

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: CS/SB 110

SPONSOR: Fiscal Resource Committee and Senator McKay

SUBJECT: Sales Tax Exemption/Mining Equipment

DATE: April 14, 1999 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Keating</u>	<u>Wood</u>	<u>FR</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>CM</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

## I. Summary:

This bill would expand the sales tax exemption for the purchase of industrial machinery and equipment used by new and expanding businesses to include those purchases made by phosphate or other solid minerals severance, mining, or processing operations, by way of a prospective credit against taxes due under chapter 211, Florida Statutes.

This bill substantially amends, creates, or repeals the following sections of the Florida Statutes: 212.08.

## II. Present Situation:

Paragraph (b) of subsection (5) of s. 212.08, F.S., currently provides a sales and use tax exemption, with some exceptions, for industrial machinery and equipment purchased for use and installation in new and expanding manufacturing plants in Florida. Industrial machinery and equipment is defined to an extent in statute and more explicitly in rules, and includes both specialized industry equipment and some multi-purpose equipment such as computers which are increasingly used to automate production.

New businesses qualify for the tax exemption on the purchase of industrial machinery and equipment if the machinery and equipment are: 1) used at a fixed location, 2) used to manufacture, process, compound or produce a product for sale, or exclusive use in spaceport activities, 3) purchased before production begins, and 4) delivered within 12 months from the start of production.

Expanding businesses qualify for the tax exemption on the purchase of industrial machinery and equipment if the machinery and equipment are: 1) used at a fixed location, 2) used for expanding facilities and plants that manufacture, process, compound, or produce a product for sale, or for exclusive use in spaceport activities, and 3) shown affirmatively to be used to increase

productivity by 10 percent or more. The expanding business must pay the first \$50,000 of the sales tax per calendar year prior to receipt of an exemption for any tax in excess.

The current sales and use tax exemption scheme for new and expanding businesses does not apply to the following types of businesses: electric, utility companies, communications companies, phosphate or other solid minerals severance, mining, or processing operations, oil or gas exploration or production operations, publishing firms that do not export at least 50 percent of their finished product out of state, or hotels and restaurants.

Part II of Chapter 211, Florida Statutes, imposes a severance tax on phosphate, heavy minerals and other solid minerals. Tax collections on phosphate are distributed as follows:

- First \$10 million to the Conservation and Recreation Lands Trust Fund, of the remaining revenues:
- 58 % to the General Revenue Fund
- 14.5 % to the Nonmandatory Land Reclamation Trust Fund
- 10 % to the County were mined
- 10 % to the Phosphate Research Trust Fund, and
- 7.5 % to the Mineral Trust Fund

### **III. Effect of Proposed Changes:**

This bill would amend s. 212.08(5)(b), F.S., relating to the sales tax exemption for the purchase of industrial machinery and equipment used to increase productive output in a new or expanding business. The section would be amended to no longer exclude phosphate or other solid minerals severance, mining, or processing operations from eligibility for use of the exemption.

Additionally, the bill specifies that the exemption applies only by way of a prospective tax credit against those taxes due under chapter 211, F. S.

Section 2 of the bill provides that in order for a phosphate or other solid minerals severance, mining, or processing operations to qualify for this exemption and tax credit, such business must produce a certain number of new Florida jobs. Specifically, an expanding business must demonstrate the following:

- For a business that has 2,500 or fewer Florida employees, they must create new Florida jobs in an amount equal to at least 5 percent of its Florida employees.
- For a business that has more than 2,500 Florida employees, they must create new Florida jobs in amount equal to at least 3 percent of its Florida employees.
- In order for a new business to qualify, it must demonstrate the creation of at least 100 new Florida jobs.

The bill provides a definition of “new Florida jobs”; provides that the Office of Tourism, Trade, and Economic Development will be responsible for documenting the number of persons employed in Florida by qualified businesses and be responsible to certify such to the Department of Revenue.

The bill shall take effect July 1, 1999.

**IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

**V. Economic Impact and Fiscal Note:**

A. Tax/Fee Issues:

The Revenue Estimating Conference estimates that the sales tax exemption for machinery and equipment purchased for use in phosphate or other solid minerals severance mining and taken as a credit against the severance tax would result in a recurring loss to the following funds: General Revenue Fund - \$1.5 million; Phosphate Research Trust Fund - \$.3 million; Mineral Trust Fund - \$.2 million; Nonmandatory Land Reclamation Trust Fund - \$.4 million; and Counties - \$.3 million.

Issue/Fund	General Revenue		Trust		Local		Total	
	1st Year	Recurring	1st Year	Recurring	1st Year	Recurring	1st Year	Recurring
Severance Tax Credit	\$ (1.5)	\$ (1.5)	\$ (0.7)	\$ (0.9)	\$ (0.2)	\$ (0.3)	\$( 2.4)	\$ (2.7)

- \* Insignificant
- \*\* Indeterminate

B. Private Sector Impact:

Phosphate or other solid minerals severance mining operations would be eligible for the sales tax exemption on the purchase of industrial machinery and equipment for new and expanding businesses. However, the sales tax exemption would be realized through a prospective tax credit against severance taxes due under ch. 211, F.S.

C. Government Sector Impact:

The Department of Revenue does not anticipate needing additional funding to comply with the provisions of this bill.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

A study of the economic impact two proposed phosphate mining operations would have on the counties of DeSoto and Hardee was conducted by the Department of Economics, University of Florida. The study found:

The impact on economic activity within Florida will occur as a result of the initial construction of the mines and from their continuing operation. We estimate that the construction of the mines will increase the total production of goods and services throughout the State of Florida by \$1.28 billion. Then, once in full operation, the mines will boost production in Florida by more than \$360 million annually for a present value of \$3.27 billion for the first fifteen years of operation.

The mines also will lead to higher employment, both in the two counties directly affected and also throughout the State. Once in full operation, the mines will be responsible for a total of about 3,100 jobs throughout the State. Directly, they will create between 600 and 650 jobs within DeSoto and Hardee Counties.

The beneficial effects of these mines on the economic life of DeSoto and Hardee counties is hard to overstate. For instance, in 1996 total employment in these two counties was 19,355 so 600 to 650 direct additional jobs is a significant increase, about 3% of the total number of jobs. In 1996 the unemployment rate within these counties averaged 10.3%. The Statewide average unemployment in that year was only 5.1%, so it is apparent that the labor force within DeSoto and Hardee Counties would surely welcome additional employment opportunities. **[Blair, Roger, D., and Rush, Mark, *The Economic Impact of Farmland Hydro, L.P. and IMC Agrico's Planned Phosphate Rock Mines in DeSoto and Hardee Counties*, Department of Economics, University of Florida, February 1998.]**

HB 105 is similar to SB 110.

**VIII. Amendments:**

None.