

## Taxation and Budget Reform Commission

### Staff Analysis: Economic Impact

#### **CP 0007 for Consideration by the Governmental Procedures & Structure Committee on February 25, 2008**

##### Description:

CP 0007 requires that the Legislature review all current exemptions to sales and use tax and to identify the 15% of exemptions, as a minimum, that are the “least meritorious.” The Legislature would then vote on whether to retain these exemptions. Any additional revenues raised **must** be used to reduce the sales and use tax rate **or** the portion of Local Property Taxes (RLE) used to finance education.

##### Assumptions:

Based on 2007 revenue projections, and TBRC staff analysis, approximately \$1.85 billion in exemptions could be eliminated by the Legislature. The attached economic impact simulation, utilizing the widely used REMI model of Florida, assumes that the \$1.85 billion of exemptions eliminated will then be used to reduce the RLE by the same amount. Structurally important exemptions and specified necessities are excluded from this review.

##### Estimated Economic Impacts:

Total employment, Florida real GDP, Personal Income, Labor Earnings and Real Disposable Income are projected to decline by very small amounts in the 2010-2020 period as a result of the elimination of exemptions. The relatively small declines are due to the leakages from the decline in property taxes. Out-of-state property tax owners and the loss of federal deductions due to the decline in property taxes (leakages), results in an increase in Disposable Income to Florida-based households, that is less than the increase in taxes impacting the newly non-exempt items.

##### Conclusions:

Given the size of Florida’s economy and employment base, the estimated economic impacts are very small. A slight expansion of the tax base **could** modestly improve the tax revenue elasticity for the state. CP 0007 provides tax relief to local property owners with almost no impact on the state’s growth or competitiveness.

Attachment: Simulations

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