**TENNESSEE GENERAL ASSEMBLY**
**FISCAL REVIEW COMMITTEE**

# FISCAL NOTE

## HB 1914 – SB 1614

March 24, 2011

**SUMMARY OF BILL:** Requires combined reporting for franchise and excise tax purposes; reduces the state sales tax rate on food from 5.5 percent to 4.5 percent. Holds local government harmless from loss of state-shared sales tax as a result of reducing the state sales tax rate on food.

## ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – Net Impact – $33,527,400/FY11-12**
**$67,054,700/FY12-13 and Subsequent Years**

**Increase State Expenditures – $2,369,300/FY11-12**
**$4,645,300/FY12-13 and Subsequent Years**

**Increase Local Revenue - $563,900/FY11-12**
**$1,127,700/FY12-13 and Subsequent Years**

Assumptions related to sales tax on food:

- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately $476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be $496,166,800 ($476,900,000 x 102.0% x 102.0%).
- Each one-percent increment of the current 5.5 percent state sales tax rate levied on food and food ingredients generates approximately $90,212,145 ($496,166,800 / 5.5) of state sales tax revenue. Therefore, a recurring decrease in state sales tax revenue of $90,212,145.
- 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.
- Local governments will be held harmless from the loss of state-shared sales tax revenue.
- The increase in state expenditures for holding local government harmless from the loss of state-shared sales tax revenue will be $4,142,993 ($90,212,145 x 4.5925%).
- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.

- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be $3,157,425 ($90,212,145 x 50.0% x 7.0%).
- The net recurring decrease in state sales tax revenue will be $87,054,720 ($90,212,145 - $3,157,425).
- The recurring increase in local option sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be $1,127,652 ($90,212,145 x 50.0% x 2.5%).
- First-year impacts are estimated at 50 percent of the first full-year impact due to the January 1, 2012 enactment date.

Assumptions related to combined reporting:

- The fiscal impact of combined reporting for franchise and excise tax is dependent upon multiple unknown factors.
- According to DOR, research on similar estimates from other states that have enacted or contemplated enacting combined reporting shows the potential for an increase of tax revenue between 10 and 20 percent.
- DOR suggests that the impact in Tennessee could be much less than amounts estimated for other states due to the fact that financial institutions are currently required to file combined returns and taxpayers also have the current option for franchise tax to elect to report their net worth on a consolidated basis. The department suggests any positive impact would certainly be mitigated by these factors.
- Based on information provided by DOR, and the impact of combined reporting being dependent upon factors mentioned above and other unknown factors, a specific estimate cannot be quantified. However, the increase in state revenue resulting from combined reporting is reasonably estimated to exceed $20,000,000 per year.
- According to DOR, the Department will require nine additional positions to implement the provisions of this bill. A recurring increase in state expenditures of $502,300 ($278,300 salaries, $167,800 benefits, $56,200 operational). One-time state expenditures related to the new positions will be $46,700 (computers, software, and communications).
- First-year impacts are estimated at 50 percent of the first full-year impact due to the January 1, 2012 enactment date.

## 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

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