

Research Plan: House Bill 971, Senate Bill 1075, State-shared Taxes and Local Services

Research Manager: TBD

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Due: January 1, 2019 Support: Stan Chervin

Deputy Executive Director Initial: *UMB* Date: *4-27-18*
Approval:

Executive Director Approval: Initial: *[Signature]* Date: *4/27/18*

Purpose:

To conduct a comprehensive study of state-shared taxes shared with local governments in Tennessee, to include state-shared sales taxes collected from out-of-state vendors. The study is to include an analysis of how these revenues are distributed as well as the service responsibilities of municipal and county governments.

Background:

The Commission was directed by the House Finance, Ways and Means Committee to address the following questions:

1. What are the duties of cities mandated by law?
2. What are the duties of counties mandated by law?
3. What funds go from the state to cities to comply with the law?
4. What funds go from the state to counties to comply with the law?

A 2004 TACIR staff study requested by the Speaker of the House of Representatives offers still salient background information:

Cities and counties have relied on state-shared taxes to varying degrees for more than 100 years. Their importance to local governments varies from tax to tax and from place to place. Each tax has its own unique distribution formula—in some cases they favor counties, in some cases cities, and in some cases both are treated alike. Some taxes have

restrictions on how they can be used. In addition, the amounts generated by some taxes are more volatile than others, fluctuating widely from year to year. The more volatile taxes make less reliable sources of revenue for recurring obligations. Consequently, the impact on local governments of such volatility varies, depending on the relative importance of the different shared taxes to the local revenue stream.

Step 1. Define the Problem

Is the current state-shared tax scheme in Tennessee adequate and equitable?

Step 2. Assemble Some Evidence

- Review referred legislation.
 - Review committee hearings on the bills and summarize comments and concerns of committee members, the bill sponsors, and others speaking for or against the bill.
 - Interview the bill sponsors, proponents, and other stakeholders to determine what is driving the issue. Interviews will include but are not limited to representatives from
 - the Department of Education,
 - the Department of Revenue,
 - the Municipal Technical Advisory Service,
 - the County Technical Assistance Service,
 - the Tennessee County Services Association,
 - the Tennessee Municipal League,
 - city and county mayors,
 - the Tennessee Association of School Business Officials, and
 - school finance directors.
- Review the fiscal note. Consult with Fiscal Review Committee staff and follow up with agencies submitting support forms to determine the estimated cost and the method and rationale for the estimates.
- Review prior Tennessee legislation.
- Review current rules related to the collection and distribution of sales taxes.

- Review the current education funding formula.
- Review South Dakota case pending before the US Supreme Court regarding sales tax on Internet transactions.

Step 3. Construct Alternatives

Alternatives will be based on

- current law,
- best practices, and
- any additional alternatives drawn from the research and analysis in Step 2.

Step 4. Select Criteria

- Cost to
 - state government,
 - local governments,
 - taxpayers, and
 - business owners.
- Fairness to
 - state government,
 - local governments,
 - taxpayers, and
 - business owners.
- Estimate receptiveness of
 - state government,
 - local governments,
 - taxpayers, and
 - business owners.

Step 5. Project Outcomes

- For each alternative,
 - Estimate

- cost,
 - effectiveness, and
 - acceptability to various interests; and
- evaluate questions of fairness to state and local governments taxpayers, school systems, and business owners.

Step 6. Confront Trade-offs

- What are the pros and cons of potential alternatives?
- How will changes to current law affect the stakeholders?

Step 7. Decide which alternatives to present to the Commission

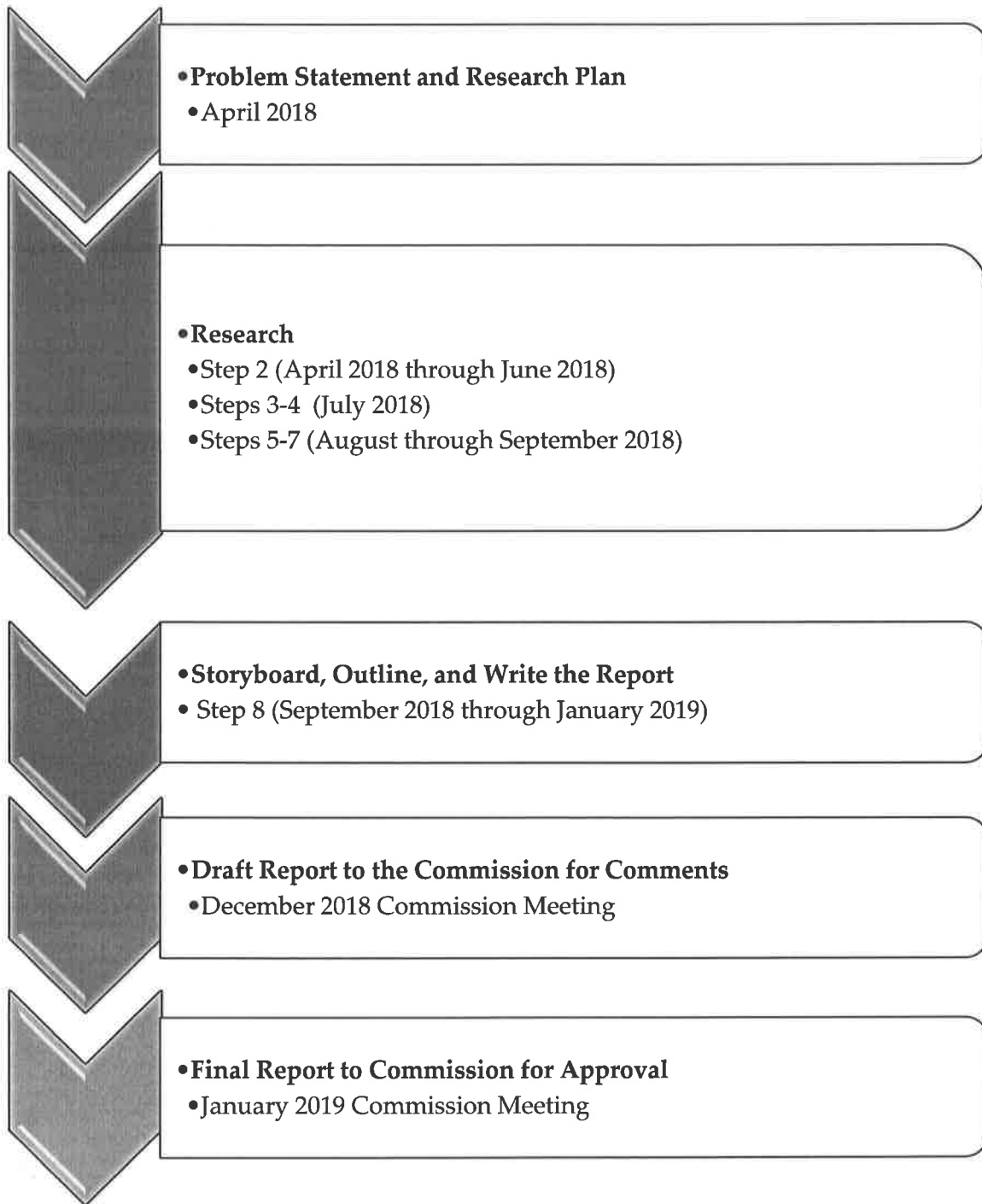
Based on the results of Step 6, choose the alternatives that most practically and realistically resolve the problem.

Step 8. Produce the Draft Report

Develop and present a draft for review and comment to the Commission.

Revisit Steps 5-8.

- Respond to feedback from Commission regarding outcome projections, trade-offs, and selection of alternatives.
- Revise and edit the draft to reflect comments of the Commission.
- Submit final report to the Commission for approval.



SENATE BILL 1075

By Watson

AN ACT to amend Tennessee Code Annotated, Title 67,
relative to taxation.

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

SECTION 1. Tennessee Code Annotated, Section 67-1-105(a), is amended by deleting the language "within ten (10) days" from subdivision (1) and substituting instead the language "within twelve (12) days".

SECTION 2. This act shall take effect upon becoming a law, the public welfare requiring it.