

FISCAL NOTE

SB 3174 - HB 2978

January 21, 2008

SUMMARY OF BILL: Requires the Commissioner of Finance and Administration, in consultation with the Commissioner of Revenue, on April 15 of each year, to certify the amount of state surplus revenue collected above budget estimates during the current fiscal year, and to notify the Governor, the State Treasurer, and the Speakers of the Senate and House of Representatives, for the purpose of enacting 0.5% rate reductions to the state sales tax rate on food and food ingredients for the next fiscal year when surplus revenues equal \$50,000,000 or more. Requires the Commissioner of Revenue, by June 15 of each year, to publish the rate of taxation on food and food ingredients that will be effective on July 1.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact - The fiscal impact of this bill is dependent upon the fiscal years that state surplus revenues exceed \$50.0 million. In fiscal years when state surplus revenues exceed \$50.0 million, the net decrease to state revenue for the following fiscal year is estimated to exceed \$43,389,000; the decrease to local government revenue is estimated to exceed \$2,089,000. In addition to these recurring decreases, the state would forgo additional sales tax revenue in subsequent fiscal years due to the natural growth of taxable food sales.

Assumptions:

- According to the Department of Revenue, state sales tax collections derived from the sale of food and food ingredients in Tennessee for FY06-07 were approximately \$495,000,000.
- The state sales tax rate on food and food ingredients was 6.0% during FY06-07.
- FY06-07 taxable food sales were approximately \$8,250,000,000 ($\$495,000,000 \div 6.0\% = \$8,250,000,000$).
- Annual growth in taxable sales is estimated to be 5.0% per year (consumer price index on food prices increased 4.9% from December 2006 to December 2007).
- Adjusted taxable sales are estimated to be \$9,095,625,000 for FY08-09.

- For any year state surplus revenues exceed \$50.0 million, a 0.5% rate reduction to the state sales tax rate on food and food ingredients is estimated to decrease state sales tax revenue by an amount exceeding \$45,478,000 in the following fiscal year ($\$9,095,625,000 \times 0.5\%$ rate reduction = \$45,478,125).
- Local governments are apportioned a 4.5925% share of state sales tax revenue. Therefore, local government revenue is estimated to decrease by an amount exceeding \$2,089,000 in the fiscal year following any year state surplus revenues exceeded \$50.0 million ($\$45,478,000 \times 4.5925\%$ = \$2,088,577).
- The net decrease to state revenues in the fiscal year following any year state surplus revenues exceed \$50.0 million is estimated to exceed \$43,389,000 ($\$45,478,000 - \$2,089,000 = \$43,389,000$).

CERTIFICATION:

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



James W. White, Executive Director

/rnc