



March 4, 2023

SUMMARY OF BILL: Phases out the professional privilege tax over a four-year period, beginning in the tax year ending on May 31, 2025.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact –

\$20,034,600/FY23-24

\$40,069,300/FY24-25

\$60,103,900/FY25-26

\$80,138,600/FY26-27 and Subsequent Years

Decrease State Expenditures – \$202,200/FY23-24

\$404,400/FY24-25

\$606,600/FY25-26

\$808,800/FY26-27 and Subsequent Years

Increase Local Revenue – \$36,800/FY23-24

\$73,500/FY24-25

\$110,200/FY25-26

\$147,000/FY26-27 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), the occupational privilege tax is a \$400 tax on persons engaging in specified occupations in Tennessee, due and payable on June 1 of each year.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- Pursuant to Public Chapter 1083 of 2022, osteopaths and physicians are permanently exempt from the professional privilege tax beginning in the tax year ending on May 31, 2024, for which the tax is currently due on June 1, 2023.
- The first year for which the occupational privilege tax will be changed is the tax year ending on May 31, 2025, for which the tax is currently due on June 1, 2024. As a result, the first year that collections will be impacted by this legislation will be FY23-24.

- The proposed legislation reduces the occupational privilege tax to \$200 in the tax year ending on May 31, 2025, to \$100 in the tax year ending on May 31, 2026, and eliminates the occupational privilege tax in the tax year ending on May 31, 2027.
- Based on information provided by the Department of Revenue, the total number of taxpayers' subject to the professional privilege tax for tax year ending May 31, 2024 is estimated to be 201,247.
- The recurring decrease in state revenue is estimated to be:
 - \$20,124,700 $[201,247 \times (\$400 - \$300)]$ in the tax year ending on or after May 31, 2025, or in FY23-24.
 - \$40,249,400 $[201,247 \times (\$400 - \$200)]$ in the tax year ending on or after May 31, 2026, or in FY24-25.
 - \$60,374,100 $[201,247 \times (\$400 - \$100)]$ in the tax year ending on or after May 31, 2027, or in FY25-26.
 - \$80,498,800 $(201,247 \times \$400)$ in all tax years ending on or after May 31, 2028, or in FY26-27 and subsequent years.
- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- There are currently approximately 2,022 state employees for which the State of Tennessee will pay the occupational privilege tax on June 1, 2023. This number is assumed to remain constant into perpetuity.
- The recurring decrease in state expenditures is estimated to be:
 - \$202,200 $[2,022 \times (\$400 - \$300)]$ in FY23-24.
 - \$404,400 $[2,022 \times (\$400 - \$200)]$ in FY24-25.
 - \$606,600 $[2,022 \times (\$400 - \$100)]$ in FY25-26.
 - \$808,800 $(2,022 \times \$400)$ in FY26-27 and subsequent years.
- Based on information provided by DOR, approximately 86.6 percent of taxpayers in these occupations are estimated to be out-of-state. Therefore, approximately 13.4 percent of taxpayers live in-state.
- It is assumed that 50 percent of tax savings realized by in-state residents, net of the amounts paid by the state on behalf of such residents, will be spent in the economy on sales taxable goods and services.
- The net recurring tax savings that will be spent in the economy on sales taxable goods and services are estimated to be:
 - \$1,334,808 $[(\$20,124,700 - \$202,200) \times 13.4\% \times 50\%]$ in FY23-24.
 - \$2,669,615 $[(\$40,249,400 - \$404,400) \times 13.4\% \times 50\%]$ in FY24-25.
 - \$4,004,423 $[(\$60,374,100 - \$606,600) \times 13.4\% \times 50\%]$ in FY25-26.
 - \$5,339,230 $[(\$80,498,800 - \$808,800) \times 13.4\% \times 50\%]$ in FY26-27 and subsequent years.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue is estimated to be:
 - \$90,057 $[(\$1,334,808 \times 7.0\%) - (\$1,334,808 \times 7.0\% \times 3.617\%)]$ in FY23-24.
 - \$180,114 $[(\$2,669,615 \times 7.0\%) - (\$2,669,615 \times 7.0\% \times 3.617\%)]$ in FY24-25.
 - \$270,171 $[(\$4,004,423 \times 7.0\%) - (\$4,004,423 \times 7.0\% \times 3.617\%)]$ in FY25-26.

- \$360,228 [(\$5,339,230 x 7.0%) – (\$5,339,230 x 7.0% x 3.617%)] in FY26-27 and subsequent years.
- The total recurring increase in local sales tax revenue is estimated to be:
 - \$36,750 [(\$1,334,808 x 2.5%) + (\$1,334,808 x 7.0% x 3.617%)] in FY23-24.
 - \$73,500 [(\$2,669,615 x 2.5%) + (\$2,669,615 x 7.0% x 3.617%)] in FY24-25.
 - \$110,249 [(\$4,004,423 x 2.5%) + (\$4,004,423 x 7.0% x 3.617%)] in FY25-26.
 - \$146,999 [(\$5,339,230 x 2.5%) + (\$5,339,230 x 7.0% x 3.617%)] in FY26-27 and subsequent years.
- The net recurring decrease in state revenue as a result of this legislation is estimated to be:
 - \$20,034,643 (\$20,124,700 - \$90,057) in FY23-24
 - \$40,069,286 (\$40,249,400 - \$180,114) in FY24-25.
 - \$60,103,929 (\$60,374,100 - \$270,171) in FY25-26.
 - \$80,138,572 (\$80,498,800 - \$360,228) in FY26-27 and subsequent years.
- Occupational privilege tax returns are filed electronically and the Department does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of eliminating the occupational privilege tax.

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

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