

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 Committee on Appropriations

BILL: SPB 7066

INTRODUCER: For consideration by Appropriations Committee

SUBJECT: Tax Administration

DATE: March 5, 2014

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Fournier	Kynoch	AP	Pre-meeting
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____

I. Summary:

SPB 7066 contains changes in tax administration that were recommended by the Department of Revenue (department) and approved by the Governor and Cabinet. It removes a requirement that the department study and separately report the level of assessment of classified use properties in its in-depth reviews of county assessment rolls if these properties constitutes 5 percent or more of the total assessed value of real property; clarifies provisions pertaining to criminal penalties for failing to collect a tax or fee, making a false or fraudulent return, or failing to register with the department; clearly establishes the department’s authority to require security for certain individuals seeking to register new businesses; increases the authority of the department’s Executive Director to compromise taxes; conforms the remittance date for funds collected by the clerks of the court to other statutory requirements for the remittance of these funds; bans the sale, purchase, installation, transfer, or possession of automated sales suppression devices, zappers, and phantom-ware, and provides criminal penalties for these actions; provides an incentive for businesses to comply with requests for reemployment tax records for audit purposes; reduces the interest rate imposed on reemployment tax deficiencies; and extends the protest period for reemployment tax assessments.

Several sections of this bill have a positive, but indeterminate, impact on state revenue. Section 11, which reduces the interest rate charged on delinquent reemployment taxes, was estimated in 2013 to reduce revenue to the Special Employment Security Administration Trust Fund million by \$1.3 million on a recurring basis.

II. Present Situation:

The Department of Revenue is responsible for ensuring that the taxes it administers are carried out in a fair and equitable manner. Each year the Executive Director seeks approval of proposed legislative concepts by the Governor and Cabinet, in their role as the head of the department. The

department proposes changes in tax administration laws to reduce the burden on taxpayers and to ensure that Florida's tax laws are applied in a consistent, cost-effective, and equitable manner.

(See section-by-section analysis below.)

III. Effect of Proposed Changes:

Section 1

Present Situation: Section 195.096, F.S., requires the department to conduct an in-depth review of the assessment rolls at least once every two years. This in-depth review may include proceedings of the value adjustment board and the audit or review of procedures used by the counties to appraise property. Certain use-classes of property—residential property that consists of one primary living unit; residential property that consists of two or more living units; agricultural and other use-valued property; vacant lots; undeveloped property; improved commercial and industrial property; and taxable institutional or governmental, utility, locally assessed railroad, oil, gas and mineral land, subsurface rights, and other real property—must be individually studied with respect to their level of assessment in relation to just value. If one or more of these classes constitutes less than 5 percent of the total assessed value of all real property in a county on the previous assessment roll, the department is not required to study it separately for purposes of assessment ratio studies or calculating the level of assessment for all real property in a county.

Proposed change: This bill removes the agricultural and other use-valued (classified use) properties from the list of property classes that must be studied and reported separately if they constitute at least 5 percent of the total assessed value of all real property in a county. Currently, these properties constitute at least 5 percent of the assessed value of real property in 22 rural counties.

Sections 2, 3 and 5

Present situation: Sections 212.07, 212.12, and 212.18, F.S., contain redundant and potentially confusing language concerning criminal penalties.

Proposed change: The bill amends these sections to clarify the criminal penalties imposed on a person who:

- Willfully fails to collect a tax or fee.
- Makes a false or fraudulent return with a willful intent to evade payment of taxes or fees.
- Willfully fails to register after the department provides notice of the duty to register.

The bill creates no new penalties; the language is intended to clarify existing statutory penalties. These sections take effect July 1, 2014.

Section 4

Present situation: Section 212.14(4), F.S., authorizes the department to require a cash deposit, bond, or other security as a condition to a person obtaining or retaining a sales tax dealer's

registration. Despite this requirement, delinquent sales tax dealers are able to close down businesses with tax liabilities and to reopen under a new name, because the current provision does not clearly apply to all of the individuals who were responsible for prior delinquent tax accounts when they seek to register new businesses.

Proposed change: The bill revises s. 212.14(4), F.S., to authorize the department to require security for individuals who are responsible for prior delinquent accounts when they seek to register new businesses. This section takes effect July 1, 2014.

Section 6 republishes s. 212.20, F.S., which contains a reference to s. 212.18(3).

Section 7

Present situation: Ch. 2010-162, L.O.F., changed the remittance date for funds state collected by the Clerks of the Court from the 20th day to the 10th day of the month immediately after the month in which the funds are collected. Section 213.13, F.S., which governs the electronic remittance and distribution of funds by the Clerks of the Court, was not amended to conform to the change.

Proposed change: Section 213.13, F.S., is amended to conform to changes made by ch. 2010-162, L.O.F.

Section 8

Present situation: Section 213.21, F.S., allows the department's Executive Director to enter into an agreement with a taxpayer that compromises the taxpayer's liability if there is a "doubt as to liability" or "doubt as to collectability" of the tax assessed. The statute limits this compromise authority to a reduction of \$250,000 or less.

Proposed change: The bill increases the Executive Director's authority to compromise taxes to a reduction of \$500,000 or less.

Section 9

Present situation: Automated sales suppression devices or "zappers" are software programs that falsify the records of electronic cash registers and other point-of-sale systems. These devices alter sales records to reduce the value of sales that are reported for tax purposes in order to evade state and federal taxes. In the case of sales tax, the use of these devices results in the theft of taxes that have been collected from a business' customers. While evading state taxes is illegal under current law, the sale, purchase, installation, use, or possession of the devices themselves is not illegal per se. Since 2011, eleven states have enacted legislation making it illegal to sell, install, or possess these devices.

Proposed change: The bill creates s. 213.295, F.S., which makes an automated sales suppression device a contraband article under ss. 932.701-932.706, F.S., and makes it unlawful to willfully and knowingly sell, purchase, install, transfer, or possess in this state any automated sales suppression device, zapper, or phantom-ware. Any person convicted of violating this law is

guilty of a third degree felony, is liable for all taxes, fees, penalties and interest due the state as a result of the use of the device, and must forfeit to the state as an additional penalty all profits associated with the sale or use of the device. The bill provides definitions for “automated sales suppression device,” “zapper,” “electronic cash register,” “phantom-ware,” “transaction data,” and “transaction report.” This section takes effect July 1, 2014.

Section 10

Present situation: Florida law provides a standard reemployment tax rate and allows many businesses to receive a lower rate if they meet certain criteria, including being in compliance with the law. Section 443.131, F.S., lists the criteria necessary for a business to be in compliance, but it does not explicitly state that a taxpayer must comply with records requests during audits to qualify for the reduced tax rate.

Proposed change: Section 443.131, F.S., is amended to create an additional condition for receiving a lower-than-standard reemployment tax rate. The condition is that the employer has produced records requested by the Department of Economic Opportunity or the department for audit purposes. This section takes effect upon the bill becoming a law.

Section 11

Present situation: Reemployment compensation tax contributions or reimbursements that are unpaid on the due date bear an interest rate of 1 percent per month, an effective annual rate of 12 percent. Other taxes that are administered by the department have an interest rate of prime plus 4 percent, not to exceed an effective rate of 1 percent per month. The interest rate is adjusted twice yearly.

Assessments of reemployment tax are final 15 days after the date they are mailed unless the employer files a written protest.

Proposed change: Section 443.141, F.S. is amended to change the interest rate imposed on reemployment compensation tax deficiencies to prime plus 4 percent, not to exceed 1 percent per month, beginning January 1, 2014. This is the rate applied to other taxes administered by the department.

This section is also amended to provide a 20-day protest period for reemployment tax assessments, which is the assessment period allowed for other reemployment tax actions.

This section is effective January 1, 2015.

Section 12 provides that except as otherwise expressly provided, this act shall take effect upon becoming a law.

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

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

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

The department anticipates that the following provisions of the bill will improve enforcement and collection of state tax laws:

- Banning the sale, purchase, installation, transfer, or possession of automated sales suppression devices, zappers, and phantom-ware, and providing criminal penalties for these actions, should improve the department's ability to collect and enforce the sales tax statutes.
- Improved compliance with reemployment tax reporting is expected to improve the department's audit capability.

In 2013, the Revenue Estimating Conference determined that decreasing the interest rate on unpaid reemployment taxes would reduce state trust fund revenue by \$1.3 million on a recurring basis. Other provisions of the bill are expected to have an indeterminate, positive impact on state and local revenue.

B. Private Sector Impact:

This bill:

- Authorizes the department to require additional persons to provide a cash deposit, bond, or other security as a condition of obtaining or retaining a sales and use tax dealer's certificate of registration;
- Increases the Executive Director's authority to compromise taxes;
- Prohibits the sale, purchase, installation, transfer, or possession of automated sales suppression devices, zappers, and phantom-ware, and specifies criminal penalties for these actions;
- Provides that an employer may not qualify for a reduced reemployment tax rate unless the employer has produced all records that were requested by the department or the Department of Economic Opportunity; and
- Reduces the interest rate imposed on reemployment tax deficiencies and lengthens the protest period for reemployment tax assessments.

C. Government Sector Impact:

The bill is expected to improve tax administration by banning the sale, purchase, installation, transfer, or possession of automated sales suppression devices, zappers, and phantom-ware, and providing criminal penalties for these actions; and by improving compliance with requests for information from employers for reemployment tax purposes. The bill also removes the requirement that the department study and separately report the level of assessment of classified use properties in its in-depth reviews of county assessment rolls if these properties constitute 5 percent or more of the total assessed value of real property.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 195.096, 212.07, 212.12, 212.14, 212.18, 213.13, 213, 21, 213.295, 443.131, and 443.141.

IX. Additional Information:

A. Committee Substitute – Statement of Changes:

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

None.

B. Amendments:

None.