

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 512 - SB 1104

February 26, 2009

SUMMARY OF BILL: Exempts from state and local sales tax any goods or services sold, given, or donated to any non-profit corporation whose primary function is a school support organization as defined in the School Support Organization Financial Accountability Act.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$360,600
Forgone State Revenue – Exceeds \$37,800

Decrease Local Revenue - \$152,400
Forgone Local Revenue – Exceeds \$13,500

Assumptions:

- According to the Internal Revenue Service, Exempt Organizations Business Master File, there are approximately 3,228 such educational purpose fundraising non-profit organizations in the United States.
- According to the Internal Revenue Service, Exempt Organizations Business Master File, revenue for these organizations total approximately \$450,000,000 nationwide.
- Sixty percent of these revenues (\$270,000,000) are estimated to be derived from goods or services sold, given, or donated to such organizations.
- Two percent of revenues derived from goods or services sold, given, or donated to such organizations (\$5,400,000) are estimated to be derived from organizations located in Tennessee and operating on the behalf of Tennessee schools exclusively.
- The state sales tax rate is currently seven percent.
- The decrease of state sales tax revenue is estimated to be \$378,000 per year ($\$5,400,000 \times 7.0\% = \$378,000$).

- Local government receives 4.5925 percent of state sales tax revenue as state-shared sales taxes.
- The decrease of state-shared taxes apportioned to local government is estimated to be \$17,400 per year ($\$378,000 \times 4.5925\% = \$17,360$).
- The net decrease to state revenue is estimated to be \$360,600 per year ($\$378,000 - \$17,400 = \$360,600$).
- The average local option sales tax rate is estimated to be 2.5 percent.
- The decrease to local option sales tax revenue is estimated to be \$135,000 per year ($\$5,400,000 \times 2.5\% = \$135,000$).
- The total decrease to local government revenue is estimated to be \$152,400 per year ($\$17,400 + \$135,000 = \$152,400$).
- This bill is expected to incentivize these qualified charitable organizations to increase their fundraising efforts. As a result, taxable sales of such entities are expected to increase. Determining a precise growth rate for these taxable sales is difficult due to many unknown factors. However, such increase is reasonably estimated to be a minimum of 10 percent. The increase of taxable sales is estimated to exceed \$540,000 per year ($\$5,400,000 \times 10\% = \$540,000$).
- Forgone state revenue is estimated to exceed \$37,800 per year ($\$540,000 \times 7.0\% = \$37,800$).
- Forgone local government revenue is estimated to exceed \$13,500 per year ($\$540,000 \times 2.5\% = \$13,500$).

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