TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 3762 – HB 3760

March 21, 2012

SUMMARY OF AMENDMENTS (015196, 015203): Increases, from $1,000,000 to $1,250,000, the maximum single allowable exemption for state inheritance tax on estates of decedents dying in tax year 2013. For estates of decedents dying in tax year 2014, the single allowable exemption shall be $2,000,000; for estates of decedents dying in tax year 2015, the single allowable exemption shall be $5,000,000; for estates of decedents dying in tax year 2016 and thereafter, there shall be no inheritance tax levied.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact –
$14,191,100/FY13-14 and Subsequent Years

Increase Local Revenue - $207,100/FY13-14 and Subsequent Years

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects a non-recurring increase in state revenue of $15,000,000 (reflecting a portion of FY12-13 inheritance tax revenue collected under current law) and a recurring decrease in state revenue of $15,000,000 (beginning in FY13-14 under this bill).

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Decrease State Revenue – Net Impact –
$14,191,100/FY13-14
$32,876,200/FY14-15
$53,264,100/FY15-16
$94,607,600/FY16-17 and Subsequent Years

Decrease State Expenditures - $604,400/FY16-17 and Subsequent Years

Increase Local Revenue - $207,100/FY13-14
$479,800/FY14-15
$777,400/FY15-16
$1,380,800/FY16-17 and Subsequent Years

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill as amended. Such impacts may be realized due to changes in

population or as a result of other behavioral changes prompted by passage of this bill as amended. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects designation of state revenue of $15,000,000 as non-recurring (reflecting a portion of FY12-13 inheritance tax revenue collected under current law) and a recurring decrease in state revenue of $15,000,000 (beginning in FY13-14 under the original bill).

Assumptions applied to amendments:

- One hundred percent of inheritance tax revenue is allocated to the General Fund.
- Under current law, one hundred percent of inheritance tax returns for tax year 2013 will be settled in FY13-14. This assumes the net taxable estates of decedents dying between January 1, 2013, and June 30, 2013, are settled with the Department of Revenue (DOR) between July 1, 2013, and December 31, 2013. It further assumes the net taxable estates of decedents dying between July 1, 2013 and December 31, 2013, are settled with DOR between January 1, 2014, and June 30, 2014. These scenarios assume an average six-month time period between the date-of-death of the decedent and complete settlement of the estate with DOR. As a result, the first year impacted will be FY13-14. This pattern of estate settlement is assumed to remain constant into perpetuity.
- According to DOR, inheritance tax collections in FY10-11 were $97,875,967. This number is assumed to remain constant in subsequent years under current law.
- Based on information provided by DOR, it is estimated that 15.0 percent of inheritance tax revenue will be eliminated in FY13-14 as a result of this bill as amended. In FY14-15, a cumulative total of 34.75 percent is estimated to be eliminated. In FY15-16, a cumulative total of 56.3 percent is estimated to be eliminated. In FY16-17 and subsequent years, a cumulative total of 100.0 percent is estimated to be eliminated.
- The decrease in inheritance tax revenue in FY13-14 is estimated to be $14,681,395 ($97,875,967 x 15.0%); in FY14-15 is estimated to be $34,011,899 ($97,875,967 x 34.75%); in FY15-16 is estimated to be $55,104,169 ($97,875,967 x 56.3%); and in FY16-17 and subsequent years is estimated to be $97,875,967 ($97,875,967 x 100.0%).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The increase in state sales tax revenue in FY13-14 as a result of 50 percent of tax savings being spent in the economy on other sales-taxable goods and services is estimated to be $513,849 ($14,681,395 x 50.0% x 7.0%); the increase in local option sales tax revenue in FY13-14 as a result of 50 percent of tax savings being spent in the economy on other sales-taxable goods and services is estimated to be $183,517 ($14,681,395 x 50.0% x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.

- The increase in local revenue in FY13-14 pursuant to the state-shared allocation is estimated to be $23,599 ($513,849 x 4.5925%).
- The net increase in state sales tax revenue in FY13-14 as a result of 50 percent of tax savings being spent in the economy on other sales-taxable goods and services is estimated to be $490,250 ($513,849 - $23,599).
- The total increase in local revenue in FY13-14 as a result of this bill as amended is estimated to be $207,116 ($183,517 + $23,599).
- The net decrease in state revenue in FY13-14 as a result of this bill as amended is estimated to be $14,191,145 ($14,681,395 - $490,250).
- For purpose of brevity in this fiscal note, calculations for FY14-15 through FY16-17 and subsequent years have been omitted. However, the following estimates for these fiscal years were determined utilizing the methodology that was used for determining estimates for FY13-14. These detailed calculations are on file with Fiscal Review Committee staff and are available for review upon request.
- The net decreases in state revenue are estimated as follows: $32,876,152 for FY14-15; $53,264,097 for FY15-16; and $94,607,632 for FY16-17 and subsequent years.
- The total increases in local revenue are estimated as follows: $479,819 for FY14-15; $777,375 for FY15-16; and $1,380,773 for FY16-17 and subsequent years.
- DOR indicates that 11 positions could be eliminated when the inheritance tax is completely eliminated. Such positions could be eliminated in FY16-17. If these positions could be eliminated at the beginning of FY12-13, the recurring decrease in state expenditures would be approximately $544,600. Based on information provided by the Department of Human Resources, the average state salary increased at an annual rate of 2.64 percent over the last ten-year period (from June 2002 to present). Assuming present-value personnel expenditures of $544,600, a 2.64 percent annual growth rate, and a four-year time period, the future-value personnel expenditures for the 11 positions would be approximately $604,427. Therefore, a recurring decrease in state expenditures of $604,427 beginning in FY16-17.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill as amended. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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