




MEMORANDUM

TO: Members of the Government Procedures and Structure Committee:
Mr. Mike Hogan, Ms Julia Johnson, Mr. Carlos Lascasa, Ms.
Patricia Levesque, Mr. Alan Levine, Ms. Jacinta Mathis, Ms. Nancy
Riley, Mr. Darryl Rouson, Mr. Greg Turbeville, Mr. Ken Wilinon,
and Mr. Brian Yablonski

FROM: Hank Fishkind, Ph.D. 

SUBJECT: Proposed Constitutional Amendment to Mandate Repeal of
Exemptions to Fund Education

DATE: January 11, 2008

VIA: Ms. Susan Skelton and FAX to Members

- 1.0 As you know, the Governmental Procedures and Structure Committee will take up the proposed constitutional amendment at its meeting next week.
- 2.0 The proposed amendment would require the repeal of exemptions and exclusions from the state sales tax. The revenues generated would be used exclusively to replace the ad valorem tax millage set by the legislature under the Florida Education Finance Program (this is commonly called the required local effort).
- 3.0 It is my professional opinion that this amendment would generate very substantial economic benefits for Floridians.
- 4.0 Consider first the economic impacts of the required local effort for schools. This property tax accounts for roughly one-third of the average property tax bill for residential and non residential properties. Eliminating this tax would boost private disposable income and would create very significant increases in wealth in Florida.

- 5.0 For non residential properties the school tax is typically the second largest fixed expense after debt service. By eliminating the school property tax all non residential properties in the State immediately become significantly more valuable. Furthermore, it would be more profitable to invest in non residential properties in Florida. This would stimulate investment and economic development in a meaningful way creating jobs and income in Florida.
- 6.0 The benefits of eliminating the school property tax are offset to some degree from the increase in the sales tax burden. However, it is important to consider the following facts concerning the sales tax. First, a significant portion of the sales tax is ultimately paid by visitors and other non residents. Second, the increase in some prices caused by the increased sales tax will have only a marginal impact on demand. Said differently, the price-elasticity of demand for many services and goods that would now be taxed is relatively low. Third, expanding the sales tax base tends to make the burden of the sales tax less regressive. Simply put, wealthier Floridians tend to purchase more of the new goods and services that would be taxed than do our less fortunate citizens.
- 7.0 The exclusions that would remain in the update sales tax system, for food, prescription drugs, health services, residential rent, and utilities, serve to make the resulting sales tax system more progressive and less onerous.
- 8.0 Expanding the sales tax base can be readily accomplished from an administrative perspective.
- 9.0 Florida-based business and service providers who would now be taxed will not operate at a competitive disadvantage because of the new system. It is not the Florida-based business that is taxed alone, instead it is the sale of a newly taxed good or service which is taxed, regardless of the domicile of the providing entity.
- 10.0 Studies of this issue that I have developed in the past for Senator McKay and more recently for similar proposals in Pennsylvania demonstrate that this program of substituting sales taxes for the elimination of school property taxes produces very significant increases in gross state product and also contributes to improved tax equity.
- 11.0 In my work last year for the Florida Association of Counties I promoted a similar reform program to that provided by Senator McKay. This program effectively provides needed property tax reform, creates a sustainable system to fund education, and as noted above would stimulate Florida's economy.
- 12.0 If the Committee would like additional information concerning this matter, please do not hesitate to contact me.