

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1391 – SB 1491

January 29, 2014

SUMMARY OF BILL: Exempts from state and local sales tax the sale or use of tangible personal property sold by, through or in connection with a classroom sponsored book club program.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$295,000

Decrease Local Revenue – Net Impact – \$120,400

Assumptions:

- Based on data provided by the Department of Revenue, it is estimated that taxable sales subject to exemption from the state and local sales taxes under this bill will be \$4,590,000 in FY14-15 and subsequent years. Since book club sales follow the seasonal nature of the school year, and assuming this bill takes effect May 1, 2014, any fiscal impact in FY13-14 is estimated to be not significant.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% $[(5.5\%/7.0\%) \times 4.603\%]$.
- The net recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$309,679 $[(\$4,590,000 \times 7.0\%) - (\$4,590,000 \times 7.0\% \times 3.617\%)]$.
- The total recurring decrease in local sales tax revenue as a result of the proposed exemption is estimated to be \$126,371 $[(\$4,590,000 \times 2.5\%) + (\$4,590,000 \times 7.0\% \times 3.617\%)]$.

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- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services. Total recurring tax savings are estimated to be \$436,050 (\$309,679 + \$126,371).
- The net recurring increase in state sales tax revenue, as a result of 50 percent of tax savings being re-spent in the economy, is estimated to be \$14,710 [(\$436,050 x 50.0% x 7.0%) - (\$436,050 x 50.0% x 7.0% x 3.617%)].
- The total recurring increase in local sales tax revenue, as a result of 50 percent of tax savings being re-spent in the economy, is estimated to be \$6,003 [(\$436,050 x 50.0% x 2.5%) + (\$436,050 x 50.0% x 7.0% x 3.617%)].
- The net recurring decrease in state sales tax revenue as a result of this bill is estimated to be \$294,969 (\$309,679 - \$14,710).
- The net recurring decrease in local sales tax revenue as a result of this bill is estimated to be \$120,368 (\$126,371 - \$6,003).

CERTIFICATION:

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



Lucian D. Geise, Executive Director

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