

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2412 - SB 2400

January 25, 2012

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 0.25 percent. Holds local governments harmless from the loss of state-shared sales tax revenue. Increases the state sales tax rate on the retail sale of tangible personal property and services from 7.0 percent to 7.5 percent.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact - \$1,234,600

Increase Local Revenue – Net Impact - \$19,100

Assumptions applied to state sales tax on tangible personal property and services:

- The current Fiscal Review Committee estimate for state sales tax collections for FY12-13 is \$7,072,000,000.
- State sales tax collections from food and food ingredients for FY12-13 is estimated to be \$509,733,428 (see assumptions applied to state sales tax on food below).
- FY12-13 state sales tax collections net of collections from food and food ingredients are estimated to be \$6,562,266,572 (\$7,072,000,000 - \$509,733,428).
- Taxable sales of tangible personal property and services in FY12-13 under current law are estimated to be \$93,746,665,314 (\$6,562,266,572 / 7.0%).
- The increase in state sales tax revenue will be \$468,733,327 (\$93,746,665,314 x 0.5%).
- 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 tax revenue.
- The net increase in state revenue as a result of the state sales tax rate increase will be \$447,206,749 [\$468,733,327 – (\$468,733,327 x 4.5925%)].
- The increase in state-shared sales tax revenue for local governments as a result of the state sales tax rate increase will be \$21,526,578 (\$468,733,327 x 4.5925%).

Assumptions applied to state sales tax on food:

- The current state sales tax rate on food and food ingredients is 5.5 percent; the current state sales tax rate on tangible personal property and services is 7.0 percent.

HB 2412 – SB 2400

- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY10-11 were \$489,939,858.
- 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 FY12-13 are estimated to be \$509,733,428 ($\$489,939,858 \times 102.0\% \times 102.0\%$).
- Sales tax collections derived from food and food ingredients under this bill is estimated to be \$23,169,701 [$(\$509,733,428 / 5.5\%) \times 0.25\%$].
- Total tax savings to consumers as a result of reducing the state sales tax rate on food and food ingredients will be \$486,563,727 ($\$509,733,428 - \$23,169,701$).
- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- 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 tax revenue.
- The total net recurring increase in state-shared sales tax revenue apportioned to local governments as a result of this bill will be \$19,095 [$\$21,526,578 - (\$486,563,727 \times 4.5925\%) + (\$486,564,727 \times 50.0\% \times 7.5\% \times 4.5925\%)$].
- The state will not have to make hold-harmless payments to local governments because the net impact to state-shared sales tax revenue apportioned to local governments is positive.
- Local option sales tax collections are not impacted by this bill.
- The net decrease in state sales tax revenue as a result of reducing the state sales tax rate on food and food ingredients will be \$445,972,148 [$\$486,563,727 - (\$486,563,727 \times 4.5925\%) - (\$486,563,727 \times 50.0\% \times 7.5\%)$].
- The total net recurring increase in state revenue as a result of the bill will be \$1,234,601 ($\$447,206,749 - \$445,972,148$).

CERTIFICATION:

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



Lucian D. Geise, Executive Director

/rnc