TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2286 - HB 2435

February 16, 2012

SUMMARY OF BILL: Effective January 1, 2013, reduces inheritance tax rates for all net taxable estates by one percent each year until phased out.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $12,112,700/FY13-14
$24,225,300/FY14-15
$36,338,000/FY15-16
$48,450,600/FY16-17
$60,563,300/FY17-18
$72,095,400/FY18-19
$81,057,300/FY19-20
$87,059,400/FY20-21
$92,091,600/FY21-22
$94,607,600/FY22-23 and Subsequent Years

Decrease State Expenditures - $725,400/FY23-24 and Subsequent Years

Increase Local Revenue - $176,800/FY13-14
$353,600/FY14-15
$530,300/FY15-16
$707,100/FY16-17
$883,900/FY17-18
$1,052,200/FY18-19
$1,183,000/FY19-20
$1,270,600/FY20-21
$1,344,100/FY21-22
$1,380,800/FY22-23 and Subsequent Years

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- One hundred percent of inheritance tax revenue is allocated to the General Fund.
- According to the Department of Revenue (DOR), inheritance tax collections in FY10-11 were $97,875,967. This number is assumed to remain constant in subsequent years under current law.
- Given the effective date of January 1, 2013, and the current nine-month filing extension following a decedent's date of death, the first fiscal year in which state revenue will be impacted is assumed to be FY13-14.
- One hundred percent of estates of decedents dying in tax year 2013 will be settled no later than June 30, 2014 (or by the end of FY13-14). It is assumed this collection pattern will continue into perpetuity.
- Pursuant to Tenn. Code Ann. § 67-8-314, there are four inheritance tax brackets: net taxable estates valued at $40,000 or less, a tax of 5.5 percent (bracket 1); net taxable estates valued over $40,000, but not over $240,000, a tax of $2,200 plus 6.5 percent of excess over $40,000 (bracket 2); net taxable estates valued over $240,000, but not over $440,000, a tax of $15,200 plus 7.5 percent of excess over $240,000 (bracket 3); and net taxable estates valued over $440,000, a tax of $30,200 plus 9.5 percent of excess over $440,000 (bracket 4). Given the highest tax bracket of 9.5 percent, it will take ten years to completely eliminate the inheritance tax by making annual one percent rate reductions.
- Based on information provided by DOR concerning inheritance taxpayers for FY10-11, approximately 6.75 percent of inheritance tax revenue is derived from estates in bracket 1; 27.34 percent is derived from estates in bracket 2; 15.38 percent is derived from estates in bracket 3; and 50.53 percent is derived from estates in bracket 4.
- Of the $97,875,967 in estimated inheritance tax collections, approximately $6,606,628 is derived from bracket 1 estates ($97,875,967 x 6.75%); approximately $26,759,289 is derived from bracket 2 estates ($97,875,967 x 27.34%); approximately $15,053,324 is derived from bracket 3 estates ($97,875,967 x 15.38%); and approximately $49,456,726 is derived from bracket 4 estates ($97,875,967 x 50.53%).
- Implementing one percent rate reductions for each of the four tax brackets will reduce inheritance tax revenue by $12,531,100 in FY13-14 {[($6,606,628 / (5.5%/1.0% reduction)] + [($26,759,289 / (6.5%/1.0% reduction)] + [($15,053,324 / (7.5%/1.0% reduction)] + [($49,456,726 / (9.5%/1.0% reduction)]}.
- Fifty percent of tax savings is spent in the economy on 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 sales tax revenue.
- 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 for FY13-14 is estimated to be $438,589 ($12,531,100 x 50.0% x 7.0%); the increase in local option sales tax revenue for FY13-14 is estimated to be $156,639 ($12,531,100 x 50.0% x 2.5%).
- The increase in local revenue pursuant to the state-shared allocation for FY13-14 is estimated to be $20,142 ($438,589 x 4.5925%).
- The net decrease in state revenue for FY13-14 is estimated to be $12,112,653 [$12,531,100 – ($438,589 - $20,142)].

- The total increase in local revenue for FY13-14 is estimated to be $176,781 ($156,639 + $20,142).
- For purpose of brevity in this fiscal note, calculations for FY14-15 through FY22-23 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 (with adjustments made for subsequent one percent rate reductions). 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: $24,225,307 for FY14-15; $36,337,960 for FY15-16; $48,450,614 for FY16-17; $60,563,267 for FY17-18; $72,095,374 for FY18-19; $81,057,263 for FY19-20; $87,059,436 for FY20-21; $92,091,566 for FY21-22; and $94,607,632 for FY22-23 and subsequent years.
- The total increases in local revenue are estimated as follows: $353,562 for FY14-15; $530,343 for FY15-16; $707,124 for FY16-17; $883,905 for FY17-18; $1,052,213 for FY18-19; $1,183,009 for FY19-20; $1,270,609 for FY20-21; $1,344,052 for FY21-22; and $1,380,773 for FY22-23 and subsequent years.
- DOR indicates that 11 positions could be eliminated when the inheritance tax is completely eliminated. Such positions could be eliminated in FY23-24. 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, and an 11-year time period, the future-value personnel expenditures for the 11 positions would be approximately $725,372. Therefore, a recurring decrease in state expenditures of $725,372 beginning in FY23-24.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. 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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