The Importance of Amendment 2:
An Independent Analysis of the Effects of NOT Passing Amendment 2

By Florida TaxWatch
The Eyes & Ears of Florida Taxpayers

The Mission of Florida TaxWatch Research Institute is

to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs.

Why TaxWatch?

Florida TaxWatch was founded by business leaders and elected officials that saw the need for an independent, nonpartisan group that could both hold policymakers accountable, and represent the interests of all of the taxpayers of Florida.

For nearly 40 years, Florida TaxWatch has maintained this unique role.

Purpose

To improve taxpayer value, citizen understanding, and government accountability

Taxpayer Value

Using data analysis and evidence-based recommendations, TaxWatch works to ensure effective, efficient spending

Citizen Understanding

Through outreach and educational endeavors, TaxWatch fosters an informed, engaged public

Government Accountability

TaxWatch is, at its core, a government watchdog, promoting the responsible use of tax dollars

Leadership

Since its founding in 1979, TaxWatch has been led by extraordinary volunteer leaders representing the best of Florida's public and private sectors.

FOUNDER
Ken Plante
FLORIDA SENATE

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Phil Lewis
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George Jenkins
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Leadership

Today, TaxWatch leadership includes scores of elected officials, a U.S. Senator, Florida Governor, Fortune 500 executives, and small business owners.

CHAIRMAN
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Research

- Covers nearly every aspect of government in Florida, at the state and local levels
- Expertise in economics, criminology, health care, government operations, education, and tax policy
- Actionable and evidence-based recommendations that have a tangible impact on taxpayers' daily lives

Accomplishments

Constitutional Amendments

- 60% threshold
- Hometown Democracy
- Voter Guides

Tax Reform

- Intangibles Tax
- Manufacturing Equipment
- Tangible Personal Property
- Communications Services Tax

Cost Savings

- $4.5+ billion implemented since 2009
- Staff and leadership integral to GETF
- Stopped prison construction
- Joint & Several Liability

Taxpayer Protection

- Taxpayer Bill of Rights
- Billions in Budget Turkeys Vetoed
- Strengthened the Taxpayer Advocate

Annual Research

- Budget Turkey Watch Report
- Taxpayer Independence Day
- How Counties Compare
- How Florida Compares
- The Florida Budget Pocket Guide

Property Taxes

Per Capita Total Property Tax Levies	10	Lee	$1,824.16
		Statewide	$1,533.14
Average Total Property Tax Millage Rates	39	Lee	16.508
		Statewide	18.097
Impact of Save Our Homes in Taxes	11	Lee	$255.32
		Statewide	$228.75
Growth In Total Property Tax Levies (2012/13 – 2017/18)	11	Lee	32.6%
		Statewide	29.9%
Growth In Total Property Tax Levies (2007/08 – 2017/18)	58	Lee	-17.6%
		Statewide	1.2%
Percent of Total Taxable Just Value	11	Lee	70.0%
		Statewide	66.7%

Events & Programs

PRUDENTIAL PRODUCTIVITY AWARDS 2016

Now in its 28th year, the Prudential Productivity Awards program recognizes and rewards state employees for innovative, cost-saving ideas that have saved taxpayers more than $10 billion in the last three decades

Events & Programs

FLORIDA TAXWATCH

STATE OF THE TAXPAYER

DINNER

This annual event provides a forum for our state's elected leaders to speak directly to the interests of the taxpayers.

Events & Programs

TAXWATCH
PRINCIPAL
LEADERSHIP
AWARDS

The only principal recognition program that uses data on student achievement to shine a spotlight on principals who are taking their students to greater heights, in parts of the state where educational success could transform a community.

Joining TaxWatch

While donating to most nonprofits comes with a sense of pride, rarely does it come with so many tangible benefits. TaxWatch provides members with exclusive events, networking opportunities, access to public policy experts, updates on legislation, and much more.

Member input can have an immediate impact on our research agenda, bringing issues that often live under the radar to the forefront, with the full weight of nearly four decades of policy expertise behind them.

Amendment 2 (2018)

TaxWatch Research: *Repeal of the Non-Homestead Exemption Cap Could Create A Huge Tax Increase and the Tax Shift Would Rapidly Grow* May 2018

BRIEFING

Florida TaxWatch

REPEAL OF THE NON-HOMESTEAD EXEMPTION CAP COULD CREATE HUGE TAX INCREASE AND TAX SHIFT WOULD GROW RAPIDLY

MAY 2018

In November 2018, Florida voters have a chance avoid a major property tax increase on owners of commercial or rental property, vacation or second homes, unimproved real estate, or any other non-homestead property. This tax increase will happen if the current 10 percent cap on non-homestead property assessments—scheduled to be repealed—is not reauthorized by the voters.

Florida constitutional amendment 1, approved by the voters in 2008, made several changes to property taxation in Florida. It created an additional $25,000 homestead exemption, a $25,000 exemption for tangible personal property, and allowed for portability of Save Our Homes (SOH) benefits when a taxpayer moves to another homestead in Florida. These changes are permanent but a fourth provision, a 10 percent cap on the growth of non-homestead assessed value, is scheduled for repeal on January 1, 2019.

However, the amendment also required the Legislature to place a proposed amendment on the 2018 General Election ballot to extend the cap. The 2017 Florida Legislature passed House Joint Resolution (HJR) 21 to abrogate the scheduled repeal of the non-homestead assessment cap.

Current Non-Homestead Property Assessment Cap

- Annual assessment may not increase by more than 10%
- Reduction in assessed value does not apply to school taxes
- No portability, change of ownership results in loss of accumulated benefit
- Recapture provision applies
- Cap is currently worth $700+ million in taxes statewide
- Cap is repealed on January 1, 2019 if voters do not approve Amendment 2

A Florida TaxWatch *Briefing* 1

Available at *floridataxwatch.org*

- Amendment 2 helps "stem the multi-billion dollar tax shift from homestead to non-homestead properties…It is a relatively limited, but important, safeguard for renters, businesses, owners of vacant lands, snowbirds, and other second homeowners…"

What is Amendment 2

- Amendment 2 will EXTEND an EXISTING property tax cap for non-homestead properties throughout the state
- Amendment 2 was put on the ballot by the Florida Legislature, as required by the Constitution

What is Non-Homestead Property

- Non-homestead properties are any Florida property that is not claimed as the property owners' primary residence. Non-homestead properties are primarily businesses and the homes of renters, but also include second homes, vacant lands, and investment properties.

Homestead v. Non-Homestead

- Homestead properties enjoy a number of property tax benefits provided by the state, including:
  - The Homestead Exemption on the first $25k worth of value
  - The Additional Homestead Exemption on the portion of value from $50-75k
  - The "Save Our Homes" Assessment Value Cap (of up to 3% increase per year)
  - Portability of the "Save Our Homes" Assessment Cap Differential
- Non-Homestead properties have only one tax protection: the 10% Assessment Cap (that is the subject of Amendment 2)

The Non-Homestead Property Assessment Cap

- The 10% Non-Homestead Assessment Cap already exists, and has been in place since approved by the voters in 2008.
  - The Cap means that the annual assessment may not increase by more than 10%
  - There is no portability for the cap differential – change of ownership results in a loss of the accumulated benefit
  - The recapture provision applies
- The existing 10% Non-Homestead Assessment Cap will be repealed on January 1, 2019 – resulting in a large tax increase – if not approved by the voters in 2018 as Amendment 2

Differentiating Key Concepts

- Homestead v. Non-homestead property
- Property Tax Exemption v. Assessment Cap
- Save Our Homes v. 10% Non-Homestead Assessment Cap
- Just Value v. Assessed Value v. Taxable Value
- Differential and Portability
- Amendment 1 (2008) v. Amendment 1 (2018)
- Amendment 1 (2018) v. Amendment 2 (2018)

The Value of the 10% Non-Homestead Cap

The Cost of the 10% Cap

Impact of Amendment 1 (2008)

Cumulative Reductions, Inception in 2009 - 2017 // in $ billion

	Taxable Value	% of total	Taxes	% of total
$25,000 Homestead Exemption	$764.335	0.68	$8.253	0.64
Save Our Homes Portability	$13.652	0.01	$0.246	0.02
$25,000 Tangible Personal Property Tax Exemption	$70.816	0.06	$1.291	0.10
10% Non-Homestead Assessment Cap	$277.822	0.25	$3.009	0.24
Total Impact	**$1,126.625**		**$12.799**	

The homestead exemption and SOH portability apply only to homestead property. The tangible personal property exemption generally only applies to non-homestead commercial.

The Value of the 10% Cap

- If A2 does not pass, potential tax increases for non-homestead property tax owners would likely exceed $700 million in 2019

- The failure of A2 and the repeal of the non-homestead cap would have serious impacts on Florida, including:
  - decreasing disposable income
  - increasing rents and business costs
  - exacerbating and perpetuating the existing inequalities of Florida's property tax system."

The Need for the 10% Cap

- Save our Homes (passed in 1992 and implemented in 1994) created an inequitable property tax system - **"Homesteaders are shielded from the full impact of tax increases at the expense of non-homesteaders."** (*The Florida Legislature's Office of Economic & Demographic Research*)
  - **From 2000 – 2007, property tax revenues more than doubled (from $14.3B to $30.4B), and the increase was almost entirely paid by non-homestead properties**
  - **Whereas the "average" homestead property tax bill decreased 3% from 2000 – 2007, the "average" non-homestead residential property (i.e., renters) tax bill increased by 151.5%**

The Need for the 10% Cap

Growth in Assessments & Tax Bills for Different Properties
All Assessed at $200,000 in 2000 // 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007	Total $ Growth	Total % Growth
Homestead Property										
Assessment	200,000	206,000	209,296	214,319	218,391	224,943	231,691	237,483	37,483	18.7%
Tax Bill	4,200	4,293	4,309	4,406	4,409	4,404	4,305	4,075	-125	-3.0%
Non-Homestead Residential										
Assessment	200,000	224,000	256,717	297,370	348,223	400,807	559,629	615,459	415,459	207.7%
Tax Bill	4,200	4,668	5,286	6,114	7,031	7,848	10,398	10,561	6,361	151.5%
Non-Homestead Commercial										
Assessment	200,000	218,000	232,929	251,165	275,343	346,671	414,063	453,888	253,888	126.9%
Tax Bill	4,200	4,543	4,796	5,164	5,559	6,788	7,693	7,789	3,589	85.4%
All Non-Homestead										
Assessment	200,000	220,778	243,941	272,555	309,082	371,732	481,451	528,685	328,685	164.3%
Tax Bill	4,200	4,601	5,023	5,604	6,240	7,279	8,945	9,072	4,872	116.0%

Homestead assessment increased by the SOH homes cap (1.6% to 3.0%). Non-Homestead assessments increase by growth in average statewide assessment for each class of property. Tax bills calculated applying average statewide millage rates to the assessments for each year before applying any exemptions that the property might qualify for, such as the $25,000 homestead exemption.

What really happened in 2008…

- "This rapidly increasing property tax revenue, along with the growing objections of businesses, landlords, snowbirds and second homes owners, led to the acknowledgment by state elected officials that Florida was having a property tax crisis. *While they were right that it was a crisis, the nature of the crisis was misinterpreted.* Instead of focusing on the inequities caused by SOH and the rapidly increasing non-homestead tax burden, there was a focus on further reducing homesteaders (voters) taxes."

How A2 Got Here

- In response to rapidly rising assessments and exploding local revenues, the 2008 legislature passed a Joint Resolution proposing a Constitutional Amendment creating a "Super-Homestead Exemption" where taxpayers would be able to make a one-time election to choose the then-current Save Our Homes protection or the new exemption available to all property.
- That amendment was successfully challenged in court on procedural grounds and the Legislature returned to Tallahassee in Special Session (the second of that year) to pass what became Amendment 1 (2008), which was approved by 64.8% of voters in January 2008.

What was Amendment 1 (2008)

- The "Portability of Save Our Homes" Amendment:
  - Provided an additional $25k homestead exemption (except for school taxes) for the valuation from $50k – $75k
  - Created "portability" for the SOH assessment differential
  - Created a $25k exemption for tangible personal property (TPP)
  - Created the 10% non-homestead assessment cap
- All provisions were permanent except the 10% non-homestead assessment cap, which expired in 10 years but ***required*** the 2018 Legislature to put a permanent extension on the 2018 ballot

What Amendment 1 Actually Did

- Despite creating the 10% non-homestead assessment cap, the amendment "made the [tax] shift even worse, due to the additional provisions that further benefited homestead property."
  - 10% versus 3% assessment cap
  - Unlike SOH, the 10% non-homestead cap does not apply to school property taxes, which make up 41.5 percent of the average Florida property tax bill.
  - Unlike SOH, the 10 percent cap is not portable
- As a result, the 10% non-homestead assessment cap accounts for only ¼ of the total benefit. The homestead exemption and portability has shielded nearly times more property value from taxation than has the non-homestead cap.

TaxWatch Opposed Amendment 1 (2008)

- The Non-Homestead Cap should have been 3%, or at least 5%. - what TaxWatch termed a "Save Our Taxpayers" replacement for SOH
- In 2007, Florida TaxWatch said that Amendment 1 perpetuated the current inequities in the system and exacerbated the tax shift to non-homestead properties
- It gave the most relief to those who needed it least and did not target those whose taxes had risen the most
- According to Ballotopedia, Florida TaxWatch "opposed the first amendment for Save Our Homes on the grounds that it created inequities in how properties were taxed." [source: https://ballotpedia.org/Florida_Save_Our_Homes,_Amendment_1_(January_2008)]

The Cost of Amendment 1 (2008)

Impact of Amendment 1 (2008)

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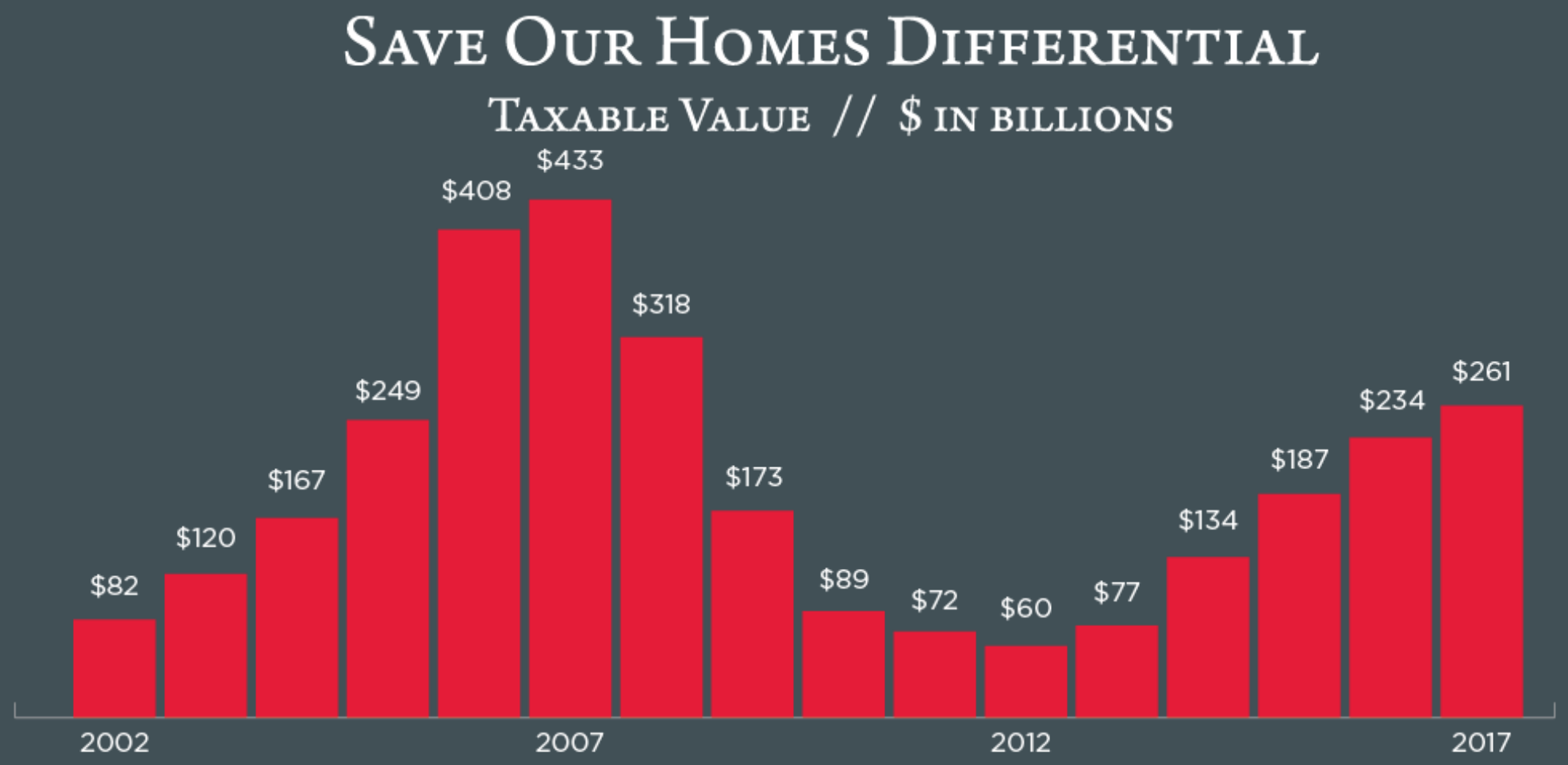
10% versus 3% Assessment Cap



What if Amendment 2 Fails

Florida TaxWatch

A Massive Tax Increase on Jan 1, 2019

In addition to furthering the inequitable property tax system that disproportionately burdens renters, businesses, and non-homestead homeowners (such as snowbirds and other vacation homeowners), "***the large property tax increase would result in negative impacts for those taxpayers and Florida as a whole***. At current millage rates, repealing the 10 percent cap would increase taxes by approximately $700 million."

Florida TaxWatch

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Tax Details if A2 Fails

2.2 million properties are facings an immediate tax increase in 2019 of up to $700 million

5.6 million properties will lose tong-term protection from rapid property tax assessment increases

Impact on the Economy

Negative economic impact would include:

- Increase in housing costs
- Increase in the cost of doing business
- Lower demand for housing at the consumer level
- Decrease in capital-intensive investment at the producer level
- Decrease in real disposable income
- Reduction in real estate investment activity

Impact on Renters

- Increasing property taxes paid by landlords will be passed on, at least in part, to renters, which will pose a a significant hardship, especially on low income renters, **making affordable housing an even more elusive goal**.
- Florida could see a repeat of what happened during the period of escalating property values from 2002-2007, when some rental property owners were forced to sell their properties or raise rents because of tax increases due to huge assessment increases.

Impact on Businesses - Taxes

- Property taxes are now by far businesses' number one tax expense nationwide
  - 38.4% of total state and local taxes nationally; next largest: sales tax (21.3 percent).
- In Florida, property taxes make up 43.1 percent of all state and local business taxes
- While Florida is a relatively low-taxed state, our property tax burden is higher. Florida collects the 25th largest amount of per capita property tax collections.
- Coupled with Florida's high reliance on business taxes to fund its state and local governments (52 percent in Florida compared to 44 percent nationwide), Florida businesses have a high property tax burden compared to other states.
- "Without the [10% non-homestead assessment cap], the (tax) shift will skyrocket."

Impact on Businesses - Investment

- Tax burdens are an important factor in location decisions
  - High business property taxes can hurt Florida's efforts to attract capital investment and jobs
- Stability of costs is important to business investment decisions.
  - The 10 percent non- homestead cap provides stability for property taxes, avoiding the high spikes that would occur without it.
- Studies have found that property tax increases have a negative impact on businesses, especially on jobs.
  - Examining the economic effect after new school levies, a recent study by the Economics Department at Kent State found that property tax increases reduce the number of local businesses due to decreased business entry and decreased survival rates.

Overall Impacts if A2 Fails

- Exacerbate the tax shift
- Increase costs for renters
- Harm Florida's economy
- Raise business costs (and therefore increase prices or decrease wages)
- Reduce business investment

The "Worst Case" Scenario

- Alongside the continuation of the 10% non-homestead assessment cap is another amendment increasing the homestead exemption by $25k - Amendment 1 (2018)
- If Amendment 1 passes and Amendment 2 fails, Florida's property tax burden will be further shifted on non-homestead property owners.
- "If the homestead exemption passes and Amendment 2 does not, local government taxable value (in total) would increase slightly. Generally, this would reduce the need for local governments to increase the millage rate to make up for the lost revenue from Amendment 1. Conversely, it makes it less likely governments will reduce millage rates to help taxpayers that lose the non-homestead cap."

The Data: The Shift of Tax Burden from Homestead to Non-Homestead Property

The Effect of Assessment Caps & Exemptions on Tax Rolls

	Homestead		Non-Homestead Residential		Non-Homestead Commercial		All Non-Homestead	
	Billion $	% of JV	Billion $	% of JV	Billion $	% of JV	Billion $	% of JV
Just Value	$1,018.1		$662.8		$498.8		$1,161.6	
Assessed Value	$757.1	74.4%	$622.9	94.0%	$453.8	91.0%	$1,076.7	92.7%
Taxable Value*	$544.3	53.5%	$620.0	93.5%	$437.6	87.7%	$1,057.6	91.0%

* "County" taxable value, which applies to all taxing jurisdictions except school districts. School taxable value is approximately 10 percent higher, since certain taxable value reductions don't apply to school taxes, such as the 10% homestead cap and the 2nd homestead exemption. Save Our Homes does apply to school taxes.

A Call to Action

Amendment 2 is for everyone

- Everyone will be harmed about the repeal – even homesteaders because it will hurt businesses and the economy
- Amendment 2's failure will mean a $700 million tax increase – renters and small businesses will be most negatively affected
- Local governments do not oppose Amendment 2 and it will not reduce local services – because the fiscal implications of Amendment 2 have already been in place for 10 years, so it will not negatively affect local budgets or services.
- The tax shift should be addressed in the long-term, but must not be exacerbated in the short-term

Conclusion

"Florida has an inequitable property tax system that disproportionately burdens renters, businesses and other non-homestead property owners. As long as property values rise, these inequities will continue to grow. The non-homestead cap helps to slow that growth. Voters should approve Amendment 2."