TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL NOTE

SB 901 - HB 740

March 7, 2013

SUMMARY OF BILL: Exempts from state and local sales tax the retail sale in this state of tangible personal property or services to any other state or to any county or municipality of another state.

ESTIMATED FISCAL IMPACT:

On February 15, 2013, a fiscal note was issued estimating a fiscal impact as follows:

Decrease State Revenue – Net Impact – Exceeds $134,900

Decrease Local Revenue – Exceeds $55,100

Due to subsequent information and review, additional fiscal impact should have been taken into account in the analysis of the original fiscal note. The corrected fiscal note takes into account secondary economic impacts that may occur as a result of this bill. The estimated fiscal impact is:

(CORRECTED)
Decrease State Revenue – Net Impact – Exceeds $134,900

Decrease Local Revenue – Exceeds $55,100

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may occur if any additional spending in Tennessee, prompted by passage of this bill, leads to subsequent investment and purchases by Tennessee businesses and Tennessee business owners. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- The fiscal impact of this bill is dependent upon several unknown factors such as the extent of tangible personal property or service purchases made in Tennessee by other states, the extent of tangible personal property or service purchases made in Tennessee by counties and municipalities of other states, and the extent to which such purchases are taxable and exempt under current law.

- Taxable sales of tangible personal property or services are made in Tennessee to non-Tennessee governmental entities under current law.
- The exemption proposed by this bill will cause a recurring decrease in state sales tax revenue, a recurring decrease in state-shared sales tax revenue apportioned to local governments, and a recurring decrease in local option sales tax revenue to local governments.
- Given the extent of unknown factors, a precise estimate for this bill is difficult. However, taxable sales of tangible personal property made in Tennessee by non-Tennessee governmental entities are reasonably estimated, based on information provided by the Department of Revenue, to exceed $2,000,000 per year statewide.
- The current state sales tax rate on tangible personal property or services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring decrease in state sales tax revenue is estimated to exceed $140,000 ($2,000,000 x 7.0%); the recurring decrease in local option sales tax revenue is estimated to exceed $50,000 ($2,000,000 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 recurring decrease in local revenue pursuant to the state-shared allocation is estimated to exceed $5,064 ($140,000 x 3.617%).
- The net recurring decrease in state revenue is estimated to exceed $134,936 ($140,000 - $5,064).
- The total recurring decrease in local revenue is estimated to exceed $55,064 ($50,000 + $5,064).
- There could be subsequent increases in state and local government revenue due to secondary economic impacts. Such secondary economic impacts may occur if any additional spending in Tennessee, prompted by passage of this bill, causes subsequent increases in investment and spending by Tennessee businesses and Tennessee business owners via multiplier effect. Due to multiple unknown factors, such as the extent of any additional spending in Tennessee, the extent of investment and additional purchases made by Tennessee businesses and Tennessee business owners, and the extent to which any investments or purchases are taxable, the fiscal impacts directly associated with 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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