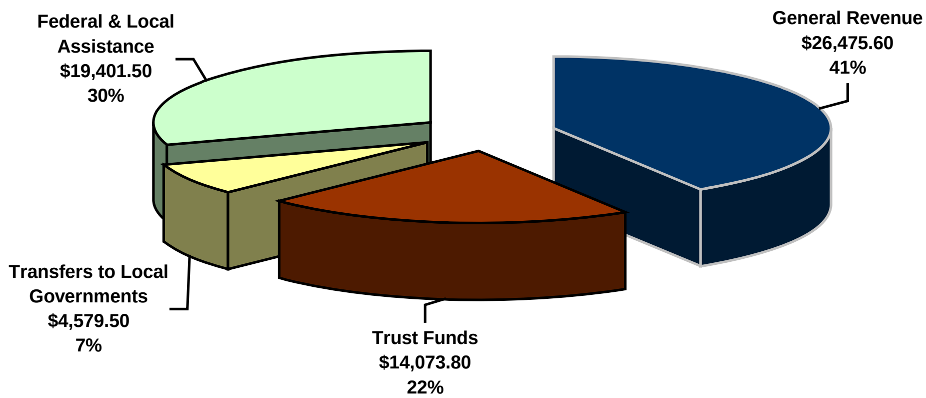
State Taxes in Florida

Tax exemptions, corporate welfare, loopholes…for the average Floridian these words typically provoke emotions; such as anger, a sense of inequity and frustration. This occurs generally right before his or her eyes glaze over. Florida's state treasury is primarily based on sales tax revenues and "excise" taxes" (such as motor fuel taxes, documentary stamp and one-time intangible taxes on deeds and mortgages, and cigarette and alcoholic beverage taxes), along with licensing and registration fees.

Sources of State Revenues, 2007-08 [millions]



Sources of General Revenues, 2007- 2008 [millions]

GR Breakout	FY 07-08	% OF GR	% of All Direct
Sales & Use	$19,580.2	72.9%	48.3%
Beverage & Tobacco	$899.4	3.3%	2.2%
Corp Income & Fees	$2,713.7	10.1%	6.7%
Doc Stamp & Intangible "C"	$1,405.7	5.2%	3.5%
Motor Vehicle	$106.50	0.4%	0.3%
Med & Hosp fees	$194.5	0.7%	0.5%
Insurance Premium	$783.4	2.9%	1.9%
Interest earnings	$346.7	1.3%	0.9%
Article V fees	$80.0	0.3%	0.2%
Service charges	$412.8	1.5%	1.0%
Other**	$328.0	1.2%	0.8%
GR Total	$26,850.9	100%	66.2%
Less refunds	$375.3		
Net GR	$26,475.6		

**Motor Vehicle=Auto title & loan fee and Drivers license & fees* **Other=Pari-mutuel; Severance; and others*

Trust Fund Direct Revenues, 2007- 2008 [millions]

Trust Breakout	FY 07-08	% of Trust	% of All Direct
Transportation*	$2,922.0	20.8%	7.2%
Workers Comp	$1,116.9	7.9%	2.8%
Land Conservation*	$1,989.5	14.1%	4.9%
Education Fees*	$1,422.6	10.1%	3.5%
Admin trust funds	$892.8	6.3%	2.2%
Other trust	$5,730.0	40.7%	14.1%
TOTAL TRUST	$14,073.8	100%	34.7%

**Transportation & Education Fees adjusted for 2007 conferences; others from 2006 report (including land conservation that should be adjusted for losses in Documentary Stamp taxes*

Summary Brief
October 2007

Florida's tax structure is based on transaction and excise taxes where the low and middle-income taxpayer pays a far greater percentage of his or her income than the wealthy or corporate interests. It is highly regressive. The same is true for small local businesses when compared to large corporate taxpayers. In addition to being regressive, Florida's existing structure is very unstable. Our primary sources of funding are reduced with a downturn in the economy. This is because Florida's sales tax is based primarily on the purchase of goods not services and, when the economy is bad, people don't move or retire, and also limit their purchase of home improvements and durable goods; such as refrigerators and cars. This reduction in spending generally corresponds to an increased need for services. So, revenue sources are down at the precise time that funding needs increase.

In earlier reports,[1] we noted that in recent years the state has repealed, reduced or failed to close loopholes on a number of state taxes. Most tax reductions have lessened taxes on corporate and individual wealth and increased the responsibility for financing local services through higher regressive local taxes and user fees. Over the past nine years, additional state loopholes and tax exemptions amounting to over $5 billion annually consisted of the:

1. Repeal of the estate, intangible tax on stocks and bonds and state alcoholic beverage "by the drink" taxes;
2. Failure to close loopholes in the corporate income tax;
3. Series of so-called "burdensome tax" eliminations primarily benefiting businesses; and,
4. The **"Sales tax holidays,"** widely touted for the "working class," **accounted for only 2% of the tax cuts during the nine-year period** (including this fiscal year, 2007-08). They averaged less than $40 million annually.

Jeb Bush, Florida's Governor from 1998-2006 supported this bevy of state tax reductions during his two terms in office, which resulted in over $14 billion returned primarily to wealthy and corporate taxpayers during his term. These loopholes and eliminations, along with the failure to close corporate income tax loopholes, now costs the state over $5 billion annually in lost revenues and will cost the new Governor and Legislature over $20 billion for the next 4 years alone. These "breaks" have further increased the gap between the low and middle-income taxpayers and local small businesses and the wealthy and large corporate taxpayers.

In 2003, the Institute on Taxation and Economic Policy (ITEP), a non-profit, non-partisan research and education organization that works on government taxation and spending policy issues, released a comprehensive report entitled, "*Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*", 2nd Edition[2]. The following is an abbreviated list of the report's findings:

The 10 Most Regressive Tax States

Ten states — Washington, Florida, Tennessee, South Dakota, Texas, Illinois, Michigan, Pennsylvania, Nevada and Alabama — are particularly regressive.

These ten states ask their poorest residents — those in the bottom 20 percent of the income scale — to pay up to a five-and-a-half times greater share of their earnings in taxes than they ask the wealthy to pay.

Middle-income families in these states pay up to three-and-a-half times higher a share of their income as the wealthiest families. (These figures are before the benefits the wealthy enjoy from federal itemized deductions and before the plethora of tax eliminations on the wealthy and corporate interests in Florida are calculated.)

The Ten Most Regressive State Tax Systems

Taxes as Shares of Income by Income for Non-elderly Residents, 2002

	Taxes as a Percent of Income on Income Group				
Income Group	**Poorest 20%**	**Middle 60%**	**Top 1%**	**Poor/Top 1%**	**Middle/Top 1%**
Washington	17.6%	11.2%	3.3%	537%	343%
Florida	14.4%	9.8%	3.0%	476%	325%
Tennessee	11.7%	8.9%	3.4%	347%	264%
South Dakota	10.0%	8.4%	2.3%	440%	369%
Texas	11.4%	8.4%	3.5%	331%	244%
Illinois	13.1%	10.5%	5.8%	224%	180%
Michigan	13.3%	11.2%	6.7%	199%	168%
Pennsylvania	11.4%	9.0%	4.8%	238%	187%
Nevada	8.3%	6.5%	2.0%	420%	331%
Alabama	10.6%	9.6%	4.9%	216%	195%

Note: States are ranked by the ITEP Tax Inequality Index. The ten states in the table are those whose tax systems most increase income inequality after taxes compared to before taxes.

What Makes A State’s Tax System Regressive?

What characteristics do states with particularly regressive tax systems have in common? Looking at the ten most regressive tax states, several important factors stand out:

- Six of the ten states lack a broad-based personal income tax, including Florida.
- The other four states levy broad-based income taxes, but have structured the tax in a way that makes it much less progressive than in other states. Three of them have flat-rate income taxes, and one allows a deduction for federal income taxes paid.[3]
- Seven of the ten most regressive states — Washington, Florida, Tennessee, South Dakota, Texas, Nevada and Alabama — rely very heavily on regressive sales and excise taxes. These states derive between half and two-thirds of their tax revenues from these consumption taxes, compared to the national average of 35 percent.

Florida's Quality of Life: Rank with Others

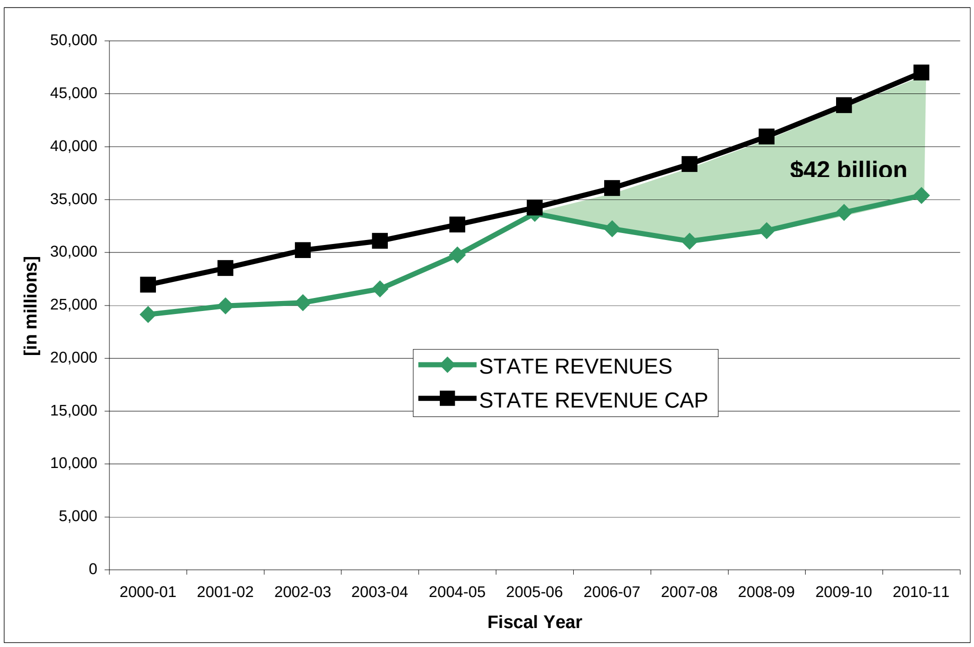
Florida ranks among the bottom in terms of commitment to public services and many other quality of life measures[4]:

- 50th in per capita funding for higher education
- 49th in all education funding per capita
- 41st in state health rankings
- 49th in percent covered by health insurance
- 46th in Medicaid spending per child
- 2nd highest percentage of uninsured children
- 48th in progressiveness of major state & local taxes

Alternatives for Florida's Financial Future

In 1994, Florida adopted a constitutional amendment to cap Florida's state revenues. Since that time, not only has the state raised revenues below the cap but has increasingly restricted its revenues to far below the allowable growth rate based on personal income growth of Floridians. In fact, Florida has "starved" its services and transferred significant financial responsibility to its local governments.

Florida's Existing Constitutional Cap on State Revenues



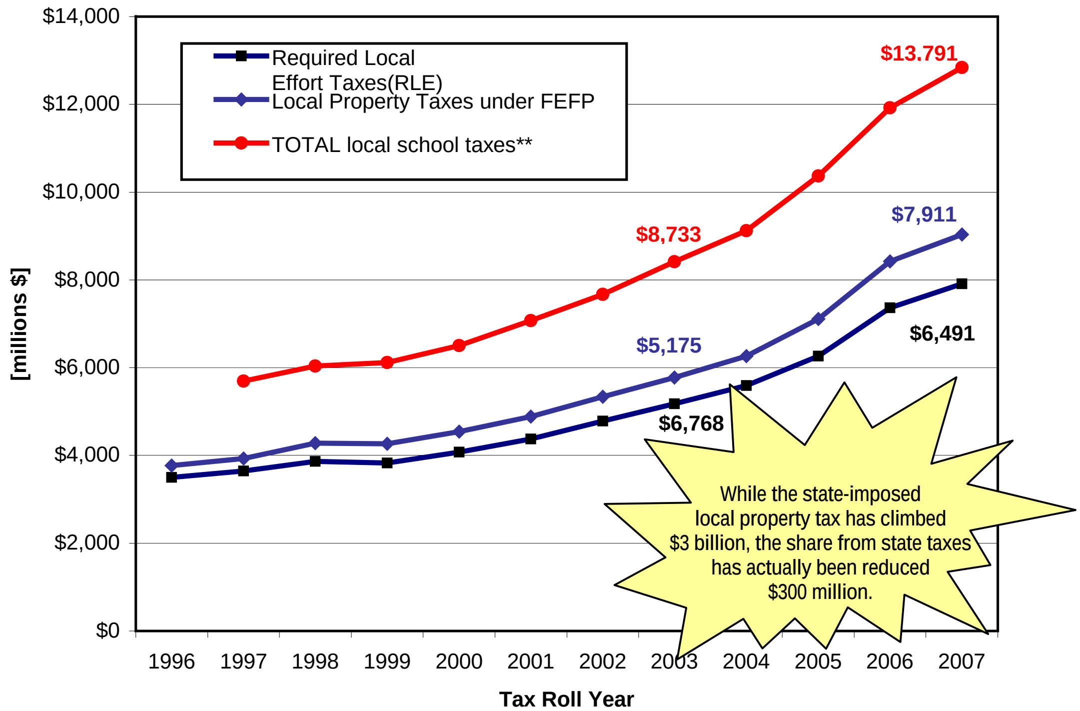
The GAP in Dollar Terms

[millions]

Fiscal Year	The "GAP"
2006-07	$3,824.7
2007-08 projected	$7,286.5
2008-09 projected	$8,889.2
2009-10 projected	$10,114.4
2010-11 projected	$11,618.1

Funding for State Responsibilities

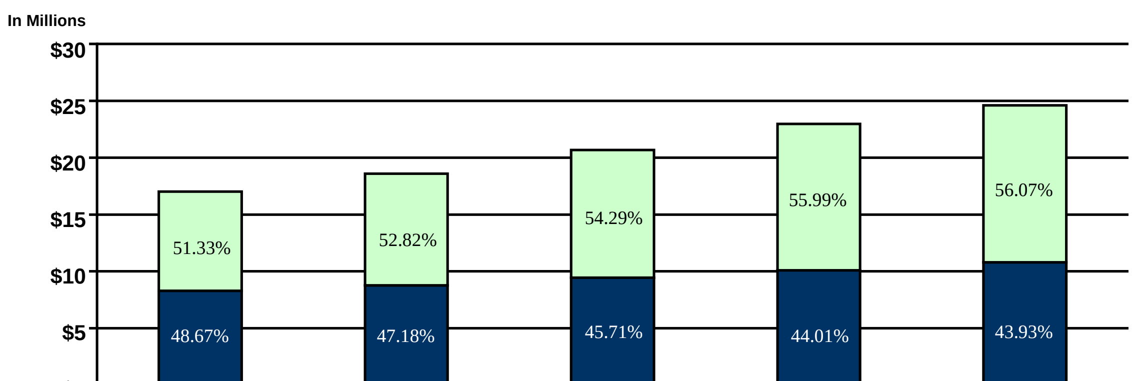
Florida School Taxes



Over the past four years, Florida has reduced its state tax commitment to the basic Florida Education Financing Program by over $300 million and has simultaneously increased the local property taxes for the program by over $3 billion annually.

As shown in the table below, the state has actually decreased its share of state-local education funding from 55% in the late 1990s to 50-50 in early part of this decade to below 44% for the current fiscal year and has dramatically increased the local share**.**

Current and Past Four Fiscal Years' Public School Funding



	2003-04	2004-05	2005-06	2006-07*	2007-08**
Local	$8,733.0	$9,816.7	$11,224.7	$12,857.3	$13,790.5
State	$8,281.2	$8,769.2	$9,452.4	$10,105.4	$10,805.4

**2006-07 – Fourth count   ** 2007-08 Projected*

Revenue Options [IN SUMMARY; appendices that provide more detail on all major categories will be provided]

There are many major tax options,[5] other than a raise in the general sales tax rate, that should be considered to finance a better quality of life in Florida. The following sources begin addressing the disparity of state taxes paid by the rich and corporate interests and the working class; provide a more adequate and stable funding base for meeting state responsibilities; and lessen the burden on local taxpayers. Everyone should pay their "fair share" of taxes.

1. **$1+ billion - Sales Tax Exemptions and Exclusions** by expanding sales tax to selected services that have been excluded from the tax base; eliminating unwarranted exemptions and subsidies; protecting exemptions for food, drugs and permanent residential rentals. Also, a ten-year sunset review should be required for all existing sales tax exemptions, exclusions and subsidies with the exception of food, medical and permanent residential rentals.
2. $**1.6+ billion - Corporate Income Tax** closing "loopholes" and expanding base
    - Combined reporting (+$364.5 M)
    - Tax S-Corps under CIT* ($963.6 M)
    - Tax LLCs under CIT* ($249.8 M)

      Note: 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
    - Decoupling from new federal Domestic Production Deduction ($? M)
    - Enacting Throwback rule to assure that corporations are paying their full share of state taxes ($37.2 M)
3. **$1.2+ billion - Estate Tax** from decoupling federal estate tax changes with a large exemption - $2 million per couple; $1 million for individuals
    - Note this will require a Constitutional amendment to allow the state to enact its own estate and inheritance taxes if the federal law doesn't allow a state tax credit.
4. **$1.2+ billion** - **Intangibles Tax** from re-instating intangibles tax on a broader base with an exemption of $2 million per couple or $1 million for individuals and exempt qualified pension plans.

Special Note on Property Tax Relief

As the state gets its fiscal house in order, it will be able to provide meaningful relief to Florida's local property taxpayers. It will, for the first time in years, meet its obligations to fund with state taxes its full share of public school education and not shift further burdens on local governments and their property taxpayers for health and social services. It will also be able to enact a "circuit breaker" system for local property tax relief targeted to all its citizens first proposed by Governor Reubin Askew in 1975.[6]

A "circuit breaker" program would ensure that many individuals and families, including permanent renters, who pay a high share of their income in property tax on their residence would be eligible for "property tax circuit breakers" — refunds provided by the state government to those whose property tax payments are deemed excessive. It is reported that 18 states deliver roughly $3 billion per year in circuit breaker programs.[7] The program is easy to administer and many states, including those with a state personal income tax, administer it as a separate program and issue property tax relief checks at the time the next year's property tax bill is issued.

The “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; and
- ♦ Is used in 18 states and requires simple administration

Example of Possible Florida Circuit Breaker

- ♦ Rebate property taxes that exceed 6 percent of income for people whose family income is between $100,000-150,000; 5 percent of income for families whose income is between $60,000 and $100,000; and 4.5 percent of income for families whose income is under $60,000.
- ♦ 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 approximately $900 million to provide appropriate relief assuming 50% of the eligible families would apply and participate.
- ♦ Maximum benefit for any family would be $1,500.

Examples of How Such a Circuit Breaker Would Work

Income	$60,000	$90,000	$125,000
Just Value	240,000	360,000	$500,000
Less Homestead	25,000	25,000	25,000
Millage (2006 state-wide average)	18.5	18.5	18.5
Tax	$3,978	$6,198	$8,788
Limit: Percent of Income (4.5%/5%/6%)	$1,800	$4,500	$7,500
Potential rebate (depending on max)	$1,278	$1,500 (max)	$1,288
Percent of income rebated	2.13%	1.67%	1.03%

Endnotes

[1] See 2007 reports on property tax options listed at our website, www.fcfep.org

[2] Institute on Taxation & Economic Policy, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition, January 2003 [Electronic version]; see http://www.itepnet.org/wp2000/text.pdf

[3] Because the federal personal income tax is progressive, a state tax deduction for federal income taxes paid is worth substantially more to the wealthy—and is unavailable to many low-income taxpayers.

[4] “CQ’s State Fact Finder 2007,” H.A. & K.A. Hovey, CQ Press, 2007

[5] For more detailed list and other options go to http://edr.state.fl.us/reports/taxhandbooks/taxhandbooks.htm

[6] See his 1975 budget presentation and state of state speech

[7] See a recent report by the national Center for Budget and Policy Priorities on “The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs” found at http://www.cbpp.org/3-21-07sfp.htm.

The Florida Center for Fiscal and Economic Policy (FCFEP) is a newly formed independent, nonprofit, non-partisan organization engaged in research and education on state fiscal and economic matters with particular attention to their impact on low and moderate/middle income Floridians and local small businesses owned by, and employing, Floridians. Our mission is to perform and review research on state-level fiscal and economic matters with particular attention to their impact on low and moderate/middle income families and individuals and indigenous small businesses owned by, and employing, such families and individuals. For additional information about the Florida Center for Fiscal and Economic Policy (FCFEP), this document or other materials, please visit our website at **www.fcfep.org**.

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