

Amendment 5 Fact Sheet

Doing The Math on Amendment 5:

In November 2008, Floridians will vote on Amendment 5, a proposal placed on the ballot by the appointed members of the Florida Taxation and Budget Reform Commission.

Effective in state Fiscal Year 2010-2011, Amendment 5 would eliminate an estimated \$8.9 billion in state-required local school funding. However, Florida TaxWatch, a state taxpayer-advocacy group, says that the wording of the amendment requires that lawmakers actually would have to replace a larger amount than \$8.9 billion – from \$9.7 billion to \$11.1 billion.

The amendment allows lawmakers to take any of three options to restore the lost revenue, or some mix of all three:

1. Raise the state sales tax rate from 6 to 7 percent. If adopted, state economic estimates suggest this would raise about \$3.9 billion in 2010-2011. However, Florida TaxWatch says that this tax increase may bring in less, as little as \$3.3 billion, because of a declining state economy. If enacted, this option increases one of the most regressive forms of taxation. Lower-income Floridians, especially those on fixed incomes, would be hit harder by a sales tax increase than those with higher incomes and those still able to increase their income.

Also, since most local governments have a 1 to 1.5 percent local sales tax, Floridians would find themselves paying 8 to 8.5 percent in sales tax – an increase of hundreds of dollars on major purchases such as autos.

Even if lawmakers did raise the sales tax, Florida would still face a budget deficit of from \$5 to 7.2 billion under the terms of the amendment.

2. Raise other taxes, including repealing current sales tax exemptions. Currently, few services are taxable, and tax exemptions for professional, business, legal, medical and other services total about \$23.5 billion. However, the amendment's language forbids the Legislature to repeal tax exemptions for prescription drugs, food, residential rent and utilities.

Florida TaxWatch says the amendment seriously increases the likelihood that Florida would be forced to impose a sales tax on services that currently aren't taxed – including eliminating economic-development exemptions that business leaders say are critical to attracting new businesses to come to the state. Floridians also could find themselves paying as much as 8.5 percent sales tax on lawyers' bills, real-estate fees,

advertising, technology services, haircuts, construction services and many other kinds of services.

3. Slash state spending. If lawmakers chose to raise no taxes, they would have to cut \$11.1 billion out of the \$25-billion state General Revenue fund – an amount greater than the equivalent of eliminating the combined budgets of the Florida prison system, all state courts, the Parole Commission, the Public Service Commission, the state Departments of Environmental Protection, Law Enforcement, Juvenile Justice, Lottery, Military Affairs, Revenue, and Management Services, plus the Governor's office, Attorney General's office, Chief Financial Officer's office and all state troopers.

If the resulting budget cuts were spread across all state government, it would cut the state General Revenue Fund by more than 40 percent.

Education officials predict that community colleges and public universities – which are not protected from budget cuts by Amendment 5 – would be devastated. Hospital groups say health care also would suffer severe cuts, as would human services and all other public services supported by state government.