

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 15 - HB 25

January 31, 2017

SUMMARY OF BILL: Phases out the occupational privilege tax on all occupations subject to the \$400 annual tax by reducing the tax by \$100 per year over the next 4 years. Establishes the tax due date of June 1 following the end of the tax year.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$88,918,900/FY16-17
\$22,229,700/FY17-18
\$44,459,400/FY18-19
\$66,689,100/FY19-20
\$88,918,900/FY20-21 and Subsequent Years

Decrease State Expenditures – \$974,400/FY16-17
\$243,600/FY17-18
\$487,200/FY18-19
\$730,800/FY19-20
\$974,400/FY20-21 and Subsequent Years

Increase Local Revenue – \$441,200/FY16-17
\$110,300/FY17-18
\$220,600/FY18-19
\$330,900/FY19-20
\$441,200/FY20-21 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 annual tax on persons engaging in certain occupations in Tennessee as specified in Tenn. Code Ann. § 67-4-1702.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- The Department of Revenue (DOR) reports that there are approximately 225,000 occupational privilege taxpayers, annually paying approximately \$90,000,000 in occupational privilege taxes (225,000 x \$400). The tax is currently due June 1 of each year and it is paid for the following twelve months. The total number of taxpayers is assumed to remain constant into perpetuity.

- The current tax collection schedule and amounts are estimated as follows:

<u>Tax Year End Date</u>	<u>Current Tax Rate</u>	<u>Current Tax Collections</u>	<u>Due Date</u>	<u>Fiscal Year</u>
May 31, 2017	\$ 400	\$ 90,000,000	June 1, 2016	FY15-16
May 31, 2018	\$ 400	\$ 90,000,000	June 1, 2017	FY16-17
May 31, 2019	\$ 400	\$ 90,000,000	June 1, 2018	FY17-18
May 31, 2020	\$ 400	\$ 90,000,000	June 1, 2019	FY18-19
May 31, 2021 and Subsequent Years	\$ 400	\$ 90,000,000	June 1, 2020	FY19-20

Note: taxes for tax year ending May 31, 2017 have already been collected by the state on June 1, 2016 (FY15-16).

- This bill would reduce the tax rate by \$100 over the next 4 years, and establish the due date of June 1 following the end of the tax year. As a result, the due date of the tax would change from the beginning of the tax year to the end of the tax year. Consequently, taxpayers will not be required to remit any taxes in FY16-17, as the taxes for tax year ending May 31, 2018 will now be due on June 1, 2018 (FY17-18), instead of on June 1, 2017 (FY16-17) as required under current law.
- The proposed tax collection schedule and amounts under this bill are estimated as follows:

<u>Tax Year End Date</u>	<u>New Tax Rate</u>	<u>New Tax Collections</u>	<u>Due Date</u>	<u>Fiscal Year</u>
May 31, 2017	Taxes for this tax year have already been collected on June 1, 2016			
May 31, 2018	\$ 300	\$ 67,500,000	June 1, 2018	FY17-18
May 31, 2019	\$ 200	\$ 45,000,000	June 1, 2019	FY18-19
May 31, 2020	\$ 100	\$ 22,500,000	June 1, 2020	FY19-20
May 31, 2021 and Subsequent Years	\$ -	\$ -	N/A	FY20-21 and Subsequent Years

- The resulting decrease in state revenue is estimated as follows:

<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections</u>
FY16-17	\$ 90,000,000
FY17-18	\$ 22,500,000
FY18-19	\$ 45,000,000
FY19-20	\$ 67,500,000
FY20-21 and Subsequent Years	\$ 90,000,000

- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.

- The DOR reports that there are approximately 2,436 state employees for which the State of Tennessee is paying a total of \$974,400 per year (2,436 x \$400). The number of state employees is included in the total number of 225,000 taxpayers, and is assumed to remain constant into perpetuity.
- The Tennessee Advisory Commission on Intergovernmental Relations' 2016 study (*The Professional Privilege Tax in Tennessee: Taxing Professionals Fairly*) reports that 64 percent of occupational privilege taxpayers reside out of Tennessee, while 36 percent reside in the state.
- It is assumed that 50 percent of tax savings by in-state residents, net of the amounts paid by the state on behalf of such residents, will be spent in the economy on sales-taxable goods and services.
- The decrease in state tax collections from state employees, the equivalent decrease in state expenditures for such employees, the net tax savings, and the amount of such tax savings re-spent in the economy on sales-taxable goods and services are estimated as follows:

<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections from State Employees/Decrease in State Expenditures</u>	<u>Net Tax Savings</u>	<u>Tax Savings Re-Spent in Economy on Sales-Taxable</u>
			<u>Goods and Services</u>
FY16-17	\$ 974,400	\$ 89,025,600	\$ 16,024,608
FY17-18	\$ 243,600	\$ 22,256,400	\$ 4,006,152
FY18-19	\$ 487,200	\$ 44,512,800	\$ 8,012,304
FY19-20	\$ 730,800	\$ 66,769,200	\$ 12,018,456
FY20-21 and Subsequent Years	\$ 974,400	\$ 89,025,600	\$ 16,024,608

- 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 and the total increase in local sales tax revenue are estimated as follows:

<u>Fiscal Year</u>	<u>Net Increase in State Sales</u>	<u>Total Increase in Local</u>
	<u>Tax Collections</u>	<u>Sales Tax Collections</u>
FY16-17	\$ 1,081,150	\$ 441,188
FY17-18	\$ 270,287	\$ 110,297
FY18-19	\$ 540,575	\$ 220,594
FY19-20	\$ 810,862	\$ 330,891
FY20-21 and Subsequent Years	\$ 1,081,150	\$ 441,188

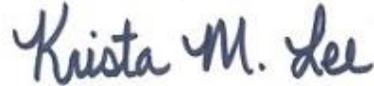
- The net decrease in state revenue as a result of this bill is estimated as follows:

<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections</u>	<u>Net Increase in State Sales Tax Collections</u>	<u>Net Decrease in State Tax Revenue</u>
FY16-17	\$ 90,000,000	\$ 1,081,150	\$ 88,918,850
FY17-18	\$ 22,500,000	\$ 270,287	\$ 22,229,713
FY18-19	\$ 45,000,000	\$ 540,575	\$ 44,459,425
FY19-20	\$ 67,500,000	\$ 810,862	\$ 66,689,138
FY20-21 and Subsequent Years	\$ 90,000,000	\$ 1,081,150	\$ 88,918,850

- Occupational privilege tax returns are filed electronically and the DOR does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of phasing out the occupational privilege tax.
- Calculations used in this fiscal note have been omitted for the purpose of brevity. However, these calculations are on file with the Fiscal Review Committee staff and can be provided upon request.

CERTIFICATION:

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



Krista M. Lee, Executive Director

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