

Tax: SUT

Tax Issue(s): Delete Minimum Threshold for Machinery and Equipment (M&E) Exemption

Bill Number: SB2540/HB873

Sponsor: Senator Siplin/Representative Winker

Month/Year July 1, 2004

Date of Analysis: March 11, 2004

**SECTION 1: NARRATIVE**

**Current Law:**

1. Section 212.08(5)(b)2a, exempts from SUT any amount in excess of \$50,000 per calendar year on industrial machinery and equipment purchased by an expanding facility engaged in spaceport activities as defined by s. 212.02 or for use in expanding manufacturing facilities or plant units which manufacture, process, compound, or produce for sale items of tangible personal property at fixed locations in Florida.

**Proposed Change:**

1. Section is amended to delete the limitation on this exemption.

**SECTION 2: DESCRIPTION OF DATA & SOURCES**

1. A DOR summary report covering CY2002 and CY2003 indicates that the dollar value of machinery and equipment purchased by expanding non-printers that were eligible and approved for the \$50,000 SUT limitation, totaled \$464.22 million and \$372.03million, respectively. The calculated FY0203 estimate of the purchases by these businesses is \$418.11 million.
2. A FY9899 and partial FY9900 listing of the value of purchases of machinery and equipment by qualified expanding printers that were entitled to a full SUT exemption on these purchases. Based upon an analysis of this data, if the expanding printers had a \$50,000 SUT limitation, as opposed to 100% exemption from SUT, the value of the SUT exempt purchases at the 100% exemption level was roughly 116% times the value of exempt purchases at the \$50,000 SUT limitation.

**SECTION 3: ASSUMPTIONS AND RATIONALE**

1. The use of 116% for the value of machinery and equipment ( M&E ) purchased by expanding printers can be applied to the value of M&E purchased by expanding non-printers that have a \$50,000 SUT limitation.  
Rationale: The CY91 I/O matrix for U. S. indicates that the wage bill for all manufacturers is roughly 50%, suggesting that the printing industry is as capital intensive in the aggregate as other types of manufacturers.
2. A 3%-4%-5% annual growth rate captures the combined effect of inflation and an increase in the demand for M&E in Florida.

**SECTION 4: METHODOLOGY**

1. FY0203 estimated SUT loss=  $-418.11\text{million} * 116.56\% = -\$29.2\text{ million}$
2. Apply 3%-4%-5% annual growth rates to the estimated FY0203  $-\$29.2\text{ million}$  loss.

**SECTION 5: IMPACT SUMMARY**

State Impact	FY 2004-05 Annualized	FY 2004-05 Cash-\$millions	FY 2005-06 Annualized \$millions
High	-32.2	-29.6	-33.9
Middle	-31.6	-29.0	-32.9
Low	- 31.0	-28.4	-32.0

3/19/04	Fy2004-05 Annualized Smillions	FY 2004-05 Cash-\$millions	FY 2005-06 Annualized Smillions
General Revenue			
Total State Impact			
Total local Impact			

GR	(28.0)	(25.7)	(29.2)
State Trust	(.1)	(.1)	(.1)
Total State	(28.1)	(25.8)	(29.3)
Revenue Sharing	(1.0)	(1.0)	(1.1)
Local Half Cent	(2.5)	(2.3)	(2.6)
Local Option	(1.8)	(1.6)	(1.8)
Total Local	(5.3)	(4.9)	(5.5)
Total Impact	(33.4)	(30.7)	(34.8)

Data: FY9899 and partial year monthly data file listing companies that filed exemptions on their purchases of M & E.  
 Dollar value of Purchases, and Amount Subject to Sales Tax Given Alternative Tax Exemption Thresholds

1	FY9798	Type of company	Printers \$millions	Printers \$millions	Difference \$millions	% change
	col. 1	col. 2	col. 3	col. 4	col. 5=col.4-col. 3	col.6=col. 5/col. 3
			Exempt over \$0 threshold	Exempt over \$50k SUT		
	FY9798	New	\$1.50			
		Expanding	\$44.42			
		Total	\$45.92			
	FY9899	New	\$6.18			
	FY9899	Expanding	\$71.33	\$30.90	\$40.43	130.83%
		Total	\$77.51			
	Thru 11/10/1999					
	FY9900	New	\$2.40			
		Expanding	\$25.23	\$12.47	\$12.76	102.30%
		Total	\$27.63			
	Average of high and low %					116.56%

source : DOR- Jeff Soff and Ann Rix 922-4841.

2	FY	Type of company	Non-printers \$millions	Non-printers \$millions
	col. 1	col. 2	col. 3	col. 4
			Value of Purchases	Exempt Value-current law
	FY9798	New	\$135.30	
		Expanding	\$863.29	
		Total	\$998.59	
	FY9899	New	\$238.55	
	FY9899	Expanding	\$285.82	\$252.49
		Total	\$524.37	
	Thru 11/10/1999			
	FY9900	New	\$126.18	
		Expanding	\$134.05	\$121.54
		Total	\$260.23	
	FY0203	Expanding	n/a	418.1185

**CALCULATIONS**

1	FY0203 estimate of the total value of exempt value of M&E by qualified, expanding non-printers =			
	\$418.11million * 116.16%=	\$487.37 million	\$millions	\$millions
	The estimated FY0203 SUT at risk= -\$487.37million *6%=	-\$29.2 million.	@3%	@4%
2	For a 3%-4%-5% annual growth rate, the FY0405(annualized) estimate of the SUTat risk=		-\$31.0	-\$31.6
	The FY0405 (cash) estimate=		-\$28.4	-\$29.0
	The FY0506 estimate=		-\$32.0	-\$32.9
				-\$33.9

**KEY ASSUMPTIONS**

- The use of percentages from an analysis of the printing industry to justify estimates for non-printers.  
 Rationale: The CY91 I/O matrix for U.S. indicates that the wage bill for all manufacturers is 50% of the total value of output, suggesting that the printing industry is as capital intensive in the aggregate as other types of manufacturers.
- Qualified purchases will grow annually by 3%-5%, over the forecast period reflecting a combination of growth in the industry and inflation.