

TAX: CORPORATE INCOME TAX
ISSUE: NEW PRODUCT TRANSFER ENHANCEMENT ACT
BILL NUMBER(S): HB1215
SPONSOR(S): REP. ANDREWS
MONTH/YEAR COLLECTION IMPACT BEGINS: JANUARY 1, 2002
DATE OF ANALYSIS: MARCH 28, 2001

SECTION 1: NARRATIVE

- a. **Current Law:** There is no credit against the corporate income tax for fees or royalties received for the sale of the right to produce and market a product or technology.
- b. **Proposed Change:** Establishes a corporate income tax credit to be used by corporations that have developed or patented a product or technology and transfer the right to produce and market that product or technology to corporations located in Florida via a "Product Development Agreement" which specifies that at least 75% of the jobs created by the production of the new product or technology must be located in Florida.
 - Each "Receiving Company" (business obtaining the right) is required to remit the fees or royalties owed to the state together with an "Annual Statement of Fees Due" to both Enterprise Florida and the Department of Revenue.
 - Enterprise Florida will issue an "Annual Statement of Corporate Tax Credit" to each "Donor Company" (business selling the right) in an amount equal to the fees due to the "Donor Company" from all "Receiving Companies" with which it has entered into a "Product Development Agreement".
 - In any year, the total amount of credits granted is not to exceed the total amount due to the state.
 - If any credit is not fully used in the first year, the unused amount may be carried forward for up to five years.

SECTION 2: DESCRIPTION OF DATA & SOURCES

- Corporate income apportioned to Florida and subject to the Florida Corporate Income Tax: appr. \$25 billion / year

SECTION 3: ASSUMPTIONS & RATIONALE

- The bill's effect on "Donor Company" will be a reduction in taxable income by the amount of the licensing fees due which is offset by a reduction in its corporate income tax liability by the tax otherwise due on the Florida apportioned component of these fees plus the newly granted credit in an amount equal to the fees – the net financial effect being an increase in the company's after tax income by 5.5% of the fees due and a decrease in the Florida corporate income tax liability by 105.5% of the licensing fees (based on an apportionment factor of 100%)
- The bill's effect on the "Receiving Company" will be the payment of the licensing fees to the state rather than to the "Donor Company" – the net financial effect being zero
- The bill's effect on General Revenue Fund will be 5.5% of the licensing fees due from all "Receiving Companies" as apportioned to Florida
- There are no restrictions as to the type of product or technology, the type of industry or company, or the total amount of fees that may be due in any given year under all "Product Development Agreements"
- The amount of Florida apportioned taxable income able to be converted into licensing fees due under "Product Development Agreements" ranges in between 1% and 3% of the average annual corporate income subject to Florida corporate income tax – or between \$250 million and \$750 million – with an average of \$500 million
- Becoming effective on January 1, 2002, the credit can only be taken for tax years ending in 2002 and beyond
- FY 2001/02 cash impact consist solely of a reduction in CY2002 estimated payments – estimated at 25% of the annual credit

SECTION 4: METHODOLOGY

SECTION 5: IMPACT SUMMARY (DETAILS ATTACHED)

State Impact - All Funds	FY 2001-02 Annualized	FY 2001-02 Cash	FY 2002-03 Cash
High	- \$41.25m	- \$10.31m	- \$41.25m
Middle	- \$27.50m	- \$ 6.88m	- \$27.50m
Low	- \$13.75m	- \$ 3.44m	- \$13.75m

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Consensus Estimate Adopted: 4 / 13 / 0 1	FY 2001-02 Annualized	FY 2001-02 Cash	FY 2002-03 Cash
General Revenue	(27.5)	(6.9)	(27.5)
_____ T.F.			
_____ T.F.			
_____ T.F.			
Total State Impact			
Local Tax Impact			
Total Impact	(27.5)	(6.9)	(27.5)