

STORAGE NAME: h1573.bdt

DATE: March 13, 2000

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
BUSINESS DEVELOPMENT & INTERNATIONAL TRADE
ANALYSIS**

BILL #: HB 1573

RELATING TO: Tax Exemption/Health Technology Industry

SPONSOR(S): Representatives Crist and Levine and others

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) BUSINESS DEVELOPMENT & INTERNATIONAL TRADE
 - (2) FINANCE & TAXATION
 - (3) GENERAL GOVERNMENT APPROPRIATIONS
 - (4)
 - (5)
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I. SUMMARY:

The bill revises the sales tax exemption for machinery and equipment used in silicon technology production and research and development, to include machinery and equipment used by health technology facilities to produce health technology products, and machinery and equipment used in research and development or manufacturing in a health technology facility.

Rulemaking authority is not addressed. It is presumed that the expanded exemption would be handled in the existing program for silicon technology production.

The Revenue Estimating Conference reported a (\$5.4m) fiscal impact in FY 2000-01, and a (\$5.7m) recurring impact.

The bill provides an effective date of July 1, 2000.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Enterprise Florida, Inc. (EFI), has identified the healthcare technology industry as a strategic business sector that would enhance Florida's statewide economy and business image. Florida has the nation's third largest concentration of medical industry firms, after California and Texas. In 1997, the industry generated a 4 percent increase in the number of reporting units, employed over 259,000 persons, and paid an average annual wage of \$30,555, 14.1 percent higher than the statewide average wage. According to EFI, national and international demand for health technology products manufactured in Florida has grown considerably.

Chapter 212, Florida Statutes, provides for a 6 percent tax on sales, use and other transactions. Section 212.05, F.S., provides that every person who engages in the business of selling tangible personal property at retail in this state, including the business of making mail order sales, or who rents or furnishes any of the things or services taxable under chapter 212, F.S., or who stores for use or consumption any item or article of tangible personal property and who leases or rents such property is exercising a taxable privilege. Section 212.05(1)(a)1.a., F.S., provides for a six percent tax rate on the retail price of each item or article of tangible personal property when sold at retail in Florida. Section 212.05(1)(b), F.S., provides for a six percent tax on the cost price of any item of tangible personal property that is not sold but used in Florida. Additionally, local governments are authorized to levy one or more of six types of Local Discretionary Sales Surtaxes, ranging 0.5 percent to 1.0 percent each.

Section 212.08(5), F.S., provides exemptions from the tax imposed by this chapter based on use. Section 212.08(5)(j), F.S., provides an exemption from the sales and use tax for machinery and equipment purchased for use in silicon technology facilities to manufacture, produce, compound, or process silicon technology products. Additionally, machinery and equipment purchased for use predominately in silicon wafer research and development activities in a certified silicon technology research and development facility are also exempt.

To receive the exemption, an eligible business must apply to EFI, who is responsible for reviewing the applications and making the recommendation of approval or disapproval to the Governor's Office of Tourism, Trade, and Economic Development (OTTED) within a specified time period. OTTED must either approve the application within 5 working days or

notify the applicant of its denial and reasons why within 10 working days. Businesses must apply annually to OTTED for the exemption and provide to OTTED documents on the sales and use taxes otherwise payable, the average number of full-time equivalent employees at the facility, the average wage and benefits paid to those employees over the preceding calendar year, and the total investment made in real and tangible personal property over the preceding calendar year since the date of certification. OTTED is responsible for using this information to prepare an annual report on the exemption program and its cost and impact.

The exemption program allows certified businesses to designate one or more state universities or community colleges as recipients of up to 100 percent of the amount of the exemption for which they may qualify. To receive these funds, the institution agrees to match the funds with equivalent cash, programs, services, or other in-kind support on a one-to-one basis in the pursuit of research and development projects as requested by the certified business. Rights to patents, royalties, or real or intellectual property must be vested in the business unless otherwise agreed to by the business and the university or community college.

Staff from OTTED explained that the exemption program provided in section 212.08(5)(j), F.S., was originally planned as a refund based program. However, the program currently operates by OTTED notifying the Department of Revenue (DOR) of the certification of a business, and, in lieu of a refund, the business does not pay the tax at the point of purchase. The certified business reports the "claim" to OTTED at the end of the year stating the amount of taxes it would have otherwise paid.

Language in the section providing the exemption for machinery and equipment used "predominately" in silicon wafer research and development defines "predominately" to mean such use of the equipment is at least 50 percent of the time. "Research and development" is defined as basic and applied research in the science, engineering, design, development, and testing of prototypes or processes for new products or improvement of products. It does not include market or sales research, routine consumer product testing, research in the social sciences or psychology, non technological activities, or technical services.

C. EFFECT OF PROPOSED CHANGES:

The bill would amend s. 212.08(5), F.S., revising the sales tax exemption for machinery and equipment used in silicon technology production and research and development, to include machinery and equipment used by health technology facilities to produce health technology products, as well as machinery and equipment used in research and development or manufacturing in a health technology facility.

The bill provides legislative intent to encourage and facilitate the location and expansion of the state's health technology industry.

The bill adds one definition to the statutes: "health technology products" is defined as drugs; surgical, medical, and dental instruments and supplies; ophthalmic goods; laboratory apparatus; laboratory analytical instruments; optical instruments and lenses; and related health technology products as determined by the OTTED.

The bill provides an effective date of July 1, 2000.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Estimating Conference reported an estimated fiscal impact for General Revenue at (\$5.4m) for FY 2000-01. The recurring estimate was (\$.9m) per fiscal year.

2. Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference reported an estimated fiscal impact for local governments at (\$.8m) for FY 2000-01, and (\$.9) recurring.

2. Expenditures:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

N/A

D. FISCAL COMMENTS:

None.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

Although the bill will reduce the authority of municipalities and counties to raise revenues, the impact is expected to be insignificant, therefore the bill is exempt from the provisions of Article VII, Section 18(b), Florida Constitution.

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C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The fiscal impact is expected to be insignificant, therefore the bill is exempt from the provisions of Article VII, Section 18(b), Florida Constitution.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

The Department of Revenue reports that the extent of the operational impact on the department will depend on the number of companies involved in health technology activities and the amount of assistance OTTED requests from the department in verifying applications.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT & INTERNATIONAL TRADE:

Prepared by:

Staff Director:

James Marshall Cox

J. Paul Whitfield, Jr.