

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 638 - SB 782

March 1, 2013

SUMMARY OF BILL: Increases the Hall Income Tax (HIT) maximum allowable income exemption level, for single filer taxpayers 65 years of age or older, from \$26,200 to: \$36,200 in tax year 2014; \$46,200 in tax year 2015; \$56,200 in tax year 2016; \$66,200 in tax year 2017; \$76,200 in tax year 2018; \$86,200 in tax year 2019; and \$96,200 in tax year 2020 and thereafter. Increases the HIT maximum allowable income exemption level, for joint filer taxpayers 65 years of age or older, from \$37,000 to: \$47,000 in tax year 2014; \$57,000 in tax year 2015; \$67,000 in tax year 2016; \$77,000 in tax year 2017; \$87,000 in tax year 2018; \$97,000 in tax year 2019; and \$107,000 in tax year 2020 and thereafter.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$1,029,300/FY14-15
\$2,457,300/FY15-16
\$4,056,300/FY16-17
\$5,585,300/FY17-18
\$7,106,600/FY18-19
\$8,392,400/FY19-20
\$9,628,800/FY20-21 and Subsequent Years

Decrease Local Revenue – Net Impact – \$624,500/FY14-15
\$1,501,300/FY15-16
\$2,478,200/FY16-17
\$3,412,300/FY17-18
\$4,341,800/FY18-19
\$5,127,300/FY19-20
\$5,882,700/FY20-21 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 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:

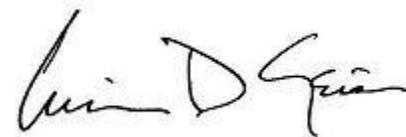
- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock and from interest on bonds.
- Given the proposed changes to HIT income exemption levels shall be applied to tax years beginning with tax year 2014, and assuming that 100 percent of HIT owed for tax year 2014 is collected no later than June 30, 2015, the first year impact by this bill will be FY14-15. This collection pattern is assumed to remain constant into perpetuity.
- According to the Department of Revenue, the proposed increases to the maximum allowable exemptions for taxpayers 65 years of age or older will result in a decrease in HIT revenue of: \$1,704,380 in FY14-15; \$4,156,011 in FY15-16; \$6,860,434 in FY16-17; \$9,446,365 in FY17-18; \$12,019,238 in FY18-19; \$14,193,872 in FY19-20; and \$16,285,109 in FY20-21 and subsequent years.
- The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- 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 decrease in HIT revenue for the state is estimated to be: \$1,065,237 in FY14-15; \$2,597,507 in FY15-16; \$4,287,771 in FY16-17; \$5,903,978 in FY17-18; \$7,512,024 in FY18-19; \$8,871,170 in FY19-20; and \$10,178,193 in FY20-21 and subsequent years.
- The decrease in HIT revenue for local governments is estimated to be: \$639,143 in FY14-15; \$1,558,504 in FY15-16; \$2,572,663 in FY16-17; \$3,542,387 in FY17-18; \$4,507,214 in FY18-19; \$5,322,702 in FY19-20; and \$6,106,916 in FY20-21 and subsequent years.
- 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.
- 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% $[(5.5\%/7.0\%) \times 4.603\%]$.
- The net increase in state sales tax revenue in FY14-15 is estimated to be \$35,935 $[(\$1,065,237 \times 50.0\% \times 7.0\%) - (\$1,065,237 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY14-15 is estimated to be \$14,663 $[(\$1,065,237 \times 50.0\% \times 2.5\%) + (\$1,065,237 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY15-16 is estimated to be \$140,199 $[(\$4,156,011 \times 50.0\% \times 7.0\%) - (\$4,156,011 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY15-16 is estimated to be \$57,211 $[(\$4,156,011 \times 50.0\% \times 2.5\%) + (\$4,156,011 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY16-17 is estimated to be \$231,430 $[(\$6,860,434 \times 50.0\% \times 7.0\%) - (\$6,860,434 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total

increase in local sales tax revenue in FY16-17 is estimated to be \$94,440 $[(\$6,860,434 \times 50.0\% \times 2.5\%) + (\$6,860,434 \times 50.0\% \times 7.0\% \times 3.617\%)]$.

- The net increase in state sales tax revenue in FY17-18 is estimated to be \$318,664 $[(\$9,446,365 \times 50.0\% \times 7.0\%) - (\$9,446,365 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY17-18 is estimated to be \$130,039 $[(\$9,446,365 \times 50.0\% \times 2.5\%) + (\$9,446,365 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY18-19 is estimated to be \$405,457 $[(\$12,019,238 \times 50.0\% \times 7.0\%) - (\$12,019,238 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY18-19 is estimated to be \$165,456 $[(\$12,019,238 \times 50.0\% \times 2.5\%) + (\$12,019,238 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY19-20 is estimated to be \$478,816 $[(\$14,193,872 \times 50.0\% \times 7.0\%) - (\$14,193,872 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY19-20 is estimated to be \$195,392 $[(\$14,193,872 \times 50.0\% \times 2.5\%) + (\$14,193,872 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY20-21 and subsequent years is estimated to be \$549,363 $[(\$16,285,109 \times 50.0\% \times 7.0\%) - (\$16,285,109 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY20-21 and subsequent years is estimated to be \$224,180 $[(\$16,285,109 \times 50.0\% \times 2.5\%) + (\$16,285,109 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net decrease in state revenue as a result of this bill is estimated to be: \$1,029,302 in FY14-15; \$2,457,308 in FY15-16; \$4,056,341 in FY16-17; \$5,585,314 in FY17-18; \$7,106,567 in FY18-19; \$8,392,354 in FY19-20; and \$9,628,830 in FY20-21 and subsequent years.
- The net decrease in local revenue as a result of this bill is estimated to be: \$624,480 in FY14-15; \$1,501,293 in FY15-16; \$2,478,223 in FY16-17; \$3,412,348 in FY17-18; \$4,341,758 in FY18-19; \$5,127,310 in FY19-20; and \$5,882,736 in FY20-21 and subsequent years.
- 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 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 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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