

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Commerce and Tourism Committee

BILL: SB 1108

INTRODUCER: Senator Altman

SUBJECT: Tax Exemptions

DATE: February 1, 2012

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Hrdlicka	Hrdlicka	CM	Pre-meeting
2.			CA	
3.			BC	
4.				
5.				
6.				

I. Summary:

SB 1108 creates new exemptions from the sales and use tax for certain items used to manufacture and produce aircraft and gas turbine engines. Items used and consumed in the production of castings are also exempt.

This bill creates s. 212.08(7)(hhh) and (iii), F.S.

II. Present Situation:

Sales and Use Taxes

Chapter 212, F.S., contains the state's statutory provisions authorizing the levying and collection of Florida's sales and use tax, as well as the exemptions and credits applicable to certain items or uses under specified circumstances. The statutes currently provide more than 200 different exemptions. Florida imposes a 6 percent tax on tangible personal property sold, used, consumed, distributed, stored for use or consumption, rented, or leased in Florida.¹

Turbines

"A turbine is any kind of spinning device that uses the action of a fluid to produce work."² Fluids typically used in turbines include air, wind, water, steam and helium. Windmills and hydroelectric dams are two examples of turbine action being used to turn the core of an electrical generator to produce power.

¹ See ss. 212.05 and 212.06, F.S.

² See Langston, Lee S., and George Opdyke, Jr., "Introduction to Gas Turbines for Non-Engineers," Global Gas Turbine News, Volume 37: 1997, No.2, available at <http://files.asme.org/IGTI/101/13001.pdf> (last visited 4/5/2011).

Gas turbines were first developed in the 1930s, and were used to generate electricity and power airplane flight. Gas turbines use a compressor to draw in and compress gas (usually air), then a combustor (or burner) adds fuel (such as propane, natural gas, kerosene or jet fuel) to heat the compressed gas, and a turbine extracts power from the hot air flow. The gas turbine is an internal combustion engine employing a continuous combustion process. Gas turbines are also known as combustion turbines, turboshaft engines, or gas turbine engines in power generation and marine applications and as jet engines, jet turbine engines, turbojets, turbofans, fanjets, turboprops or prop jets in aviation applications.

Gas turbines have many applications, and are used in power plants, tanks, jets, helicopters and trains.

Castings

“Casting is a manufacturing process by which a liquid material is usually poured into a mold, which contains a hollow cavity of the desired shape, and then allowed to solidify.” The “casting” is the solidified part, which is generally removed from the mold by breaking the mold.³ There are several different methods to create a casting.⁴ Materials used in casting are usually metals or “various cold setting materials that cure after mixing two or more components together. Casting is most often used for making complex shapes that would be otherwise difficult or uneconomical to make by other methods.”⁵

The World Foundry Organization lists the U.S. as the third largest castings producer in the world in 2009.⁶

III. Effect of Proposed Changes:

Section 1 creates two new exemptions from the tax on sales, use, and other transactions under s. 212.08(7), F.S.

The bill exempts chemicals, machinery, parts, and equipment used and consumed in the manufacture and fabrication of aircraft and gas turbine engines. Items exempted include cores, electrical discharge machining supplies, brass electrodes, ceramic guides, grinding reamers, and deburring wheels.

The bill exempts chemicals, machinery, parts, and equipment used and consumed in the production of castings. Items exempted include Norton vortex wheels, argon, nitrogen, helium, fluid abrasive cutters, solvents and soaps, borescopes, penetrants, patterns, dyes, and molds.

Section 2 provides an effective date of July 1, 2012.

³ See Wikipedia article, “Casting,” citing Degarmo, E. Paul, J T. Black, and Ronald A. Koshner, “Materials and Processes in Manufacturing (9th ed.),” Wiley (2003).

⁴ See Reliance Foundry Co. Ltd. Website on “Foundry Production” for a description of different methods of casting, available at <http://www.reliance-foundry.com/foundry-production/> (last visited 1/28/2012).

⁵ See “Casting” article.

⁶ See Modern Castings and the American Foundry Society, “44th Census of World Casting Production” (2010), available on the World Foundry Organization website at <http://thewfo.com/Page.aspx?pageId=11> (last visited 1/28/2012).

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

Article VII, s. 18 of the Florida Constitution, excuses counties and municipalities from complying with laws requiring them to spend funds or to take an action unless certain conditions are met.

Subsection (b) of the provision prohibits the Legislature from “enacting, amending, or repealing any general law if the anticipated effect” is to reduce county or municipal aggregate revenue generating authority as it existed on February 1, 1989. The exception to this prohibition is if the Legislature passes such a law by 2/3 of the membership of each chamber.

Subsection (d) provides an exemption from this prohibition. Laws determined to have an “insignificant fiscal impact,” which means an amount not greater than the average statewide population for the applicable fiscal year times \$0.10 (which is \$1.88 million for FY 2012-13), are exempt.

The Revenue Estimating Conference estimated that this bill will have a \$300,000 negative fiscal impact annually on local governments. Consequently, it may be exempt from the mandates restriction due to its insignificant fiscal impact.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:**A. Tax/Fee Issues:**

The Revenue Estimating Conference (REC) estimated the impact of a similar bill on December 12, 2011. The REC adopted a recurring negative impact of about \$1.3 million to general revenue and a recurring negative impact of \$300,000 to local funds each year.⁷

B. Private Sector Impact:

Purchasers of these items will benefit from the exemption of these items from taxes.

⁷ Office of Economic and Demographic Research, The Florida Legislature, *Revenue Estimating Conference for 2012 Regular Session – Exemption on Gas Turbine Manufacturers, HB 939* (December 22, 2011), available at <http://edr.state.fl.us/Content/conferences/revenueimpact/archives/2012/pdf/page174-178.pdf> (last visited 1/28/12).

C. Government Sector Impact:

The Department of Revenue has indicated that this bill would have an insignificant impact on its operations.

VI. Technical Deficiencies:

The bill includes “dye” as an item exempt from taxation when used in the production of castings; however, the bill may mean to reference “die,” which is a specialized tool used in manufacturing industries to cut or form material using a press, stamping, or forging machine.

VII. Related Issues:

Turbine engines are classified by the type of fluid used to drive the engine. In general, the manufacturing process for all engines is the same and uses the same materials (cores, patterns, dies, and molds), although they may vary by type of metal. The exemption provided by this bill is limited to aircraft and gas turbine engines; items used for the manufacture of other engines would not be eligible. The exemption would need to be prorated for companies that produce parts for more than one type of turbine.

VIII. Additional Information:**A. Committee Substitute – Statement of Substantial Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.