

**STORAGE NAME:** h1921a.ag

**DATE:** March 30, 1999

**HOUSE OF REPRESENTATIVES  
COMMITTEE ON  
AGRICULTURE  
ANALYSIS**

**BILL #:** HB 1921

**RELATING TO:** Corporate Income Tax

**SPONSOR(S):** Representative Spratt

**COMPANION BILL(S):** SB 676 (s) by Senator Horne

**ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:**

- (1) AGRICULTURE YEAS 8 NAYS 0
  - (2) FINANCE & TAXATION
  - (3) GENERAL GOVERNMENT APPROPRIATIONS
  - (4)
  - (5)
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**I. SUMMARY:**

HB 1921 amends chapter 220, F.S., to allow citrus processing companies, as defined in this legislation, to elect to use a single factor sales formula to calculate their Florida apportionment factor for corporate income tax. This would allow the processing companies to eliminate payroll and property factors from their apportionment formula. Proponents of the measure believe it will enhance the business climate in Florida by allowing companies to adjust their corporate income tax formula. The proposal is designed to level the playing field between those out-of-state companies having no Florida payroll and/or property to include in their formulas for Florida tax purposes.

The Florida Revenue Estimating Conference has met on this proposal and determined that it has no significant revenue impact.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Currently, only the state of Iowa uses a single factor formula for all entities subject to their corporate income tax. Because of the potential for serious revenue impact caused by constitutional challenges to the application of corporate income tax credits, legislative bodies in other states have turned to other means to improve their state income climates.

States are also looking to protect their domestic industries. An example is Massachusetts' recent enactment of the single factor formula for certain high tech industries in that state. Factors for those industries were redesigned in much the same way as HB 1921 is proposed to encourage Florida's citrus industry. In states such as Texas and California, the three factor formula will probably continue in effect; therefore, citrus processing companies in those states will have a higher corporate tax impact.

When Florida's corporate income tax was adopted in 1972, a standard three factor formula for apportioning income to the state was utilized. The formula was based in equal portions on property, payroll, and sales. The Florida factor is calculated by combining the fractions as follows:

$$\frac{\text{Florida Payroll}}{\text{Payroll Everywhere}} + \frac{\text{Florida Property}}{\text{Property Everywhere}} + \frac{\text{Florida Sales}}{\text{Sales Everywhere}}$$

This combined fraction is then multiplied by the adjusted income of the corporation.

As a result of litigation, "Florida sales" was altered to include inventory delivered to transportation locations and held there for subsequent shipment out of state. The result of the litigation was then included in the Florida Corporate Income Tax code through rules of the Department of Revenue. Florida has a different "destination test" than is used in most states. Proponents of the bill believe the test tends to disadvantage Florida businesses. Repealing or amending the destination test; however, would carry a substantial revenue impact.

In the early 1980s, the traditional apportionment formula was amended by the Legislature to increase the sales factor which increases the amount of tax paid by out-of-state corporations. The formula now consists of: 1/4 property, 1/4 payroll, and 1/2 sales. For Florida manufacturers, including citrus processors, when combined with the altered "destination test", the result is an increase in "Florida" sales.

B. EFFECT OF PROPOSED CHANGES:

HB 1921 amends ss. 220.03(1) and 220.151(3), F.S., by allowing Florida citrus processors to elect to use a single factor sales formula to calculate their Florida apportionment factor for corporate income tax. The bill defines "citrus processing company" as a corporation which, during the 60-month period ending on December 31, 1997, had derived more than 50 percent of its total gross receipts from the processing of citrus products and the manufacture of juices.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced: **Not applicable.**

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

(2) what is the cost of such responsibility at the new level/agency?

(3) how is the new agency accountable to the people governed?

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

Yes. Citrus processing companies will be allowed to adjust their corporate income tax formula.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility: **Not applicable.**

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

4. Individual Freedom: **Not applicable.**

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

5. Family Empowerment: **Not applicable.**

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

(2) Who makes the decisions?

(3) Are private alternatives permitted?

(4) Are families required to participate in a program?

(5) Are families penalized for not participating in a program?

b. Does the bill directly affect the legal rights and obligations between family members?

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

(2) service providers?

(3) government employees/agencies?

D. STATUTE(S) AFFECTED:

Sections 220.03 and 220.151, Florida Statutes

E. SECTION-BY-SECTION ANALYSIS:

Section 1: amends s. 220.03(1), F.S., to include a definition for the term "citrus processing company."

Section 2: amends s. 220.151, F.S., to allow Florida citrus processors to elect to use a single factor sales formula to calculate their Florida apportionment factor for corporate income tax.

Section 3: provides that the act shall take effect upon becoming a law and shall apply to all tax years beginning on or after January 1, 1999.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT: **See Fiscal Comments Section.**

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:
2. Recurring Effects:
3. Long Run Effects Other Than Normal Growth:
4. Total Revenues and Expenditures:

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:**

1. Non-recurring Effects:
2. Recurring Effects:
3. Long Run Effects Other Than Normal Growth:

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

1. Direct Private Sector Costs:
2. Direct Private Sector Benefits:

Florida citrus processors will be allowed to elect to use a single factor sales formula to calculate their Florida apportionment factor for corporate income tax.

3. Effects on Competition, Private Enterprise and Employment Markets:

Florida citrus processors will be more competitive with plants outside the state.

**D. FISCAL COMMENTS:**

The Florida Revenue Estimating Conference has met on this proposal and determined that it has no significant revenue impact.

**IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:**

**A. APPLICABILITY OF THE MANDATES PROVISION:**

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

**B. REDUCTION OF REVENUE RAISING AUTHORITY:**

This bill does not reduce the authority that municipalities or counties have to raise revenue in the aggregate.

**C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:**

This bill does not reduce any state tax shared with counties or municipalities.

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**PAGE 6**

V. COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON AGRICULTURE:

Prepared by:

Staff Director:

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Susan D. Reese

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