

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1492

January 15, 2016

SUMMARY OF BILL: Increases the Hall Income Tax (HIT) maximum allowable income exemption levels for taxpayers 65 years of age or older, by \$500 per year beginning with tax year 2017, until they are \$39,000 for single filers and \$70,000 for joint filers.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$83,200/FY17-18
\$166,200/FY18-19
\$249,800/FY19-20
\$339,200/FY20-21 and Subsequent Years

Decrease Local Revenue – Net Impact – \$45,400/FY17-18
\$90,800/FY18-19
\$136,500/FY19-20
\$185,300/FY20-21 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, 2017, 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 current maximum allowable income exemption levels, for taxpayers 65 years of age or older, are \$37,000 for single filers and \$68,000 for joint filers. This bill will increase

the levels to: \$37,500 for single filers and \$68,500 for joint filers, for tax years beginning January 1, 2017; \$38,000 for single filers and \$69,000 for joint filers, for tax years beginning January 1, 2018; \$38,500 for single filers and \$69,500 for joint filers, for tax years beginning January 1, 2019; \$39,000 for single filers and \$70,000 for joint filers, for tax years beginning January 1, 2020 and subsequent years.

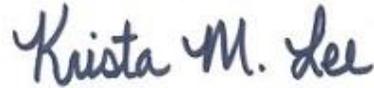
- Based on analysis of HIT returns in the Department of Revenue’s data warehouse, it is estimated that the proposed changes to the initial exemption levels will result in a decrease in HIT revenue of: \$135,049 in FY17-18, \$269,790 in FY18-19, \$405,523 in FY19-20, and \$550,680 in FY20-21 and subsequent years. The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- 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 decrease in HIT revenue for the state is estimated to be: \$87,741 in FY17-18 ($\$135,049 \times 64.97\%$), \$175,283 in FY18-19 ($\$269,790 \times 64.97\%$), \$263,468 in FY19-20 ($\$405,523 \times 64.97\%$), and \$357,777 in FY20-21 and subsequent years ($\$550,680 \times 64.97\%$).
- The decrease in HIT revenue for the local government is estimated to be: \$47,308 in FY17-18 ($\$135,049 \times 35.03\%$), \$94,507 in FY18-19 ($\$269,790 \times 35.03\%$), \$142,055 in FY19-20 ($\$405,523 \times 35.03\%$), and \$192,903 in FY20-21 and subsequent years ($\$550,680 \times 35.03\%$).
- 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 increase in state sales tax revenue is estimated to be: \$4,556 in FY17-18 [$(\$135,049 \times 50.0\% \times 7.0\%) - (\$135,049 \times 50.0\% \times 7.0\% \times 3.617\%)$], \$9,101 in FY18-19 [$(\$269,790 \times 50.0\% \times 7.0\%) - (\$269,790 \times 50.0\% \times 7.0\% \times 3.617\%)$], \$13,680 in FY19-20 [$(\$405,523 \times 50.0\% \times 7.0\%) - (\$405,523 \times 50.0\% \times 7.0\% \times 3.617\%)$], and \$18,577 in FY20-21 and subsequent years [$(\$550,680 \times 50.0\% \times 7.0\%) - (\$550,680 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The total increase in local sales tax revenue is estimated to be: \$1,859 in FY17-18 [$(\$135,049 \times 50.0\% \times 2.5\%) + (\$135,049 \times 50.0\% \times 7.0\% \times 3.617\%)$], \$3,714 in FY18-19 [$(\$269,790 \times 50.0\% \times 2.5\%) + (\$269,790 \times 50.0\% \times 7.0\% \times 3.617\%)$], \$5,582 in FY19-20 [$(\$405,523 \times 50.0\% \times 2.5\%) + (\$405,523 \times 50.0\% \times 7.0\% \times 3.617\%)$], and \$7,581 in FY20-21 and subsequent years [$(\$550,680 \times 50.0\% \times 2.5\%) + (\$550,680 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The net decrease in state revenue as a result of this bill is estimated to be: \$83,185 in FY17-18 ($\$87,741 - \$4,556$), \$166,182 in FY18-19 ($\$175,283 - \$9,101$), \$249,788 in FY19-20 ($\$263,468 - \$13,680$), and \$339,200 in FY20-21 and subsequent years ($\$357,777 - \$18,577$).
- The net decrease in local government revenue as a result of this bill is estimated to be: \$45,449 in FY17-18 ($\$47,308 - \$1,859$), \$90,793 in FY18-19 ($\$94,507 - \$3,714$),

\$136,473 in FY19-20 (\$142,055 - \$5,582), and \$185,322 in FY20-21 and subsequent years (\$192,903 - \$7,581).

- 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, flowing style.

Krista M. Lee, Executive Director

/bos