

Single Article Cap Proposed Amendment

Earlier today the Governor discussed with leadership ways to address the budget short fall resulting from continued under-collection of revenue estimates for the current year and the resulting decrease in revenue available for next years budget. A major component of the Governor's proposal is to eliminate the single article cap on purchases of tangible personal property, **except** for motor vehicles, boats and manufactured housing. Leaving the cap in place for these items effectively means this change will have minimal impact on most Tennesseans.

Many Tennesseans may be surprised to learn that there is currently a cap on the value of any single item of tangible personal property subject to local option sales tax. Currently the first \$1,600 of the purchase price of any single item is subject to the 7% state tax rate plus an addition local option sales tax which may not exceed 2.75%. The second \$1,600 of the purchase price, i.e., the value of \$1,600.01 to \$3,200 is subject to the 7% state tax rate plus and additional state tax levy of 2.75%. The purchase price that exceeds \$3,200 is taxable at the 7% state rate.

The proposed amendment to SB 3901 / HB 3787 would eliminate the tax break for the purchase price of items exceeding \$3,200 for all times except for motor vehicles, boats and manufactured home:

Current law:	Proposed amendment:
Single Article = \$10,000	Single Article = \$10,000
State tax 7% x \$10,000 =\$700.00	State tax 7% x \$10,000 = \$ 700.00
Local tax 2.25% x \$1,600 = \$ 36.00	Local tax 2.25% x \$1,600 = \$
State single article 2.75% x	36.00
\$1,600 = <u>\$ 44.00</u>	State single article 2.75% x \$8,400
	= <u>\$ 231.00</u>
Total tax = \$780.00	Total tax = \$ 967.00
∞ The entire \$10,000 is subject	∞ The entire \$10,000 is subject to
to the state tax rate of 7%	the state tax rate of 7%
∞ The first \$1,600 of the price	∞ The first \$1,600 of the price is
is subject to the applicable	subject to the applicable local
local tax rate	tax rate
∞ The second \$1,600 is subject to	∞ The price above \$1,600 is
a state tax single article rate	subject to a state tax single
of 2.75%	article rate of 2.75%
∞ The remaining \$6,800 is not	
subject to either the local tax	
rate or a state single article	
rate	

Removing this cap will raise an additional \$85 million, which will significantly address the additional revenue shortfall.

Several surrounding states -- including Mississippi, North Carolina, Alabama as well as the state of Texas -- do not have a cap on sales tax, so moving in this direction brings us in line with the tax structure of other states.

Adding revenue measures to address the budget is a step that we've all tried to avoid. However, given the severity of the additional cuts that would be needed to address this additional \$105 million shortfall, the decision to protect the sales tax base is the best option.