

Florida House and Senate Proposed Revenue Plans for FY 2019-20

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The chambers' tax cut recommendations might provide a short-term, nominal benefit to families; however, neither proposal addresses the underlying inequalities built into Florida's tax code.

Last week, the House Ways and Means Committee and Senate Finance and Tax Committee passed their proposed tax cut packages for Fiscal Year (FY) 2019-20. While the proposals have a few similarities and a similar FY 2019-20 price tag (\$102.4 million for the House proposal and \$111 million for the Senate), the proposals diverge in the types of taxes they include and their policy objectives.

Neither of the proposals would help to mitigate the inequality built into Florida's tax system. The Sunshine State ranks 48th in the nation for tax fairness — those with the lowest incomes pay a much greater share of their incomes in state and local taxes, compared to Florida's wealthy residents.¹ These tax cut packages would not benefit Florida's working families, nor would they help in maintaining or growing the revenue needed to fully invest in the state's future. Tax cuts that have an immediate and recurring impact on Florida's revenues are simply unaffordable, particularly as the Legislature consistently reduces or diverts funds away from impactful and much-needed investments in affordable housing, education, health care and the environment.

The table below outlines each chamber's tax proposal. The analysis for each proposal includes the fiscal impact for the first year in which the proposed change would be enacted, and the recurring impact for each year after that. Once enacted, these types of expenditures tend to stay on the books without review or evaluation of their benefit to the state. Florida's "silent spending" — the tax credits, exemptions, deductions and refunds that are built into the state's tax code — will account for \$20.5 billion this fiscal year and have grown by an average of \$780 million each year since FY 2009-10.² These proposals would only add to the continually increasing amount of foregone tax revenue.

Tax Proposals

Tax	House	Senate
Sales Tax	Reduce rate for commercial property rentals from 5.7% to 5.35%	Tax exemption for diapers & incontinence products
	3-day "back-to-school" sales tax holiday	10-day "back-to-school" sales tax holiday

	7-day “disaster preparedness” sales tax holiday	
Tax	House	Senate
Property Tax	Limit the charity tax exemption for non-profit hospitals to the value of the charity care provided	Prohibit property owners receiving a homestead exemption in another state from receiving it in Florida
	Distribute property tax revenues generated by local optional voted levies proportionally to charter schools	
	Delay the timing of payments to fiscally constrained local governments for offsetting property tax refunds granted to homeowners due to hurricanes	
Insurance Premium Tax		Provide a credit equal to investment in certified growth funds under the Rural Jobs & Business Recovery Act
Total Fiscal Impact: FY 2019-20	\$102.4 million	\$111 million
Total Recurring Fiscal Impact	\$114 million	\$63.2 million

Addressing the sales tax is one way to alleviate Florida’s unfair and upside-down tax system, but the approach by both houses may not result in much relief for families. Florida’s poor ranking on tax fairness is largely driven by the state’s heavy reliance on the sales tax for revenue. Lower- and middle-income Floridians pay more in state and local taxes as a share of their incomes than wealthy Floridians. Lower income families spend a greater share of their household budgets on everyday items they need. Sales tax holidays, while aimed at providing some relief to families, tend to result in minimal benefits.³ Other reforms, such as providing a Working Families Tax Rebate, which would be targeted to Florida’s lower-income taxpayers, would be much more effective at reaching working families.

Both chambers also propose property tax changes. Notably, the House proposal changes the way local school districts distribute revenue generated by voter-approved local property tax levies. Currently, charter schools receive funding through the Florida Education Finance Program (FEFP), which distributes funds based on a formula. Any funds generated by optional local property tax levies that are passed by referendum are distributed at the discretion of school districts. The proposed change would require that these funds are also proportionally distributed to charter schools.

The Senate’s tax proposal includes the creation of a new program to spur small business development, the Rural Jobs & Business Recovery Act. This program would be administered by the Department of Economic Opportunity and would create “growth funds” that would pool private capital to be invested in small businesses in rural and hurricane-impacted regions of the state. Investors in such funds would receive a credit

on their state insurance premium tax equal to the amount that they invested. The total amount of credits that could be claimed would be capped at \$15 million annually.

The House and Senate tax proposals for FY 2019-20 would result in revenue reductions at the state and local levels totaling \$102.4 million (with a recurring annual impact of \$114 million) and \$111 million (with a recurring annual impact of \$63.2 million), respectively.

Proposed Constitutional Amendments

In addition to these tax cuts, both packages include joint resolutions for proposed constitutional amendments that would be added to the 2020 ballot. These proposals would make changes to Florida's homestead property tax exemption. Property taxes are critical for local governments.⁴ They make up a 73.3 percent of all taxes raised by county governments and 64.8 percent of taxes raised by municipal governments. Any reduction in a local government's ability to raise revenue could be potentially devastating, resulting in cuts to important services, employment reductions and further economic distress for the state's struggling localities.

Extending the Portability of the Homestead Property Tax Exemption

The homestead exemption allows for part of the value of a property to be exempted from taxation. A "homestead property" is essentially a home that serves as a permanent, primary residence. Homestead properties are assessed for taxation purposes (the "just value"), but their value cannot be increased by more than 3 percent each year or the percent change in the Consumer Price Index (whichever is lower).

The difference between the just value and the assessed value (after assessment limitations are accounted for) is called the "Save Our Homes" (SOH) benefit. The SOH benefit can be transferred to a new homestead property for two years. This is known as "portability."

This joint resolution proposes a constitutional amendment to extend this period for another year. To appear on the 2020 ballot, this proposal would have to pass a three-fifths vote in each chamber of the Legislature, and to become law it would have to be approved by 60 percent of voters.

Fiscal Impact

Extending the transfer period of the SOH benefit would result in a reduction of local property taxes by \$2.1 million beginning in FY 2021-22 and would increase to an annual reduction of \$6.5 million. This includes a \$800,000 reduction in school taxes for Fiscal Year 2021-22, which would grow to an annual reduction of \$2.4 million. Cash-strapped local governments are already struggling to provide local services and programs; reducing revenue even further would put an additional strain on municipalities and school districts.

Transferring the Homestead Exemption to the Surviving Spouse of a Disabled Veteran

Both chambers have proposed similar constitutional amendments that would allow for the homestead property tax exemption to be transferred to the surviving spouse of a disabled veteran over the age of 65 upon their death. The bills both provide conditions upon which the benefit could be transferred if the surviving spouse moves to a new property, remarries or otherwise disposes of the property.

This would also require a three-fifths vote of the Legislature to appear on the 2020 ballot, and approval by 60 percent of voters to pass.

Fiscal Impact

Allowing for the transfer of the homestead exemption to a surviving spouse would result in a \$1 million reduction in local property tax revenue beginning in FY 2021-22, and a recurring annual reduction thereafter totaling \$5.3 million.

Other Proposals

Reducing the Communications Services Tax Rate

The House also proposes a change to the Communications Services Tax (CST), which is a tax levied on providers of communications services such as cable television, video and music streaming, telephone and mobile communication. Both state and local governments can levy a CST. The local CST rate varies from place to place and is capped at 5.1 percent for municipalities and chartered counties and 1.6 percent for non-chartered counties. Local governments can also elect to collect permitting fees from providers of communications services that use public roads or rights-of-way, but this election reduces the maximum CST rate that they can levy. The local CST currently does not apply to direct-to-home satellite services.

The House proposes:

- Reducing the CST rate for general communications service from 4.92 percent to 3.92 percent;
- Reducing the CST rate for direct-to-home satellite services from 9.07 percent to 8.07 percent; and
- Preventing local governments that are currently not collecting permit fees from electing to do so.

Fiscal Impact

These reductions in the CST rate would cost the state \$107.5 million and local governments \$20.8 million annually.

¹ Knight, Sadaf. "Florida's State and Local Taxes Rank 48th for Fairness." Florida Policy Institute, October 2018.

² Florida Policy Institute. "Silent Spending: Florida's Shadow Budget Needs Greater Scrutiny (FY 2018-19)." June 2018.

³ Grundman, Dylan. “Sales Tax Holidays: An Ineffective Alternative to Real Sales Tax Reform.” Institute on Taxation and Economic Policy, July 12, 2018. Accessed via: <https://itep.org/sales-tax-holidays-an-ineffective-alternative-to-real-sales-tax-reform-2018/>

⁴ Knight, Sadaf. “Amendment 5 Would Shift Costs for Services to Cash-Strapped Local Governments.” Florida Policy Institute, September 2018.