

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

Date: April 1, 1998 Revised: _____

Subject: Taxation

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	<u>Fournier</u>	<u>Beggs</u>	<u>WME</u>	<u>Fav/3 amendments</u>
2.	<u>Fournier</u>	<u>Smith</u>	<u>WM</u>	<u>Favorable/CS</u>
3.	<u> </u>	<u> </u>	<u>CM</u>	<u> </u>
4.	<u> </u>	<u> </u>	<u> </u>	<u> </u>
5.	<u> </u>	<u> </u>	<u> </u>	<u> </u>

I. Summary:

This committee substitute revises a sales tax exemption for charges for electricity used to operate machinery and equipment to include steam energy. The bill also specifies that, in order to qualify for the full exemption, 75 percent or more of the electricity used at the fixed location must be used to operate qualifying machinery or equipment. If less than 75 percent but at least 50 percent of the electricity is used for to operate qualifying machinery or equipment, it is presumed that 50 percent of the electricity is used for nonexempt purposes. The bill also provides that the exemption shall apply to electricity used to operate machinery and equipment used to prepare items of tangible personal property for shipment. Cigar manufacturers are removed from the list of industries eligible for this exemption.

This committee substitute substantially amends section 212.08 of the Florida Statutes.

II. Present Situation:

Section 212.05(1)(a)1.a., F.S. provides for a 6 percent tax on the sales price of each item or article of tangible personal property sold at retail within this state.

Section 212.05(1)(e)1.d., F.S., provides for the levy of a sales tax on charges for electrical power or energy at the rate of 7 percent.

Specified exemptions to the sales and use tax are provided in s. 212.08, F.S. including s.212.08(7)(ii), F.S., which provides that charges for electricity used directly and exclusively at a fixed location to operate manufacturing machinery and equipment are exempt. The exemption is applicable if the electricity used for exempt purposes is separately metered. If it is not separately metered, it is presumed that 50 percent of the charge for electricity is for nonexempt purposes.

The exemption applies solely to industries under specified Standard Industrial Classification (SIC) numbers. The percentage of eligible electricity charges exempt under the statute is increased by 20 percent each year beginning July 1, 1996, until it reaches 100 percent on July 1, 2000. In order to qualify for this exemption, a taxpayer must register with the local WAGES Program Business Registry.

III. Effect of Proposed Changes:

This bill amends s. 212.08(7)(ii), F.S., relating to the sales tax exemption for electricity used to operate manufacturing equipment. It is amended to include charges for steam energy from the sales tax exemption; include electricity used to operate equipment in preparing goods for shipment; and to exclude from the list of eligible industries those industries manufacturing cigars. A provision requiring separate metering of electricity, or creating a presumption that 50 percent of charges are for nonexempt purposes, is replaced with a requirement that at least 75 percent of the electricity used at the fixed location be used to operate qualifying machinery or equipment. If less than 75 percent but at least 50 percent of the electricity is used for to operate qualifying machinery or equipment, it is presumed that 50 percent of the electricity is used for nonexempt purposes. The bill also clarifies that in order to receive the exemption, a taxpayer first must register with the Work and Gain Economic Self-sufficiency (WAGES) Program Business Registry established by the local WAGES coalition for the area in which the taxpayer is located.

This bill has an effective date of July 1, 1998.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

This bill initially falls under subsection (b) of Section 18 of Article VII, Florida Constitution. Subsection (b) requires a two-thirds vote of the membership of each house in order to enact a general law reducing the authority that municipalities and counties had on February 1, 1989 to raise revenues in the aggregate. By adding exemptions to the state sales tax, the bill has the effect of adding exemptions to the local option county sales surtax. The estimated local government revenue loss from this committee substitute appears to be less than \$1.4 million; therefore, the committee substitute is exempt from the requirements of subsection (b) of section 18 of Article VII.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

The revenue impact of this committee substitute is estimated to be:

Issue/Fund	General Revenue		Trust		Local		Total	
	1st Year	Recurring	1st Year	Recurring	1st Year	Recurring	1st Year	Recurring
Electricity	(\$3.2)	(\$5.7)	(*)	(*)	(\$0.5)	(\$0.9)	(\$3.7)	(\$6.6)
Steam	(\$0.2)	(\$0.5)	(*)	(*)	(*)	(*)	(\$0.2)	(\$0.5)
Total	(\$3.4)	(\$6.2)	(*)	(*)	(\$0.5)	(\$0.9)	(\$3.9)	(\$7.1)

* Insignificant

** Indeterminate

B. Private Sector Impact:

This bill would make the exemption for electrical energy for manufacturers more attractive to by removing the requirement for separate metering. It will also provide a tax incentive for processes that use steam.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.