

Is Florida's Tax Structure Ready for the 21st Century?

Randall G. Holcombe

*DeVoe Moore Professor of Economics, Florida State University
Senior Fellow, The James Madison Institute*

Executive Summary

- Some critics of Florida's tax structure say it is antiquated and unless it is reformed, Florida will face severe revenue shortfalls in the future. This claim is not consistent with the evidence.
- Under Florida's current tax structure, total state revenues, total tax revenues, and sales tax revenues are all growing along with Florida's economy. Florida's tax system is structurally sound and prepared for the 21st century.
- More than half of the state's tax revenues come from sales taxes. For this reason, Floridians must be cautious about reforms that might affect the sales tax.
- One of the more frequently-suggested tax reforms has been to extend Florida's sales tax to services. Recent proposals do not distinguish retail services from intermediate services, making those reforms undesirable. Florida should not extend the sales tax to intermediate services, and little revenue would be raised by extending the existing sales tax only to retail services.
- A policy of periodically reviewing all sales tax exemptions has been proposed in various forms. Such a periodic review would create uncertainty, would generate substantial lobbying efforts, and would not be a good use of the legislature's time. The legislature can already review any exemptions it wants at any time. A required review of all exemptions would be bad policy.
- Some Florida legislators have suggested that Florida fully participate in the Streamlined Sales Tax Project, which is designed to collect taxes on Internet sales from out-of-state sellers. This would subject Florida's main source of tax revenues to regulation from a multi-state body. Because there is no compelling need to participate, Florida should not modify its tax laws to participate in the Streamlined Sales Tax Project.
- Florida has considered eliminating its intangible property tax for years. The state has sufficient revenues to repeal this tax on seniors and savers, and should do so this legislative session.
- Florida's communications services tax is complicated, ambiguous, and is among the highest in the nation. The tax should be reformed by simplifying its structure and reducing its rates.
- Florida has sometimes been referred to as a low-tax state. While Florida's per-person tax revenues are below the national average, they are very close to the average for southeastern states, and they are well above many southeastern states. Florida is not a low-tax state.

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P. O. Box 37460
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Introduction

Florida's tax structure has faced scrutiny in recent years. As one of the few states without a state personal income tax, Florida's state government relies heavily on sales tax revenues for its financing. Some have suggested that Florida has an antiquated tax structure that is structurally unsound and that without reform, Florida's tax revenues will not keep pace with its growing economy. The primary purpose of this Backgrounder is to examine that claim. The facts show that Florida's tax structure is sound, and that it is well-designed to carry the state into the 21st century. While there is room for improvement, Florida's tax structure is better than that of most states. Under the current structure the state's tax revenues will continue to grow along with Florida's economy.

A different but closely related issue is whether Florida would be better off raising taxes so government spending could increase, or cutting taxes so taxpayers could keep more of their own money. Some of the motivation for state tax reform in recent years has been to alter the tax structure to raise more revenues. While there are benefits to government spending, there are also substantial costs. Most obviously, any revenues collected by government reduce the spendable incomes of taxpayers. In addition, higher taxes discourage economic activity, and thus reduce state economic growth. Florida can benefit from lower taxes not only directly, by allowing taxpayers to spend more of their own money, but also indirectly, by creating a more prosperous economy. While taxpayers would not want to withhold necessary revenues for state operations, the facts show that Florida has enjoyed healthy revenue growth for decades. Florida would benefit from some strategic tax cuts designed to provide better incentives for state economic growth.

In past years, there have been a number of suggestions for reforming Florida's taxes, especially the state's sales tax. Extending the sales tax to more services has been an issue

since the ill-fated services tax promoted and then repealed by Governor Bob Martinez in 1987. More recently, some state legislators have suggested that Florida conform its sales tax laws to the Streamlined Sales Tax Project, which is designed to collect state sales taxes on out-of-state Internet sales. While it is reasonable to examine possibilities for improving Florida's tax structure, the structure as it stands is fundamentally sound, and there is no need for reform. Any changes to the structure of Florida's largest tax revenue source should be made with care, and only when we are confident that any changes really are improvements.

Any policy discussion should be based on a solid understanding of the facts. The next section looks at the facts regarding the general structure of Florida's state tax system.

Taxes and Revenues

Table 1 shows the sources of Florida's tax revenues. Sales tax revenues were by far the largest source of tax revenues for state government, making up more than half of all tax revenues and 32.7 percent of total state revenues. Total tax revenues were more than \$30 billion for fiscal year 2002-03—the most recent year for which final figures are available—while total state revenues were slightly in excess of \$50 billion. Donations and federal assistance totaled \$15.5 billion, or 30.7 percent of total state revenues. That amount was almost entirely comprised of federal grants to the state, with a small amount coming in as donations (for example, donations to the state universities). Lottery revenues were \$2.9 billion, which was about 5.7 percent of total state revenues. When all revenues are considered, taxes made up just over 60 percent of Florida's total revenues.

Documentary stamp taxes and motor fuel taxes came in well behind sales taxes as the next-largest source of tax revenues. The documentary stamp tax raised \$2 billion, which was 6.5 percent of total tax revenues and 4

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percent of total state revenues. The motor fuel tax raised \$1.9 billion, which was 6.2 percent of total tax revenues. The corporate income tax raised 4 percent of total tax revenues, and other sources raised substantially less.

Two revenue sources that bear special scrutiny are the estate tax and the intangible property tax. The estate tax, which raised \$558 million in 2002-03, will phase out along with the federal estate tax, so eventually it will raise no revenue for the state. This depends in part on whether the federal government permanently repeals the estate tax; at this point a permanent repeal appears likely, but not certain. Florida's estate tax raised 1.8 percent of total tax revenues, and 1.1 percent

of total state revenues. The intangible property tax has been targeted for elimination by the legislature in recent years, but no action has been taken. The intangible property tax raised \$827 million in 2002-03, which was 2.7 percent of total tax revenues and 1.6 percent of total state revenues.

Table 2 shows a history of Florida's total state revenues, the state's total tax revenues, and because it is the largest source of tax revenues, Florida's sales tax revenues. The first column shows total state revenues, which includes revenues from all sources, including the federal government.¹ In fiscal year 1990-91 Florida's total state revenues were \$23.7 billion. They have more than doubled since then, reaching

Table 1
Florida's Tax Structure, 2002-03

Revenue Source	Dollar Amount, Millions	Percentage of Total Taxes	Percentage of Total State Revenue
Sales Tax	\$16,431.7	53.4%	32.7%
Documentary Stamp Tax	\$2,001.5	6.5%	4.0%
Motor Fuel Tax	\$1,896.8	6.2%	3.8%
Corporate Income Tax	\$1,228.1	4.0%	2.4%
Motor Vehicle Licenses and Fees	\$968.4	3.1%	1.9%
Intangible Property Tax	\$826.7	2.7%	1.6%
Communications Services Tax	\$838.2	2.7%	1.6%
Beverage Licenses and Taxes	\$593.1	1.9%	1.2%
Estate Tax	\$558.4	1.8%	1.1%
Tobacco Taxes	\$441.2	1.4%	0.9%
Other Taxes and Fees	\$4,998.6	16.3%	10.0%
TOTAL STATE TAXES	\$30,782.7	100%	61.2%

Source: Florida Consensus Estimating Conference, Spring 2003, Volume 19.

¹ All data are from Florida Consensus Estimating Conference, Spring 2003, Volume 19, including the adjustments made in Tables 2, 3, and 4 for inflation and population growth. The data used here are the same data the state government uses in its analysis of these issues.

\$50.3 billion in 2002-03. The next column shows total state revenues as a percentage of income. In 1990-91 total revenues were just under 9 percent of personal income in Florida, and by 2002-03 they had increased to consume 9.9 percent of personal income. Not only have Florida's state government revenues increased over the past decade, they have taken a larger share of Floridians' incomes. Note, however, that in the early to mid-1990s total state revenues as a share of income were slightly higher, reaching more than 10 percent in 1992-93 and 1993-94.

The table shows data back to 1970-71, when total revenues were \$2.4 billion and 8.3 percent of income. By 1980-81 revenues had increased substantially to \$8.1 billion, but were only 7.7 percent of income. State revenues as a percentage of income have increased more than two percentage points since then, and in dollar terms they have shown steady—and spectacular—growth.

The next column shows Florida's total tax revenues. Tax revenues have increased from \$15.2 billion in 1990-91 to \$30.8 billion in 2002-03, and show similar growth to total revenues. As a percentage of income, tax revenues rose from 5.8 percent in 1990-91 to 6.1 percent in 2002-03. As with total state revenues, total tax revenues peaked as a percentage of income in 1993-94, but they have shown impressive growth every year. The numbers show that Florida's tax structure continues to produce a healthy growth in revenues, especially when considering that the economy was in a recession in the early part of this decade.

The sales tax is Florida's biggest tax revenue source, and some observers have expressed a concern that the structure of Florida's sales tax will not keep up with the growth in Florida's economy. The columns to the right of Table 2 show otherwise. Florida's sales tax revenues have approximately doubled since

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Table 2
Florida's Revenue History

Fiscal Year	Total State Revenues		Total Tax Revenue		Sales Tax Revenues	
	Millions of Dollars	Pct. of Income	Millions of Dollars	Pct. of Income	Millions of Dollars	Pct. of Income
2002-03	\$50,319.4	9.92%	\$30,782.7	6.07%	\$16,431.7	3.24%
2001-02	\$47,416.2	9.86%	\$29,524.6	6.14%	\$16,045.5	3.34%
2000-01	\$44,082.3	9.55%	\$28,397.6	6.15%	\$15,802.6	3.43%
1999-00	\$41,767.6	9.70%	\$27,731.2	6.44%	\$15,076.9	3.50%
1998-99	\$39,594.6	9.60%	\$26,396.7	6.40%	\$13,917.7	3.37%
1997-98	\$37,058.7	9.47%	\$25,006.8	6.39%	\$12,974.7	3.32%
1996-97	\$34,861.4	9.52%	\$23,511.6	6.42%	\$12,088.8	3.30%
1995-96	\$33,782.0	9.80%	\$22,256.4	6.46%	\$11,461.8	3.33%
1994-95	\$32,207.9	9.97%	\$21,018.4	6.50%	\$10,672.0	3.30%
1993-94	\$30,816.3	10.15%	\$20,251.6	6.67%	\$10,072.5	3.32%
1992-93	\$29,192.3	10.18%	\$18,757.3	6.54%	\$9,426.0	3.29%
1991-92	\$25,603.8	9.35%	\$16,528.9	6.04%	\$8,375.5	3.06%
1990-91	\$23,741.7	8.99%	\$15,216.0	5.76%	\$8,152.0	3.09%
1985-86	\$13,476.5	7.77%	\$9,842.5	5.67%	\$5,050.7	2.91%
1980-81	\$8,141.4	7.65%	\$5,604.5	5.26%	\$2,542.9	2.39%
1975-76	\$4,621.7	8.76%	\$3,143.0	5.96%	\$1,254.1	2.38%
1970-71	\$2,410.4	8.32%	\$1,717.0	5.93%	\$715.2	2.47%

Source: Florida Consensus Estimating Conference, Spring 2003, Volume 19.
(Dollar figures adjusted to year 2003 prices.)

Even after adjusting for inflation, Floridians paid 23 percent more per person in taxes in 2002-03 than in 1990-91, and inflation-adjusted taxes per person have nearly doubled since 1970-71.

1990-91—when they were \$8.1 billion—to more than \$16 billion in 2002-03. In 1990-91 sales tax revenues were 3.1 percent of income, and were 3.2 percent of income in 2002-03. As a percentage of income revenues are down marginally from their high of 3.5 percent in 1999-00, but that drop is most likely due to the economic downturn that has prompted more conservative buying habits from Florida’s consumers. In addition, sales tax revenues from tourist spending have been affected by the recession (the numbers in the table show total sales tax collections, which includes sales taxes paid by tourists). Considering this, sales tax revenue growth is all the more impressive. Despite the recession and its related impact on tourism, sales tax revenues have increased every year.

Preliminary figures for 2003-04 indicate that sales tax revenues were up 7.6 percent last year, to about \$17.7 billion, and the state’s economists are forecasting an increase of 5.9 percent in sales tax revenues for 2004-05. These increases reflect in part the recovery from the recession, but they also show the strength of Florida’s sales tax base. Table 2 shows Florida’s strong revenue growth over the past decade, and over the past several decades.

Inflation-Adjusted Revenues Per Person

To better assess the strength of Florida’s revenues, they should be adjusted for both inflation and for population growth. Florida is a growing state, and one reason revenues are growing is that there are more people paying taxes and demanding government services. Table 3 adjusts the total state revenue, total tax revenue, and sales tax revenue numbers in Table 2 for inflation and population growth, yielding inflation-adjusted revenues per person.² Even after adjusting for inflation and population growth, Florida’s revenues

show impressive growth. Inflation-adjusted total state revenues per person were \$2,316 in 1990-91 and they increased to \$2,979 in 2002-03, an impressive increase of 28.6 percent after adjusting for population growth and inflation. Similarly, total tax revenues rose from \$1,484 in 1990-91 to \$1,823 in 2002-03, and sales tax revenues rose from \$795 per person to \$973 per person during the same time period.

Revenues can fluctuate with economic conditions from year to year, but over longer periods of time revenue growth has been substantial. Following the dollar amounts of inflation-adjusted per person revenues in Table 3 are the percentage increases in those revenue figures from five years before. Total inflation-adjusted state revenues per person of \$2,979 in 2002-03 were 11.1 percent higher than five years earlier, when they were \$2,682. In 2001-02 they were 11.8 percent higher than five years previously. Total state revenues have increased substantially in every five-year period in the table, with the exception of 1975-76 to 1980-81, when they grew only 2.5 percent. Recall, however, that there was a severe recession in 1981.

Total tax revenues show a similar pattern, but with slower growth in recent years than total state revenues. Total tax revenues were only 0.7 percent higher in 2002-03 than five years before, but remember that this is after adjusting for inflation and population growth. The recession earlier in the decade had an impact on tax revenue growth, but there were also tax cuts implemented to slow the growth of revenues. In the early 1990s total tax revenues showed consistent double-digit percentage growth rates. There has been a slowing in the growth of inflation-adjusted total tax revenues per person in Florida, but even after adjusting for inflation, Floridians paid 23 percent more per person in taxes in 2002-03 than in 1990-91, and inflation-adjusted taxes per person have nearly doubled since 1970-71.

The far right columns show inflation-adjusted sales tax revenues per person, and

² All dollar figures in Tables 2 and 3 are adjusted to year 2003 prices.

Table 3

Inflation-Adjusted Revenues Per Person, and Percentage Increase from Five Years Earlier

Fiscal Year	Total State Revenues		Total Tax Revenues		Sales Tax Revenues	
	Dollars	5 Yr. Pct. Increase	Dollars	5 Yr. Pct. Increase	Dollars	5 Yr. Pct. Increase
2002-03	\$2,979	11.1%	\$1,823	0.7%	\$973	3.6%
2001-02	\$2,922	11.8%	\$1,819	3.2%	\$989	9.1%
2000-01	\$2,799	5.8%	\$1,803	3.4%	\$1,003	11.7%
1999-00	\$2,784	5.9%	\$1,848	7.8%	\$1,005	15.4%
1998-99	\$2,767	5.2%	\$1,845	6.8%	\$973	13.2%
1997-98	\$2,682	3.5%	\$1,810	8.7%	\$939	12.2%
1996-97	\$2,614	10.1%	\$1,763	15.0%	\$906	16.7%
1995-96	\$2,647	14.3%	\$1,744	17.5%	\$898	12.9%
1994-95	\$2,628	22.4%	\$1,715	22.0%	\$871	9.1%
1993-94	\$2,629	14.6%	\$1,728	12.6%	\$859	-0.4%
1992-93	\$2,592	23.0%	\$1,666	10.0%	\$837	1.2%
1991-92	\$2,374	25.0%	\$1,532	9.8%	\$777	8.7%
1990-91	\$2,316	26.3%	\$1,484	11.1%	\$795	16.0%
1985-86	\$1,834	16.2%	\$1,336	22.9%	\$685	39.0%
1980-81	\$1,578	2.5%	\$1,087	3.7%	\$493	17.9%
1975-76	\$1,540	14.0%	\$1,048	8.9%	\$418	4.3%
1970-71	\$1,351		\$962		\$401	

Source: Florida Consensus Estimating Conference, Spring 2003, Volume 19.
(Dollar figures adjusted to year 2003 prices.)

reveal that sales tax revenues have grown faster than total tax revenues. Inflation-adjusted sales tax revenues rose from \$795 per person in 1990-91 to \$973 in 2002-03, and they were 3.6 percent higher in 2002-03 than five years earlier. Remember, this is growth in sales tax revenues in excess of inflation and population growth. Sales tax revenue growth is forecast to pick up as the economy recovers from the recession in the next few years. The last half of the 1990s showed double-digit percentage growth in inflation-adjusted sales tax revenues per person, and they showed stronger growth in the last half of the 1990s than in the first half. The clear message is that Florida's revenues are growing faster than population growth and inflation, and that Florida's tax structure—and Florida's sales tax—is in good shape to allow continued revenue growth in the 21st century.

Table 4 gives the same dollar figures for the revenue sources in Table 3, but this time

it shows the percentage increase from the previous year. Because revenues fluctuate from year to year, the results are less consistent than when looking at growth over five-year periods. Total state revenues grew 2 percent last year, and grew 4.4 percent the year before, even after adjusting for inflation and population growth. Revenue growth actually declined in 1996-97 after adjusting for inflation and population growth, and had a substantial decline of 6.4 percent in 1989-90, leading up to the recession in 1991. Over time Florida's revenues have shown strong growth, but some years are tighter than others.

The same lesson comes through when looking at total tax revenues. After adjusting for inflation and population growth they were up a meager 0.2 percent in 2002-03; they increased just less than one percent in 2001-02; and they showed a 2.4 percent decline in 2000-01. Sales tax revenues after adjusting for inflation and

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Looking at Florida's recent revenue history, revenues have always been higher each year than in the previous year.

population growth declined by 1.6 percent in 2002-03; they were down 1.5 percent in 2001-02; and they were virtually unchanged in 2000-01. This shows the effect of the recession. For purposes of comparison, sales tax revenues declined 7.4 percent in 1989-90 and declined again by 0.4 percent and 2.3 percent in the next two years. The following year, in 1992-93, there was a robust increase of 7.8 percent in sales tax revenues. Those revenues were not available to ease the downturn two years earlier, but they suggest that sales tax revenues will come back strong after the recent recession. As noted above, preliminary figures show sales tax collections up 7.6 percent in 2003-04 with a forecast for strong sales tax revenue growth continuing in 2004-05.

Reviewing Florida's revenue history, it is apparent that state government revenues have been keeping up with Florida's growth over the long run, and they have been growing more rapidly than inflation and population growth. But looking at the year-to-year increases, it is

also apparent that revenues increase more in some years than in others. Looking at Florida's recent revenue history, revenues have always been higher each year than in the previous year. But when the economy turns down, revenue growth sometimes does not keep up with inflation and population growth.

Is the Sales Tax Structure Adequate to Keep Up with Florida's Growth?

When campaigning for sales tax reform in 2001, former Florida Senate President John McKay argued, "The current system is not capable of meeting Florida's long-term budget needs. Florida will face a revenue crisis in the very near future."³ McKay noted, "Florida has an antiquated tax system that was basically created in 1949. The needs of modern Florida cannot be met by a 1949 system." One of McKay's main points was that Florida's sales

Table 4
Inflation-Adjusted Revenues Per Person, and Percentage Increase from Previous Year

Fiscal Year	Total State Revenues		Total Tax Revenues		Sales Tax Revenues	
	Dollars	Percent Increase	Dollars	Percent Increase	Dollars	Percent Increase
2002-03	\$2,979	2.0%	\$1,823	0.2%	\$973	-1.6%
2001-02	\$2,922	4.4%	\$1,819	0.9%	\$989	-1.5%
2000-01	\$2,799	0.5%	\$1,803	-2.4%	\$1,003	-0.1%
1999-00	\$2,784	0.6%	\$1,848	0.2%	\$1,005	3.3%
1998-99	\$2,767	3.2%	\$1,845	1.9%	\$973	3.6%
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1992-93	\$2,592	9.2%	\$1,666	8.7%	\$837	7.8%
1991-92	\$2,374	2.5%	\$1,532	3.3%	\$777	-2.3%
1990-91	\$2,316	7.8%	\$1,484	5.6%	\$795	-0.4%
1989-90	\$2,148	-6.4%	\$1,405	-8.4%	\$798	-7.4%

Source: Florida Consensus Estimating Conference, *Spring 2003, Volume 19*.
(Dollar figures adjusted to year 2003 prices.)

³ John M. McKay, "Reforming Florida's Tax System: Building a Foundation for Florida's Future," December 14, 2001.

tax mainly taxes goods and that the economy is increasingly shifting toward a service economy, which is eroding Florida's sales tax base. Because Florida relies so heavily on sales tax revenues, the issues McKay raised are worth serious investigation.

The examination of Florida's recent revenue history just undertaken shows that these criticisms of Florida's tax structure are not well-founded. Tables 3 and 4 show that inflation-adjusted revenues per person in Florida were 15 percent higher in 2002-03 than they were ten years earlier, that total state tax revenues were 9.4 percent higher, and that sales tax revenues were 16.2 percent higher. All revenues grew faster than the combination of population growth and inflation, but sales tax revenues showed more growth than either total state revenues or total tax revenues. Some of this is due to deliberate tax cuts enacted during Governor Jeb Bush's administration, but the strong growth of sales tax revenues over the past decade indicates no evidence of the problems McKay referenced. In 1992-93 sales tax revenues were 3.29 percent of Floridians' incomes, and in 2002-03 they were almost the same, at 3.24 percent. Sales tax revenue growth has kept up with the state's economic growth. The facts show that Florida's tax structure is well-designed for the 21st century.

Should Florida Extend the Sales Tax to More Services?

One area of decades-long debate in Florida is whether Florida's sales tax should be extended to services. Governor Martinez pushed to implement—and then repealed—a services tax in 1987. Senate President McKay's 2001 attempt at sales tax reform was also designed to tax services. The issue is sure to be a part of the debate on Florida's sales tax in upcoming years. One thing to recognize is that many services—such as parking and entertainment—are already taxed under Florida's sales tax. The services that the

Martinez and McKay reform plans had in mind were largely professional services that are now not subject to Florida's sales tax, such as consulting, accounting, and legal services. Extending the tax to these professional services is undesirable. This section considers several issues related to extending the sales tax to services.

Florida's Service Economy

One justification given for extending the sales tax to services is that Florida is shifting from an economy based on goods to one based on services; and in particular, that Florida is a service economy state that has little manufacturing. The service economy issue sounds plausible, but upon further investigation it does not pose a problem for Florida's sales tax base. For one thing, the sales tax already taxes many services which are growing parts of Florida's economy, such as admissions (to movies, theme parks, and other forms of entertainment) and parking charges. A more significant factor is that manufacturing is not declining substantially as a share of the total economy. Nationwide, the purchase of services as a percentage of personal consumption expenditures has increased only slightly in the past decade, from 57.4 percent of consumption expenditures in 1992 to 59.1 percent of consumption expenditures in 2002.⁴ This slight increase in services as a share of consumption will have a minimal effect on Florida's sales tax base, and because Florida taxes many entertainment services purchased by tourists, Florida's sales tax base may, overall, be enhanced by this slight shift toward services.

At first it might appear that Florida's sales tax base would be more vulnerable to a shift toward services because Florida's economy is so service-oriented, but the service orientation of Florida's economy has no effect on its sales tax collections. Sales taxes are collected on the things that people buy in Florida, not the things that the state's economy produces. Whenever someone in Florida buys an automobile made

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⁴ Calculated from data in The Statistical Abstract of the United States, 2003 edition, page 438.

There is little reason to modify Florida's sales tax by extending it to services, and recent proposals to do so would have modified Florida's sales tax in an undesirable way.

in Michigan, or a television made in Japan, it is taxed under Florida's sales tax. Even if Florida's economy produced only services, it would not affect Florida's sales tax revenues, because the sales tax taxes what people buy, not what they produce. Goods produced all over the world and bought in Florida are still taxed. While the service economy argument at first sounds plausible, it does not justify extending Florida's sales tax to services.

Retail Versus Intermediate Services

In the publicity that proponents of taxing services give to their cause, they argue that there is no justification for excluding lawn care services and pool services from Florida's sales tax, and that if scissors are taxed, hair cuts by barbers should be taxed too. While one might want to debate the merits of taxing these retail services, the fact of the matter is that service tax proposals would raise very little revenue from these sources. Most of the revenues would come from business and professional services such as advertising, consulting, accounting, and legal services. The problem with taxing these services is that they are intermediate services that go into the production of retail services, and because of that they get taxed twice. For example, if a company pays for advertising, that cost must be recouped in the final price of the advertised goods. So the advertising is taxed once when it is initially sold to the business, and it is taxed a second time when its cost is included in the price of the business's retail sale.

This double taxation is undesirable because it distorts economic incentives, making it relatively more costly to purchase these intermediate inputs. In addition, it gives companies an incentive to bring these activities in-house to avoid the sales tax. Big companies can hire their own advertising people, their own accountants, and their own attorneys, rather than dealing with independent firms and being subjected to the services tax. As a result, decisions that should

be made on economic merits—such as whether to do bookkeeping in-house or hire an outside firm—end up being made for tax reasons. This is inefficient. Furthermore, because large companies would be in a better position to bring such services in-house, a services tax would put Florida's businesses at a disadvantage.

Taxing intermediate services is undesirable, and recent proposals to extend Florida's sales tax to services would have raised almost all of their revenues from these intermediate services. Extending a services tax only to retail services would raise little revenue. There is little reason to modify Florida's sales tax by extending it to services, and recent proposals to do so would have modified Florida's sales tax in an undesirable way.

Should All Exemptions Be Reviewed?

In 2004 a ballot initiative was proposed to amend Florida's Constitution to require that all sales tax exemptions be reviewed by the legislature every ten years, and that unless an exemption was approved for continuation by 60 percent of the members of both houses of the legislature, it would be removed. The amendment had an obvious relationship to the idea of extending the sales tax to services, because unless 60 percent of both houses approved of retaining sales tax exemptions on services, those exemptions would be removed.⁵ The initiative was kept off the ballot by the Florida Supreme Court, but the idea is sure to resurface. Should all exemptions be periodically reviewed?

There are strong arguments against such a mandated review. First, the legislature already has the power to remove exemptions through legislation, so such a review is not necessary for the legislature to evaluate and remove sales tax exemptions. Second, this type of mandated review would create uncertainty about Florida's sales tax base. As it is, the sales tax base remains the same unless the legislature votes to change it. Under this type of mandated review, the sales

⁵ Also, the amendment was sponsored by former Senate President John McKay, who championed extending the sales tax to services in 2001.

tax base would change unless the legislature takes positive action to prevent the change. Third, all sales tax exemptions would be held hostage to such a process, and taxpayers would have to be continually on-guard to make sure that the tax code did not change in ways that would adversely affect them. It would open the legislature to a barrage of lobbying by groups that would simply want to maintain the status quo, and it would greatly politicize the design of the sales tax base.⁶ While we do not like to think of the possibility of disputes emerging in the legislature that could lead to stalemates, if that did happen and if legislative action was delayed, Florida's sales tax base could change in a dramatic fashion. Florida's businesses and consumers benefit from a stable tax environment in which changes are made only when action is taken to make improvements. In the absence of legislative action, the status quo should not change.

A more mild version of this same policy would simply require a review of all exemptions, but exemptions would not be removed unless the legislature voted for removal. This would also be undesirable. It would require hearings on many exemptions unlikely to be removed, which wastes the time not only of legislators but also of taxpayers who would have to show up at multiple hearings on exemptions that would affect them. Furthermore, it would create the same type of uncertainty discussed above, because with any review there will be the chance that an exemption would be removed. Because of this, it would generate substantial lobbying efforts by any group that would be affected by an exemption that was to be reviewed. Because the legislature already can remove any exemptions it finds undesirable, it would be counterproductive

to require regular review because of the time it would waste, because of the uncertainty it would create, and because of the lobbying it would generate.

The Growth of Internet Sales

Another issue of concern related to Florida's sales tax is the growth of Internet sales, which often results in purchases that evade Florida's sales tax. When Floridians purchase sales taxable goods over the Internet, they are obligated by law to pay sales tax on those purchases. In practice, almost nobody actually pays sales tax on Internet purchases, which could create a potentially substantial erosion in sales tax revenues as Internet sales grow.

This is an issue that warrants a close watch, but the current evidence suggests that Internet sales will not significantly erode Florida's sales tax base. During the "dot com" boom in the 1990s there was quite a bit of hype about the growth of Internet sales, which has died down somewhat recently. Looking at Table 2, Florida's sales tax collects about the same percentage of Florida's income that it did 10 years ago (prior to the dot com boom) so there is no evidence that Internet sales are having a current impact. Another relevant factor is that Internet vendors that have a physical presence in Florida do collect and remit Florida sales tax on items they ship to the state. For example, if a Floridian buys a Dell computer over the Internet or a television from bestbuy.com, Dell or Best Buy remits the Florida sales tax on the purchase. As the potential for Internet sales grows, it is likely that established "brick and mortar" businesses like Best Buy and Wal-Mart will play an increasing role, and will remit Florida sales taxes on those purchases.

Florida's businesses and consumers benefit from a stable tax environment in which changes are made only when action is taken to make improvements. In the absence of legislative action, the status quo should not change.

⁶ Another factor that is specific to the wording of the 2004 amendment proposal is that it is not clear what "exemptions" might actually be up for review. The wording of the amendment said that the legislature would "review all exemptions and services or transactions excluded from the sales tax..." with the exception of a few specifically listed transactions. That would appear to include all services (which apparently was intended by the amendment's supporters) and all intermediate purchases. Thus, when retailers bought goods to be resold in their stores, those transactions would be reviewed and taxed unless 60 percent of both houses voted to keep the exemption. Wage payments to employees would appear to be taxable unless 60 percent of both houses agreed to retain the exemption. There is also a small—but maybe not insignificant—terminological issue. Legally, an exemption means that something would be taxed unless specifically exempted. Florida's sales tax is designed as a tax on the retail sale of tangible goods, so groceries would be taxed except that they are specifically exempt. Services are not retail goods, so they are excluded from the tax and do not need an exemption. The debate on these issues has lumped together exclusions and exemptions, adding some confusion to the issue.

For all its hype, the Internet is just a new and improved way of making catalog sales. Catalogs are easily distributed and their contents are readily available on the Internet—and although it is easy to order directly online, it is not much different than calling a toll-free number and ordering from a catalog that comes in the mail. Because it may be cheaper and easier, Internet sales may increase, but Internet purchases also have the same drawbacks of catalog sales. Customers often want to talk to a sales person; they want on-site service; they want the option to return purchases without packing them up and shipping them out-of-state; they want to be able to test the actual merchandise before purchasing; and they often do not want to wait for the shipping time to get their purchases. In addition, shipping charges for many items will be as much or more than sales tax.

Certainly we want to keep an eye on Internet sales to ensure that they do not pose a problem for Florida's sales tax structure. But the evidence to date indicates that Internet sales are not a threat, and there are many reasons to expect that Internet sales will never seriously erode Florida's tax base.

The Streamlined Sales Tax Project

One issue related to Florida's sales tax that is sure to surface is whether Florida should become a full participant in the Streamlined Sales Tax Project (SSTP). Currently, each state administers and collects its own sales tax using sellers in that state as collection agents. But the sales tax is a tax levied on the purchaser, not the seller. If a seller ships the item to an out-of-state purchaser, the seller does not collect the sales tax. Legally, the purchaser is obligated to pay the sales tax on the out-of-state purchase, but in practice the tax is rarely paid. Courts have ruled that sellers in one state have no obligation to collect sales taxes for another state if the seller has no physical presence there. This is due, at least in part, to the complexity of state sales tax laws and the

substantial variety from state to state in rates, in what is taxed, and in who is required to pay the tax. The SSTP is designed to address the complexity issue, and it creates an agreement among its participating states to collect sales taxes for each other. Essentially, participating states will adhere to the requirements of the SSTP agreement, and they will collect and remit sales taxes from sellers in those states to the state government of the purchaser.

The issue has already come up in Florida. In the 2004 legislative session SB 1072 was approved by the Senate, but died in the House. The bill would have brought Florida's tax laws into compliance with the SSTP effective January 1, 2005. Surely the issue will be considered again. When evaluating whether Florida should fully participate in the SSTP, two issues must be considered. First, what would full participation accomplish to benefit the state? Second, what costs would Florida have to bear to comply?

The benefits of participating are the additional revenues that the state would realize from the collection of sales taxes on purchases Floridians would make from sellers in other participating states. At the state level, this amount would be exactly offset by the additional taxes Floridians would pay. That is, the additional revenues would come directly out of the pockets of Florida's taxpayers. From a legal standpoint, this would mean that Floridians would be paying the taxes they legally owe on out-of-state purchases—but under the current situation rarely pay—which lessens the sympathy one can have with those who would have avoided the tax. Nevertheless, it is still true that any additional state revenue generated from joining the SSTP would come directly out of the pockets of Florida taxpayers.

The primary motivation for the multi-state SSTP agreement is the fear of eroding state sales tax bases as a result of growing Internet sales (and other purchases from out-of-state sellers). There would be no reason to have the SSTP agreement otherwise. But the analysis

Any additional state revenue generated from joining the SSTP would come directly out of the pockets of Florida taxpayers.

above showed that there is no evidence that out-of-state sales via the Internet or any other means pose a threat to Florida's sales tax base. While the issue warrants continual monitoring, at this point the motivation for joining the SSTP poses no problem for Florida's sales tax revenues.

Florida has much to lose if it complies with the SSTP, however. To participate, states must design their sales taxes to conform to the SSTP requirements.⁷ Among those requirements are that all local jurisdictions levying a sales tax must have identical tax bases; that any changes in sales tax rates or local jurisdiction boundaries must be made only on the first day of a calendar quarter; that boundaries for sales tax rates must correspond to zip codes; that states must develop a database for sales tax rates that is made available to other participating states; that states may not have multiple tax rates, except for food and drugs, which may be taxed at a single different rate;⁸ and that each local jurisdiction must have a uniform tax rate. The SSTP agreement does not apply to electricity, natural gas (or other heating fuels), motor vehicles, aircraft, watercraft, or mobile homes.

There is a set of complex rules to determine the location of the purchaser for tax purposes. In most cases, it is the location to which the purchased item is shipped. For individuals making Internet purchases, for example, this will be straightforward. For businesses that owe sales taxes on purchases—many of which are taxed under Florida law—there would be an advantage to having those purchases shipped to a non-participating state, or to a state with no sales tax. This method of determining the buyer's location for tax purposes is different from Florida's current system, in which the place of purchase is deemed the buyer's location. For the state portion of the sales tax it makes no difference, but it does for the local portion. For example, a buyer from Leon County who purchases something in Orange County now

pays the Orange County local option sales tax, not the Leon County local option sales tax. But under the SSTP the buyer's location, not the seller's, would determine the tax rate.

There is a separate section of complex rules for sales taxes of telecommunications services, because determining the taxable location is not always straightforward. Location may depend upon the origin and destination of calls, the location of the service provider, or where the service is purchased (for example, as with a prepaid calling card). In some cases, the taxing jurisdiction is split 50-50 between the originating location and the destination. Florida's convoluted telecommunications taxes are in need of some overhaul, as discussed below, but Floridians should ask whether we want to overhaul those taxes ourselves or conform to the requirements of a multi-state committee.

The SSTP places restrictions on exemptions from sales taxes. If the agreement defines a product, then all products within that definition can be exempted, but it is not allowable to exempt some products but tax others that fall within the product definition. This provision has the potential of substantially altering Florida's sales tax base because Florida may tax some goods but not others that fall in a single SSTP category. The SSTP also sets out a system for sellers to determine whether a purchase is exempt from taxation, which may rely on information provided by the buyer. In Florida, for example, business purchasers of office supplies must pay Florida sales tax, but in many states they would be exempt. Because purchasers may be required to tell vendors whether they owe tax on their purchases, some Florida purchasers may have trouble correctly negotiating such a system. Family-run businesses may not always know when taxes would be due on their business purchases.

The SSTP has many requirements regarding

There is no evidence that out-of-state sales via the Internet or any other means pose a threat to Florida's sales tax base.

⁷ The SSTP agreement can be found at www.streamlinedsalestax.org. Information for this study was taken from the agreement dated November 19, 2003, and was found on the SSTP website on September 1, 2004.

⁸ Florida does not currently tax groceries or drugs, but about half the states that have sales taxes do tax grocery purchases.

If Florida joined the [Streamlined Sales Tax Project], it would turn over its sales tax structure to a multi-state governing body. The rules are sure to change in the future—and if they did, changes in Florida’s sales tax structure would be determined by people in other states, not by Florida’s legislature as is now the case.

when sales taxes are due from sellers, forms that must be filed by sellers, data that must be remitted, and restrictions on data remitted to states (to protect the privacy of purchasers). The SSTP also provides provisions for audits to verify that sellers are collecting and remitting the appropriate taxes. Another complex set of rules sets out conditions for states enacting sales tax holidays. The SSTP agreement is 74 pages long, so what has been described above is not even a complete overview; it is merely a set of examples to suggest the nature of the SSTP agreement.

The SSTP agreement would require participating states to modify their sales tax structures to conform to the SSTP rules. It would define the taxable location somewhat differently from Florida’s current sales tax, it would alter taxes on telecommunications services, it would require definitions of local jurisdiction boundaries that could conflict with current boundaries, and it would require standard definitions of exemptions that would have an immediate effect on Florida’s sales taxes. These are minor issues, however. The major issue is that if Florida joined the SSTP, it would turn over its sales tax structure to a multi-state governing body. The rules are sure to change in the future—and if they did, changes in Florida’s sales tax structure would be determined by people in other states, not by Florida’s legislature as is now the case.

The sales tax is Florida’s largest tax base, and as noted above, it is performing well and it is generating revenues that are growing along with Florida’s economy. Floridians should be wary of turning any control of their sales tax structure over to a multi-state body. Furthermore, the evidence shows that there is no need to do so. As conditions currently stand, it is unnecessary, and it would sacrifice some of our state sovereignty to a multi-state board. The SSTP seems undesirable for Florida, and there is no reason for Florida to comply with the SSTP now. If the SSTP becomes operational, there will be the opportunity to reevaluate and

fully participate later. Conditions would have to change substantially, however, before that would be beneficial to the state.

The Intangible Property Tax

Florida is one of only a few states that taxes intangible property.⁹ The rate and nature of Florida’s intangible property tax has changed significantly over the years, but presently the tax is set at 1 mill annually on stocks, bonds, limited partnerships, and other specific financial assets.¹⁰ There is an exemption of \$250,000 per person and for businesses that pay the tax. Money, bank deposits, and financial assets held in tax-deferred retirement accounts are not taxed. Mortgages are taxed at a 2 mill rate, which is paid only once at the time the mortgage is recorded. As Table 1 shows, the intangible property tax raised \$827 million in 2002-03, which was 1.6 percent of state revenues.

Florida’s intangible property tax was originally established in 1931. Since then, it has undergone significant changes in both the rate that was paid and in the assets that were subject to tax. The current statute governing the intangibles tax was passed in 1971, and the rate was set at 1 mill. The rate was increased to 1.5 mills in 1990 and it was raised again to 2 mills in 1992. In the late 1990s the legislature agreed to phase out the intangibles tax in a four-year period by annually lowering the rate half a mill until the tax was eliminated. The rate was reduced to 1.5 mills in 1999 and reduced again to 1 mill in 2000. At that point, the state began seeing its annual revenue growth decline due to the nationwide recession and stopped the phase-out—and the rate remains at 1 mill. Every year the legislature has considered eliminating the intangibles tax, and Governor Bush has supported its elimination. Its phase-out has been included in the legislature’s budget negotiations in recent years, but at the end of the budgetary process, compromises have been struck that have left the intangibles tax intact.

⁹ Other states with some form of intangible property taxes are Alabama, Kentucky, and Pennsylvania.

¹⁰ A mill is one one-thousandth of the value of the taxed property.

There are good reasons to support the repeal of the intangible property tax. In voicing his opposition to the tax, Governor Bush has referred to it as the “seniors and savers tax.” It is possible to avoid the tax by setting up a trust that moves one’s assets out-of-state temporarily, but this requires substantial legal fees and is only worthwhile for people with more than \$5 million in taxable assets.¹¹ People with substantial assets can avoid the tax—while those with minimal assets are exempt—so the tax hits people who have accumulated some financial assets, but not a huge amount. By taxing financial assets, the intangibles tax discourages saving, and it discourages people who have accumulated assets from moving to the state. For both these reasons, the tax is damaging to Florida’s economy.

Undoubtedly, the intangibles tax hits retirees the hardest. Most states have state income taxes, but Florida does not, producing a tax structure favorable to working Floridians. But Florida taxes the assets its retirees have accumulated to live on while in other states, retirees would earn minimal incomes and would be liable for little—if any—state income tax. Poor retirees will not be liable for Florida’s intangibles tax, but retirees who are well-off enough to support themselves and pay property taxes and sales taxes to help support government programs are being discouraged from relocating to the state. Florida should have policies to attract these types of people, yet the intangibles tax is a disincentive for them to relocate to Florida, and it is an unfair burden on self-supporting retirees who already live in the state. The issue applies not only to retirees but to working people who someday plan to retire. People in their 20s and 30s who are working and raising families may not have sufficient assets to be liable for the intangibles tax now, but if they accumulate sufficient assets to have a comfortable retirement, they will be liable for the tax in the future. Meanwhile, the intangibles tax will be eroding their savings as they try to prepare for retirement. As a tax on saving and capital

accumulation, the intangibles tax is harmful to Florida’s economy and should be repealed.

Can Florida afford to repeal the intangibles tax? With a state budget in excess of \$50 billion, the \$827 million the intangibles tax raised was only 1.6 percent of total state revenues, which is within the range of forecasting error in state revenues. Table 2 showed that Florida’s total state revenues rose by \$2.9 billion from 2001-02 to 2002-03. That increase is three times greater than Florida’s intangibles tax revenues. Florida’s total state revenues increased by 6.1 percent from 2001-02 to 2002-03. If Florida completely repealed the intangibles tax that year, total revenues still would have increased by 4.4 percent. Florida can easily afford to repeal the intangible property tax, and it should do so.

Florida’s Communications Services Tax

The communications services tax was created in 2001 to try to standardize at the state level the collection of taxes on telecommunications services, cable, and satellite television. There are actually several different taxes that are levied on such services. Communications services are taxed at 6.8 percent and satellite services have a 10.8 percent rate, in addition to a 2.37 percent gross receipts tax also imposed on these services. Internet access is not taxed under Florida law. The tax base is not clearly defined for the communications services tax, and multiple rates can make it difficult to identify exactly which rate should apply to certain services.

One source of ambiguity is that substitute communications systems are subject to a use tax equal to the rate that would have been applied if the services were sold. For example, if a company installs its own private telephone system, a use tax would be assessed equal to the amount that would have been paid if the services of that substitute system were bought in the market.

As a tax on saving and capital accumulation, the intangibles tax is harmful to Florida’s economy and should be repealed.

¹¹ The tax is due on intangible property held on December 31, so assets only need to be moved for that one day. Attorneys have advertised in Florida Trend and other places offering their services to avoid the tax, and the Department of Revenue has said it is legally possible to do so. Consult your tax advisor if you have more interest in methods for avoiding the tax.

Another issue that lies just below the surface in the discussion of Florida's taxes is whether Florida is a low-tax state that should raise its taxes to match the revenues of other states.

There is no clear definition of what constitutes a substitute system, or what that substitute system is substituting for. Anticipating technological change in this area, the Florida Statutes (Chapter 202) specify that the tax applies not only to currently-available systems but also to communications services provided through any "other medium or method now in existence or hereafter devised." Many companies—and private homes—have installed local area networks (LANs) to allow computers to communicate with each other, and one unresolved question is whether these LANs will be subjected to the communications services tax.

Another source of ambiguity arises when services are bundled. It is increasingly common for one provider to offer multiple services for a single price. For example, cell phone service, satellite TV, and Internet access could be offered together for one price, but all are supposed to be taxed at different rates. Another potential problem deals with phone calls made over the Internet. As it becomes more common for companies offer Voice over Internet Protocol (VoIP) along with their Internet services, there is a question of how VoIP should be treated for tax purposes. Currently, it is untaxed—because Internet access is untaxed—but any migration of phone users from currently-taxed phone services to VoIP might erode the tax base.

Florida's communications taxes are among the highest in the nation. As Table 1 shows, the communications services tax raised \$838.2 million in fiscal year 2002-03, and communications services is a high-growth industry that is likely to yield a growing tax base. Florida needs to standardize its tax base with an easy-to-understand definition of communications services and lower its rates. If communications services were taxed at the same rate as other goods and services under Florida's sales tax, these services would be treated more equitably and the confusion regarding the appropriate tax rate for various services would be reduced.

Is Florida a Low-Tax State?

In recent years, one of the major issues regarding Florida's tax structure has been whether Florida's existing tax structure is designed to keep up with the growth of Florida's economy—and the above analysis indicates that the answer is yes. Another issue that lies just below the surface in the discussion of Florida's taxes is whether Florida is a low-tax state that should raise its taxes to match the revenues of other states. Table 5 shows some figures for 2000, and indeed Florida's tax revenues per person were below the national average.¹² The figures in Table 5 include both state and local taxes, which is the appropriate comparison because some states tax more at the state level and less at the local level, while others are more decentralized and rely more on local taxes and less on state taxes. Thus, if one looked only at state government revenues, it would paint a misleading picture.

Florida's state and local taxes per person were \$2,624 in 2000, which was 84.6 percent of the national average. Florida is indeed a low tax state when compared to the national average. The highest-taxing state was Connecticut, which raised \$4,596 per person in taxes. Florida's taxes were only 57 percent as high as those in Connecticut. New York was not far behind at \$4,578 per person in taxes. The two lowest states in taxes per person were in the southeast: Alabama at \$2,117 and Tennessee at \$2,185.

Compared to other states in the southeast—with whom Florida might be competing for jobs and income—Florida comes out about average. Table 5 shows that Georgia's taxes per person were \$2,820, so Florida's taxes were only 92.4 percent of those in Georgia. South Carolina's taxes per person were \$2,379, so Florida's taxes per person were 10.3 percent higher than in South Carolina. Florida's taxes were about the same as those in North Carolina. Alabama and Tennessee, already mentioned, had the lowest taxes per person in the nation, and fell well below Florida. Compared to that group of nearby

¹² These figures are the latest available from The Statistical Abstract of the United States. Data from the Statistical Abstract is used because it is more likely to be comparable across states than data collected from the individual states.

southeastern states—Georgia, South Carolina, North Carolina, Tennessee, and Alabama—Florida’s taxes were 7.7 percent higher than that southeastern average.¹³ If the very low-tax states of Tennessee and Alabama were dropped from the equation, Florida’s taxes would have been almost equal to the average taxes paid by Georgia, South Carolina, and North Carolina. Florida is not a low-tax state when compared to other states in the southeast.

Another state Florida is sometimes compared with—because it is a large state in the south with no income tax—is Texas. Taxes per person in Texas were \$2,505, so Florida’s taxes were 4.8 percent higher than taxes in Texas. Florida’s taxes were below the national average, but when compared to other southeastern states, Florida is not a low-tax state.

Because Florida is one of the few states that does not have a personal income tax, Florida’s tax structure is better than that of most states. Taxes create a disincentive to engage in the taxed activity, and in this regard income taxes have poorer incentives than sales taxes. Income taxes create a disincentive to earn income, whereas sales taxes create a disincentive to purchase taxed goods but they do not create a disincentive to earn income

that will be saved, as income taxes do. Often, there is a tendency to compare a state to the national average with the implication that the state should move toward the national average, but Florida’s tax structure is better than that of most states, and to move closer to the national average in this regard would make Floridians worse off. And while Florida is below the national average in total state and local taxes per person collected, it is not below the average for other southeastern states. Such averages are not good benchmarks anyway. Florida should aspire to be better than other states, and that means keeping taxes low to provide an incentive for productive activity.

Florida’s Tax Policy in the 21st Century

When considering Florida’s tax policy in upcoming years, there are two conceptually distinct issues that warrant examination. One is whether the tax structure Florida now has is adequately designed to grow along with Florida’s income and population growth. The second is whether the level of state revenues is appropriate to fund the state government’s

While Florida is below the national average in total state and local taxes per person collected, it is not below the average for other southeastern states. Such averages are not good benchmarks anyway.

Table 5

State and Local Government Tax Revenues Per Person for Various States (2000)

State	State and Local Taxes per Person	Florida’s Taxes, as a Percentage of
National Average	\$3,100	84.6%
Alabama	\$2,117	123.9%
Tennessee	\$2,185	120.9%
South Carolina	\$2,379	110.3%
Average, GA, SC, NC, TN, AL	\$2,437	107.7%
Texas	\$2,505	104.8%
Florida	\$2,624	100.0%
Average, GA, SC, NC	\$2,628	99.8%
North Carolina	\$2,664	98.5%
Georgia	\$2,840	92.4%

Source: The Statistical Abstract of the United States.

¹³ Mississippi, at \$2,214, and Louisiana, at \$2,436, also have lower taxes than Florida, so if they had been included, Florida’s taxes would have looked even higher in comparison.

Some people have questioned whether Florida's current tax structure will generate sufficient revenue to satisfy all of the demands placed on state government, but the fact is that government can never raise enough revenues to satisfy all of the demands for government expenditures.

programs. Some would argue that current revenues are inadequate so taxes should be increased, while others would argue that they are more than adequate and that taxes should be cut. Those are two separate issues that need to be considered separately.

On the issue of whether the current design of Florida's tax structure will allow it to keep pace with Florida's growth, the facts show that the answer is yes. In recent years, some lawmakers and others have argued that Florida's tax system is structurally flawed, and that unless it is reformed, Florida will face a fiscal crisis because revenues will not keep up with the state's growth. The facts show otherwise. Florida's sales tax-based tax structure has more than kept up with Florida's income and population growth over the past decade, and there is every indication that it will continue to do so. While some have argued that the growth of Internet sales and a shift away from the purchase of goods towards services will cripple Florida's sales tax collections, there is no evidence of this occurring, and sales tax growth remains healthy. There are good reasons for monitoring our tax system to make sure that this continues to be the case, but there is no evidence to support the claim that Florida's tax structure is in need of reform.

From a policy standpoint, there are ways to improve Florida's tax structure, but there is no basis for the idea that it must be reformed or else Florida will face a fiscal crisis. If we leave things as they are, Florida's revenues will continue to grow along with the state's population and income, so there is no reason to feel pushed into undertaking reforms. We should make changes only if they clearly would be in the best interest of the state. The bottom line is that Florida's tax structure is healthy, and Floridians should not be panicked into thinking that our revenue system will collapse without reform. Revenue growth will continue for the foreseeable future without any changes in Florida's tax structure.

The second issue is whether the amount of revenue that Florida raises is appropriate, or whether taxes should be raised or lowered.

This is a more difficult issue, because different people want different things from their government. Florida's taxes are below the national average, suggesting that Florida is a low-tax state. However, when compared with other southeastern states, Florida's taxes are about at the average, or even above average, depending upon the comparison states. Florida is definitely not a low-tax state when compared to other states in the southeast.

Some people have questioned whether Florida's current tax structure will generate sufficient revenue to satisfy all of the demands placed on state government, but the fact is that government can never raise enough revenues to satisfy all of the demands for government expenditures. The government gives away much of its output—or sells it below cost—and in this situation, people are always going to have insatiable demands for government programs. It is sheer folly to think that government can satisfy the demands of everyone who wants the taxpayers to buy them something. The legislature's job is to sort through those demands, fund the ones that are socially beneficial, and reject those that are simply demands for private benefits funded at taxpayer expense.

Historically, Florida's revenues and expenditures have grown faster than Florida's income, so state government is taking an increasing share of Floridians' incomes. Revenue growth has been strong, and the legislature has always managed to spend all the revenues that have come its way. Florida's strong revenue growth means that the state can afford some tax cuts, and tax cuts would benefit Florida in a number of ways. Most obviously, tax reductions would leave Floridians with more of their own income to spend as they see fit. Taxes also create a disincentive to productive activity, so lower taxes would lead to more state economic growth. Under Governor Bush, Florida's state government has lowered the tax burden on its citizens in some areas, but there are a few areas—such as the intangibles tax and communications services tax—where further tax cuts would be beneficial for Floridians.

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Point of View, March 15, 2002

Insuring Proper Policy Consideration in Tax Reform Efforts
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Point of View, January 31, 2002

