

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 1430 – HB 2170

April 7, 2014

SUMMARY OF ORIGINAL BILL: Exempts from state and local sales tax any motor vehicle sold, given, or donated to a veteran or active-duty service member who has a service-connected disability and who is eligible for a United States Department of Veterans Affairs (USDVA) automobile grant.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – \$19,000/FY13-14
\$76,000/FY14-15 and Subsequent Years

Decrease Local Revenue – Net Impact – \$1,200/FY13-14
\$4,900/FY14-15 and Subsequent Years

SUMMARY OF AMENDMENT (015861): Specifies that only those veterans who have received an automobile grant from the United States Department of Veterans Affairs, rather than all those eligible for such grant, are exempt from state and local sales tax on any motor vehicle sold, given, or donated to them. Exempts such qualified veterans from license plate registration fees and any motor vehicle privilege taxes.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- The original fiscal analysis assumed that only those veterans who have received an automobile grant from the United States Department of Veterans Affairs, rather than all those eligible for such grant, will be exempt from state and local sales tax on any motor vehicle sold, given, or donated to them.
- According to the Department of Revenue (DOR) and based on data obtained from the Employment and Disability Institute at the Cornell University ILR School, in 2011 there were 2,298,900 working-age civilian veterans in the United States with a service-connected disability, of which approximately 63,200 (2.7491 percent) were from Tennessee.

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- The Veterans Administration FY13-14 budget request for automobile grants is \$44,060,000. It is estimated that 2.7491 percent of these grants, or \$1,211,253, will be spent in Tennessee.
- Based on data from the United States Department of Transportation, Bureau of Transportation Statistics, the average sale price for new and used vehicles in 2010 was \$13,105, with a 15-year average rate of growth of 1.33 percent. It is estimated that the average vehicle price in 2014 will be \$13,816 ($\$13,105 \times 1.33\% \times 1.33\% \times 1.33\% \times 1.33\%$).
- The maximum USDVA automobile grant is \$19,505, including the state and local sales tax.
- The current state sales tax rate is 7.00 percent; the state single article sales tax rate (which is levied on the portion of the purchase price above \$1,600 and below \$3,200) is 2.75 percent; the average local option sales tax rate (which can only be levied on the first \$1,600 of the purchase price) is estimated to be 2.50 percent.
- The average total state sales tax per vehicle is estimated to be \$1,011 [$(\$13,816 \times 7.00\%) + (\$1,600 \times 2.75\%)$]; the average local option sales tax per vehicle is estimated to be \$40 ($\$1,600 \times 2.50\%$).
- The average grant amount in 2014 is estimated to be \$14,867 (\$13,816 vehicle price + \$1,011 state sales tax + \$40 local option sales tax). The average number of purchased vehicles subject to the state and local sales tax is estimated to be 81 ($\$1,211,253$ total grant amount / \$14,867 average grant amount). The amount of grants subject to the state and local tax is estimated to be \$1,119,096 ($\$13,816$ vehicle price x 81 vehicles). These numbers are assumed to remain constant into perpetuity.
- The recurring decrease in state sales tax revenue is estimated to be \$81,901 [$(\$1,119,096 \times 7.00\%) + (\$1,600 \times 81 \times 2.75\%)$]; the recurring decrease in local option sales tax revenue is estimated to be \$3,240 ($\$1,600 \times 81 \times 2.50\%$).
- 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% [$(5.5\%/7.0\%) \times 4.603\%$]. This apportionment does not apply to state revenue collected pursuant to the single article tax.
- The net recurring decrease in state sales tax revenue is estimated to be \$79,068 [$\$81,901 - (\$1,119,096 \times 7.00\% \times 3.617\%)$].
- The total recurring decrease in local sales tax revenue is estimated to be \$6,073 [$\$3,240 + (\$1,119,096 \times 7.00\% \times 3.617\%)$].
- Fifty percent of tax savings will be spent in the economy on sales taxable goods and services. Recurring tax savings are estimated to be \$85,141 ($\$79,068 + \$6,073$).
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$3,088 [$(\$85,141 \times 50.0\% \times 7.0\%) - (\$85,141 \times 50.0\% \times 7.0\% \times 3.617\%)$].

- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$1,172 [(\$85,141 x 50.0% x 2.5%) + (\$85,141 x 50.0% x 7.0% x 3.617%)].
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$75,980 (\$79,068 – 3,088).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$4,901 (\$6,073 – \$1,172).
- Due to the bill taking effect upon becoming a law, it is assumed that one-fourth of the recurring impact (\$18,995 state revenue decrease; \$1,225 local revenue decrease) will occur in FY13-14.
- Pursuant to Tenn. Code Ann. § 55-4-237(a)(1), the Department of Revenue provides, free of charge, registration and license plates for any authorized motor vehicle that is registered in the name of or leased by a disabled veteran, or by the disabled veteran and the spouse of the disabled veteran, provided that such vehicle shall not be used for rehire or for any other commercial purpose.
- It is further assumed that such veterans are exempt under current law from any local motor vehicle privilege taxes. Under current law, a \$2.50 issuance fee is charged by the county clerks. It is estimated that such fee will continue to be imposed upon passage of this bill.

CERTIFICATION:

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



Lucian D. Geise, Executive Director

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