

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 84 - SB 237

March 18, 2019

SUMMARY OF ORIGINAL BILL: Exempts from state and local sales tax any services rendered by a car wash facility, coin-operated or otherwise, where the customer remains in substantial control, care, or custody of the vehicle and the preponderance of the vehicle's wash is completed by the customer or automated equipment.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – Exceeds \$747,700
Forgone State Revenue – \$3,977,900

Decrease Local Revenue – Net Impact – Exceeds \$305,100
Forgone Local Revenue – \$1,623,300

SUMMARY OF AMENDMENT (006035): Deletes and replaces language of the original bill such that the bill as amended exempts from state and local sales tax any services rendered by a car wash facility, coin-operated or otherwise, where the customer remains in custody of the vehicle and the preponderance of the vehicle's wash is completed by the customer or automated equipment.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Forgone State Revenue – \$3,977,900

Forgone Local Revenue – \$1,623,300

Assumptions for the bill as amended:

- There are four major car wash service models: self-service, express service, flex service, and full-service.
- Self-service models are currently exempt from the state and local sales taxes.
- Flex service and full-service models are currently subject to the state and local sales taxes.

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- Ambiguity exists regarding sales and use tax liability of express service models. The Department of Revenue (DOR) deems that such services are subject to the tax. However, industry sources report that many, if not most, express service operators have not been collecting or remitting sales and use taxes based upon the historic interpretation and application of the tax by the DOR.
- The proposed legislation will not impact self-service or full-service models; self-service models will remain exempt and full-service models will remain subject to the state and local sales taxes.
- In addition, the proposed legislation is deemed to not impact flex service models as with those models the customer does not fully remain custody of the vehicle. Flex service models will remain subject to the state and local sales taxes.
- The proposed legislation will exempt from such taxes express service models.
- Any impact on sales tax collections related to such models will be considered forgone state and local revenue, as the DOR currently considers such services as subject to the tax, but most, if not all, of such revenue remains uncollected.
- Based on Fiscal Review Committee staff's research, the number of express service transactions per year is estimated to be 9,299,615.
- The average cost of express service transactions is estimated to be \$6.34.
- Total express service facility sales are estimated to be \$58,959,559 (9,299,615 x \$6.34).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; and the percentage of state sales tax revenue allocated to local government pursuant to state-shared revenue is effectively 3.617 percent.
- The proposed legislation will result in the following forgone amounts of sales tax revenue: \$3,977,889 for the state $[(\$58,959,559 \times 7.0\%) - (\$58,959,559 \times 7.0\% \times 3.617\%)]$, and \$1,623,269 for the local government $[(\$58,959,559 \times 2.5\%) + (\$58,959,559 \times 7.0\% \times 3.617\%)]$.

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

/jdb