



February 17, 2023

**SUMMARY OF BILL:** Exempts the sale of the official State of Tennessee flags and flags of the United States from the sales and use tax. Clarifies that the sales tax exemption does not apply to miniature flags or flags sold as souvenirs, novelties, decorations, or toys.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$586,200/FY23-24 and Subsequent Years**

**Decrease Local Revenue – Net Impact – \$239,200/FY23-24 and Subsequent Years**

Assumptions:

- Pursuant to Tenn. Code Ann. § 4-1-301, the official Flag of the State of Tennessee must have a length that is one and two-thirds times its width.
- Retail prices for the official Flag of the State of Tennessee and the Flag of the United States vary by size and can range from under \$20 to upwards of \$1,000.
- The annual average number of official Flags of the State of Tennessee and Flags of the United States sold, and the average price, are unknown.
- Pursuant to Tenn. Code Ann. § 67-6-329(a)(4), all sales made to the state or any county or municipality within the state are exempt from sales and use tax.
- Pursuant to Tenn. Code Ann. § 67-6-322, all sales made to certain religious, educational, and charitable institutions within the state are exempt from sales and use tax.
- Based on information from the United States Census Bureau, there are over 2,664,791 households in Tennessee; based on information from the U.S. Energy Information Administration and Census Bureau population data, there is estimated to be over 123,000 commercial buildings in Tennessee.
- It is reasonably estimated that 10 percent of households will buy one of the two flags in an average year at an average price of \$25.
- It is further estimated that 20 percent of commercial buildings will purchase one of the two flags in an average year at an average price of \$100.
- Therefore, total taxable sales in an average year are reasonably estimated to be \$9,121,978 [(2,664,791 x 10% x \$25) + (123,000 x 20% x \$100)].
- The recurring decrease in state sales tax revenue is estimated to be \$615,443 [(\$9,121,978 x 7%) – (\$9,121,978 x 7% x 3.617%)] in FY23-24 and subsequent years.
- The recurring decrease in local sales tax revenue is estimated to be \$251,145 [(\$9,121,978 x 2.5%) + (\$9,121,978 x 7% x 3.617%)] in FY23-24 and subsequent years.

- Fifty percent of tax savings, or \$433,294  $[(\$615,443 + \$251,145) \times 50\%]$ , will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$29,234  $[(\$433,294 \times 7\%) - (\$433,294 \times 7\% \times 3.617\%)]$  in FY23-24 and subsequent years.
- The recurring increase in local sales tax collections is estimated to be \$11,929  $[(\$433,294 \times 2.5\%) + (\$433,294 \times 7\% \times 3.617\%)]$  in FY23-24 and subsequent years.
- The net recurring decrease in state revenue as a result of the proposed legislation is estimated to be \$586,209  $(\$615,443 - \$29,234)$  in FY23-24 and subsequent years.
- The net recurring decrease in local revenue as a result of the proposed legislation is estimated to be \$239,216  $(\$251,145 - \$11,929)$  in FY23-24 and subsequent years.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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