TECHNICAL BULLETIN

MUNICIPAL TECHNICAL ADVISORY SERVICE
THE UNIVERSITY OF TENNESSEE
IN COOPERATION WITH THE TENNESSEE MUNICIPAL LEAGUE

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1987-88 STATE REVENUE ESTIMATES, FEDERAL REVENUE SHARING & LOCAL SALES TAX OUTLOOK

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STATE REVENUE

The State General Assembly is not scheduled to adjourn for several weeks and passage of the state budget is usually one of the last actions taken by the General Assembly. Therefore, the per capita amounts presented in this bulletin are subject to change. If you do not receive notification of changes within two weeks after the State General Assembly has adjourned, you should consider these amounts as accurate.

GENERAL FUND	PER CAPITA AMOUNT
STATE SALES TAX	$35.88
STATE BEER TAX	.48
SPECIAL PETROLEUM PRODUCTS TAX (gasoline inspection fee)	2.72
GROSS RECEIPTS (TVA in-lieu taxes)	4.56
INCOME TAX (State-wide projected increase of 8%, but individual city amounts will fluctuate)	
CORPORATE EXCISE TAX (State-wide projected increase of 2% but individual city amounts may fluctuate)	
MIXED DRINK TAX (State-wide projected increase of 3%)	

STATE STREET AID FUND	
GASOLINE & MOTOR FUEL TAXES	$17.49
GASOLINE & MOTOR FUEL TAXES - 1985 Tax	5.10
TOTAL - GAS AND FUEL TAX (If properly certified)	$22.59

FEDERAL REVENUE SHARING FUNDS

It finally happened; this program expired September 30, 1986, and cities received their last allocation of these funds in March 1987. If you have not spent all revenue sharing funds by this time, MTAS recommends that your city appropriate and spend the remaining revenue sharing Funds for legitimate city purposes as soon as possible. September 30, 1987, has been established as the cut-off date by the Federal Government to spend, appropriate or obligated Federal Revenue Sharing Funds.

LOCAL SALES TAX

The economy in some communities may be strong enough for this revenue to grow at a respectable rate, but many cities will see little growth from this revenue source. Growth of this tax is not expected to keep pace with the state sales tax.

*NOTE: There are three possibilities for increasing this revenue:

1. Increase the local sales tax rate (maximum 2.75%).

2. Raise the single article limit to the maximum, $1,100.00, if your city or county has not done so.

3. Situs code verification - location (situs code) of a business determines which local governments receive credit for the sale. Many cities have increased this revenue source significantly, simply by verifying and correcting the situs code of all merchants within the city. For a detailed explanation of situs verification, write or call MTAS and ask for Technical Report No. 33.

As background for municipal officials regarding state-shared taxes, a brief summary of each state-shared revenue source is provided.

STATE SALES TAX - TCA 67-6-101 et seq. imposes a 5-1/2% State Sales and Use Tax on the sale, use, consumption, distribution, lease, or rental of tangible personal property and selected services. TCA 67-6-103(3)(A) provides that cities shall receive, after certain deductions, their per capita share of 4.5925% of this revenue.

STATE BEER TAX - TCA 57-5-201 levies a tax on the manufacture, sale, and transportation of beer. Cities are allocated 10.05% of this money without regard to the legal sale of beer in their city.

SPECIAL PETROLEUM PRODUCTS TAX - TCA 67-3-904 levies a $0.01 per gallon tax on gasoline and most other volatile fuels sold, used, or stored in the state. Approximately $12,000,000 of this revenue is allocated to local governments.

GROSS RECEIPTS TAX - TCA 67-9-101 et seq. requires TVA to pay 5% of gross power sales proceeds to the state in-lieu-of-taxes. Of the increase in TVA payments made to the state above the amount received in the base year (1977-78), 48.5% is distributed to county and municipal governments. Thirty per cent of this amount is distributed to municipalities based on population. Special additional payments are also made to areas impacted by TVA power construction projects. Further, those cities receiving TVA in-lieu-of-tax funds from the state prior to implementation of the per capita distribution continue to receive that amount, plus the per capita amount.

INCOME TAX - TCA 67-2-119 allocates 3/8 of the 6% state income tax to local governments in Tennessee. State-wide this is projected to grow about 8% over FY-87.

EXCISE TAX - TCA 67-4-813 allocates 2.5% of excise tax collections to local governments. Any city having a bank or branch bank inside their corporate limits may receive some money from this source. Reasons why your city may not receive money from this source include: (1) the bank did not make a profit or (2) the home office of the bank is located in another city of your county. If you have specific questions about the amount of money your city received, you should contact Mr. Ken Morrell, Division of Local Property Assessment, (615) 741-7644. State-wide this revenue is expected to grow about 2%.

MIXED DRINK TAX - TCA 67-4-301 allocates 50% of the 15% gross receipts tax on the basis of situs of collection. Statewide projected growth is about 2%.

GASOLINE & MOTOR FUEL TAXES - TCA 67-3-603 & 604, and 67-3-803 impose a state tax on vehicle fuel. A portion of the revenue generated from these taxes is shared with local governments.

The tax on these fuels was increased in 1985 and 1986 by $0.07, and local governments shared in this revenue. There continues to be a "local maintenance of effort (5 year average) for street expenditure" included in the $22.59 per capita revenue allocation. Cities will receive notification from the state about the procedures to be followed in complying with this requirement. When you prepare your street budget for FY-88, be sure and appropriate at least as much local revenues for street expenditures as you have averaged spending in local revenue over the past five (5) years. If you do not, you should decrease your estimated State Street Aid revenue to $17.49 per capita.

TCA 54-5-204 allows the Comptroller of the Treasury to waive the requirements that street aid funds be accounted for in a separate fund. Street aid revenue can be accounted for in the General Fund if the accounting system is adequate to identify the source of revenues, the expenditures relating thereto, and to reserve unexpended revenue. Cities desiring to merge these funds must make a formal written request to the Comptroller's office and receive permission before combining these funds.

If you need assistance or have questions on any items discussed in this bulletin, contact your MTAS representative.

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