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## Technical Bulletins: Changes To Local Sales and Use Tax Legislation-Tax Rate Increase

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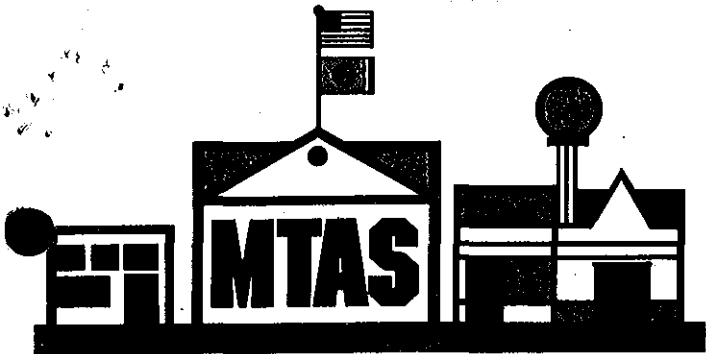
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# TECHNICAL BULLETIN

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THE UNIVERSITY OF TENNESSEE  
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May 18, 1984

## Changes To Local Sales and Use Tax Legislation-Tax Rate Increase

by  
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During the current legislative session, a major change in the application of the Local Sales and Use Tax law was enacted. Chapter 631, Public Acts of 1984, permits cities and counties, by referendum, to increase the local sales tax rate to an amount not to exceed one-half the state rate, or 2.75%. The maximum local rate was previously fixed at 2.25%.

Any county by resolution, or any city by ordinance, can levy the local sales tax at a rate up to one-half of the rate of the state sales tax, not to exceed a combined local tax of 2.75%. If the county has levied the tax at the maximum rate, no city in the county can levy a local sales tax. If a county has a sales tax of less than the maximum, then a city can levy a tax of not more than the difference between 2.75% and the county tax. As in the past, a county-levied tax supersedes a city-levied tax.

The local sales tax is levied as a fraction of the state sales tax rate. To levy a local sales tax of 1%, the tax would be levied at a rate of "two-elevenths of the rate levied in the Retailers' Sales Tax Act, Chapter 6, Title 67, TCA, as amended." The following fractions would be used to levy the tax at the level indicated:

"one-twentysecond"	for a .25% local tax
"one-eleventh"	for a .5% local tax
"three-twentyseconds"	for a .75% local tax
"three-elevenths"	for a 1.5% local tax
"four-elevenths"	for a 2% local tax
"nine-twentyseconds"	for a 2.25% local tax
"five-elevenths"	for a 2.5% local tax
"one-half"	for a 2.75% local tax

Since the State Department of Revenue administers the sales tax and is usually the collector of the local tax, every ordinance levying or increasing a city-levied local sales tax must be sent to the Department of Revenue for their review, immediately after its first reading. The Department will refuse to collect the tax if the ordinance is not properly drafted.

No city-levied sales tax or increase in the city-levied sales tax can become effective until approved in an election within the city levying it. If the ordinance receives a majority vote, then it will become operative on the day the election commission makes its official canvass. The new tax will not be collected until the first day of a month occurring at least 30 days after the operative date.

When the ordinance so provides, the State Department of Revenue will collect the local tax at the same time that it collects the state sales tax. The Department of Revenue requires that a certified copy of the adopted ordinance be sent to them immediately if they are to collect the tax. The city is authorized to collect the city-levied tax, but state collection of the tax is recommended.

The proceeds of a city-levied tax go to the city general fund.

A sample of an ordinance is attached to this publication. For more information on how to implement the local sales tax increase, contact the State Department of Revenue or your MTAS Consultant.

SAMPLE ORDINANCE

ORDINANCE NO. \_\_\_\_\_\*

AN ORDINANCE to levy a city sales tax.

BE IT ORDAINED \_\_\_\_\_ (here insert proper ordaining clause):

Section 1. As authorized by Sections 67-6-701 -- 67-6-712, Tennessee Code Annotated, there is levied a tax in the same manner and on the same privileges subject to the Retailers' Sales Tax Act under Chapter 6, Parts 1 through 6, of Title 67, Tennessee Code Annotated, which are exercised in \_\_\_\_\_ (name of city). The tax is levied on all such privileges at the rate of \_\_\_\_\_.\*\* With respect to industrial and farm machinery as defined in TCA 67-6-102 (6) and (8), and with respect to water sold to or used by manufacturers, the tax is imposed at the rate of \_\_\_\_\_.\*\*\* of 1%. The tax shall not exceed the amount provided in TCA 67-6-702(a) (1), and there is excepted from the tax levied by this ordinance the sale, purchase, use, consumption, or distribution of electric power or energy or natural or artificial gas or coal and fuel oil as long as these exceptions are required by state law. Penalties and interest for delinquencies shall be the same as provided in TCA 67-6-516.

Section 2. If a majority of those voting in the election required by TCA 67-6-706 vote for the ordinance, collection of the tax levied by this ordinance shall begin on the first day of the month occurring 30 or more days after the county election commission makes its official canvass of the election returns.

Section 3. It having been determined by the Department of Revenue of the State of Tennessee that it is feasible for this tax to be collected by that Department as evidenced by its Local Option Sales and Use Tax Rules and Regulations, the Department shall collect the tax concurrently with the collection of the state tax in the same manner in which the state tax is collected in accordance with rules and regulations promulgated by the Department. The \_\_\_\_\_ (specify officer) is hereby authorized to contract with the Department of Revenue for the collection of the tax by the Department and to provide in the contract that the Department may deduct from the tax collected a reasonable amount or percentage to cover the expense of administration and collection of the tax.

\*If the city already has a city sales tax, this sample ordinance should be modified to take account of the existing tax.

\*\*For rates to be levied, see page 1 in this bulletin.

\*\*\*One-third (1/3) if the local rate does not exceed 1% or 1/2 if the rate is more than 1%.

Section 4. In the event the tax is collected by the Department of Revenue, suits for the recovery of any tax illegally assessed or collected shall be brought against the State Commissioner of Revenue and the \_\_\_\_\_ (specify city officer).

Section 5. A certified copy of this ordinance shall be transmitted to the Department of Revenue by the city recorder forthwith and shall be published one time in a newspaper of general circulation in \_\_\_\_\_ (name of city) prior to the election called for in Section 2.

Section 6. For all purposes except collection of the tax, this ordinance shall take effect \_\_\_\_\_ (here insert appropriate effective date). For purposes of collection of the tax, this ordinance shall take effect as provided in Section 2.

NOTE: If the city has a municipal code, this ordinance should be modified to amend the code.



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