HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 613 Exemption from the Sales and Use Tax for Certain Machinery and Equipment
SPONSOR(S): Magar and others
TIED BILLS: **IDEN./SIM. BILLS:** SB 544

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Economic Development & Tourism Subcommittee	13 Y, 0 N	Collins	Duncan
2) Finance & Tax Committee			
3) Appropriations Committee			

SUMMARY ANALYSIS

As a high wage industry that produces a significant return-on-investment, the state has identified manufacturing as a targeted industry eligible for specific state incentives through the state's economic development programs and actively recruits manufacturing companies to the state. The state's approximately 18,200 manufacturing companies employing over 317,000 individuals produce nearly $40 billion worth of products annually.

Since April 30, 2014, the state has exempted purchases of industrial machinery and equipment made by eligible manufacturers from the state sales and use tax. Also included in the exemption are mixer drums affixed to mixer trucks which are used to mix, agitate, and transport freshly mixed concrete in a plastic state for the manufacture, processing, compounding, or production of items of tangible personal property for sale. Parts and labor required to affix a mixer drum to a mixer truck are also exempt. This exemption is scheduled to expire on April 30, 2017.

The bill repeals the expiration date for the exemption on purchase of industrial machinery and equipment made by eligible manufacturers, thus permanently extending the exemption.

The provisions relating to the sales and use tax exemption for mixer drums and the parts and labor required to affix a mixer drum to a mixer truck maintain the current expiration date of April 30, 2017.

See FISCAL COMMENTS.

The bill provides an effective date of July 1, 2015.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation

Manufacturing is complex and its production processes increase the demand for raw materials, energy, construction, and services from a broad spectrum of suppliers. More than one in seven U.S. private sector jobs depends on the U.S. manufacturing base. The sector supports millions of people who make things in America and a large number of employees in other sectors of the economy. Every dollar in final sales of manufactured products supports $1.33 in output from other sectors—this is the largest multiplier of any sector. Manufacturing plants, therefore, have a powerful and positive impact on economic development.[1]

Specifically, manufacturing supported an estimated 17.5 million jobs in the United States in 2011; this includes 12 million jobs directly within manufacturing and 5.5 million jobs in sectors such as professional services (accounting, legal, consulting, etc.), wholesaling, transportation, agriculture, and financial services.[2]

Florida ranks among the top ten states for manufacturing and is home to more than 18,200 manufacturing companies employing over 317,000 individuals and producing a variety of goods including aerospace products, batteries, communications equipment, food and beverages, pharmaceuticals, ship and boat building, and more.[3] In 2013, the state produced over $39 billion in manufacturing output, and in 2012, the average annual compensation for a Floridian working in the manufacturing industry was over $69,000.[4] As a high wage industry that produces a significant return-on-investment, the state has identified manufacturing as a targeted industry[5] eligible for specific state incentives through the state's economic development programs and actively recruits manufacturing companies to the state.

In order to remain competitive, manufacturing companies must regularly upgrade or acquire new fixed assets such as property, plant, machinery, and equipment. As demand and variable costs fluctuate, investments in machinery and equipment are made to expand production or improve operational efficiency. Over the long term, investments in fixed assets may lead to a higher demand for skilled labor and higher wages for employees.[6]

Manufacturing is a capital intensive industry because substantial investments in technology and equipment are required before production is initiated or transitioned to different purposes. Because capital investment is generally made upfront and subject to depreciation, manufacturers are sensitive to taxes levied on certain types of property, machinery and equipment. In general, a strong manufacturing

[1] Manufacturing Institute, *Facts About Manufacturing*, *Manufacturing's Multiplier Effect is Stronger Than Other* Sectors' available at http://www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/Economy-and-Jobs/Multiplier/Multiplier.aspx (last viewed on Mar. 11, 2015).

[2] Manufacturing Institute, *Facts About Manufacturing, Number of Jobs Supported by Manufacturing in Other Industries*, available at http://www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/Economy-and-Jobs/Jobs-Supported/Jobs-Supported.aspx (last viewed March 11, 2015).

[3] Enterprise Florida, Inc., *Manufacturing*, can be accessed at: http://www.enterpriseflorida.com/wp-content/uploads/brief-manufacturing-florida.pdf; (last viewed on Mar. 11, 2015).

[4] National Association of Manufacturers, *Florida Manufacturing Facts*, can be accessed at: http://www.nam.org/Data-and-Reports/State-Manufacturing-Data/2014-State-Manufacturing-Data/Manufacturing-Facts--Florida/ (last viewed on Mar. 11, 2015)

[5] The state's targeted industries are determined by the Department of Economic Opportunity in consultation with Enterprise Florida, Inc., pursuant to s. 288.106, F.S.

[6] Keith Sill, *Widening the Wage Gap: The Skill Premium and Technology*, http://www.philadelphiafed.org/research-and-data/publications/business-review/2002/q4/brq402ks.pdf Federal Reserve Bank of Philadelphia Business Review, Q4 2002.

base generates gains in economic output and increases the productivity of labor, which may provide a higher standard of living for state economies.[7]

Florida's Tax Exemption for Manufacturing Machinery and Equipment

Since April 30, 2014[8], state law[9] exempts from sales and use tax purchases of industrial machinery and equipment used at a fixed location in Florida by an eligible manufacturing business that will manufacture, process, compound, or produce items of tangible personal property. The exemption also includes parts and accessories for the industrial machinery and equipment if they are purchased before the date the machinery and equipment are placed in service.

An "eligible manufacturing business" means any business whose primary business activity at the location where the industrial machinery and equipment are located is within the industries classified under manufacturing North American Industry Classification System[10] (NAICS) codes 31, 32, and 33[11]. The primary business activity of an eligible business is that activity which represents more than 50 percent of the activities conducted at the location where the industrial machinery and equipment are located. Examples of types of manufacturing establishments represented by the applicable NAICS codes include, but are not limited to, food, apparel, wood, paper, printing, chemical, pharmaceutical, plastic, rubber, metal, transportation, and furniture.

The selling dealer (vendor) is required to obtain a signed certificate from the purchaser certifying the purchaser's entitlement to the tax exemption. The signed certificate will relieve the selling dealer of any potential tax liability on nonqualifying purchases.

Also included in the exemption are mixer drums affixed to mixer trucks which are used to mix, agitate, and transport freshly mixed concrete in a plastic state for the manufacture, processing, compounding, or production of items of tangible personal property for sale. Parts and labor required to affix a mixer drum to a mixer truck are also exempt.

The exemption expires on April 30, 2017.

Effect of Proposed Changes

The bill amends s. 212.08, F.S., to make permanent the sales and use tax exemption for certain industrial machinery and equipment purchased by eligible manufacturing businesses.

The bills clarifies the provisions relating to the sales and use tax exemption for mixer drums and the parts and labor required to affix a mixer drum to a mixer truck. These provisions maintain the current expiration date of April 30, 2017.

B. SECTION DIRECTORY:

Section 1: Amends s. 212.08, F.S., relating to exemption from the sales and use tax for certain machinery and equipment.

Section 2: Provides an effective date of July 1, 2015.

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[7] David Landgon and Rebecca Lehrman, *The Benefits of Manufacturing Jobs*, http://www.esa.doc.gov/sites/default/files/1thebenefitsofmanufacturingjobsfinal5912.pdf Economics and Statistics Administration, U.S. Department of Commerce, Issue Brief #01-12, May 2012.
[8] Chapter 2013-39, L.O.F.
[9] Section 212.08(7)(kkk), F.S.
[10] North American Industry Classification System, NAICS Code Description available at http://www.naics.com/naics-code-description/?code=31 (last visited March 11, 2015).
[11] NAICS codes 31-33 pertain to manufacturing businesses. A more detailed description of the specific types of businesses included in NAICS codes 31-33 is available at: http://www.naics.com/six-digit-naics/?code=3133; (last viewed on Mar. 11, 2015)

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   See FISCAL COMMENTS.

2. Expenditures:

   None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   See FISCAL COMMENTS.

2. Expenditures:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill may have a positive impact on the manufacturing sector within the state beginning in fiscal year 2017-18.

D. FISCAL COMMENTS:

The Revenue Estimating Conference met on February 13, 2015, and estimated that the bill would have a significant negative fiscal impact on state and local revenues beginning in fiscal year 2017-18. State revenues would be reduced by $122.4 million and local revenues would be reduced by $27.4 million in fiscal year 2017-18 with increasing impacts recurring in subsequent fiscal years. There is no impact in the first two fiscal years as the existing exemption is not scheduled to expire until April 30, 2017.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

   This bill does not appear to require counties or municipalities to take an action requiring the expenditure of funds, reduce the authority that counties or municipalities have to raise revenue in the aggregate, nor reduce the percentage of state tax shared with counties or municipalities.

2. Other:

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES