TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 47 – HB 813

April 19, 2016

SUMMARY OF ORIGINAL BILL: Establishes that in any year, beginning with FY14-15, in which state revenue growth exceeds three percent over the previous fiscal year, the Hall Income Tax (HIT) rate will be reduced by one percentage point on January 1 for the following calendar year; except that when the rate is reduced to three percent and in the event state revenue growth exceeds three percent over the previous fiscal year after such reduced rate becomes effective, then the subsequent reduction to the rate shall be three-fourths of one percent. Requires the Commissioner of Finance and Administration (F&A), in consultation with the Commissioner of Revenue, on June 15 of any such fiscal year, to certify the amount of the state tax revenue collected for the then current fiscal year and notify the Governor, Speakers of the Senate and House of Representatives, and State Treasurer of such amount, including the amount of any surplus state tax revenue collected. Requires the Commissioner of Revenue to publish, by September 1 immediately following the certification, the HIT rate at which the income derived from stocks and dividends shall be taxed beginning of January 1 of the next calendar year. Changes the local government distribution rate, after any deductions for necessary administrative expenses, from 37.50 percent to: 45.00 percent when the HIT rate is 5.00 percent; 56.25 percent when the HIT rate is 4.00 percent; 75.00 percent when the HIT rate is 3.00 percent; and 100.00 percent when the HIT rate is 2.25 percent, 1.50 percent, or 0.75 percent. Defines "state revenue growth" as, for any tax year, the percentage increase in revenue derived from state taxes and collected by the state.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact –
$43,468,500/FY17-18
$86,954,900/FY18-19
$130,445,900/FY19-20
$163,054,000/FY20-21
$164,139,600/FY21-22
$165,225,200/FY22-23
$166,310,800/FY23-24 and Subsequent Years

Decrease State Expenditures – $500,000/FY24-25 and Subsequent Years

Increase Local Revenue – Net Impact –
$606,000/FY17-18
$1,229,900/FY18-19
$1,858,400/FY19-20

$2,319,600/FY20-21

Decrease Local Revenue – Net Impact –
$28,741,600/FY21-22
$59,802,900/FY22-23
$90,864,200/FY23-24 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.

Any change in the fiscal impact as a result of state revenue growth not exceeding three percent over the previous fiscal year will be contingent upon the specific fiscal year in which such growth was not exceeded, and the apportionment rate for local government for any such fiscal year. The fiscal impact for the bill in such instances will be significant to both state and local government; however, any such fiscal impacts cannot be quantified.

SUMMARY OF AMENDMENT (015921): Deletes all language of the original bill. Decreases the HIT rate from six percent to five percent for tax years that begin on or after January 1, 2016. Establishes the legislative intent that the HIT be eliminated on or before January 1, 2021 through annual reductions made by enactments of general bills beginning with the first annual session of the 110th General Assembly.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Net Impact – $27,718,500

Decrease Local Revenue – Net Impact – $15,144,000

Other Fiscal Impact – To the extent the General Assembly further reduces the Hall Income Tax rate annually through enactment of a general bill, and that such reductions are equal to one percent each year, the net decrease in revenue is estimated to be: $55,436,900 for the state and $30,288,100 for the locals in FY17-18; $83,155,400 for the state and $45,432,100 for the locals in FY18-19; $110,873,900 for the state and $60,576,100 for the locals in FY19-20; $138,592,300 for the state and $75,720,200 for the locals in FY20-21; and $166,310,800 for the state and $90,864,200 for the locals in FY21-22 and subsequent years. The Department of Revenue would eliminate all HIT audit positions once HIT is phased out. The recurring decrease in state expenditures is estimated to be approximately $500,000, beginning in FY22-23.

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 impacts cannot be quantified with reasonable certainty.

Assumptions for the bill as amended:

- 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.
- Given the tax changes shall be applied to tax years beginning with tax year 2016, and assuming that 100 percent of HIT owed for tax year 2016 is collected no later than June 30, 2017, the first year impacted by this bill will be FY16-17. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is $270,000,000. This number is assumed to remain constant in subsequent years under current law.
- The recurring decrease in HIT collections is estimated to be $45,000,000 [($270,000,000 / 6.0%) x 1.0%].
- Based on apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.
- The recurring decrease in HIT revenue is estimated to be $29,236,500 ($45,000,000 x 64.97%) for the state, and $15,763,500 ($45,000,000 x 35.03%) for the local government.
- 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 effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in sales tax revenue for the state, beginning in FY17-18, is estimated to be $1,518,032 [($45,000,000 x 50.0% x 7.0%) – ($45,000,000 x 50.0% x 7.0% x 3.617%)].
- The total recurring increase in sales tax revenue for the local government, beginning in FY17-18, is estimated to be $619,468 [($45,000,000 x 50.0% x 2.5%) + ($45,000,000 x 50.0% x 7.0% x 3.617%)].
- The net recurring decrease in state revenue is estimated to be $27,718,468 ($29,236,500 - $1,518,032).
- The net recurring decrease in local government revenue is estimated to be $15,144,032 ($15,763,500 - $619,468).
- To the extent that the General Assembly further reduces the HIT rate annually, beginning with the first annual sessions of the 110th General Assembly, and that such reductions are equal to 1.00 percent each year, there would be an additional decrease in state revenue of $27,718,468 and an additional decrease in local revenue of $15,144,032 each year such reduction takes place, until the tax is fully phased out.

- The net decreases in revenue would be: $55,436,936 for the state and $30,288,065 for the locals in FY17-18; $83,155,403 for the state and $45,432,097 for the locals in FY18-19; $110,873,871 for the state and $60,576,129 for the locals in FY19-20; $138,592,339 for the state and $75,720,161 for the locals in FY20-21; and $166,310,807 for the state and $90,864,194 for the locals in FY21-22 and subsequent years.
- The Department of Revenue would eliminate all HIT audit positions once HIT is phased out. The recurring decrease in state expenditures is estimated to be approximately $500,000, beginning in FY22-23. Due to filing extensions and late filings, all auditors would remain in the HIT division through FY21-22.
- 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 changes. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

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

Krista M. Lee

Krista M. Lee, Executive Director

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