



**Supreme Court**  
**State of Tennessee**

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**TENNESSEE SUPREME COURT HOLDS CITIES NOT REQUIRED TO  
SHARE LIQUOR TAX PROCEEDS WITH COUNTIES**

**Nashville, Tenn.** – In five separate lawsuits, the Tennessee Supreme Court held today that cities with their own school systems are not required to share with counties the tax proceeds the cities receive from the sale of liquor for on-premises consumption, called “liquor-by-the-drink.”

Tennessee imposes a 15% tax on liquor-by-the-drink sales. Except in private clubs, sales of liquor-by-the-drink are only allowed in cities or counties that have approved it by referendum. Businesses such as bars that sell liquor-by-the-drink collect the tax from customers and forward it to Tennessee’s Commissioner of Revenue.

Under Tennessee law, the Commissioner of Revenue keeps half the tax proceeds for general education purposes. The Commissioner then sends the other half back to the city or county in which the liquor-by-the-drink sales were made. The five lawsuits centered on what happens to tax proceeds sent back to a city with its own school system that has approved the sale of liquor-by-the-drink when the county in which the city is located has not approved such sales.

For over thirty years, cities that have approved the sale of liquor-by-the-drink have kept their portion of the liquor-by-the-drink tax proceeds and used them for their own independent school systems. The cities have not shared the liquor-by-the-drink proceeds with the counties.

In April and May 2014, five Tennessee counties—Blount County, Bradley County, Coffee County, Sullivan County, and Washington County—filed lawsuits against cities that had been receiving liquor-by-the-tax proceeds since 1980. None of the five counties had approved the sale of liquor-by-the-drink. All five lawsuits claimed that Tennessee statutes required the cities to share a portion of those tax proceeds with the county schools. The cities disputed the counties’ claims, arguing that the statutes allowed the cities to keep the tax proceeds for their own schools.

In the five cases, the trial courts reached varied results, some holding in favor of the counties and others holding in favor of the cities. The cases were all appealed. In four of the appeals, a panel of judges on the Court of Appeals held in favor of the cities. In one case, however, a different panel of judges on the Court of Appeals held in favor of the county.

To resolve the conflict in the Court of Appeals’ decisions, the Tennessee Supreme Court granted permission to appeal in all five cases. The Supreme Court held in favor of the cities in all five appeals.

In its opinion, the Court noted that, for over thirty years, cities and counties across Tennessee had been handling liquor-by-the-drink tax proceeds in the same way: cities kept their portion of the tax proceeds for their own schools and did not share the proceeds with the counties. The Tennessee General Assembly was aware of this longstanding practice. During that thirty-year period, the General Assembly amended the liquor tax laws several times, but it chose not to amend the laws on the cities’ responsibilities as to distributing the liquor tax proceeds. This indicated that the legislature agreed with how the cities and counties were applying the liquor tax statutes.

Considering the specific language in the statute, the legislature’s awareness of the cities’ thirty-year practice of keeping the liquor tax proceeds for their own schools, and the legislature’s failure to amend the statute during that thirty-year period, the Supreme Court held that the legislature did not intend to require the cities to share the tax proceeds with the counties.

To read the unanimous opinions in [\*Blount County Board of Education v. City of Maryville\*](#), [\*Bradley County School System ex rel. Bradley County Board of Education v. City of Cleveland\*](#), [\*Coffee County v. City of Tullahoma\*](#), [\*Sullivan County v. City of Bristol\*](#), and [\*Washington County School System ex rel.\*](#)

*Washington County Board of Education v. City of Johnson City*, all authored by Justice Holly Kirby, go to the opinions section of [TNCourts.gov](http://TNCourts.gov).

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