

**REVENUE ESTIMATING CONFERENCE**

**TAX:** Sales and use

**ISSUE:** EXEMPTION FOR M&E USED FOR RESEARCH AND DEVELOPMENT ACTIVITIES

**BILL NUMBER(S):**

**SPONSOR(S):** GOVERNOR’S PACKAGE

**MONTH/YEAR COLLECTION IMPACT BEGINS:** assume 7/1/05

**DATE OF ANALYSIS:** 1/4/05

**SECTION 1: NARRATIVE**

**a. Current Law:**

Machinery and equipment used in research and development activities is taxable unless used in semiconductor, defense, or space technology research and development (212.08(5)(j), F.S.) or fabricated by the taxpayer for his own use (212.052 F.S.) .

**b. Proposed Change:**

Eliminates sales tax on purchases of machinery and equipment used predominantly for research and development activities

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

National Science Foundation - Industry Research and Development Spending in Florida  
DOR Audit - M&E share of Total R&D Expenditures

**SECTION 3: METHODOLOGY (INCLUDE ASSUMPTIONS AND ATTACH DETAILS)**

see attached

**SECTION 4: PROPOSED FISCAL IMPACT**

State Impact - All Funds	FY 2005-2006 Annualized	FY 2005-2006 Cash	FY 2006-2007 Cash
High	(\$62.0m)	(\$56.8m)	(\$69.2m)
Middle	(\$45.9m)	(\$42.1m)	(\$51.3m)
Low	(\$21.5m)	(\$19.7m)	(\$21.5m)

**SECTION 5: CONSENSUS ESTIMATE (ADOPTED 2 / 4 / 05 )** The estimate adopted by the conference assumes \$4.0 billion in R& D spending in 2005-06 and 2006-07, with 16.5% being TPP.

	FY 2005-2006 Annualized	FY 2005-2006 Cash	FY 2006-2007 Cash
General Revenue	(32.9)	(29.3)	(32.9)
State Trust	(.1)	(.1)	(.1)
<b>Total State Impact</b>	<b>(33.0)</b>	<b>(29.4)</b>	<b>(33.0)</b>
Revenue Sharing	(1.1)	(.9)	(1.1)
Local Gov't Half Cent	(2.9)	(2.6)	(2.9)
Local Option	(2.9)	(2.6)	(2.9)
<b>Local Tax Impact</b>	<b>(6.9)</b>	<b>(6.1)</b>	<b>(6.9)</b>
<b>Total Impact</b>	<b>(39.9)</b>	<b>(35.5)</b>	<b>(39.9)</b>

## I. Industry Research and Development Spending in Florida

(in \$ millions)

	<b>TOTAL</b>	<b>Share of R&amp;D performed by :</b>	
1987	2,133	Manufacturing Industry	64.7%
1989	2,341	Contract Service Providers	10.9%
1991	2,599	Software Developers and others	24.4%
1993	2,425	<i>(based on 2000 data)</i>	
1994	NA		
1995	4,101		
1996	NA		
1997	3,442		
1998	3,300		
1999	2,697		
2000	3,212		
2002	3,707		

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. There is no certification or application process, thus taxpayers may use this exemption aggressively - accounted for by a high estimate of using 20% of R&D spending as TPP.

## III. Fiscal Impact Estimate

			<b>Spending</b>	<b>Sales Tax</b>
			<i>(in \$ m)</i>	
<b>2002 Actual</b>	R&D Spending	Gross on M&E	<b>3,707.0</b>	
		High	<b>741.4</b>	<b>44.5</b>
		Medium	<b>556.1</b>	<b>33.4</b>
		Low	<b>370.7</b>	<b>22.2</b>

### **Forecast**

A. Level of R&D Spending reaches to \$4 billion for each of the forecast periods

Sales Tax Impact	High	<b>48.0</b>
	Medium	<b>36.0</b>
	Low	<b>24.0</b>
	at 16.5%	<b>39.6</b>
Net of Current Exemption 212.08(5)(j) of \$2.5m	High	<b>45.5</b>
	Medium	<b>33.5</b>
	Low	<b>21.5</b>
	at 16.5%	<b>37.1</b>

B. R&D spending continues to grow at the average rate of 11.2% experienced throughout the 1999 - 2002 time period

Sales Tax Impact	SFY05/06	High	<b>64.5</b>
		Medium	<b>48.4</b>
		Low	<b>32.3</b>
	SFY06/07	High	<b>71.7</b>
		Medium	<b>53.8</b>
		Low	<b>35.9</b>
Net of Current Ex 212.08(5)(j) of \$2.5m	SFY05/06	High	<b>62.0</b>
		Medium	<b>45.9</b>
		Low	<b>29.8</b>
	SFY06/07	High	<b>69.2</b>
		Medium	<b>51.3</b>
		Low	<b>33.4</b>