

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 340 - HB 1505

March 12, 2023

SUMMARY OF BILL: Establishes the *Childcare Advance Act*. Defines eligible childcare expenses. Allows business taxpayers to defer, for a maximum of four years, up to \$2,000 of their business tax liability to cover childcare expenses. Requires repayment of the tax liability over a period not to exceed 10 years beginning within four years of the deferral. Requires the Commissioner of the Department of Revenue (DOR) to notify business taxpayers who defer their tax liability to cover childcare expenses regarding the total amount of their deferred liability and an estimate of the amount for which the taxpayer will be liable each tax period once the eligibility for deferral expires. Effective during tax periods beginning on January 1, 2024 but before January 1, 2028.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – \$181,300/FY29-30
\$279,300/FY30-31
\$377,300/FY31-32
\$392,000/FY32-33 through FY37-38
\$308,700/FY38-39
\$210,700/FY39-40
\$112,700/FY40-41
\$14,700/FY41-42

Decrease State Revenue – \$833,000/FY24-25
\$980,000/FY25-26 through FY27-28
Net Impact – \$63,700/FY28-29

Increase Local Revenue – \$188,700/FY29-30
\$290,700/FY30-31
\$392,700/FY31-22
\$408,000/FY32-33 through FY37-38
\$321,300/FY38-39
\$219,300/FY39-40
\$117,300/FY40-41
\$15,300/FY41-42

Decrease Local Revenue – \$867,000/FY24-25
\$1,020,000/FY25-26 through FY27-28
Net Impact – \$66,300/FY28-29

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Assumptions:

- The proposed legislation would not reduce or eliminate any tax liability owed by businesses that opt to take the applicable deferral.
- The proposed legislation would only apply to sole proprietorships.
- Based on information provided by the DOR, it can be reasonably assumed that at least 1,000 sole proprietorships will take advantage of the business tax deferral annually; therefore, at least \$2,000,000 (\$2,000 deferral x 1,000 businesses) in tax revenue will be deferred to be received in later years annually.
- Business tax is due on the 15th day of the fourth month following the end of a business' fiscal year.
- The proposed legislation applies to tax periods beginning on or after January 1, 2024 but before January 1, 2028, meaning four total years of collections impacted with FY24-25 being the first fiscal year impacted.
- The total decrease in business tax revenue will be offset by the total increase in business tax revenue deferred to later years.
- According to information provided by the Department of Revenue, businesses paying the business tax at the end of the calendar year constitute approximately 85 percent of the total fiscal year.
- The total decrease in business tax collections will be \$1,700,000 (\$2,000,000 x 85%) in FY24-25, \$2,000,000 in each FY25-26 through FY27-28, and 15 percent or \$300,000 (\$2,000,000 x 15%) in FY28-29.
- Beginning in FY28-29, business taxpayers who took a deferral on their tax liability will be required to begin repayment.
- Repayment of the deferral may be spread out over 10 years; for the purposes of this analysis, it is assumed that all business taxpayers who took the deferral will spread out repayment in 10 equal increments over 10 years. Therefore, there will be a total increase in revenue of an amount exceeding \$170,000 (\$1,700,000 x 10%) in FY28-29.
- The net impact in FY28-29 will be a decrease in business tax revenue of \$130,000 (\$300,000 - \$170,000).
- The increase in business tax revenue in FY29-30 is estimated to be \$370,000 [(\$1,700,000 x 10%) + (\$2,000,000 x 10%)].
- The increase in business tax revenue in FY30-31 is estimated to be \$570,000 [(\$1,700,000 x 10%) + (\$2,000,000 x 10%) + (\$2,000,000 x 10%)].
- The increase in business tax revenue in FY31-32 is estimated to be \$770,000 [(\$1,700,000 x 10%) + (\$2,000,000 x 10%) + (\$2,000,000 x 10%) + (\$2,000,000 x 10%)].
- The increase in business tax revenue in FY32-33 through FY37-38 is estimated to be \$800,000 [(\$1,700,000 x 10%) + (\$2,000,000 x 10%) + (\$2,000,000 x 10%) + (\$2,000,000 x 10%) + (\$300,000 x 10%)].
- The increase in business tax revenue in FY38-39 is estimated to be \$630,000 [(\$2,000,000 x 10%) + (\$2,000,000 x 10%) + (\$2,000,000 x 10%) + (\$300,000 x 10%)].
- The increase in business tax revenue in FY39-40 is estimated to be \$430,000 [(\$2,000,000 x 10%) + (\$2,000,000 x 10%) + (\$300,000 x 10%)].

- The increase in business tax revenue in FY40-41 is estimated to be \$230,000 [(\$2,000,000 x 10%) + (\$300,000 x 10%)].
- The increase in business tax revenue in FY41-42 is estimated to be \$30,000 (\$300,000 x 10%).
- Based on FY21-22 collections data, approximately 49 percent of business tax collections were allocated to the General Fund and approximately 51 percent were allocated to local governments. The impacts are as follows:

	Total	State 49%	Local 51%
FY24-25	\$ (1,700,000)	\$ (833,000)	\$ (867,000)
FY25-26	\$ (2,000,000)	\$ (980,000)	\$ (1,020,000)
FY26-27	\$ (2,000,000)	\$ (980,000)	\$ (1,020,000)
FY27-28	\$ (2,000,000)	\$ (980,000)	\$ (1,020,000)
FY28-29	\$ (130,000)	\$ (63,700)	\$ (66,300)
FY29-30	\$ 370,000	\$ 181,300	\$ 188,700
FY30-31	\$ 570,000	\$ 279,300	\$ 290,700
FY31-32	\$ 770,000	\$ 377,300	\$ 392,700
FY32-33	\$ 800,000	\$ 392,000	\$ 408,000
FY33-34	\$ 800,000	\$ 392,000	\$ 408,000
FY34-35	\$ 800,000	\$ 392,000	\$ 408,000
FY35-36	\$ 800,000	\$ 392,000	\$ 408,000
FY36-37	\$ 800,000	\$ 392,000	\$ 408,000
FY37-38	\$ 800,000	\$ 392,000	\$ 408,000
FY38-39	\$ 630,000	\$ 308,700	\$ 321,300
FY39-40	\$ 430,000	\$ 210,700	\$ 219,300
FY40-41	\$ 230,000	\$ 112,700	\$ 117,300
FY41-42	\$ 30,000	\$ 14,700	\$ 15,300

- Beginning in FY42-43 there will be no fiscal impact to state or local revenue as a result of the proposed legislation.

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

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