

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1387 - SB 1457**

March 17, 2019

**SUMMARY OF BILL:** Requires a dealer with no physical presence in this state to collect and remit state sales and use tax as if the dealer has a physical presence, granted, either the following conditions apply to such dealer:

- The person's gross revenue from sales made in this state exceeds \$100,000; or
- The person made 200 or more separate sales transactions in this state.

Stipulates that no dealer will be required to collect and remit sales tax for any sales made before July 1, 2019.

Requires any dealer who meets either of the aforementioned criteria to register with Department of Revenue (DOR).

Authorizes the DOR to provide dealers with no physical presence in this state access to sales tax administration software free of charge. Establishes that any dealer using such software, as provided by the DOR, is immune from audit liability regarding the collection and remittance of sales tax, as required by this legislation.

This legislation shall take effect July 1, 2019.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue - \$79,267,500**

**Increase Local Revenue - \$29,409,700**

Assumptions:

- The DOR identified more than 3,000 entities through the use of internal and third party data that appear to meet the criteria outlined in this legislation with estimated taxable sales of \$1,087,862,451 for FY16-17.
- The Fiscal Review Committee (FRC) staff does not have access to certain confidential taxpayer information available to the DOR and cannot independently verify its accuracy.

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- Tennessee state sales tax collections grew by 4.56 percent in FY17-18. The sales tax collections growth in the first six months of FY18-19 is 5.86 percent. The current FRC staff estimate for sales tax collections growth in FY19-20 is 3.80 percent.
- Assuming that applicable taxable sales experience similar growth, total taxable sales are estimated to be \$1,249,881,398 in FY19-20 ( $\$1,087,862,451 \times 1.0456 \times 1.0586 \times 1.038$ ). This number is assumed to remain constant in subsequent years.
- A dealer with no physical presence in this state is authorized to choose to pay local option sales tax at the rate of 2.25 percent of the sales price on all sales made in this state. It is assumed that dealers will elect to pay this local option sales tax.
- The current state sales tax rate is 7.0 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring increase in state revenue of \$84,327,123 [ $(\$1,249,881,398 \times 7.0\%) - (\$1,249,881,398 \times 7.0\% \times 3.617\%)$ ].
- A recurring increase in local revenue of \$31,286,906 [ $(\$1,249,881,398 \times 2.25\%) + (\$1,249,881,398 \times 7.0\% \times 3.617\%)$ ].
- The DOR will provide dealers access to sales tax administration software free of charge; however, the software vendor will retain approximately six percent of all collections remitted for vendor compensation.
- The recurring increase in state revenue (after vendor expenses) is estimated to be \$79,267,496 ( $\$84,327,123 \times (100\% - 6\%)$ ).
- The recurring increase in local revenue (after vendor expenses) is estimated to be \$29,409,691 ( $\$31,286,906 \times (100\% - 6\%)$ ).

**CERTIFICATION:**

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



Krista Lee Carsner, Executive Director

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