

**TAX:** Sales and use  
**ISSUE:** PURCHASES OF M&E FOR RESEARCH AND DEVELOPMENT ACTIVITIES  
**BILL NUMBER(S):** SB 2934  
**SPONSOR(S):** SEN. FASANO  
**MONTH/YEAR COLLECTION IMPACT BEGINS:** 7/1/2004  
**DATE OF ANALYSIS:** 3/17/04

**SECTION 1: NARRATIVE**

**a. Current Law:**

Section 212.052 F.S. exempts the cost of products used to manufacture, produce, compound, process, or fabricate in any manner tangible personal property for the taxpayer’s own use directly and solely in research and development. Section 212.08(5)(j) exempts the cost of M&E used in semiconductor, defense, or space technology production and research and development.

**b. Proposed Change:**

Bill amends 212.052 F.S. to provide an exemption for M&E used predominantly for research and development activities. Defines “M&E” to include molds, dies, machine tooling, other appurtenances or accessories to machinery and equipment, testing equipment, test beds, computers and software, whether purchased or self-fabricated, and, if self-fabricated, includes materials and labor for design, fabrication, and assembly.

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

1. National Science Foundation - R&D Spending in Florida
2. DOR - TPP Proportion of R&D Spending

**SECTION 3: ASSUMPTIONS & RATIONALE**

1. R&D expenditures on M&E by private industry are subject to sales and use tax irrespective of their funding source (federal or private) since it is the purchase transaction that is taxable.
2. The existing exemption for M&E under 212.08.(5)(j) is valued at \$2.5m annually as per the Florida Tax Handbook.

**SECTION 4: METHODOLOGY**

see attached spreadsheet

**SECTION 5: IMPACT SUMMARY (DETAILS ATTACHED)**

State Impact - All Funds	FY 2004-2005 Annualized	FY 2004-2005 Cash	FY 2005-2006 Cash
High	(\$30.8m)	(\$30.8m)	(\$31.9m)
Middle	(\$25.3m)	(\$25.3m)	(\$26.1m)
Low	(\$19.7m)	(\$19.7m)	(\$20.4m)

<b>Consensus Estimate</b> Adopted: 3 / 26 /04	FY 2004-2005 Annualized	FY 2004-2005 Cash	FY 2005-2006 Cash
General Revenue	-\$27.3	-\$27.3	-\$28.3
State Trust	-\$0.1	-\$0.1	-\$0.1
Total State Impact	-\$27.4	-\$27.4	-\$28.4
Revenue Sharing	-\$1.0	-\$1.0	-\$1.0
Local Gov’t Half Cent	-\$2.4	-\$2.4	-\$2.5
Local Option	-\$1.7	-\$1.7	-\$1.8
Local Tax Impact	-\$5.1	-\$5.1	-\$5.3
Total Impact	-\$32.5	-\$32.5	-\$33.7

## I. Industry Research and Development Spending in Florida

(in \$ millions)

	TOTAL
1987	2,133
1989	2,341
1991	2,599
1993	2,425
1994	NA
1995	4,101
1996	NA
1997	3,442
1998	3,300
1999	2,697
2000	3,212
<i>average</i>	2,917
<i>annual growth</i>	3.20%

Source: National Science Foundation - Division of Science Resources Statistics

## II. M&E Share of Total R&D Expenditures

According to DOR audit sources, R&D related expenditures on TPP are a frequent use tax issue in audits. Evidence suggests that between 10% and 15% of R&D spending is on TPP.

## III. Fiscal Impact Estimate

				TOTAL
				(in \$ m)
<b>2000</b>	R&D Spending	Gross		<b>3,212.0</b>
		on M&E	High	<b>481.8</b>
			Low	<b>321.2</b>
	Sales Tax Impact		High	<b>28.9</b>
			Low	<b>19.3</b>
<b>Forecast</b>	Level of R&D spending continues to grow at the average rate experienced throughout the 1987 - 2000 time period from the 2000 base			
	Sales Tax Impact	SFY04/05	High	<b>33.3</b>
			Low	<b>22.2</b>
		SFY05/06	High	<b>34.4</b>
			Low	<b>22.9</b>
	Net of Current Ex	SFY04/05	High	<b>30.8</b>
	212.08(5)(j) of \$2.5m		Low	<b>19.7</b>
		SFY05/06	High	<b>31.9</b>
			Low	<b>20.4</b>