

Revised due to adoption of amendments on General File.

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

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2016-17</b>		<b>FY 2017-18</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$144,534	(\$1,524,000)	\$33,080	(\$2,577,000)
CASH FUNDS		(\$54,000)		(\$97,000)
FEDERAL FUNDS	\$28,567		\$33,080	
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$173,101</b>	<b>(\$1,578,000)</b>	<b>\$66,160</b>	<b>(\$2,674,000)</b>

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

LB 774, as amended by AM2422 and AM2648, now incorporates the provisions of LB 510, LB 542, LB 888, LB 1015, LB 1047, LB 1088 and LB 1014.

**A):** The original provisions of LB 774 amend the Nebraska Revenue Act of 1967, Section 77-2704.12, to provide a sales and use tax exemption for nonprofit substance abuse treatment centers licensed under the Health Care Facility Act. The estimated fiscal impact of this portion of LB 774 is as follows:

<b>Fiscal Year:</b>	<b>General Fund:</b>	<b>State Highway Capital Improvement Fund:</b>	<b>Highway Allocation Fund (Local):</b>	<b>Total:</b>
2016-17:	(\$ 287,000)	(\$ 10,000)	(\$ 2,000)	(\$ 299,000)
2017-18:	(\$ 452,000)	(\$ 18,000)	(\$ 3,000)	(\$ 473,000)
2018-19:	(\$ 475,000)	(\$ 19,000)	(\$ 3,000)	(\$ 497,000)

**B):** The provisions of LB 774, as amended by AM2422, that contain the provisions of LB 510 create a nonrefundable income tax credit for the employer of any eligible employee who is a member of a family that received benefits under the federal Temporary Assistance to Needy Families program (TANF), for any 9 months of the 18-month period immediately prior to the employee's hiring.

The amount of the credit is 20% of the employer's annual expenditures for certain services, although the credit may not exceed the employer's actual tax liability. Those services include the following provided to eligible employees:

- Provision of tuition at a Nebraska public institution of postsecondary education;
- Transportation to and from work

The employer claiming the credit may only do so for two years.

The LFO estimates the following fiscal impact of this section of LB 774 as follows:

FY2016-17:	\$ 0
FY2017-18:	(\$190,000)
FY2018-19:	(\$191,000)

The Department of Revenue originally indicated that LB 510 would require a one-time programming charge of \$115,967 paid to the office of the CIO to add a line to Forms 1040N, 1120N, and 1041N, and required changes to the NebFile online filing system. That cost to the Department of Revenue has since been revised by the Office of the CIO to \$186,813, and increase of \$70,846 over the estimated cost submitted in January 2016. Therefore we disagree with this new estimate of cost.

**C):** LB 774, as amended, now contains the provisions of LB 542 which amends Nebraska Revised Statutes Section 77-2704.15 to provide that the purchases of a county agricultural society are exempt from sales and use taxes.

The fiscal impact of this section of LB 774, as amended, is as follows:

Fiscal Year:	General Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund: (Local)	Total:
2016-17:	(\$ 124,000)	(\$ 4,000)	(\$ 1,000)	(\$ 129,000)
2017-18:	(\$ 192,000)	(\$ 8,000)	(\$ 1,000)	(\$ 201,000)
2018-19:	(\$ 197,000)	(\$ 8,000)	(\$ 1,000)	(\$ 206,000)

The cost to implement this section of LB 774 is minimal.

**D):** The bill also incorporates the provisions of LB 888 which amends the Nebraska Job Creation and Mainstreet Revitalization Act regarding historic property tax credits.

This section of LB 774, as amended, provides that tax credits claimed under the Act shall not result in additional retaliatory taxes under Nebraska Revised Statutes Section 44-150 and shall be considered a payment of taxes under Section 77-2734.03 (insurance premium tax).

As amended, the bill now requires that effective for calendar year 2017, \$4 million of the \$15 million annual allocation for historic tax credits is to be granted to applications seeking less than \$100,000 of tax credits. However, if the tax credits so reserved are not fully subscribed by April 1, they become available for projects seeking a greater amount of tax credit.

We believe that there is no additional overall fiscal impact as a result of the provisions of LB 888 due to the already full utilization of the historic tax credit. However, within the internal structure of the credit there will be a negative impact on those cash funds that receive revenue from the insurance premium tax. The Department of Revenue estimates a total reduction in insurance premium tax in the range of \$1 million to \$3.5 million. We have no basis to disagree with that estimate.

The cost to implement LB 888 will be minimal.

**E):** The provisions of LB 1015 are also now incorporated into LB 774. This section of the bill amends the Nebraska Revenue Act of 1967 to provide a sales and use tax exemption.

Section 77-2704.56 which deals with the sales and use tax exemption for the purchase of fine art by museums, is amended by striking the term "fine art" and inserting "property" as defined in Section 51-702(8), the Museum Property Act.

As defined in 51-702(8), "property means a tangible object, animate or inanimate, under a museum's care, which has intrinsic historic, artistic, scientific, or cultural value."

The fiscal impact of this section of LB 774, as amended, is as follows:

Fiscal Year:	General Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund (Local):	Total:
2016-17:	(\$ 247,000)	(\$ 9,000)	(\$ 2,000)	(\$ 258,000)
2017-18:	(\$ 390,000)	(\$ 16,000)	(\$ 3,000)	(\$ 408,000)
2018-19:	(\$ 409,000)	(\$ 17,000)	(\$ 3,000)	(\$ 429,000)

The cost to implement this section of LB 774 is expected to be minimal.

**F):** LB 774, as amended by AM2422, also contains the provisions of LB 1047 which amends the Nebraska Revenue Act of 1967 Section 77-2704.13 regarding the exemption from sales and use taxes of energy sources or fuels.

The bill, as amended, provides that "processing" includes the drying and aerating of grain in commercial agricultural facilities.

Current statute provides for an exemption from sales and use taxes for sales and purchases of energy sources or fuel when more than fifty percent of the amount purchased is for use directly in processing, manufacturing, or refining, in the generation of electricity, in the compression of natural gas for retail sale as a vehicle fuel, or by any hospital.

The fiscal impact of this section of LB 774, as amended, is as follows:

Fiscal Year:	General Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund: (Local)	Total:
2016-17:	(\$ 866,000)	(\$ 31,000)	(\$ 5,000)	(\$ 902,000)
2017-18:	(\$ 1,353,000)	(\$ 55,000)	(\$ 10,000)	(\$ 1,418,000)
2018-19:	(\$ 1,397,000)	(\$ 57,000)	(\$ 10,000)	(\$ 1,464,000)

The cost to implement this section of LB 774, as amended, is expected to be minimal.

**G):** The bill, as amended by AM2422, now includes the provisions of LB 1088 which amends the Nebraska Revenue Act of 1967 Section 77-2704.12 regarding a sales and use tax exemption for certain types organizations or facilities.

The bill would provide a sales and use tax exemption for any center for independent living as defined in 29 U.S.C. 796a.

The definition of such a center means: a consumer-controlled, community-based, cross-disability, nonresidential private nonprofit agency that:

- (A) Is designed and operated within a local community by individuals with disabilities; and
- (B) Provides an array of independent living services.

“Consumer-controlled” means, with respect to a center for independent living, that the center vests power and authority in individuals with disabilities.

This portion of the bill is estimated to have minimal fiscal impact and cost.

**H):** LB 774, as amended by AM2648, now incorporates the provisions of LB 1014 which amends several sections of Nebraska Revised Statutes regarding public airports or airport authorities and bonded debt.

The bill basically provides that budget and levy limitations for public airports do not apply to payments to retire bonded indebtedness.

This section of LB 774, as amended, is estimated to have no fiscal impact to the state.

The Department of Revenue has estimated the following overall fiscal impact of LB 774, as amended:

Fiscal Year:	General Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund (Local):	Total:
2016-17:	(\$1,524,000)	(\$ 54,000)	(\$ 10,000)	(\$1,588,000)
2017-18:	(\$2,512,000)	(\$ 97,000)	(\$ 17,000)	(\$2,626,000)
2018-19:	(\$2,603,000)	(\$ 101,000)	(\$ 17,000)	(\$2,721,000)

The Legislative Fiscal Office disagrees somewhat with the Department of Revenue’s estimate of overall fiscal impact and estimates the following fiscal impact of LB 774, as amended by AM 2422 and AM2648:

Fiscal Year:	General Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund (Local):	Total:
2016-17:	(\$1,524,000)	(\$ 54,000)	(\$ 10,000)	(\$1,588,000)
2017-18:	(\$2,577,000)	(\$ 97,000)	(\$ 17,000)	(\$2,691,000)
2018-19:	(\$2,669,000)	(\$ 101,000)	(\$ 17,000)	(\$2,770,000)

**IMPACT TO POLITICAL SUBDIVISIONS:**

We estimate the following fiscal impact to the Highway Allocation Fund:

- FY2016-17: (\$10,000)
- FY2017-18: (\$17,000)
- FY2018-19: (\$17,000)

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 3/30/2016			
Approved by: Tony Fulton		Phone: 471-5896			
Date Prepared: 3/25/2016					
<b>FY 2016-2017</b>		<b>FY 2017-2018</b>		<b>FY 2018-2019</b>	
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$ 186,813	(\$ 1,524,000)	(\$ 2,512,000)		(\$ 2,603,000)
Cash Funds		(\$ 54,000)	(\$ 97,000)		(\$ 101,000)
Federal Funds					
Other Funds		(\$ 10,000)	(\$ 17,000)		(\$ 17,000)
Total Funds	\$ 186,813	(\$ 1,588,000)	(\$ 2,626,000)		(\$ 2,721,000)

LB 774 AM 2422 replaces LB 774 with the provisions of six legislative bills plus an additional change to the Nebraska Historic Tax Credit (NHTC) Act.

1. Section 2 amends Neb. Rev. Stat § 77-2704.12 to add substance abuse centers licensed under the Health Care Facility Licensure Act to the list of nonprofit health care facilities that are exempt from sales and use taxes on their purchases. (original LB 774)

2. Section 3 amends Neb. Rev. Stat. § 77-2704.13, which currently provides a sales tax exemption for energy purchases where more than 50% of the energy is used for irrigation, farming, processing, manufacturing, refining, generating electricity, compressing natural gas for vehicle fuel, or by any hospital. The amendment would provide that processing includes drying and aerating grain in commercial agricultural facilities. (LB 1047 as amended by the Revenue Committee)

3. Section 4 amends Neb. Rev. Stat. § 77-2704.15 to add county agricultural societies to the list of educational or governmental entities that are exempt from sales and use taxes on their purchases. (LB 542)

4. Section 5 amends Neb. Rev. Stat. § 77-2704.56 (sales tax exemption for fine art purchased by a museum) to expand the exemption beyond fine art to include any displays by any museum. Under the amendment (and currently) “museum” is defined in § 51-702(6) as an institution in Nebraska operated by a nonprofit or public agency for educational, scientific, historic preservation, or aesthetic purposes. “Property,” the purchase or rental of which would be exempt under the amendment, is defined in § 51-702(8) as tangible property which has intrinsic historic, artistic, scientific, or cultural value. (LB 1015)

5. Section 9 provides an income tax credit, beginning with taxable years beginning on or after January 1, 2017, for an employer of an eligible employee. An eligible employee is defined as an individual who is a member of a family that received benefits under the federal Temporary Assistance to Needy Families program for any nine of the 18 months preceding employment with the company. The credit would be 20% of amounts paid for tuition of the eligible employee at a Nebraska institution of postsecondary education or a high school equivalency program, and for transportation to and from work of the eligible employee. The credit is not refundable. The credit may only be claimed for two (not necessarily consecutive) tax years. The Department, in consultation with the D.H.H.S. is to develop a process to verify eligibility and may adopt regulations to carry out its responsibilities. The Department is also to electronically submit a report on July 1 of each year that details the number of employers receiving credits and the number of eligible employees. (LB 510 as amended by the Revenue Committee excludes the credit in the original LB 510 for child care paid by the employer of an eligible employee.)

6. Sections 1, 6, 7, and 8 incorporate the new income tax credit into the Revenue Act and include the credit with the credits available to individuals, estates and trusts, beneficiaries of estates and trusts, and corporations. (LB 510 as amended by the Revenue Committee)

7. Sections 10 & 12 amends Neb. Rev. Stat. §§ 77-2904 and 77-2909 (NHTC Act) to state that use of a NHTC will not cause any insurance retaliatory tax obligation and will be considered a payment of tax for purposes of the insurance premium tax credit against the corporate income tax. (LB 888)

8. Section 11 amends Neb. Rev. Stat. § 77-2905 to require \$4 million of the \$15 million annual allocation of NHTCs to be granted to applications seeking less than \$100,000 of tax credits. If the credits reserved for these smaller projects are not fully subscribed by April 1, they become available for larger projects. This requirement would begin in calendar year 2017. (New material)

The Department estimates the reduction to the General Fund revenues as follows:

Fiscal Year	General Fund	State Highway Capital Improvement Fund	Highway Allocation Fund	Total
2016-17	\$ 1,524,000	\$ 54,000	\$ 10,000	\$ 1,588,000
2017-18	\$ 2,512,000	\$ 97,000	\$ 17,000	\$ 2,626,000
2018-19	\$ 2,603,000	\$ 101,000	\$ 17,000	\$ 2,721,000

LB 774 AM 2422 requires one-time programming charges of \$186,813 paid to the OCIO to add lines and schedules to the Forms 1040N, 1041N, 1120N and the NebFile online filing system, as well as to the NHTC draw process required by section 11.

The sales tax portions of the amendment (#1 through #4) are operative October 1, 2016. The employer income tax sections (#5 & #6) are operative three months after the end of the session. The Nebraska Historic Tax Credit sections (#7 & #8) are operative on the effective date of the act.

This amendment has the emergency clause.

**Major Objects of Expenditure**

Class Code	Classification Title	16-17	17-18	18-19	16-17	17-18	18-19
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
	Benefits.....						
	Operating Costs.....				\$ 186,813		
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	<b>Total.....</b>				\$ 186,813		

