TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL NOTE

HB 1861 - SB 2239

February 17, 2014

SUMMARY OF BILL: Establishes that the Hall Income Tax (HIT) does not apply to the first $33,000 of income otherwise taxable for single filers 65 years of age or older, or to the first $59,000 of income for joint filers 65 years of age or older, for tax years beginning in 2014.

ESTIMATED FISCAL IMPACT:

On January 26, 2014, a fiscal note was issued estimating a fiscal impact as follows:

NOT SIGNIFICANT

Due to an incorrect assumption, this impact was in error. Based on additional information received from the Department of Revenue, the estimated fiscal impact is:

(CORRECTED)
Decrease State Revenue – Net Impact – $37,384,200

Decrease Local Revenue – Net Impact – $20,219,200

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.

Corrected 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 2014, and assuming that 100 percent of HIT owed for tax year 2014 is collected no later than June 30, 2015, the first year impacted by this bill will be FY14-15. 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. This number is assumed to remain constant in subsequent years under current law.
- Based on data provided by the Department of Revenue, it is estimated that the proposed changes to the initial exemption levels will result in a 23.26 percent reduction in HIT collections. 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.
- The recurring decrease in HIT collections is estimated to be $60,476,000 ($260,000,000 x 23.26%).
- 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 recurring decrease in HIT revenue retained by the state is estimated to be $39,424,304 ($60,476,000 x 65.19%); the recurring decrease in HIT revenue allocated to local government is estimated to be $21,051,696 ($60,476,000 x 34.81%).
- 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%) x 4.603%].
- The net recurring increase in state sales tax revenue is estimated to be $2,040,100 [($60,476,000 x 50.0% x 7.0%) - ($60,476,000 x 50.0% x 7.0% x 3.617%)].
- The total recurring increase in local sales tax revenue is estimated to be $832,510 [($60,476,000 x 50.0% x 2.5%) + ($60,476,000 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 $37,384,204 ($39,424,304 - $2,040,100).
- The net recurring decrease in local revenue as a result of this bill is estimated to be $20,219,186 ($21,051,696 - $832,510).
- 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 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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