

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1706 - SB 2075

March 5, 2020

SUMMARY OF BILL: Requires the sales and use tax be applied to all money transmitted from this state to a location outside of the United States. Establishes a one month refund period during which persons with a social security number or tax-identification number may receive the refund. Allows the funds to be invested by the Treasurer during the time that the funds are encumbered. Creates the K-12 Education Teacher Compensation Fund for employee salary increases or teacher bonuses. Requires that once the funds are past the annual month long refundable period, they shall be distributed as follows: 25 percent to the General Fund; 25 percent to counties and metropolitan governments based on population, to be used for capital improvements and infrastructure; 25 percent to the K-12 Education Teacher Compensation Fund; and 25 percent to the Tennessee Peace Officer Standards and Training (POST) Commission.

ESTIMATED FISCAL IMPACT:

Increase State Revenue –

\$92,771,700/FY20-21/General Fund

\$92,771,700/FY20-21/K-12 Education Teacher Compensation Fund

\$92,771,700/FY20-21/POST Commission

\$185,543,300/FY21-22 and Subsequent Years/General Fund

\$185,543,300/FY21-22 and Subsequent Years /

K-12 Education Teacher Compensation Fund

\$185,543,300/FY21-22 and Subsequent Years /POST Commission

Increase Local Revenue –

\$92,771,700/FY20-21

\$185,543,300/FY21-22 and Subsequent Years

Assumptions:

- For purposes of collecting revenues, the proposed legislation would become effective January 1, 2021.
- Based on Fiscal Review Committee staff estimates, approximately \$17,000,000,000 is transmitted annually in Tennessee.
- Based on Western Union data, it is estimated that 91 percent of transfers are sent outside of the US, or \$15,470,000,000 (\$17,000,000,000 x 91%).

- 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 total amount set to be invested by Treasury throughout any given fiscal year is estimated to be \$1,469,650,000 [$\$15,470,000,000 \times (7.0\% + 2.5\%)$], until such funds become unencumbered.
- It is estimated that Treasury would generate one percent from the funds invested annually, or \$14,696,500 ($\$1,469,650,000 \times 1.0\%$), making the total amount generated \$1,484,346,500 ($\$1,469,650,000 + \$14,696,500$)
- It is assumed that any amount of increase in funds from Treasury investing the funds would be distributed with the rest of the funds. Furthermore, it is assumed that any collections from local option sales tax would be invested by Treasury until which point the funds would become unencumbered.
- The proposed legislation requires a person to have a social security number or a taxpayer identification number if they are to be eligible to receive their refund. Furthermore, the refund period is a one-month, once a year time period.
- Because of this, it is estimated that 50 percent of returns would not be made, and would therefore become unencumbered and distributed to the four funds and localities as laid out in the proposed legislation.
- It is therefore estimated that each of the four allocations will annually receive \$185,543,313 [$(\$1,484,346,500 \times 50\%) / 4$].
- Due to the effective date of the proposed legislation, the first year impact for the General Fund, the K-12 Education Teacher Compensation Fund, the Tennessee Peace Officer Standards and Training Commission, and local government will be \$92,771,657 ($\$185,543,313 / 2$) in FY20-21, and the recurring increase in revenue for FY21-22 will be \$185,543,313.

IMPACT TO COMMERCE:

Other Commerce Impact – Increasing the cost to transmit internationally is estimated to decrease the frequency and average value of transmissions. Additional costs may be incurred by the money transmitter industry to accommodate the requirements of this legislation. The extent to which this impacts the money transmitter industry is unknown.

Assumptions:

- Increasing the cost to transmit money internationally is reasonably assumed to decrease the frequency of transmissions and the average value of transmissions.
- In addition, additional costs may be incurred by the transmitter industry to accommodate the requirements of the proposed legislation. The magnitude of such increase and the extent to which such costs would be passed on to consumers are unknown.

CERTIFICATION:

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

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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