



**FLORIDA'S OPTIONS FOR PROPERTY TAX RELIEF
ADDENDUM TO MARCH 21, 2007 REPORT**

**RESPONSE TO NEW HOUSE LEADERSHIP PLAN
AS PRESENTED IN PCB PCB 07-01 Redraft B**

**PRESENTATION BEFORE HOUSE
BUDGET & POLICY COUNCIL
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FLORIDA'S OPTIONS FOR PROPERTY TAX RELIEF

Since completion of the original report, the House Leadership has announced a new plan which substantially alters their proposal discussed in the original report. It does not contain any modification to the existing state constitutional cap on revenues. It does, however, contain a “roll-back” and a cap on local government property taxes. In addition, it proposes a constitutional amendment to replace the required local effort for public schools with a 1 cent state sales tax (new Article VII, Section 19) and proposes a mechanism for counties (with 1 cent local option sales tax) and school districts (with ½ cent local option sales tax) to replace their ad valorem (property) tax on homesteads. It further provides that “renter relief” may be provided in the form of tax relief to the landlord and that, by general law, the legislature may exempt tangible personal property up to \$25,000. It provides no change to the Section 4 assessment limits; particularly, the “Save our Homes” limitation.

CONCERNS ABOUT THE NEW HOUSE LEADERSHIP PROPOSAL

- **Save Our Homes (Article VII, Section 4) must be repealed or capped and replaced with a more equitable, just method of dealing with homestead relief.**

An extensive study of Florida's Property Tax was mandated by the 2006 Legislature (Chapter 2006-311, Laws of Florida) with an interim report prior to the 2007 Session and a final report by September 2007. The interim report¹ for this study was released in February 2007 along with an early release of data from the Florida Department of Revenue in November 2006.

The difference between a homestead's just value and its assessed value is commonly referred to as the “Save Our Homes” differential. Since implementation of the amendment in 1995, 1,320,400 (or 39%) of the original 3,348,848 homestead parcels in existence at that time are still in their original homes and receive the maximum protection available under Save Our Homes (“SOH”). Currently, the average annual growth rate of this differential has been 54.4% and reached \$404.4 billion in 2006 or almost 25% of the total taxable value in Florida. This has resulted in a dramatic shift in taxes paid by homesteads, to non-homestead residential and non-residential (commercial) property.² The Department of Revenue reports that, as a percent of taxable value, homestead property now accounts for 32.1% with non-homestead residential at 34.5% and non-residential at 32.5%. Without the Save Our Homes differential, the percentages would be 45.5% for homestead, 28.4% non-homestead residential and 26.1% non-residential. This means that, in order to raise the same amount of revenue in 2006, homestead property owners as a group has had their taxes reduced by approximately 40%, while non-homestead (renters and second-homeowners) and commercial (non-residential) property owners have had their taxes increased by approximately 20%.

¹ Florida's Property Tax Study Interim Report, Legislative Office of Economic and Demographic Research, February 15, 2007 available at <http://edr.state.fl.us/index.html> click on Property Tax Study

² *Ibid.*, see discussion on pages 28-30

Another way of viewing the impact of the Save Our Homes amendment is to look at the SOH effect on affordable housing and the impact on neighbors of similar means and family characteristics.³ The Department of Revenue estimated the property taxes that would be paid by a homeowner of a state-wide median valued residential homestead in 2006 (\$150,000) based on when it was purchased. Obviously, the department used state-wide average rates and the state-wide median value which are significantly different in the various counties, even neighborhoods, of the state. However, use of state-wide data confirms the direction and extent of the horizontal inequities created by SOH. The Department found that a purchaser of a \$150,000 homestead in 1999 would pay 59% less in property taxes than a purchaser of a \$150,000 homestead in 2005; that is, the family owning the home since 1999 would pay \$947 in 2006 taxes while the same family purchasing the same value home in 2005 would pay \$2,309 in 2006 taxes. This would increase the monthly tax bill from \$79 to \$192 and significantly affect the affordability of the home to a first-time purchaser.

Table F shows the distribution of the Save Our Homes benefit to various levels of home values. The 14,527 owners of homes over \$2,000,000 received an average SOH benefit of \$1,280,948 or, at 18.5 mills (state-wide average for 2006), a tax reduction of \$23,698. Or, the top 1.5% homeowners (64,083) with million dollar homes received an average SOH benefit of over \$800,000 or, at 18.5 mills, a tax reduction of \$12,929 on average. The large majority of homeowners owned homes valued at less than \$250,000 and received an average SOH benefit of \$53,472 or, at 18.5 mills, a tax reduction of \$989 on average.

Table G shows that, if the Save Our Homes limitation was either restricted to the first \$500,000 or 3 times the median value in a county, between \$16 and \$21 billion dollars could be returned to the taxable roll resulting in approximately \$300 to \$380 million dollars in taxes that could be shifted back to the wealthiest homeowners; thereby making the property tax more proportional and less regressive and providing relief to businesses and non-homestead residences.

Repealing or capping SOH and providing a more equitable solution will also give businesses and non-homestead residences relief through reducing the significant shift of property taxes upon them away from homesteads. In addition, a more equitable, restructured system of property taxation will continue to assure full participation by all residents in local governmental decisions and strengthen the Florida tradition of “home-rule.”

Basically, the Save Our Homes amendment:

- Creates inequities among taxpayers with similar homes and similar incomes
- Creates inequities among local jurisdictions
- Reduces homeowner involvement in local fiscal decisions and local government debates over local services
- Disadvantages young people buying a first home and newcomers to the state
- Encourages over-housing and impedes free movement around the state
- Evidence from other states suggests problems just grow over time

³ Ibid., see discussion on pages 34-36

- **The use of the current general sales tax to fund property tax relief fails to respond to the need for a fair and equitable tax structure in Florida and places an overwhelming burden of the current general sales tax, especially in times of economic downturn.**

The current general sales tax has significant exemptions and “loopholes” that have been established over time. Adopting an increase in the general sales tax without review of those exemptions, exclusions and subsidies would further increase the unfairness of the state tax structure. In addition, the sales tax is a volatile source of revenue and would not provide the stability to the tax structure that the property tax gives in times of recession when demands for government services are often at their highest. It is also more regressive than the property tax which is often considered “proportional or fairer.”

Use of the state general sales taxes to provide property tax relief also raises the questions as to how it will best be apportioned or redistributed back to local governments. It also places the state increasingly in local decisions as to the proper level of services and what is necessary to meet local desires.

Additionally, Florida has repealed taxes on individual and corporate wealth over the past few years and has made its tax structure more regressive over time. There are many major tax options⁴ other than a raise in the general sales tax rate which should be considered, among those are:

- 1) **\$1+ billion--Corporate Tax – closing “loopholes” and expanding base**
 - Combined reporting (+\$494 M)
 - Tax S-Corps under CIT* (\$960 M)
 - Tax LLCs under CIT* (\$250 M)
 - * Of six states with Corporate Income Taxes but no Personal Income Taxes, only AK and FL exempt S-Corps and LLCs from the regular corporate income tax
 - Decouple from new federal Domestic Production Deduction (\$139 M)
 - Enact Throwback rule to assure that corporations are paying their full share of state taxes (\$29 M)
- 2) **\$1 billion** from decoupling federal estate tax changes with a large exemption - \$2 million per couple; \$1 million for individual (\$1 billion)
 - Requires a Constitutional amendment to allow the state to enact its own estate and inheritance tax if the federal law doesn't allow a state tax credit.
- 3) **\$1+ billion** from re-imposing intangibles tax on a broader base with \$1 million (individual) \$2 million (couple) exemption and exempt qualified pension plans.
- 4) **\$1+ billion** from imposing a 1 cent per kilowatt hour (or equivalent) on electricity and competing fuels with an exemption for the 1st 500 kWh used by a permanent resident and require 25% be dedicated to improving the energy efficiency of new

⁴ All estimates except energy tax are taken from the 2006 Florida Tax Handbook that may be found at <http://edr.state.fl.us/reports/taxhandbooks/taxhandbooks.htm>

and existing residences and businesses in order to lower energy bills through the use of less electricity and other fuels and avoid building expensive new power plants and transmission facilities

- 5) **\$1+billion** Expand sales tax to selected services; limit unwarranted exemptions, exclusions and subsidies; constitutionally protect the exemptions for food, drugs and permanent residential rentals.

- **Permanent residents who are renters must be treated fairly.**

The House Democratic Response addressed this issue and granted counties an option to build their own system. I would, however, recommend consideration of a “circuit breaker” option which would assure that property taxes paid by either renters or homeowners would not exceed a certain portion of their income. See a recent report on “THE PROPERTY TAX CIRCUIT BREAKER: An Introduction and Survey of Current Programs” found at <http://www.cbpp.org/3-21-07sfp.htm>.

A “circuit breaker approach:

- Prevents taxpayers from being “overloaded” by their property tax bill
- Protects taxpayers from property tax increases they cannot afford – once property tax reaches designated proportion of income, all additional property taxes are rebated
- Is well-targeted to those who need the relief
- Is “Portable” if resident moves
- Is used in 18 states and requires simple administration

Example of Possible Florida Circuit Breaker

- Rebate property taxes that exceed 3 percent [or, if preferred, 4%] of income for people whose income is below \$75,000 and rebate property taxes that exceed 5 percent of income for people whose income is between \$75,000 and \$200,000
- Deem 20 percent of rent to be property tax that landlords pass through to tenants Make available to homestead property owners and full-time rental residents who qualify for sales tax exemption
- Cost can be limited by the way it is tailored but would cost between \$600-750 million to provide appropriate relief to all permanent residents.
- Determine level at which to set max benefit
- Several examples to the relief that could be given:
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Income	\$ 60,000	\$125,000
Just Value	200,000	400,000
Less Homestead	175,000	375,000
Millage (2006 state-wide average)	18.5	18.5
Tax	\$3,238	\$6,938
Limit: Percent of Income (3%/5%)	\$1,800	\$6,250
Potential rebate (depending on max)	\$1,438	\$ 687

- **The use of more stringent constitutional revenue caps (and roll-backs) to provide relief would cause major problems for Florida local governments to fund its local services. It also denies the local governments, the “government closest to the people,” the ability to respond to citizen demand for services and to enhance state and federal programs which may not be serving all the needs of their community.**

See discussion contained in “A frigid forecast for the Sunshine State: Proposed Revenue Cap as damaging as Colorado’s TABOR,” Center on Budget and Policy Priorities, March 20, 2007, and found at www.cbpp.org and also presentation in Dr. Fishkind’s study for the Counties found at http://www.fl-counties.com/proptax/doc/fishkind_study.pdf

SPECIAL NOTE ON CONSTITUTIONAL ACTION

Although the Legislature has a significant responsibility to propose amendments to the Constitution, the Constitution requires the periodic appointment of a Constitutional Tax and Budget Reform Commission to review the existing structure and make recommendations. A Commission was appointed in February 2007 and will be able to place their suggested amendments on the 2008 ballot. The Legislature should dedicate itself in the interim between the 2007 and 2008 Sessions to review the work of this Commission and hold its own legislative committee meetings in the interim with the focus of providing the public a full opportunity to speak to the Constitutional issues at the general election to be held in 2008. In the 2007 Session the legislature can develop property tax relief packages statutorily until such time as the people vote on a more permanent solution. It certainly can reverse its trend of mandating higher local property school taxes and create a ‘circuit breaker’ system to assure that no Floridian would pay more than a fair share of their income in property taxes.

Elements of the new House Leadership plan could be enacted statutorily under the current constitution. This is especially true of the proposed Section 19 which purports to replace the required local effort with a 1 cent sales tax increase. As shown in table D-2 that state has increased the local property taxes from the required local effort to the equivalent of 2 cents. Although the new House leadership plan places roll-backs and caps on local government, section 19 places no such requirement on the state. I applaud this recognition by the leadership that decisions on re-setting the state local required effort should not bind the constant need for adjusting the state FEFP program over time. The leadership should also consider other ways of financing (other tax strategies) the suggested relief and provide for relief in 2007 through its existing statutory powers to set the standard for the constitutional review.