TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 2375 - SB 2424

February 11, 2020

SUMMARY OF BILL: Exempts any person with an out-of-state certificate of exemption from sales taxes on purchases of certain agricultural equipment, resources, and property from the sales tax on purchases of such items in Tennessee.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds $303,600/FY20-21 and Subsequent Years

Decrease Local Revenue – Exceeds $123,900/FY20-21 and Subsequent Years

Assumptions:

- Currently there are 6,156 out-of-state entities with certificates of exemption from sales taxes on purchases of certain agricultural products in Tennessee.
- Based on the United States Department of Agriculture's (USDA) individual state reports and on information provided by the Department of Revenue, it is assumed that these 6,156 certificates have primarily been awarded to the larger out-of-state farms. Therefore, eligible expenditures by the smaller bordering farms are the only expenditures taken into consideration for purposes of this fiscal analysis.
- The USDA's individual state reports show that these smaller farms spend at least an average of $10,000 per year on qualifying products.
- It is assumed that at least one percent of approximately 300,000 farms in the states surrounding Tennessee, or 3,000 farms (300,000 x 1%), have been making purchases in Tennessee and already have an out-of-state exemption certificate in another state, but not a certificate of exemption in Tennessee.
- Based on USDA's 2018 report U.S. Farm Production Expenditures, approximately 30 percent of annual expenditures by these farms, or $3,000 ($10,000 x 30%), are estimated to be on eligible purchases.
- Lastly, it is assumed that these smaller border farms would spend half of their money, or $1,500 ($3,000 x 50%), in their home state and another half ($1,500) in Tennessee.
- 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 effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in state revenue, beginning in FY20-21, is estimated to exceed $303,606 [(3,000 farms x $1,500 in eligible sales tax exempt purchases x 7% state tax) –

(3,000 farms x $1,500 in eligible sales tax exempt purchases x 7% state tax x 3.617% local share of state sales tax)].

- The recurring decrease in local revenue, beginning in FY20-21, is estimated to exceed $123,894 [(3,000 farms x $1,500 in eligible sales tax exempt purchases x 2.5% local sales tax) + (3,000 farms x $1,500 in eligible sales tax exempt purchases x 7% state tax x 3.617% local share of state sales tax)].
- Because the entities involved in the proposed legislation are out-of-state entities, it is assumed that they would spend minimal amounts of their additional savings in the Tennessee economy on other sales-taxable goods and services.
- There could be secondary impacts on state and local tax revenue as Tennessee based businesses realize an increase in revenue from additional spending by out-of-state entities. However, any such impacts on state and local tax collections are estimated to be not significant.

CERTIFICATION:

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

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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