

**STORAGE NAME:** h0411.go  
**DATE:** January 07, 2000

**HOUSE OF REPRESENTATIVES  
COMMITTEE ON  
GOVERNMENTAL OPERATIONS  
ANALYSIS**

**BILL #:** HB 411  
**RELATING TO:** Sales Tax/Manufactured Asphalt  
**SPONSOR(S):** Representative Bradley and others  
**TIED BILL(S):**

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

- (1) GOVERNMENTAL OPERATIONS
  - (2) FINANCE & TAXATION
  - (3) GENERAL GOVERNMENT APPROPRIATIONS
  - (4)
  - (5)
- 

**I. SUMMARY:**

Section 212.06, F.S., deals with sales, storage, and use taxes collectible from "dealers".

Currently, a 6 percent tax is imposed upon the cost of materials that become a component part or ingredient of finished (manufactured) asphalt, and upon the cost of transportation of the components or ingredients.

Additionally, an "indexed tax" is imposed on manufactured asphalt. The indexed tax was originally set at \$.38 per ton by statute. It is adjusted on July 1, of each year according to a formula tied to the Producer Price Index from the U.S. Department of Labor, Bureau of Statistics, and was recently pegged at \$.48 per ton.

It is estimated that 70+ percent of asphalt that is produced "for one's own use" in this state is used for state and local government public works projects.

During the 1999 Session of the Legislature, ch. 99-334, L.O.F., was passed. It provided a 20 percent exemption from the indexed tax on manufactured asphalt used in any state or local government public works project.

This bill increases such indexed tax exemption from 20 percent, to 40 percent.

The impact of this bill on state government has been estimated to be from approximately \$3.63 million to \$3.95 million for the 1999-2000 fiscal year. The impact on local governments for the same period has been estimated to be approximately \$300,000. Based on these figures, and the fact that the current indexed tax rate reflects a stable Producer Price Index, the impact for the following fiscal year is estimated to be approximately the same for both state and local government.

This bill has 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:

In 1988, the Legislature passed revisions to section 212.06, F.S., based on recommendations for a uniform, statewide manufacturer's use tax for asphalt. This section levies a 6 percent tax on the cost of materials that become a component part or ingredient of finished asphalt, and upon the cost of transportation of the components or ingredients.

Additionally, an indexed tax, imposed on costs associated with the manufacture of asphalt, was set at \$.38 per ton for the first year. The indexed tax is adjusted on July 1, of each year in conjunction with a formula tied to the Producer Price Index average of the "materials and components for construction" series calculated and published by the U.S. Department of Labor, Bureau of Statistics. Currently the indexed tax rate is \$.48 per ton, the same as it was a year ago.

It is estimated that a majority of asphalt is manufactured for "one's own use", and that 70+ percent of that asphalt is used in conjunction with government public works contracts.

In 1999, proponents argued that the imposition of a tax on asphalt used on state and local government public works projects results in an administrative burden and expensive waste for both contractors, and governments, since contractors must factor in the cost of the tax into their bids for such projects.

Proponents asserted that the government is forced to pay more than it otherwise would for public works projects requiring manufactured asphalt due to unnecessarily high bids. Subsequently, the state government collects the money back in the form of a tax from successful bidders. They believe both contractor and government waste time, and the cost required to administer what amounts to an even exchange of money.

In 1999 the Legislature amended s. 212.06, F.S., providing an exemption from the indexed tax of 20 percent of the manufactured asphalt used for any state or local government public works project.

No thorough study has been completed since the effective date of the first reduction in the indexed tax to make a determination as to whether or not manufactured asphalt providers have actually reduced their bids to reflect the prorated portion of the estimated \$4 million in savings enjoyed by such providers. With only six months of experience, the best that can be expected is to establish **indicators** of savings pass-throughs.

The Producer Price Index has remained stable enough to hold the indexed tax to the same rate as that for the period July, 1999 through June 2000. In the light of stable costs, an analysis of bids should reveal the reflected savings realized by bidders.

**C. EFFECT OF PROPOSED CHANGES:**

This bill would increase the percent of qualifying manufactured asphalt exempt from the indexed tax from 20 percent, to 40 percent.

**D. SECTION-BY-SECTION ANALYSIS:**

**Section 1.** Amends s. 212.06, F.S., rephrasing the section in a way which presents an incrementally increasing exemption percentage of indexed tax on manufactured asphalt (used for any state or local government public works project) to 20 percent beginning July 1, 1999 (as accomplished in legislation passed in the 1999 Session of the Legislature), and from 20 percent to 40 percent, beginning July 1, 2000.

**Section 2.** provides for an effective date of July 1, 2000.

**III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:**

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

There has not been a Revenue Estimating Conference to review the fiscal impact of this bill yet, but one is scheduled for January 12, 2000. Based on the previous year's estimate, and the stable indexed tax rate, it is estimated that state revenue will be negatively impacted in the amount of approximately \$3.63 million for the 2000 - 2001 fiscal year, unless the manufacturers actually do reduce their bids to reflect their savings. In that case, there would be no fiscal impact.

2. Expenditures:

None.

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

Based on the previous year's estimate, and the stable indexed tax rate, it is estimated that state revenue will be negatively impacted in the amount of approximately \$300,000 for the 2000 - 2001 fiscal year, unless the manufacturers actually do reduce their bids to reflect their savings. In that case, there would be no fiscal impact. .

2. Expenditures:

None.

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

The private sector would benefit in an inverse relationship relative to the governments which award contracts involving manufactured asphalt.

**D. FISCAL COMMENTS:**

N/A

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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:

This bill reduces the authority that counties or municipalities have to raise revenues in the aggregate, but the total fiscal impact on local governments is estimated to be under \$500,000.

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

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

This bill presents no constitutional problems.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

Prepared by:

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