**TENNESSEE GENERAL ASSEMBLY**
**FISCAL REVIEW COMMITTEE**

# FISCAL MEMORANDUM

## HB 2038 – SB 2076

March 13, 2018

**SUMMARY OF ORIGINAL BILL:** Exempts liquor barrels from property taxation. Requires actions or proceedings to correct an assessment or request a refund or other relief on previous assessments of liquor barrels on the basis of the exemption being subject to applicable statutes of limitations.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease Local Revenue – $1,400/Recurring
Forgone Local Revenue – Exceeds $2,982,500/Recurring

Increase Local Expenditures – $1,000/One-Time*

Other Fiscal Impact – Moore County will forgo an estimated $2,782,500 in property tax revenue in FY17-18 that is currently due but has not yet been collected.

**SUMMARY OF AMENDMENT (014670):** Deletes and replaces all language after the caption such that the only substantive change is to specify whiskey barrels are exempt from property taxation. Specifies whiskey has the same meaning as "whisky" as defined in 27 CFR 5.22(b).

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Decrease Local Revenue – $1,200/Recurring**
**Forgone Local Revenue – Exceeds $2,962,500/Recurring**

**Increase Local Expenditures – $900/One-Time***

**Other Fiscal Impact – Moore County will forgo an estimated $2,782,500 in property tax revenue in FY17-18 that is currently due but has not yet been collected.**

Assumptions for the bill as amended:

- Based on information provided by the Comptroller of the Treasury (COT), a distiller's aging barrels are assessable as tangible personal property under Tenn. Code Ann. § 67-5-903(f) Group 5 as manufacturing machinery.
- Pursuant to Tenn. Code Ann. § 67-5-901(2), industrial and commercial property is assessed at 30 percent of its value.
- Based on information provided by the COT, Gibson, Madison, Montgomery, Moore, and Williamson counties are currently assessing property taxation on liquor barrels.
- The average assessment rate for the counties containing distilleries is 2.6 percent.
- The price per barrel, accounting for depreciation, is estimated to be $175 per barrel.
- It is estimated that tangible personal property is currently being paid on approximately 1,000 liquor barrels.
- It is estimated that 90 percent of such barrels store whisky as defined in 27 CFR 5.22(b).
- Exempting whisky barrels from such taxation will lead to a mandatory recurring decrease in local revenue to counties currently assessing property tax estimated to be $1,229 (1,000 barrels x 90% whisky x $175 per barrel x 30% appraisal x 2.6% tax rate).
- Based on information provided by the COT, a back assessment for approximately 2,000,000 liquor barrels has been identified and sent to a taxpayer in Moore County.
- It is estimated that 100% of such liquor barrels store whisky as defined in 27 CFR 5.22(b).
- The property tax rate in Moore County is 2.65%.
- Passage of this legislation would require Moore County to forgo an estimated $2,782,500 in revenue due in FY17-18 (2,000,000 barrels x $175 per barrel x 30% appraisal x 2.65% tax rate).
- This legislation will also prohibit other counties housing distilleries from assessing property taxation on whiskey barrels.
- The recurring forgone local revenue resulting from the prohibition is estimated to exceed $180,000 for all counties other than Moore.
- The total recurring forgone local revenue is estimated to be $2,962,500 ($2,782,500 + $180,000).
- This legislation also allows for distilleries currently paying property taxes on liquor barrels to be allowed to follow applicable processes and request a property tax refund or other relief based on the exemption.
- Approximately 75 percent of property taxes paid on liquor barrels will be successfully appealed and returned to distilleries, resulting in a mandatory one-time increase in local expenditures estimated to be $922 ($1,229 property tax x 75%).

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

## CERTIFICATION:

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

Krista M. Lee

Krista M. Lee, Executive Director

/amj