

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2059 - SB 2285

March 1, 2016

SUMMARY OF BILL: Decreases, from seven percent to five percent, the state sales and use tax on the retail sale of diapers, feminine hygiene products, and over-the-counter drugs otherwise subject to the sales tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$14,679,000

Decrease Local Revenue – Net Impact – \$353,600

Assumptions:

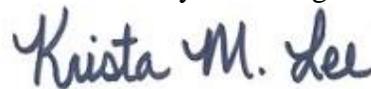
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- There are approximately 240,050 children in Tennessee under the age of three, who are estimated to use an average of 6 diapers per day over the 3-year period, for a total of 525,709,500 diapers per year (240,050 x 6 x 365).
- The average cost per diaper is estimated to be \$0.20.
- The recurring decrease in state sales tax collections resulting from a two percent tax rate decrease on the retail sale of diapers is estimated to be \$2,026,778 [(525,709,500 x \$0.20 x 2.0%) – (525,709,500 x \$0.20 x 2.0% x 3.617%)].
- The recurring decrease in local sales tax collections resulting from a two percent tax rate decrease on the retail sale of diapers is estimated to be \$76,060 (525,709,500 x \$0.20 x 2.0% x 3.617%).
- There are approximately 1,750,417 women in Tennessee between the age of 15 and 55.
- Assuming that each woman spends approximately \$120 each year on feminine hygiene products, total sales of such products are estimated to be \$210,050,040 (1,750,417 x \$120).
- The recurring decrease in state sales tax collections resulting from a two percent tax rate decrease on the retail sale of feminine hygiene products is estimated to be \$4,049,051 [(\$210,050,040 x 2.0%) – (\$210,050,040 x 2.0% x 3.617%)].
- The recurring decrease in local sales tax collections resulting from a two percent tax rate decrease on the retail sale of feminine hygiene products is estimated to be \$151,950 (\$210,050,040 x 2.0% x 3.617%).

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- According to Nielsen Company, total 2014 national over-the-counter sales are estimated to be \$30,824,000,000.
- Based on United States Bureau of the Census data, Tennessee population is estimated to be approximately 2.05 percent of the national population.
- Total over-the-counter sales of medicine in Tennessee are estimated to be \$631,892,000 ($\$30,824,000,000 \times 2.05\%$).
- Seventy five percent of such sales, or \$473,919,000, is estimated to be subject to the sales tax under current law.
- The recurring decrease in state sales tax collections resulting from a two percent tax rate decrease on the retail sale of over-the-counter drugs is estimated to be \$9,135,547 [$(\$473,919,000 \times 2.0\%) - (\$473,919,000 \times 2.0\% \times 3.617\%)$].
- The recurring decrease in local sales tax collections resulting from a two percent tax rate decrease on the retail sale of over-the-counter drugs is estimated to be \$342,833 ($\$473,919,000 \times 2.0\% \times 3.617\%$).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Total tax savings are estimated to be \$15,782,219 ($\$2,026,778 + \$76,060 + \$4,049,051 + \$151,950 + \$9,135,547 + \$342,833$).
- The net recurring increase in sales tax revenue for the state is estimated to be \$532,399 [$(\$15,782,219 \times 50.0\% \times 7.0\%) - (\$15,782,219 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The total recurring increase in sales tax revenue for the local government is estimated to be \$217,257 [$(\$15,782,219 \times 50.0\% \times 2.5\%) + (\$15,782,219 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$14,678,977 [$(\$2,026,778 + \$4,049,051 + \$9,135,547) - \$532,399$].
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$353,586 [$(\$76,060 + \$151,950 + \$342,833) - \$217,257$].

CERTIFICATION:

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



Krista M. Lee, Executive Director

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