

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 2701 – HB 2889

March 23, 2012

SUMMARY OF AMENDMENT (014144): Authorizes a refund of state and local sales taxes paid 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), received an insurance settlement, or filed an insurance claim for damages, as a result of disasters occurring in this state between March 23, 2011, and May 12, 2011 or between February 29, 2012, and March 4, 2012. Eligible items include certain major appliances (with a sales price no more than \$3,200 per item), certain residential building supplies (with a sales price no more than \$500 per item), and certain residential furniture (with a sales price no more than \$3,200 per item). Requires any eligible items to be purchased between March 23, 2011, and December 31, 2011, or between January 1, 2012, and April 30, 2012. Requires claimants to make application with the Department of Revenue (DOR) for the purpose of determining eligibility. Specifies information to be included on applications. Establishes application filing deadline dates for claimants. Caps the total refund payment to any eligible claimant at \$2,500. Requires any refund payment to be made by DOR directly to the eligible claimant. Requires DOR to develop guidelines for administering refund payments, and grants broad discretion to the Commissioner to administer the refund payment process. Authorizes DOR to assess civil penalties not to exceed \$25,000 against any person who knowingly files a false or fraudulent application. Sets a repeal date of January 1, 2013.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$1,201,000/One-Time

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures – Exceeds \$2,201,000/One-Time

Assumptions applied to amendment:

- According to DOR, there were 67,954 FEMA registrants as a result of the May 2010 flood disaster in Nashville.

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- DOR indicates that \$2,757,405 in state and local sales taxes were refunded to eligible FEMA registrants for the 2010 flood disaster.
- DOR indicates there were approximately 13,200 FEMA registrants as a result of the disasters occurring in Tennessee between March 23, 2011, and May 12, 2011.
- The number of FEMA registrants for the 2011 disasters is estimated to be 19.42 percent of the number of FEMA registrants for the 2010 flood disaster.
- The increase in state expenditures for making refund payments to FEMA registrants for the 2011 disasters is estimated to be \$535,488 ($\$2,757,405 \times 19.42\%$).
- Based on information provided by DOR, refund payments to non-FEMA eligible registrants (qualifying as a result of insurance settlements and claim filings) for the 2011 disasters is estimated to be equal to the amount of payments estimated for eligible FEMA registrants.
- The number of storm victims incurring loss as a result of disasters occurring between February 29, 2012, and March 4, 2012, is unknown at this time. The fiscal impact associated with this group of storm victims is dependent upon the total number of victims statewide, the extent of losses incurred by these individuals, the extent to which they make qualified purchases of tangible personal property that are eligible for sales tax rebates, the extent of state and local sales taxes paid on such qualified purchases, and the extent to which these individuals apply for rebates of sales taxes paid. Given the extent of unknown factors, a precise estimate relative to this group of individuals is difficult to determine. However, the additional one-time increase in state expenditures is reasonably estimated to exceed \$1,000,000.
- The total one-time increase in state expenditures for refund payments is estimated to exceed \$2,070,976 (\$535,488 for FEMA registrants + \$535,488 for non-FEMA registrants + \$1,000,000 minimum).
- According to DOR, administration of refund payments to FEMA registrants for the 2010 flood disaster significantly increased the workload for existing departmental staff. As a result, the Department will require additional resources to administer refund payments to over 13,000 eligible registrants. Given two application filing deadlines specified by the bill (February 29, 2012, for certain applicants, and June 30, 2012, for other applicants), and a repeal date of January 1, 2013, it is estimated that the Department will require additional resources for approximately nine months (from April 1, 2012, through December 31, 2012) equivalent to four positions. Based on estimated costs for four full-time positions, the one-time increase in state expenditures for temporary employees is estimated to be \$130,000.
- This bill as amended declares the intent of the General Assembly to make an appropriation of a sum sufficient from the General Fund to implement the provisions of this bill as amended. Therefore, the total one-time increase in state expenditures from the General Fund is estimated to exceed \$2,200,976 (\$2,070,976 minimum refund payments + \$130,000 for temporary staffing).
- The number of civil penalties that DOR will assess is estimated to be not significant; therefore, any increase in state revenue from civil penalties is considered not significant.

CERTIFICATION:

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

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with a large initial "L" and "G".

Lucian D. Geise, Executive Director

/rnc