

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1611 - HB 1563

January 25, 2018

SUMMARY OF BILL: Exempts grooming of animals from state and local sales taxes, effective July 1, 2018. Establishes that if a single charge includes both grooming and non-veterinary bathing of an animal, then 15 percent of the charge is deemed to be for animal bathing and subject to the sales tax and 85 percent is deemed to be for animal grooming and is exempt from the tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$1,196,300

Decrease Local Revenue – Net Impact - \$488,200

Assumptions:

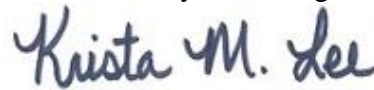
- Only animal bathing services are currently subject to the state and local sales taxes. However, if animal bathing is provided in combination with grooming, the entire service is subject to such taxes.
- According to the United States Economic Census, pet grooming services sales, including bathing sales, in Tennessee were \$10,207,000 in 2007 and \$19,303,000 in 2012, representing a 89.1 percent increase over the five-year period.
- Assuming a similar increase over the five-year period following year 2012, pet grooming and bathing services sales in Tennessee in 2017 are estimated to be \$36,501,973 [$\$19,303,000 \times (1 + 89.1\%)$]. This number is assumed to remain constant in subsequent years.
- Twenty percent of such sales, or \$7,300,395, is assumed to be grooming only sales and not currently subject to the sales tax.
- The remaining 80 percent, or \$29,201,578, is assumed to be bathing only sales or a combination of bathing and grooming sales and is currently subject to the sales tax. Of this, 25 percent, or \$7,300,395, is estimated to be bathing only sales, and 75 percent, or \$21,901,183, is estimated to be a combination of bathing and grooming sales.
- Pursuant to this legislation, 85 percent of such combination sales, or \$18,616,005, will be deemed animal grooming sales and will be exempt from the state and local sales taxes.

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- 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 decrease in state sales tax revenue is estimated to be \$1,255,986 $[(\$18,616,005 \times 7.0\%) - (\$18,616,005 \times 7.0\% \times 3.617\%)]$.
- The total recurring decrease in local sales tax revenue is estimated to be \$512,534 $[(\$18,616,005 \times 2.5\%) + (\$18,616,005 \times 7.0\% \times 3.617\%)]$.
- Fifty percent of tax savings, or \$884,260 $[(\$1,255,986 + \$512,534) \times 50.0\%]$, will be spent in the economy on other sales-taxable goods and services.
- The net recurring increase in state sales tax revenue is estimated to be \$59,659 $[(\$884,260 \times 7.0\%) - (\$884,260 \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local sales tax revenue is estimated to be \$24,345 $[(\$884,260 \times 2.5\%) + (\$884,260 \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state sales tax revenue as a result of this legislation is estimated to be \$1,196,327 $(\$1,255,986 - \$59,659)$.
- The net recurring decrease in local sales tax revenue as a result of this legislation is estimated to be \$488,189 $(\$512,534 - \$24,345)$.

CERTIFICATION:

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



Krista M. Lee, Executive Director

/jdb