

The Florida Senate  
**COMMITTEE MEETING EXPANDED AGENDA**

**FINANCE AND TAX**  
**Senator Hukill, Chair**  
**Senator Abruzzo, Vice Chair**

**MEETING DATE:** Tuesday, January 20, 2015  
**TIME:** 3:30 —5:00 p.m.  
**PLACE:** James E. "Jim" King, Jr. Committee Room, 401 Senate Office Building

**MEMBERS:** Senator Hukill, Chair; Senator Abruzzo, Vice Chair; Senators Altman, Diaz de la Portilla, Flores, Margolis, Simpson, and Soto

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
1	Introduction of Members and Committee Staff		Discussed
2	Opening Comments by Committee Chair		Discussed
3	Overview of Committee Jurisdiction		Discussed
4	Summary of Major Recurring Issues		Presented
Other Related Meeting Documents			

# Finance and Tax Committee Membership

**Dorothy Hukill, Chair - District 8**

305 SOB

Tallahassee Office: 5008

District Office: 40800

Assistants: Elizabeth, Lindsey, Edith, and  
Connie

**Joseph Abruzzo, Vice Chair - District 25**

222 SOB

Tallahassee Office: 5025

District Office: 42500

Assistants: Christine, Benjamin, and Shreya

**Thad Altman - District 16**

314 SOB

Tallahassee Office: 5016

District Office: 41600

Assistants: Rick, Nancy, Selene, and Devon

**Miguel Diaz de la Portilla - District 40**

406 SOB

Tallahassee Office: 5040

District Office: 44000

Assistants: Pat, Anabel, and Julio

**Anitere Flores - District 37**

413 SOB

Tallahassee Office: 5037

District Office: 43700

Assistants: Maria, William, and Lisette

**Gwen Margolis - District 35**

414 SOB

Tallahassee Office: 5035

District Office: 43500

Assistants: Daniel, Zoraida, and Theresa

**Wilton Simpson - District 18**

322 SOB

Tallahassee Office: 5018

District Office: 41800

Assistants: Patty, Rachel, Judy, and Patrick

**Darren Soto - District 14**

220 SOB

Tallahassee Office: 5014

District Office: 41400

Assistants: Christine, Tracy, and Cecilia

## **Staff**

### **Committee on Finance and Tax**

#### **Jose Diez-Arguelles, Staff Director**

This is Jose's fifth year with the Florida Senate. He also has 15 years of legislative experience with the House of Representatives, serving as Staff Director of the Finance and Tax committee for over 8 years. He has worked at the Public Service Commission, the Department of Insurance, as an Administrative Law Judge and in private practice. He has a B.A. and Law Degree from Florida State University and a Masters in Tax Law Degree from Boston University. He is originally from Cuba and has lived in Tallahassee since 1971.

#### **Robert Babin, Senior Attorney**

This is Robert's fifth year with the Florida Senate. Previously, he worked for the Florida Department of Revenue for 7 years, serving most recently as the Department's Legislative and Cabinet Services Director. He has a B.A. from the University of West Florida, and a Law Degree and Masters in Tax Law Degree from the University of Florida. He is originally from Pensacola and has lived in Tallahassee since 2004.

#### **Ellen Fournier, Chief Legislative Analyst**

Ellen has worked for the Florida Senate in the Finance and Tax area since 1990. Ellen also worked for the Florida Department of Commerce for 6 years, and was an adjunct professor of economics at FAMU in 1984. She served as a visiting professor of economics at the U.S. Naval Academy in 1978-79. She has a B.A. from Roanoke College and a Masters Degree in Economics from the University of Virginia. She is originally from Virginia, and has lived in Tallahassee since 1980.

#### **Steve Gross, Legislative Analyst**

This is Steve's first year with the Florida Senate. Previously, he worked for Histecon Associates in Little Rock, Arkansas as a Research Analyst. He has a B.B.A. from the University of Central Arkansas and a Masters Degree in Economics from Florida State University. He grew up in South Florida and has lived in Tallahassee since May of 2013.

#### **Lynn Wells, Committee Administrative Assistant**

Lynn has worked for the Florida Senate for 5 years and recently transferred from the Children, Families, and Elder Affairs committee. She has a B.S. from the University of West Florida.

### Staff Assignments 2014-15 – Committee on Finance and Tax

Revenue Source	Ellen	Robert	Steve	Jose
Article V Fees and Transfers				
Beverage Licenses			X	
Beverage Tax			X	
Cigarette and Other Tobacco Products Tax and Surcharge	X			
Citrus Taxes			X	
Communications Services Tax (state and local)		X		
Corporation Fees			X	
Corporation Income and Emergency Excise Tax		X		
Documentary Stamp Tax	X			
Dry Cleaning Tax			X	
Estate Tax		X		
Gross Receipts Tax on utilities			X	
Insurance Taxes and Fees	X			
Intangibles Tax	X			
Lottery	X			
Motor Fuel and Diesel Fuel Taxes (state and local)			X	
Pari-Mutuel Tax	X			
Pollutant Taxes and Fees			X	
Sales and Use Tax (state and local)	X		X	
Severance Taxes, Oil and Gas			X	
Severance Taxes, Solid Minerals			X	
Slot Machine Tax and Indian Gaming	X			
Unemployment Compensation Tax		X		
Ad Valorem, Special Assessment Impact Fees		X		
Local Business Taxes		X		
Public Service Tax			X	
Bond Finance				X
Tax Administration		X		
Revenue Limitation	X		X	X
Legal Issues		X		X
Auto Title and Lien Fees			X	
Driver Licenses			X	
Health Care Assessments				
Hotel and Restaurant Licenses and Fees				
Hunting and Fishing Licenses			X	
Inspection Licenses and Fees				
Medical Hospital Fees			X	
Motor Boat Licenses			X	
Motor Vehicle and Mobile Home Licenses			X	
Professional and Occupational Licensing Fees				
Workers' Compensation Assessments				



## **Areas of Responsibility**

### **Finance and Tax Committee**

The Committee on Finance and Tax generally considers and evaluates proposals affecting state and local government revenue sources. When appropriate, the committee also examines proposals dealing with other state and local government financial matters, e.g., the issuance of bonds and investment activities. Committee staff represents the Senate in the revenue estimating process set forth in Sections 216.133 – 137, Florida Statutes.

# RESOURCES

## 1. **Article VII, Florida Constitution**

### 2. ***Florida Tax Handbook***

The *Florida Tax Handbook* provides statutory and administering authority for major state and local government revenue sources and recent history and near-term estimates of revenue collections and dispositions. The tax base and rate of each source is provided, along with a brief statutory history. It includes fiscal impact estimates for all current exemptions, refunds, and allowances, and potential rate changes.

The *Handbook* also provides an overview of state revenues and expenditures, describes the Budget Stabilization Fund, and explains the consensus estimating conference process. It includes a section on major pending litigation which could significantly affect state revenue collections or tax policy.

The latest edition of the *Florida Tax Handbook* can be found at:

<http://edr.state.fl.us/Content/revenues/reports/tax-handbook/index.cfm>

The 2015 edition will be published in early 2015.

### 3. ***Local Government Financial Information Handbook***

The *Local Government Financial Information Handbook* includes descriptions of local government revenue sources, and identifies the authority under which each is imposed, whether constitutional, home rule, or statutory. For many local revenue sources the *Handbook* includes revenue estimates for the upcoming state or local fiscal year; for others it provides the website address for data on actual collections. The *Handbook* also includes information on local option sales, fuel, and transient rental tax rates, and local population estimates. It is updated each October by the Office of Economic and Demographic Research, with assistance provided by the Department of Revenue's Office of Tax Research.

The latest edition of the *Local Government Financial Information Handbook* can be found at:

<http://edr.state.fl.us/Content/local-government/reports/index.cfm>

## SUMMARY OF MAJOR RECURRING ISSUES

### **A. Reduce the state rate of the Communications Services Tax**

The Communication Services Tax is a tax on telecommunications, cable, direct-to-home satellite, and similar services. The tax includes a state portion (6.65%) and a gross receipts portion (2.52%). In addition, local governments impose a local tax rate. The total combined rate of communication services is up to 16.3%, which is one of the highest rates on telecommunications services in the nation.

Each 1% reduction in the state rate is estimated to reduce general revenue collections by approximately \$122 million, annually. It will also reduce revenue sharing to local governments by \$15.7 million, annually.

### **B. Corporate Tax Exemption**

In 2010 and 2011, the Corporate Income Tax was amended to reduce the amount of income that is subject to the tax. These changes were accomplished by increasing the amount of income that is exempted before the tax is applied. In 2010, the exemption amount was \$5,000. This amount was increased in 2011 to \$25,000, and increased again in 2012 to \$50,000.

The 2011 increase was estimated to reduce collections by \$29.1 million, annually. The 2012 increase was estimated to reduce collections by an additional \$29.4 million, annually.

Increasing the amount of the exemption to \$75,000 is estimated to reduce collections by approximately \$20 million, annually.

### **C. Sales Tax Holidays**

Since 1998, the Legislature has approved a number of sales tax holidays during which certain items are exempted from the state sales tax and county discretionary sales surtaxes. The length of the exemption period has varied from 3 to 12 days. The type and value of exempt items has also varied. The most frequent tax holiday is the “back to school” sales tax holiday where items such as clothing and school supplies are exempt. In 2005, 2006, and 2007, the Legislature also approved sales tax holidays for hurricane preparedness items. In 2014 the Legislature approved 3 sales tax holidays:

- A 9-day Hurricane Preparedness holiday from May 31-June 8, 2014. Tax-exempt items included portable, self-powered light sources and radios; tarpaulins or other waterproof sheeting; self-contained first-aid kits; ground anchor systems or



tie-down kits; gas or diesel fuel tanks; packages of AA-cell, C-cell, 6-volt, or 9-volt batteries, excluding automobile or boat batteries; non-electric food storage coolers, portable generators, and reusable ice. Each item was subject to a maximum value, and the total revenue impact was estimated to be (\$2.7) million.

- A 3-day school sales tax holiday from August 1-August 3, 2014. Tax exempt items included clothing items priced no more than \$100, school supplies priced no more than \$15, and the first \$750 of the sales price of personal computers or personal computer-related accessories purchased for noncommercial home or personal use. The total revenue impact was estimated to be (\$39.3) million.
- A 3-day Energy Efficient Appliance holiday from September 19-21, 2014. The holiday exempted up to the first \$1,500 of the price of qualifying Energy Star and Water Sense certified products. Eligible products included room air conditioners, air purifiers, ceiling fans, clothes washers, dehumidifiers, dishwashers, freezers, packages of lightbulbs, pool pumps, refrigerators, water heaters, bathroom sink faucets and accessories, high-efficiency toilets and urinals, showerheads, and weather or sensor-based irrigation controllers. The total revenue impact was estimated to be (\$1.7) million.

#### **D. Machinery and Equipment used in Manufacturing**

Before 2013, Florida provided a sales tax exemption for machinery and equipment (M&E) used in manufacturing in certain situations: (1) when the addition of the M&E increase productive output; (2) certain M&E used under a federal procurement contract; and M&E used for the production of semiconductors, defense or space technology.

In 2013, the Legislature approved an additional sales tax exemption for machinery and equipment used in manufacturing tangible personal property. The exemption is available to all manufacturing businesses and does not require an increase in productive output. The exemption is scheduled to be in place from April 30, 2014, to April 30, 2017.

Making the exemption permanent is anticipated to reduce state and local government revenues by approximately \$150 million annually.

#### **E. Reduce or Eliminate the Sales Tax on Commercial Rentals**

Florida's sales and use tax applies to the rental of real property, with an exemption provided for property used as a dwelling unit. The state-wide tax rate is 6 percent, with local discretionary surtaxes of .5% to 1.5% percent imposed in some counties. Bills

have been filed each year since 2012 to reduce or repeal this tax. It is estimated that reducing or eliminating the tax would have the following revenue impact in FY 2014-15:

	State Impact	Local Impact	Total Impact
Reduce Rate from 6% to 5%	(\$209)	(\$27)	(\$236)
Eliminate Tax on Commercial Rentals	(\$1,254)	(\$281)	(\$1,535)

#### **F. Corporate Income Tax “Piggyback Bill” / Bonus Depreciation**

To maintain a current relationship between Florida’s Corporate Income Tax and federal tax law, Florida adopts the Internal Revenue Code as of January 1, each year (the “Piggyback” bill). In recent years, Congress has granted extraordinary first-year expensing and bonus depreciation deductions. Thus far, Florida has chosen not to adopt these extraordinary deductions.

Fully adopting the 2015 Internal Revenue Code, which includes these extraordinary deductions for 2014 tax years, is estimated to reduce collections by at least \$100 million.

#### **G. Economic Development Tax Incentives**

Florida provides incentives to attract businesses to the state through various tax credits and exemptions.

Tax incentives are also provided for businesses that locate in particular locations in the state. For example, businesses located in enterprise zones are eligible for tax credits related to job creation, use of electrical energy, purchases of certain depreciable businesses equipment and building materials, and ad valorem taxes. Tax credits are also available for businesses located in designated rural and urban high-crime areas. The New Markets Development Program is another economic development program that allows taxpayers to earn tax credits by investing in community development entities that invest in low-income community businesses to create and retain jobs.

Other economic development tax incentives include corporate tax credits for capital investment, research and development and specific sales tax exemptions enacted to stimulate particular segments of Florida’s economy, including manufacturing, space-related activities, and aviation.

Every year bills are filed to modify existing incentives or create new ones. For example, the Department of Economic Opportunity is proposing changes to some of the tax incentives it administers, film and entertainment tax credits are anticipated to be discussed, and the enterprise zones program is scheduled to expire on December 31, 2015.

# Recent Corporate Income Tax Changes



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Committee on Finance and Tax  
January 20, 2015

# Florida Corporate Income Tax

- 5.5 percent tax
- “C” corporations and financial institutions
- \$50,000 exemption
- In determining Taxable Income, Florida uses the federal Internal Revenue Code.
- To maintain a current relationship between Florida law and the federal code, Florida adopts the Internal Revenue Code as of January 1, each year (the “Piggyback” bill).



# 2014 Federal Legislation

- H.R. 5771, The Tax Increase Prevention Act (the “Tax Extenders” bill), became law on December 19, 2014.
- The act extended through 2014, prior congressional increases in income tax deductions for first-year expensing and depreciation.
  - The first-year expensing limitation was increased from \$25,000 to \$500,000.
  - A 50 percent bonus depreciation deduction was allowed.



# Estimated Impact

- The anticipated impact of adopting a “Piggyback” bill recognizing the increased expensing limitation and bonus depreciation for 2014 taxable years is a reduction to general revenue in excess of \$100 million.
- In recent years, the Legislature has chosen to “decouple” Florida’s tax from these provisions within the Internal Revenue Code to avoid this fiscal impact.



# Depreciation Examples

Assume \$14,000 of equipment placed into service in Year 1 depreciated over 7 years using straight line depreciation.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Normal	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$14,000
Federal 2014 / Full Piggyback	\$8,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	1,000	\$14,000
Florida's 7-Yr Treatment	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$14,000





# Florida's "Decoupling" History

- The following Florida legislation decoupled from increased first-year expensing and bonus depreciation provisions:
  - 2008 -- HB 5065 (2008)/SB 1112 (2009) decoupled from the Federal Economic Stimulus Act of 2008.
  - 2009 -- SB 2504 (2009) decoupled from the American Recovery and Reinvestment Act of 2009.
  - 2011 -- HB 7185 (2011) decoupled from the Small Business Jobs Act of 2010, and the Tax Relief, Unemployment Reauthorization, and Job Creation Act of 2010.
  - 2013 -- SB 1516 (2013) decoupled from the American Taxpayer Relief Act of 2012.



# Questions?



# CourtSmart Tag Report

Room: SB 401

Case:

Type:

Caption: Senate Finance and Tax Committee Judge:

Started: 1/20/2015 3:32:25 PM

Ends: 1/20/2015 4:07:04 PM Length: 00:34:40

3:32:32 PM Meeting called to order  
3:33:33 PM TAB 1 - Chair Hukill, Introduction of Members and Committee Staff  
3:33:54 PM Sen. Soto  
3:34:11 PM Sen. Abruzzo  
3:34:25 PM Sen. Simpson  
3:34:45 PM Sen. Diaz de la Portilla  
3:35:56 PM Jose Diez-Arguelles, Staff Director, Finance and Tax Committee  
3:38:30 PM Chair Hukill  
3:39:43 PM TAB 2 - Opening Comments by Chair Hukill  
3:40:17 PM J. Diez-Arguelles  
3:41:30 PM TAB 3 - Overview of Committee Jurisdiction  
3:44:10 PM TAB 4 - Summary of Major Recurring Issues  
3:45:20 PM J. Diez-Arguelles  
3:46:47 PM Chair Hukill  
3:46:58 PM Sen. Margolis  
3:47:15 PM Chair Hukill  
3:47:44 PM J. Diez-Arguelles  
3:47:45 PM Sen. Margolis  
3:48:02 PM J. Diez-Arguelles  
3:48:37 PM Chair Hukill  
3:49:09 PM Sen. Margolis  
3:49:23 PM Chair Hukill  
3:49:50 PM Sen. Soto  
3:50:05 PM Chair Hukill  
3:50:44 PM Sen. Soto  
3:50:54 PM Chair Hukill  
3:51:03 PM Sen. Soto  
3:51:11 PM Chair Hukill  
3:53:25 PM Robert Babin, Senior Attorney, Finance and Tax Committee  
3:59:41 PM Chair Hukill  
4:01:27 PM Chair Hukill  
4:01:31 PM R. Babin  
4:01:52 PM Chair Hukill  
4:02:18 PM R. Babin  
4:03:50 PM Sen. Simpson  
4:04:07 PM R. Babin  
4:04:20 PM Sen. Simpson  
4:04:30 PM Sen. Soto  
4:04:40 PM R. Babin  
4:05:22 PM Sen. Soto  
4:05:33 PM Chair Hukill  
4:06:03 PM Sen. Altman  
4:06:27 PM Chair Hukill  
4:06:47 PM Meeting adjourned