

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 713 - HB 1271

February 16, 2019

SUMMARY OF BILL: Exempts from state and local sales and use tax all sales of agricultural trailers and agricultural vehicles. Establishes that “agricultural vehicle” does not mean motor vehicle as defined in Tenn. Code Ann. § 55-8-101.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$1,735,100

Decrease Local Revenue – Net Impact - \$708,100

Assumptions:

Agricultural Trailers

- Exempting sales of agricultural trailers from state and local sales and use tax will result in a reduction in state and local sales tax revenue.
- The Department of Revenue cannot segregate tax collection data to show sales tax collections received solely due to agricultural trailers.
- Agricultural trailers come in a wide variety of models, with prices varying from several hundreds of dollars to multiple tens of thousands of dollars.
- The average number of agricultural trailer sales and the average price of agricultural trailers are unknown.
- Taxable sales for agricultural trailers under current law are reasonably estimated to be \$5,000,000 per year 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.
- A recurring decrease in state revenue of \$472,277 [(\$7,000,000 x 7%) – (\$7,000,000 x 7% x 3.617%)].
- A recurring decrease in local revenue of \$192,723 [(\$7,000,000 x 2.5%) + (\$7,000,000 x 7% x 3.617%)].
- Fifty percent of tax savings, or \$332,500 [(\$472,277 + \$192,723) x 50%], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$22,433 [(\$332,500 x 7%) – (\$322,500 x 7% x 3.617%)].

SB 713 - HB 1271

- The recurring increase in local sales tax collections is estimated to be \$9,154 [(\$332,500 x 2.5%) + (\$332,500 x 7% x 3.617%)].

Agricultural Vehicles

- The legislation defines an agricultural vehicle as a vehicle designed and used exclusively for the purpose of transporting farm agricultural commodities, equipment, supplies, products, or for other agricultural purposes relating to the operation and maintenance of a farm.
- The legislation stipulates that “agricultural vehicle” does not mean motor vehicle as defined in Tenn. Code Ann. § 55-8-101. A “motor vehicle” as defined in § 55-8-101, is every vehicle, including a low speed vehicle or a medium-speed vehicle that is self-propelled, excluding electric bicycles as defined in 55-8-301 and motorized bicycles, and every vehicle, including a low speed vehicle or a medium speed vehicle that is propelled by electric power obtained from overhead trolley wires, but not operated upon rails.
- It is assumed that “agricultural vehicle” primarily refers to tractors and similar vehicles.
- The average number of agricultural vehicles and the average price of agricultural vehicles are unknown.
- Taxable sales for agricultural vehicles under current law are reasonably estimated to be \$20,000,000 per year 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.
- A recurring decrease in state revenue of \$1,349,362 [(\$20,000,000 x 7%) – (\$20,000,000 x 7% x 3.617%)].
- A recurring decrease in local revenue of \$550,638 [(\$20,000,000 x 2.5%) + (\$20,000,000 x 7% x 3.617%)].
- Fifty percent of tax savings, or \$950,000 [(\$1,349,362 + \$550,638) x 50%], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$64,095 [(\$950,000 x 7%) – (\$950,000 x 7% x 3.617%)].
- The recurring increase in local sales tax collections is estimated to be \$26,155 [(\$950,000 x 2.5%) + (\$950,000 x 7% x 3.617%)].

Net Impacts to Revenue

- The net recurring decrease in state revenue as a result of this bill is estimated to be \$1,735,111 (\$472,277 - \$22,433 + \$1,349,362 - \$64,095).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$708,052 (\$192,723 - \$9,154 + \$550,638 - \$26,155).

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 style with a large initial 'K'.

Krista Lee Carsner, Executive Director

/jdb