

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 27

Sales Tax Exemption for Machinery and Equipment Used to Increase

Productive Output

SPONSOR(S): Meadows and others

TIED BILLS:

IDEN./SIM. BILLS: SB 616

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Finance & Tax Committee		Diez-Arguelles	Diez-Arguelles
2) Economic Development, Trade & Banking Committee			
3) Fiscal Council			
4)			
5)			

SUMMARY ANALYSIS

This bill broadens an existing sales tax exemption for industrial machinery and equipment purchased for use in an expanding facility engaged in spaceport activities or for use in an expanding manufacturing facility, by eliminating a requirement that the business pay the first \$50,000 in sales taxes per calendar year on these types of purchases before the exemption applies. The effect of the bill is to provide a full, rather than partial, sales tax exemption for industrial machinery and equipment purchases, when the business can demonstrate that the items will be used to increase productive output at the facility by at least 10 percent.

The Revenue Estimating Conference has determined that this bill will have a negative fiscal impact of \$21.6 million to state government and \$4.5m to local government in FY 2005-06 and of \$23.6m to state government and \$5.0m to local government in FY 2006-07.

This bill is a mandate and requires a 2/3 vote of the membership of each house.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Ensure Lower Taxes: This bill eliminates the sales tax paid in the purchase of machinery and equipment by expanding businesses.

B. EFFECT OF PROPOSED CHANGES:

Current Law

Chapter 212, F.S., contains the state's statutory provisions authorizing the levying and collection of taxes on sales, use, and other transactions. This chapter also contains provisions for sales and use tax exemptions and credits applicable to certain items and under certain circumstances.

Industrial machinery and equipment purchased for exclusive use by a *new* business in spaceport activities or for use in a *new* business that manufactures, processes, compounds, or produces for sale items of tangible property at a fixed location are exempt from the tax imposed by ch. 212, F.S.¹ To avail itself of the exemption, a business must demonstrate to the Department of Revenue that the machinery and equipment are used in this state. Additionally, a new business must purchase the machinery or equipment before the date the business first begins its productive operations, and delivery of the purchased item must be made within 12 months of that date.

A similar, but partial, sales tax exemption is provided for industrial machinery and equipment used exclusively by an *expanding* facility that is engaged in spaceport activities or used in an *expanding* manufacturing facility that manufactures, processes, compounds, or produces for sale items of tangible personal property at a fixed location in this state. In this case, however, the exemption applies to tax amounts in excess of \$50,000 per calendar year on machinery and equipment purchases. For the exemption to apply to these expanding businesses, the businesses must demonstrate that the machinery and equipment are used to increase productive output by at least 10 percent.²

When the industrial machinery and equipment are purchased for use in an expanding printing manufacturing facility, the \$50,000 threshold does not apply, and the taxpayer does not have to pay any sales tax amounts related to the purchases.³

To receive these exemptions, qualifying businesses must apply to the Department of Revenue for temporary tax exemption permits. A business must maintain all books and records to support the exemption. The department, upon an audit which determines that the business does not meet the criteria for the exemption, shall immediately collect from the business the amount of taxes exempted plus interest and any penalty.⁴

The term "industrial machinery and equipment" refers to "tangible personal property or other property that has a depreciable life of 3 years or more and that is used as an integral part in the manufacturing, processing, compounding, or production of tangible personal property for sale or is exclusively used in spaceport activities."⁵

¹ Section 212.08(5)(b)1., F.S. The term "spaceport activities" refers to activities directed or sponsored by the Florida Space Authority on spaceport territory through its power and duties under the Florida Space Authority Act (s. 212.02(22), F.S.).

² Section 212.08(5)(b)2.a., F.S.

³ Section 212.08(5)(b)2.b., F.S.

⁴ Section 212.08(5)(b)3.a.-c., F.S.

⁵ Section 212.08(5)(b)6.a., F.S.

Proposed Changes

This bill revises the existing sales and use tax exemption for industrial machinery and equipment purchased for exclusive use in an expanding facility that is engaged in spaceport activities or for use in an expanding manufacturing facility, by removing a limitation in the current law that the exemption applies solely to tax amounts above \$50,000 per calendar year. The bill retains the requirement that the taxpayer demonstrate that the machinery and equipment will be used to increase productive output by at least 10 percent at the facility.

By eliminating the \$50,000 threshold on the spaceport and the general manufacturing exemption, the committee substitute has the effect of making a separately stated and specific exemption for printing manufacturing facilities redundant, as these printing facilities would now be captured within the general manufacturing exemption. Therefore, the bill deletes from current law the separately stated and specific exemption for printing manufacturing facilities codified in s. 212.08(5)(b)2.b., F.S.

The committee substitute has an effective date of July 1, 2005.

C. SECTION DIRECTORY:

Section 1. Amends s. 212.08, F.S., relating to sales tax exemptions for machinery and equipment.

Section 2. Provides an effective date of July 1, 2005.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

	<u>2005-06</u>	<u>2006-07</u>
General Revenue	(21.5m)	(23.5m)
Trust	(.1 m)	(.1 m)
Total	(21.6m)	(23.6m)

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:	<u>2005-06</u>	<u>2006-07</u>
	(4.5m)	(5.0m)

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR: Business engaged in certain activities that purchase industrial machinery and equipment to expand productive output by 10% will not be subject to any sales tax on the purchase of such equipment.

D. FISCAL COMMENTS:

None

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision applies to this bill because it reduces the authority that counties have to raise revenue through local option sales taxes by \$2.1 million. The bill does not qualify for an exemption. Therefore, the bill must have a 2/3 vote of the membership of each house.

2. Other:

None

B. RULE-MAKING AUTHORITY:

None

C. DRAFTING ISSUES OR OTHER COMMENTS:

None

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES