







## TENNESSEE AT A GLANCE:

Tennessee is one of two Southern states without a broad-based individual income tax. Tennessee should consider a state income tax to improve the *progressivity* and *adequacy* of the tax code, as well as other reform options, such as raising the cigarette tax and closing corporate tax loopholes.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	
2. Modernized sales taxes?	<input checked="" type="checkbox"/>		
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	
4. Enacted Earned Income Tax Credit?	n/a	n/a	
5. Modernized income tax bracket?	n/a	n/a	
6. Dealt with hidden income tax increases?	n/a	n/a	
7. Rethought senior tax preferences?	n/a	n/a	
8. Eliminated corporate loopholes?		<input checked="" type="checkbox"/>	
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	
10. Strengthened accountability?	<input checked="" type="checkbox"/>		
11. Conducted a performance review?		<input checked="" type="checkbox"/>	

## A better Tennessee...

**Idea 1: Broaden the sales tax base.** Tennessee should abolish sales tax holidays and review sales tax exemptions to eliminate those that don't meet contemporary economic needs. Tennessee's sales tax holiday will cost roughly \$10 million.

**Idea 2: Modernize sales taxes for the new economy.**

Tennessee should continue to modernize its policy on taxing services. In 2004, it taxed 67 out of 168 possible services.

**Idea 3: Raise cigarette taxes to promote public health.**

Tennessee should raise its 20-cent-per-pack cigarette tax to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so likely would cause 38,500 current adult smokers to quit. Long-term health savings from both adult and youth smoking declines would be \$1.24 billion.

**Idea 4: Enact a state Earned Income Tax Credit.**

**Idea 5: Modernize state income brackets.**

**Idea 6: Account for inflation.**

**Idea 7: Rethink senior tax preferences.**

Since Tennessee is one of only two Southern states that do not have a broad-based personal income tax, the state may want to consider an income tax to boost *progressivity*. Adding an income tax could allow the state to reduce its relatively high sales tax. In considering the creation of an income tax, Tennessee should strive to design a modern, fair tax that includes such aspects as a refundable EITC, broad brackets, inflation adjustments, and relief based on *ability-to-pay* rather than age.

**Idea 8: Eliminate corporate tax loopholes.** Tennessee should review and update its corporate income tax structure to eliminate tax loopholes and promote *fairness*. It should enact combined reporting and a throwback rule.

**Idea 9: Connect property taxes and *ability-to-pay*.** If Tennessee insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. Tennessee had the 11th lowest property taxes in the nation when measured per capita and the 10th lowest as a percent of personal income in 2002.

**Idea 10: Strengthen accountability.** Tennessee currently has an annual tax expenditure report. It is important for it to be published annually to provide accountability and information to lawmakers so they can make better-informed decisions.

**Idea 11: Review the performance of government.** Tennessee should conduct a comprehensive performance review to boost government efficiency, save money and improve customer service. Tennessee hasn't conducted a comprehensive statewide performance