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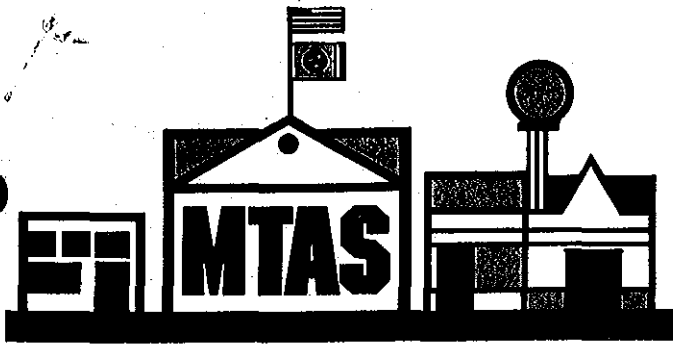
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TECHNICAL BULLETIN



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

Bulletin No. 16

April 15, 1988

1988-89 STATE REVENUE ESTIMATES LOCAL SALES TAX OUTLOOK

by W. K. (Ken) Joines and James H. Leuty

State Revenue

The State of Tennessee General Assembly is scheduled to adjourn the latter part of April 1988, 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, consider these amounts as accurate.

General Fund	Per Capita Amount
STATE SALES TAX ¹	\$ 37.30
STATE BEER TAX	.49
SPECIAL PETROLEUM PRODUCTS TAX (gasoline inspection fee)	2.68
GROSS RECEIPTS (TVA in-lieu taxes)	4.57
INCOME TAX (State-wide projected increase of 7.3%, but individual city amounts may fluctuate)	
CORPORATE EXCISE TAX (State-wide projected increase of 17.2% but individual city amounts may fluctuate)	
MIXED DRINK TAX (State-wide projected increase of 3.8%)	

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¹The state legislature is expected to pass an amendment to the State Sales Tax Law to impose a State and Local Sales Tax on out-of-state catalog sales. This law may be challenged in court, and the Department of Revenue is expected to have problems collecting this tax in the immediate future. Federal legislation is being considered that would authorize this type of state legislation. When this happens, realistic income projections can be made. The \$37.30 per capita amount does not include estimated revenue from catalog sales.

State Street Aid Fund

GASOLINE & MOTOR FUEL TAXES	\$17.35
GASOLINE & MOTOR FUEL TAXES - 1985 Tax	<u>5.41</u>
TOTAL - GAS AND FUEL TAX (If properly certified)	<u>\$22.76</u>
TOTAL PER CAPITA	<u>\$67.80</u>

Local Sales Tax

The economy in some communities will be strong enough for this revenue to grow at a respectable rate and in some instances exceed the states projected growth. However, many cities will see a minimum amount of growth from this revenue source. Local officials will need to estimate this tax in relation to previous growth experience and the local economic conditions.

*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 The University of Tennessee's Municipal Technical Advisory Service (MTAS) and ask for Technical Report No. 33.

The state legislature is considering legislation that could alter both the local sales tax rate as well as the state rate. If legislation passes altering these taxes, you will be notified as soon as possible.

State-Shared Taxes

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

State Sales Tax - *Tennessee Code Annotated (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. This per capita amount is estimated to be \$37.30.

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. This per capita amount is estimated to be \$.49.

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. This per capita amount is estimated to be \$2.68.

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. The per capita amount is estimated to be \$4.57.

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 7.3% over FY-88.

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 17.2%.

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 3.8%.

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 (five year average) for street expenditure" included in the \$22.76 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 General Fund street budget for FY-89, 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 years. If you

do not, you should decrease your estimated State Street Aid revenue to the greater of \$17.35 per capita plus the dollar difference between the shortfall of this year's appropriation to the five year average and \$5.41 per capita. If you have a copy of your 1988 certification worksheet, we suggest you calculate your new five year average and budget accordingly.

The state will mail gasoline maintenance of effort certification forms to all cities at the first of their fiscal year. You are requested to return the certification form as soon as your city has adopted next year's budget and closed this year's books. The state has established November 15, 1988, as the deadline for submission of this information.

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.

Further Information

Further information on state-shared and revenue taxes may be obtained by contacting W. K. (Ken) Joines, MTAS Senior Finance Consultant, in Knoxville at (615) 974-5301; James Leuty, MTAS Finance Consultant, in Nashville at (615) 256-8141; or your MTAS Finance or Management Consultant.

The Municipal Technical Advisory Service (MTAS) is a statewide agency of The University of Tennessee's Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League in providing 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 wastewater management.

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