PREPARED BY: Doug Nichols
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PHONE: 471-0052

LB 169

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2001-2002		FY 2002-2003	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		(430,000)		(430,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS		(430,000)		(430,000)

*Does not include impact on political subdivisions. See narrative for political subdivision estimates.

This bill allows the Department of Revenue to enter into managed compliance agreements with any holder of direct payment sales/use tax permits. The agreement will allow the agency and permit holder to agree to an amount of estimated tax liability to be paid ranging from 95%-105% of the tax liability. The agency will examine the reasonableness of the percentages being paid once a year and make future adjustments so that substantially all of the tax liability is being paid. This bill also changes provisions of the Employment Expansion and Investment Incentive Act. It strikes language that generally requires a taxpayer to have an employee maintain residence in the enterprise zone. If the employee does not maintain such residence, then the taxpayer's tax credits may be subject to recapture.

REVENUE IMPACT: The Department of Revenue states that the provision allowing them to enter into managed compliance agreements with any holder of direct payment sales/use tax permits will have a minimal impact on state revenues. The Legislative Fiscal Office (LFO) agrees with the estimate to the extent that the agency follows through with what they have stated on their fiscal note response. However, the agency has had difficulty retaining auditors in the past and the amount of audit assessments has dropped as a result. Therefore, the agency may have difficulty staying abreast of these compliance agreements, in addition to the agency's other duties. If this occurs, then it is possible that substantially all of the tax liability will not end up being paid. This could then result in a revenue reduction to the General Fund.

The provision that changes Employment Expansion and Investment Incentive Act provisions will reduce General Fund revenues. It appears that taxpayers will not be subject to recapture if their employees do not maintain residence within the enterprise zone. The Department of Revenue estimates a General Fund revenue reduction of approximately $183,000 in FY2001 and $430,000 in FY2002. Since the bill is operative on January 1, 2001, it appears that there would be a full fiscal year impact in FY2002, and a partial year impact in the current fiscal year (FY2001). Although the agency's numbers in the boxes do not match up with the narrative amounts, the Legislative Fiscal Office is in agreement with the impact noted in the narratives. Therefore, the estimated revenue reduction from this portion of the bill is as follows:

	FY2001	FY2002	FY2003
Estimated Revenue Reduction	(183,000)	(430,000)	(430,000)

This estimate is in agreement with the history of the recaptured credits.

The Department of Revenue notes in its response that the current statutory language imposes stricter standards on enterprise zone credits than other Employment Expansion and Investment Incentive Act (LB 270) credits. However, it should be noted that enterprise zone credits are higher than regular LB 270 credits. For taxpayers meeting the requirements of LB 270, the credits are $1,500 per each FTE employee and $1,000 for each $75,000 of investment. The enterprise zone credits are as follows:

$4,500 for each new FTE employee and $3,000 for each $75,000 of investment if at least 50% of the new FTE employees reside within the boundaries of the enterprise zone; or,

$4,500 for each new FTE employee residing within the boundaries of the enterprise zone, $1,500 for each new FTE employee not residing within the boundaries of the enterprise zone, and $1,000 for each $75,000 of investment if less than 50% of the new FTE employees of the taxpayer reside within the boundaries of the enterprise zone.

Impact on Subdivisions: To the extent that the compliance agreements result in a minimal revenue changes from current law, the political subdivisions with a local option sales tax will have minimal impact, too.