



January 23, 2020

SUMMARY OF BILL: Exempts from the state and local sales tax the retail sales of food and food ingredients to permanently disabled veterans who are residing in Tennessee and receiving disability compensation at the 100 percent rate.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue –

Net Impact - \$1,654,500/FY20-21 and Subsequent Years

Decrease Local Revenue –

Net Impact - \$1,179,000/FY20-21 and Subsequent Years

Assumptions:

- The United States Department of Veterans Affairs reports that there were 19,585 veterans in Tennessee who received disability compensation at the 100 percent rate in FY17-18. It is assumed that 80 percent of such veterans, or 15,668 (19,585 x 80.0%), will take advantage of the proposed tax exemption each year.
- According to the Bureau of Economic Analysis, 2018 per capita personal consumption expenditures on food and beverages purchased for off-premises consumption were \$2,921 in Tennessee.
- The total recurring sales of food and food ingredients which will be tax exempt as a result of this bill are estimated to be \$45,766,228 (15,668 x \$2,921).
- The current state sales tax rate on the retail sale of food and food ingredients is 4.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.1427 percent.
- The net recurring decrease in state revenue is estimated to be \$1,754,811 [(\$45,766,228 x 4.0%) – (\$45,766,228 x 4.0% x 4.1427%)].
- The recurring decrease in local revenue is estimated to be \$1,219,994 [(\$45,766,228 x 2.5%) + (\$45,766,228 x 4.0% x 4.1427%)].
- Fifty percent of tax savings, or \$1,487,403 [(\$1,754,811 + \$1,219,994) x 50.0%], will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the

effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.

- The total recurring increase in state sales tax collections is estimated to be \$100,352 [(\$1,487,403 x 7.0%) - (\$1,487,403 x 7.0% x 3.617%)].
- The total recurring increase in local sales tax collections is estimated to be \$40,951 [(\$1,487,403 x 2.5%) + (\$1,487,403 x 7.0% x 3.617%)].
- The net recurring decrease in state revenue as a result of this bill, beginning in FY20-21, is estimated to be \$1,654,459 (\$1,754,811 - \$100,352).
- The net recurring decrease in local revenue as a result of this bill, beginning in FY20-21, is estimated to be \$1,179,043 (\$1,219,994 - \$40,951).

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

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