

Tennesseans For Fair Taxation

2011-2012 Legislative Program

Tennessee Small Business Protection Act (SB1614/HB1914) Sponsored by Senator Marrero and Representative Stewart Estimated Revenue: \$10-\$110 million

Tennessee's business tax laws allow multistate companies to avoid taxes by setting up sham subsidiaries in Delaware or Nevada to transfer ownership of their real estate or trademarks and logos. They then deduct their payments to their own subsidiaries from their Tennessee income, thus avoiding TN taxes. The bill:

- Provides for "Combined Reporting," a comprehensive solution to this "Las Vegas loophole".
- Allows TN to receive tax revenues on a fair proportion of the companies' revenues.
- Reduces the state sales tax rate on grocery food by 1% and leaves the local option unaffected.

Impact: The bill levels the playing field for Tennessee small businesses that pay TN taxes. More than half of the states use combined reporting. Its time for Tennessee to join the majority.



Out-of-State Sales Tax Act (SB1489/HB1912) Sponsored by Senator Marrero and Representative Stewart Estimated Revenue: Up to \$100 million

The state sales and use tax is the largest source of funding for TN state government. In order to fund our public structures adequately we must be efficient at collecting the taxes that are due. Many out- of- state vendors (internet and catalogue) tempt Tennesseans to dodge sales tax by not collecting it.

TN relies on individual taxpayers to voluntarily report their purchases from out- of- state vendors who do not collect TN sales taxes, but few taxpayers do so. Only 2500 taxpayers filed use (sales) tax returns in 2009, compared to over 3.1 million individual federal tax returns filed by Tennesseans each year. The bill:

- Asserts taxing authority over out-of-state companies (who sell more than \$4,800 of merchandise to Tennesseans) on the basis of their use of in-state affiliates to solicit **business.**

Impact: The revenue can be used to avoid layoffs of state employees and cuts to critical state functions. According to a UT Center on Business and Economic Research report, an estimated \$365 Million will be lost in 2010 through online purchases by Tennessee residents. That does not include losses from mail order, direct television marketing or cross- border shopping. State and Local Government Sales Tax Revenue Losses from Electronic Commerce. 2009.



Single Article Cap Removal Act (SB1417/HB1913) Sponsored by Senator Henry and Representative Stewart Fiscal Note: \$100 million

Tennessee levies a 7% tax on sales of most merchandise and some services. Local governments are allowed to charge additional taxes up to 2.75% on the first \$1,600 of the purchase price. For items priced between \$1,600 and \$3,200, the state levies a 9.75% tax on the amount exceeding \$1600, with no local option tax. For items costing more than \$3,200, the state "caps" the tax rate at 7% on the amounts exceeding \$3,200.

The cap is an unjustified tax break for upper income individuals and businesses. If the buyer can afford to buy items that cost more than \$3,200, he or she can afford to pay tax at the same rate as everyone else. The bill:

- Eliminates the cap by extending the 9.75% rate to the full value of all "big- ticket" items.
- Exempts mobile homes and manufactured housing if used as the primary residence.
- Exempts vehicles on the amount exceeding \$3,200 up to \$10,000.

Impact: The bill increases revenue and removes one of the two current obstacles to Tennessee's full compliance with the Streamlined Sales Tax Agreement.



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