



A Balanced Approach to Building a Budget That Meets Floridians' Needs in a Crisis

(This report was originally released in February 2010. Subsequently, the Florida Legislature released its 2010 "Florida Tax Handbook," which updated the revenue estimates in this report. This March 2010 report contains these updates.)

The Pressure Stays On

The longest, deepest national recession since the Great Depression continues to present states with wrenching choices. Florida is no exception.

As the Governor and Legislature prepare the state budget that will take effect July 1, it will once again be the case that families' needs are rising while the resources available to the state to meet those needs fall far short. Resigning ourselves to closing this "need vs. resources gap" only by cutting spending would be a shortsighted approach to the challenges facing our state. A balanced approach that includes revenues is the better choice for Florida's families and Florida's future.

The economic prospects are not promising. Unemployment in Florida is the highest in 35 years; poverty and homelessness are growing; by many measures, our health and education systems are among the worst in the nation; and the only place state government is spending more money is prisons. Thousands of people fortunate to keep their jobs still find themselves on "waitlists" for critical public services.

Florida needs to make investments in education and job training. Recently, after two years of study and discussion, the Governor along with prominent business groups concluded Florida faces an emerging shortage of talented workers who make up "our state's most important resource for driving sustainable economic development and a diversified economy."¹

But state revenues are insufficient to meet the needs of struggling families today and to make wise investments in the state's future prosperity.

Why Revenue Makes Sense

Yet Florida has options that would brighten the picture considerably. Almost \$3 billion in new revenue annually is available through a variety of sources that includes closing corporate loopholes, eliminating unproductive tax breaks, and modernizing the state's sales and use tax.

It is not like Florida is a state with high taxes. We have no personal income tax² and the state's per capita tax collections in 2008 rank 40th in the country – almost \$600 below the national average.³

Employing all or some of these revenue options would lessen the severe consequences of relying on a cuts-only approach to balancing the state budget. Relying too much on cuts means struggling children and families don't receive state services they need; schools and colleges are stressed and quality suffers; many deserving students miss out on college; infrastructure needs crucial to economic development go unaddressed.

A cuts-only approach means state agencies lay off workers, cut salaries and benefits, scale back payments to private-sector providers and nonprofits, and reduce aid to local governments. The impact ripples through the state's economy: other businesses suffer as well and are less able to create or preserve jobs. All these actions in response to spending cuts can be a drag on the recovery and could even tip the economy back into recession.

Florida already underinvests in many areas and the results are telling:

- The state's high school graduation rate of 58% is the 47th worst in the country.⁴ High school graduates earn 30% more than non-completers.⁵
- Florida's health system⁶ is ranked 45th and the high unemployment rate coupled with an increased need for long-term care for the elderly and disabled is causing our health care (Medicaid) costs to increase.
- 31 states have lower infant mortality rates and 35 have lower rates of low birth weight babies.⁷
- The thousands of people on "waitlists" for public services include:
 - Over 28,000 people who are elderly.
 - 19,000 people with disabilities.
 - 17,000 people with substance abuse problems.
 - 190,000 adults with serious and persistent mental health problems.
 - 200,000 children with emotional disturbances.
 - Over 200,000 families needing financial assistance for childcare.

A Revenue Plan for Florida

Policy makers have a number of options to choose from that would raise much-needed money and help to make Florida's tax system more productive today and tomorrow. Here are nine:

1. Repeal Selected Exemptions to the Sales Tax : \$148.4 million

Florida's sales tax has 246 commodities that are exempted, costing the state more than \$10.4 billion a year in forgone taxes. These exemptions and subsidies create inequities among different types of businesses and industries. Tax breaks that add no substantial economic value or create inequity among similar types of commodities should be eliminated.

2. Modernize Sales Tax: \$1.1 billion

Today people spend more money on services than goods, the opposite of the situation when the sales tax was created. Many states have or are considering ways to assure that their sales taxes reflect the new economy by subjecting a number of services to sales tax. Florida has not done so, and loses \$20.4 billion a year from the exclusion of 121 services. While it is generally appropriate to

retain exemptions for services when one business sells to another (for example, advertising), many other categories of household and mixed household/business services could be subject to a sales and use tax. These include dry-cleaning and laundry services, couriers and others. The legislature should undertake an examination of the exclusions and debate the merits of retaining or repealing some.

3. Eliminate Sports Subsidies: \$24.0 million

Florida subsidizes highly profitable professional sports organizations, such as the Tampa Bay Buccaneers (Raymond James Stadium), the World Golf Hall of Fame and others that can afford to pay for the services the state provides to them. They should be eliminated.

4. Collect Taxes Owed on Remote Sales

Many Internet and catalog sellers fail to collect sales tax owed by their customers. States lose billions of dollars a year because of this. Although achieving comprehensive taxation of Internet, mail-order, and other interstate sales requires federal legislation, Florida can help lay the groundwork for such legislation by adding our name to the 33 states that have already signed a multi-state agreement. In addition to raising revenue, this also would help level the playing field for “brick and mortar” Florida-based businesses that are at a competitive disadvantage because they do collect sales tax.

5. Make Multi-State Companies Pay What’s Owed: \$336.0 million

Many large, multi-state profitable companies avoid taxes by creating subsidiaries for the purpose of shifting profits to lower-tax or no-tax states. To combat this, 22 states have adopted “combined reporting,” which treats a multi-state corporation legally structured as one “parent” and numerous “subsidiaries” as a single corporation. This, too, would make the system fairer for Florida-based companies that have no means of avoiding the Corporate Income Tax.

6. Remove the exemption of Limited Liability Companies and Subchapter S Corporations from Corporate Income taxes: \$1.07 billion

Limited Liability Companies and Subchapter S Corporations pass their income through to owners and shareholders who then pay taxes through the individual income tax. Since Florida does not have an individual income tax, companies structured as LLC’s and S corporations fully escape taxation of their profits. In Florida, these companies and corporations have profits that exceed \$20 billion and pay no state taxes while still benefitting from state services. All but one other state without an individual income tax require LLCs and Subchapter S Corporations to file and pay corporate income tax.

7. Decouple from Federal Tax Breaks: \$50 million

The federal government’s domestic production deduction allows businesses to deduct — and so pay no taxes on — a portion of their profits attributable to a broad range of “qualified production activities.” Florida loses revenue by allowing this deduction, which often subsidizes job creation in other states. The main beneficiaries are large, profitable corporations. Struggling firms receive no benefit. Some 20 states have decided not to allow this break on the taxes they levy.

8. Adopt the Throwback Rule: \$32.0 million

This is a policy adopted by roughly half the states with corporate income taxes to make sure that all corporate profits earned in the United States are subject to taxation. The throwback rule allows a state in which a corporation produces its wares to tax the profit on sales made by the corporation into states where the corporation has insufficient presence under apportionment rules to be subjected to a tax on its profit from those sales.

9. Intangibles Tax: \$250 million

A tax on intangible personal property is the only property tax the state may collect, but two years ago, it was repealed. The personal exemption should be set at \$250,000 (\$500,000 for couples), meaning this tax would be paid by a small percentage of households. Most states have a personal income tax which includes income derived from intangible property. A fairer, more productive tax structure would result, helping to offset the current situation in which low- and middle-income persons pay a larger share of their income in state and local taxes than do the wealthiest.⁸ In Florida's current tax structure, low-income families pay six times more of their income in state and local taxes than the most affluent (and middle-income families pay four times more).

If implemented, in total, these suggestions amount to over \$3 billion annually of additional revenue to meet public needs that would include adequately funding health care and education and investing in our future. Florida is at a crossroads in a crisis. We can choose to rely so heavily on spending cuts that we make a bad economy worse and jeopardize future prosperity, or we can do what more than 30 other states⁹ have done over the past year – choose a balanced approach that includes revenue and protects opportunity.

This report was researched and written by
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Endnotes

¹ Closing the Talent Gap: A Business Perspective--What Florida Needs from its Talent Supply Chain; Florida Council of 100 in Partnership with the Florida Chamber of Commerce, January 2010.

² Forty-one states levy a broad-based tax while two states tax a limited base. Florida is one of seven states that do not have a personal income tax. (2010 Florida Tax Handbook).

³ FCFEP calculation from "State Government Tax Collections: 2008, Florida," U.S. Census Bureau and "Annual Estimates of Resident Population for the United States, July 1, 2008," U.S. Census Bureau.

⁴ *Education Week*, 2010 Quality Counts, Editorial Projects in Education Research Center.

⁵ Data from U.S. Census Bureau "2008 American Community Survey 1-Year Estimates."

⁶ United Health Foundation, America's Health Rankings, 2008.

⁷ The Annie E. Casey Foundation, 2008 Kids Count Data Book.

⁸ "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," 3rd Edition, Institute on Taxation and Economic Policy, November 2009.

⁹ "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," Center on Budget and Policy Priorities, January 28, 2010.