptions are authorized

Legislature may not grant exemptions or special treatments not authorized in the Constitution

MOST IMPORTANT LOCAL REVENUE SOURCE

The largest single tax revenue source for government in Florida—\$29.7 billion levied in FY 2016-17.

Property Tax as a Percent of Local Government Revenues (FY 2013-14):			
		<u>Total Revenue</u>	<u>Tax Revenue</u>
Counties		30%	73%
Cities		16%	62%
School Districts*		40%	95%
Special Districts*		13%	98%
(*) School data from FY 2014-15; special district data from FY 2011-12			

DETERMINANTS OF TAX REVENUES

Property Tax Revenues = Tax Base x Tax Rate

Tax Base = *Taxable value of property located within the jurisdiction*

DETERMINANTS OF TAX REVENUES: TAX BASE

Florida Property Tax Base Calculation				
	FY 2016-17			
	Schools		Non-Schools	
Just Value (Billions of \$)	2,431.2	100%	2,431.2	100%
<i>Exceptions:</i>				
Save Our Homes Differential	(231.7)		(231.7)	
10% Non-Homestead Assessment Cap	-		(84.0)	
Agricultural Classification	(54.1)		(54.1)	
Pollution Control Devices	(5.8)		(5.8)	
Conservation Lands	(0.1)		(0.1)	
Working Waterfronts	(0.3)		(0.3)	
Other	(0.0)		(0.0)	
Subtotal: Exceptions	(292.0)	-12%	(376.0)	-15%
Assessed Value	2,139.2	88%	2,055.2	85%
<i>Exemptions:</i>				
\$25k Homestead	(107.7)		(107.7)	
Additional \$25k Homestead	-		(85.1)	
\$25k Tangible Personal Property	(7.7)		(7.7)	
Governmental Property	(174.9)		(166.1)	
Institutional Property	(67.5)		(64.1)	
Addl. Senior / Age 65 & 25 Yrs Res	-		(7.0)	
Disability / Disabled Veterans	(7.4)		(7.4)	
Land Dedicated for Conservation	(0.2)		(0.2)	
Other	(1.9)		(1.8)	
Subtotal: Exemptions	(367.3)	-15%	(447.0)	-18%
Taxable Value	1,771.9	73%	1,608.2	66%

DETERMINANTS OF TAX REVENUES: TAX RATE

Tax rates are expressed as a millage

- ✘ One Mill = 0.1% (or \$1 per \$1,000 of taxable value)

Tax rates are *determined annually*

- ✘ Governing boards set tax rates
 - + Part of annual budget process
 - + First must receive tax roll (taxable value) from county property appraiser.
- ✘ School tax rates have significant legislative input
 - + “Required Local Effort” (RLE) are tax amounts set each year by the Legislature as a requirement for participation in the state education funding program
 - + Other tax rates are capped in statute or the budget

OPERATING MILLAGES: FY 2015-16*

Operating Millages: FY 2015-16					
(Jurisdiction-Wide Only)					
	<u>Counties</u>	<u>Cities</u>	<u>Schools</u>	<u>Spec Dist</u>	
# of Levying Jurisdictions	67	388	67	124	
Average	6.972	4.882	7.121	1.309	
Median	6.991	4.965	7.197	2.330	
At 10 Mills	5	2	0	0	
% of Jurisdictions	7%	1%	0%	0%	
8 + Mills	26	31	3	0	
% of Jurisdictions	39%	8.0%	4%	0%	

* Jurisdiction-wide only

TAX RATE VOTING REQUIREMENTS

Annual governing board voting requirements for tax rates above certain levels

- × Non-school purposes only

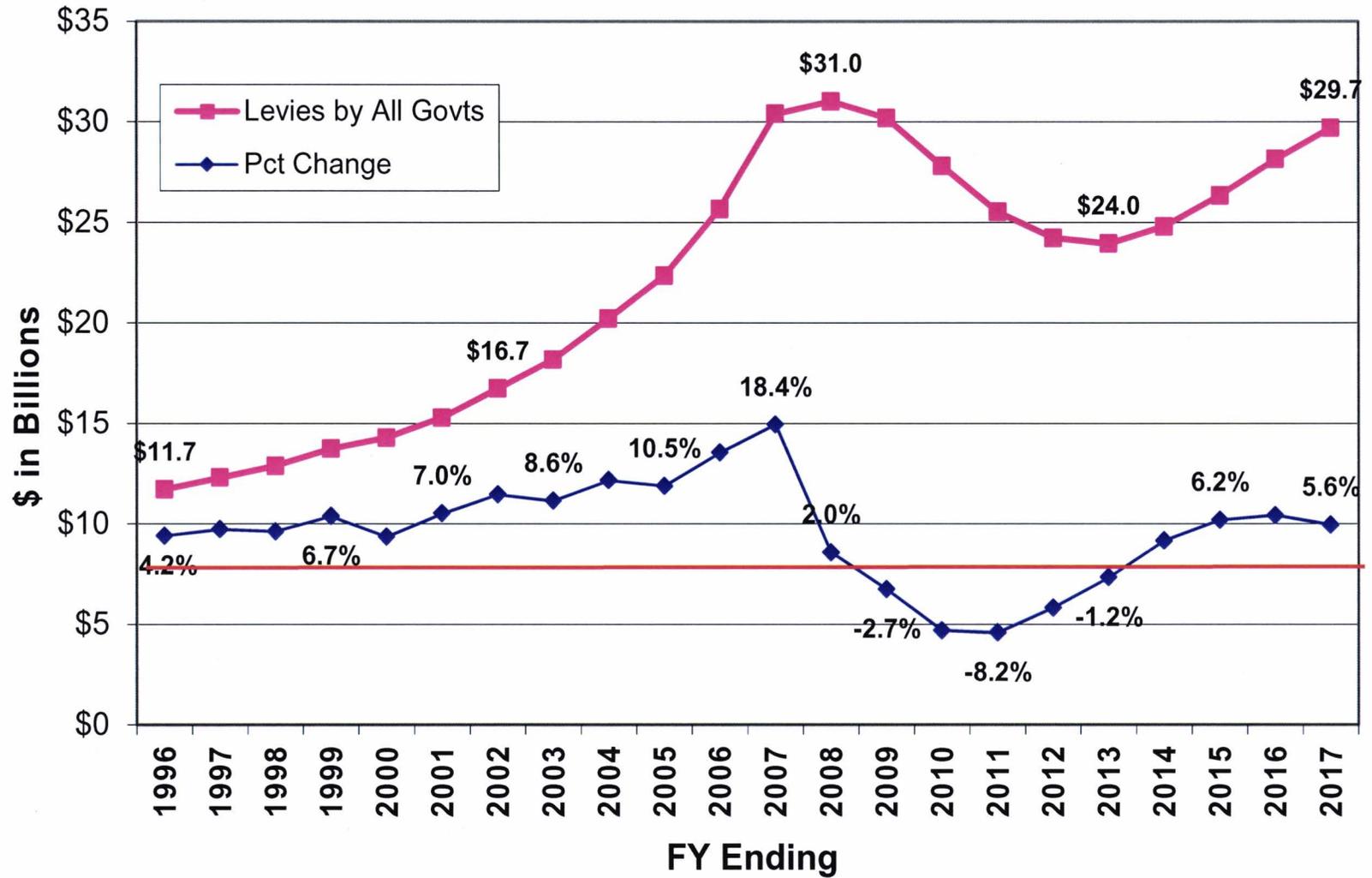
Original idea was to hinder property tax revenue growth

- × Limit = prior year's taxes, assuming max levied, adjusted for growth in Florida per capita personal income and for taxes on new construction

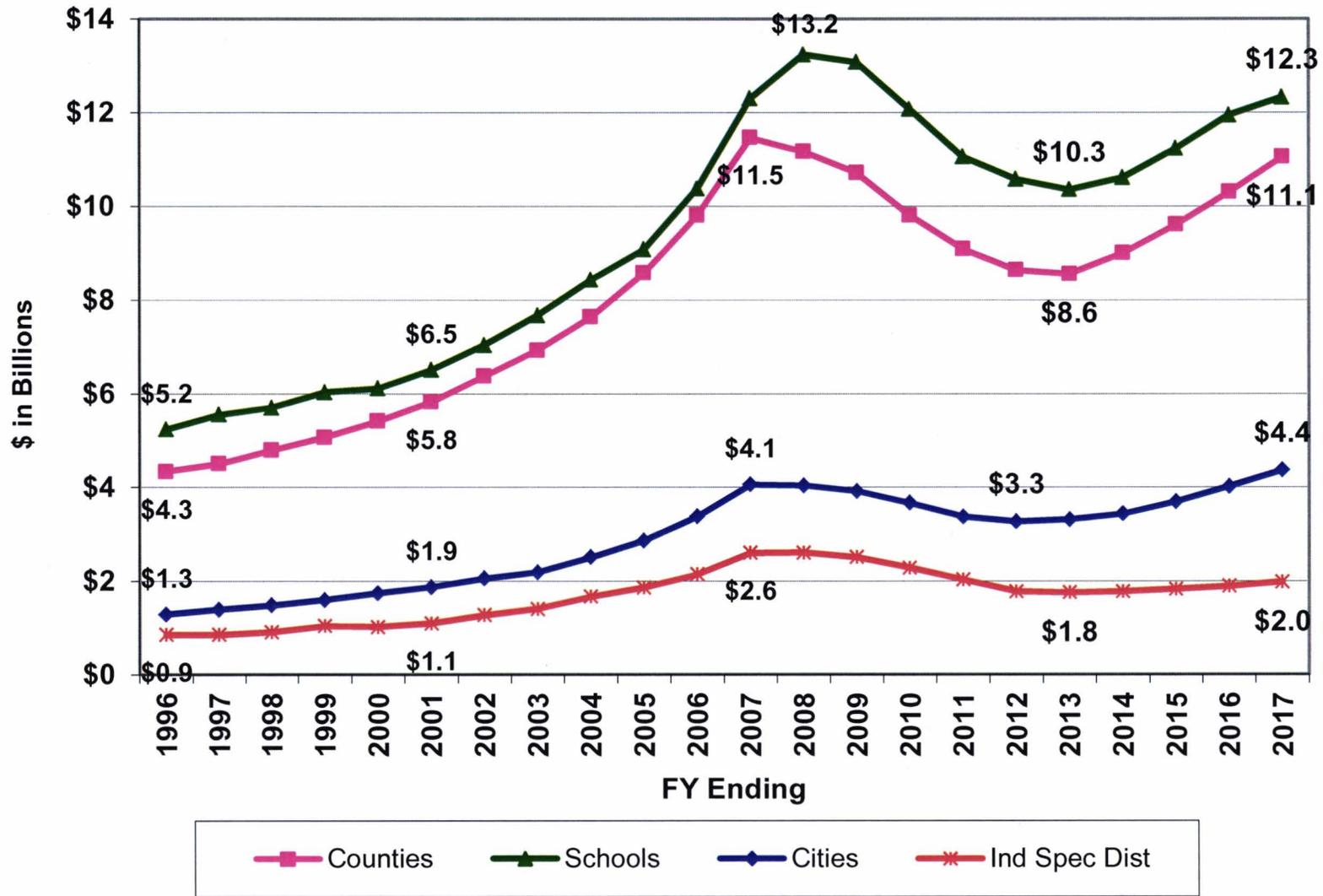
May be exceeded by super-majority votes of the governing body

Not relevant in many jurisdictions at present

Florida Property Taxes Levied



Florida Property Tax Levies by Government Type



* Affected by new jurisdictions and annexations

QUESTIONS AND ANSWERS

ADDITIONAL INFO: TAX BASE CONCEPTS

Just Value--the general constitutional standard

- ✘ Interpreted by the Supreme Court to mean fair market value.
- ✘ Determined annually by county property appraisers, subject to 8 factors that must be considered, allowing for usual and reasonable costs and fees.
- ✘ Because of the allowance for costs and fees of sale, the just value determined by the property appraiser is approximately 85 percent of what the property would sell for.

Assessed Value – same as just value, with some exceptions:

- ✘ “Save Our Homes” limitations
 - + *Increases in homestead assessed value are limited to the lesser of 3% or inflation as measured by the Consumer Price Index, regardless of the increase in market value, EXCEPT THAT*
 - ✘ Assessed value can not exceed just value
 - + Assessed value can increase even when market value falls if the homeowner had accumulated a benefit over time (often referred to as “Recapture”)
 - + Assessed value is re-set to just value (and *tax benefits are lost*) when ownership of the homestead changes, *UNLESS*
 - ✘ The new owner brings all or a portion of his Save Our Homes benefit from his prior homestead (commonly referred to as “Portability”)
 - ✘ Up to \$500,000 in property value can be protected in this way

ADDITIONAL INFO: TAX BASE CONCEPTS

Assessed Value (continued)

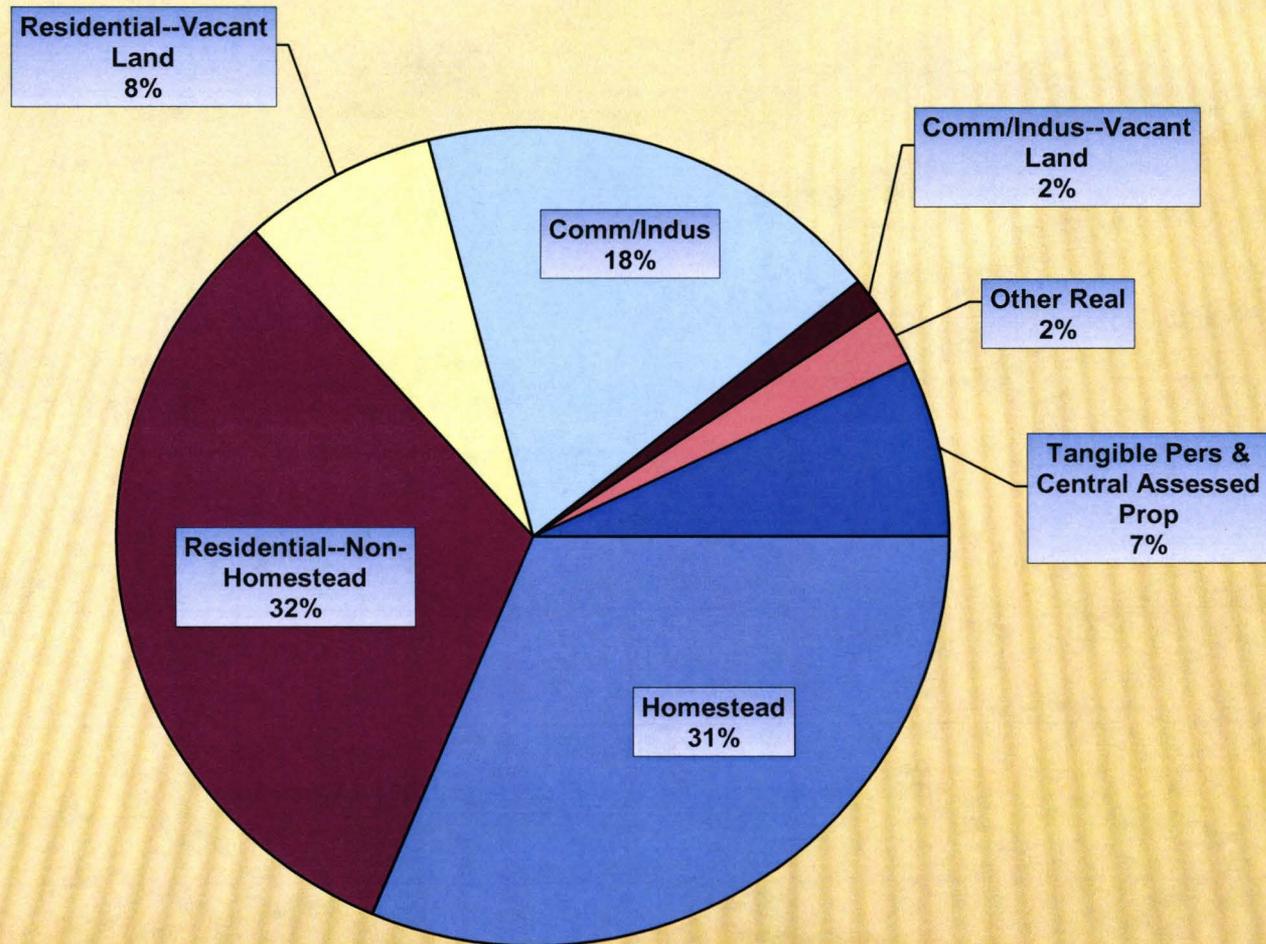
- ✘ Non-homestead parcel value growth cap
 - + Similar to SOH except cap is 10% instead of 3% or inflation
 - + No portability
- ✘ Improvements to residential property not to be considered:
 - + Improved resistance to wind damage (needs implementing legislation)
 - + Installation of a renewable energy source device (needs implementing legislation)
- ✘ Other special classes are assessed based on use instead of market value
 - + Agricultural property
 - + Pollution control devices
 - + Conservation easements, park and outdoor recreational land
 - + Working waterfronts (needs implementing legislation)
 - + Land used for conservation purposes

ADDITIONAL INFO: TAX BASE CONCEPTS

Taxable Value -- assessed value less any exemptions. Numerous exemptions allowed by Florida Constitution

- × Homestead Exemptions—permanent residence of owner
 - + The first \$25,000 of value is exempt (all homesteads, all purposes)
 - + Assessed value between \$50,000 and \$75,000 is exempt (all homesteads, non-school purposes)
 - + Up to \$50,000 of value is exempt for certain low-income homesteaders over the age of 65
 - + Others: Disabled veterans, totally and permanently disabled persons, widows and widowers, blind persons
- × Tangible Personal Property
 - + The first \$25,000 of value per return is exempt
- × Government-Owned Property
 - + Federal, State and County immune
 - + City and special district exempt unless used for non-governmental purposes
- × Other Exemptions
 - + Charitable, educational, religious, scientific institutions
 - + Conservation Lands
 - + Other miscellaneous

ADDITIONAL INFO: NON-SCHOOL TAXABLE VALUE COMPOSITION , FY 2016-17



ADDITIONAL INFO: RECENT LAW CHANGES

Amendments Approved in 2016:

Amendment 3:

- + Authorizes the legislature to create a homestead exemption for certain totally and permanently disabled first responders.

Amendment 4:

- + Authorizes the Legislature to exempt renewable energy source devices from taxes on tangible and real property.

Amendment 5:

- + Permits pre-qualified low-income seniors to maintain an additional homestead exemption if their property value rises above \$250,000.