SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: SB 1826

SPONSOR: Senator Margolis

SUBJECT: Corporate Income Tax/Revenue Code

DATE: March 22, 2004 REVISED: 03/25/04

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Fournier	Johansen	FT	Favorable
2.				
3.				
4.				
5.				
6.				

I. Summary:

Senate Bill 1826 updates references in Chapter 220, Florida Statutes (the Florida Income Tax Code) to reflect changes in the U.S. Internal Revenue Code adopted after April 25, 2003, when HB 1839 (last year's corporate income tax update) was passed by the Florida House of Representatives.

This bill substantially amends s. 220.03, F.S.

II. Present Situation:

Florida's Corporate Income Tax Code follows the federal Internal Revenue Code by using federal rules and starting with federal taxable income as the tax base for the Florida income tax. Section 220.03, F.S., defines specific terms as they apply to Florida's Corporate Income Tax Code. The term "Internal Revenue Code" is defined to mean those provisions of the United States Internal Revenue Code of 1986, as amended, in effect on January 1, 2003.

III. Effect of Proposed Changes:

This bill updates the Florida Income Tax Code to reflect changes in the U.S. Internal Revenue Code enacted by Congress since January 1, 2003. This definition provides for "piggybacking" each change made during 2003 in the Internal Revenue Code. This bill will effectively adopt the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which was enacted by Congress on May 18, 2003, after the adjournment of the 2003 Florida Legislative Session. This act raised the bonus depreciation amount from 30 percent (as provided by the Federal Job Creation and Worker Assistance Act of 2002 (P.L.107-147) and adopted by the Florida Legislature in ch. 2002-395, L.O.F.) to 50 percent, for qualified investments made after May 5,

2003. It also extends the cutoff date for investments to qualify for bonus depreciation from September 11, 2004 to December 31, 2004.

This bill shall take effect upon becoming a law and shall operate retroactively to January 1, 2004.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

This bill maintains the link between Florida's corporate income tax code and the federal income tax code. It is estimated to reduce corporate income tax revenue in FY 2004-05 by $96.1 million and increase corporate refunds by $28.7 million in that year, reducing General Revenue by $124.8 million. The recurring impact over the next four years is an additional $16.1 General Revenue each year.

B. Private Sector Impact:

This bill ensures that corporations that are subject to Florida corporate income tax can base their tax calculations on current IRS rules. Failure to pass this bill would result in increased bookkeeping burdens for these entities. (See related Issues, below.)

C. Government Sector Impact:

Since Florida's corporate income tax is based upon a taxpayer's income as calculated for federal tax purposes, Florida can rely on the efforts of the IRS to ensure the accuracy of the starting point for determining tax liability. Passage of this bill is necessary to maintain this relationship, which significantly decreases the cost of enforcing Florida's income tax law.

VI. Technical Deficiencies:

None.

VII. Related Issues:

Bonus depreciation has not been adopted by all states with corporate income tax. As of July 27, 2003, 24 states and the District of Columbia had either not adopted the federal bonus depreciation provisions or have specifically "decoupled" from the new federal provisions. An additional 7 states had only partially adopted the bonus depreciation schedules.[1] Businesses operating in some of these states must keep two (or more) sets of asset records for any business property being depreciated under the federal bonus depreciation schedule. Since bonus depreciation applies to personal property used for business with IRS asset lives of up to 20 years, the double set of books could be needed for 21 years or more.

VIII. Amendments:

None.

[1] www.brookwoodtax.com/business_tax_guide/states_not_recognizing_bonus_depreciation.htm