TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 562 - SB 1504

March 10, 2019

SUMMARY OF BILL: Requires licensed money transmitters (licensees) in the state to collect $10 per transaction from customers, and in addition and as applicable, one percent of the amount of any transaction in excess of $500. Requires the Department of Revenue (DOR) to collect such fees from licensees and deposit such funds into a new fund established within the General Fund, the Money Laundering Prevention Fund (MLPF). Fee proceeds, interest, and penalties collected shall remain in the MLPF and shall not revert to the General Fund. Unencumbered amounts in the MLPF shall be allocated as follows:

- 25 percent into a law enforcement subaccount, accessible by the Director of the Tennessee Bureau of Investigation (TBI). Such Funds shall be used for programs designed to prevent and detect money laundering activities or in the enforcement of laws related to money laundering. The Director may grant such funds to local law enforcement or a judicial district task force for such duties related to money laundering;
- 25 percent into a separate law enforcement subaccount, accessible by the Commissioner of the Department of Safety (DOS). Such funds shall be used for programs designed to prevent and detect money laundering activities or in the enforcement of laws related to money laundering. The Commissioner may grant such funds to local law enforcement or judicial district task force for such duties related to money laundering. The Commissioner may grant such funds to local law enforcement or a judicial district task force for such duties related to money laundering; and
- 50 percent in to a border security subaccount, which the Commissioner of the Department of Finance and Administration (F&A) shall direct, to the extent permitted by law, to the United States Department of Homeland Security for the purpose of securing the southern border of the United States. Any funds that are not permitted to be directed for such purposes under state or federal law, shall be directed instead to the General Fund.

Stipulates that the fee imposed by this legislation does not apply to any credit card voucher, any letter of credit, or any instrument that is redeemable by the issuer in goods or services.

Authorizes a licensee to deduct 0.5 percent of the $10 fee due to the DOR for collection and accounting of such fees. Authorizes the DOR to retain 1.0 percent of the $10 fee for the purposes of implementing and administering this legislation.

Requires each licensee in the state to register with the DOR each business location in the state operated by such business.

Authorizes customers of such licensees to apply for a refund of such fee amounts by filing an application with the DOR. Limits the number of applications any one customer can file with the DOR to four applications. All refunds are to be paid by the DOR out of the Fund directly to the respective refund applicant. Establishes a $25,000 civil penalty against anyone who files a fraudulent application for refund.

For purposes of promulgating rules, this legislation shall take effect upon becoming law, but for all other purposes, this legislation shall take effect January 1, 2020.

ESTIMATED FISCAL IMPACT:

Increase State Revenue –
$5,000,000/FY19-20/Department of Revenue
$507,500,000/FY19-20/Money Laundering Prevention Fund
$10,000,000/FY20-21 and Subsequent Years/Department of Revenue
$1,015,000,000/FY20-21 and Subsequent Years/
Money Laundering Prevention Fund

Increase State Expenditures –
$340,300/FY19-20/Department of Revenue
$507,500,000/FY19-20/Money Laundering Prevention Fund
$580,600/FY20-21 and Subsequent Years/Department of Revenue
$1,015,000,000/FY20-21 and Subsequent Years/
Money Laundering Prevention Fund

Other Fiscal Impact – It is estimated that approximately 50 percent of unencumbered funds deposited to the Money Laundering Prevention Fund, or approximately $126,875,000 in FY19-20 and approximately $253,750,000 in FY20-21 and subsequent years, will be earmarked and utilized by the Tennessee Bureau of Investigation and Department of Safety for the purpose of programs designed to prevent and detect money laundering activities.

The remaining 50 percent of unencumbered funds deposited into the Money Laundering Prevention Fund, or approximately $126,875,000 in FY19-20 and approximately $253,750,000 in FY20-21 and subsequent years, will be earmarked to the Department of Homeland Security for the purpose of securing the southern border of the United States.

In addition, passage of this legislation could result in additional secondary economic impacts to state and local government as otherwise discretional income is initially removed from the consuming economy, then subsequently expended through state and federal agencies for the purpose of money laundering prevention. Any such impacts associated with these secondary economic impacts cannot be reasonably quantified.

Assumptions:

- According to the Department of Financial Institutions (TDFI), there were approximately 100,000,000 money transmissions in this state in the yearly period leading up to October 1, 2018. This number is assumed to remain constant in subsequent years.
- Ten percent of transactions (or 10,000,000) will exceed the $500 threshold established in the legislation. The average transaction exceeding $500 is estimated to be $800; therefore, the average portion for which the additional one percent fee applies is $300 ($800 - $500).
- The recurring increase in fee revenue is estimated to be $1,030,000,000 [(100,000,000 x $10.00) + (10,000,000 x $300 x 1.0%)].
- For the costs of accounting, licensees are authorized to retain 0.5 percent of the $10.00 portion of the fee. Therefore, licensees will retain approximately $5,000,000 (100,000,000 x $10.00 x 0.5%) each year.
- The DOR is also authorized to retain 1.0 percent of the $10.00 portion of the fee for the cost of implementation and administration. Therefore, the DOR will retain approximately $10,000,000 (100,000,000 x $10 x 1.0%) each year.
- All remaining fee revenue shall be deposited to the MLPF. Therefore, the recurring increase in state revenue deposited to the MLPF is estimated to be $1,015,000,000 ($1,030,000,000 - $5,000,000 - $10,000,000).
- Approximately 50 percent of the annual allocation to the MLPF will be refunded each year to customers who initially paid the transaction fees; therefore, a recurring increase in state expenditures from the MLPF of $507,500,000 ($1,015,000,000 x 50.0%).
- Half of the remaining $507,500,000 ($1,015,000,000 - $512,500,000) or $253,750,000 ($507,500,000 x 50%) will be directed to the United States Department of Homeland Security for the purpose of securing the southern border of the United States. Any funds that are not permitted to be directed for such purposes under state or federal law, shall be directed instead to the General Fund.
- The remaining $253,750,000 ($507,500,000 - $253,750,000) will be halved, in an amount of $126,875,000 ($253,750,000 / 2) and provided to each, the TBI and the DOS for the purpose of programs designed to prevent and detect money laundering activities; therefore, an additional recurring increase in state expenditures from the MLPF of $256,250,000 ($126,875,000 x 2). The total recurring increase in state expenditures from the MLPF is estimated to be $1,015,000,000.
- Any increase in state revenue derived from civil penalties assessed by DOR is estimated to be not significant.
- According to the DOR, it will need 2 additional taxpayer service representative 3 positions, 6 additional in-state auditors, and 1 additional accounting technician.
- A recurring increase in state expenditures of $580,588 {[($40,000 salary + $13,206 benefits) x 2 taxpayer service representative 3 positions] + [($55,000 salary + $15,696 benefits) x 6 auditor positions] + [($50,000 salary + $14,866 benefits) x 1 accounting technician position]}.
- A one-time increase in state expenditures of $50,000 for computers, software, communications, equipment, supplies, and other miscellaneous items.
- Given the effective date of January 1, 2020, the first-year impact (FY19-20) is estimated to be 50 percent of the first full-year impact.

- The increase in state expenditures to the DOR is estimated to be $340,294 in FY19-20 [($580,588 x 50%) + $50,000] and $580,588 in FY20-21 and subsequent years.

IMPACT TO COMMERCE:

Increase Business Revenue – $2,500,000/FY19-20
$5,000,000/FY20-21 and Subsequent Years

Increase Business Expenditures – Exceeds $3,000,000/FY19-20
Exceeds $6,000,000/FY20-21 and Subsequent Years

Other Commerce Impact - There could be other impacts to commerce and jobs as otherwise discretional income is initially removed from the economy, then subsequently expended through state and federal agencies for the purpose of money laundering prevention. The extent of any such impacts cannot be reasonably determined.

Assumptions:

- This legislation is assumed to primarily impact private citizens and individuals who transfer money electronically to other areas in the state and outside the state; however, an unknown number of companies in this state are assumed to use fund management, fund disbursement, and payment processing services provided by businesses such as Western Union.
- The amount of additional recurring expenses these businesses will incur as a direct result of this legislation cannot be quantified, but is reasonably estimated to exceed $1,000,000 per year.
- In addition, licensed money transmitters are authorized to deduct 0.5 percent of the $10 fee due to the DOR, or $5,000,000, for collection and accounting of such fees. It is assumed that the increase in business expenditures is equivalent to the amount of fees that will be retained.
- The total recurring increase in business expenditures is estimated to exceed $6,000,000 ($1,000,000 + $5,000,000).
- Due to the effective date of January 1, 2020, the first-year impact (FY19-20) is estimated to be 50 percent of the full-year impact.

CERTIFICATION:

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

Krista Lee Carsner

Krista Lee Carsner, Executive Director

/jdb