

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1030 - SB 986

March 12, 2017

SUMMARY OF BILL: Exempts from the state and local sales tax the retail of food and food ingredients to honorably discharged and permanently disabled veterans who are residing in Tennessee and receiving disability compensation at the 100 percent rate. Extends the sales tax exemption to any such veteran's un-remarried surviving spouse or any member of the veteran's household authorized to make purchases on the veteran's behalf. Establishes that sales qualifying for the exemption shall not exceed \$25,000 per year per individual while the disabled veteran is living, or \$1,000 per year for an un-remarried surviving spouse.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$6,665,500/Recurring

**Increase State Expenditures – \$4,500/One-Time
\$50,300/Recurring**

Decrease Local Revenue – Net Impact – \$3,823,100/Recurring

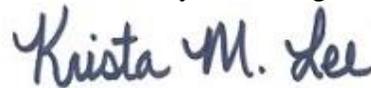
Assumptions:

- The United States Department of Veterans Affairs reports that there were 16,653 veterans in Tennessee who received disability compensation at the 100 percent rate in FY15-16. It is assumed that 80 percent of such veterans, or 13,322 (16,653 x 80.0%), will take advantage of the proposed tax exemption each year.
- According to the Bureau of Economic Analysis, 2015 per capita personal consumption expenditures on food and beverages purchased for off-premises consumption were \$2,743 in Tennessee. It is assumed that average sales of food and food ingredients to qualified veterans, persons authorized to make purchases on behalf of such qualified veterans, and persons within the household of any such qualified veteran, will be four times the per capita amount, or \$10,972 (\$2,743 x 4) per year.
- There were 6,528 persons in Tennessee receiving death pension benefits in 2015. It is assumed that 10 percent of such persons, or 653 (6,528 x 10%), will be the un-remarried surviving spouses of otherwise eligible veterans, and such persons will qualify for the maximum tax exemption of \$1,000 each year.

- The total recurring sales of food and food ingredients which will be tax exempt as a result of this bill are estimated to be \$146,821,984 $[(13,322 \times \$10,972) + (653 \times \$1,000)]$.
- The current state sales tax rate on the retail sale of food and food ingredients is 5.0 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 4.1427 percent.
- The net recurring decrease in state revenue is estimated to be \$7,036,979 $[(\$146,821,984 \times 5.0\%) - (\$146,821,984 \times 5.0\% \times 4.1427\%)]$.
- The recurring decrease in local revenue is estimated to be \$3,974,670 $[(\$146,821,984 \times 2.5\%) + (\$146,821,984 \times 5.0\% \times 4.1427\%)]$.
- Fifty percent of tax savings, or \$5,505,825 $[(\$7,036,979 + \$3,974,670) \times 50.0\%]$, will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate on non-food sales-taxable goods and services 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 state sales tax collections is estimated to be \$371,468 $[(\$5,505,825 \times 7.0\%) - (\$5,505,825 \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local sales tax collections is estimated to be \$151,586 $[(\$5,505,825 \times 2.5\%) + (\$5,505,825 \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$6,665,511 $(\$7,036,979 - \$371,468)$.
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$3,823,084 $(\$3,974,670 - \$151,586)$.
- The Department of Revenue will require one additional position to handle registration and administration of the proposed tax exemption. The one-time increase in state expenditures is estimated to be \$4,500; the recurring increase in state expenditures associated with the new position for salary and benefits is estimated to be \$50,295.

CERTIFICATION:

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



Krista M. Lee, Executive Director

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