

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1307 - SB 1375

March 13, 2013

**SUMMARY OF BILL:** Exempts from state and local sales tax the following: repair services made as an incident to the sale of computer software, as a part of the installation or maintenance services provided to a customer on computer software, or when any computer software is transferred in conjunction with the repair service; installation of computer software, where a charge is made for the installation; the retail sale, lease, licensing or use of computer software in Tennessee, including prewritten and custom computer software; and the retail sale of, use of or subscription to a computer software maintenance contract.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$8,336,500/FY12-13  
\$51,619,400/FY13-14 and Subsequent Years**

**Decrease Local Revenue – Net Impact – \$3,401,900/FY12-13  
\$21,064,500/FY13-14 and Subsequent Years**

Assumptions:

- The current Fiscal Review Committee estimates for sales tax collection growth rates are 1.96 percent for FY12-13 and 3.20 percent for FY13-14. Sales tax collections are assumed to remain constant in years subsequent to FY13-14.
- The current 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%) x 4.603%].
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.

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- According to the Department of Revenue (DOR), state sales tax collections for Standard Industrial Classification codes related to sales of computer software, software installation services, software repair services, and service and maintenance contracts were \$106,872,934 in FY11-12; therefore, taxable sales in FY11-12 are estimated to be \$1,526,756,200 ( $\$106,872,934 / 7.0\%$ ).
- DOR estimates that 50 percent of such taxable sales, or \$763,378,100 ( $\$1,526,756,200 \times 50.0\%$ ), will become exempt from state and local sales tax as a result of this bill.

Assumptions related to FY12-13:

- This bill will become effective upon becoming law. As a result, it is estimated that the first-year impact (FY12-13) will be equal to one-sixth of the first full-year impact, which is FY13-14.
- Taxable sales that will become exempt as a result of this bill in FY12-13 are estimated to be \$129,723,385 ( $\$763,378,100 \times 101.96\% \times 1/6$ ).
- The one-time decrease in state sales tax revenue in FY12-13 as a result of the proposed exemption is estimated to be \$9,080,637 ( $\$129,723,385 \times 7.0\%$ ); the one-time decrease in local option sales tax revenue in FY12-13 as a result of the proposed exemption is estimated to be \$3,243,085 ( $\$129,723,385 \times 2.5\%$ ).
- The one-time decrease in local revenue in FY12-13 pursuant to the state-shared allocation as a result of the proposed exemption is estimated to be \$328,447 ( $\$9,080,637 \times 3.617\%$ ).
- The net one-time decrease in state sales tax revenue in FY12-13 as a result of the proposed exemption is estimated to be \$8,752,190 ( $\$9,080,637 - \$328,447$ ).
- The total one-time decrease in local sales tax revenue in FY12-13 as a result of the proposed exemption is estimated to be \$3,571,532 ( $\$3,243,085 + \$328,447$ ).
- One-time tax savings in FY12-13 are estimated to be \$12,323,722 ( $\$8,752,190 + \$3,571,532$ ).
- The one-time increase in state sales tax revenue in FY12-13 as a result of 50 percent of tax savings being spent in the economy is estimated to be \$431,330 ( $\$12,323,722 \times 50.0\% \times 7.0\%$ ).
- The one-time increase in local option sales tax revenue in FY12-13 as a result of 50 percent of tax savings being spent in the economy is estimated to be \$154,046 ( $\$12,323,722 \times 50.0\% \times 2.5\%$ ).
- The one-time increase in local revenue in FY12-13 pursuant to the state-shared allocation as a result of 50 percent of tax savings being spent in the economy is estimated to be \$15,601 ( $\$431,330 \times 3.617\%$ ).
- The net one-time increase in state sales tax revenue in FY12-13 as a result of 50 percent of tax savings being spent in the economy is estimated to be \$415,729 ( $\$431,330 - \$15,601$ ).
- The total one-time increase in local sales tax revenue in FY12-13 as a result of 50 percent of tax savings being spent in the economy is estimated to be \$169,647 ( $\$154,046 + \$15,601$ ).
- The net one-time decrease in state revenue in FY12-13 as a result of this bill is estimated to be \$8,336,461 ( $\$8,752,190 - \$415,729$ ).

- The net one-time decrease in local revenue in FY12-13 as a result of this bill is estimated to be \$3,401,885 ( $\$3,571,532 - \$169,647$ ).

Assumptions related to FY13-14 and Subsequent Years:

- Taxable sales that will become exempt as a result of this bill in FY13-14 are estimated to be \$803,247,201 ( $\$763,378,100 \times 101.96\% \times 103.20\%$ ). This number is assumed to remain constant into perpetuity.
- The recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$56,227,304 ( $\$803,247,201 \times 7.0\%$ ) in FY13-14 and subsequent years; the recurring decrease in local option sales tax revenue as a result of the proposed exemption is estimated to be \$20,081,180 ( $\$803,247,201 \times 2.5\%$ ) in FY13-14 and subsequent years.
- The recurring decrease in local revenue pursuant to the state-shared allocation as a result of the proposed exemption is estimated to be \$2,033,742 ( $\$56,227,304 \times 3.617\%$ ) in FY13-14 and subsequent years.
- The net recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$54,193,562 ( $\$56,227,304 - \$2,033,742$ ) in FY13-14 and subsequent years.
- The total recurring decrease in local sales tax revenue as a result of the proposed exemption is estimated to be \$22,114,922 ( $\$20,081,180 + \$2,033,742$ ) in FY13-14 and subsequent years.
- Recurring tax savings in FY13-14 and subsequent years are estimated to be \$76,308,484 ( $\$54,193,562 + \$22,114,922$ ).
- The 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 \$2,670,797 ( $\$76,308,484 \times 50.0\% \times 7.0\%$ ) in FY13-14 and subsequent years.
- The recurring increase in local option sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$953,856 ( $\$76,308,484 \times 50.0\% \times 2.5\%$ ) in FY13-14 and subsequent years.
- The recurring increase in local revenue pursuant to the state-shared allocation as a result of 50 percent of tax savings being spent in the economy is estimated to be \$96,603 ( $\$2,670,797 \times 3.617\%$ ) in FY13-14 and subsequent years.
- 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 \$2,574,194 ( $\$2,670,797 - \$96,603$ ) in FY13-14 and subsequent years.
- 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 \$1,050,459 ( $\$953,856 + \$96,603$ ) in FY13-14 and subsequent years.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$51,619,368 ( $\$54,193,562 - \$2,574,194$ ), in FY13-14 and subsequent years.
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$21,064,463 ( $\$22,114,922 - \$1,050,459$ ), in FY13-14 and subsequent years.

**CERTIFICATION:**

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

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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