

HOUSE BILL 1358

By Calfee

AN ACT to amend Tennessee Code Annotated, Title 67,
Chapter 2, relative to taxation of income received
from stock dividends and interest on bonds.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 67-2-102, is amended by deleting the section in its entirety and substituting instead the following:

(a) The tax collected by the state under this chapter on income derived from stocks and bonds shall be levied at the tax rate provided in subdivision (b)(1) or (b)(2), as applicable, according to the following schedule:

<u>For tax years that begin</u>	<u>Tax Rate</u>
Prior to a calendar year of First Qualifying Reduction	6%
During a calendar year of First Qualifying Reduction & subsequent calendar years prior to Second Qualifying Reduction	5%
During a calendar year of Second Qualifying Reduction & subsequent calendar years prior to Third Qualifying Reduction	4%
During a calendar year of Third Qualifying Reduction & subsequent calendar years prior to Fourth Qualifying Reduction	3%
During a calendar year of Fourth Qualifying Reduction & subsequent calendar years prior to Fifth Qualifying Reduction	2.25%
During a calendar year of Fifth Qualifying Reduction	

& subsequent calendar years prior to Sixth Qualifying Reduction	1.5%
During a calendar year of Sixth Qualifying Reduction & subsequent calendar years prior to Seventh Qualifying Reduction	.75%
During a calendar year of Seventh Qualifying Reduction & subsequent calendar years	0.00%

(b)

(1) Except as otherwise provided in subdivision (b)(2) and in this chapter, an income tax in the amount of six percent (6%) per annum shall be levied and collected by the state on incomes derived by way of dividends from stocks or by way of interest on bonds of each person, partnership, association, trust, and corporation in this state who received, or to whom accrued, or to whom was credited during any year income from the sources enumerated in this section.

(2)

(A) Beginning in fiscal year 2014-2015 and in subsequent fiscal years, on June 15 of any fiscal year in which state revenue growth exceeds three percent (3%) over the previous fiscal year, the commissioner of finance and administration, in consultation with the commissioner of revenue, shall certify the amount of the state tax revenue collected for the then current fiscal year, and notify the governor, speaker of the senate, speaker of the house of representatives, and state treasurer of such amount, including the amount of any surplus state tax revenue collected. As used in this section, "state revenue growth" means, for any fiscal year, the percentage increase in revenue derived from state taxes and collected by the state.

(B) In any fiscal year in which the commissioner of finance and administration certifies that state revenue growth exceeds three percent

(3%) over the previous fiscal year under subdivision (b)(2)(A), the rate of tax upon income from stocks and bonds shall be adjusted by reducing the rate by one percent (1%) on January 1 for the following calendar year. The rate of taxation resulting from such one-percent reduction shall be the applicable rate for all subsequent calendar years and shall remain in effect until such time in subsequent calendar years when the growth formula specified in this subdivision (b)(2)(B) warrants a further reduction; provided, that at such time, the rate shall be adjusted by reducing the rate by a one-percent increment; except, that if the rate is reduced to three percent (3%) and in the event state revenue growth exceeds three percent (3%) over the previous fiscal year after such rate becomes effective, then the subsequent reductions to the rate shall be three-fourths of one percent (0.75%).

(C) In lieu of the tax levied by subdivision (b)(1), for any taxpayer's tax year that begins during a calendar year in which a reduction to the rate is made pursuant to subdivision (b)(2)(B), or that begins during a calendar year in which a reduction is effective, an income tax at the reduced rate per annum published by the commissioner of revenue pursuant to subsection (c) shall be levied and collected on incomes derived by way of dividends from stocks or by way of interest on bonds of each person, partnership, association, trust, and corporation in this state who received, or to whom accrued, or to whom was credited during any year income from the sources enumerated in this section, except as otherwise provided in this chapter.

(c) By September 1 immediately following the certification made pursuant to subdivision (b)(2)(A), the commissioner of revenue shall publish the rate of taxation at which the income derived from stocks and dividends shall be taxed beginning on January 1 of the next calendar year.

(d) For any taxpayer's tax year that begins on or after January 1 of the calendar year in which the rate is reduced to zero percent (0%) pursuant to subdivision (b)(2)(B), no tax shall be imposed by the state pursuant to this chapter; provided, that this subsection shall not be construed to absolve any taxpayer of liability for any tax duly levied by the state under this chapter during any taxpayer's tax year beginning prior to that date.

SECTION 2. Tennessee Code Annotated, Section 67-2-103, is amended by deleting the section in its entirety and by substituting instead the following:

Subject to § 67-2-119, the tax levied by the state prior to January 1 of the calendar year in which the tax is reduced to zero percent (0%) under § 67-2-102(b)(2), is for state purposes only; provided, that § 67-2-119 shall remain in effect until August 1 of that calendar year, for purposes of making distributions under that section. Except as authorized by § 67-2-124, no county or municipality shall have power to levy the tax.

SECTION 3. Tennessee Code Annotated, Title 67, Chapter 2, is amended by adding the following new section:

67-2-124.

(a) For tax years beginning on or after January 1 of the calendar year in which the tax levied by the state is reduced to zero percent (0%) pursuant to § 67-2-102(b)(2), any municipality or county that received a distribution of revenue from the tax levied by the state prior to that date is authorized to levy for municipal or county purposes, by action of its governing body, a tax not to exceed two and one-quarter percent (2.25%)

per annum upon incomes derived by way of dividends from stocks or by way of interest on bonds of each person, partnership, association, trust, and corporation residing in the municipality or county, as applicable, who received, or to whom accrued, or to whom was credited during any year income from the sources enumerated in this subsection, except as otherwise provided in this chapter.

(b)

(1) No ordinance or resolution authorizing a tax under this section shall take effect unless, within two (2) years following January 1 of the calendar year in which the tax levied by the state is reduced to zero percent (0%), the ordinance or resolution is approved by:

(A) A two-thirds (2/3) vote of the municipal or county legislative body at two (2) consecutive, regularly scheduled meetings; or

(B) A majority of the number of qualified voters of the municipality or county voting in an election on the question of whether or not the tax should be levied.

(2)

(A) If there is a petition of registered voters amounting to ten percent (10%) of the votes cast in the municipality or county in the last gubernatorial election that is filed with the county election commission within thirty (30) days of final approval of the ordinance or resolution by the municipal or county legislative body, then the county election commission shall call an election for the municipality or county, as the case may be, on the question of whether or not the tax should be levied in accordance with this section.

(B) The local governing body shall direct the county election commission to call the election to be held at the first regular November general election held after January 1 of the calendar year in which the tax levied by the state is reduced to zero percent (0%), for the purpose of approving or rejecting the tax levy.

(C) The ballots used in the election held pursuant to subdivision (b)(1)(B) shall have printed on them the substance of the ordinance or resolution, and the voters shall vote for or against its approval.

(D) The votes cast on the question shall be canvassed and the results proclaimed by the county election commission and certified by it to the local governing body.

(E) The qualifications of voters voting on the question shall be the same as those required for voting in a general county or municipal election, whichever is appropriate.

(F) All laws applicable to general elections shall apply to the determination of the approval or rejection of this tax levy.

(c)

(1) The tax shall be levied on the same persons and to the same extent as the tax was levied by the state pursuant to this chapter. Any ordinance approved pursuant to subsection (b) shall require that the tax levied by the municipality be collected only from taxpayers residing within the corporate limits of the municipality. Any resolution approved pursuant to subsection (b) shall require that the tax levied by the county be collected only from taxpayers residing in the county, but outside the corporate limits of any municipality.

(2) The ordinance or resolution authorizing the levy shall set forth the manner of collection and administration of the tax.

(3) The tax shall be subject to the same exemptions, credits, and deductions provided in § 67-2-104 and in this chapter as were applicable to the tax levied by the state under this chapter prior to January 1 of the calendar year in which the tax levied by the state was reduced to zero percent (0%).

SECTION 4. Tennessee Code Annotated, Section 67-2-119, is amended by deleting the section in its entirety and by substituting instead the following:

(a) Of the taxes collected by the state under this chapter upon income from stocks and bonds taxable at the rate provided in § 67-2-102, after any deduction for necessary expenses for administration of this chapter pursuant to § 67-2-117, the following shall be distributed among municipalities and counties in accordance with subsection (c):

<u>For tax years that begin</u>	<u>Local Distribution</u>
Prior to a calendar year of First Qualifying Reduction	37.5%
During a calendar year of First Qualifying Reduction & subsequent calendar years prior to Second Qualifying Reduction	45.0%
During a calendar year of Second Qualifying Reduction & subsequent calendar years prior to Third Qualifying Reduction	56.25%
During a calendar year of Third Qualifying Reduction & subsequent calendar years prior to Fourth Qualifying Reduction	75.0%
During calendar years of Fourth, Fifth, & Sixth Qualifying Reductions	100.0%

(b) After the distribution to municipalities and counties pursuant to subsection (a), any funds remaining shall be paid into the general fund of the state treasury.

(c)

(1) If a taxpayer residing within the corporate limits of any municipality pays a tax imposed by the state at the rate provided in § 67-2-102, then the net tax collected from the taxpayer shall be returned to the municipality within which the taxpayer resides in the amount required to be distributed pursuant to subsection (a).

(2) If a taxpayer residing in a county, but outside the corporate limits of any municipality, pays a tax imposed by the state at the rate provided in § 67-2-102, then the net tax collected from the taxpayer shall be returned to the county within which the taxpayer resides in the amount required to be distributed pursuant to subsection (a).

(d) Any payment by the state to municipalities and counties covering collections made under this section during any fiscal year shall be made on or before July 31 immediately following the close of that year.

SECTION 5. If any provision of this act or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the act which can be given effect without the invalid provision or application, and to that end the provisions of this act are declared to be severable.

SECTION 6. This act shall take effect upon becoming a law, the public welfare requiring it.