

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 427 - HB 576

March 12, 2013

SUMMARY OF BILL: Exempts from the Hall Income Tax (HIT) any income derived from any stock in any entity doing business in Tennessee that is: a bank holding company; an S corporation, an owner of a controlling interest in a Tennessee state bank or savings institution, national bank or federally chartered savings institution.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$1,294,400/FY13-14
\$1,428,400/FY14-15
\$1,576,200/FY15-16 and Subsequent Years

Decrease Local Revenue – Net Impact – \$790,800/FY13-14
\$872,700/FY14-15
\$963,000/FY15-16 and Subsequent Years

Assumptions:

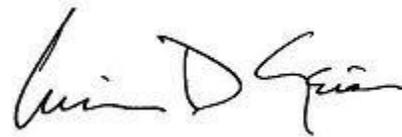
- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.5 percent of HIT revenue; local governments are apportioned 37.5 percent.
- According to the Department of Revenue (DOR), subchapter S bank holding companies have paid \$38,741,000 in dividends in 2012. Of that amount, \$2,001,603 was paid out to out-of-state shareholders and would not be subject to HIT.
- Further, the exact amount of dividends that would be exempted under current law pursuant to Tenn. Code Ann. § 67-2-104 is unknown, but reasonably estimated to be ten percent of the dividends paid out to Tennessee residents.
- The total amount of dividends paid in 2012 and subject to HIT is estimated to be \$33,065,457 [(\$38,741,000 - \$2,001,603) x 90.0%].
- According to DOR, Capital Asset Pricing Model was used to derive the required rate of return for ten publicly-traded bank holding companies, which was then used, with current dividends and share prices in the Gordon Growth Model, to determine the future dividend growth expected by the market into perpetuity.
- The future dividend growth rate is estimated to be 10.35 percent.

- Taxable dividends are estimated to be: \$36,487,732 ($\$33,065,457 \times 110.35\%$) in calendar year 2013 to be taxed in FY13-14; \$40,264,212 ($\$36,487,732 \times 110.35\%$) in calendar year 2014 to be taxed in FY14-15; \$44,431,558 ($\$40,264,212 \times 110.35\%$) in calendar year 2015 to be taxed in FY15-16; and will continue increasing by 10.35 percent into perpetuity.
- For the purposes of this fiscal note, any decrease occurring in revenue occurring in FY15-16 is assumed to remain constant into perpetuity.
- The resulting decrease in HIT revenue is estimated to be:
 - \$2,189,264 ($\$36,487,732 \times 6.0\%$) in FY13-14, of which \$1,368,290 will be the state's portion and \$820,974 will be the local portion;
 - \$2,415,853 ($\$40,264,212 \times 6.0\%$) in FY14-15, of which \$1,509,908 will be the state's portion and \$905,945 will be the local portion;
 - \$2,665,893 ($\$44,431,558 \times 6.0\%$) in FY15-16 and subsequent years, of which \$1,666,183 will be the state's portion and \$999,710 will be the local portion;
- 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 attributable to 50 percent of HIT savings being spent in the economy on sales-taxable goods and services is estimated to be \$76,624 ($\$2,189,264 \times 50.0\% \times 7.0\%$); the increase in local option sales tax revenue is estimated to be \$27,366 ($\$2,189,264 \times 50.0\% \times 2.5\%$).
- 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 increase in local revenue in FY13-14 pursuant to the state-shared allocation is estimate to be \$2,771 ($\$76,624 \times 3.617\%$).
- The net increase in state sales tax revenue in FY13-14 is estimated to be \$73,853 ($\$76,624 - \$2,771$).
- The total increase in local sales tax revenue in FY13-14 is estimated to be \$30,137 ($\$27,366 + \$2,771$).
- The net decrease in state revenue as a result of this bill in FY13-14 is estimated to be \$1,294,437 ($\$1,368,290 - \$73,853$).
- The net decrease in local revenue as a result of this bill in FY13-14 is estimated to be \$790,837 ($\$820,974 - \$30,137$).
- The increase in state sales tax revenue in FY14-15 attributable to 50 percent of HIT savings being spent in the economy on sales-taxable goods and services is estimated to be \$84,555 ($\$2,415,853 \times 50.0\% \times 7.0\%$); the increase in local option sales tax revenue is estimated to be \$30,198 ($\$2,415,853 \times 50.0\% \times 2.5\%$).

- The increase in local revenue in FY14-15 pursuant to the state-shared allocation is estimated to be \$3,058 ($\$84,555 \times 3.617\%$).
- The net increase in state sales tax revenue in FY14-15 is estimated to be \$81,497 ($\$84,555 - \$3,058$).
- The total increase in local sales tax revenue in FY14-15 is estimated to be \$33,256 ($\$30,198 + \$3,058$).
- The net decrease in state revenue as a result of this bill in FY14-15 is estimated to be \$1,428,411 ($\$1,509,908 - \$81,497$).
- The net decrease in local revenue as a result of this bill in FY14-15 is estimated to be \$872,689 ($\$905,945 - \$33,256$).
- The increase in state sales tax revenue in FY15-16 and subsequent years attributable to 50 percent of HIT savings being spent in the economy on sales-taxable goods and services is estimated to be \$93,306 ($\$2,665,893 \times 50.0\% \times 7.0\%$); the increase in local option sales tax revenue is estimated to be \$33,327 ($\$2,665,893 \times 50.0\% \times 2.5\%$).
- The increase in local revenue in FY15-16 and subsequent years pursuant to the state-shared allocation is estimated to be \$3,365 ($\$93,306 \times 3.617\%$).
- The net increase in state sales tax revenue in FY15-16 and subsequent years is estimated to be \$89,941 ($\$93,306 - \$3,365$).
- The total increase in local sales tax revenue in FY15-16 and subsequent years is estimated to be \$36,692 ($\$33,327 + \$3,365$).
- The net decrease in state revenue as a result of this bill in FY15-16 and subsequent years is estimated to be \$1,576,242 ($\$1,666,183 - \$89,941$).
- The net decrease in local revenue as a result of this bill in FY15-16 and subsequent years is estimated to be \$963,018 ($\$999,710 - \$36,692$).

CERTIFICATION:

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



Lucian D. Geise, Executive Director

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