The Florida Senate

BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Committee on Fiscal Policy

BILL: SB 7014

INTRODUCER: Finance and Tax Committee

SUBJECT: Corporate Income Tax

DATE: March 25, 2015 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
	Babin	Diez-Arguelles		**FT Submitted as Committee Bill**
1.	Hrdlicka	Hrdlicka	FP	**Pre-meeting**

I. Summary:

SB 7014 updates Florida's Corporate Income Tax Code by adopting the Internal Revenue Code as in effect on January 1, 2015.

The federal Tax Increase Prevention Act of 2014 grants extraordinary deductions for capital asset expensing and depreciation. Similar to past treatment, the bill requires Florida taxpayers to spread the benefit of these deductions over a 7 year period.

The bill authorizes the Department of Revenue to adopt emergency rules to implement the bill.

The Revenue Estimating Conference has estimated that the bill will have an indeterminate impact on general revenue.

II. Present Situation:

Florida imposes a 5.5 percent tax on the taxable income of corporations and financial institutions doing business in Florida. The determination of taxable income for Florida tax purposes begins with the taxable income determined for federal income tax purposes. This means that a corporation paying taxes in Florida receives the same treatment in Florida as is allowed in determining its federal taxable income.

Florida maintains its relationship with the federal Internal Revenue Code by each year adopting the federal Internal Revenue Code as it exists on January 1 of the year. By doing this, Florida adopts any changes that were made in the previous year to the determination of federal taxable income.

III. Effect of Proposed Changes:

General Update

The bill updates the Florida Corporate Income Tax Code to reflect changes in the federal Internal Revenue Code enacted by Congress. The bill takes effect upon becoming a law and operates retroactively to January 1, 2015.

Additions due to Bonus Depreciation and Increased Expensing

President Obama signed into law the Tax Increase Prevention Act of 2014[1] on December 19, 2014. The act contained several significant amendments to the Internal Revenue Code.

The Internal Revenue Code allows a taxpayer to deduct the cost of capital assets by deducting a portion of the cost over the useful life of the property (depreciation).[2] Additionally, the Internal Revenue Code allows a taxpayer to treat a certain amount of the cost of capital assets as a business expense that can be taken entirely in the year of purchase (expensing).[3] Until recently, the amount that could be expensed was limited to $25,000.

Similar to other federal legislation during the past several years,[4] the Tax Increase Prevention Act of 2014 grants an additional depreciation deduction (bonus depreciation) and increases the expensing limitation. The Tax Prevention Act of 2014 grants a first-year bonus depreciation amount of 50 percent of the cost of the property placed in service during 2014 and increases the expensing limitation to $500,000 for taxable years beginning in 2014.

The Revenue Estimating Conference has estimated that the adoption of the Internal Revenue Code, including the bonus depreciation and increased expensing limitation, would result in a reduction of $180 million in corporate tax receipts in Fiscal Year 2015-2016 and increased tax receipts in subsequent years.[5]

In order to mitigate the Fiscal Year 2015-2016 fiscal impact of the increased federal deductions on Florida, the bill requires taxpayers to spread the effect of these deductions over 7 taxable years. The bill accomplishes this by requiring taxpayers to "add-back" the bonus depreciation deduction and the amount of the increased expensing deduction above $128,000. The taxpayer is then permitted to subtract from income one-seventh (1/7) of these deductions for the current

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[1] Pub. Law No. 113-295, H.R. 5771, 113th Cong. (December 19, 2014).
[2] *See generally* ss. 167 and 168, Internal Revenue Code.
[3] *See generally* s. 179, Internal Revenue Code.
[4] The Economic Stimulus Act of 2008, the American Recovery and Reinvestment Act of 2009, the Small Business Jobs Act of 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and the American Taxpayer Relief Act of 2012.
[5] *See* Revenue Estimating Conference, Piggyback Bill, Proposed Language (January, 26 2015).

taxable year and the following 6 taxable years. This mechanism was used to address the impacts of similar federal legislation in 2009, 2011, and 2013.[6]

The bill grants the Department of Revenue emergency rulemaking authority to implement the provisions of the bill (Section 3).

The bill reenacts s. 1009.97(3)(l), F.S., to incorporate changes made by the bill in other statutes.

The bill is effective upon becoming law and operates retroactively to January 1, 2015.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

The Revenue Estimating Conference has estimated that the bill will have an indeterminate impact on general revenue.[7]

B. Private Sector Impact:

By adopting recent changes to the Internal Revenue Code, Florida provides ease of administration for Florida corporate taxpayers.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

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[6] Chapters 2009-132, 2011-229, and 2013-40, L.O.F.
[7] Revenue Estimating Conference, SPB 7014 (February, 6 2015).

VII. Related Issues:

The bill grants the Department of Revenue emergency rulemaking authority to implement the provisions of the bill; the authority expires on January 1, 2018.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 220.03 and 220.13.

The bill reenacts section 1009.97(3)(l) of the Florida Statutes.

IX. Additional Information:

A. Committee Substitute – Statement of Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.