



Economic Impacts of Possible Tax Policy Changes

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CP002 (2/18/2008)

- Brief Description
 - Replaces required local effort (RLE) ad valorem taxes for education funding with
 - A one cent increase in sales tax rate
 - Revenues gained from repeal of some sales tax exemptions, and
 - Taxation of some services
 - Mandates increase in sales taxes in FY2010-11 of at least 12.6% higher than the RLE set in the 2008 General Appropriations Act (GAA).

CP002 Simulation Parameters

- Developing an impact simulation requires a projection of RLE for FY2008-09
 - RLE grew by 7.4% from FY2006-07 to FY2007-08 (current). For simulation purposes we projected an increase of 7.0% over current RLE to project its value in 2008 GAA (\$8.97B)
 - The projected required increase in sales tax revenues in FY2010-11 is \$9.52B

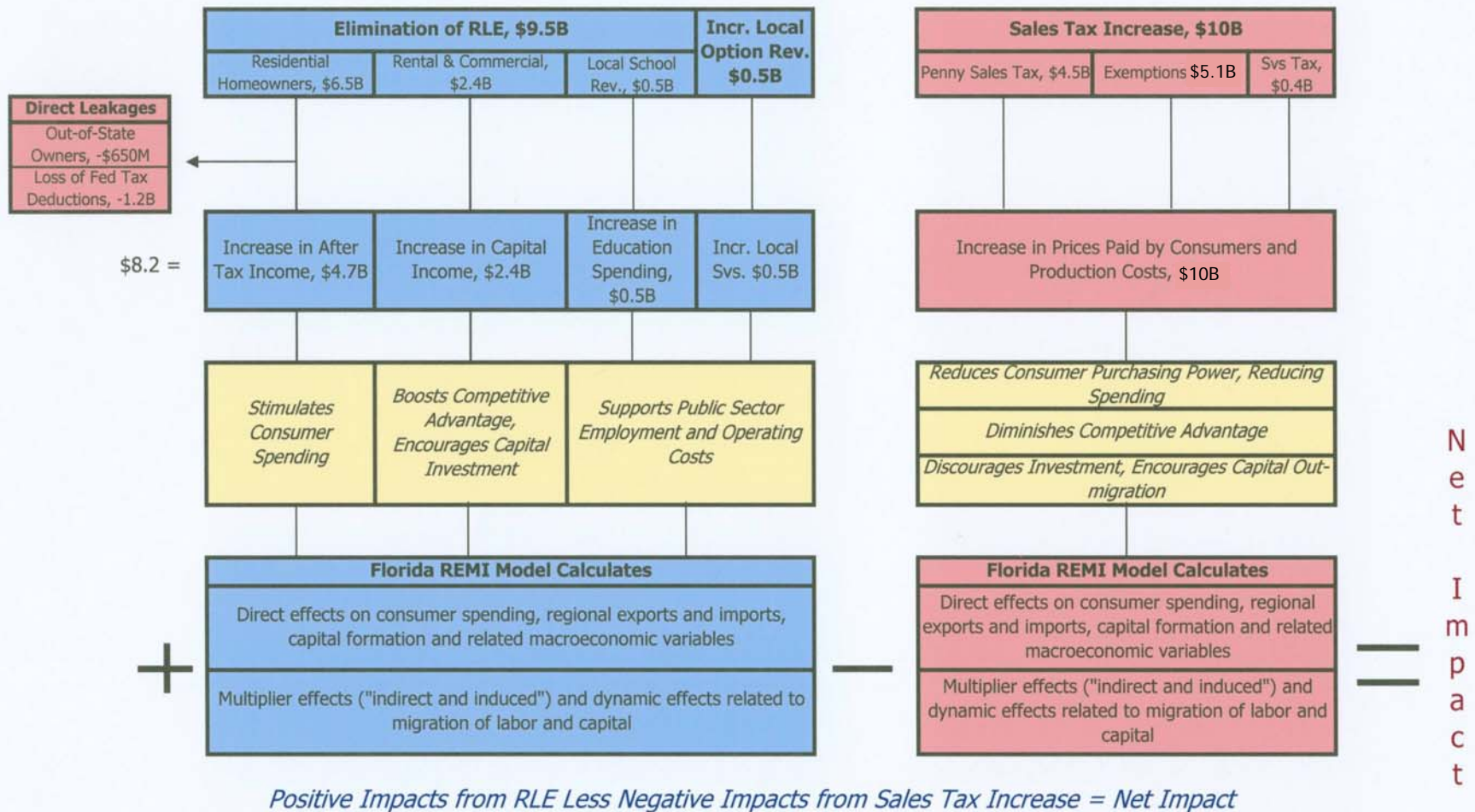
CP002 Simulation Parameters

- How will the required revenues be raised?
 - Penny Sales Tax
 - One percent levy on sales tax base = \$3.93B in FY2007-08
 - Allowing for 2.5% per year real growth in taxable sales plus 2.5% per year increase in prices, 1% levy on tax base results in projected revenues of \$4.55B in FY2010-11
 - Removing exemptions on “non-protected” goods results in projected revenues of \$4.63B
 - Taxing of some services needed to fill gap of \$338M

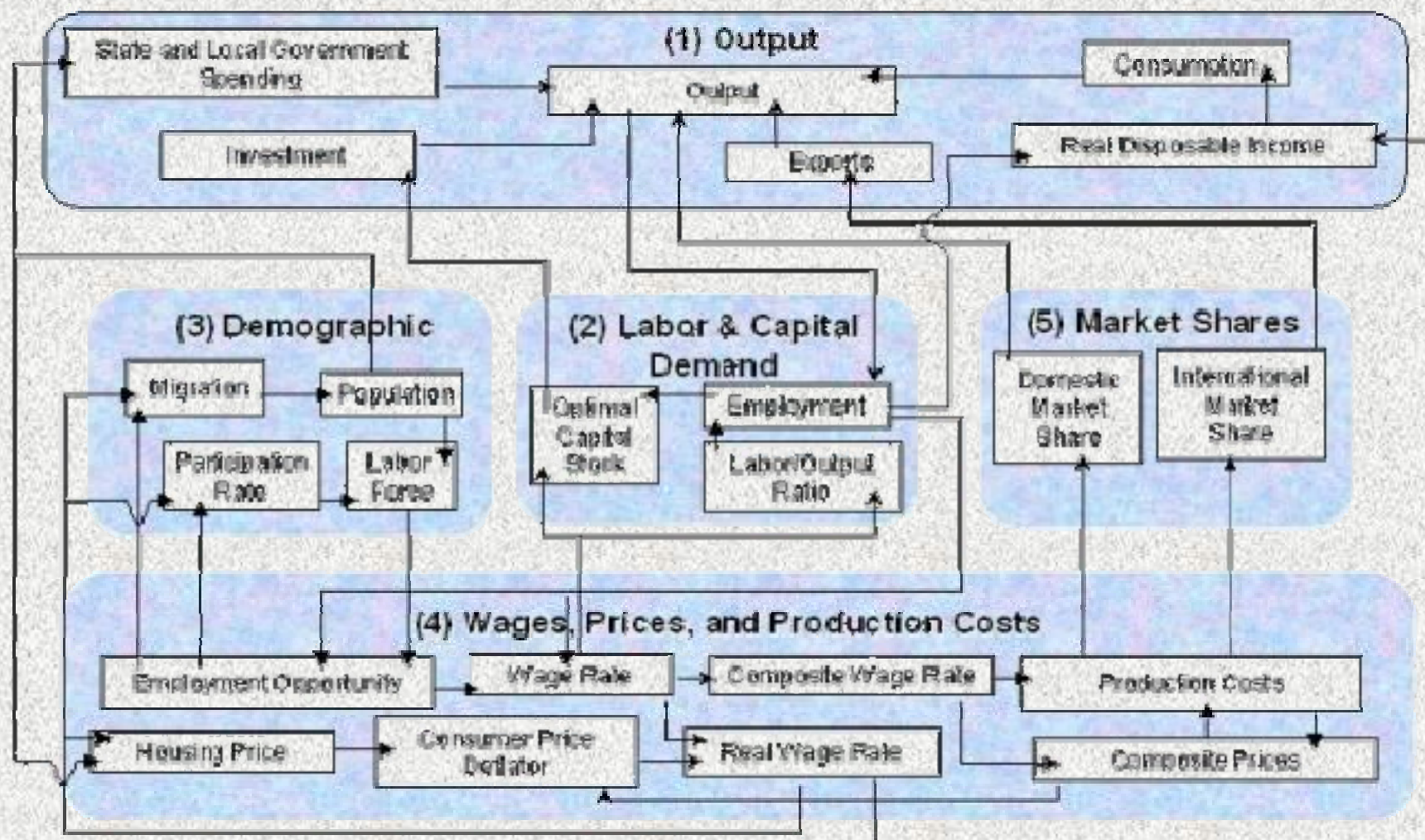
CP002 Simulation Parameters

- The direct stimulus from CP002
 - Elimination in RLE saves Florida households \$4.7B on an after income tax basis
 - Elimination in RLE increases capital income of rental residential and commercial property owners by \$2.4B (*model takes care of calculating income tax liability*)
 - Revenue raised by increase in state sales taxes also replaces projected growth in RLE from FY2009-10 to FY2010-11 (\$548M) had RLE remained in place
 - Broadening of tax base by eliminating some exclusions and taxing some services increases local option tax revenues by \$530M.

Economic Impact: A Systems Simulation Approach Using Florida REMI Model



Systems Approach to Tax Policy: The Circular Flow of Income and Expenditures



Source: REMI, Inc., *REMI Policy Insight User Guide*.

Economic Impact Simulation Results: CP002

	Employment	FL GDP	Personal Income	Labor Earnings	Real Disposable Income (RDI)	RDI per Capita (w/housing prices)	Consumer Price Index (w/HP)
Year	Thousands	Billion 2000\$	Billion \$	Billion \$	Billion 2000\$	2000\$	percent*
2010-11	-44.63	-0.934	-1.799	-1.996	-5.648	-249	1.46%
2011-12	-47.37	-1.305	-2.255	-2.277	-5.540	-206	1.30%
2012-13	-48.60	-1.594	-2.585	-2.427	-5.533	-175	1.22%
2013-14	-48.06	-1.761	-2.794	-2.449	-5.465	-145	1.14%
2014-15	-46.84	-1.869	-2.934	-2.406	-5.377	-120	1.08%
2015-16	-45.35	-1.928	-3.026	-2.322	-5.257	-97	1.02%
2016-17	-43.85	-1.974	-3.099	-2.230	-5.136	-78	0.97%
2017-18	-42.55	-2.019	-3.168	-2.149	-5.026	-62	0.92%
2018-19	-41.41	-2.064	-3.238	-2.079	-4.917	-49	0.87%
2019-20	-40.42	-2.111	-3.311	-2.024	-4.811	-37	0.83%
Average	-44.91	-1.756	-2.821	-2.236	-5.271	-122	1.08%
Cumulative		-17.559	-28.209	-22.359	-52.710	-1218	

Figures show difference from baseline or “control” simulation. 8

Summary of Results for CP002

- Positive economic stimulus from elimination of RLE is smaller than the contractionary effects of increase in sales taxes when a “systems” or “general equilibrium” approach is used as the analytical framework.
- Florida economy grows more slowly than under the control simulation as reflected in lower job growth, lower population growth, lower GDP growth, lower income growth in absolute and per capita terms.