TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1717 - SB 1827

January 22, 2014

SUMMARY OF BILL: Phases out the Hall Income Tax (HIT) over an eight-year period by reducing the tax rate by 0.75 percentage points each year, beginning in tax year 2015.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $20,090,400/FY15-16
$40,180,800/FY16-17
$60,271,200/FY17-18
$80,361,600/FY18-19
$100,452,000/FY19-20
$120,542,400/FY20-21
$140,632,800/FY21-22
$160,723,100/FY22-23 and Subsequent Years

State Expenditures – Cost Avoidance – $354,600/FY22-23 and Subsequent Years

Decrease Local Revenue – Net Impact – $10,865,900/FY15-16
$21,731,700/FY16-17
$32,597,600/FY17-18
$43,463,400/FY18-19
$54,329,300/FY19-20
$65,195,100/FY20-21
$76,061,000/FY21-22
$86,926,900/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 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 or from interest on bonds.

- Given the tax changes shall be applied to tax years beginning with tax year 2015, and assuming that 100 percent of HIT owed for tax year 2015 is collected no later than June 30, 2016, the first year impacted by this bill will be FY15-16. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY14-15 is $260,000,000.
- Taxable income in FY14-15 is estimated to be $4,333,333,333 ($260,000,000 / 6.0%). This number is assumed to remain constant in subsequent years.
- The incremental annual decrease in HIT collections, from FY15-16 through FY22-23, is estimated to be $32,500,000 ($4,333,333,333 taxable income x 0.75% rate reduction).
- Based on the apportionments of HIT collections for the last three fiscal years (FY10-11, FY11-12, and FY12-13), it is estimated that the state retains 65.19 percent of HIT revenue and local governments are apportioned 34.81 percent.
- The incremental annual decrease in HIT revenue, from FY15-16 through FY22-23, is estimated to be $21,186,750 ($32,500,000 x 65.19%) for the state and $11,313,250 ($32,500,000 x 34.81%) for local government.
- Fifty percent of tax savings will be spent in the economy on other 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 incremental annual increase in state sales tax revenue, from FY15-16 through FY22-23, is estimated to be $1,137,500 ($32,500,000 x 50.0% x 7.0%); the incremental annual increase in local option sales tax revenue, from FY15-16 through FY22-23, is estimated to be $406,250 ($32,500,000 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 incremental annual increase in local sales tax revenue pursuant to the state-shared allocation, from FY15-16 through FY22-23, is estimated to be $41,143 ($1,137,500 x 3.617%).
- The net incremental annual increase in state sales tax revenue, from FY15-16 through FY22-23, is estimated to be $1,096,357 ($1,137,500 - $41,143).
- The total incremental annual increase in local sales tax revenue, from FY15-16 through FY22-23, is estimated to be $447,393 ($406,250 + $41,143).
- The net incremental annual decrease in state revenue as a result of this bill, from FY15-16 through FY22-23, is estimated to be $20,090,393 ($21,186,750 - $1,096,357).
- The net incremental annual decrease in local revenue as a result of this bill, from FY15-16 through FY22-23, is estimated to be $10,865,857 ($11,313,250 - $447,393).
- The net decrease in revenue per fiscal year as a result of this bill is estimated to be:
    - $20,090,393 state; $10,865,857 local in FY15-16

    - $40,180,786 state ($20,090,393 x 2); $21,731,714 local ($10,865,857 x 2) in FY16-17
    - $60,271,179 state ($20,090,393 x 3); $32,597,571 local ($10,865,857 x 3) in FY17-18
    - $80,361,572 state ($20,090,393 x 4); $43,463,428 local ($10,865,857 x 4) in FY18-19
    - $100,451,965 state ($20,090,393 x 5); $54,329,285 local ($10,865,857 x 5) in FY19-20
    - $120,542,358 state ($20,090,393 x 6); $65,195,142 local ($10,865,857 x 6) in FY20-21
    - $140,632,751 state ($20,090,393 x 7); $76,060,999 local ($10,865,857 x 7) in FY21-22
    - $160,723,144 state ($20,090,393 x 8); $86,926,856 local ($10,865,857 x 8) in FY22-23 and subsequent years.
- The Department of Revenue 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. All positions used for processing HIT returns will be eliminated under current law, by the time the HIT would be phased out under this bill.
- The Department will redeploy all six HIT auditors to other tax audit areas once HIT is phased out. The number of auditors that the Department intends to recruit will, therefore, decrease by six, resulting in a recurring cost avoidance of $354,648 to the Department, beginning in FY22-23.
- 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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