

TAX: Sales & Use Tax

ISSUE: Sales Tax Holiday for clothing, school supplies and books for kindergarten through 3rd grade children

BILL NUMBER(S): HB 137

SPONSOR(S): Rep. Kilmer; Rep. Sansom

MONTH/YEAR COLLECTION IMPACT BEGINS: Upon becoming law, contingent upon funding in the GAA

DATE OF ANALYSIS: March 19, 2003

SECTION 1: NARRATIVE

a. Current Law:

All purchases of clothing, school supplies and books are subject to the 6% statewide sales and use tax under ch. 212, F.S

b. Proposed Change:

Purchases of clothing including wallets or bags, including handbags, backpacks, fanny packs, and diaper bags, but excluding briefcases, suitcases, and other garment bags will be exempt from paying sales tax as long as these items sell for **\$50 or less**. Clothing is defined as “any article of wearing apparel, including all footwear, except skis, swim fins, roller blades, and skates, intended to be worn on or about the human body” but not including “watches, watchbands, jewelry, umbrellas, or handkerchiefs.”

Purchases of school supplies including pens, pencils, erasers, crayons, notebooks, notebook filler paper, legal pads, composition books, poster paper, scissors, tape, glue or paste, rulers, *computer disks*, protractors, compasses, calculators *and any books or text books which are designed to be used by children in kindergarten through third grade*, will be exempted from paying sales tax as long as these items sell for **\$10 or less**. [Items shown in *bold italics* are new this year.]

Exemptions are contingent upon funding in the General Appropriations Act each year. The exemption period is limited to two to nine days, and must occur in August.

SECTION 2: DESCRIPTION OF DATA & SOURCES

National Income & Product Accounts data from the U. S. Department of Commerce, Bureau of Economic Analysis, for 2001. National Economic Forecast, Feb. 14, 2003. Florida Economic Forecast, Feb. 14, 2003. Consumer Expenditures, U.S. Department of Labor, Bureau of Labor Statistics. Statistical Abstract of the United State: 2002, Table 1111 (Quantity of Books Sold & Value of U.S. Domestic Consumer Expenditures: 1995 to 2001) and Retail Sales data from U.S. Department of Commerce, Bureau of Census.

School membership information (Fall 2002) from DOE and March 7, 2003 REC forecast of enrollment growth. University and Community College Fall headcount enrollment figures from the Florida Board of Education, Division of Colleges and Universities and Division of Community Colleges and historical growth from fall 2001 to fall 2002. DOE Statistical Brief “Florida’s Nonpublic Schools, 2001-02.”

American Booksellers Association website (www.bookweb.org), April 18, 2001 article on book purchases by type.

SECTION 3: ASSUMPTIONS & RATIONALE

Because implementing language is required, impacts are indeterminate. However, the tables below and the attached sheets outline a nine-day August impact, with clothing, base school supplies, computer discs, and books for kindergarten through third grade children shown separately.

SECTION 4: METHODOLOGY

See attached sheets.

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SECTION 5: IMPACT SUMMARY (DETAILS ATTACHED)

State Impact—All Funds	FY 2003-04 Annualized	FY 2003-04 Cash	FY 2004-05 Cash
High			
Clothing		(29.5)	
School Supplies (incl discs)		(5.3)	
<u>Books K-3rd Grade</u>		(1.1)	
TOTAL		(35.9)	
Middle			
Clothing		(26.9)	
School Supplies (incl discs)		(4.8)	
<u>Books K-3rd Grade</u>		(0.6)	
TOTAL		(32.3)	
Low			
Clothing		(24.2)	
School Supplies (incl discs)		(4.3)	
<u>Books K-3rd Grade</u>		(0.2)	
TOTAL		(28.7)	



Consensus Estimate: Adopted: 3/21/03	FY 2003-04 Annualized	FY 2003-04 Cash	FY 2004-05 Cash
General Revenue			
Total State Impact			
Total Local Impact			
Total Impact		(Indeterminate)	

Note - if implemented for 9 days in 2003, the cost would be 28.4 GR, .1 solid Waste Management Trust Fund, and 5.7 Local, for a total impact of -34.2 million.

Nine-Day Sales Tax Holiday, July 27, 2003 - August 4, 2003
CLOTHING AND FOOTWEAR

	<u>Low</u>	<u>Medium</u>	<u>High</u>
National Expenditure on Apparel and Shoes	339,932.6	339,932.6	339,932.6
Fl. share based on pop forecast of 03-04	19,989.0	19,989.0	19,989.0
Fl. Exp. on Apparel & Shoes (adjusted)	18,489.8	18,489.8	18,489.8
Est. Fl. Based Sales of Apparel & Shoes (mail ord. Adj.)	15,901.2	15,901.2	15,901.2
Sales Tax at 6%	954.1	954.1	954.1
Exempted Amount (55%, 60%, & 65%)	524.7	572.4	620.1
Prel. 9-day fiscal impact in Florida (\$ 50 limit)	\$ (12.94)	\$ (14.12)	\$ (15.29)
Seasonal factor for August	1.058692474	1.058692474	1.05869247
The behavioral factor based on New York history	1.73	1.73	1.73
Adj. 9 day fiscal impact in Florida (\$ 50 limit)	\$ (23.7)	\$ (25.9)	\$ (28.0)
Backpacks (30%, 20%, 10% of Prek-12 + U Stu. (\$25))	\$ (0.5)	\$ (1.0)	\$ (1.5)
Total Impact, no reduction for Florida Residents only	\$ (24.2)	\$ (26.9)	\$ (29.5)
Total Impact, Florida Residents only (85% reduction)	\$ (20.6)	\$ (22.8)	\$ (25.1)

SCHOOL SUPPLIES INCLUDING COMPUTER DISCS AND BOOKS FOR K-3RD GRADE \$10 OR LESS

Grow by grade

Grades	Membership 2002-03	Projected 2003-04	School Supplies	Computer Disks	3rd calc FY 02-03	Mar 5 03 REC 03-04	Growth
			BASE Expend.	\$10 or less			
PreK	51,221	55,548 \$	0.7 \$	-	17,685.78	19,179.68	108.4%
KG	183,270	183,692 \$	2.2 \$	-	182,985.86	183,407.52	100.2%
	186,438	194,855 \$	2.3 \$	-	186,718.76	195,148.22	104.5%
2	187,927	189,518 \$	2.3 \$	-	188,568.66	190,164.93	100.8%
3	192,711	194,780 \$	2.9 \$	-	193,818.02	195,899.33	101.1%
4	197,625	199,745 \$	3.0 \$	0.2	197,249.55	199,365.15	101.1%
5	197,061	200,227 \$	3.0 \$	0.2	196,756.09	199,917.11	101.6%
6	205,095	204,902 \$	4.3 \$	0.2	204,522.23	204,329.40	99.9%
7	206,774	210,473 \$	4.4 \$	0.2	206,169.18	209,857.41	101.8%
8	201,160	207,814 \$	4.4 \$	0.2	200,633.85	207,270.05	103.3%
9	249,878	257,794 \$	6.2 \$	0.3	246,595.52	254,407.64	103.2%
10	184,325	189,486 \$	4.5 \$	0.2	181,611.63	186,696.20	102.8%
11	158,509	162,625 \$	3.9 \$	0.2	155,636.43	159,677.62	102.6%
12	137,938	145,077 \$	3.5 \$	0.1	134,338.50	141,290.89	105.2%
Total	2,539,932	2,596,534 \$	47.6 \$	1.8			
Private school %		311,584 \$	5.6 \$	0.3	(12% of Total membership) / K-3 = same % as Public Schools		
Total Univ. + CC Enrollment		845,602 \$	20.3 \$	1.7	(estimate - 1.3 factor for private higher ed / 1.053 factor is growth rate)		
Total PreK-12 + U		\$	73.5 \$	3.8			
Business Purchases (30%)		\$	22.1				

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Impact (\$millions)	School Supplies BASE	Computer Disks	Total
Sales Tax Impact (High - 85% Children + U Students)	-5.1	-0.2	-5.3
Sales Tax Impact (Medium - 75% Children + U Students)	-4.6	-0.2	-4.8
Sales Tax Impact (Low - 65% Children + U Students)	-4.2	-0.1	-4.3

Assumptions	wo/Backpack Expenditure	Computer Disks for 6-8, 9-12, Univ, Private
Grades		
PreK	\$ 12.00	\$ -
K-2	\$ 12.00	\$ -
3	\$ 15.00	\$ -
4-5	\$ 15.00	\$ 1.00
6-8	\$ 21.00	\$ 1.00
9-12	\$ 24.00	\$ 1.00
Univ. Students	\$ 24.00	\$ 2.00
Private	\$ 18.00	\$ 1.00

DEFINITIONS:
 BASE School Supplies = pens, pencils, erasers, crayons, notebooks, notebook [filler] paper, legal pads, composition books, poster paper, scissors, tape, glue or paste, rulers, protractors, compasses, calculators
 NEW HB 137 (2003) / SB
 474 (2003) computer discs

Mar 2003 estimate		
University # =	Fall 2002-03 Term, Rpt 2-A	
	258,874	
CC # =	Fall 200 EF2 Report (prelim)	
	358,850	
Growth CC	FY 01-02 actual =	211,781
Use FTE	FY 02-03 3/03 est =	225,941
from EEC	Growth =	106.7%
Growth Univ	FY 01-02 actual =	248,494
Use Hdcnt	FY 02-03 T1 Prelim =	258,874
from Fall 2A	Growth =	104.2%
Total Growth		105.3%

3/10/03 Info from Sandra Ulm, DOE:
 Avg price PK-Grade 4 text (hardback) = \$16.04
 (School Library Journal annual survey, 2002 issue)
 Avg price "children & young adult" paperback = \$6.63
 (School Library Journal annual survey, 2001 issue)
 I-Can-Read book series = \$3.99
 3/10/03 Info from Teach Me School Supplies store:
 Range of sales prices for workbooks & books = \$2.99 to \$14.99
 Books range from \$4.95 to \$18\$
 Spectrum (McGraw-Hill series popular w/ patrons) = \$8 to \$10

BOOKS DESIGNED TO BE USED BY CHILDREN IN KINDERGARTEN THROUGH THIRD GRADE, SALES PRICE \$10 OR LESS

1. USING US STAT ABSTRACT DATA

	<u>Low</u>	<u>Medium</u>	<u>High</u>
2. Books for children only - USING Table 1111, U.S. Statistical Abstract (Est. JL	17,034.2	17,034.2	17,034.2
Total Value U.S. Domestic Consumer Expenditures Juvenile Books, 2003 estimate	1,001.7	1,001.7	1,001.7
Times FLORIDA pop forecast of 03-04 [A]	290.5	290.5	290.5
Est. FL Based Sales of BOOKS (mail ord. Adj. 5%, 7%, 10%) [B]	261.4	270.1	276.0
Sales Tax at 6%	15.7	16.2	16.6
Exempted Amount (25%, 30%, & 35%) - \$10 maximum price [C]	3.9	4.9	5.8
Prel. 9-day fiscal impact in Florida (\$ 10 limit)	\$ (0.10)	\$ (0.12)	\$ (0.14)
Seasonal factor for August	1.05869247	1.058692474	1.05869247
The behavioral factor based on New York history	1.73	1.73	1.73
Adj. 9 day fiscal impact in Florida (\$ 10 limit)	\$ (0.2)	\$ (0.2)	\$ (0.3)
Total Impact	\$ (0.2)	\$ (0.2)	\$ (0.3)

NOTES:

- A 0.0
- B Fewer childrens' books online per bookweb.org - April 18, 02 article
0.0
- C ADJUST EXEMPT AMOUNT FOR \$ LIMIT IF ANY
85/90/95 = \$100 / 55/60/65 = \$50 / 25/30/35 = \$10

2. USING PER CAPITA ASSUMPTIONS

	<u>Low</u>	<u>Medium</u>	<u>High</u>
Fla Public School headcount est., Kindergarten through Third Grade, FY 03-04	762,845	762,845.4	762,845.4
Fla Non-public school headcount est., Kindergarten through Third Grade, FY 03	91,541	91,541.0	91,541.0
Total Florida Kindergarten through Third Grade children	854,386	854,386.4	854,386.4
Amount spent per child if 75% of children purchase book(s) @ \$5 / \$10 / \$15	3.2	6.4	9.6
Sales Tax at 6%	-0.2	-0.4	-0.6
Seasonal factor for August	1.05869247	1.058692474	1.05869247
The behavioral factor based on New York history	1.73	1.73	1.73
Adj. 9 day fiscal impact in Florida (\$ 100 limit)	\$ (0.4)	\$ (0.7)	\$ (1.1)
Total Impact	\$ (0.4)	\$ (0.7)	\$ (1.1)

DATA FOR RETAIL BOOK EXEMPTION

MEASURES OF BOOK SALES FROM VARIOUS GOVERNMENT SOURCES (ALL DATA U.S.)	NIPA Consumer Spending Books & Maps	Census Retail Sales Book Stores	Census/ NIPA	CEX Spending on Reading
1997	26,300	12,755	48%	17,314
1998	28,200	13,390	47%	17,256
1999	30,800	14,541	47%	17,246
2000	33,200	15,420	46%	15,968
2001	35,100	16,747	48%	15,558
2002		17,006		
Averages	30,720	14,571	47%	16,668

March 19, 2003 conversation with Greg Key, Bureau of Economic Analysis:

Books & Maps includes encyclopedias, textbooks, standardized tests (SAT, LSAT, ACT, etc.), workbooks, pamphlets, audio books, religious books (Bibles, etc.), CD ROM books (E-books), law books, etc. THIS IS A VERY WIDE CATEGORY.

US Stat Abstract Table 1111 - Quantity of Books Sold & Value of U.S. Domestic Consumer Expenditures: 1995-2001

	1998	1999	2000	2001	Ann. Growth	Estimated 2002	Estimated 2003
TOTAL	\$ 28,786	\$ 30,027	\$ 32,050	\$ 31,880	103.5%	\$ 33,003	\$ 34,179
Trade	\$ 10,350	\$ 10,788	\$ 11,514	\$ 11,052	102.2%	\$ 11,296	\$ 11,546
Adult	\$ 7,791	\$ 8,142	\$ 8,691	\$ 8,448	102.7%	\$ 8,679	\$ 8,916
Juvenile	\$ 2,558	\$ 2,646	\$ 2,824	\$ 2,603	100.6%	\$ 2,618	\$ 2,633
Mass market paperbacks-rack sized	\$ 2,348	\$ 2,457	\$ 2,622	\$ 2,602	103.5%	\$ 2,693	\$ 2,786
Book clubs	\$ 1,176	\$ 1,233	\$ 1,316	\$ 1,369	105.2%	\$ 1,440	\$ 1,515
Mail order publications	\$ 487	\$ 553	\$ 590	\$ 551	104.2%	\$ 574	\$ 598
Religious	\$ 2,037	\$ 2,150	\$ 2,295	\$ 2,413	105.8%	\$ 2,553	\$ 2,701
Professional	\$ 4,751	\$ 4,959	\$ 5,293	\$ 4,870	100.8%	\$ 4,910	\$ 4,951
University press	\$ 455	\$ 474	\$ 506	\$ 497	103.0%	\$ 512	\$ 527
Elem-high text	\$ 3,216	\$ 3,294	\$ 3,516	\$ 3,798	105.7%	\$ 4,015	\$ 4,243
College text	\$ 3,365	\$ 3,483	\$ 3,718	\$ 4,020	106.1%	\$ 4,266	\$ 4,526
Subscription reference	\$ 603	\$ 636	\$ 679	\$ 706	105.4%	\$ 744	\$ 784
K SUMS	\$ 28,788	\$ 30,027	\$ 32,049	\$ 31,878			

	1998	1999	2000	2001		2003 est. INCLUDED	2003 est. Books K-3
PERCENTAGES							
Trade	36.0%	35.9%	35.9%	34.7%	INCLUDED	\$ 11,546	23%
Adult	27.1%	27.1%	27.1%	26.5%	INCLUDED	\$ 8,916	Juv / Trade
Juvenile	8.9%	8.8%	8.8%	8.2%	INCLUDED	\$ 2,633	\$ 2,633
Mass market paperbacks-rack sized	8.2%	8.2%	8.2%	8.2%	INCLUDED	\$ 2,786	\$ 636
Book clubs	4.1%	4.1%	4.1%	4.3%	out	\$ -	
Mail order publications	1.7%	1.8%	1.8%	1.7%	out	\$ -	
Religious	7.1%	7.2%	7.2%	7.6%	INCLUDED	\$ 2,701	\$ 616
Professional	16.5%	16.5%	16.5%	15.3%	out	\$ -	
University press	1.6%	1.6%	1.6%	1.6%	out	\$ -	
Elem-high text	11.2%	11.0%	11.0%	11.9%	out	\$ -	
College text	11.7%	11.6%	11.6%	12.6%	out	\$ -	
Subscription reference	2.1%	2.1%	2.1%	2.2%	out	\$ -	
K SUMS	100.0%	100.0%	100.0%	100.0%		\$ 17,034	\$ 1,252