

2. 50 percent distributed on the basis of where the sale occurred. Taxes collected inside a municipality are distributed to that municipality, and taxes collected in unincorporated areas are distributed to the county. Counties and cities may contract with each other for distribution of the half not allocated to school purposes. T.C.A. § 67-6-712.

In 1998, the General Assembly passed Public Chapter 1101 which was a major reform of the annexation and incorporation laws having a great impact upon the way the local option sales tax is distributed among cities and counties. T.C.A. § 6-51-115. It included a "hold harmless" provision to protect county revenue sources. When a city annexes territory or a new city incorporates, revenue amounts generated in that area by local option sales taxes, which had been received by the county prior to the annexation or incorporation, continue to go to the county for 15 years after the date of the annexation or incorporation. During that time, any increase in the situs-based portion of the revenues generated in the area would be distributed to the annexing or incorporating municipality. Note that this does not affect the distribution of the first half of the local option sales tax, which would continue to go to education funding. If commercial activity in the annexed area decreases due to business closures or relocations, a city may petition the Department of Revenue to adjust the payments it makes to the county.

[Local Option Sales Tax Rates, Single Article Cap and Effective Dates](#) shows local option sales tax rates, bases, and caps, and the dates they went into effect. As of the publication of this document, the current rates are as follows: 49 counties are at 2.75 percent; 11 are at 2.50 percent; 28 counties are at 2.25 percent; 5 counties have rates of 2.00 percent; 1 is at 1.75 percent; and 1 is at 1.50 percent. Three counties have not yet adopted the maximum base of \$1,600; two remain at the level of \$7.50 and one at \$8.25.

[Countywide Local Option Sales Tax Collections FY 2016](#) shows countywide local option sales tax collections for fiscal year 2015 as reported by the Tennessee Department of Revenue in its *June 2015 Monthly Collections Report*. The collections figures can enable a simple calculation of potential additional local sales tax revenue that might be generated by increasing the existing rate if it is not currently at the maximum. For example, if the current rate is 2.25 percent, divide 2.75 percent by 2.25 percent. The result is 1.22, a factor that can be applied to current collections. If collections in the county with the 2.25 percent rate are \$2.0 million, then multiply 1.22 by \$2.0 million. The estimated collections at the new rate are therefore approximately \$2.44 million, or an additional \$440,000. Caution should be used in making budgetary plans based on collections information. Data should be the most current and any foreseeable adverse economic event should be considered.

Source URL: <http://eli.ctas.tennessee.edu/reference/local-option-sales-tax>

