

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 594 – SB 739

April 3, 2017

SUMMARY OF ORIGINAL BILL: Authorizes Fresh Hospitality in Davidson County to sell alcoholic beverages for on-premises consumption.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue – \$300/One-Time/ABC Fund
\$150/Recurring/ABC Fund
\$17,100/Recurring/General Fund

Increase Local Revenue – \$12,500/Recurring/Permissive

SUMMARY OF AMENDMENTS (003803, 006462): Amendment 003803 adds language authorizing multiple franchisees at this location to obtain a license to sell alcoholic beverages for on-premises consumption.

Amendment 006462 changes the effective date from July 1, 2017 to effective upon becoming law.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

**Increase State Revenue – \$600/One-Time/ABC Fund
\$300/Recurring/ABC Fund
\$17,100/Recurring/General Fund**

Increase Local Revenue – \$12,500/Recurring/Permissive

Assumptions for the bill as amended:

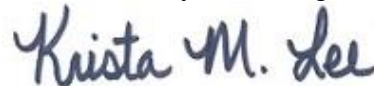
- This legislation only applies to Fresh Hospitality in Davidson County.
- There is an initial application fee of \$300 and a \$150 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC) for each entity.
- At least two entities at this location will be licensed to sell alcohol.
- A one-time increase in state revenue to ABC estimated to be \$600 (\$300 application fee x 2 entities).

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- A recurring increase in state revenue to ABC estimated to be \$300 (\$150 annual fee x 2 entities).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$500 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Davidson County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY17-18.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$120,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the size of this particular venue, the recurring increase in sales for all entities at this location is estimated to be 100 percent of the average taxable base, or \$120,000 per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$17,096 [(\$120,000 x 7.0%) - (\$120,000 x 7.0% x 3.617%) + (\$120,000 x 15.0% x 50.0%)].
- The recurring increase in local revenue is estimated to be \$12,504 [\$500 + (\$120,000 x 2.25%) + (\$120,000 x 7.0% x 3.617%) + (\$120,000 x 15.0% x 50.0%)].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

CERTIFICATION:

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



Krista M. Lee, Executive Director

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