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Hot Topic: 2006-2007 State Shared Taxes and Appropriations

Dick Phebus

Municipal Technical Advisory Service

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MTAS

Municipal Technical Advisory Service

*In cooperation with the
Tennessee Municipal League*

#126

HOT
topic

May 30, 2006

2006-2007 STATE SHARED TAXES AND APPROPRIATIONS

C. Richard Phebus, Finance Consultant

The Tennessee General Assembly adjourned on Friday, May 26, 2006, after coming through on a promise to fully restore a portion of state shared revenues allocated to local governments that were reduced during the 2003 general assembly. Fifty percent of the FY2004 reductions were restored last year, resulting in additional state shared revenue allocations to cities during the fiscal year ending June 30, 2006. With passage of S.B. 3970/H.B. 4056, the general assembly removed the "off-the-top" amount retained by the state's general fund prior to distribution of selected taxes to local governments. For municipalities, this means the formulas for allocation of the state sales tax, state beer tax, Hall income tax, corporate excise tax, and mixed drink tax are restored to pre-2004 amounts. An additional benefit to cities is that they will share in the growth of these state revenues since the reductions were first adopted by the 2003 General Assembly.

Based on the passage of S.B. 3970/H.B. 4056 and revenue growth estimates, municipalities can expect to receive the per capita taxes listed below in FY 2006-2007. The effective date of the changes in the distribution formulas is August 1, 2006. Therefore, the allocation of state sales tax

back to municipalities next fiscal year will include two months of the current formula distribution and 10 months of distribution with no off-the-top reductions. Other taxes distributed other than monthly will see a full restoration of amounts with their first allocation. The per capita amounts listed below take into account the effects of the various distributions discussed above.

STATE SHARED TAX	PER CAPITA AMOUNT
General Fund	
State Sales Tax	\$ 71.39
State Beer Tax	\$ 0.52
Special Petroleum Products (City Streets and Transportation)	\$ 2.20
Gross Receipts Tax (TVA in lieu)	\$ 7.00
Total General Fund Revenue	\$ 81.11
State Street Aid Funds	
Gasoline and Motor Fuel Tax	\$ 28.49
Total Per Capita	\$109.60

Following are other changes to taxes and miscellaneous items.

Hall Income Tax: S.B. 3970/H.B. 4056 removes the "off-the-top" amount retained

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by the state, thereby restoring the full amount allocated to local governments. The change is effective August 1, 2006; therefore, the allocation made by the state to local governments in July 2006 will not reflect the increased amount. Local governments will have to wait until July 2007 to see the effects of this change. The estimated growth in the Hall income tax statewide is 6.07 percent, while local situs amounts will vary. Because of the effective date of the bill and fluctuations in statewide collections of this tax, extreme care should be used in estimating the amount of Hall income tax to include in the FY 2006-2007 budget.

Corporate Excise Tax: The statewide projected increase is 2.0 percent. S.B. 3970/H.B. 4056 restores the distribution to local governments to pre-2004 levels. This tax is based on bank profits and is distributed based on situs in lieu of intangible personal property taxes. Cities must have levied a property tax in the previous year in order to receive allocations from this revenue source.

Mixed-Drink Tax: The statewide projected increase is 6.16 percent. S.B. 3970 restores the distribution to pre-2004 levels for local governments.

Public Safety Salary Supplements:

A late amendment to the FY 2006-2007 appropriations bill (S.B. 3914/H.B. 4025) restored these supplements to pre-2004 levels. Upon completion of certain training requirements, police officers and fire personnel are eligible for bonus salary supplements of \$600 and \$450 respectively. Municipalities should remember that these salary supplements are subject to all applicable federal and Social Security taxes when paid to each employee.

State Shared Reduction Mitigation

Account: Upon restoration of all state shared taxes distributed to local governments, there was no supplemental appropriation for this item.

MTAS OFFICES

Knoxville (Headquarters) . . . (865) 974-0411	Jackson (731) 423-3710
Johnson City (423) 854-9882	Nashville (615) 532-6827
(423) 282-0416	Martin (731) 881-7057

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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