

TAX STRUCTURE STUDY COMMISSION
Background and Charge
Comments by Chairman Nelson Andrews to Commission Members
January 2003

The independent Tax Structure Study Commission was created by an act of the Tennessee General Assembly to complete a comprehensive study of the entire system of taxation in Tennessee.

The commission's primary job is to evaluate the Tennessee tax system in terms of soundness, fairness, equity, and deductibility for all Tennesseans.

Should the commission find through the evaluation process weaknesses or areas for improvement, it is to recommend changes to the tax structure in order to encourage and enhance soundness, fairness, equity, and adequacy. That last word brings a new dimension to the commission's task. It speaks to the extent of services that we, as Tennesseans, want and need. It speaks to current and future budgets as determined by the Governor and the Legislature. It is an element which the commission must always keep in mind.

By statute we are responsible to cover the broad range of Tennessee's tax structure.

General and Specific Charge for Tax Structure Study Commission

We are charged with performing a comprehensive study of the entire system of taxation in Tennessee.

We are then to evaluate that system in terms of its soundness, fairness, equity, and deductibility for all Tennesseans.

Unless we feel that, through that evaluation process, everything is as it should be, we are to recommend changes to the tax structure in order to encourage and enhance soundness, fairness, equity, and adequacy.

We are directed to specific study, which includes:

- State taxes
- Local taxes
- Special district taxes
- State-shared taxes

We are to study the elasticity of these taxes.

We are to study the effect of e-commerce upon our current tax structure.

We are to study the method of allocation of state tax revenue.

We are then to study the effect of allocation of tax revenue based on:

1. Situs of collection.
2. Current distribution formulas for tax revenue.
3. Special allocations of tax revenue based on population.
4. Special allocations of tax revenue based on tourism-related special treatment.
5. The deductibility of state and local taxes from federal taxes.

We are to study in a more general sense issues that pertain to:

1. Exportability and federal deductibility of Tennessee's state and local taxes.
2. Retaliatory taxes. We are to determine if Tennessee tax rates should be tied to average tax rates subject to retaliation.
3. The examination of the effect of our tax structure and rates on tax leakage to the states surrounding Tennessee. The main issue here would be sales tax.
4. Taxes on beer, liquor, wine, and cigarettes.

We are to examine, compare, and evaluate the impact and potential impact of various taxes upon the state's business climate and economic competitiveness.

Specific to business, we are to:

1. Study business taxes to determine if taxes in Tennessee are comparable to surrounding states.
2. We are to study and determine whether or not business activity is fairly taxed.
3. We are to study and determine whether the business tax structure in Tennessee should be revised due to the shift in the economy from manufacturing industry to service industries.
4. Study the franchise and excise tax to determine if (a) consolidated filing should be required, and (b) if current allocation formulas fairly apportion income and losses.
5. We are to study the business tax structure to determine the extent, if any, to which the form of a business entity should be a factor in determining whether such business entity pays state taxes.

We then are to report our findings and recommendations in an orderly, common sense, and understandable fashion no later than July 1, 2004.