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## Hot Topic: 2007-2008 State Shared Taxes and Appropriations

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*Municipal Technical Advisory Service*

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**MTAS**  
**Municipal Technical  
 Advisory Service**

*In cooperation with the  
 Tennessee Municipal League*



**June 19, 2007**

**2007-2008 STATE SHARED TAXES AND APPROPRIATIONS**

**C. Richard Phebus, Finance Consultant**

The first session of the 105th Tennessee General Assembly adjourned on June 12, 2007. In its wake, the General Assembly, among many other items, revamped the Basic Education Program (BEP) while lowering the state sales tax rate on food. Based on revenue projections for FY 2008, cities are expected to receive approximately \$111 per capita for the fiscal year beginning July 1, 2007.

As noted above, the state sales tax rate on food will be reduced from 6 percent to 5.5 percent effective July 1, 2007. The legislation does not affect the local option sales tax rate. The reduction in state sales tax revenue will result in a reduction of revenues available for distribution back to municipalities. The state has estimated the total revenue loss to municipalities will be \$1,870,000 in the first year. This overall reduction, which amounts to approximately \$0.56 per capita, has been factored into the figures below for state shared tax revenue distributed to municipalities for FY 2008.

Following is a breakdown of what cities can expect to receive this year. For cities that are in the process of adopting a budget or have already approved one, financial personnel should review this information to determine if adjustments to the budget document are necessary.

<b>STATE SHARED TAX</b>	<b>PER CAPITA AMOUNT</b>
<b>General Fund</b>	
State Sales Tax	\$ 73.04
State Beer Tax	\$ 0.54
Special Petroleum Products <i>(City Streets and Transportation)</i>	\$ 2.18
Gross Receipts Tax <i>(TVA in lieu)</i>	\$ 7.00
<b>Total General Fund Revenue</b>	<b>\$ 82.76</b>
<b>State Street Aid Funds</b>	
Gasoline and Motor Fuel Tax	\$ 28.44
<b>Total Per Capita</b>	<b>\$111.20</b>

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Following are other changes to taxes and miscellaneous items:

- **Hall Income Tax:** The statewide projected increase is slightly more than 6 percent, but individual city amounts will fluctuate. Also, due to recent market volatility it would be prudent to be somewhat conservative in estimating your city’s revenue.
- **Corporate Excise Tax:** The statewide projected increase is 0.35 percent. This tax is based on bank profits and is distributed based on situs in lieu of intangible personal property taxes. Cities must levy a property tax in order to receive revenue from this tax.
- **Mixed-Drink Tax:** The statewide projected increase is 7 percent.
- **Public Safety Salary Supplements:** S.B. 869/H.B. 290 was adopted by the General Assembly on the last day of the session and increased the firefighter salary supplement to \$600. Therefore, public safety salary supplements for firefighters and police officers are to be funded at the same rate for FY 2008. Upon completion of certain training requirements police officers and firefighters are eligible for bonus salary supplements of \$600 each.

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The Municipal Technical Advisory Service (MTAS) is a statewide agency of The University of Tennessee Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League to provide technical assistance services to officials of Tennessee’s incorporated municipalities. Assistance is offered in areas such as accounting, administration, finance, public works, ordinance codification, and water and wastewater management.

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