

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2015-16</b>		<b>FY 2016-17</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$431,565	\$0	\$156,783	\$1,427,394,000
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$431,565</b>	<b>\$0</b>	<b>\$156,783</b>	<b>\$1,427,394,000</b>

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

LB 574 creates the Intangible Personal Property Tax Act.

Beginning January 1, 2016, the bill levies a tax on intangible personal property at a rate of \$1.50 per \$100 of valuation.

New language is added to Nebraska Revised Statutes Section 77-105 to expand the definition of intangible personal property. The definition now includes, but is not limited to, money on hand, on deposit, or in transit; shares of stock and other units of interests in corporations and joint stock of companies and other associations conducted for profit or investment; securities such as bonds, certificates of indebtedness, debentures, and notes receivable, and other obligations for the payment of money, whether secured or unsecured; shares or units of companies or trusts including mutual funds, money market funds, unit investment trusts, and exchange traded funds; money market funds, unit investment trusts, and exchange traded funds; accounts receivable; certificates of deposit; cashier's and certified checks; bills of exchange; drafts and similar instruments; bank accounts and other obligations for the payment of money; publicly traded options; futures contracts; commodities contracts; certificates of interest in gold and other precious metals or gems; and similar instruments.

In general, the intangible personal property is to be valued at fair market value as specified in the bill for different types of such property.

The tax does not apply to certain bonds issued by the United States or its agencies and corporations; bonds of the state of Nebraska or its political subdivisions; interest in retirement plans; life insurance and annuity policies; processing of intangible personal property; certain non-profit and charitable, religious and educational intangible property; certain mandatory and required banking assets; and certain intercompany financing instruments.

The bill provides for an exemption of \$350,000 of fair market value to married couples filing a joint tax return and an exemption of \$150,000 of fair market value for an individual.

LB 574 creates the Intangible Personal Property Tax Fund, which is to receive the revenue generated by the Act. The Fund is to be used to provide public school funding sufficient to maintain school funding levels in effect on the effective date of the Act, however, no method or formula is specified in the bill as to how this is to be accomplished.

The Department of Revenue has indicated that the Department's fiscal impact estimate is based on data from the U.S. Department of Commerce, Census Bureau, for households. The Department does not have reliable data that can be used to estimate the revenue impact of LB 574 attributable to nonresident individuals or business entities operating in Nebraska, so those taxpayers are not included when the fiscal impact estimates were calculated. With this limitation in mind, LB 574 could generate the following revenues for the Intangible Personal Property Tax Fund:

FY2015-16:	\$	0
FY2016-17:	\$	1,427,394,000
FY2017-18:	\$	1,483,775,000
FY2018-19:	\$	1,542,698,000

The Department of Revenue also notes that the difficulty of enforcing compliance may significantly reduce actual revenues received.

Cost to implement the provisions of LB 574 includes 0.25 FTE Revenue Tax Specialist, 1.0 FTE Revenue Auditor I, 1.0 FTE Revenue Agent, 1.0 FTE Revenue Operations Analyst II, and one-time programming cost of \$263,458 paid to the Office of the CIO for IT development. PSL for FY2015-16 would be \$115,118 and for FY2016-17 would be \$117,882.

We have no basis to disagree with the Department of Revenue's estimate of fiscal impact or cost.

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA:				
Approved by: Len Sloup		Date Prepared: 3/10/2015				
		Phone: 471-5896				
	<b>FY 2015-2016</b>		<b>FY 2016-2017</b>		<b>FY 2017-2018</b>	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$431,565		\$156,783		\$162,551	
Cash Funds		\$0		\$1,427,394,000		\$1,483,775,000
Federal Funds						
Other Funds						
Total Funds	\$431,565	\$0	\$156,783	\$1,427,394,000	\$162,551	\$1,483,775,000

LB 574 would impose an ad valorem tax on certain intangible property of \$1.50 per \$100 dollars of fair market value (1.5%). The fair market value is to be the trade or bid price for securities traded publically, and determined using generally-accepted accounting principles for securities that are not publically traded. Another method can be used if sufficient evidence is presented to the Department that shows an alternative method more accurately determines fair market value.

Intangible property would be defined to include, but not be limited to; money on hand, bank accounts, securities certificates of deposit, cashier’s checks, drafts, options, futures, other financial instruments, and other obligations for the payment of money (presumably loan obligations). Section 5 of the bill exempts certain intangible property from the tax as follows: US obligations, including debt incurred by agencies and instrumentalities; state and local obligations; retirement plans and accounts; employee stock options; life insurance and annuity policies; mandatory and required banking assets (meaning minimum reserves); and intercompany financing instruments. This ad valorem tax also would not apply to intangible personal property owned by non-profit charitable, religious, educational, or cemetery organizations. There is also an exemption for something called “processing of intangible personal property” but it is unclear what is intended.

Individuals receive a \$150,000 exemption (\$350,000 for a married, filing a joint intangible tax return). The return is to be filed annually with the income tax return and the Department is to remit the proceeds to the State Treasurer for deposit in the Intangible Personal Property Tax Fund. The Fund is to be used to provide public school funding, but there is no formula or distribution method describing how that is to occur.

The revenue impact estimates below are based upon data from the U.S. Department of Commerce, Census Bureau, for households. The Department does not have reliable data that can be used to estimate the revenue impact of LB 574 attributable to nonresident individuals or business entities operating in Nebraska, so these taxpayers were not included when the following estimates were calculated. With this limitation in mind, LB 574 could generate the following revenues for the Intangible Personal Property Tax Fund:

- FY 2015-16: \$0
- FY 2016-17: \$1,427,394,000
- FY 2017-18: \$1,483,775,000
- FY 2018-19: \$1,542,698,000

The difficulty of enforcing compliance may significantly reduce the actual revenues received.

Cost to the Department to implement LB 574 includes 0.25 FTE Revenue Tax Specialist, 1.0 FTE Revenue Auditor I, 1.0 FTE Revenue Agent, 1.0 FTE Revenue Operations Analyst II, and a one-time programming cost of \$263,458 paid to the OCIO for IT Development.

The bill would become operative January 1, 2016.

**Major Objects of Expenditure**

<u>Class Code</u>	<u>Classification Title</u>	15-16	16-17	17-18	15-16	16-17	17-18
		<u>FTE</u>	<u>FTE</u>	<u>FTE</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>
A29621	Revenue Tax Specialist	0.25	0.25	0.25	\$12,126	\$12,417	\$13,021
R29112	Revenue Operations Analyst II	1.0	1.0	1.0	\$29,521	\$30,230	\$31,698
X29222	Revenue Agent	1.0	1.0	1.0	\$33,785	\$34,596	\$35,427
A21251	Revenue Auditor I	1.0	1.0	1.0	\$39,686	\$40,639	\$41,614
Benefits.....					\$37,989	\$38,901	\$40,791
Operating Costs.....					\$263,458		
Travel.....							
Capital Outlay.....					\$15,000		
Aid.....							
Capital Improvements.....							
<b>Total.....</b>					<b>\$431,565</b>	<b>\$156,783</b>	<b>\$162,551</b>