

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

SB 193 - HB 331

May 1, 2017

SUMMARY OF BILL: Exempts from the Hall Income Tax (HIT), for tax years beginning on or after January 1, 2017, any taxpayer 100 years of age or older, or any taxpayers who file a joint return and either spouse is 100 years of age or older.

ESTIMATED FISCAL IMPACT:

On February 3, 2017, a fiscal note was issued estimating a fiscal impact as follows:

Decrease State Revenue – Net Impact – \$76,000/Each Year FY17-18 through FY21-22

Decrease Local Revenue – Net Impact – \$40,600/Each Year FY17-18 through FY21-22

This fiscal impact is being updated to account for the Hall Income Tax changes imposed by the IMPROVE Act. The estimated impact is:

(CORRECTED)

Decrease State Revenue – Net Impact – \$60,800/FY17-18
\$45,600/FY18-19
\$30,400/FY19-20
\$15,200/FY20-21

Decrease Local Revenue – Net Impact – \$32,500/FY17-18
\$24,400/FY18-19
\$16,300/FY19-20
\$8,100/FY20-21

Corrected assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a five percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-124, it is the legislative intent that the tax be reduced by one percent annually through enactments of general bills; the tax shall be eliminated for tax years beginning on or after January 1, 2022.
- However, the recently enacted IMPROVE Act decreased the HIT rate to four percent for tax years beginning on or after January 1, 2017, three percent for tax years beginning on or after January 1, 2018, two percent for tax years beginning on or after January 1, 2019,

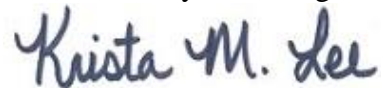
one percent for tax years beginning on or after January 1, 2020, and zero percent for tax years beginning on or after January 1, 2021.

- Given the proposed HIT exemption shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. This collection pattern is assumed to remain constant into perpetuity. Therefore, the proposed exemption will impact each fiscal year FY17-18 through FY20-21, as the HIT will be eliminated for tax years that begin on or after January 1, 2021 (FY21-22 and subsequent years).
- The Department of Revenue (DOR) reports that, based on a query of HIT taxpayer and driver license data for tax years 2013 and 2014, the average number of taxpayers that are 100 years of age or older is 120. The average total HIT collection from these taxpayers is \$146,918. The taxable base is estimated to be \$2,448,633 ($\$146,918 / 6.0\%$ HIT rate for tax years 2013 and 2014).
- The HIT collections from these taxpayers under current law are estimated to be: \$97,945 in FY17-18 ($\$2,448,633 \times 4.0\%$ HIT rate for 2017); \$73,459 in FY18-19 ($\$2,448,633 \times 3.0\%$ HIT rate for 2018); \$48,973 in FY19-20 ($\$2,448,633 \times 2.0\%$ HIT rate for 2019); and \$24,486 in FY20-21 ($\$2,448,633 \times 1.0\%$ HIT rate for 2020).
- Based on apportionments of HIT collections for the last three fiscal years (FY13-14, FY14-15, and FY15-16), it is estimated that the state retains 65.44 percent of HIT revenue and local governments are apportioned 34.56 percent.
- The decrease in HIT revenue is estimated to be: \$64,095 for the state ($\$97,945 \times 65.44\%$) and \$33,850 for the local government ($\$97,945 \times 34.56\%$) in FY17-18; \$48,072 for the state ($\$73,459 \times 65.44\%$) and \$25,387 for the local government ($\$73,459 \times 34.56\%$) in FY18-19; \$32,048 for the state ($\$48,973 \times 65.44\%$) and \$16,925 for the local government ($\$48,973 \times 34.56\%$) in FY19-20; and \$16,024 for the state ($\$24,486 \times 65.44\%$) and \$8,462 for the local government ($\$24,486 \times 34.56\%$) in FY20-21.
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services. The amount of tax savings that will be spent in the economy on such goods and services is estimated to be: \$48,972 in FY17-18 ($\$97,945 \times 50\%$); \$36,730 in FY18-19 ($\$73,459 \times 50\%$); \$24,486 in FY19-20 ($\$48,973 \times 50\%$); and \$12,243 in FY20-21 ($\$24,486 \times 50\%$).
- 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 net increase in state sales tax revenue is estimated to be: \$3,304 in FY17-18 [$(\$48,972 \times 7.0\%) - (\$48,972 \times 7.0\% \times 3.617\%)$]; \$2,478 in FY18-19 [$(\$36,730 \times 7.0\%) - (\$36,730 \times 7.0\% \times 3.617\%)$]; \$1,652 in FY19-20 [$(\$24,486 \times 7.0\%) - (\$24,486 \times 7.0\% \times 3.617\%)$]; and \$826 in FY20-21 [$(\$12,243 \times 7.0\%) - (\$12,243 \times 7.0\% \times 3.617\%)$].
- The total increase in local sales tax revenue is estimated to be: \$1,348 in FY17-18 [$(\$48,972 \times 2.5\%) + (\$48,972 \times 7.0\% \times 3.617\%)$]; \$1,011 in FY18-19 [$(\$36,730 \times 2.5\%) + (\$36,730 \times 7.0\% \times 3.617\%)$]; \$674 in FY19-20 [$(\$24,486 \times 2.5\%) + (\$24,486 \times 7.0\% \times 3.617\%)$]; and \$337 in FY20-21 [$(\$12,243 \times 2.5\%) + (\$12,243 \times 7.0\% \times 3.617\%)$].
- The net decrease in state revenue as a result of this bill is estimated to be: \$60,791 in FY17-18 ($\$64,095 - \$3,304$); \$45,594 in FY18-19 ($\$48,072 - \$2,478$); \$30,396 in FY19-20 ($\$32,048 - \$1,652$); and \$15,198 in FY20-21 ($\$16,024 - \826).

- The net decrease in local revenue each year as a result of this bill is estimated to be: \$32,502 in FY17-18 (\$33,850 - \$1,348); \$24,376 in FY18-19 (\$25,387 - \$1,011); \$16,251 in FY19-20 (\$16,925 - \$674); and \$8,125 in FY20-21 (\$8,462 - \$337).
- Any increase in expenditures for the Department to effectuate the proposed exemption will be not significant.

CERTIFICATION:

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

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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