

STORAGE NAME: h0161.ft

DATE: April 17, 2000

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
FINANCE AND TAXATION
ANALYSIS**

BILL #: HB 161

RELATING TO: Sales Tax Exemption/Clothing

SPONSOR(S): Representative Kilmer and others

TIED BILL(S): None

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

- (1) FINANCE AND TAXATION
 - (2) GENERAL GOVERNMENT APPROPRIATIONS
 - (3)
 - (4)
 - (5)
-

I. SUMMARY:

The bill creates the Florida Residents' Tax Relief Act of 2000, which provides that no sales tax will be collected upon clothing, wallets, or bags, including handbags, backpacks, fanny pakcs, and diaper bags, having a selling price of \$100 or less for a nine day period beginning July 29, 2000. The bill:

- defines "clothing" to mean any article of wearing apparel, including all footwear, intended to be worn on or about the human body;
- excludes from the definition of "clothing" watches, watchbands, jewelry, handkerchiefs, and umbrellas;
- provides that the provisions of the Act do not apply in certain establishments;
- provides specific rule-making authority to the Department of Revenue to adopt rules to implement the Act; and
- provides a \$200,000 appropriation to the Department of Revenue for the implementation of the Act.

The total estimated fiscal impact upon General Revenue is (\$35.5) million for FY 00-01. There will be a (\$0.1M) impact on the Solid Waste Management Trust Fund. The estimated fiscal impact upon local governments is (\$5.6) million for FY 00-01. The total estimated fiscal impact for this bill is (\$41.2) million for FY 00-01.

The bill reduces the authority of cities and counties to raise revenues in the aggregate and is a mandate to local governments. The Florida Constitution requires a 2/3 vote of the membership of both houses of the Legislature for this bill to be enacted.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

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

B. PRESENT SITUATION:

Chapter 212, F.S., provides that a sales and use tax be imposed on the retail sale, storage, or use of tangible personal property. Section 212.02(19), F.S. The sales tax rate is 6%. Chapter 212, F.S., also lists items and transactions that are exempt from sales and use tax. Under current law, the retail sale of clothing is subject to sales tax.

Chapter 98-341, Laws of Florida, the Florida Family Tax Relief Act of 1998, provided that apparel, including footwear, with a taxable value of \$50 or less, was exempt from the imposition of sales tax during the period from 12:01 a.m., August 15, 1998, through midnight, August 21, 1998. The Act defined "clothing" to mean any article of wearing apparel, including footwear, intended to be worn on or about the human body. For purposes of the Act, "clothing" did not include watches, watchbands, jewelry, handbags, handkerchiefs, umbrellas, scarves, ties, headbands, or belt buckles.

Chapter 99-229, Laws of Florida, the Florida Residents' Tax Relief Act of 1999, created an exemption from sales tax for clothing, wallets, or bags, including handbags, backpacks, fanny packs, and diaper bags having a taxable value of \$100 or less during the period from 12:01 a.m., July 31, 1999, through midnight, August 8, 1999. The tax-free week was earlier in 1999 than in 1998 to allow families shopping for school clothing an opportunity to take advantage of tax savings prior to the start of the school year.

Clothing was defined as any article of wearing apparel, including footwear, intended to be worn on or about the human body. Skis, swim fins, roller blades, and stakes are not included as footwear. For purposes of the Act, "clothing" did not include watches, watchbands, jewelry, handbags, handkerchiefs, or umbrellas. The definition of clothing included scarves, ties, headbands, and belt buckles.

The Act did not apply to sales within a theme park, entertainment complex, public lodging establishment, or airports. The Department of Revenue was authorized to immediately adopt rules to carry out the provisions of the Act.

An appropriation of \$200,000 was provided to the Department of Revenue to administer the Act in 1999.

C. EFFECT OF PROPOSED CHANGES:

The bill creates the Florida Residents' Tax Relief Act of 2000. The Act is identical to the 1999 Act except that the nine day tax exempt period is from 12:01 a.m., July 29, 2000, through midnight, August 6, 2000.

D. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

	FY 2000-01
General Revenue	(\$35.5M)
Trust Fund	(0.1M)
Local Government:	
Local Govt. Half Cent TF	(\$3.3M)
Local Option Sales	(\$2.3M)

2. Expenditures:

An appropriation of \$200,000 is provided to the Department of Revenue to administer the Act.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

See III.A.1. above.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

During the specified period, clothing can be purchased for 6% to 7½% less depending on the local option rate. Families will be able to save money on clothing immediately before the school years begins.

Retail sellers may incur some costs for the reprogramming of cash registers and accounting systems.

D. FISCAL COMMENTS:

N/A

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:

Section 18, Article VII of the Florida Constitution, provides that a general law is a mandate when the law would reduce the authority that municipalities or counties have to raise revenues in the aggregate, as such authority exists on February 1, 1989. The term "authority" includes a reduction in the base against which the tax is levied. A bill providing a sales tax exemption is a reduction in authority because counties have authority to levy local option sales taxes against the state sales tax base. If the bill has an insignificant fiscal impact, it is not considered a reduction in authority. "Insignificant" means an amount not greater than the average statewide population for the applicable fiscal year times ten cents. For the FY 2000-01, a bill that would have a statewide annual fiscal impact on counties and municipalities of 1.6 million or less is not considered a mandate. The official population estimate for FY 2000-01 is 15.8 million.

The estimated reduction in Local Option Sales tax by this bill is \$2.3 million. The bill therefore reduces the authority of cities and counties to raise revenues in the aggregate and is a mandate to local governments. The Florida Constitution requires a 2/3 vote of the membership of both houses of the Legislature for this bill to be enacted.

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

While the bill will reduce the amount of the Local Government Half Cent Sales Tax shared with municipalities and counties, it does not reduce the percentage of a state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

Yes.

B. RULE-MAKING AUTHORITY:

The Department of Revenue is authorized to immediately adopt rules to carry out the provisions of the Act.

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C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON Finance and Taxation:

Prepared by:

Staff Director:

Lynne Overton

Alan Johansen