

The Tax Modernization & Economic Stimulus Act

The Tax Modernization and Economic Stimulus Act, Senate Bill 2054 by State Senator Reginald Tate and House Bill 2182 by State Representative Larry Turner, will result in:

Targeted tax breaks to those hit by the current economic downturn

This plan will provide much needed tax breaks to more than 60% of Tennesseans, those low- and middle-income families most likely to put that money back into the local economy.

An end to the unjust food tax

Religious leaders, policy makers, and others have long recognized that the taxation of grocery food is one of the most unjust taxes any state can levy, and hits the least affluent the hardest. Tennessee's food tax, the third-highest average state and local food tax in the nation, takes an equivalent of 29 days worth of groceries from every Tennessee family each year. With passage of the Tax Modernization Act, the days of taxing grocery food will be over.

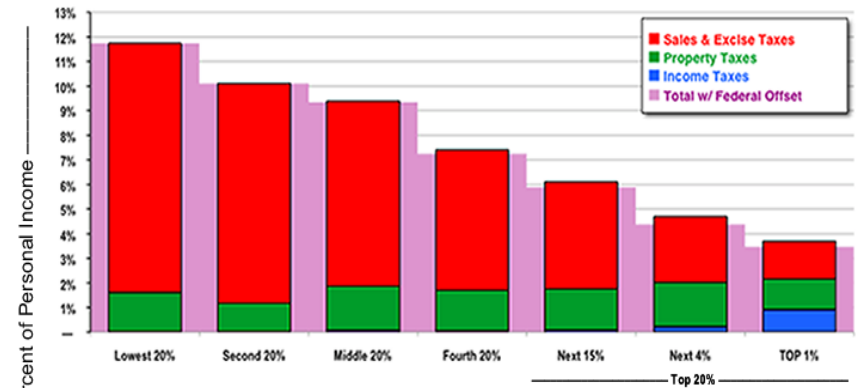
A more equitable share of taxes paid across all income groups

Under Tennessee's existing tax laws, as a percentage of their income, low-income families pay three times as much tax as the wealthiest families. That's because Tennessee's extremely high sales tax is applied to food, clothing, furniture, and other basic goods. However, the sales tax does not apply to real estate investments, stocks and bonds, college tuition or private K-12 education, attorney fees, or maid service... expenses more often incurred by higher income families.

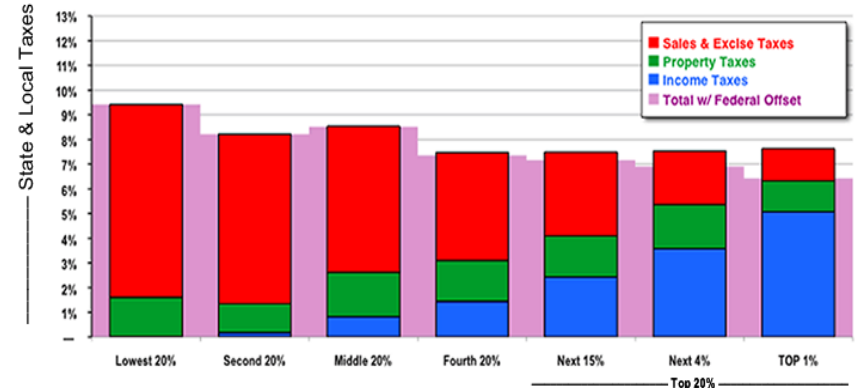
By embracing a more diverse and balanced tax system, including a lower sales tax, no food tax, and a progressive income tax, the tax share would be distributed more

equitably across all income groups. The regressive nature of the lower sales tax would be largely offset by the progressive nature of the income tax.

State & Local Taxes Now



State & Local Taxes After Passage of Modernization Act



– Bottom 20% to Top 20% of Income Earners, with Additional Detail on Top 20% Subgroups –

Notes: Data and analysis provided by the Institute on Taxation and Economic Policy. Shares of family income for non-elderly taxpayer, based on 2006 and 2007 income data.

Tennessee would be able to compete more effectively with its neighbors

With 50% of the state's population living in counties that border another state, Tennessee's high sales tax, currently the highest average state and local rate in the nation, and the high food tax, drive shoppers over state lines and onto the Internet. This hurts Tennessee's local businesses struggling to compete, and causes significant job loss to the state, losses Tennessee can ill-afford in these trying economic times.

One billion dollars in much-needed revenue to avoid damaging cuts and invest in the common good

While the federal stimulus helped avert some of the worst budget cuts for the time being, Tennessee will be right back to where we started when the stimulus runs out, with a \$1 billion budget shortfall jeopardizing the public structures essential to a strong economy and healthy communities. Additionally, the federal stimulus will do nothing to change our rankings relative to other states in a host of important investments from education to health care to environmental protection, since all states are receiving the stimulus. To lift

Tennessee up from the bottom, we need to change policies here at home.

Even with the additional \$1 billion this plan raises, Tennessee will still be a low-tax state, moving from 49th to 45th in state and local taxes as a percentage of income. This modest change will enable Tennessee to make much-needed investments in our communities.

A tax system that can stand the test of time and the 21st Century economy

A variety of factors, including the shift to a service-based economy, the growth of Internet and cross-border sales, and changing spending patterns in general, have eroded the sales tax base over the last several decades. To compensate, legislators have raised the sales tax rate every few years. However, even with the sales tax increases of 1971, 1976, 1984, 1992, and 2002, taxes as a percentage of personal income in Tennessee have actually declined since 1970.

By modernizing our tax system, including diversifying the revenue sources our state depends on, Tennessee will be able to more effectively manage its finances over the long haul. That's because income taxes are unaffected by the shift to a service-based economy or

the growth of Internet sales, thereby providing a more stable and reliable revenue source over the long-term.

By moving past the endless cycle of budget shortfalls that have dominated state politics in both good and bad economic times, Tennessee would be able to focus on the kind of long-term planning it will take to build an economy and a state that can compete in the 21st Century.

TFT is a statewide coalition of individuals and organizations working to create a more fair, progressive tax system that invests in Tennessee, its communities, and its people.



You can support the work of TFT by making your tax-deductible donation at www.fairtaxation.org/contributions

Thank you!