

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 487 – SB 1234

March 12, 2018

SUMMARY OF ORIGINAL BILL: Removes the amusement tax on dues or fees to membership sports and recreational clubs.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – \$12,435,400

Decrease Local Revenue – \$4,289,300

SUMMARY OF AMENDMENT (014495): Deletes all language after the enacting clause. Establishes that dues or fees paid for individual or group personal training are not subject to the amusement tax.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Exceeds \$3,108,800

Decrease Local Revenue – Exceeds \$1,072,300

Assumptions for the bill as amended:

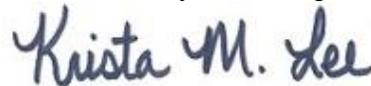
- The effective date of July 1, 2018.
- Pursuant to Tenn. Code Ann. § 67-6-212(a), the amusement tax is equal to the state and local sales and use tax levied on the sale of tangible personal property at retail.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate 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.
- Pursuant to Tenn. Code Ann. § 67-6-330(a)(16), fitness and recreational centers that have at least 15,000 square feet in use for physical fitness purposes, are open at least 70 hours per week, and meet other specified criteria are exempt from the tax on admission, dues or fees.

HB 487 – SB 1234

- The Governor’s proposed budget for FY18-19, on page A-69, estimates that the forgone revenue due to such exemption in FY18-19 is \$8,800,000 for the state and \$3,100,000 for the local government.
- Fitness and recreational sports centers that are not exempt are estimated to pay \$15,740,959 in state sales tax and \$5,429,450 in local sales tax in FY17-18. These numbers are assumed to remain constant in subsequent years under current law.
- The 2012 Economic Census reports that membership revenue accounted for approximately 79 percent of total revenue of fitness and recreational sports centers. Therefore, the recurring tax collections on such revenue under current law are estimated to be \$12,435,358 for the state ($\$15,740,959 \times 79\%$) and \$4,289,266 for the local government ($\$5,429,450 \times 79\%$).
- The proportion of such tax revenue that is remitted by establishments that would be exempt from the tax pursuant to this legislation is unknown. However, based on information provided by the Department of Revenue, it is estimated that at least 25 percent of current tax collections are from such establishments.
- The recurring decrease in revenue is estimated to exceed \$3,108,840 for the state ($\$12,435,358 \times 25\%$) and \$1,072,317 for the local government ($\$4,289,266 \times 25\%$).
- Any increase in state and local sales tax revenue as a result of tax savings being spent in the economy on sales-taxable goods and service is estimated to be not significant because any tax savings to any one individual is expected to be relatively small and due to the possibility that some establishments could increase dues or fees in attempts to capture the savings as additional profit.

CERTIFICATION:

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



Krista M. Lee, Executive Director

/bs