

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/HB 7069 PCB EAC 12-03 Economic Development Tax Refund Programs

SPONSOR(S): Appropriations Committee, Economic Affairs Committee, Hukill

TIED BILLS: **IDEN./SIM. BILLS:** SB 1110

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
Orig. Comm.: Economic Affairs Committee	16 Y, 2 N	Fennell	Tinker
1) Appropriations Committee	20 Y, 0 N, As CS	Proctor	Leznoff

SUMMARY ANALYSIS

The bill eliminates the maximum amount of tax refunds a business unit could receive over all fiscal years for both the Qualified Targeted Industry Program and the Qualified Defense Contractor and Space Flight Business Program. The limits imposed on the percentage of total award and the dollar amount a qualified project could receive in a fiscal year would remain in effect.

The bill clarifies that reductions approved to local financial support for the Qualified Targeted Industry Program for certain counties shall be provided by the state in order to ensure a qualified business receives the full tax refund allowed under the program.

The bill may have an indeterminate negative fiscal impact on state funds; however, these programs are subject to annual appropriation by the legislature.

The bill has an effective date of July 1, 2012.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation

Tax Refunds on Qualified Targeted Industries

The Qualified Target Industry (QTI) tax refund program was designed to encourage the recruitment or creation of higher-paying, higher-skilled jobs for Floridians, by awarding eligible businesses refunds of certain state or local taxes paid in exchange for creating jobs. To be eligible for the program a business must, among other criteria, fall under an industry classification that has been included on the approved list of targeted industries for the state.

The program also requires that a project must propose to create at least 10 new jobs, or in the case of a business expansion must result in a net increase in employment of at least 10 percent at the business. The jobs proposed to be created or retained must pay an average annual wage of at least 115% of the average private sector wage in the area where the business is located or the statewide private sector average wage. The statewide private sector average wage being used currently is \$40,555.¹

The amount of the refund is based on the wages paid, number of jobs created, and where in the state the eligible business chooses to locate or expand. The minimum tax refund is \$3,000 per employee and the maximum amount is \$11,000 per employee over the term of the incentive agreement.

The program requires that 20 percent of the annual tax refund for a qualified target industry business be paid by the local government entity supporting the project unless an exemption or waiver is approved. The remaining 80 percent of the annual tax refund would be paid by the state. Currently the Department of Economic Opportunity may approve a reduction for the local financial support requirement by one-half for a qualified target industry business located in Bay County, Escambia County, Franklin County, Gadsden County, Gulf County, Jefferson County, Leon County, Okaloosa County, Santa Rosa County, Wakulla County, or Walton County, if it is determined that such reduction of the local financial support requirement is in the best interest of the state and facilitates economic development, growth, or new employment opportunities in such county. The amount of the tax refund for a qualified target industry business would be reduced by the amount of the reduced local financial support, and the state would only be responsible for 80 percent of the annual tax refund for a qualified target industry business participating in the program and meeting the performance requirements.

Qualified Defense Contractor and Space Flight Business Tax Refund

The Qualified Defense Contractor and Space Flight Business (QDC) tax refund program provides incentives to businesses that either hold or are a subcontractor for a valid Department of Defense contract or space flight business contract, or hold a contract for the reuse of a defense related facility. The Department of Economic Opportunity receives and approves applications based on certain criteria set in statute. The program provides a refund against eligible taxes paid by an approved applicant.

The program requires that the jobs created by the project have an average annual wage of at least 115% of the average wage in the area where the project is located. The statewide private sector average wage being used currently is \$40,555.

The amount of the refund is based on wages paid, number of jobs created and where in the state the project is located. The minimum tax refund is \$3,000 per employee and the maximum amount is \$8,000 per employee over the term of the incentive agreement.

Tax Refund Limits

¹ Enterprise Florida, *Incentive Average Wage Requirements*, 2010

Sections 288.106 and 288.1045, Florida Statutes, set the criteria for the QTI and QDC program. Included in these criteria are limits on awards for qualified projects under both programs. The limits include:

- The QTI and QDC programs limit applicants to 25 percent of the total tax refunds in any given fiscal year.
- The QDC program limits applicants to \$2.5 million in tax refunds in any given fiscal year.
- The QTI program limits applicants to \$1.5 million in tax refunds in any given fiscal year or \$2.5 million if the project is in an enterprise zone.
- The QDC program limits applicants to \$7 million in tax refunds over all fiscal years.
- The QTI program limits applicants to \$7 million in tax refunds over all fiscal years, or \$7.5 million if a project is in an enterprise zone.

Effect of Proposed Change

The bill eliminates the maximum amount of tax refunds a business unit could receive over all fiscal years for both the Qualified Targeted Industry Program and the Qualified Defense Contractor and Space Flight Business Program. The limits imposed on the percentage of total award and dollar amount a qualified project could receive in a fiscal year would remain in effect.

The bill adds Jackson County to the list of counties that may request a reduction by one-half of the local financial support requirement for the Qualified Targeted Industry Program and clarifies that certain counties that are approved for reduced local financial support shall result in a corresponding increase in the state's portion of the tax refund not to exceed 90 percent of the eligible tax refund in order to ensure a qualified business receives the full tax refund allowed under the program through June 30, 2014.

B. SECTION DIRECTORY:

Section 1 amends section 288.1045, F.S., by removing program limits for applicants to the Qualified Defense Contractor or Space Flight Business Program.

Section 2 amends section 288.106, F.S., by removing program limits for applicants to the Qualified Targeted Industry Program and indicating that a reduction to local financial support for certain counties shall be paid by the state.

Section 3 provides an effective date.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None

2. Expenditures:

The bill could increase the number of businesses who would qualify for future awards by removing a lifetime cap on receipt of the tax refunds. The bill could increase the state portion of a tax refund under the QTI program to pay for a reduction in local financial support requirements for certain counties. The amount of additional awards, if any, is unknown but could have a negative fiscal impact on state funds. However, both the QTI and QDC program's funding are subject to an annual appropriation in the General Appropriations Act, so any additional impact would require a specific legislative appropriation. Further, both the programs are included in an annual cap of \$35 million in total awards issued by the Department of Economic Opportunity for programs funded through the Economic Development Incentives Account.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill would increase the number of jobs created or retained in the state if additional businesses that qualify for the refund decide to locate or expand.

D. FISCAL COMMENTS:

None

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. The bill does not appear to: require the counties or cities to spend funds or take an action requiring the expenditure of funds; reduce the authority that cities or counties have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with cities or counties.

2. Other:

None

B. RULE-MAKING AUTHORITY:

None

C. DRAFTING ISSUES OR OTHER COMMENTS:

None

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On February 15, 2012, the Appropriations Committee adopted one amendment. The amendment:

- Provides that reductions approved to local financial support for certain counties shall be provided by the state in order to ensure a qualified business receives the full tax refund allowed under the program through June 30, 2014.

The analysis is drawn to the bill as amended.