

Increase in the percentage of state sales tax revenues shared with cities



Proposed Legislation

Background

Since 2012, the Tennessee General Assembly has decreased the state sales and use tax rate on groceries on three separate occasions. Each of the first two reductions were $\frac{1}{4}$ percent while the most recent reduction was a full $\frac{1}{2}$ percent.

In addition, the Hall Income Tax is currently being phased out and scheduled to be completely eliminated by 2021. Hall Income Tax rate reductions related to the phase out, as well as exemptions enacted, combined with the reduction in the sales and use tax on groceries have resulted in \$100 million in lost revenue to municipalities.

• 2012 Food Tax (5.5% to 5.25%)	(\$589,764)
• 2013 Food Tax (5.25% to 5%)	(\$807,600)
• 2012 Hall Income Exemption (26k/37k)	(\$514,700)
• 2013 Hall Income Exemption (33k/59k)	(\$668,400)
• 2015 Hall Income Exemption (37k/68k)	(\$434,900)
• 2016 Hall Income Rate Cut (6% to 5%)	(\$12,826,200)
• 2017 Hall Phase Out/Food Tax Cut (5% to 4%)	(\$82,248,140)
Total Changes	(\$98,089,704)

The impact of this loss of \$100 million in revenue is further compounded by the reality that municipalities are still suffering the adverse effects of actions taken in 2002 to meet the state budget shortfall:

1. A 10% reduction in the amount state sales taxes shared with municipalities
2. An increase in the state sales and use tax from 6% to 7% without sharing of revenues with municipalities
3. An increase in the single article cap

The single article cap which limits the state and local sales tax on large purchases was doubled from \$1,600 to \$3,200 in 2002 with the state retaining both the state rate of 7% and the local option of 2.75% on any item with a sales price in excess of \$1,600.

Currently, municipalities receive .046 percent of the revenue generated from the state sales and use tax rate of 5.5%. Although the state sales tax rate is currently 7.0%, a .5% increase in the state sales tax rate, enacted in 1992, was completely dedicated to education funding. In 2002, an additional 1% increase in the state sales tax rate was adopted and associated revenues were wholly dedicated to the state's general fund. Consequently, the revenues derived from this combined 1.5% increase in the state sales tax rate are not being shared with municipalities.

While the percentage of the state sales tax collections shared with municipalities were eventually returned to pre-2002 levels, provisions removing collections associated with 1.5% of the state sales tax rate from the pool of revenues shared with cities, as well as the single article cap provisions, continue to this day. The ill effects of these policies continue as well.

As a result, the total of state-shared revenue, as a percentage of both total state tax collections and as a percentage of total state revenue, has decreased from fiscal year 2000-01 to 2016-17.

Remedy

Pursue legislation that would increase the current percentage of state sales collections shared with municipalities to .059 percent. This increase will help mitigate the negative effects of these past legislative actions.

