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Program Review



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Report No. 01-17

Use of Electricity Sales Tax Exemption Expands; Exemption Should Be Continued

at a glance

To help address the problem of attracting and keeping manufacturing plants in Florida, the 1996 Legislature created a sales tax exemption on electricity charges for certain Florida manufacturers.

Our analyses determined that 1,101 companies were receiving the sales tax exemption on electricity charges as of September 1, 2000, an increase of 138 companies from the number identified in OPPAGA's 1996 study. A total of 178,860 persons were employed by these companies, an increase of 16,637 employees from 1996. The value of the sales tax exemption was estimated to be \$44.4 million in Fiscal Year 1999-2000.

The Legislature should continue the sales tax exemption on electricity. Discontinuing the exception would make Florida's tax environment less predictable for businesses and could induce marginally profitable plants to close or move to other states.

Purpose

In accordance with state law, this report informs the Legislature of OPPAGA's review of a sales tax exemption on electricity charges for certain manufacturing companies in Florida.¹ As required by law, this report discloses (1) the number of companies in each eligible industry group receiving the sales tax exemption on

electricity charges and the increase or decrease since a prior OPPAGA review in 1996; (2) the number of individuals employed by companies within each industry group receiving the exemption and the change since 1996; (3) whether this change is attributable to the sales tax exemption; and (4) OPPAGA's recommendation as to whether the exemption should be continued or discontinued.²

Background

The 1996 Legislature created a sales tax exemption for electricity charges incurred by companies for operating machinery and equipment used to manufacture or produce items for sale, and to operate and monitor equipment used for pollution control and recycling.³

The law limits the sales tax exemption to certain industries classified under Standard Industrial Classification (SIC) Industry Major Group Numbers 10, 12, 13, 14, and 20 through 39. A general description of each of these SIC Major Groups is provided in Exhibit 1.

In order to receive the sales tax exemption on electricity charges, companies must complete and submit a written certification to its electric utility stating that it is eligible to receive the

¹ Section 212.08(7)(ff)5., *Florida Statutes*.

² *Report on the Sales Tax Exemption on Electricity Charges*, OPPAGA [Report No. 96-27](#), December 1996.

³ Chapter 96-320, *Laws of Florida*.

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exemption. Once the electric utility receives the certification, it is relieved from collecting sales tax on the exempt amount of electricity charges.^{4, 5}

According to estimates provided by the Florida Senate Fiscal Resources Committee, the total value of the sales tax exemption was \$44.4 million in Fiscal Year 1999-2000.

To determine the number of companies in each of the SIC Industry Major Groups receiving the sales tax exemption as of September 1, 2000, we obtained a list of companies receiving the exemption from each electric utility operating in the state. We then matched this list against the Agency for Workforce Innovation's unemployment compensation database to obtain information on the companies' SIC codes and their number of employees.

Results

Use of the exemption has increased

As shown in Exhibit 1, a total of 1,101 companies received a sales tax exemption on electricity charges as of September 1, 2000. This represents an increase of 138 companies from the number that were receiving the exemption in 1996, based on our prior report.

As shown in Exhibit 2, the five SIC Major Groups with the largest number of companies receiving the exemption were Printing and Publishing (180); Fabricated Metal Products (112); Industrial Machinery and Equipment (109); Rubber and Miscellaneous Plastic Products (97); and Food and Kindred Products (81). Eight of the SIC Major Groups had a decline in the number of companies receiving an exemption.

⁴ The Florida Department of Revenue does not administer the exemption; however, the department has the ability to conduct audits of companies to determine their eligibility. In the event a company is deemed ineligible, the department will look solely to the purchaser of electricity for recovery of sales taxes.

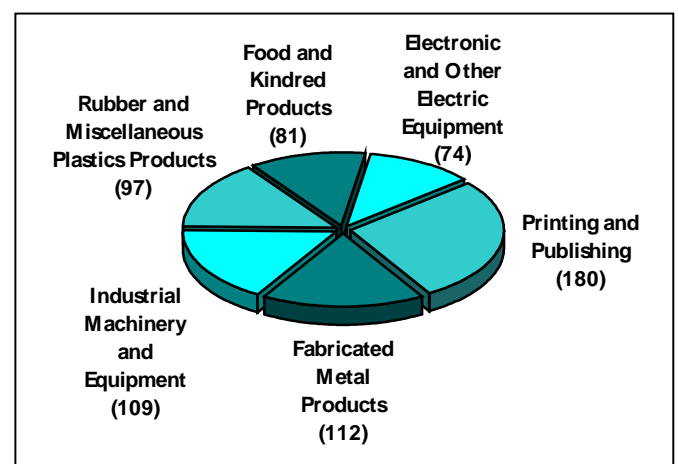
⁵ Prior to the passage of Ch. 2000-165, *Laws of Florida*, companies seeking to receive the exemption had to first register with the WAGES (Work and Gain Economic Self-sufficiency) Program Business Registry in its local area. However, Ch. 2000-165, *Laws of Florida*, abolished the Wages Program and companies are no longer required to register with the Business Registry.

Exhibit 1 The Number of Companies Receiving the Sales Tax Exemption Has Increased

Description of Industry	Number of Companies		
	1996	2000	Change
Printing and Publishing	124	180	56
Fabricated Metal Products	95	112	17
Industrial Machinery and Equipment	85	109	24
Rubber and Misc. Plastic Products	66	97	31
Food and Kindred Products	85	81	-4
Electronic and Other Electric Equipment	67	74	7
Lumber and Wood Products	63	56	-7
Apparel and Other Textile Products	41	55	14
Transportation Equipment	32	54	22
Stone, Clay, and Glass Products	36	51	15
Chemicals and Allied Products	40	48	8
Instruments and Related Products	39	39	0
Furniture and Fixtures	46	32	-14
Paper and Allied Products	21	30	9
Primary Metal Industries	25	23	-2
Miscellaneous Manufacturing Industries	54	21	-33
Nonmetallic Materials, Except Fuels	11	11	0
Textile Mill Products	13	10	-3
Petroleum and Coal Products	13	9	-4
Leather and Leather Products	4	6	2
Metal Mining	1	1	0
Oil and Gas Extraction	0	1	1
Tobacco Products	2	1	-1
Total Number of Companies Receiving Exemption as of September 1, 2000	963	1,101	138

Source: OPPAGA analysis of WAGES Program Registry data, electric utility company records, and Department of Labor and Employment Security Unemployment Compensation database.

Exhibit 2 Six Major Industrial Groups Have 70 or More Companies Receiving Sales Tax Exemptions on Electricity Charges



Source: OPPAGA analysis of electric utility company records and WAGES Program Registry data.

A total of 178,860 individuals were employed by companies that received the exemption in 2000. This represents an increase of 16,637 employees compared to 1996). As shown in Exhibit 3, 14 SIC Major Groups had an increased number of persons employed by companies receiving the exemption while nine groups had employment decreases.

In some cases, the changes in the number of employees were dramatic. Employment in companies in the Electronic and Other Equipment sector that received the sales tax exemption was down by 15,581, while employment in companies in the Lumber and Wood Products sector was down by 11,559. In contrast, employment in companies in the Transportation Equipment sector that received the sales tax exemption was up by 14,779, while employment in companies in the Stone, Clay, and Glass Products sector was up by 11,424.

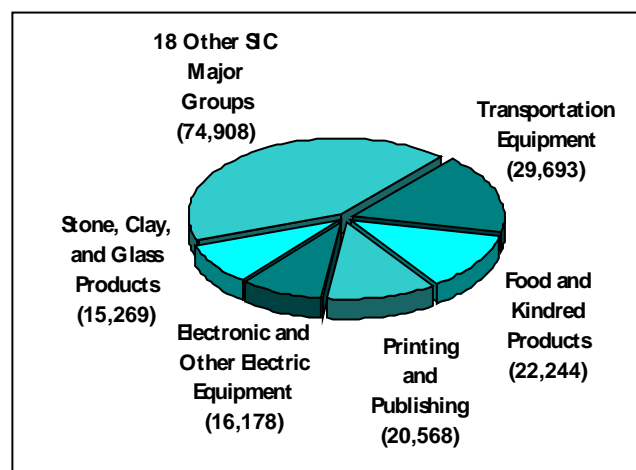
**Exhibit 3
Employment of Companies Receiving the Sales Tax Exemption Has Increased**

Description of Industry	Sum of Employees		
	1996	2000	Change
Transportation Equipment	14,914	29,693	14,779
Food and Kindred Products	23,616	22,244	-1,372
Printing and Publishing	15,001	20,568	5,567
Electronic and Other Electric Equipment	31,759	16,178	-15,581
Stone, Clay, and Glass Products	3,845	15,269	11,424
Fabricated Metal Products	6,097	10,567	4,470
Instruments and Related Products	5,573	10,418	4,845
Paper and Allied Products	5,977	9,428	3,451
Industrial Machinery and Equipment	5,277	8,526	3,249
Rubber and Misc. Plastic Products	3,121	7,910	4,789
Lumber and Wood Products	18,036	6,477	-11,559
Chemicals and Allied Products	4,638	5,296	658
Apparel and Other Textile Products	2,539	4,075	1,536
Primary Metal Industries	3,133	3,469	336
Nonmetallic Materials, Except Fuels	8,726	2,521	-6,205
Furniture and Fixtures	3,712	2,433	-1,279
Petroleum and Coal Products	1,967	1,021	-946
Textile Mill Products	1,093	801	-292
Miscellaneous Manufacturing Industries	1,516	725	-791
Metal Mining	339	536	197
Tobacco Products	1,199	476	-723
Leather and Leather Products	145	215	70
Oil and Gas Extraction	NA	14	14
Total Number of Individual Employed as of September 1, 2000	162,223	178,860	16,637

Source: OPPAGA analysis of WAGES Program Registry data, electric utility company records, and Department of Labor and Employment Security Unemployment Compensation database.

As shown in Exhibit 4, the five largest SIC Industry Major Groups in terms of employment that received the electricity sales tax exemption as of September 1, 2000, were Transportation Equipment (29,693 employed); Food and Kindred Products (22,244 employed); Printing and Publishing (20,568 employed); Electronic and Other Equipment (16,178 individuals employed); and Stone, Clay, and Glass Products (15,269 employed).

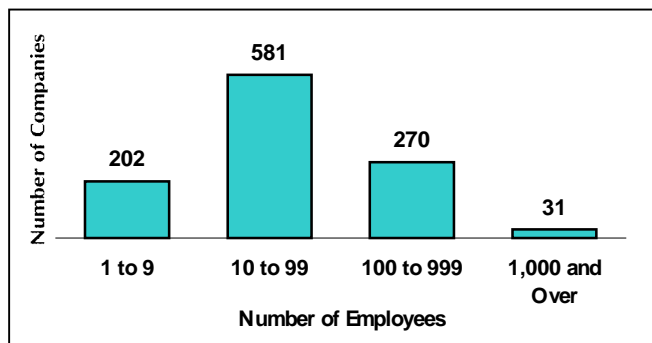
**Exhibit 4
The Transportation Equipment Industry is the Largest Industry Receiving the Exemption in Terms of Employment**



Source: OPPAGA analysis of WAGES Program Registry data, electric utility company records, and Department of Labor and Employment Security Unemployment Compensation database.

Most of the companies receiving the sales tax exemption for electricity were small firms. As shown in Exhibit 5, the majority of the companies receiving the exemption employ fewer than 100 individuals.

Exhibit 5
Most of the Companies Receiving Sales Tax Exemptions Employ Fewer Than 100 Individuals¹



¹ The total number of companies does not sum to 1,101 because 17 companies were listed in the Unemployment Compensation database as having 0 employees as of September 1, 2000. We excluded companies listed as having 0 employees from this exhibit.

Source: OPPAGA analysis of WAGES Program Registry data, electric utility company records, and Department of Labor and Employment Security Unemployment Compensation data.

Impact of tax exemption on employment in specific companies cannot be precisely determined

While overall employment by companies that received the electricity sales tax exemption has increased, there is no suitable methodology for conclusively determining the extent to which this change was specifically attributable to the sales tax exemption. There are many variables that companies consider in determining whether to locate or expand a manufacturing facility within a state in addition to sales tax rates.⁶ Thus, while reducing sales tax burdens contributes to a good business climate, the specific impact of the electricity tax exemption on business and employment growth cannot be apportioned.

⁶ A recent survey conducted by *Area Development Magazine* (November 1999) concluded that taxes are the sixth highest factor considered by businesses in making site location decisions. More important factors included availability of skilled labor, highway accessibility, labor costs, state and local incentives, and occupancy or construction costs.

Sales tax exemption should be continued

We believe it would be sound public policy to continue the sales tax exemption for three reasons. First, discontinuing the exemption might indicate to businesses that Florida's tax policy is unstable. Companies seek a stable tax environment so they have some predictability in planning for the future. This is particularly true of manufacturing companies that make large investments in property and equipment.

Second, various stakeholders contended that discontinuing the exemption may induce marginally profitable plants to close or relocate to another state with a less costly operating environment. This impact could be magnified in times of rising energy costs, as the state is currently experiencing.

Third, discontinuing the exemption would increase the burden of double taxation on manufacturers. Double taxation occurs when a government taxes the inputs purchased to make a product and then imposes another tax on the finished product when sold. Many other states exempt businesses from paying sales tax on purchases of materials used in making products. Consequently, the exemption helps improve Florida's business environment relative to other states.⁷

Based on the above considerations, we recommend that the Legislature continue the sales tax exemption on electricity used in manufacturing.

⁷ As noted in a recent report by the Senate Committee on Fiscal Resources, *State Economic and Development Incentives*, Interim Project Report 2000-45, August 1999, there is considerable, ongoing debate on the merits of state tax incentives. The committee's report summarizes the arguments for and against state incentives, and concludes that they have become the cost of doing business for Florida because other states are offering incentives as well.

OPPAGA provides objective, independent, professional analyses of state policies and services to assist the Florida Legislature in decision making, to ensure government accountability, and to recommend the best use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). **Florida Monitor:** <http://www.oppaga.state.fl.us/>

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