

## LOCAL OPTION SALES TAX UPDATE

July 2002

Soon after the publication of the “Local Option Sales Tax in Tennessee,” the Tennessee Legislature, in a late session response to Tennessee’s ongoing state budgetary problems, passed new tax legislation designed to raise additional revenue to fund state government operations during fiscal year 2002-2003. The estimated impact of the various tax change included in Public Chapter #856 (2002) is an increase of over \$900 million for state government use during FY 2002-2003.

Forty million dollars of the increase will come from an increase in the single article cap (the maximum amount of the price of a single article sale subject to the local option tax) from \$1,600 to \$3,200, with the revenue generated from this change earmarked for state government use. This state use of one of the dimensions of the local option sales tax base is very unusual, but under the circumstances, not unpredictable. This recent revenue twist will impact some of the estimates included in the report that relate to the unutilized revenue potential that exists in the local option sales tax.