STORAGE NAME: h1535.ft
DATE: April 3, 2000

HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FINANCE AND TAXATION
ANALYSIS

BILL #: HB 1535

RELATING TO: State Tax Reform Task Force

SPONSOR(S): Representative Albright

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) GOVERNMENTAL OPERATIONS YEAS 4 NAYS 1
(2) FINANCE AND TAXATION
(3) GENERAL GOVERNMENT APPROPRIATIONS
(4)
(5)

I. SUMMARY:

This bill creates an unnumbered section of the Florida Statutes authorizing the State Tax Reform Task Force, whose purpose is to examine the state's tax structure and make recommendations to the Governor and the Legislature on how the state's tax structure can be improved to ensure a stable revenue base that is adequate to fund the needs of the state.

The State Reform Task Force will receive administrative staffing from the Senate Fiscal Resource Committee and the House Finance and Taxation Committee. The task force will consist of 15 members appointed by the Governor, President of the Senate, and the Speaker of the House of Representatives; the task force also includes the Executive Director of the Department of Revenue or his or her designee. The task force will elect its chair from its members. The task force will hold its organizational meeting by August 1, 2000, and shall meet at the call of the chair at the time and place designated by the chair. Members shall serve without compensation but are entitled to per diem and travel expense reimbursement as provided in s. 112.061, F.S.

The task force shall examine the state's tax structure to evaluate whether it is adequate for supporting the continuing needs of the state. The task force shall consider the tax structure's effectiveness, efficiency and equity, as well as, other state's methods in treating tax issues. In addition, the task force shall provide an analysis of alternative tax sources. By February 1, 2001, the task force shall submit an interim report, and by February 1, 2002, shall submit a final report to the Governor, the President of the Senate, and the Speaker of the House of Representatives. The statute created expires June 30, 2002.

This bill appropriates $100,000 from the General Revenue Fund to the Office of Legislative Services for the purpose of paying administrative expenses and funding contracts necessary to carry out the provisions of this Act.

This bill shall take effect upon becoming a law.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1. Less Government Yes [] No [] N/A [X]
2. Lower Taxes Yes [X] No [] N/A []
3. Individual Freedom Yes [] No [] N/A [X]
4. Personal Responsibility Yes [] No [] N/A [X]
5. Family Empowerment Yes [] No [] N/A [X]

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION [1]:

The primary purpose of taxes is to raise revenue to pay for governmental services. The combination of all taxes imposed by a government is its tax structure. Florida has over thirty types of taxes, many of which interact with each other and with federal and local taxes. Together, these state taxes determine the total state tax burden faced by each Florida taxpayer, as well as the amount of revenue available to implement state programs. In order to understand the total tax burden, it is important to evaluate tax structures as well as individual taxes to make sure that they fall under sound tax policy.

Four broad concepts of sound tax policy are effectiveness, efficiency, equity, and accountability.

Effectiveness

The tax structure must provide appropriate revenues. The primary purposes of any tax system is to raise revenue to cover the costs of public services. In *Principles of a High-Quality State Revenue System*, the National Conference of State Legislatures asserted that to meet the revenue needs of a state, a tax structure must have stability, certainty, and sufficiency. Stability requires that a consistent amount of revenue be collected over time so that government can budget its expenditures reliably. Certainty requires that the number and types of tax changes be kept to a minimum so that taxpayers are not subject to frequent changes in rates or bases. Sufficiency requires that revenue be adequate to balance the state budget and adaptable to changes in state spending. In addition, the tax structure should produce revenue that grows as the state's economy grows, enabling the public sector to grow commensurately with the private sector.

Efficiency

The tax structure should be easily and economically administered. The administrative requirements of sound tax policy revolve around minimizing the costs of compliance for

[1]The information in this section is taken from the Interim Report, *Sales Tax Exemptions: A Tool For Lowering the Sales Tax Rate in Florida*, November 4, 1999, by the Fiscal Resource Committee of the Florida Senate.

taxpayers and of collection for the government. The more complicated the tax structure, the greater the costs of taxpayer compliance and greater the costs of administration for government.

An efficient tax structure should also minimize interference with economic decisions in otherwise efficient markets. An efficient tax structure has minimal effect on the decisions of business firms and individuals, because economic well-being is lessened when decisions are distorted. Where the tax system distorts decisions, it should be in ways which encourage economic development or achieve other public policy goals.

Equity

The tax structure should be fair and equitable. It is widely agreed that taxpayers should pay their "fair share" of the tax burden, but identifying what constitutes a "fair share" is difficult. One interpretation is that tax burdens should be related to benefits (from public services) received. If one of the main purposes of taxation is to provide benefits to people who cannot afford life's necessities, benefits received is not a reasonable principle for distributing the tax burden. Another interpretation of "fair share" is that taxes should be based on the ability to pay. Equity is measured in terms of horizontal equity, which means that similarly situated taxpayers (capacity to pay) have the same tax liability, and vertical equity, which means that people with a greater capacity to pay have a greater tax liability.

The progressivity (the principle that taxes should represent an increasing proportion of income as household income rises) or regressivity (taking a smaller proportion of income as it rises) of any particular tax is not of great importance. What is significant is how the burden of the entire tax system is distributed. Levying some regressive taxes is not inconsistent with good tax policy, provided the overall tax system is proportional.

Accountability

The tax structure must ensure accountability. Tax policy should be arrived at openly. Hidden tax increases should be avoided. If a government wants to increase the tax burden, then this should result from explicit action rather than an automatic process. Likewise, decisions about tax breaks should be discussed and understood by not only legislators, but by taxpayers as well. Tax policy that is used to promote specific behavior such as economic development, should be periodically evaluated in terms of whether it meets its intended goal.

One way to improve accountability is the tax expenditure budget. A tax expenditure budget measures the tax revenue lost as a result of tax preferences such as exemptions, credits, deductions, and exclusions from the tax base. Sunsetting tax expenditures (allowing them to expire if they are not renewed by legislature) forces the periodic review of whether their benefits are commensurate with their cost in terms of lost revenue.

The task force will likely focus on the sales and use tax because it is Florida's main revenue source. The sales and use tax constituted 71.1 percent of the General Revenue Fund in fiscal year 1998-99. The sales and use tax is levied at the statewide rate of 6 percent on the retail sale of tangible personal property, admissions, transient lodgings, commercial rentals, and a few selected services. Generally, service transactions are exempt from tax unless the service is part of the sale or repair of taxable tangible personal property. Also exempt from Florida's sales and use tax are over 200 non-service transactions, ranging from food purchased for household use to admissions to the Superbowl. Sales tax exemptions are tools that governments use to alleviate the regressive nature of the sales tax, to promote economic development, to avoid collection problems, and to promote a level playing field among businesses selling products. Once these sales tax exemptions are in place, it is rare that they are evaluated to determine whether the exemption has been effective in achieving its original purpose.

C. EFFECT OF PROPOSED CHANGES:

This bill creates an unnumbered section of the Florida Statutes authorizing the State Tax Reform Task Force, whose purpose is to examine the state's tax structure and make recommendations to the Governor and the Legislature on how the state's tax structure can be improved to ensure a stable revenue base that is adequate to fund the needs of the state.

The State Reform Task Force will receive administrative staffing from the Senate Fiscal Resource Committee and the House Finance and Taxation Committee. The task force will consist of:

- Five members to be appointed by the Governor;
- Five members to be appointed by the President of the Senate;
- Five members to be appointed by the Speaker of the House of Representatives; and
- The Executive Director of the Department of Revenue or his or her designee.

The task force will elect its chair from its members. The task force will hold its organizational meeting by August 1, 2000, and shall meet at the call of the chair at the time and place designated by the chair.

Members shall serve without compensation but are entitled to per diem and travel expense reimbursement as provided in s. 112.061, F.S.

The task force shall examine the state's tax structure to evaluate whether it is adequate for supporting the continuing needs of the state. The task force shall consider the tax structure's effectiveness, efficiency, and equity, as well as, other state's methods in treating tax issues. In addition, the task force shall provide an analysis of alternative tax sources.

By February 1, 2001, the task force shall submit an interim report and by February 1, 2002, shall submit a final report to the Governor, the President of the Senate, and the Speaker of the House of Representatives. This section expires June 30, 2002.

This bill appropriates $100,000 from the General Revenue Fund to the Office of Legislative Services for the purpose of paying administrative expenses and funding contracts necessary to carry out the provisions of this act.

This bill shall take effect upon becoming a law.

D. SECTION-BY-SECTION ANALYSIS:

See Effect of Proposed Changes, IIC.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   N/A

2. Expenditures:

   This bill appropriates $100,000 from the General Revenue Fund to the Office of Legislative Services for the purpose of paying administrative expenses and funding contracts necessary to carry out the provisions of this Act.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   N/A

2. Expenditures:

   N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

N/A

D. FISCAL COMMENTS:

The Office of Legislative Services estimates travel expenses and per diem for the 16 members at $33,600 for fiscal year 2000-2001. Additional expenses such as out-of-state travel, expert witness fees and expense reimbursement, professional contracts, public meeting notices, etc., are unknown and are expected to exceed the remaining $66,400. An additional appropriation is expected to be needed for fiscal year 2001-2002 for the Task Force to carry out the provisions of this Act through June 30, 2002.

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 action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

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

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

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

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