SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Ways and Means Committee

BILL: CS/SB 854

INTRODUCER: Ways and Means Committee and Senator Carlton

SUBJECT:

DATE: April 24, 2006 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	McVaney	Coburn	WM	**Fav/CS**
2.			RC	
3.				
4.				
5.				
6.				

I. Summary:

This bill directs the Department of Revenue to conduct a study regarding Florida's property tax structure. The bill enumerates specific issues to be analyzed and directs that the recommendations should be based on the principles of equity, compliance, pro-competitiveness, neutrality, stability and integration. The bill sets out specific time frames for the study, including dates for submission of progress reports, draft reports and the final report.

The bill appropriates $1,000,000 to the Department of Revenue to conduct the study.

The bill eliminates the Communication Services Tax Task Force and reverts the funds appropriated for the task force's work.

This bill creates two unnumbered sections of law.

II. Present Situation:

The ad valorem tax or "property tax" is an annual tax levied by local governments based on the value of real and tangible personal property as of January 1 of each year. The taxable value of real and tangible personal property is the fair market value of the property adjusted for any exclusions, differentials or exemptions. Tax bills are mailed in November of each year based on the previous January 1st valuation and payment is due by the following March 31.

Ad valorem tax continues to be a major source of revenue for local governments in Florida. In FY 2002-03 (the last year for which certain fiscal information is available) property taxes constituted 31 percent of county governmental revenue ($6.3 billion), and 17 percent of municipal governmental revenue ($2.5 billion), making it the largest single source of tax or

general revenue for general purpose governments in Florida. In addition, the property tax is the primary local revenue source for school districts. In FY 2003-04, school districts levied $8.4 billion in property taxes for K-12 education.
Article VII, s. 6(a-d) of the Florida Constitution, provides for a $25,000 homestead exemption. Article VII, s. 6(e) of the Florida Constitution authorizes the Legislature to provide renters who are permanent residents ad valorem tax relief on all ad valorem tax levies. This $25,000 exemption is implemented in ss. 196.1975(9)(a) and 196.1977, F.S., for certain units in non-profit homes for the aged and certain proprietary continuing care facilities. Article VII, s. 6(f) of the Florida Constitution, authorizes the Legislature to allow counties or municipalities, by ordinance, for the purpose of their respective tax levies, to grant an additional homestead tax exemption of up to $25,000 to resident homeowners who are 65 years of age whose household income, as defined by general law, does not exceed $20,000, adjusted for inflation.

"Save Our Homes" Assessment Limitation - Article VII, s. 4 of the Florida Constitution, requires that all property be assessed at its just value for ad valorem tax purposes. Just value has been interpreted to mean fair market value.[1] However, section 4 also provides exceptions to this requirement, in the form of valuation differentials and assessment limitations. The most significant of these is the "Save Our Homes" assessment limitation. The annual increase in homestead property values is limited to 3 percent or the Consumer Price Index percentage, whichever is lower, not to exceed just value. If there is a change in ownership, the property is to be assessed at its just value on the following January 1. Section 193.155, F.S., implements this assessment limitation.

The "Save Our Homes" assessment limitation has benefited Florida homestead property owners in the form of reduced ad valorem taxes. However, the assessment limitation has had an unforeseen consequence. Rapidly escalating property values in many Florida communities have resulted in an environment in which homeowners may be reluctant to sell their property and purchase new homes due to the often substantial increase in property taxes. Several bills were filed during the 2005 Regular Session to address this concern. In general, these legislative proposals attached the tax benefits to the owners, rather than the property, and allowed the homeowners to retain their reduction in tax assessments when they move to a new home in the state.

Section 12 of chapter 2005-187, L.O.F., created the Communication Services Tax Task Force to review and evaluate existing national and state regulatory and tax policies relating to the communications industry and make recommendations to the Legislature concerning the scope of communications services that should be subject to the communications service tax.

The task force is to consist of nine members, three appointed by the Governor, three appointed by the Senate President, and three appointed by the Speaker of the House. Members of the Legislature and registered lobbyists are not eligible for appointment to the task force. Appointees must have expertise in state or national telecommunications policy, taxation, law, or technology. Members serve at the pleasure of the appointing official and any vacancy is to be filled in the same manner as the original appointment. Members serve without compensation but are entitled to per diem and travel.

[1] *See Walter v. Schuler*, 176 So. 2d 81 (Fla. 1965).

The task force is to be housed for administrative purposes within the Department of Revenue. The department is to provide staff for tax issues and the Public Service Commission is to provide staff for technical and regulatory issues.

The task force is to hold its organizational meeting by July 15, 2006. It is to report its findings to the Governor, the Senate President, and the Speaker of the House by February 1, 2007. It is to dissolve by December 31, 2007.

III. Effect of Proposed Changes:

Section 1 requires the Department of Revenue to commission a study on the state's property tax structure. Specific issues to be analyzed are enumerated, focusing on the impact of the Save Our Homes amendment. The study is designed to result in specific recommendations to the Legislature based on the following principles of taxation – equity, compliance, pro-competitiveness, neutrality, stability and integration. The Department of Revenue is directed to submit a progress report by February 1, 2007, an initial draft report by June 1, 2007, a revised draft report by September 1, 2007, and a final report by October 1, 2007.

Section 2 appropriates $1,000,000 to the Department of Revenue to conduct the study.

Section 3 repeals the Communications Service Tax Task Force.

Section 4 reverts the appropriation made to fund the task force.

Section 5 provides that the act shall take effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

The bill appropriates $1,000,000 to the Department of Revenue to conduct the study. The bill also reverts a $600,000 appropriation made to the Department of Revenue to fund the work of the Communications Service Tax Task Force.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Summary of Amendments:

None.