

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

SB 277 - HB 318

February 20, 2013

SUMMARY OF BILL: Phases out the occupational privilege tax on all occupations subject to the tax, except for National Basketball Association (NBA) players and National Hockey League (NHL) players, by reducing such tax \$40 per year over the next 10 years, effectively eliminating the tax after June 1, 2023.

ESTIMATED FISCAL IMPACT:

On February 17, 2013, a fiscal note was issued estimating a fiscal impact as follows:

Decrease State Revenue – Net Impact – \$7,483,500/FY13-14
\$14,967,000/FY14-15
\$22,450,400/FY15-16
\$29,933,900/FY16-17
\$37,417,400/FY17-18
\$44,900,900/FY18-19
\$52,384,400/FY19-20
\$59,867,800/FY20-21
\$67,351,300/FY21-22
\$74,834,800/FY22-23 and Subsequent Years

Increase Local Revenue – \$106,600/FY13-14
\$213,200/FY14-15
\$319,800/FY15-16
\$426,500/FY16-17
\$533,100/FY17-18
\$639,700/FY18-19
\$746,300/FY19-20
\$852,900/FY20-21
\$959,500/FY21-22
\$1,066,100/FY22-23 and Subsequent Years

Due to an omission, this impact was in error. Based on additional information provided by the Department of Revenue, the estimated fiscal impact is:

(CORRECTED)

Decrease State Revenue – Net Impact – \$7,483,500/FY13-14
\$14,967,000/FY14-15
\$22,450,400/FY15-16
\$29,933,900/FY16-17
\$37,417,400/FY17-18
\$44,900,900/FY18-19
\$52,384,400/FY19-20
\$59,867,800/FY20-21
\$67,351,300/FY21-22
\$74,834,800/FY22-23 and Subsequent Years

Decrease State Expenditures – \$88,320/FY13-14
\$176,640/FY14-15
\$264,960/FY15-16
\$353,280/FY16-17
\$441,600/FY17-18
\$529,920/FY18-19
\$618,240/FY19-20
\$706,560/FY20-21
\$794,880/FY21-22
\$883,200/FY22-23 and Subsequent Years

Increase Local Revenue – \$106,600/FY13-14
\$213,200/FY14-15
\$319,800/FY15-16
\$426,500/FY16-17
\$533,100/FY17-18
\$639,700/FY18-19
\$746,300/FY19-20
\$852,900/FY20-21
\$959,500/FY21-22
\$1,066,100/FY22-23 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 tax on persons engaging in specified occupations in Tennessee, due and payable on June 1 of each year.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- According to the Department of Revenue (DOR), occupational privilege tax collections, excluding collections from NBA and NHL players, in FY11-12 were \$77,447,434. It is assumed that the number of persons engaging in the occupations subject to the tax will remain constant into perpetuity.

- The first year impact of this bill will be FY13-14.
- The first year decrease in state revenue as a result of the \$40 reduction in the tax amount is estimated to be \$7,744,743 [$(\$77,447,434 / \$400) \times \40].
- There will be additional recurring decreases in state revenue of \$7,744,743 each year from FY14-15 thru FY22-23. As a result, the total decreases in state revenue are estimated to be:
 - \$7,744,743 in FY13-14
 - \$15,489,486 in FY14-15 ($\$7,744,743 \times 2$)
 - \$23,234,229 in FY15-16 ($\$7,744,743 \times 3$)
 - \$30,978,972 in FY16-17 ($\$7,744,743 \times 4$)
 - \$38,723,715 in FY17-18 ($\$7,744,743 \times 5$)
 - \$46,468,458 in FY18-19 ($\$7,744,743 \times 6$)
 - \$54,213,201 in FY19-20 ($\$7,744,743 \times 7$)
 - \$61,957,944 in FY20-21 ($\$7,744,743 \times 8$)
 - \$69,702,687 in FY21-22 ($\$7,744,743 \times 9$)
 - \$77,447,434 in FY22-23 and subsequent years ($\$7,744,743 \times 10$) as a result of the complete phase-out of the occupational privilege tax on the specified occupations.
- Fifty percent of tax savings will be spent in the economy on sales taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The increase in state sales tax revenue in FY13-14 is estimated to be \$271,066 ($\$7,744,743 \times 50.0\% \times 7.0\%$); the recurring increase in local option sales tax revenue in FY13-14 is estimated to be \$96,809 ($\$7,744,743 \times 50.0\% \times 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\%) \times 4.603\%$].
- The net increase in state sales tax revenue in FY13-14 is estimated to be \$261,262 [$\$271,066 - (\$271,066 \times 3.617\%)$]; the total increase in sales tax revenue for local governments in FY13-14 is estimated to be \$106,613 [$\$96,809 + (\$271,066 \times 3.617\%)$].
- There will be additional recurring increases in sales tax revenue of \$261,262 and additional recurring increases in local sales tax revenue of \$106,613 for FY14-15 thru FY22-23. As a result, the total increases in sales tax revenue are estimated to be:
 - \$261,262 state; \$106,613 local in FY13-14
 - \$522,524 state ($\$261,262 \times 2$); \$213,226 local ($\$106,613 \times 2$) in FY14-15
 - \$783,786 state ($\$261,262 \times 3$); \$319,839 local ($\$106,613 \times 3$) in FY15-16
 - \$1,045,048 state ($\$261,262 \times 4$); \$426,452 local ($\$106,613 \times 4$) in FY16-17
 - \$1,306,310 state ($\$261,262 \times 5$); \$533,065 local ($\$106,613 \times 5$) in FY17-18
 - \$1,567,572 state ($\$261,262 \times 6$); \$639,678 local ($\$106,613 \times 6$) in FY18-19
 - \$1,828,834 state ($\$261,262 \times 7$); \$746,291 local ($\$106,613 \times 7$) in FY19-20

- \$2,090,096 state (\$261,262 x 8); \$852,904 local (\$106,613 x 8) in FY20-21
- \$2,351,358 state (\$261,262 x 9); \$959,517 local (\$106,613 x 9) in FY21-22
- \$2,612,620 state (\$261,262 x 10); \$1,066,130 local (\$106,613 x 10) in FY22-23 and subsequent years as a result of 50 percent of tax savings being spent in the economy on sales taxable goods and services.
- The net decrease in state revenue as a result of this bill is estimated to be:
 - \$7,483,481 in FY13-14 (\$7,744,743 - \$261,262)
 - \$14,966,962 in FY14-15 (\$15,489,486 - \$522,524)
 - \$22,450,443 in FY15-16 (\$23,234,229 - \$783,786)
 - \$29,933,924 in FY16-17 (\$30,978,972 - \$1,045,048)
 - \$37,417,405 in FY17-18 (\$38,723,715 - \$1,306,310)
 - \$44,900,886 in FY18-19 (\$46,468,458 - \$1,567,572)
 - \$52,384,367 in FY19-20 (\$54,213,201 - \$1,828,834)
 - \$59,867,848 in FY20-21 (\$61,957,944 - \$2,090,096)
 - \$67,351,329 in FY21-22 (\$69,702,687 - \$2,351,358)
 - \$74,834,814 in FY22-23 and subsequent years (\$77,447,434 - \$2,612,620).
- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- According to DOR, the State of Tennessee has paid a total of \$883,200 in FY11-12 on behalf of 2,208 of its employees (2,208 x \$400). This number is included in the total annual collections of \$77,447,434 and is assumed to remain constant into perpetuity.
- The first year decrease in state expenditures as a result of the \$40 reduction in the tax amount is estimated to be \$88,320 (2,208 x \$40).
- There will be additional recurring decreases in state expenditures of \$88,320 each year from FY14-15 thru FY22-23. As a result, the total decreases in state expenditures are estimated to be:
 - \$88,320 in FY13-14
 - \$176,640 in FY14-15 (\$88,320 x 2)
 - \$264,960 in FY15-16 (\$88,320 x 3)
 - \$353,280 in FY16-17 (\$88,320 x 4)
 - \$441,600 in FY17-18 (\$88,320 x 5)
 - \$529,920 in FY18-19 (\$88,320 x 6)
 - \$618,240 in FY19-20 (\$88,320 x 7)
 - \$706,560 in FY20-21 (\$88,320 x 8)
 - \$794,880 in FY21-22 (\$88,320 x 9)
 - \$883,200 in FY22-23 and subsequent years (\$88,320 x 10) as a result of the complete phase-out of the occupational privilege tax on the specified occupations.
- According to DOR, there will be no staff reductions as a result of phasing-out the occupational privilege tax.

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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