

LEGISLATIVE DAILY BRIEF



P.O. Box 784 • Tallahassee, FL 32302 • Phone: (850) 224-7173 • Fax: (850) 224-6532 • Internet: <http://aif.com> • fbnnet.com

FROM JANUARY 9, 2002 INTERIM COMMITTEE MEETINGS

TAX REFORM

Proposed tax reform was the highlight of today's activities in the Florida Legislature. SJR 938 by Senator Ken Pruitt (R-Port St. Lucie) was considered today in the Senate Finance and Taxation Committee. The bill, which promises to be the single most controversial and influential issue of the 2002 Regular Session, was not voted on by the Committee today. It was merely discussed. Testimony was taken and 13 proposed amendments were introduced. None of the 13 amendments voted upon by the Committee.

Although the bill is sponsored and supported by Senator Pruitt, it is really the brainchild of Senate President John McKay (R-Bradenton).

Senator McKay believes Florida tax structure is broken and must be fixed in order to insure stable, equitable and sufficient revenue for Florida's needs in the near and far future.

Broadly, his reform proposal eliminates three major taxes, throws a fence around those sales tax exemptions related to "necessities" and reduces the sales tax rate from 6 to 4%. In doing so, the plan requires that the 2003 and 2004 Legislatures will have to repeal at least \$9.5 billion in current tax exemptions. The overall theory is to broaden the base of the sales tax, increase the number paying the tax, while simultaneously lowering the rate. (A more detailed explanation of the plan at the end of this report.) The nettlesome detail is this: Even if the Legislature repealed *all* the business, organizational and miscellaneous sales tax exemptions (which would be disastrous), only \$3.58 billion in revenue would be raised. In order for the math to work, the Legislature would then have to repeal exemptions related to households and services, which brings us right back to the ill-fated Sales Tax on Services in 1987. As former Major League baseball player and part-time economist Yogi Berra once observed, "Déjà vu all over again."

In his opening remarks, Senator Pruitt stated that this proposal represents an effort to create a, "equitable, efficient, stable tax structure." However, it is important to note that the sales tax exemptions that the proposal *mandates* remain on the books – related to residential rents, groceries, health services, prescription drugs and basic residential phone services – are the very sales tax items that would stabilize the state's revenue stream. In other words, the sales tax exemptions that Senator McKay wants to protect are the very ones that, if repealed, would generate the steady tax dollars so desired in good times and bad.

Hank Fishkind of Fishkind & Associates, an economist hired by the Senate to analyze Florida's tax structure and the merits of McKay's proposal, spoke in favor of the reform plan, as expected. Following his testimony, Mr. Fishkind answered questions of the Committee members. While the Senate is a staid and sober institution, the Committee members nearly wrapped their arms around Mr. Fishkind's legs, asking him how to explain this proposal to their constituents. It was obvious that while the Committee members find the general notion of improving Florida's tax structure attractive, they do not feel entirely comfortable with this particular proposal.

Testimony given in opposition to the proposed reform plan reflected AIF's position. While an orderly, methodical review of all of Florida's sales tax exemptions is an idea with merit, reforming Florida's tax structure by a Constitutional amendment and artificially squeezing Florida's sales tax exemptions until \$9.5 billion pops out - regardless of the merits of those exemptions - is not the way to pursue reform. At the appropriate time, AIF will release an alternative plan that we believe will provide for the necessary consideration of Florida's tax structure without unduly jeopardizing the competitiveness and prosperity of Florida's economy.

Here is a detailed summary of SJR 938:

- The state's current 6% sales tax rate is fixed by the Florida Legislature. McKay's proposal reduces that rate to 4% by a constitutional amendment. The proposal is characterized as being "revenue neutral" by reducing the rate while at the same time broadening the tax base by repealing a variety of current exemptions.
- So-called "basic needs" would be spared. Groceries, residential rent, health care services, prescription drugs and basic telephone service would be exempt under the proposal. Also eliminated would be the alcoholic beverage tax, the hospital bed tax and the intangibles tax.

Senate President McKay's constitutional amendment to lower the sales tax rate from 6 to 4% would also include the following language:

- The amendment would require a 3/5's vote of both legislative houses before the sales tax could be raised.
- The amendment would also require a 3/5's vote of both houses of the legislature before any new exemption could be adopted.
- All tax exemptions and exclusions are repealed under the proposal and will have to be reinstated by a subsequent session of the Florida Legislature.

AIF continues to agree that the Florida Legislature could and should perform a detailed review of Florida's existing sales tax exclusions/exemptions to satisfy the legitimate concerns related to the fairness and equity of the exemptions in question. However, Florida's tax code is a creature of the statutes and should remain so. Further, AIF is free to argue that such a review should be conducted, as a statutory exercise, in large part because the exemptions that AIF has supported can withstand the scrutiny of even the most exacting criteria. (See AIF Press Release on "[The McKay Plan](#)" at aif.com.)

Tax Reform II

On the House side, Speaker of the House Tom Feeney (R-Oviedo) announced the creation of a House Select Committee on Tax Reform to evaluate Senator McKay's proposal and to solicit, organize and analyze input from Florida's citizens. It is the Speaker's hope that this Committee can provide some insight and direction to the House members on this issue as the Regular Session begins later this month.

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.