

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 3901 – HB 3787

May 24, 2010

**SUMMARY OF AMENDMENTS (018696, 018801, 018907):** Adds language to the original bill that creates a state and local sales tax exemption on the retail sale of certain items of tangible personal property when sold to a natural person who has received disaster assistance through the Federal Emergency Management Agency (FEMA). Eligible items include major appliances, residential building supplies, and residential furniture as defined. Such items must be purchased no later than September 30, 2010. Authorizes a rebate of state and local sales tax to eligible natural persons when the specified items were purchased prior to this bill's effective date. Requires all such eligible items which are sold under the proposed exemption to be utilized in the person's primary residence for the purposes of restoration, repair, and replacement or rebuilding due to disaster damage occurring between May 1, 2010 and May 8, 2010. Authorizes the Department of Revenue (DOR) to assess civil penalty not to exceed \$10,000 for any violation.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue - \$49,800,000/Recurring  
Increase State Expenditures – \$15,100/One-Time  
\$275,100/Recurring

(Reflected in the Governor's FY10-11 Recommended Budget)

Increase Local Revenue - \$14,300,000/Recurring

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

**Increase State Revenue – \$49,800,000/Recurring**  
**Decrease State Revenue – Exceeds \$10,500,000/One-Time**

**Increase State Expenditures – \$130,100/One-Time**  
**\$275,100/Recurring**

**Increase Local Revenue – \$14,300,000/Recurring**  
**Decrease Local Revenue – Exceeds \$3,750,000/One-Time**

**Other Fiscal Impact - The Governor's Recommended Budget included \$50,000,000 of state revenue from tax legislation (page A-11) and additional**

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**state expenditures of \$290,100 for new Tax Auditor positions (page B-13) required to implement the provisions of this bill. There is an additional \$85,000,000 of state revenue in the Administration Amendment to the appropriations bill.**

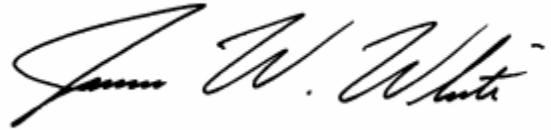
Assumptions applied to amendments:

- On May 4, 2010, the federal government authorized a major disaster declaration as a result of flooding in Tennessee. As of May 19, 2010, the federal government has approved 45 counties for disaster recovery assistance.
- According to the Tennessee Emergency Management Agency (TEMA), FEMA-approved individual disaster assistance was \$103,519,000 as of May 18, 2010. This amount has been approved from approximately 34,300 applicants to date.
- According to TEMA, there are 25 Disaster Recovery Centers (DRCs) still in the process of opening (as of May 18, 2010). As a result, TEMA indicates the number of applicants and FEMA-approved individual disaster assistance payments will increase.
- TEMA further indicates that the last day for DRCs to be open is May 26, 2010.
- The revenue impact for this bill as amended is dependent upon the number of individuals approved for FEMA individual disaster assistance, the extent of losses incurred by such approved applicants, and the extent to which approved applicants replace eligible items as specified.
- Given that the number of applicants and the amount of approved assistance will increase, a precise final amount cannot be determined. However, total FEMA-approved disaster assistance is estimated to exceed \$200,000,000 by the application deadline.
- Retail sales of eligible items could exceed 100 percent of FEMA-approved individual disaster assistance made to flood victims.
- A minimum of 75 percent of disaster assistance will be expended on purchases for major appliances, residential building materials, and residential furniture as defined by this bill as amended. Therefore, sales exempted from sales tax that would otherwise be taxable are estimated to exceed \$150,000,000.
- The estimate for exempted sales includes sales that occur from May 1, 2010, to the effective date of this bill (pursuant to amendment 018907), and from the fifth calendar day following the effective date of this bill until September 30, 2010 (pursuant to amendment 018696).
- The one-time decrease to state revenue is reasonably estimated to exceed \$10,500,000 ( $\$150,000,000 \times 7.0\%$  state sales tax rate = \$10,500,000).
- The local option sales tax rate is estimated to average 2.5 percent.
- The one-time decrease to local government revenue is reasonably estimated to exceed \$3,750,000 ( $\$150,000,000 \times 2.5\%$  = \$3,750,000).
- There will not be a sufficient number of civil cases for the state or local government to experience a significant increase to revenue or expenditures.

- Based on information provided by the Department of Revenue, there would be additional one-time state expenditures estimated to be \$115,000 for sales tax return changes and administration of this exemption.

**CERTIFICATION:**

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

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large initial "J" and "W".

James W. White, Executive Director

/rnc