

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1924 – HB 2857

February 7, 2020

**SUMMARY OF BILL:** Exempts Tennessee National Guard military technicians and any part-time members of the Tennessee National Guard from the sales and use tax when purchasing a vehicle.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact –  
\$4,529,500/FY20-21 and Subsequent Years**

**Decrease Local Revenue – Net Impact –  
\$247,900/FY20-21 and Subsequent Years**

Assumptions:

- According to the United States Department of Defense, there were 18,339 part-time members of the Tennessee National Guard in 2019.
- According to Kelley Blue Book, the average cost of a new car in 2019 was \$37,185 and the average cost of a used car was \$20,200.
- It is estimated that 15 percent of members, or 2,751 (18,339 x 15%), will purchase a used car and that 5 percent, or 917 (18,339 x 5%) will purchase a new car.
- The total annual sales of new cars is therefore estimated to be \$34,098,645 (917 x \$37,185), and the total annual sales of used cars is estimated to be \$55,570,200 (2,751 x \$20,200).
- Total annual sales of both new and used cars purchased by Tennessee National Guard part-time members are estimated to be \$89,668,845 (\$34,098,645 + \$55,570,200).
- It is assumed that all sales would involve a “trade in” vehicle; furthermore, the trade in value of a vehicle would be deducted from the taxable amount of the sale.
- It is estimated that the taxable base is discounted by 25 percent to account for the average trade-in value compared to the vehicle being purchased, therefore the total taxable base is estimated to be \$67,251,634 [\$89,668,845 x (1 – 0.25)].
- 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 Tennessee single article tax on goods over \$3,200 is effectively \$44 [(\$3,200 - \$1,600) x 2.75% single article tax].

- The local tax rate is only applicable to the first \$1,600 of the sale, making the effective local option sales tax cap \$40 ( $\$1,600 \times 2.5\%$ ).
- The recurring decrease in state revenue is estimated to be \$4,698,732  $\{(\$67,251,634 \times 7.0\%) - (\$67,251,634 \times 7.0\% \times 3.617\%) + [(2,751 + 917) \times \$44]\}$ .
- The recurring decrease in local revenues is estimated to be \$316,994  $\{(\$67,251,634 \times 7.0\% \times 3.617\%) + [(2,751 + 917) \times \$40]\}$ .
- Fifty percent of tax savings, or \$2,507,863  $[(\$4,698,732 + \$316,994) / 2]$  will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state revenue is estimated to be \$169,201  $[(\$2,507,863 \times 7.0\%) - (\$2,507,863 \times 7.0\% \times 3.617\%)]$ .
- The recurring increase in local revenue is estimated to be \$69,046  $[(\$2,507,863 \times 2.5\%) + (\$2,507,863 \times 7.0\% \times 3.617\%)]$ .
- The net recurring decrease in state revenues is estimated to be \$4,529,531  $(\$4,698,732 - \$169,201)$ .
- The net recurring decrease in local revenues is estimated to be \$247,948  $(\$316,994 - \$69,046)$ .

## **CERTIFICATION:**

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



Krista Lee Carsner, Executive Director

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