

REVENUE ESTIMATING CONFERENCE

Tax: Sales and Use Tax

Issue: Sales Tax Exemption for Baby Diapers

Bill Number(s): Proposed Language

Entire Bill

Partial Bill:

Sponsor(s):

Month/Year Impact Begins: July 1, 2018

Date of Analysis: January 5, 2018

Section 1: Narrative

- a. Current Law:** Currently there is no sales tax exemption for baby diapers.
- b. Proposed Change:** The proposed language creates a sales tax exemption for the sale of diapers, marketed for use by a child. The exemption does not apply to the sale of diapers to a business, including but not limited to a medical institution or a child care facility.

Section 2: Description of Data and Sources

IBISWorld Industry Report OD5652 Diaper Manufacturing (April 2017)

Florida Demographic Estimating Conference, December 2017

U.S. Census Bureau, American Community Survey 2016

Email correspondence with Jack Neff, Editor at large, AdAge, dated January 3, 2018.

Jack Neff, World's Biggest Advertiser P&G Shifts Focus to Sampling, Advertising Age, November 13, 2014,

<http://adage.com/article/cmo-strategy/p-g-shifts-focus-sampling/295853/>, accessed on January 3, 2018.

Demitrios Kalogeropoulos, What the Pampers Brand Means to Procter & Gamble Co, August 19, 2016, The Motley Fool,

<https://www.fool.com/investing/2016/08/19/what-the-pampers-brand-means-to-procter-gamble-co.aspx>, accessed on January 3, 2018.

Section 3: Methodology (Include Assumptions and Attach Details)

This analysis uses as a base the estimate adopted for SB 56 by the REC on September 28, 2017. The methodology uses national data on diaper manufacturing from IBISWorld. Baby diapers represent 68.8% of the industry total. Baby diapers includes disposable diapers, training pants and cloth diapers. The Florida share of baby diapers is calculated given the population of children 4 and under. A 5% retail markup is applied to the estimated manufacturing industry revenue to calculate the total Florida sales tax revenue from diapers. The growth in the population of children ages 0 to 4 is used to calculate the future years' revenue from diapers.

The proposed language specifies that only the sale to individuals will be tax exempt, while the sale to businesses will remain taxable. Even though a precise estimate of the share of sales to businesses was not available, this share is expected to be relatively small for the following reasons:

- Sales to hospitals: The diaper distribution channel through medical institutions, such as hospitals, may be dominated by samples rather than arms-length sales. Procter & Gamble, one of the two dominant market players, considers hospitals "Point of Market Entry" and appears to devote parts of its marketing budget to introduce new moms to its diapers while in the delivery wards by offering diaper samples. Some industry observers believe that diapers received through the hospitals are heavily subsidized or free and therefore the share of sales through hospitals may be insignificant.¹ In addition, some hospitals may charge the cost of the diapers to the patient. Furthermore, hospital stay accounts for an extremely small share of total diaper use per child.
- Sales to child care facilities: Anecdotal evidence suggests that day care facilities typically appear to require parents to provide their own diapers. Such facilities may procure relatively insignificant amounts themselves. Furthermore, Procter & Gamble does not appear to treat child care facilities as institutional customers. Such facilities most likely purchase diapers from wholesalers or wholesale stores, such as Costco.

This analysis assumes that diaper sales to businesses constitute insignificant amounts for the above reasons. Therefore, no reduction for sales to businesses was made to the estimated diaper sales in Florida. The estimated Florida sales tax revenue on diapers using this methodology is provided on line 9 of the worksheet.

¹ Email correspondence with Jack Neff, Editor at large, AdAge, dated January 3, 2018.

REVENUE ESTIMATING CONFERENCE

Tax: Sales and Use Tax

Issue: Sales Tax Exemption for Baby Diapers

Bill Number(s): Proposed Language

Section 4: Proposed Fiscal Impact

	High		Middle		Low	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19			(\$28.9)	(\$31.6)		
2019-20			(\$32.0)	(\$32.0)		
2020-21			(\$32.5)	(\$32.5)		
2021-22			(\$33.0)	(\$33.0)		
2022-23			(\$33.5)	(\$33.5)		

List of affected Trust Funds: General Sales and Use Tax Grouping

Section 5: Consensus Estimate (Adopted: 01/05/2018): The Conference adopted the proposed estimate. The Conference assumes sales to medical institutions and child care facilities are insignificant.

	GR		Trust		Revenue Sharing		Local Half Cent	
	Cash	Recurring	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19	(25.6)	(28.0)	(Insignificant)	(Insignificant)	(0.9)	(0.9)	(2.5)	(2.7)
2019-20	(28.3)	(28.3)	(Insignificant)	(Insignificant)	(0.9)	(0.9)	(2.7)	(2.7)
2020-21	(28.8)	(28.8)	(Insignificant)	(Insignificant)	(1.0)	(1.0)	(2.8)	(2.8)
2021-22	(29.2)	(29.2)	(Insignificant)	(Insignificant)	(1.0)	(1.0)	(2.8)	(2.8)
2022-23	(29.7)	(29.7)	(Insignificant)	(Insignificant)	(1.0)	(1.0)	(2.8)	(2.8)

	Local Option		Total Local		Total	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19	(3.3)	(3.6)	(6.6)	(7.2)	(32.2)	(35.2)
2019-20	(3.6)	(3.6)	(7.3)	(7.3)	(35.6)	(35.6)
2020-21	(3.7)	(3.7)	(7.4)	(7.4)	(36.2)	(36.2)
2021-22	(3.7)	(3.7)	(7.5)	(7.5)	(36.7)	(36.7)
2022-23	(3.8)	(3.8)	(7.6)	(7.6)	(37.3)	(37.3)

	A	B	C	D	E	F	G
1	Sales Tax Exemption for Diapers						
2							
3	IBISWorld - US Manufacturing Diaper Industry Data						
4		FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
5	Total Industry Revenue in U.S.	12,714,400,000					
6							
7	Baby Diapers* Industry Revenue (68.8% of total)	8,747,507,200					
8	Florida Share of Revenue (5.6%)	518,388,442					
9	Florida Sales Tax Revenue - Baby Diapers**	31,103,307	31,562,939	31,977,113	32,457,654	32,968,160	33,468,221
10	<i>*Baby diapers includes disposable diapers, training pants and cloth diapers.</i>						
11	<i>**Estimated Sales Tax Revenue assumes a 5.0% retail markup on diapers. Based on IBISWorld report, the average profit margin in the baby</i>						
12	<i>product market is 5.0%. The baby product market includes retailers who sell baby products.</i>						

REVENUE ESTIMATING CONFERENCE

Tax: Sales & Use Tax
Issue: Donations to 501(c)(3) Organizations
Bill Number(s): Proposed Language

- Entire Bill**
- Partial Bill:**

Sponsor(s): N/A
Month/Year Impact Begins: July 1, 2018
Date of Analysis: January 5, 2018

Section 1: Narrative

- a. Current Law:** Donations of taxable tangible personal property made to any person, to a federal or state governmental unit, or to any religious, educational or charitable institution are exempt; however, the donor is required to pay tax on the acquisition cost of the tangible personal property since the donor is the consumer thereof, unless the donor is an exempt entity under Chapter 212, F.S
- b. Proposed Change:** S. 212.08 (7)(p)2 F.S., is added: Exempt from the tax imposed by this chapter is tangible personal property purchased for resale by a dealer and subsequently donated to an organization determined by the Internal Revenue Service to be currently exempt from federal income tax pursuant to s. 501(c)(3) of the Internal Revenue Code of 1986, as amended, unless such organization is subject to a final disqualification order issued by the Department of Agriculture and Consumer Services pursuant to s. 496.430. For the purpose of this paragraph, the term “donate” means any transfer of title or possession of tangible personal property to a Section 501(c)(3) organization for no consideration.

Section 2: Description of Data and Sources

National Center for Charitable Statistics
 Internal Revenue Service Form 990 Statistics of Income Form 990 and Schedule M: Non-Cash donations.
 Florida Economic Estimating Conference Data July 2017
 National Economic Estimating Conference Data July 2017

Section 3: Methodology (Include Assumptions and Attach Details)

The starting point for this analysis is a sample of Schedule M Non-Cash Donations as reported by 501 (c)(3) Organizations. This data is available at the National and State level. Any donations of items that would otherwise be exempt under Chapter 212, F.S. would not be a part of this impact. The Schedule M data shows different classes of non-cash donations, and some of these can be excluded completely. Food Inventory donations are exempt. The Medical Supplies non-cash donations should be a mix of taxable and exempt items. The taxable donations amounts are reduced for those two categories. The rest of the categories have few, if any, exemptions, and are left at 100% taxable. The requirement that the donated good must have been purchased as a sale for resale removes any donations made by individuals from the impact. The National Center for Charitable Statistics reports that 72% of all donation are made by individuals, so the remainder is used to create a baseline for the percent of taxable donation made by businesses. Some of the classes of non-cash donations use a different split based on the nature of the taxable item(s) in that category. If the taxable item is more likely to be donated by a business than an individual, then a higher percentage of business donations is used. If the non-cash donation comes from a business that doesn’t have a resale certificate, then the exemption would not be available to that business. There is final reduction made to get to the share of taxable donations, made by businesses, that have also been purchased under a resale certificate. Total charitable contributions have been growing, at a decreasing rate, for the most recent four years available (2010-2014). This growth pattern is carried forward into the estimate period. The cash value is equal to the recurring in the first year based on the potential for donations to be delayed thereby taking advantage of the exemption.

Section 4: Proposed Fiscal Impact

	High		Middle		Low	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19			(\$11.7 M)	(\$11.7 M)		
2019-20			(\$12.2 M)	(\$12.2 M)		
2020-21			(\$12.8 M)	(\$12.8 M)		
2021-22			(\$13.3 M)	(\$13.3 M)		
2022-23			(\$13.8 M)	(\$13.8 M)		

REVENUE ESTIMATING CONFERENCE

Tax: Sales & Use Tax

Issue: Donations to 501(c)(3) Organizations

Bill Number(s): Proposed Language

List of affected Trust Funds:

Sales and Use Tax Group

Section 5: Consensus Estimate (Adopted: 01/05/2018): The Conference adopted a modified proposed estimate, making adjustments on the taxable categories and business donations and purchases for resale.

	GR		Trust		Revenue Sharing		Local Half Cent	
	Cash	Recurring	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19	(5.2)	(5.2)	(Insignificant)	(Insignificant)	(0.2)	(0.2)	(0.5)	(0.5)
2019-20	(5.4)	(5.4)	(Insignificant)	(Insignificant)	(0.2)	(0.2)	(0.5)	(0.5)
2020-21	(5.7)	(5.7)	(Insignificant)	(Insignificant)	(0.2)	(0.2)	(0.5)	(0.5)
2021-22	(6.0)	(6.0)	(Insignificant)	(Insignificant)	(0.2)	(0.2)	(0.6)	(0.6)
2022-23	(6.2)	(6.2)	(Insignificant)	(Insignificant)	(0.2)	(0.2)	(0.6)	(0.6)

	Local Option		Total Local		Total	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19	(0.7)	(0.7)	(1.3)	(1.3)	(6.5)	(6.5)
2019-20	(0.7)	(0.7)	(1.4)	(1.4)	(6.8)	(6.8)
2020-21	(0.7)	(0.7)	(1.4)	(1.4)	(7.1)	(7.1)
2021-22	(0.8)	(0.8)	(1.5)	(1.5)	(7.5)	(7.5)
2022-23	(0.8)	(0.8)	(1.6)	(1.6)	(7.8)	(7.8)

Proposed Language- Donations
Reduction Steps

	A	B	C	D	E	F
1						
2				National	FL	Exempt
3	1	Art—Works of art	Taxable	189,531,159	4,367,240	0%
4	2	Art—Historical treasures ...	Taxable	4,605,328	-	0%
5	3	Art—Fractional interests ...	Taxable	14,470,355	-	0%
6	4	Books and publications ...	Taxable	675,919,488	3,256,751	0%
7	5	Clothing and household goods	Taxable	3,905,481,210	222,571,153	0%
8	6	Cars and other vehicles ...	Taxable	122,866,337	9,321,018	0%
9	7	Boats and planes	Taxable below a cap	15,381,037	1,449,654	0%
10	8	Intellectual property	N/A	13,665,484	-	100%
11	9	Securities—Publicly traded ..	N/A	19,166,474,324	328,382,435	100%
12	10	Securities—Closely held stock .	N/A	772,429,022	80,180,954	100%
13	11	Securities—Partnership, LLC, or trust interests	N/A	1,372,120,412	150,885,349	100%
14	12	Securities—Miscellaneous ..	N/A	215,421,481	101,057	100%
15	13	Qualified conservation cont.—Historic structures	N/A	402,713	-	100%
16	14	Qualified conservation contribution—Other	N/A	202,364,313	-	100%
17	15	Real estate—Residential ...	N/A	479,283,297	50,584,477	100%
18	16	Real estate—Commercial ..	N/A	694,615,649	4,236,401	100%
19	17	Real estate—Other	N/A	737,258,748	7,951,976	100%
20	18	Collectibles	Taxable	27,021,240	30,460	0%
21	19	Food inventory	Partially Exempt	9,326,037,238	152,140,760	100%
22	20	Drugs and medical supplies ..	Partially Exempt	4,676,841,194	87,272,850	90%
23	21	Taxidermy	Taxable	1,242,850	-	0%
24	22	Historical artifacts	Taxable	149,336,759	-	0%
25	23	Scientific specimens	Taxable	6,465,417	2,585,011	0%
26	24	Archeological artifacts ...	Taxable	47,209,434	2,828	0%
27	25	Other Contributions ...	Taxable	5,264,522,125	221,185,330	0%
28		Total		\$ 48,080,966,613	\$ 1,326,505,704	

Proposed Language- Donations
Reduction Steps

	G	H	I	J	K	L	M
1							
2	Taxable	National	FL	% Business Donation	FL Business Donations	Items purchased for resale later donated (%)	Items purchased for resale later donated (\$)
3	100%	\$ 189,531,159	\$ 4,367,240	60%	\$ 2,620,344.00	40%	\$ 1,048,137.60
4	100%	\$ 4,605,328	\$ -	28%	\$ -		\$ -
5	100%	\$ 14,470,355	\$ -	28%	\$ -		\$ -
6	100%	\$ 675,919,488	\$ 3,256,751	28%	\$ 911,890.28	50%	\$ 455,945.14
7	100%	\$ 3,905,481,210	\$ 222,571,153	28%	\$ 62,319,922.84	50%	\$ 31,159,961.42
8	100%	\$ 122,866,337	\$ 9,321,018	50%	\$ 4,660,509.00	50%	\$ 2,330,254.50
9	100%	\$ 15,381,037	\$ 1,449,654	50%	\$ 724,827.00	50%	\$ 362,413.50
10	0%	\$ -	\$ -		\$ -		\$ -
11	0%	\$ -	\$ -		\$ -		\$ -
12	0%	\$ -	\$ -		\$ -		\$ -
13	0%	\$ -	\$ -		\$ -		\$ -
14	0%	\$ -	\$ -		\$ -		\$ -
15	0%	\$ -	\$ -		\$ -		\$ -
16	0%	\$ -	\$ -		\$ -		\$ -
17	0%	\$ -	\$ -		\$ -		\$ -
18	0%	\$ -	\$ -		\$ -		\$ -
19	0%	\$ -	\$ -		\$ -		\$ -
20	100%	\$ 27,021,240	\$ 30,460	28%	\$ 8,528.80	50%	\$ 4,264.40
21	0%	\$ -	\$ -	80%	\$ -	80%	\$ -
22	10%	\$ 467,684,119	\$ 8,727,285	80%	\$ 6,981,828.00	80%	\$ 5,585,462.40
23	100%	\$ 1,242,850	\$ -	28%	\$ -		\$ -
24	100%	\$ 149,336,759	\$ -	28%	\$ -		\$ -
25	100%	\$ 6,465,417	\$ 2,585,011	50%	\$ 1,292,505.50	80%	\$ 1,034,004.40
26	100%	\$ 47,209,434	\$ 2,828	60%	\$ 1,696.80	40%	\$ 678.72
27	100%	\$ 5,264,522,125	\$ 221,185,330	28%	\$ 61,931,892.40	50%	\$ 30,965,946.20
28		\$ 10,891,736,858	\$ 473,496,730		\$ 141,453,945		\$ 72,947,068

Proposed Language-Donations
Impact

Per 2014 IRS SOI Sample Data for Schedule M (\$M)

Total Potentially Taxable In Kind Donations U.S.	48,081.0
Total Potentially Taxable In Kind Florida Donations	1,326.5
% FL	2.76%

Amount Remaining after all reductions have been made (\$M)

Estimated Florida Taxable Donations purchased as Resale	72.9
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Data from 501 (c)(3) Return 990 Line- All other contributions, gifts, etc.

	All other contributions, gifts, etc.	Growth Rates
2011	164,945,919,000	
2012	179,838,212,000	9.03%
2013	195,176,086,000	8.53%
2014	210,351,749,000	7.78%
3 year Avg. Growth rate		8.4%

0.5% 6%

	% Growth in total contributions with decay	Estimated Florida Taxable Donations purchased as Resale (\$M)	Sales Tax
2014	7.78%	\$ 72.9	\$ 4.4
2015	7.28%	\$ 78.3	\$ 4.7
2016	6.78%	\$ 83.6	\$ 5.0
2017	6.28%	\$ 88.8	\$ 5.3
2018	5.78%	\$ 93.9	\$ 5.6
2019	5.28%	\$ 98.9	\$ 5.9
2020	5.00%	\$ 103.8	\$ 6.2
2021	5.00%	\$ 109.0	\$ 6.5
2022	5.00%	\$ 114.5	\$ 6.9
2023	5.00%	\$ 120.2	\$ 7.2

CY to FY

	High		Middle		Low	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
2018-19			\$ (5.8 M)	\$ (5.8 M)		
2019-20			\$ (6.1 M)	\$ (6.1 M)		
2020-21			\$ (6.4 M)	\$ (6.4 M)		
2021-22			\$ (6.7 M)	\$ (6.7 M)		
2022-23			\$ (7.0 M)	\$ (7.0 M)		