

TAX: Sales and Use
 ISSUE: Exemption for defense-related M&E
 BILL NUMBER(S): SB 1604
 SPONSOR(S): SEN. SULLIVAN
 MONTH/YEAR COLLECTION IMPACT BEGINS: 8/2000
 DATE OF ANALYSIS: 3/2/2000

SECTION 1: NARRATIVE

a. Current Law:

Businesses that are engaged in the research and development of, or in the manufacturing of, defense technology products are subject to sales and use tax on their purchases of machinery and equipment that are utilized in such activities. New or expanding businesses that are engaged in the manufacturing of defense technology products may be eligible for an exemption on their purchases of machinery and equipment.

b. Proposed Change:

Amends s. 212.08(5)(j), F.S., which currently provides an annual sales and use tax exemption on machinery and equipment purchased for use predominately in silicon technology production and research and development, to include machinery and equipment purchased for use predominately in research and development or manufacturing in a defense technology facility. To be eligible to receive the exemption, the business entity is required to apply to Enterprise Florida, Inc. Upon the recommendation of Enterprise Florida, Inc., the Office of Tourism, Trade, and Economic Development will approve or deny the applicant's exemption. The exemption statute is further amended by providing a definition for "defense technology products."

SECTION 2: DESCRIPTION OF DATA & SOURCES

The industry did an analysis based on tax actually paid by a number of defense industry firms. This yielded an estimate of \$7.7m. Another approach would be to use an input-output model as has been done with past proposals to exempt M&E in manufacturing. Assuming that the capital-intensity of firms fulfilling defense contracts is the same as the economy as a whole implies a tax loss of \$10.7m (using the same 2 years of defense contracts as the industry survey).

SECTION 3: ASSUMPTIONS & RATIONALE

The industry figure is presented as the LOW estimate. The \$10.7m is presented as the HIGH estimate. The MEDIUM estimate is an average of these 2. 3% growth is assumed for the out-year.

SECTION 4: METHODOLOGY

SECTION 5: IMPACT SUMMARY (DETAILS ATTACHED)

State Impact - All Funds	FY 2000-2001 Annualized	FY 2000-2001 Cash	FY 2001-2002 Cash
High	(\$10.7m)	(\$9.8m)	(\$11.0m)
Middle	(\$9.2m)	(\$8.4m)	(\$9.5m)
Low	(\$7.7m)	(\$7.1m)	(\$7.9m)

Consensus Estimate Adopted: 3 /3 /00	FY 2000-2001 Annualized	FY 2000-2001 Cash	FY 2001-2002 Cash
General Revenue	(7.0)	(6.5)	(7.2)
Solid Waste Management T.F.	(insignificant)	(insignificant)	(insignificant)
Total State Impact	(7.0)	(6.5)	(7.2)
Local Tax Impact	(1.2)	(1.0)	(1.2)
Total Impact	(8.2)	(7.5)	(8.4)
Local Gov't Half Cent	(.7)	(.6)	(.7)
Local Option Sales Tax	(.5)	(.4)	(.5)

Revenue Impact Estimate
HB 899 by Representative Randy Johnson
SB 1604 by Senator Don Sullivan

<u>Defense</u>	<u>1997</u>	<u>1998</u>
Contracts		
Total Market	\$6,400,000,000	\$5,300,000,000
Reported	\$1,816,000,000	\$1,928,000,000
% of Market	28.38%	36.38%
Taxes Paid		
Reported	\$1,945,000	\$1,589,000
Defense Total	\$6,853,418	\$4,367,784
<u>Space</u>		
Contracts		
Total Market	\$4,000,000,000	\$4,000,000,000
Reported	\$728,800,000	\$1,437,200,000
% of Market	18.22%	35.93%
Taxes Paid		
Reported	\$468,000	\$548,000
Space Total	\$2,568,605	\$1,525,188
<u>Total Taxes Paid</u>	\$9,422,023	\$5,892,972
<u>Average 1997 - 1998</u>		\$7,657,498

Note: Total market contract numbers obtained from the U.S. Department of Defense and UCF Study entitled "Space Industry Impact in Florida", August 1999.