

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1440 - HB 2154

January 25, 2016

SUMMARY OF BILL: Decreases the Hall Income Tax (HIT) rate from six percent to five percent for tax years that begin on or after January 1, 2017, for any taxpayer who is a veteran with a service-connected disability.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$54,800/FY17-18 and Subsequent Years

Increase State Expenditures – \$15,000/FY17-18

Decrease Local Revenue – Net Impact – \$29,900/FY17-18 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:

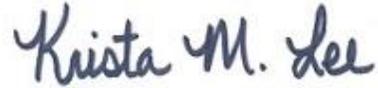
- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. 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 definition of a “veteran with a service-connected disability” proposed in this bill is similar to the definition of a “disabled veteran” under Tenn. Code Ann. § 55-4-237, which is used for determinations regarding disabled veteran license plate issuance.

- The Department of Revenue (DOR) reports that, as of January 4, 2016, there are 25,650 license plates registered as disabled veterans with wheelchair and 4,899 license plates registered as disabled veterans without wheelchair, for a total of 30,549 disabled veteran license plates (25,650 + 4,899).
- DOR further reports that, in tax year 2013, 4.1 percent of taxpayers who filed IRS Form 1040 filed non-zero HIT returns (120,334 non-zero returns / 2,908,080 IRS Form 1040 filed). It is therefore estimated that 1,252 taxpayers who are veterans with service-connected disabilities will file a non-zero HIT return in future years (30,549 x 4.1%).
- The median HIT owed by the 120,234 taxpayers who filed non-zero HIT returns in tax year 2013 was \$428. Reducing the HIT rate by one percentage point, from six percent to five percent, would reduce the median owed amount by \$71 [(\$428 / 6.0%) x 1.0%].
- The recurring decrease in HIT revenue, beginning in FY17-18, is estimated to be \$88,892 (1,252 x \$71).
- 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, beginning in FY17-18, is estimated to be \$57,753 (\$88,892 x 64.97%) for the state, and \$31,139 (\$88,892 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 \$2,999 [(\$88,892 x 50.0% x 7.0%) - (\$88,892 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 \$1,223 [(\$88,892 x 50.0% x 2.5%) + (\$88,892 x 50.0% x 7.0% x 3.617%)].
- The net recurring decrease in state revenue, beginning in FY17-18, is estimated to be \$54,754 (\$57,753 - \$2,999).
- The net recurring decrease in local government revenue, beginning in FY17-18, is estimated to be \$29,916 (\$31,139 - \$1,223).
- DOR's Information Technology Resources Division estimates that the proposed changes would require multiple modifications, including, but not limited to: a change to the exemptions and calculations on the HIT returns, a new Form Definition, keying program changes, reformat changes, and software vendor changes. Any changes by the Division's staff or Strategic Technology Solutions' staff will be accomplished utilizing existing personnel during regular work-hours. However, it is confirmed that the vendor changes will result in a one-time increase in state expenditures of approximately \$15,000 in FY17-18.
- 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.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive style with a large initial 'K'.

Krista M. Lee, Executive Director

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