

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

SB 25 – HB 14

January 30, 2013

SUMMARY OF BILL: Increases the Hall Income Tax (HIT) maximum allowable income exemption levels, for taxpayers 65 years of age or older, from \$26,200 to \$36,200 for single filers, and from \$37,000 to \$47,000 for joint filers, for tax years beginning in 2014.

ESTIMATED FISCAL IMPACT:

On January 22, 2013, a fiscal note was issued estimating a fiscal impact as follows:

Decrease State Revenue – Net Impact – \$1,008,300/FY14-15 and Subsequent Years

Decrease Local Revenue – Net Impact – \$615,100/FY14-15 and Subsequent Years

Due to a miscalculation, this impact was in error. This corrected fiscal note takes into account the requirement that no portion of sales tax revenue derived from two previous sales tax increases, 0.5 percent (effective April 1, 1992) and 1.0 percent (effective July 15, 2002), is to be distributed to the local government. Based on this information, the estimated fiscal impact is:

(CORRECTED)

Decrease State Revenue – Net Impact – \$1,007,700/FY14-15 and Subsequent Years

Decrease Local Revenue – Net Impact – \$615,700/FY14-15 and Subsequent Years

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 (DOR), increasing the maximum allowable exemption for single filers by \$10,000 (\$36,200 - \$26,200), and for joint filers by \$10,000 (\$47,000 - \$37,000), would impact approximately 4,313 single filers and

approximately 1,643 joint filers, and would result in a recurring decrease in HIT revenue of approximately \$1,704,380, beginning in FY14-15. The Fiscal Review Committee staff does not have access to the data and information upon which this calculation is based and cannot independently verify its 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 recurring decrease in HIT revenue for the state beginning in FY14-15 is estimated to be \$1,065,238 ($\$1,704,380 \times 62.5\%$); the recurring decrease in HIT revenue for local governments beginning in FY14-15 is estimated to be \$639,142 ($\$1,704,380 \times 37.5\%$).
- 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.
- The recurring increase in state sales tax revenue beginning in FY14-15 is estimated to be \$59,653 ($\$1,704,380 \times 50.0\% \times 7.0\%$); the recurring increase in local option sales tax revenue beginning in FY14-15 is estimated to be \$21,305 ($\$1,704,380 \times 50.0\% \times 2.5\%$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of all 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 recurring increase in state sales tax revenue beginning in FY14-15 is estimated to be \$57,495 [$\$59,653 - (\$59,653 \times 3.617\%)$]; the total recurring increase in sales tax revenue for local governments beginning in FY14-15 is estimated to be \$23,463 [$\$21,305 + (\$59,653 \times 3.617\%)$].
- The net recurring decrease in state revenue beginning in FY14-15 is estimated to be \$1,007,743 ($\$1,065,238 - \$57,495$).
- The net recurring decrease in local revenue beginning in FY14-15 is estimated to be \$615,679 ($\$639,142 - \$23,463$).

CERTIFICATION:

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



Lucian D. Geise, Executive Director

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