

Department of
Revenue

Estimated State Tax Revenue

November 13, 2015

Fiscal Year 2015 Tax Revenue

COMPARISON OF ACTUAL ACCRUAL STATE TAX REVENUE

DEPARTMENT OF REVENUE TAXES

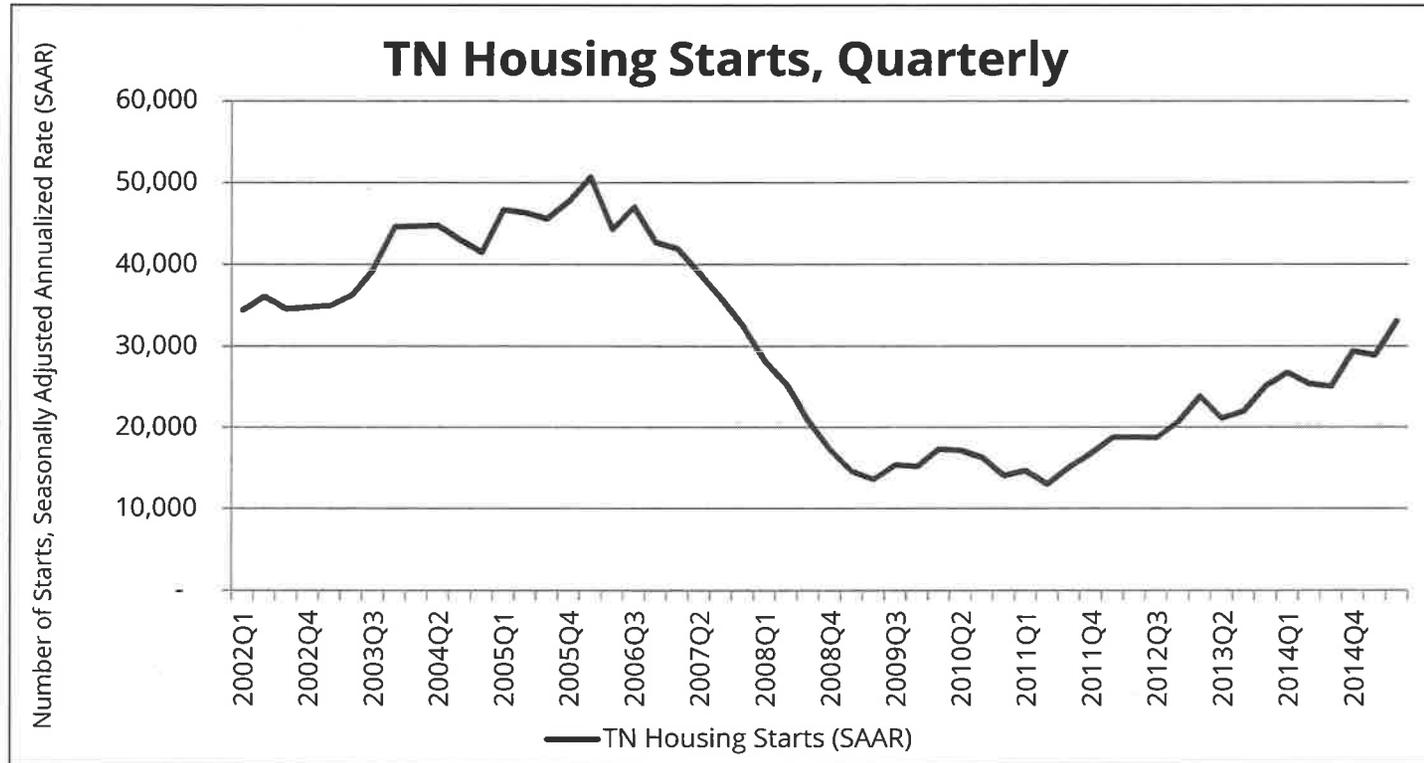
YEAR OVER YEAR COMPARISON

	Fiscal Year 2014	Fiscal Year 2015	% Change	Tax Weight	Total % Point Contribution
Sales and Use Tax	\$ 7,286,200,000	\$ 7,706,100,000	5.76%	62.04%	3.58%
Hall Dividend & Interest Tax	239,300,000	303,400,000	26.79%	2.04%	0.55%
Corporate Franchise and Excise Tax	1,858,600,000	2,164,500,000	16.46%	15.83%	2.60%
Gasoline Tax	617,100,000	631,800,000	2.38%	5.25%	0.13%
Other	1,743,500,000	1,839,500,000	5.51%	14.84%	0.82%
TOTAL ACCRUAL REVENUE	\$11,744,700,000	\$12,645,300,000	7.67%	100%	7.67%

*Data from F&A

Housing

- Housing starts increased 17.5% from FY 2014 – FY 2015
- By the end of FY 2016, housing starts are expected to increase 34.7% from a year earlier



Tax Implications

Direct Revenue Implications of Increased Housing Activity (Most Recent 6 Month Data)
 Growth is presented as year over year (YOY)

Sales Tax Collections from Building Materials

	Collections	YOY % Growth	YOY \$ Growth
April	\$33,920,140	5.45%	\$1,753,179
May	\$41,538,043	4.64%	\$1,843,744
June	\$39,861,436	6.92%	\$2,581,056
July	\$40,572,572	9.42%	\$3,492,072
August	\$37,081,995	7.83%	\$2,693,564
September	\$33,345,995	8.13%	\$2,506,830
		7.03%	\$14,870,445

Privilege Tax Collections from Realty Transfer

	Collections	YOY % Growth	YOY \$ Growth
April	\$10,574,418	25.42%	\$2,143,034
May	\$10,897,673	4.86%	\$505,103
June	\$11,947,841	29.32%	\$2,708,524
July	\$14,226,822	28.88%	\$3,187,971
August	\$13,430,518	4.89%	\$625,822
September	\$13,103,822	19.66%	\$2,152,648
		18.01%	\$11,323,102

Privilege Tax Collections from Realty Mortgage

	Collections	YOY % Growth	YOY \$ Growth
April	\$5,867,776	76.54%	\$2,544,070
May	\$5,537,804	37.38%	\$1,506,712
June	\$5,086,364	47.75%	\$1,643,720
July	\$6,149,741	43.56%	\$1,865,916
August	\$5,665,437	11.00%	\$561,402
September	\$5,092,054	24.97%	\$1,017,437
		37.67%	\$9,139,257

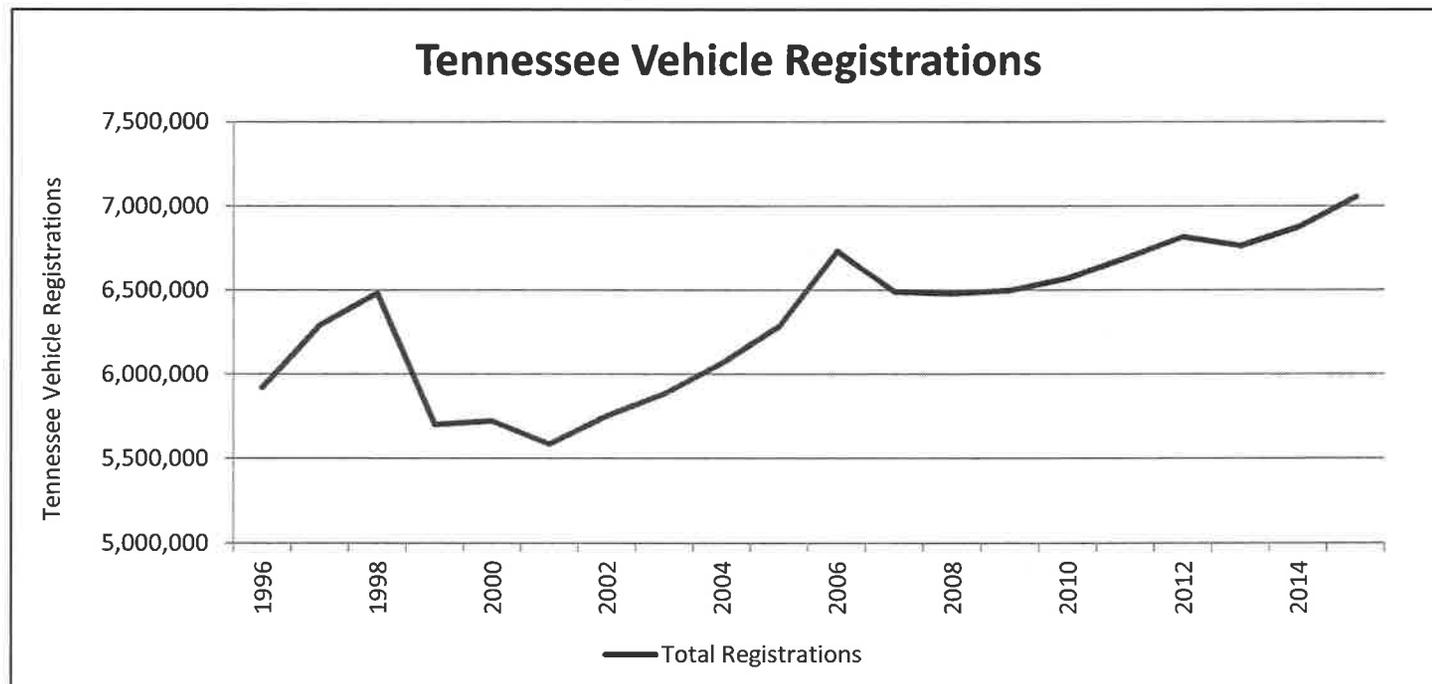
6 Month Total Growth

11.83%

\$35,332,804

Automotive

- Tennessee vehicle registrations increased 2.6% from FY 2014 – FY 2015
- By the end of FY 2016, vehicle registrations are expected to increase 2.1% from a year earlier



Tax Implications

Direct Revenue Implications of Increased Automotive Activity (Most Recent 6 Month Data)

Growth is presented as year over year (YOY)

Sales Tax Collections from Motor Vehicle Dealers, New & Used

	Collections	YOY % Growth	YOY \$ Growth
April	\$52,213,032	13.00%	\$6,005,453
May	\$48,693,899	14.67%	\$6,227,680
June	\$53,738,535	10.55%	\$5,128,956
July	\$51,075,248	17.32%	\$7,541,013
August	\$54,151,398	13.26%	\$6,341,886
September	\$56,546,004	12.47%	\$6,271,693
		13.45%	\$37,516,681

Sales Tax Collections from Motor Vehicle Dealers, Used

	Collections	YOY % Growth	YOY \$ Growth
April	\$16,856,777	8.35%	\$1,299,645
May	\$14,594,878	10.19%	\$1,349,640
June	\$15,396,888	11.85%	\$1,630,938
July	\$14,675,340	14.78%	\$1,889,920
August	\$14,789,717	9.26%	\$1,253,345
September	\$15,156,305	6.17%	\$880,275
		9.98%	\$8,303,763

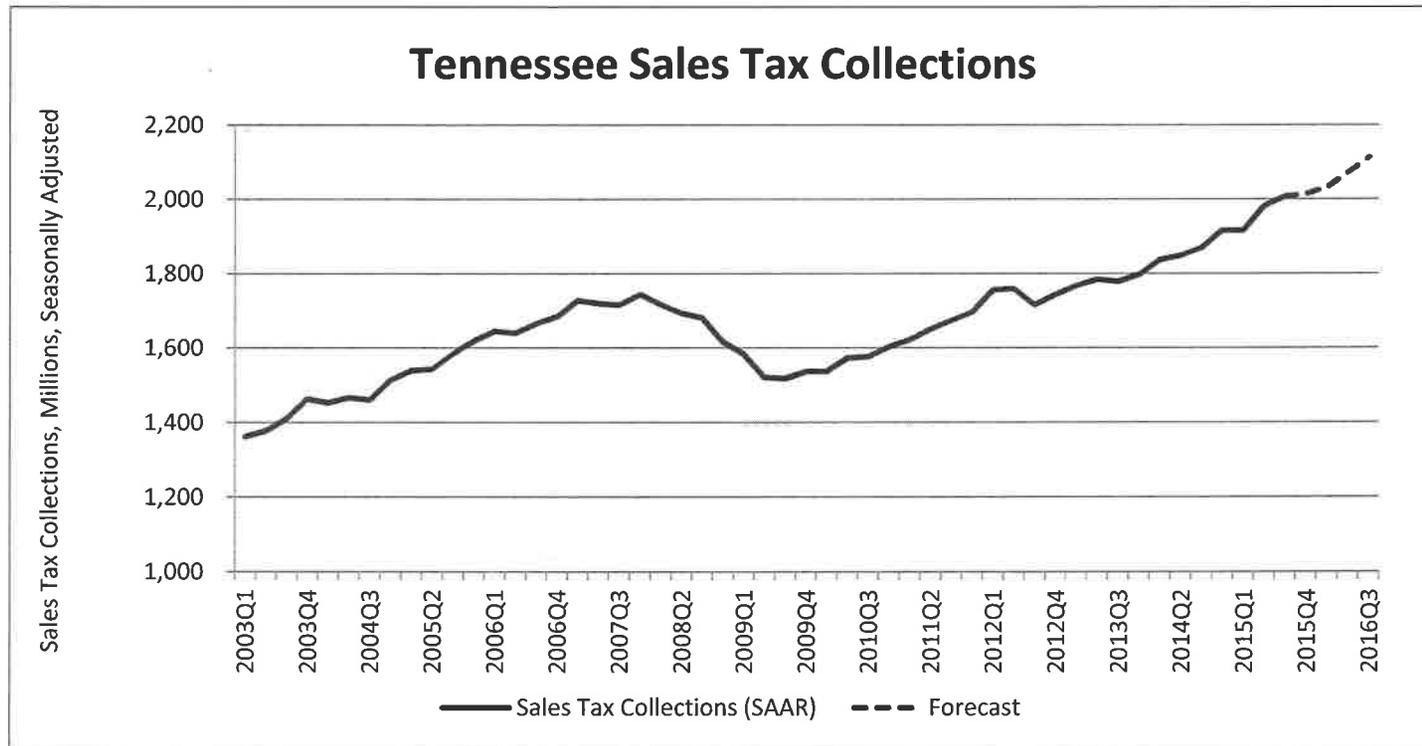
Sales Tax Collections from Auto Repair, Services, and Parking

	Collections	YOY % Growth	YOY \$ Growth
April	\$16,828,361	6.74%	\$1,061,907
May	\$16,988,788	11.27%	\$1,720,416
June	\$16,822,217	7.77%	\$1,212,693
July	\$17,815,243	8.37%	\$1,375,297
August	\$18,094,468	12.60%	\$2,025,086
September	\$17,167,006	10.36%	\$1,611,412
		9.51%	\$9,006,811

6 Month Total Growth	12.00%	\$54,827,255
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Sales

- Sales tax collections increased 5.8% from FY 2014 – FY 2015
- By the end of FY 2016, sales tax collections are expected to increase 5.6% from a year earlier



Tax Implications

Direct Revenue Implications of Increased Sales Activity (Most Recent 6 Month Data)

Growth is presented as year over year (YOY)

Sales Tax Collections from Eating & Drinking Places

	Collections	YOY % Growth	YOY \$ Growth
April	\$67,826,118	4.26%	\$2,769,825
May	\$66,140,151	9.72%	\$5,857,120
June	\$69,155,550	10.09%	\$6,339,297
July	\$68,211,508	7.03%	\$4,478,876
August	\$68,413,904	8.67%	\$5,460,973
September	\$67,275,006	6.64%	\$4,188,035
		7.70%	\$29,094,126

Sales Tax Collections from Hotels & Lodging Places

	Collections	YOY % Growth	YOY \$ Growth
April	\$17,550,820	11.02%	\$1,742,258
May	\$18,092,321	10.42%	\$1,707,648
June	\$18,579,347	17.11%	\$2,714,269
July	\$21,045,527	10.77%	\$2,046,957
August	\$22,197,581	16.33%	\$3,115,360
September	\$18,630,693	8.75%	\$1,499,550
		12.42%	\$12,826,042

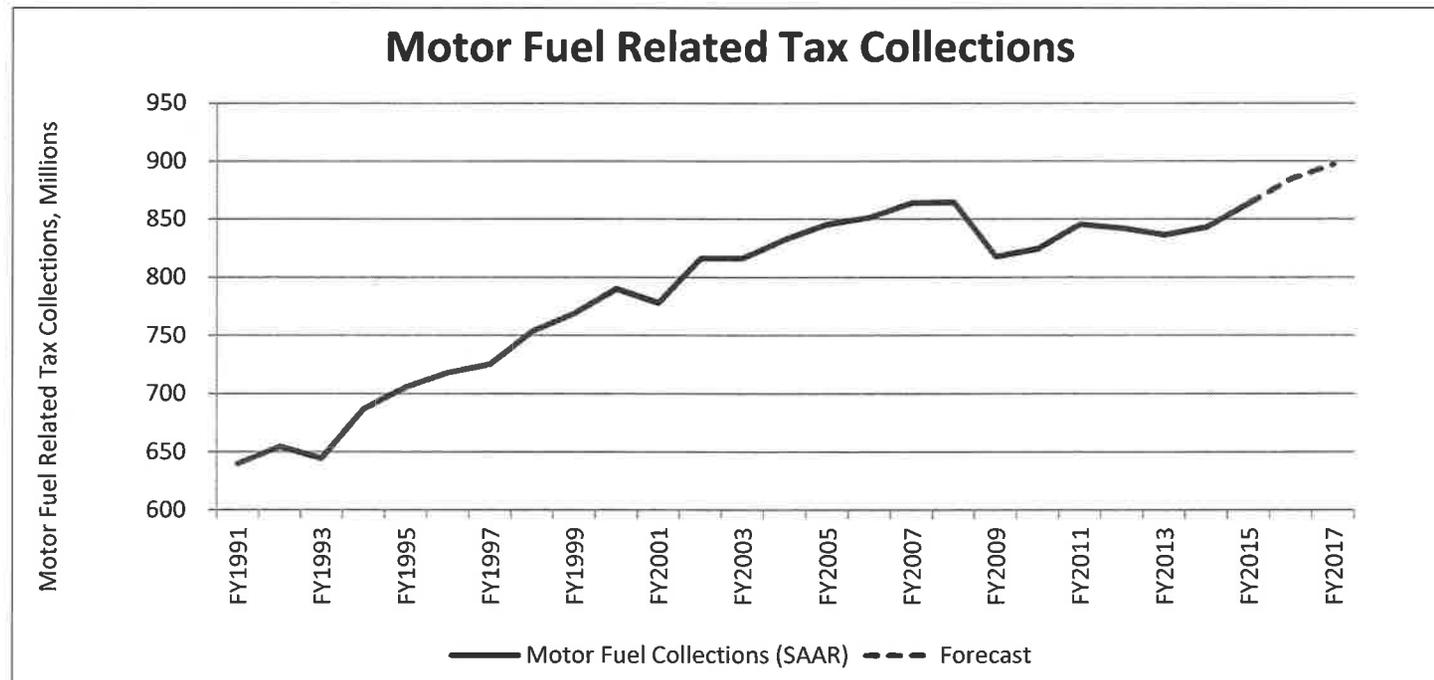
Mixed Drink (Liquor-by-the-Drink) Tax Collections

	Collections	YOY % Growth	YOY \$ Growth
April	\$7,608,574	10.69%	\$735,034
May	\$7,785,475	17.05%	\$1,134,346
June	\$8,214,487	7.44%	\$569,142
July	\$7,538,249	7.60%	\$532,429
August	\$7,615,569	16.19%	\$1,061,240
September	\$7,830,089	11.34%	\$797,492
		11.56%	\$4,829,683

6 Month Total Growth	8.94%	\$46,749,851
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Motor Fuel Related Collections*

- Motor fuel related tax collections increased 2.3% from FY 2014 – FY 2015
- By the end of FY 2016, collections are expected to increase 1.4% from a year earlier



Tax Implications

Direct Revenue Implications of Increased Motor Fuel Related Activity (Most Recent 6 Month Data) Growth is presented as year over year (YOY)

Sales Tax Collections from Gasoline Services Stations

	Collections	YOY % Growth	YOY \$ Growth
April	\$10,366,603	9.79%	\$924,259
May	\$10,141,194	6.83%	\$648,013
June	\$11,651,794	10.27%	\$1,085,607
July	\$11,384,338	9.69%	\$1,005,844
August	\$11,858,067	8.98%	\$977,376
September	\$11,495,733	7.51%	\$803,265
		8.86%	\$5,444,364

Gasoline Tax Collections

	Collections	YOY % Growth	YOY \$ Growth
April	\$46,795,846	-1.56%	-\$742,287
May	\$53,049,497	-3.57%	-\$1,962,960
June	\$56,931,799	-0.15%	-\$87,799
July	\$59,506,752	8.67%	\$4,748,193
August	\$56,507,391	5.87%	\$3,133,197
September	\$56,502,369	4.92%	\$2,650,827
		2.41%	\$7,739,172

Motor Fuel Tax Collections

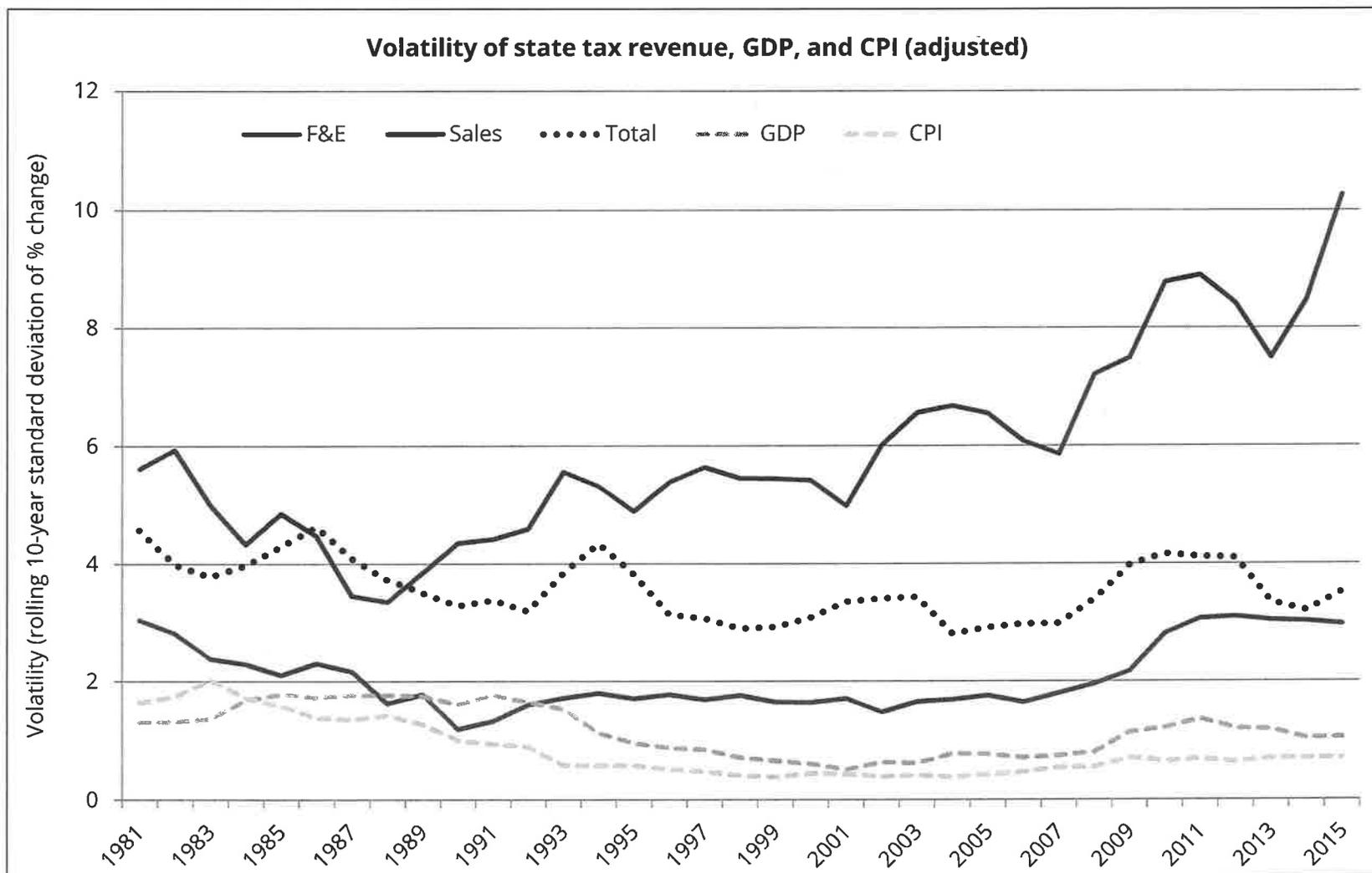
	Collections	YOY % Growth	YOY \$ Growth
April	\$16,234,321	5.47%	\$842,499
May	\$14,256,014	12.44%	\$1,577,334
June	\$13,526,100	-5.66%	-\$812,256
July	\$16,099,928	4.63%	\$712,564
August	\$12,446,199	7.04%	\$818,131
September	\$14,615,778	1.78%	\$254,942
		4.05%	\$3,393,214

6 Month Total Growth

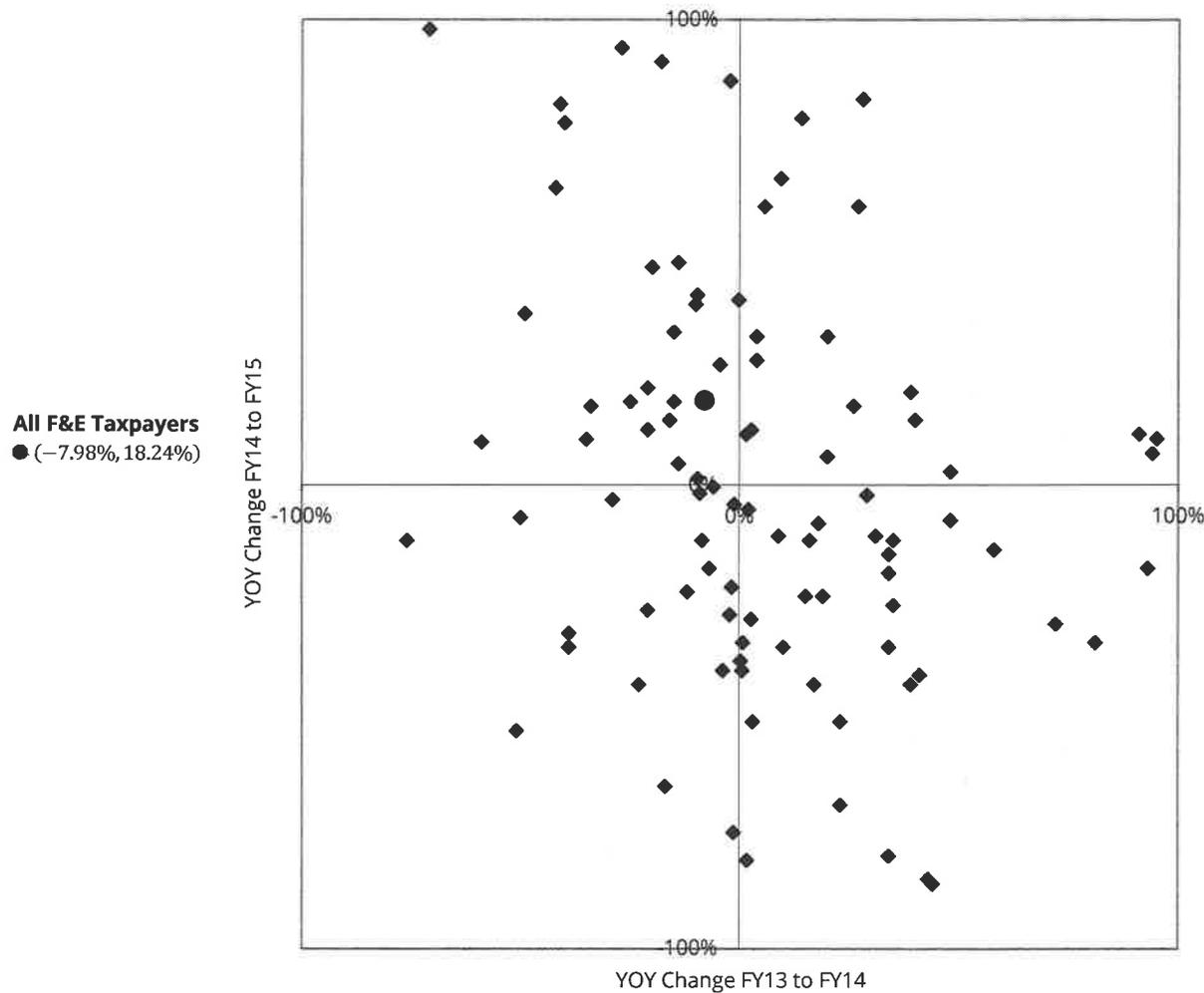
3.55%

\$16,576,750

Tennessee Tax Volatility Comparison



YOY Change in Collections – Selected F&E Taxpayers



- This graph shows growth rates of F&E accounts with collections greater than \$1M in the last three fiscal years and growth rates less than 100%.
- There is inherent volatility in F&E collections even among the taxpayers with the highest annual collections.

F&E Payment History

FY	Month	Franchise Return	Excise Return	Net Estimated Payments	Reported Total
2013	Jul-12	31,484,600	74,758,295	(51,505,961)	54,736,934
2013	Aug-12	26,397,631	27,565,779	(18,519,838)	35,443,573
2013	Sep-12	87,030,347	121,664,794	100,449,176	309,144,317
2013	Oct-12	237,513,821	402,220,493	(574,595,214)	65,139,101
YTD Jul-12 thru Oct-12		382,426,400	626,209,361	(544,171,837)	464,463,924
2013	Nov-12	29,567,200	37,976,757	(41,014,411)	26,529,546
2013	Dec-12	39,837,384	49,574,984	153,601,247	243,013,615
2013	Jan-13	12,697,901	24,631,605	134,819,787	172,149,293
2013	Feb-13	14,013,708	37,751,657	(13,820,399)	37,944,965
2013	Mar-13	42,184,040	77,119,050	92,238,700	211,541,790
2013	Apr-13	83,384,290	143,970,221	244,725,022	472,079,534
2013	May-13	17,592,485	24,645,365	3,033,336	45,271,185
2013	Jun-13	20,229,109	18,646,466	302,354,697	341,230,272
FY 2013 Total		641,932,517	1,040,525,465	331,766,143	2,014,224,125
2014	Jul-13	34,538,002	121,328,747	(89,337,993)	66,528,755
2014	Aug-13	23,493,846	35,107,726	(26,946,250)	31,655,323
2014	Sep-13	97,849,514	198,430,981	(19,196,225)	277,084,270
2014	Oct-13	231,161,623	400,009,346	(587,942,518)	43,228,451
YTD Jul-13 thru Oct-13		387,042,985	754,876,800	(723,422,986)	418,496,799
2014	Nov-13	50,078,867	71,596,808	(87,024,364)	34,651,311
2014	Dec-13	36,957,768	66,926,206	95,663,489	199,547,462
2014	Jan-14	26,435,622	30,084,111	83,150,464	139,670,197
2014	Feb-14	15,967,276	24,417,219	(2,270,617)	38,113,879
2014	Mar-14	48,029,819	68,850,377	71,343,409	188,223,605
2014	Apr-14	85,164,839	126,840,089	247,123,560	459,128,489
2014	May-14	21,922,043	30,649,115	(6,062,319)	46,508,839
2014	Jun-14	15,638,975	22,713,975	290,755,485	329,108,434
FY 2014 Total		687,238,195	1,196,954,700	(30,743,879)	1,853,449,015

FY	Month	Franchise Return	Excise Return	Net Estimated Payments	Reported Total
2015	Jul-14	30,398,863	149,033,591	(110,956,514)	68,475,939
2015	Aug-14	29,902,427	41,311,672	(36,629,557)	34,584,541
2015	Sep-14	110,332,720	173,782,799	34,382,180	318,497,698
2015	Oct-14	225,936,479	385,523,895	(584,640,584)	26,819,791
YTD Jul-14 thru Oct-14		396,570,488	749,651,957	(697,844,476)	448,377,969
2015	Nov-14	48,602,699	67,463,851	(99,929,655)	16,136,895
2015	Dec-14	25,951,903	22,764,205	170,553,335	219,269,443
2015	Jan-15	17,509,536	36,437,267	269,332,339	323,279,141
2015	Feb-15	16,433,188	34,559,195	(934,257)	50,058,125
2015	Mar-15	55,322,465	89,991,156	51,031,799	196,345,419
2015	Apr-15	82,622,291	136,218,139	296,625,675	515,466,104
2015	May-15	21,730,326	36,868,954	7,788,170	66,387,450
2015	Jun-15	18,186,079	27,137,565	310,885,213	356,208,857
FY 2015 Total		682,928,974	1,201,092,288	307,508,142	2,191,529,404
2016	Jul-15	30,358,004	83,818,024	(33,674,495)	80,501,532
2016	Aug-15	34,463,474	211,462,095	(234,091,138)	11,834,432
2016	Sep-15	129,639,680	223,320,743	7,793,729	360,754,153
2016	Oct-15	260,999,516	488,041,213	(671,655,187)	77,385,542
YTD Jul-15 thru Oct-15		455,460,674	1,006,642,075	(931,627,091)	530,475,659
2016	Nov-15				
2016	Dec-15				
2016	Jan-16				
2016	Feb-16				
2016	Mar-16				
2016	Apr-16				
2016	May-16				
2016	Jun-16				
FY 2016 Total		455,460,674	1,006,642,075	(931,627,091)	530,475,659

Public Chapter 514 of 2015 – Revenue Modernization Act

- Estimated Fiscal Impact on FY16 Collections and FY17 Collections:
 - Software and video games are taxed consistently, regardless of the delivery method. As a result, software and video games accessed remotely are subject to sales and use tax effective July 1, 2015.
 - Estimated Fiscal Impact: \$11.4M recurring increase.
 - Out-of-state dealers have nexus and must collect sales and use tax from Tennessee customers if the dealer pays an in-state party a fee or commission to route customers to the dealer.
 - Estimated Fiscal Impact: \$5.8M recurring increase.

Public Chapter 514 of 2015 – Revenue Modernization Act

- Estimated Fiscal Impact on FY17 Collections:
 - Modernizes the franchise and excise and business taxes. Out-of-state businesses not already subject to Tennessee taxes will be subject to F&E and business taxes to the fullest extent the Constitution allows.
 - Estimated Fiscal Impact: \$10.2M increase
 - Changes the state F&E tax apportionment formula by triple-weighting the sales factor.
 - Estimated Fiscal Impact: \$33.2M decrease

Public Chapter 92 of 2015

- Requires the Department to include in its estimates of franchise and excise tax revenue growth a description of whether the growth is recurring or nonrecurring.
- In preparing the revised estimate for FY16 and the estimate for FY17, the Department removed \$150M from the 2015 F&E collections to account for a nonrecurring item.
- In the collections for the current fiscal year, the Department has identified \$61.8M that is currently considered nonrecurring. This amount is not included in the Department's revised estimate for FY16.
- The growth in F&E collections for FY16 and FY17 does not include any known nonrecurring items.

Non-Recurring Items

- Unforeseen events can result in large, non-recurring changes in tax collections.
 - Mergers & Acquisitions
 - Audit Assessments
 - Voluntary Disclosure Agreements
 - Litigation

Non-Recurring Items

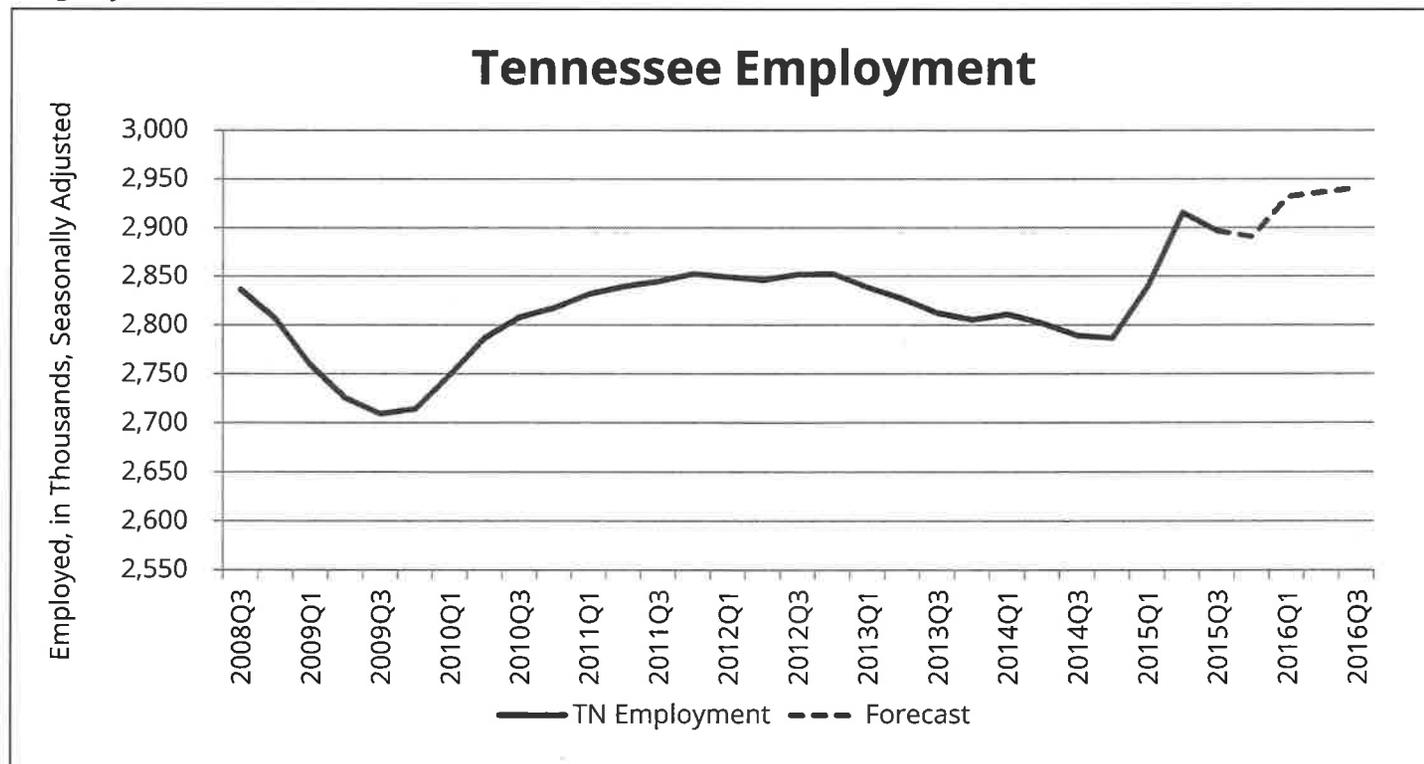
- Analyze daily tax revenue collections relative to previous years and budget estimates.
- Identify extraordinary or unusual payments using the Department of Revenue Business Intelligence tool and SAS programs.
- Narrow down analysis to the taxpayer level to identify the nature of the payment and possible implications to total tax collections for the month.
- Maintain a list of one-time events and analyze any impact these payments may have on the following fiscal year.

Non-Recurring Items

- At last year's State Funding Board meeting, the Department of Revenue was specifically asked if it was aware of any non-recurring items in the F&E estimates for FY 2015 or FY 2016.
- At that point in time, the Department was unaware of any items.
- However, in January 2015, the Department received unexpected one-time F&E collections.
- As a result of the procedures used to monitor collections, the Department was able to immediately alert F&A.

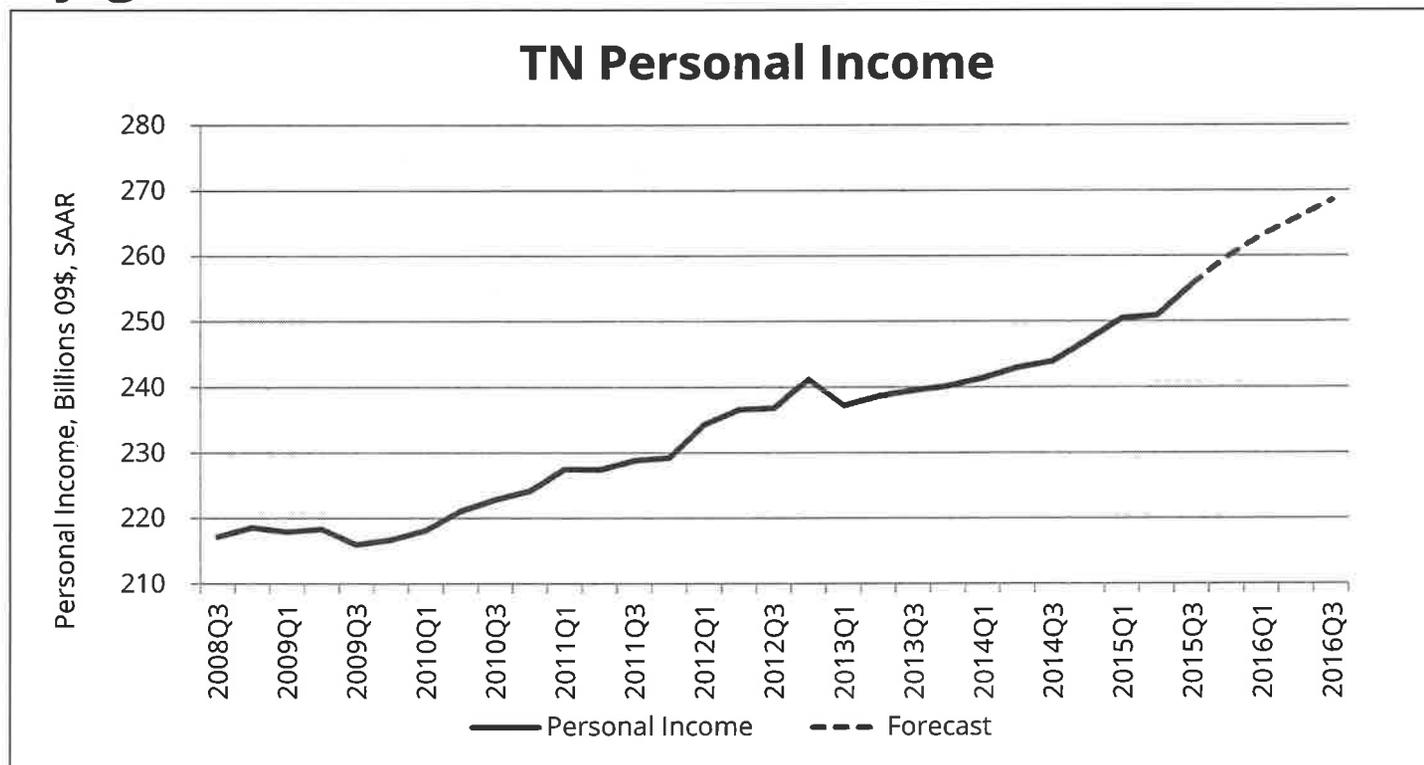
Tennessee Employment

- Temporary weakness in employment
- Continued job growth expected over the forecast horizon, led by professional and business services



Tennessee Personal Income

- Personal income gains of 2.9% for FY 2015
- Personal income gains of 5.2% are expected for FY 2016, led by growth in dividends, interest, and rents





Department of
Revenue

REVENUE COLLECTION ESTIMATES
STATE FUNDING BOARD MEETING - 11/13/2015
Accrual year basis (USD)

SOURCE OF REVENUE

Department of Revenue	preliminary	official	FY 2016		FY 2017	
	Accrual Revenues FY 2015	Revenue Estimates FY2016	Revised Estimates FY 2016	% change ² over FY 2015	Revenue Estimates FY 2017	% change ² over FY 2016
	Actual					
Sales and Use Tax	\$7,706,100,000	\$7,894,200,000	8,140,900,000	5.64%	8,575,700,000	5.34%
Gasoline Tax	631,800,000	626,400,000	646,800,000	2.37%	656,200,000	1.45%
Motor Fuel Tax	165,500,000	168,500,000	170,300,000	2.90%	172,400,000	1.23%
Gasoline Inspection Tax	64,800,000	65,400,000	66,000,000	1.85%	67,000,000	1.52%
Motor Vehicle Registration Tax	261,800,000	255,300,000	269,100,000	2.79%	276,300,000	2.68%
Income Tax	303,400,000	267,500,000	325,600,000	7.32%	341,000,000	4.73%
Privilege Tax ¹	308,800,000	295,700,000	319,600,000	3.50%	333,100,000	4.22%
Gross Receipts Tax - TVA	348,600,000	354,000,000	348,900,000	0.09%	355,000,000	1.75%
Gross Receipts Tax - Other	28,700,000	29,600,000	18,900,000	-34.15%	31,200,000	65.08%
Beer Tax	16,900,000	17,500,000	17,000,000	0.59%	17,100,000	0.59%
Alcoholic Beverage Tax	57,000,000	60,000,000	59,200,000	3.86%	61,600,000	4.05%
Franchise & Excise Tax	2,164,500,000	1,937,900,000	2,102,200,000	-2.88%	2,195,000,000	4.41%
Inheritance and Estate Tax	70,200,000	41,300,000	34,100,000	-51.42%	14,500,000	-57.48%
Tobacco Tax	263,300,000	245,000,000	260,700,000	-0.99%	258,700,000	-0.77%
Motor Vehicle Title Fees	12,100,000	18,000,000	18,500,000	52.89%	18,800,000	1.62%
Mixed Drink Tax	86,000,000	88,700,000	95,100,000	10.58%	104,200,000	9.57%
Business Tax	153,300,000	142,700,000	146,700,000	-4.31%	155,200,000	5.79%
Severance Tax	2,100,000	2,600,000	1,800,000	-14.29%	2,000,000	11.11%
Coin-operated Amusement Tax	300,000	300,000	300,000	0.00%	300,000	0.00%
Total Department of Revenue	\$12,645,200,000	\$12,510,600,000	\$13,041,700,000	3.14%	\$13,635,300,000	4.55%
General Fund Only	\$10,588,900,000	\$10,422,300,000	\$10,929,000,000	3.21%	\$11,454,300,000	4.81%

¹Privilege excludes \$43.0 million dollar earmark not included by F&A

²Percent change in revenue for each tax is the calculated percentage change *after* rounding to nearest \$100,000

Definitions and Sources

- SAAR = Seasonally Adjusted Annualized Rate
- FY = Fiscal Year
- TN = Tennessee
- Data Sourced From:
 - Moody's Analytics (Fall, 2015)
 - BEA (Fall, 2015)
 - BLS (Fall, 2015)
 - U.S. Census Bureau (Fall, 2015)
 - TN Department of Revenue (Fall, 2015)
 - TN Department of Finance & Administration (Fall, 2015)