

FISCAL NOTE
HB 12 - SB 20
SECOND EXTRAORDINARY SESSION

November 9, 1999

SUMMARY OF BILL:

- 1) Removes all sales tax exemptions in TCA Title 67, Chapter 6, Part 3 except for sales made to the federal government, sales paid for with food stamps, and sales paid for with Women Infant and Children vouchers. Also removes sections relating to legislative findings as to tax exemptions and review and repeal of exemptions that exceeds \$1,000,000.
- 2) Removes the sales tax exemption on the first \$250 for farm machinery.
- 3) Removes the sales tax exemption on the first \$1,000 for industrial machinery.
- 4) Includes certain services in the sales tax base and imposes a 1% tax.
- 5) Deletes the following sales tax exemptions:
 - a) certain industrial machinery
 - b) farm equipment and machinery
 - c) tangible personal property purchased by contractors and subcontractors for contracting projects
 - d) personal property purchased for contracting projects of churches, private nonprofit colleges or university construction.
- 6) Taxes non-material costs of manufactured homes at the full rate of 6%, current rate is 3%.
- 7) Taxes aviation fuel at full rate of 6%, current rate is 4.5%.
- 8) Taxes liquefied gas used in production of food, fiber and horticulture products and energy fuels used for nurseries and greenhouses at full rate of 6%, current rate 1.5%.
- 9) Taxes sales of tangible personal property to common carriers for use outside the state at full rate of 6%, current rate is 3.75%
- 10) Taxes telecommunications services provided to business at full rate of 6%, current rate is 3.5%.
- 11) Eliminates 0.5% credit for corporate headquarter facilities that are newly constructed or expanded with a minimum \$50 million of new investment.
- 12) Taxes aircraft sales up to \$100,000 at the full rate of 6% and aircraft sales over \$100,000 at the rate of 3%, current rate is 3% regardless of sales price.
- 13) Deletes sales tax exemption for the first \$15 for cable television service, current rate is 8.25% on amount over \$15.
- 14) Imposes a 1% tax on certain items that are currently exempt from sales tax under TCA Title 67, Chapter 6, Part 2.

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- 15) Deletes vendor compensation for collecting, accounting, and remitting sales tax.
- 16) Imposes the franchise and excise on natural persons doing business as sole proprietorships and general partnerships.
- 17) Includes non-for-profit entities that are a professional service business and private non-profit foundations in the franchise and excise tax base.
- 18) Includes compensation that exceeds \$100,000 in the calculation of net earnings.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Exceeds \$2,145,000,000

Increase Local Govt. Revenues - Exceeds \$205,600,000

**Increase State Expenditures - \$2,200,000 Recurring
\$920,000 One-Time**

Estimate assumes the following:

- Removal of the exemptions is estimated to increase state revenues approximately \$575,100,000 and local government revenues approximately \$205,600,000.
- Eliminating the reduced rates and credits is estimated to increase state revenues approximately \$170,000,000.
- Imposing a 1% tax on 38 selected services as *retail sales* is estimated to increase state revenues approximately \$275,000,000.
- Imposing a 1% tax on 13 selected goods and services is estimated to increase state revenues approximately \$31,700,000.
- Implementing the Franchise and Excise Tax changes is estimated to increase state revenues approximately \$1,093,100,000 of which \$543,800,000 will result from increased franchise taxes and \$549,300,000 will result from increased excise taxes.
- Estimated increase in state expenditures is based on 300,000 additional Franchise and Excise accounts and 20,000 new sales tax accounts.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director