

TAX: CORPORATE INCOME TAX
 ISSUE: NEW PRODUCT TRANSFER ENHANCEMENT ACT
 BILL NUMBER(S): HB289
 SPONSOR(S): REP. ANDREWS
 MONTH/YEAR COLLECTION IMPACT BEGINS: JANUARY 1, 2003
 DATE OF ANALYSIS: DECEMBER 12, 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 "donor 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 OTTED and the Department of Revenue.
 - OTTED will issue an "Annual Statement of Donor Credit" to each "Donor Company" (business selling the right) in an amount equal to 94.5% of 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 94.5% of the total amount of fees due to the state.
 - The donor company may elect to use the "Donor Credit" as either a credit against its corporate income tax liability, a contribution to provide funding for sponsored research at a state university, or a reimbursement for the purchase price of M&E installed in a Florida manufacturing facility or for building materials used in the construction or rehabilitation of a Florida manufacturing facility
 - 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 N/A

SECTION 3: ASSUMPTIONS & RATIONALE SEE ATTACHED

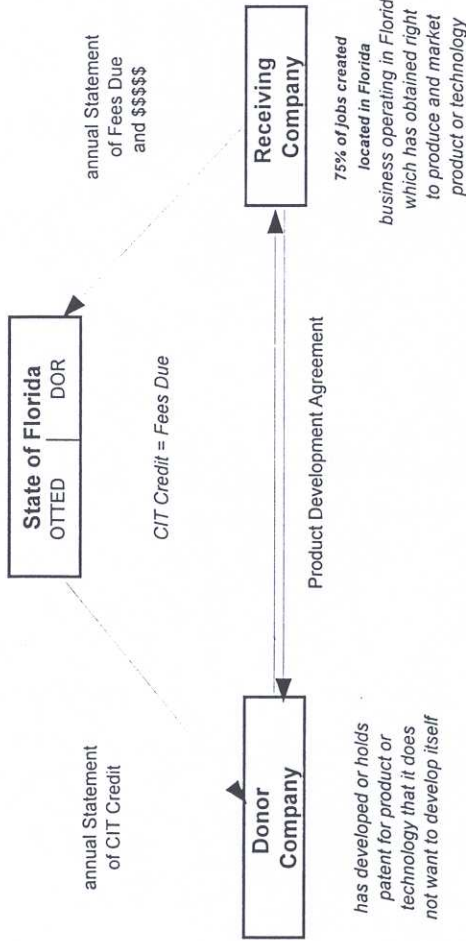
SECTION 4: METHODOLOGY

- The bill will have no effect on the "Receiving Company's" expenses, income, or tax liability
- The bill will reduce the "Donor Company's" Federal Income by the amount of the foregone fee/royalty payments and thus will reduce its Florida CIT liability by 5.5% of the fee/royalty payments otherwise apportioned to Florida
- The bill's effect on General Revenue receipts is threefold: (1) an increase for the full amount of the fee/royalty payments, (2) a decrease in the amount of 94.5% of the fee/royalty payments (Donor Credit), and (3) a decrease in the amount of 5.5% of the fees/royalty payment apportioned to Florida (CIT Liability Reduction)
- The net change in General Revenue will be zero if 100% of the "Donor Company's" income apportioned to Florida and will be 5.5% of the fees/royalty payments if none of the income is apportioned to Florida

SECTION 5: IMPACT SUMMARY (DETAILS ATTACHED)

State Impact - All Funds	FY 2002-03 Annualized	FY 2002-03 Cash	FY 2003-04 Cash
High	**	**	**
Middle	**	**	**
Low	**	**	**
Consensus Estimate Adopted: 12/14/01	FY 2002-03 Annualized	FY 2002-03 Cash	FY 2003-04 Cash
General Revenue _____ T.F. _____ T.F. _____ T.F. Total State Impact	indeterminate	indeterminate	indeterminate
Local Tax Impact			
Total Impact	indeterminate	indeterminate	indeterminate

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DONOR COMPANY
CIT Credit = 94.5% of Fees Due

	Current	Proposed	Change	Current	Proposed
Income before Fees	10,000,000	10,000,000	0	500,000	500,000
Fees due from Receiving Companies	100,000	0	(100,000)	(100,000)	(100,000)
Adjusted Federal Income	10,100,000	10,000,000	(100,000)	400,000	400,000
Florida Apportionment Factor	100%	100%		100%	100%
Florida Pre-Tax Income	10,100,000	10,000,000	(100,000)	400,000	400,000
FLORIDA CIT Liability	555,500	550,000	(5,500)	22,000	22,000
CIT Credit	0	(94,500)	(94,500)	0	0
CIT Due	555,500	455,500	(100,000)	22,000	22,000
FEDERAL Income after Florida CIT Deduction	9,544,500	9,544,500	0	378,000	378,000
Federal Income Tax @ 34%	3,245,130	3,245,130	0	128,520	128,520
TOTAL TAX LIABILITY	3,800,630	3,700,630	(100,000)	150,520	150,520
NET INCOME AFTER FEDERAL AND STATE TAXES	6,299,370	6,299,370	0	249,480	249,480

FLORIDA GENERAL REVENUE FUND

CIT Payments	555,500	455,500	(100,000)	22,000	22,000
Fees due from Receiving Companies	0	100,000	100,000	0	0
Total Receipts	555,500	555,500	0	22,000	22,000

GR Impact = Fees due from Receiving Companies * (1 - .945 - 5.5% * Florida Apportionment Factor)