TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2 – HB 1169

February 24, 2015

SUMMARY OF BILL: Phases out the Hall Income Tax (HIT) over a three-year period consisting of a tax rate reduction from six percent to four percent for tax year 2016, a tax rate reduction from four percent to two percent for tax year 2017, and a tax rate reduction from two percent to zero for tax year 2018 and all subsequent tax years.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $55,544,900/FY16-17
$111,089,900/FY17-18
$166,634,800/FY18-19 and Subsequent Years

Decrease State Expenditures – $500,000/FY19-20 and Subsequent Years

Decrease Local Revenue – Net Impact – $30,180,100/FY16-17
$60,360,100/FY17-18
$90,540,200/FY18-19 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 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 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 FY15-16 is $270,000,000.
- Taxable income in FY15-16 is estimated to be $4,500,000,000 ($270,000,000 / 6.0%). This number is assumed to remain constant in subsequent years.

- The decrease in HIT collections is estimated to be $90,000,000 ($4,500,000,000 taxable income x 2.0% rate reduction) in FY16-17; $180,000,000 ($4,500,000,000 taxable income x 4.0% rate reduction) in FY17-18; and $270,000,000 ($4,500,000,000 taxable income x 6.0% rate reduction) in FY18-19 and subsequent years.
- Based on the apportionments of HIT collections for the last three fiscal years (FY11-12, FY12-13, and FY13-14), it is estimated that the state retains 65.09 percent of HIT revenue and local governments are apportioned 34.91 percent.
- The decrease in HIT revenue for the state is estimated to be: $58,581,000 ($90,000,000 x 65.09%) in FY16-17, $117,162,000 ($180,000,000 x 65.09%) in FY17-18, and $175,743,000 ($270,000,000 x 65.09%) in FY18-19 and subsequent years.
- The decrease in HIT revenue for the local government is estimated to be: $31,419,000 ($90,000,000 x 34.91%) in FY16-17, $62,838,000 ($180,000,000 x 34.91%) in FY17-18, and $94,257,000 ($270,000,000 x 34.91%) in FY18-19 and subsequent years.
- Fifty percent of tax savings will be spent in the economy on other 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 increase in state sales tax revenue is estimated to be: $3,036,065 [($90,000,000 x 50.0% x 7.0%) – ($90,000,000 x 50.0% x 7.0% x 3.617%)] in FY16-17; $6,072,129 [($180,000,000 x 50.0% x 7.0%) – ($180,000,000 x 50.0% x 7.0% x 3.617%)] in FY17-18; and $9,108,194 [($270,000,000 x 50.0% x 7.0%) – ($270,000,000 x 50.0% x 7.0% x 3.617%)] in FY18-19 and subsequent years.
- The total increase in local sales tax revenue is estimated to be: $1,238,936 [($90,000,000 x 50.0% x 2.5%) + ($90,000,000 x 50.0% x 7.0% x 3.617%)] in FY16-17; $2,477,871 [($180,000,000 x 50.0% x 2.5%) + ($180,000,000 x 50.0% x 7.0% x 3.617%)] in FY17-18; and $3,716,807 [($270,000,000 x 50.0% x 2.5%) + ($270,000,000 x 50.0% x 7.0% x 3.617%)] in FY18-19 and subsequent years.
- The net decrease in state revenue as a result of this bill is estimated to be: $55,544,935 ($58,581,000 - $3,036,065) in FY16-17; $111,089,871 ($117,162,000 - $6,072,129) in FY17-18; and $166,634,806 ($175,743,000 - $9,108,194) in FY18-19 and subsequent years.
- The net decrease in local revenue as a result of this bill is estimated to be: $30,180,064 ($31,419,000 - $1,238,936) in FY16-17; $60,360,129 ($62,838,000 - $2,477,871) in FY17-18; and $90,540,193 ($94,257,000 - $3,716,807) in FY18-19 and subsequent years.
- The Department of Revenue will eliminate all seven HIT audit positions once HIT is phased out. The recurring decrease in state expenditures is estimated to be approximately $500,000, beginning in FY19-20. Due to filing extensions and late filings, all auditors will remain in the HIT division through FY18-19.
- 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 impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

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

Jeffrey L. Spalding, Executive Director

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