TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1838 - HB 1835

March 6, 2014

SUMMARY OF BILL: Establishes that the qualified headquarters facility sales and use tax credits will apply to any taxpayer that establishes a qualified headquarters facility and that has made:

1. An investment of at least $10,000,000 during the investment period in a facility, either newly constructed, expanded or remodeled, along with the creation of at least 100 new full-time jobs in conjunction with the construction, expansion or remodeling of the facility; or
2. For any taxpayer that has established its international or national headquarters in Tennessee and elects to expand its headquarters facility:
    a. An investment of at least $10,000,000, along with the creation of at least 100 new full-time jobs;
    b. An investment of at least $50,000,000, along with the creation of at least 50 new full-time jobs; or
    c. An investment of at least $100,000,000, along with the creation of at least 100 new full-time jobs in conjunction with the expansion or remodeling of the facility that has a capacity of at least 500 employees.

Establishes that minimum investment includes, but is not limited to, the purchase price of an existing building and the cost of building materials, labor, equipment, furniture, fixtures, computer software, parking facilities and landscaping, but does not include land or inventory. Establishes that companies establishing new headquarters may only take credit for tangible personal property directly related to the creation of new full-time jobs, and that companies expanding their headquarters are not subject to such restriction. Establishes that this Act shall apply to minimum investments beginning on or after January 1, 2012.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $6,309,600/FY14-15
$11,087,700/FY15-16 and Subsequent Years

Decrease Local Revenue – $236,800/FY14-15
$416,100/FY15-16 and Subsequent Years

Assumptions:

- The Department of Revenue has identified four taxpayers which would qualify for increased sales and use tax credits as a result of this bill.
- Investments made after January 1, 2012, and through the present time are assumed to generate credits used in FY14-15. For investments currently under construction and expected to continue for some time, credits are apportioned as follows: 75 percent to FY14-15 and 25 percent to FY15-16. Investments which have not yet begun construction are assumed to generate credits that will be used in FY15-16.
- Based on information provided by the Department, it is estimated that, under current law, four identified investments would generate credits of $4,178,571 in FY14-15, and $7,248,706 in FY15-16.
- Under this bill, the provision that the tax credits must be directly related to the creation of new jobs is removed. As a result, the four identified investments are estimated to generate credits of $10,725,000 in FY14-15, and $18,752,500 in FY15-16.
- The resulting decrease in revenue is estimated to be $6,546,429 ($10,725,000 - $4,178,571) in FY14-15, and $11,503,794 ($18,752,500 - $7,248,706) in FY15-16. The FY15-16 impact is assumed to be recurring as future headquarters expansions for other firms could also qualify for extended credits under this bill.
- 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(p), 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 decrease in state revenue is estimated to be $6,309,645 in FY14-15 [$6,546,429 – ($6,546,429 x 3.617%)], and $11,087,702 in FY15-16 and subsequent years [$11,503,794 – ($11,503,794 x 3.617%)].
- The decrease in local revenue is estimated to be $236,784 in FY14-15 ($6,546,429 x 3.617%), and $416,092 in FY15-16 and subsequent years ($11,503,794 x 3.617%).

CERTIFICATION:

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

Lucian D. Geise, Executive Director

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