TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1448 – HB 2066

February 10, 2014

SUMMARY OF BILL: Repeals the Hall Income Tax (HIT) effective July 1, 2014.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $80,361,600/FY14-15
$160,723,100/FY15-16 and Subsequent Years

State Expenditures – Cost Avoidance – $373,600/FY16-17 and Subsequent Years

Decrease Local Revenue – Net Impact – $43,463,400/FY14-15
$86,926,900/FY15-16 and Subsequent Years

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.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or interest on bonds.
- Given that the repeal is effective July 1, 2014, and since the bill does not change the due date of the return, it is estimated that most tax returns for the period from January 1, 2014, to July 1, 2014, will be due by April 15, 2015. Therefore, the first year impacted by this bill will be FY14-15.
- 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.
- It is assumed that interest and dividend payments are evenly distributed throughout a calendar year. Therefore, the first year impact will be equal to 50 percent of the first full-year impact.

- The decrease in HIT collections is estimated to be $130,000,000 ($260,000,000 x 50%) in FY14-15, and $260,000,000 in FY15-16 and subsequent years.
- Based on 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 decrease in HIT revenue for the state is estimated to be $84,747,000 ($130,000,000 x 65.19%) in FY14-15, and $169,494,000 ($260,000,000 x 65.19%) in FY15-16 and subsequent years.
- The decrease in HIT revenue for local government is estimated to be $45,253,000 ($130,000,000 x 34.81%) in FY14-15, and $90,506,000 ($260,000,000 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 increase in state sales tax revenue is estimated to be $4,385,426 [($130,000,000 x 50.0% x 7.0%) - ($130,000,000 x 50.0% x 7.0% x 3.617%)] in FY14-15 and $8,770,853 [($260,000,000 x 50.0% x 7.0%) - ($260,000,000 x 50.0% x 7.0% x 3.617%)] in FY15-16 and subsequent years.
- The total increase in local sales tax revenue is estimated to be $1,789,574 [($130,000,000 x 50.0% x 2.5%) + ($130,000,000 x 50.0% x 7.0% x 3.617%)] in FY14-15 and $3,579,147 [($260,000,000 x 50.0% x 2.5%) + ($260,000,000 x 50.0% x 7.0% x 3.617%)] in FY15-16 and subsequent years.
- The net decrease in state revenue as a result of this bill is estimated to be $80,361,574 ($84,747,000 - $4,385,426) in FY14-15, and $160,723,147 ($169,494,000 - $8,770,853) in FY15-16 and subsequent years.
- The net decrease in local revenue as a result of this bill is estimated to be $43,463,426 ($45,253,000 - $1,789,574) in FY14-15, and $86,926,853 ($90,506,000 - $3,579,147) in FY15-16 and subsequent years.
- The Department of Revenue will redeploy all six HIT auditors to other tax audit areas once HIT is fully phased out. The number of auditors that the Department intends to recruit will, therefore, decrease by six, resulting in a recurring cost avoidance of $373,629, beginning in FY16-17. According to the Department, due to filing extensions and late filings, all auditors with remain in the HIT division through FY15-16.
- 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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