TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 427 – HB 576

April 9, 2013

SUMMARY OF ORIGINAL BILL: Exempts from the Hall Income Tax (HIT) any income derived from any stock in any entity doing business in Tennessee that is: a bank holding company; an S corporation, an owner of a controlling interest in a Tennessee state bank or savings institution, national bank or federally chartered savings institution.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – $1,294,400/FY13-14
$1,428,400/FY14-15
$1,576,200/FY15-16 and Subsequent Years

Decrease Local Revenue – Net Impact – $790,800/FY13-14
$872,700/FY14-15
$963,000/FY15-16 and Subsequent Years

SUMMARY OF AMENDMENT (006017): Deletes all language after the enacting clause. Exempts from the Hall Income Tax (HIT) any income derived from any stock in any bank holding company doing business in Tennessee that is classified as a Subchapter S corporation, and owns a subsidiary bank doing business in Tennessee. Exempts from HIT any income derived from a non-bank subsidiary.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Net Impact – $50,275,200

Decrease Local Revenue – Net Impact – $30,715,600

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 the 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 for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.5 percent of HIT revenue; local governments are apportioned 37.5 percent.
- The current Fiscal Review Committee estimate for HIT collections in FY13-14 is $200,070,000. This number is assumed to remain constant in subsequent years in absence of this legislation.
- According to the Department of Revenue (DOR), it is estimated that 85 percent of total HIT collections is from income derived from dividends on stock, rather than from interest on bonds. It is further estimated that exempting income from any non-bank subsidiary, in addition to income from Subchapter S bank holding companies doing business in Tennessee will exempt 50 percent of such dividends from HIT.
- The recurring decrease in HIT revenue is estimated to be $85,029,750 ($200,070,000 x 85.0% x 50.0%).
- The recurring decrease in HIT revenue for the state is estimated to be $53,143,594 ($85,029,750 x 62.5%).
- The recurring decrease in HIT revenue for local governments is estimated to be $31,886,156 ($85,029,750 x 37.5%).
- Fifty percent of tax savings will be spent in the economy on 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 recurring increase in state sales tax revenue attributable to 50 percent of HIT savings being spent in the economy on sales-taxable goods and services is estimated to be $2,976,041 ($85,029,750 x 50.0% x 7.0%); the increase in local option sales tax revenue is estimated to be $1,062,872 ($85,029,750 x 50.0% x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [(5.5%/7.0%) x 4.603%].
- The recurring increase in local revenue pursuant to the state-shared allocation is estimated to be $107,643 ($2,976,041 x 3.617%).
- The net recurring increase in state sales tax revenue is estimated to be $2,868,398 ($2,976,041 - $107,643).
- The total recurring increase in local sales tax revenue is estimated to be $1,170,515 ($1,062,872 + $107,643).
- The net recurring decrease in state revenue as a result of this bill is estimated to be $50,275,196 ($53,143,594 - $2,868,398).

- The net recurring decrease in local revenue as a result of this bill is estimated to be $30,715,641 ($31,886,156 - $1,170,515).
- According to DOR, the Department is currently implementing new data entry software and mandatory electronic filing requirements for HIT and other taxes administered by the Department. As a result, positions in the Processing Division are being eliminated through the budget process. In FY13-14, the Department plans to eliminate 20 positions. Any decrease in state expenditures as a result of this bill for the Processing and Audit Division is estimated to be not significant.
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases 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 determined 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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