

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

SB 497 - HB 548

May 1, 2017

SUMMARY OF BILL: Increases, from three-eighths to five-eighths, the share of Hall Income Tax (HIT) revenue distributed to the local government. Decreases, from five-eighths to three-eighths, the share of HIT revenue distributed to the General Fund.

ESTIMATED FISCAL IMPACT:

On March 8, 2017, a fiscal note was issued estimating a fiscal impact as follows:

*Decrease State Revenue – \$61,056,000/FY16-17
\$62,668,800/Each Year FY17-18 through FY21-22*

*Increase Local Revenue – \$61,056,000/FY16-17
\$62,668,800/Each Year FY17-18 through FY21-22*

This fiscal impact is being updated to account for the Hall Income Tax changes imposed by the IMPROVE Act. The estimated impact is:

(CORRECTED)

**Decrease State Revenue – \$61,056,000/FY16-17
\$50,135,000/FY17-18
\$37,601,300/FY18-19
\$25,067,500/FY19-20
\$12,533,800/FY20-21**

**Increase Local Revenue – \$61,056,000/FY16-17
\$50,135,000/FY17-18
\$37,601,300/FY18-19
\$25,067,500/FY19-20
\$12,533,800/FY20-21**

Corrected assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, the HIT is a five percent tax on income derived from dividends on stock or from interest on bonds.

- Pursuant to Tenn. Code Ann. § 67-2-124, it is the legislative intent that the tax be reduced by one percent annually through enactments of general bills; the tax shall be eliminated for tax years beginning on or after January 1, 2022.
- However, the recently enacted IMRPOVE Act decreased the HIT rate to four percent for tax years beginning on or after January 1, 2017, three percent for tax years beginning on or after January 1, 2018, two percent for tax years beginning on or after January 1, 2019, one percent for tax years beginning on or after January 1, 2020, and zero percent for tax years beginning on or after January 1, 2021.
- The effective date of this bill is July 1, 2017.
- Pursuant to Tenn. Code Ann. § 67-2-119(d), the payment of HIT revenue to cities and counties during any fiscal year shall be made on or before July 31 immediately following the close of that year. As a result, it is estimated that the proposed changes will apply to HIT collections for FY16-17, as distributions for such collections will be made in July 2017.
- Under current law, pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.50 percent of HIT revenue and local governments are apportioned 37.50 percent, after any deductions for necessary expenses are made for administration of the HIT by the DOR, pursuant to Tenn. Code Ann. § 67-2-117.
- Based on apportionments of HIT collections for the last three fiscal years (FY13-14, FY14-15, and FY15-16), it is estimated that the state retains 65.44 percent of HIT revenue and local governments are apportioned 34.56 percent, which is equivalent to 92.16 percent (34.56% / 37.50%) of the specified rate after deductions for necessary administrative expenses.
- This bill will apportion 5/8, or 62.50 percent, of HIT revenue to local governments (instead of 3/8), and the remaining 3/8, or 37.50 percent, (instead of 5/8) to the General Fund.
- The effective rate of distribution to the local government under this bill will be 57.60 percent (62.50% x 92.16%) and the effective rate of distribution to the General Fund will be 42.40 percent (100.00% - 57.60%).
- The Fiscal Review Committee staff estimate for HIT collections under current law is as follows:

Hall Income Tax Collections Under Current Law						
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Tax Rates	5.00%	4.00%	3.00%	2.00%	1.00%	0.00%
State Revenue	\$ 173,416,000	\$ 142,397,440	\$ 106,798,080	\$ 71,198,720	\$ 35,599,360	\$ -
Local Revenue	\$ 91,584,000	\$ 75,202,560	\$ 56,401,920	\$ 37,601,280	\$ 18,800,640	\$ -
Total Revenue	\$ 265,000,000	\$ 217,600,000	\$ 163,200,000	\$ 108,800,000	\$ 54,400,000	\$ -

- The estimated state and local HIT revenue as a result of this bill are as follows:

Hall Income Tax Collections After Re-Allocation of Revenue						
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Tax Rates	5.00%	4.00%	3.00%	2.00%	1.00%	0.00%
State Revenue	\$ 112,360,000	\$ 92,262,400	\$ 69,196,800	\$ 46,131,200	\$ 23,065,600	\$ -
Local Revenue	\$ 152,640,000	\$ 125,337,600	\$ 94,003,200	\$ 62,668,800	\$ 31,334,400	\$ -
Total Revenue	\$ 265,000,000	\$ 217,600,000	\$ 163,200,000	\$ 108,800,000	\$ 54,400,000	\$ -

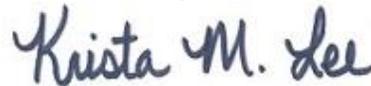
- The decrease in state HIT revenue and the equivalent increase in local government HIT revenue are estimated as follows:

Impact on HIT Collections as a Result of the Re-Allocation of Revenue						
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Tax Rates	5.00%	4.00%	3.00%	2.00%	1.00%	0.00%
State Revenue Impact	(\$61,056,000)	(\$50,135,040)	(\$37,601,280)	(\$25,067,520)	(\$12,533,760)	\$0
Local Revenue Impact	\$61,056,000	\$50,135,040	\$37,601,280	\$25,067,520	\$12,533,760	\$0
Total Revenue Impact	\$0	\$0	\$0	\$0	\$0	\$0

- 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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