PREPARED BY: DATE PREPARED: PHONE: Doug Gibbs February 19, 2013 402-471-0051

LB 14

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 201	3-14	FY 2014-15				
	EXPENDITURES	REVENUE	EXPENDITURES REVENUE				
GENERAL FUNDS	\$143,500	(\$10,000,000)	\$45,000	(\$12,000,000)			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$143,500	(\$10,000,000)	\$45,000	(\$12,000,000)			

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 14 creates the Elementary and Secondary Educational Opportunity Act.

The bill provides for nonrefundable income tax credits for contributions to a scholarship-granting organization (SGO) that provides scholarships to students attending a nongovernmental, privately operated school in Nebraska. The same basic credits would be available to individuals (resident and non-resident), pass-through entities, estates or trusts, and corporations. The SGO is required to be a 501(c)(3) tax exempt organization, must have programs to grant scholarships to eligible students, will offer one or more scholarships, will allocate at least ninety-five percent of its annual revenue for scholarships, will provide scholarships without limiting the scholarships to students of only one qualified school, and is certified by the Tax Commissioner as a SGO.

The credit against Nebraska income tax is 60 percent of the total contributions made during the tax year. The tax credit allowed shall not exceed a taxpayer's income tax liability for the tax year; however, any amount over the limitation that would otherwise qualify may be carried forward for up to five years following the original tax year.

The bill limits scholarships to eligible students who are residents of Nebraska whose household gross income for the most recent calendar year does not exceed three times the income standard used to qualify for free or reduced price lunch under 42 U.S.C. 1751, and who is or may be a full-time student in any grades kindergarten through twelve at a qualified school. The bill provides that eligible students need to meet the income standard upon receiving the first-time scholarship and then continue to be eligible regardless of household income. A first-time scholarship is available to students entering kindergarten or ninth grade at a qualified school or are transferring to a qualified school and entering any grade. For example:

- For a household of two, using the reduced lunch eligibility standard for grades K-12, the maximum household income limit would be \$83.973.
- For a household of four, using the reduced lunch eligibility standard for grades K-12, the maximum household income limit would be \$127.929.

Because the bill states that the standard to be used for determining income eligibility is the free lunch OR the reduced price lunch standard, the Department of Revenue would have to use the higher reduced price lunch standard.

The bill requires the taxpayer to notify the SGO of their intent to donate and the amount of the contribution. The SGO shall then request preapproval from the Department of Revenue for the tax credit granted by LB 14. The Department of Revenue is to notify the SGO within 30 days of its determination regarding the credit. The SGO then notifies the taxpayer. The taxpayer then has 30 days to make the contribution in order to qualify for the credit. The credit will not be allowed if the taxpayer designates all or part of the contribution to the organization for the direct benefit of a specific student.

The amount of the individual contribution is not limited but the bill does provide for a cap on the total amount of credits that may be granted each year. The aggregate amount of the tax credit is capped as follows:

2013: \$10,000,000 2014: \$12,000,000 2015: \$14,000,000 2016: \$16,000,000 2017: \$18,000,000 2018: \$20,000,000

2019: and each year thereafter the limit is adjusted for inflation

Once the preapproved credits have reached the designated limit for a calendar year, no additional credits shall be approved. Requests for credits are to be considered in the order in which they are received.

The Department of Revenue is given rule and regulation authority.

The bill becomes operative for tax years beginning January 1, 2013; contains the emergency clause; and also contains the severability clause.

The Department of Revenue estimates that, based on the size of the credit and the potential pool of eligible students, the tax credit cap will be reached each year.

To implement the provisions of LB 14, the Department indicates it will require a one-time programming charge of \$91,000 paid to the Office of the CIO to add lines to the Form 1040N, corporation income tax return, and fiduciary income tax returns, as well as to the NebFile system. Department costs will include 1.0 FTE to process and approve certifications, to track and preapprove credits, and to process and audit returns. The cost estimate includes PSL of \$33,100 for FY2013-14 and \$33,800 for FY2014-15.

The Department of Education indicates no fiscal impact to the Department as a result of LB 14.

We agree with the Department of Revenue's estimate of fiscal impact and cost.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES							
LB: 14 AM: AGENCY/POLT. SUB: Dept. of Revenue							
REVIEWED BY: Lyn Heaton			2/19/2013	PHONE: 402.471.4181			
COMMENTS: No basis upon which to disagree with the Dept. of Revenue's analysis. The department's estimate of the							
operational cost to implement the bill appears reasonable.							

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES							
LB: 14 AM: AGENCY/POLT. SUB: Dept. of Education							
REVIEWED BY: Lyn Heaton			DATE: 1/23/2013	PHONE: 402.471.4181			
COMMENTS: Concur. No fiscal impact to the Dept. of Education.							

LB 14 Fiscal Note 2013

State Agency Estimate							
State Agency Name: Department of	f Revenue				Date Due LFA:	1/18/2013	
Approved by: Douglas Ewald		Date Prepared:	1/23/13		Phone: 471-5896		
FY 2013-2014 FY 201					015 FY 2015-2016		
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue	
General Funds	\$ 143,500	(\$10,000,000)	\$ 45,000	(\$ 12,000,000)	\$ 46,000	(\$ 14,000,000)	
Cash Funds							
Federal Funds							
Other Funds							
Total Funds	\$ 143,500	(\$10,000,000)	\$ 45,000	(\$ 12,000,000)	\$ 46,000	(\$ 14,000,000)	

LB 14 adopts the Elementary and Secondary Educational Opportunity Act. The Act allows I.R.C. § 501(c)(3) organizations to be certified by the Tax Commissioner as scholarship-granting organizations (organizations). To be certified, the organization must have programs to grant scholarships for eligible students, and the organization must grant scholarships totaling at least 95% of its annual revenues. Eligible students are Nebraska residents whose household's gross incomes are less than three times the income threshold for free or reduced lunches. Currently, students from a household of two would be eligible for scholarships if household income is less than \$83,973, with this threshold increasing with household size. Once a student is eligible, they will continue to be eligible for ongoing scholarships regardless of household income.

Once the organization is certified, individuals (resident and non-resident), trusts, estates, pass-through entities, and corporations may receive a tax credit equal to 60% of any contribution to the organization. The credit may not exceed the taxpayer's tax liability for the tax year, but may be carried forward for the next five years following the tax year in which the credit is first allowed. The credit will not be allowed if the taxpayer designates all or any part of the contribution to the organization for the direct benefit of an eligible student. The individual contribution amount is not limited, but the total amount of tax credits granted in each tax year is limited to \$10 million for calendar year 2013, increasing by \$2 million annually, until 2018, when the limit is \$20 million. Beginning in 2019, the cap is adjusted annually for inflation.

Before making the contribution, the taxpayer is to notify the organization, which then must receive preapproval from the Department of Revenue to assure compliance with the overall cap. The contribution must be made within 30 days of receiving preapproval. The Department is given regulation authority. The bill is to be operative beginning in tax year 2013 and it contains a severability clause.

Based upon the size of the credit and the potential pool of eligible students, it is estimated that the cap will be reached every year.

LB 14 will require a one-time programming charge of \$91,000 paid to the OCIO to add lines to the Form 1040N, corporation income tax return, and fiduciary income tax returns, as well as to the NebFile online filing system. Department costs will include 1.0 FTEs to process and approve certifications, to track and preapprove credits, and to process and audit returns.

Major Objects of Expenditure							
		13-14	14-15	15-16	13-14	14-15	15-16
Class Code	Classification Title	FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
A21212	Auditor	0.5	0.5	0.5	\$ 19,000	\$ 19,400	\$ 19,800
S29112	Revenue Operations Clerk II	0.5	0.5	0.5	\$ 14,100	\$ 14,400	\$ 14,800
Benefits					\$ 10,900	\$ 11,200	\$ 11,400
Operating Costs					\$ 91,000		
Travel							
Capital Outlay					\$ 8,500		
Capital Improvement	ents						
					\$ 143,500	\$ 45,000	\$ 46,000

LB ⁽¹⁾ 14	FISCAL NOTE								
State Agency OR Political Subdivision Name: (2)		NDE/School Fina	NDE/School Finance & Organization Services						
Prepared by: (3)	Lange, Bergquist	Date Prepared: (4)	1-15-2013	Phone: (5)	1-0526				
	ESTIMATE PROV	IDED BY STATE AGENO	CY OR POLITICAL SU	BDIVISIO	N				
	EV	2013-2014		FY 2014-2	0015				
	<u>EXPENDITURE</u>		EXPENDITUR		REVENUE				
GENERAL FUN	IDS								
CASH FUNDS									
FEDERAL FUN	DS	<u> </u>							
OTHER FUNDS		_							
TOTAL FUNDS	<u> </u>								
a private school through entities promulgate rule The bill would p The bill limits school whose househol	ontributions to a scholarsh in Nebraska. The same base, estates or trusts, and corps and regulations to carry or covide scholarship monies holarships to full-time studid gross income for the mose or reduced price lunch u	sic credits would be availa porations. The Tax Commout this Act. to students of limited mealents in grades kindergartes st recent calendar year do	ble to individuals (residuals) designation (Department and to attend privately and through twelve who	of Revenue operated s	on-resident), pass- e) shall adopt and schools in Nebraska. ents of Nebraska and				
		OR OBJECTS OF EXPEN	NDITURE						
Personal Service POSIT		NUMBER OF POSITIONS 13-14 14-15	S 2013-2014 EXPENDITUR	<u>ES</u>	2014-2015 EXPENDITURES				
1				<u> </u>					
Capital improve	ments								
TO TO A Y									

2013

Fiscal Impact:

To the State of Nebraska: The fiscal impact to the State of Nebraska will be determined by the dollar amount of the tax credit for organizations and individuals. The Department of Education cannot estimate this fiscal impact.

To NDE: There would be on fiscal impact to NDE.

To Political Subdivisions: Unknown by the Department of Education at this time.