Governor’s Recommended Tax and Spending
Proposals: Summary for FY 2023-24

Introduction

Every year Florida policymakers, from Gov. Ron DeSantis to state legislators, unveil tax and spending policies. However, with state revenues slowing down and a potential recession looming, tax proposals must be efficient (optimize resources), effective (do what they say they are going to do), and equitable (target those who need tax reform the most). Otherwise, tax changes run the risk of exacerbating the state’s already inefficient and inequitable tax code — making it even more difficult for families, workers, and communities to make ends meet, much less thrive. Furthermore, if policymakers adopt new corporate income tax cuts, tax expenditures, sales tax holidays, and universal private school vouchers without plans to raise revenue in efficient, effective, and equitable ways, they will only make it harder to balance future budgets while maintaining the status quo.

Summary of Governor’s Tax and Spending Proposals

Budget Overview

By state law,1 at least 30 days before the start of the regular legislative session, the governor must give policymakers a copy of his recommended balanced budget for the state and revenues to fund the budget. For the fiscal year (FY) 2023-24, the governor is suggesting a $114.7 billion budget,2 approximately $4.7 billion or 4.32 percent more than the current FY.

Concerning how the governor’s budget is funded: 27 percent of the funds ($31.14 billion) come from state trust funds earmarked for specific purposes; 36 percent ($41.19 billion) come from the federal government; and 37 percent ($42.42 billion) come from Florida’s General Revenue Fund made up of own-source tax revenue (Figure 1). The split between federal dollars, state trust fund dollars, and general revenue parallels past budgets.
Revenue Trends

In terms of tax revenue, according to the United States Census Bureau’s 2020 Annual Survey of State and Local Government Finances, the Sunshine State collects roughly $2,258 per capita — nearly all other states in the country, except for Alaska, generate more revenue for public services. There are several reasons why Florida trails the country in per capita tax collections:

- Only local governments (e.g., counties, municipalities, and/or school districts), as opposed to the state, can levy property taxes.
- Since 1924, the state cannot levy personal income taxes.
- In 1984, policymakers made it easier for multistate and multinational corporations to avoid paying corporate income taxes by repealing unitary combined reporting.
- In 2006, policymakers repealed the annual tax on intangible personal property (i.e., stocks, bonds, notes, etc.) and, in doing so, made it harder to tax wealth.

Instead, the state relies heavily on its general sales tax to balance its budget. As Figure 2 shows, Florida collects about $1,412 per capita through its general sales tax; this is almost $300 more than the U.S.
average and between $213 and $622 more than the average in the South.⁶ Sales taxes notwithstanding, Florida does not tap into the same revenue streams available to other states.⁷

Across the nation, Florida and Texas are the most dependent on general sales taxes; in both states, this tax accounts for approximately 63 percent of their revenue. Once you factor in excise taxes (i.e., taxes on motor fuel, alcoholic beverages, tobacco), taxes on consumption, overall, account for about 80 percent of their revenue. For FY 2023-24, as Figure 3 shows, the governor expects this trend to continue.⁸

While no-income-tax states like Washington, Texas, and Florida do have average to low taxes overall (as measured by per capita collections), they are far from “low tax” for families and workers making moderate to low income. As the Institute on Taxation and Economic Policy explains,⁹ due to their disproportionate reliance on sales and excise taxes, states like Washington, Texas, and Florida heavily tax
families and workers who earn moderate to low incomes. In other words, these states are among the most regressive, which means that people who are living below the poverty level pay the largest share of their household income in taxes.

**Figure 3. Sales Taxes Account for Most of Florida's General Revenue, FY 2023-24**

![Pie chart showing sales tax at 75%, beverage tax and licenses/tobacco taxes at 6%, corporation income tax and insurance premiums tax at 3%, documentary stamp tax at 12%, and all other revenue at 1%. Source: Gov. Ron DeSantis, Framework for Freedom, Annual General Revenue Reports, “Receipts by Source,” bit.ly/3JBuUf2.]

Florida has the third-most regressive tax code in the country. This is due to a history of decisions that have shifted and solidified an outsized tax responsibility onto households of low to moderate income, who are disproportionately Floridians of color. Twentieth-century decisions to turn away from tax policy based on a person’s ability to pay and toward a tax code that benefits wealthy and predominantly white residents have inhibited Floridians’ prosperity and exacerbated income and race inequity. Today, Florida:

- does not levy a personal income tax;
- does not levy a tax on estates or inheritances;
- does not levy a capital gains tax;
- does not stop multistate and/or multinational corporations from using tax loopholes to avoid state corporate income taxes; and
• fails to provide targeted tax credits to offset the impact of sales and excise taxes on families and workers who earn moderate to low income.

State Reserves

Revenue collections, fueled by the economy healing from the pandemic and boosted by major federal relief efforts that both strengthened the recovery, have been strong over the last two years. (See callout box).

Policymakers should consider that the unique conditions that have boosted Florida’s sales tax collections and, by extension, historic reserves, are unlikely to repeat. During the early years of the COVID-19 pandemic:

• Consumer spending shifted from services (which, by and large, are sales tax exempt) to goods (mostly subject to the state’s general sales tax).

• Personal income growth shot up, especially in 2021, due to the flow of federal dollars into households and businesses.

• Workers returning to their jobs and others leveraging the tight labor market into better paying opportunities during FY 2021-22 helped personal income growth remain strong, even as federal relief measures faded.

• Regarding inflation, the immediate response to inflation is an increase in sales tax collections due to higher prices. Persistent inflation conditions, however, ultimately suppress collections as consumers begin to spend more money on non-taxable necessities.

As Floridians had more personal income to spend on goods, it is not surprising that the state economy expanded, and general sales tax collections increased. For more context, in FY 2019-20, Florida’s Gross Domestic Product (GDP, i.e., all goods and services produced or exchanged within the state) slumped -0.2 percent. It then grew at 4.0 percent in FY 2020-21 and expanded at almost double that rate (6.9 percent) in FY 2021-22. Over the current fiscal year (FY 2022-23), the Florida Economic Estimating Conference (FL-EEC) anticipates that the state’s economy will expand only 2.0 percent as economic imbalances weigh down GDP. Then, beginning in FY 2023-24, Florida’s GDP will grow at a rate of 2.0 percent annually.

State economists and the governor anticipate access to $14 billion in reserves for FY 2023-24. Policymakers can use this money when recessions or other unexpected events cause revenue to fall or
spending to rise. Moreover, ample reserves can help reduce economic harm during crises.\textsuperscript{13} In Florida, policymakers keep the following reserves:

- **Unallocated General Revenue Fund**, this reserve holds about $10.8 billion available for FY 2023-24. The Unallocated General Revenue Fund consists of surplus general dollars, with some needed to meet General Revenue Fund appropriations and adjustments throughout the fiscal year.

- **Budget Stabilization Fund (BSF)**, with a balance of $3.1 billion for FY 2023-24. Policymakers can only use the BSF to offset a declared deficit or provide funding for an emergency. Consequently, policymakers have limited access to the BSF.

If enacted, the governor’s proposed budget for FY 2023-24 would use $3.6 billion in reserves,\textsuperscript{14} leaving a balance forward of about $6.9 billion in unallocated general revenue and $3.4 billion in the BSF. Overall, policymakers have reserves to make one-time investments in Floridians and public services. These funds should not be used as a reason to justify tax cuts. Instead, policymakers should use the unallocated general revenue to jumpstart programs and policies that will help Floridians thrive in the long term. Also, considering that there is no guarantee that state officials will have access to the same level of reserves in the future, policymakers ought to consider new revenue-raising legislation.

**Economic Outlook**

It is easy to lose sight of efficient, effective, and equitable tax reform when state reserves are at historic levels and revenue forecasts continue to surpass estimates. However, while economic growth has proven more resilient than some gloomier forecasts predicted, it has slowed down over the past year. To corroborate, the Florida Economic Estimating Conference (FL-EEC) recently noted that a weaker national economic outlook, with strong headwinds from inflation, energy prices, and labor shortages, all influenced the latest forecast.\textsuperscript{15}

Moreover, the FL-EEC explained that economic disruption is still evident, with many ongoing challenges, especially given the state’s dependence on consumption, like:

1. The wind-down of significant COVID-19 federal monetary and fiscal stimulus for households, businesses, and state (and local) governments, helped boost reserves, public services, public spending, and kept millions of people from falling into poverty.\textsuperscript{16}

2. As individuals struggle to keep up with inflation, particularly Black, Latina/o, and middle-income households,\textsuperscript{17} personal savings have decreased while debt has increased. Consequently, this could force consumers to cut spending as they look to pay down their debt and replenish savings.\textsuperscript{18}

3. The continued normalization of spending on services and away from taxable goods.
Alongside these challenges, repeated interest rate hikes by the Federal Reserve could dampen economic activity further, making it more expensive to get a car loan, buy a house, carry a balance on a credit card, or borrow for business investment. A full-fledged recession, whose probability economists pegged at 61 percent in the next 12 months in a January 2023 survey, is not guaranteed but is certainly possible. Recessions are particularly harmful to state governments. Unlike their federal counterparts, policymakers in Florida are legally required to balance the state budget each fiscal year, even when revenues are down. And unless they offset revenue shortfalls with targeted tax hikes or by using other fiscal management tools, like rainy day funds, policymakers must make sizable cuts in essential services that could prompt teacher layoffs and growth in class sizes, less access to affordable health care or child care, deferred maintenance on roads and other vital infrastructure, and cutbacks to libraries, senior centers, and other local services.

Given the uncertainty and potential economic headwinds ahead, policymakers should resist the tax-cut temptation. They should instead learn from the mistakes of the Great Recession by prioritizing revenue and shoring up their tax systems to protect jobs, vital state services, and the families and communities these services help support. Options available to states include exploring targeted revenue increases, especially on high-income households and profitable corporations, which are relatively resilient to economic swings; pausing or rolling back recently enacted tax cuts; and looking to economy-boosting, targeted tax credits, like the Working Floridians Tax Rebate, as a responsible alternative to costly rate cuts.

**Tax and Spending Policies**

Based on the state’s Revenue Estimating Conference’s (REC) records, since FY 2013-14, out of the most expensive non-recurring (or expired) tax policies aimed at consumers, policymakers have passed six short-term sales tax holidays, lasting a month or less, costing Floridians about $607 million. In terms of policy objectives, sales tax holidays are meant to offer taxpayers an opportunity to offset their general sales tax bill. Unfortunately, only 1 in 5 Florida voters take advantage of them, and, more importantly, these short-term policies do nothing to reform Florida’s regressive tax code for the rest of the year. Like the previous 10 fiscal years, Governor DeSantis’ FY 2023-24 tax proposal includes new short-term sales tax holidays. The proposal also includes year-long holidays and permanent tax expenditures. If approved, the governor’s tax package would have a non-recurring cost of $1.1 billion for FY 2023-24 and a recurring cost of $324.5 million. Combined, this is a 22 percent increase over the current FY 2022-23 tax package.

Specifically, the governor’s proposal includes a total non-recurring cost of up to $474.7 million for five short-term sales tax holidays:
- **Two “Back-to-School” sales tax holidays**: in the fall, July 24 through August 6, 2023; and the spring, January 1 through January 14, 2024. The holidays cover clothing up to $100, school supplies up to $50, and personal computers and related accessories priced at $1,500 or less. *The holidays will cost Floridians between $173.3 - $210.2 million.*

- **A 14-day “Disaster Preparedness” sales tax holiday**: May 27 through June 9, 2023. The holiday covers items needed during disasters including generators priced at $1,000 or less. *The holiday will cost Floridians between $13.7 - $27.1 million.*

- **A 15-week “Freedom Summer” sales tax holiday**: May 29 through September 4, 2023. The holiday covers certain outdoor recreation purchases, as well as tickets for events, museums, and other civic and social activities. *The holiday will cost Floridians $224.4 million.*

- **A seven-day Skilled Worker Tool sales tax holiday**: September 2 through September 8, 2023. The holiday covers various hand tools, power tools, and related accessories used by Florida workers. *The holiday will cost Floridians $13 million.*

If passed, the two “Back-to-School” holidays and the 15-week “Freedom Summer” holiday would be among the most expensive non-recurring consumer-oriented tax policies since FY 2013-14.

While these short-term policies will not reform Florida’s regressive tax code, the governor is also proposing year-long sales tax exemptions that would help with everyday costs, beginning July 1, 2023, through June 30, 2024, for: cosmetics and toiletries, dental and oral hygiene products, children’s books, toys, athletic equipment, pet food, household items under $25, and ENERGY STAR appliances. Together, these initiatives will cost Floridians $642.1 million (non-recurring).

Finally, the governor is proposing new permanent tax expenditures, including sales tax exemptions for: baby and toddler necessities ($138.7 million), cribs and strollers ($3.9 million), over-the-counter pet medications ($33.6 million), and gas stoves ($7 million). The governor’s proposal also includes a permanent $60 tax deduction for businesses that e-file their taxes ($141.4 million). These tax expenditures will cost Floridians $324.5 million annually.

Although some of these policies will help families, it is important to note that since FY 2009-10, the cost of silent spending (i.e., total spending through tax expenditures or subsidies) has increased by $5 billion, with an average annual growth rate of 2 percent. There is nothing inherently positive or negative about silent spending by way of tax expenditures. A tax expenditure is simply a tool to promote specific public policy goals. The critical issue with silent spending is that policymakers do not routinely evaluate tax expenditures to determine if they efficiently, effectively, and equitably meet public goals. The governor’s proposal for new tax expenditures does not include evaluation plans.
Other Expenditures to Watch

For FY 2023-24, the governor is not proposing any legislation to raise revenue. To date, the most significant revenue raiser passed by policymakers has been Senate Bill (SB) 50 (2021). However, unlike other sales tax collections, which go to the state’s General Revenue Fund, all revenue from SB 50 (2021) has been used to replenish Florida’s Unemployment Compensation Trust Fund. Once the Unemployment Compensation Trust Fund reaches a balance of $4.07 billion, the money from SB 50 (2021) will be used to cut the tax rate on commercial real property rentals from 5.5 percent to 2.0 percent.

At the same time, policymakers in the Florida Senate and House of Representatives are submitting bills that, if passed and signed by the governor, will have a costly impact on state coffers. For example, both House (HB 1, 2023) and Senate (SB 202, 2023) would revise and expand student eligibility for the state’s Family Empowerment Scholarship (FES) Program and the Florida Tax Credit (FTC) Scholarship Program — both programs allow parents of eligible students to register and attend private schools — to any student that is a resident of Florida and is eligible to enroll in kindergarten through grade 12 in a public school. By expanding private school voucher eligibility, policymakers would continue to shift public dollars into private schools. Currently, the public cost of Florida’s voucher program is $1.1 billion for FES and $568 million for FTC, and HB 1 (2023)/SB 202 (2023) would increase the total cost to over $4 billion.

Another bill to consider is the “Live Local Act” (SB 102, 2023), which would make various changes and additions to affordable housing programs and policies at the state and local levels. This policy would cost $45 million for a permanent sales tax refund (of up to $5,000) for materials used in the construction of affordable housing units; $10.5 million to increase the Community Contribution Tax Credit available for projects that provide affordable housing opportunities; $100 million for companies to gain tax credits for either Insurance Premium Tax or Corporate Income Tax in exchange for contributing to the State Apartment Incentive Loan Program; $8.5 million for a permanent property tax exemption for certain lands leased for affordable housing; and an annual shift of $150 million from the General Revenue Fund to the State Housing Trust Fund set to expire July 1, 2033. In total, the “Live Local Act” will cost $314 million annually through 2033.

In addition to universal voucher expansion and affordable housing legislation, policymakers in the Florida Senate are also proposing changes to the state’s business interest expense (BIE) deduction limitations. “Business interest expense deduction” means that a taxpayer may deduct interest paid or accrued within a tax year on valid debt. Previously, legislators adopted a 2017 Tax Cuts and Jobs Act
(TCJA) provision that restricted businesses with average gross receipts of $25 million or more from deducting interest payments above 30 percent of their adjusted taxable income. The proposed amendment in the Senate would reverse this previous decision and return to BIE deduction rules prior to 2017, meaning that most corporations’ BIE deductions would no longer be limited to 30 percent of their adjusted taxable income. According to the Revenue Estimating Conference, this would cost taxpayers between $330 and $400 million annually.44

Conclusion

Whether policymakers approve the governor’s $1.4 billion tax package, the House and Senate’s $4 billion universal voucher expansion, the $314 million “Live Local Act,” or the Senate’s $330 to $400 million amendment to Florida’s corporate income tax code, crucial considerations remain:

- On a per capita basis, the Sunshine State collects less revenue than almost any other state, except for Alaska.
- In the United States, Florida and Texas are heavily dependent on consumption, as opposed to income and/or wealth, to raise revenue.
- Due to its dependence on consumption, Florida has the third-most regressive tax code in the entire nation, ensuring that families and workers who earn moderate- to low-incomes are heavily taxed.
- Since it is unlikely that the unique conditions that contributed to the state’s historic reserve balances will be repeated, policymakers ought to avoid using reserves to justify tax cuts.
- The possibility of an economic recession is not farfetched, and policymakers should plan for ways to raise revenue without compromising public services.

In terms of policy issues, legislators should reassess the state’s tax code to make it less regressive, find ways to support and promote affordable housing, and boost good quality public schools. However, concerning policy solutions, adopting new short-term sales tax holidays, diverting public funds into private school vouchers, and creating affordable housing tax expenditures without evaluation guidelines nor immediate plans to help Floridians find an affordable place to live would drain public funds at the expense of public services. (See Table 1.) Moreover, without plans to raise revenue in efficient, effective, and equitable ways, these policy prescriptions will only make it harder to balance the state budget in the future.
Table 1. Cumulative Fiscal Impact of the Governor’s Proposal and Other Legislation

<table>
<thead>
<tr>
<th>Policy</th>
<th>Who is Currently Proposing it?</th>
<th>First Year Cost</th>
<th>Cumulative Costs (FY 2023-24)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term sales tax holidays</td>
<td>Governor’s Proposal</td>
<td>Up to $474.7 million (non-recurring)</td>
<td>$474.7 million</td>
</tr>
<tr>
<td>Year-long tax exemptions (holidays)</td>
<td>Governor’s Proposal</td>
<td>$642.1 million (non-recurring)</td>
<td>$1.12 billion</td>
</tr>
<tr>
<td>Permanent tax expenditures</td>
<td>Governor’s Proposal</td>
<td>$324.5 million</td>
<td>$1.44 billion</td>
</tr>
<tr>
<td>Universal private school vouchers</td>
<td>House and Senate</td>
<td>$4 billion</td>
<td>$5.44 billion</td>
</tr>
<tr>
<td>“Live Local Act” for affordable housing</td>
<td>Senate</td>
<td>$314 million</td>
<td>$5.76 billion</td>
</tr>
<tr>
<td>Business Interest Expense (BIE) deduction changes</td>
<td>Senate</td>
<td>$330 million</td>
<td>$6.09 billion</td>
</tr>
</tbody>
</table>

1 Florida Statute, Chapter 216.162, Planning and Budgeting: Governor’s recommended budget to be furnished Legislature; copies to members. [https://www.flsenate.gov/Laws/Statutes/2022/Chapter216/All](https://www.flsenate.gov/Laws/Statutes/2022/Chapter216/All)

2 Fiscal Year 2023-2024 Governor’s Recommended General Appropriation Act. [http://frameworkforfreedombudget.com/content/Current/reports/Governors-Bill.pdf](http://frameworkforfreedombudget.com/content/Current/reports/Governors-Bill.pdf)


6 Here, the South conforms to the United States’ Census Bureau’s Geographic Levels ([https://www.census.gov/programs-surveys/economic-census/guidance-geographies/levels.html](https://www.census.gov/programs-surveys/economic-census/guidance-geographies/levels.html)). Accordingly, Census regions and divisions are groupings of states that subdivide the United States. The Census divides the South (region) into the South Atlantic (Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia), East South Central (Alabama, Kentucky, Mississippi and Tennessee), and West South Central (Arkansas, Louisiana, Oklahoma and Texas).

7 According to Governor DeSantis’ annual General Revenue Reports found in the Framework for Freedom (Fiscal Year 2023-24) website ([http://frameworkforfreedombudget.com/content/Current/reports/Receipts-As-Per-Capita-Amounts.pdf](http://frameworkforfreedombudget.com/content/Current/reports/Receipts-As-Per-Capita-Amounts.pdf)), per capita tax collections for FY 2023-24 are $1,809. However, to make comparisons between Census Geographies, the present analysis used data from the Census Bureau’s 2020 Annual Survey of State and Local Government Finances, adjusted for inflation, used population statistics from the Census, and determined per capita tax collections to be $2,258.


13 Samantha Waxman. “3 reasons why states should tap rainy day funds now.” Center on Budget and Policy Priorities, 2020, https://cbpp.org/blog/3-reasons-why-states-should-tap-rainy-day-funds-now


23 Iris Hinh, “Many States Are Creating or Expanding Tax Credits to Help Families Afford the Basics,” Center on Budget and Policy Priorities (CBPP), 2022, https://www.cbpp.org/blog/many-states-are-creating-or-expanding-tax-credits-to-help-families- afford-the-basics


25 Since FY 2013-14, policymakers have also passed several recurring tax changes, including: (i) a 1.73 percent rate cut to the Communications Services Tax; (ii) cuts to the state’s sales tax businesses pay when they lease property (i.e., “business rent tax”); (iii) an online sales tax for purchases made via out-of-state Internet marketplaces like Amazon, eBay, and/or Etsy.


Esteban Leonardo Santis, “Florida’s Shadow Budget Needs Greater Scrutiny,” Florida Policy Institute (FPI), 2022, https://uploads-ssl.webflow.com/5cd5801dfdf7e5927f800fb7f/630c3e5a208c37306e6b72d4_RT_Silent_Spending_FINAL2.pdf

Due to SB 50 (2021), online out-of-state retailers and marketplace providers (e.g., Amazon, eBay, Etsy) with no physical presence in Florida now collect sales tax on taxable items delivered to purchasers in Florida.


Mary McKillip and Norin Dollard. Florida’s Hidden Voucher Expansion: Over $1 Billion from Public Schools to Fund Private Education. Education Law Center (ELC) and Florida Policy Institute (FPI). https://uploads-ssl.webflow.com/5cd5801dfdf7e5927f800fb7f/6329b85d1c60404f4b2897e2_2022_ELC_REPORT_final.pdf


The bill proposes to use tax credits - one capped at $100 million for contributions made to the “Live Local Program” and the other, the Community Contribution Tax Credit, capped at $25 million - to encourage affordable housing development. Unfortunately, the bill offers no clear evaluation criteria to determine the effectiveness and equity of these tax credits. Additionally, by not collecting $125 million, the state continues to add to its silent spending, made up of tax expenditures costing $24 billion annually. Also, if SB 102 passes, no county, municipality, or any other unit of local government will have the option of imposing rent controls to respond to an existing housing emergency.
