

January 2007

Tax and Budget Panel: Opportunities and Risks

By Randall G. Holcombe

As Florida's Constitution provides, a Taxation and Budget Reform Commission (TBRC) will be appointed early in 2007 with the power to place constitutional amendments on the 2008 ballot for voter approval.

No state's tax and budget system is perfect, so the TBRC provides an opportunity for improvement. Conversely, there's always a risk that such a commission could make matters worse.

That risk is worth noting because Florida's tax structure is relatively good, especially when compared to other states. Florida imposes no personal income tax. It recently repealed the onerous tax on intangible property such as stocks. In national rankings Florida remains a low-tax state, and its economy prospers as a result.

Indeed, the benefits of low taxes and lean government are reflected in the state's rapid growth and low unemployment. Florida also weathered the 2001-02 recession better than other states. So if Florida had to choose between keeping its current tax and budget system or making it more like those of other states, the best option is the status quo.

Nonetheless, some tax-related issues are likely to attract the TBRC's attention. For instance, Florida's sales tax has come under attack for years, with critics saying

that a tax based mostly on the sale of goods is increasingly inappropriate in a service economy.

Yet that criticism does not hold up. Florida's sales tax revenues are growing faster than the economy as a whole. Moreover, even though Florida is increasingly a service economy rather than a center of manufacturing, the sales tax applies to goods purchased here, regardless of where they're produced. Granted, Florida's current sales tax might be improved in certain ways, but many of the so-called reforms suggested over the past decade would have created problems.

In any event, the tax that more Floridians are most concerned about nowadays is not the sales tax but the property tax. Soaring real estate values have produced rising tax bills as local governments failed to curb spending and roll back their millage rates.

So the TBRC should consider property tax reforms. However, past efforts to provide property tax relief – notably 1992's "Save Our Homes Amendment" – offer a cautionary tale. Although well-intentioned, it also created serious inequities.

A separate Property Tax Reform Committee has been examining the problem, and some of its suggestions are likely to be considered by the TBRC. Both

groups, however, must resolve to avoid offering reforms that will create new problems in the future.

A good first step for the TBRC would be to draft a set of guiding principles for effective taxation and budgeting so that any proposals could be evaluated based on how they measure up to those principles. That's important because no tax or budgeting policy stands alone. All such policies are components of a larger "fiscal constitution," and the economy benefits from having a tax and budget structure that works well as a whole.

Some TBRC members might view their group as a failure if it places no amendments on the ballot. They should recognize, however, that the pressure to do something – anything -- has the potential to produce counterproductive reforms.

Except for the aforementioned property tax inequities, Florida's tax and budget structure is in relatively good shape. No sweeping changes are needed. Therefore, the TBRC ought to set a high bar for proposals and evaluate them based on principle.

If the 1990-92 TBRC is any indication, many Floridians are likely to remain only vaguely aware of the new TBRC -- even as the group deliberates, holds public hearings around the state, and drafts constitutional amendments.

Meanwhile, constitutional amendments also may be proposed through more visible avenues such as citizen initiatives, legislative actions, and the higher profile Constitution Revision Commission, which is scheduled to meet again beginning in 2017.

Therefore, one might legitimately wonder whether having the relatively low-profile TBRC propose constitutional amendments is essential to Florida's fiscal health, given the other options for constitutional reform.

Florida has a relatively good tax and budget structure. Because most of what the TBRC does is likely to receive scant public attention -- but close attention from interest groups seeking changes to benefit them -- the TBRC should take care to avoid embracing counterproductive ideas if and when it proposes to change the status quo.

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