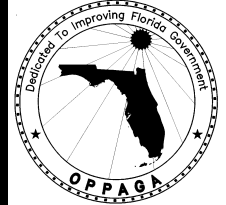




## Office of Program Policy Analysis And Government Accountability



John W. Turcotte, Director

December 31, 1996

### Report on the Sales Tax Exemption on Electricity Charges

#### Report Abstract

- Chapter 96-320, Laws of Florida, created a new sales tax exemption for electricity charges used in manufacturing operations.
- Nine hundred sixty-three companies in 22 industries received the new sales tax exemption on electricity charges as of September 1, 1996.
- Companies receiving the new sales tax exemption employ approximately 162,000 individuals.

#### Purpose of Review

The Office of Program Policy Analysis and Government Accountability (OPPAGA) is required by Ch. 96-320, Laws of Florida, to periodically monitor and report on the industries receiving a new sales tax exemption on electricity charges. As required by law, this report discloses: (1) the number of companies in each eligible industry group receiving a sales tax exemption on electricity charges as of September 1, 1996; and (2) the number of individuals employed by companies within each industry group receiving the exemption. The law also requires OPPAGA to issue a second report prior to January 1, 2001, that will analyze and recommend whether to continue or discontinue the exemption.

#### Background

Chapter 96-320, Laws of Florida, created a new sales tax exemption for electricity charges used in manufacturing operations. Specifically, this exemption applies to electricity charges for operating machinery and equipment used to manufacture, process, compound, or produce items of tangible personal property for sale, or to operate pollution control equipment, recycling equipment, maintenance equipment, or monitoring or control equipment used in such operations.

The law limits the sales tax exemption to 24 industries classified under Standard Industrial Classification (SIC) Industry Major Group Numbers 10, 12, 13, 14, and 20 through 39. A general description of each SIC Major Group Number is provided in Exhibit 1.

In order to receive the sales tax exemption on electricity charges, companies must take several actions. First, the company must register with the WAGES (Work and Gain Economic Self-sufficiency) Program Business Registry in its local area. Such registration establishes a commitment on the part of the company to hire WAGES Program participants to the maximum extent possible consistent with the nature of its business. As of December 1996, local WAGES Program Business Registries had not been established. Instead, the Florida Department of Labor and Employment Security created an interim statewide registry through which companies have registered for the WAGES Program.

Second, a company must complete and submit a written certification to its electric utility stating that it is eligible to receive the tax exemption. Once the electric utility receives the certification, it is relieved from collecting sales tax on the exempt amount of electricity charges.<sup>1</sup>

### Exhibit 1

#### 963 Companies With Manufacturing Operations Receive Electricity Sales Tax Exemptions

Standard Industrial Code	Description of Industry	Number of Companies
10	Metal Mining	1
12	Coal Mining	0
13	Oil and Gas Extraction	0
14	Nonmetallic Materials, Except Fuels	11
20	Food and Kindred Products	85
21	Tobacco Products	2
22	Textile Mill Products	13
23	Apparel and Other Textile Products	41
24	Lumber and Wood Products	63
25	Furniture and Fixtures	46
26	Paper and Allied Products	21
27	Printing and Publishing	124
28	Chemicals and Allied Products	40
29	Petroleum and Coal Products	13
30	Rubber and Misc. Plastics Products	66
31	Leather and Leather Products	4
32	Stone, Clay, and Glass Products	36
33	Primary Metal Industries	25
34	Fabricated Metal Products	95
35	Industrial Machinery and Equipment	85
36	Electronic and Other Electric Equipment	67
37	Transportation Equipment	32
38	Instruments and Related Products	39
39	Miscellaneous Manufacturing Industries	54
<b>Total Number of Companies Receiving Exemption as of September 1, 1996</b>		<b>963</b>

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

<sup>1</sup> 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.

The sales tax exemption will be phased in over a five-year period. Beginning on July 1, 1996, 20% of the qualifying electricity charges will be exempt from sales taxes. The exemption will increase to 40% beginning on July 1, 1997, 60% beginning on July 1, 1998, 80% beginning on July 1, 1999, and finally to 100% on July 1, 2000.

## Methodology

To determine the number of companies in each SIC Industry Major Group receiving the sales tax exemption as of September 1, 1996, we obtained a list of customers receiving the exemption from each electric utility operating in the state. We used these customer lists in conjunction with WAGES Program Business Registry data to obtain company SIC codes.

We also used the Florida Department of Labor and Employment Security's Unemployment Compensation database to obtain employment figures for each company receiving the exemption. Since employment information is collected on a quarterly basis, we used data from the quarter ended September 30, 1996, to determine employment within each SIC Industry Major Group receiving the exemption.

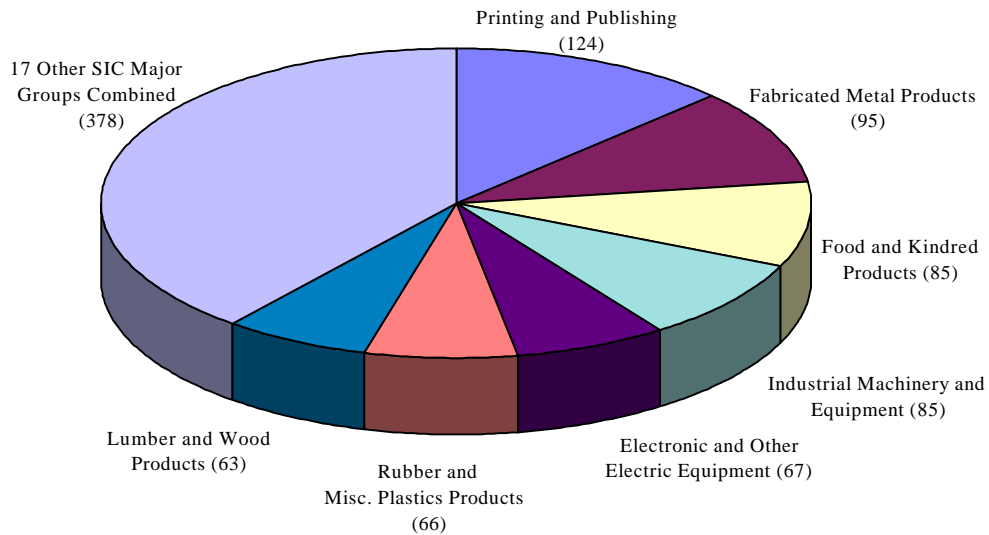
## Results of OPPAGA Analysis

### Number of Companies

Exhibit 1 shows the number of companies in each SIC Industry Major Group receiving a sales tax exemption on electricity charges as of September 1, 1996.

As shown in Exhibit 2, there are seven major industrial groups with 60 or more companies receiving the electricity sales tax exemption. These industries are: Printing and Publishing (124 companies), Fabricated Metal Products (95), Food and Kindred Products (85), Industrial Machinery and Equipment (85), Electronic and Other Electric Equipment (67), Rubber and Miscellaneous Plastics Products (66), and Lumber and Wood Products (63).

**Exhibit 2**  
**Seven Major Industrial Groups Have 60 or More Companies**  
**Receiving Sales Tax Exemptions on Electricity Charges**



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

***Number of Individuals Employed***

Companies receiving the new sales tax exemption employed approximately 162,000 individuals. Exhibit 3 shows the number of individuals employed by companies in each SIC Major Group receiving the exemption.

Exhibit 4 shows that, in terms of number of employees, the five largest SIC Industry Major Groups receiving the electricity sales tax exemption are Electronic and Other Electric Equipment (31,759 employees), Food and Kindred Products (23,616), Lumber and Wood Products (18,036), Printing and Publishing (15,001), and Transportation Equipment (14,914).

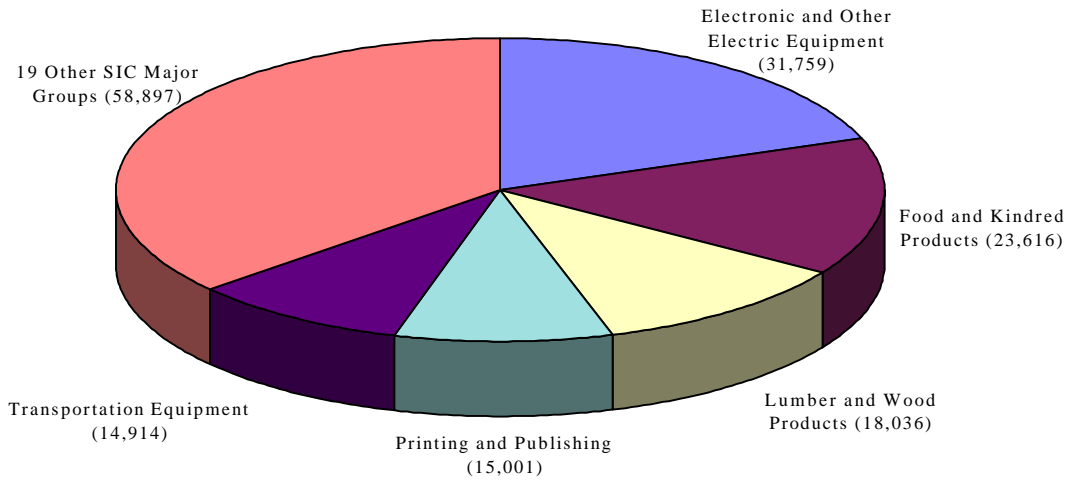
As shown in Exhibit 5, the majority of the companies receiving the exemption employ less than 100 individuals.

**Exhibit 3**  
**Over 162,000 Individuals Are Employed by**  
**Companies Receiving Sales Tax Exemptions**  
**On Electricity Charges**

Standard Industry Code	Description of Industry	Number of Individuals Employed
10	Metal Mining	339
12	Coal Mining	n/a
13	Oil and Gas Extraction	n/a
14	Nonmetallic Materials, Except Fuels	8,726
20	Food and Kindred Products	23,616
21	Tobacco Products	1,199
22	Textile Mill Products	1,093
23	Apparel and Other Textile Products	2,539
24	Lumber and Wood Products	18,036
25	Furniture and Fixtures	3,712
26	Paper and Allied Products	5,977
27	Printing and Publishing	15,001
28	Chemicals and Allied Products	4,638
29	Petroleum and Coal Products	1,967
30	Rubber and Misc. Plastics Products	3,121
31	Leather and Leather Products	145
32	Stone, Clay, and Glass Products	3,845
33	Primary Metal Industries	3,133
34	Fabricated Metal Products	6,097
35	Industrial Machinery and Equipment	5,277
36	Electronic and Other Electric Equipment	31,759
37	Transportation Equipment	14,914
38	Instruments and Related Products	5,573
39	Miscellaneous Manufacturing Industries	1,516
<b>Total Number of Individuals Employed as of September 30, 1996</b>		<b>162,223</b>

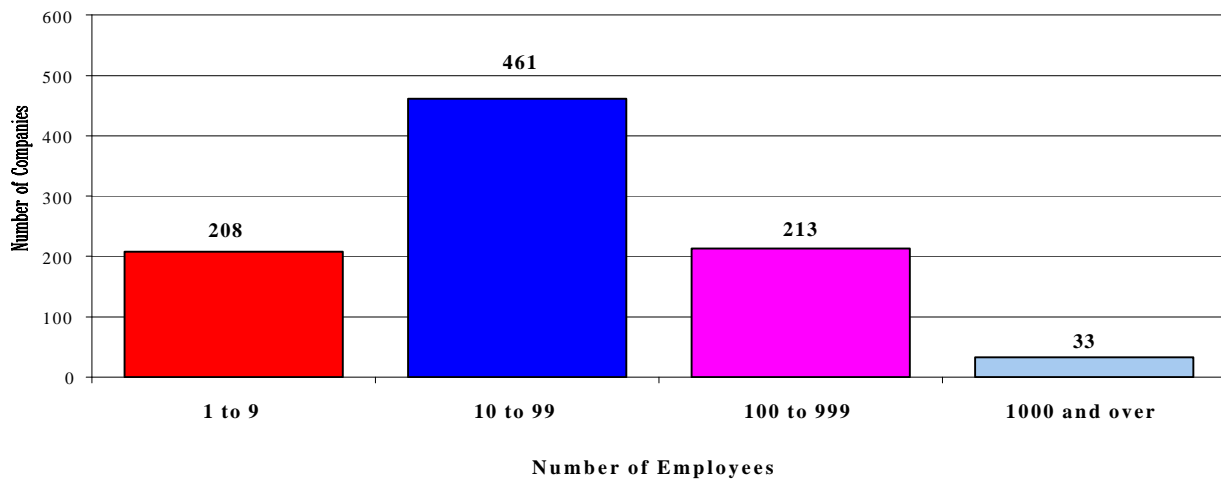
Source: OPPAGA analysis of WAGES Program Registry data, electric utility company records, and Department of Labor and Employment Security Unemployment Compensation database.

**Exhibit 4**  
**The Electronics and Other Electric 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.

**Exhibit 5**  
**Most of the Companies Receiving Sales Tax Exemptions  
Employ Fewer Than 100 Individuals <sup>1</sup>**



<sup>1</sup> The total number of companies does not sum to 963 because 48 companies were listed in the Unemployment Compensation (UC) database as having 0 employees as of September 30, 1996. 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 database.

This project was conducted in accordance with applicable evaluation standards. Copies of this report may be obtained by telephone (904/488-1023 or 800/531-2477), by FAX (904/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302).

Web site: <http://www.state.fl.us/oppaga/>

Project Supervised by: Thomas S. Roth (488-1024)

Project Conducted by: Mike Roberts (487-9234)