TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL NOTE

SB 1461 – HB 1822

February 15, 2016

SUMMARY OF BILL: Decreases the Hall Income Tax (HIT) rate from six percent to five and one-half percent for tax years that begin on or after January 1, 2017.

ESTIMATED FISCAL IMPACT:

On January 11, 2016, a fiscal note was issued estimating a fiscal impact as follows:

Decrease State Revenue – Net Impact – $13,859,200

Decrease Local Revenue – Net Impact – $7,572,000

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.

The estimated fiscal impact incorrectly represented the first fiscal year that would be impacted by the proposed legislation. Based on additional review, the estimated fiscal impact is:

(CORRECTED)
Decrease State Revenue – Net Impact – $13,859,200/FY17-18 and Subsequent Years

Decrease Local Revenue – Net Impact – $7,572,000/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.

Corrected 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 recurring decrease in HIT collections, beginning in FY17-18, is estimated to be $22,500,000 [($270,000,000 / 6.0%) x 0.5%].
- 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 $14,618,250 ($22,500,000 x 64.97%) for the state, and $7,881,750 ($22,500,000 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 $759,016 [($22,500,000 x 50.0% x 7.0%) – ($22,500,000 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 $309,734 [($22,500,000 x 50.0% x 2.5%) + ($22,500,000 x 50.0% x 7.0% x 3.617%)].
- The net recurring decrease in state revenue, beginning in FY17-18, is estimated to be $13,859,234 ($14,618,250 - $759,016).
- The net recurring decrease in local government revenue, beginning in FY17-18, is estimated to be $7,572,016 ($7,881,750 - $309,734).
- 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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