

FOR JANUARY 24, 2002

TAX REFORM

Senate President John McKay (R-Bradenton) distributed to the full Senate today his revised proposal for reforming Florida's tax system. This was in anticipation of the first full hearing on the proposal scheduled for tomorrow in the Senate Finance & Taxation Committee. Typically, such a packet would simply be released to the Committee members, but since Senator McKay is pressuring the entire Senate to run off this "tax policy cliff" with him, he distributed the package to all as a courtesy.

The proposal has changed and it is none for the better.

No longer does President McKay wish to lower the rate from 6% to 4%. Now, the proposal has been altered to reduce it to 4.5%. Also, SJR 938 no longer proposes to eliminate the alcoholic beverage "drink tax" or the intangibles tax. Why?

Simply put, the Senate President and members of the Florida Senate have been taking an absolute beating from businesses, constituents and associations over the last few weeks. Under the original proposal, the Legislature would have to find over \$9 billion in new sales tax dollars. Industries and citizens quickly did the math and surmised that they were the ones that were going to fund this "revenue neutral" proposal.

With these changes, Senator McKay's proposal now only demands that the Legislature find \$4.2 billion in new sales tax dollars. But wait, there's more.

This is where this drama gets a little tricky to follow and politically ugly.

The proposed CS/SJR 938 is merely a Legislative resolution to amend the Florida Constitution by a vote of the citizens in November. The proposed amendment to the Constitution stipulates that all of Florida's sales tax exemptions are repealed on July 1, 2004. Excepted from this are those exemptions related to groceries, health services, prescription drugs and residential rent. It is up to the Legislature during the 2003 and 2004 sessions to see what exemptions they wish to keep and which ones to leave repealed with the end game being they must come up with \$4.2 billion in new dollars.

Since this is a Joint Resolution, the Legislature must come up with an “implementing bill” to statutorily apply the dictates of the Constitutional amendment. The politically ugly part is that the proposed implementing bill provides a long list of additional exemptions to be maintained. In other words, in order to win the adoption of this proposal, Senator McKay is bargaining away exemptions to “buy off” the opposition. Left in the barrel are those individuals, groups, industries and associations that have had neither the time nor money to run mean television commercials. And so, awkwardly listed in the CS/SB 1106 by Senator Ken Pruitt (R-Port St. Lucie) are a whole list of exempted business interests, services and household goods President McKay doesn’t want to tangle with; sewage and garbage collection services, automobile trade-ins, items manufactured for export, electricity used for manufacturing, eye glasses, insurance premiums, real estate agency fees, radio and television broadcast advertising and on and on. With the stroke of a pen, with no debate, methodical review, with no standard or criteria, the Senate President wants to protect these exemptions as a whole, all tumbled into the same bill like a child’s toy box. This is reform?

Now comes the disingenuous part. This bill is only a promise at best. A sitting legislature cannot bind a future-sitting legislature. All these exemptions, President McKay is bargaining away in an attempt to pass reform - any reform - may still be repealed by the next sitting Legislature in 2003 or 2004 if they so choose. The bill is merely a “good faith” offer to those groups that have had the political clout to pound the Senate.

This is the very ill conceived form of tax reform AIF feared would take place. AIF supports and is willing to debate the business community’s sales tax exemptions enjoyed under current law. AIF believes our employer’s exemptions have merit and that they can be defended on any reasonable standard. We support an orderly, methodical review of all of Florida’s sales tax exemptions. We do not support a review demanded by an amendment to the Florida Constitution with a clock ticking ever louder demanding that the Legislature scramble to find billions of dollars in sales taxes. The indiscriminate inclusion of a whole host of exemptions in the implementing bill, selected by a few staffers in the Senate to push back political opposition is the very scenario AIF predicted would occur.

It is rumored that President McKay has recruited a former executive director of the Department of Revenue to assist in this messy enterprise. Unfortunately, this particular director is also one who has always believed that Florida is “broke” and should search for new ways to raise revenue. AIF Senior Executive Vice President Randy Miller is also a former director of the Department and he was in the office in 1987 during the implementation of the Services Tax and knows the pitfalls. “AIF believes Florida’s tax systems acts as it should; when people have less money, so does the state. When times are good the money to the state increases as well. It is the management of these revenues during good times and the control of spending is what is at issue. Florida’s tax system is not “broken,”” said Mr. Miller on the televised “Mike Vasilinda Report” Wednesday evening. It now appears that the real agenda is to have a repeat of the 1987 Services Tax exercise which was overwhelmingly rejected by the taxpayers of this state.

This “Balkanization” of the Florida Tax Code in search of a short term political “win” will do Florida great harm. Reform should not be done by amending the Florida Constitution. It is the prerogative of the legislature and executive branch. We support an orderly review of Florida’s sales tax exemptions. As the state grows, if genuine pressure develops on the state’s resources, the Legislature has the adequate tools and resources available to conduct such a review. Remember that it is the Florida Constitution that arguably has Florida in this ill-fitting tax box to begin with. The document prohibits both a statewide personal income tax and an ad valorem tax on property. Do we really need to squeeze more tax policy into the Constitution? AIF thinks not.

And neither should you. Visit the Legislative Directory link on fbnnet.com and find your Senator to let him or know how you feel about this “tax reform.”

CABINET REORGANIZATION

The House State Administration Committee passed HB 577 unanimously. As we have previously reported, HB 577 embraces a reorganization of the Florida Cabinet supported by AIF. The 1998 voter-approved revision of the Florida Cabinet collapsed the State’s Treasurer & Insurance Commissioner and State Comptroller into one office known as the Chief Financial Officer. HB 577 places the new CFO firmly in charge of the state’s finances and the Constitutional duties currently shared by both offices. However, the bill places the necessary distance between the CFO and the extensive duties of regulating the insurance securities and banking industries. While the Senate passed a version last night advertised as a “compromise” with the House position, we maintain that the House position best protects the citizens of Florida from the political compromise of the Office of CFO while insuring the regulatory integrity of these industries.

ADMINISTRATIVE PROCEDURES ACT

The House Judicial Oversight Committee passed HB 257 by Representative Joe Spratt (R-Sebring) today. The bill is the House companion to SB 270 by Senator Jim King (R-Jacksonville) reported on by AIF yesterday.

The bill clarifies current law, limiting the ability of “just anyone” to initiate an administrative hearing in opposition to a development. Currently, people who have no practical or personal interest in a commercial permitting process are initiating administrative hearings in attempt to, “protect the environment.” These initiatives have taken on the gleam of outright harassment and are adding considerable dollars to the cost of residential and commercial development.

Stay tuned to our daily brief and to our web site at www.fbnnet.com as the legislature makes some very important decisions on the state’s economy. These decisions will have a major impact on the business community and AIF will be reporting to you everything that happens.

This report was prepared by Curt Leonard, Manager – Governmental Affairs at Associated Industries of Florida (AIF). Please send your comments or suggestions to us at aif@aif.com or call the Governmental Affairs department at (850)224-7173.

- For more information on all of the important legislative information concerning the business community, go to our “members only” Florida Business Network web site at <http://fbnnet.com>
- Send us your E-mail address and we will begin to send this report to you automatically via E-mail.