

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1878 - HB 2080

February 24, 2020

SUMMARY OF BILL: Creates a franchise and excise (F&E) tax credit for “human capital investment” as defined in the proposed legislation.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$35,112,200/FY20-21
\$81,928,400/FY21-22
\$105,336,600/FY22-23
\$117,040,600/FY23-24 and Subsequent Years

Assumptions:

- As defined in the proposed legislation, human capital investment includes:
 - Job training for persons employed within the state of Tennessee.
 - Work-education programs, including public high schools and work education-diversified occupations programs.
 - Worker training for persons in higher education and training from high institutions.
 - Donations or capital contributions to institutions of higher education in this state for improvements or advancements of technology, including physical plant improvements.
 - Investments involved in making daycare facilities to be used primarily by the children of employees who are employed in this Tennessee.
 - Subsidies to employees who are employed in this state for child care to be provided in this state.
 - Contributions made to the Tennessee Job Skills Program.
- For tax years beginning January 1, 2021, the F&E tax credit is equal to three percent of the human capital investment made.
- For tax years beginning January 1, 2022, the F&E tax credit is equal to four percent of the human capital investment made.
- For tax years beginning on or after January 1, 2023, the F&E tax credit is equal to five percent of the human capital investment made.

Job training and work education programs:

- Based on data from the United States Bureau of Labor Statistics, it is estimated that there are approximately 2,800,000 jobs in Tennessee that are not government or non-profit jobs, which do not pay the F&E tax.
- According to data from Automatic Data Processing Inc. (ADP), approximately \$1,886 is spent on training per employee.
- Based on United States Bureau of Labor Statistics it is estimated roughly 70 percent of employees received formal training within the last 12 months, or 1,960,000 (2,800,000 x 70%), and 50 percent of that is paid, or 980,000 (1,960,000 x 50%)
- Therefore the total estimated amount of training spent on employees by companies in Tennessee is estimated to be \$1,848,280,000 (980,000 x \$1,886). Such spending will qualify for the F&E tax credit created by this legislation.

Corporate donations to colleges and universities:

- According to the 2018 Voluntary Support of Education (VSE) survey, corporations donated \$6,730,000,000 to colleges and universities.
- Based on population, it is assumed that \$140,020,740 [$\$6,730,000,000 \times (6,829,174 / 328,239,523)$] was donated to Tennessee colleges and universities by corporations. Such donations will qualify for the F&E tax credit created by this legislation.

Daycare facilities:

- According to US Census Bureau data, there are 137,918 employer establishments in Tennessee.
- According to the 2016 Society for Human Resource Managements National Study of Employers, seven percent of employers offer on-site or near-site child care, or 9,654 (137,918 x 7%) in Tennessee.
- It is further assumed that of the 9,654, approximately two percent, or 193 (9,654 x 2%) were added in the last year.
- According to US National Average costs from 2013 RSMMeans cost data, the average cost to build a day care center \$1,795,100.
- Therefore the total amount of spending attributable to building new daycare facilities that will qualify for the F&E tax credit created by this legislation is estimated to be \$346,454,300 (193 x \$1,795,100).

Child care subsidies:

- Based on US Census Bureau data, there are approximately 21 employees per company on average.
- It is estimated 202,734 (9,654 x 21) employees work at companies with on-site or near-site child care, and, according to the Department of Revenue, 0.4 percent of people at these companies received a maximum subsidy of \$4,980 for one child per year and \$9,960 for two children per year.
- Assuming half of the employees with children have one child, and the other half have two children, it is estimated that \$6,057,692 [$(202,734 \times 0.4\% \times 50\% \times \$4,980) + (202,734 \times 0.4\% \times 50\% \times \$9,960)$] would be attributable to the F&E tax credit pursuant to the proposed legislation.

Total impact:

- The total estimated amount incurred by corporations that will qualify for the F&E tax credit created by this legislation is \$2,340,812,732 (\$1,848,280,000 + \$140,020,740 + \$346,454,300 + \$6,057,692).
- For the tax year beginning January 1, 2021, the three percent credit would result in \$70,224,382 ($\$2,340,812,732 \times 3\%$).
- For the tax year beginning January 1, 2022, the four percent tax credit would result in \$93,632,509 ($\$2,340,812,732 \times 4\%$).
- For the tax year beginning January 1, 2023, the five percent tax credit would result in \$117,040,637 ($\$2,340,812,732 \times 5\%$).
- The total decrease in state revenue as a result of this legislation is estimated to be \$35,112,191 ($\$70,224,382 \times 50\%$) in FY20-21, \$81,928,446 [$(\$70,224,382 \times 50\%) + (\$93,632,509 \times 50\%)$] in FY21-22, \$105,336,573 [$(\$93,632,509 \times 50\%) + (\$117,040,637 \times 50\%)$] in FY22-23, and \$117,040,637 in FY23-24 and subsequent years.

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

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