

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2023-24		FY 2024-25	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$624,580		\$372,846	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$624,580	See Below	\$372,846	See Below

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

LB 350 seeks to establish the Pioneer Economic Tax Credit Act (Act). The Act would allow a nonrefundable tax credit against the income tax due under the Nebraska Revenue Act of 1967 or against any tax due under sections 77-907 to 77-918 or 77-3801 to 77-3807 for cash contributions to eligible organizations. Eligible organizations would be iHubs or community development financial institutions. These organizations would need to apply with the Department of Economic Development (DED) to be certified as a qualifying organization. A qualifying organization may use donations received under the Act to fund eligible activities connected to economic development.

The amount of the credit would be equal to 50% of the total amount of such contributions made during the tax year. Taxpayers who are married but file separate returns for a tax year in which they could have filed a joint return may each claim only one-half of the tax credit that would otherwise have been allowed for a joint return. Any amount of the credit that is unused may be carried forward and applied against the taxpayer's tax liability for the next five years immediately following the tax year in which the credit is first allowed. The tax credit cannot be carried back.

Credits would be approved by the DED and the taxpayer would receive a receipt for the contribution. The annual limit on the total amount of tax credits for calendar year 2024 and each calendar year after would be \$50 million. Credits would be prorated among the notifications received on the day the annual limit is exceeded. The DED could adopt and promulgate rules and regulations to carry out the Act.

This Act would become operative on January 1, 2024.

The Department of Revenue (DOR) estimates a negative, indeterminable fiscal impact to General fund revenues as a result of increased tax credit claims with the \$50 million annual limit unlikely to be reached. There is no basis to disagree with this estimate.

The DOR also estimates a need for a one-time expense of \$71,280 and \$14,256 annually for development and maintenance of an application and database to track credits. The DOR estimates the need to hire 0.5 FTE IT Business Systems Analyst-Coordinator and 0.5 FTE Revenue Operations Clerk II. The DED estimates \$250,000 in one-time costs to be paid to the Office of the Chief Information Officer (OCIO) to build the needed application system and database, and \$2,660 per year for leased office space. The DED also estimates a need for an Economic Development Manager and IT Database Analyst/Senior. These expenditures for DOR and DED are a result of their shared responsibilities from this bill. There is no basis to disagree with these estimates of expenditures by the DOR and DED.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 350	AM:	AGENCY/POLT. SUB: Department of Revenue	
REVIEWED BY: Neil Sullivan	DATE: 3/13/2023	PHONE: (402) 471-4179	
COMMENTS: No basis to disagree with the Department of Revenue assessment of administrative impact and indeterminate revenue impact under \$50 million from LB 350.			

market tax credit program, has fewer than ten employees, and has an average gross revenue of less than \$500,000 over the three previous years.

Activities in 1,2, and 3 must be funding for an iHub.

The amount of the credit is 50% of the total amount of the contribution to one or more qualifying organizations. Credits can be used by individuals, flow-thru entities, corporations, estates, and trusts. If the taxpayers are filing a married filing separate return, only one-half of the tax credit is permitted that would have been allowed for a married filing joint return. Credits can be distributed by flow-thru entities in the same manner as income. The credit can be carried forward for the next five years following the tax year the credit is first allowed.

The annual limit for tax credits is \$50 million. DED will consider notifications regarding intended tax credit amounts in the order in which they are received. Credits are prorated among notifications received on the same day. There is not a sunset date in the bill.

LB 350 will have a negative fiscal impact on General Fund revenue through increased tax credit claims. Given the current number and size of qualifying organizations, the Department of Revenue (DOR) estimates that the cap of \$50 million is unlikely to be reached. Moreover, the potential for wide variation in scale and scope of future projects and contributions makes the complete fiscal impact undeterminable.

DOR estimates that LB 350 will require \$71,280 in one-time costs and \$14,256 annually for the development and maintenance of an application and database to track credits. Additionally, this will require the hiring of a 0.5 FTE IT Business Systems Analyst – Coordinator. LB 350 will also require the hiring of a 0.5 FTE Revenue Operations Clerk II to process applications.

LB 350 becomes operative January 1, 2024.

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2023

LB⁽¹⁾ 350- Revised

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Department of Economic Development

Prepared by: ⁽³⁾ Dave Dearthmont Date Prepared: ⁽⁴⁾ 3/13/2023 Phone: ⁽⁵⁾ 402-471-3777

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2023-24		FY 2024-25	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$477,200		\$289,290	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	<u>\$477,200</u>		<u>\$289,290</u>	

Explanation of Estimate:

LB350 creates the Pioneer Economic Tax Credit Act, a nonrefundable tax credit equal to 50% of contributions over the year to an organization located within an iHub or directly to a community development financial institution. LB350 gives the responsibility of certifying organizations which are eligible to receive donations that can be credited on one's taxes to the department.

LB350 will require DED to certify qualifying organizations and monitor and track the amount of donations to these organizations for qualified projects, and the amount of intended Pioneer tax credits to be received by individual taxpayers, partnerships, LLBs, S-Corps, estates trusts, or C-Corps, by tax year and by taxpayer. The bill requires that DED ensures that the total amount of tax credits certified remain below \$50 million per tax year. DED will notify the organization whether the taxpayer will be eligible for the tax credit in that year. DED must make the determination and notifications within thirty days of receiving a request for tax credits.

The provisions of LB350 will require DED to create an application and notification system and database to track the number of tax credits requested, and other information required. In addition, managing the program will require the services of a 1.00 FTE Economic Development Manager, and 1.0 FTE of an IT Database Analyst/Senior to manage the program development and build out the necessary database to track qualified organizations and individual tax credits.

The act becomes operable on January 1, 2024; however, the tracking system and database will need to be available on that date; requiring DED expenditures in the first half of FY2023-24. Operating costs include one-time programming costs of \$250,000 for the OCIO to build the needed application system and database, and \$2,660 per year in leased office space.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS		2023-24	2024-25
	<u>23-24</u>	<u>24-25</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
G49550 Econ Development Manager	0.75	1.00	\$53,930	\$74,790
A07052 IT Data/DB Analyst/Senior	0.75	1.00	66,500	92,110
Benefits.....			48,170	66,800
Operating...(\$including OCIO costs).....			279,400	38,890
Travel.....			12,000	16,700
Capital outlay.....			17,200	0
Aid.....			0	0
Capital improvements.....			0	0
TOTAL.....			\$477,200	\$289,290