

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

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2017-18</b>		<b>FY 2018-19</b>	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

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

LB 337 amends the Nebraska Revenue Act of 1967 to change an income tax bracket tax rate.

Section 77-2715.03 is amended to reduce the top bracket rate over time as follows:

Tax Year:	Top Rate:	Tax Year:	Top Rate:	Tax Year:	Top Rate:
2019:	6.84%	2023:	6.41%	2027:	5.99%
2020:	6.73%	2024:	6.31%		
2021:	6.62%	2025:	6.20%		
2022:	6.52%	2026:	6.10%		

Section 77-2715.01 is amended to require the Tax Rate Review Committee (TRRC), beginning in November 2019 and each subsequent November through 2026, to examine the expected rate of growth in net General Fund receipts from the then current fiscal year to the next fiscal year, as it is determined by the Nebraska Economic Forecasting Advisory Board (NEFAB).

If the expected rate of growth in net General Fund does not exceed 3.5% for the upcoming fiscal year, the Committee is to declare an income tax rate deferral. This means the statutorily required decrease in the tax rate for the top bracket is to be deferred until the expected growth rate in net General Fund revenues exceeds 4.2% (except for years 2027 and after this rate is to be 3.5%). The rate already in effect will remain in place for that year. If the required growth rates are reached, the oldest remaining deferral is voided and the income tax rate for the top bracket would decrease for the next year.

In the event of a deferral or the void of a deferral, the Tax Commissioner is to adjust the tax tables and withholding tables as necessary and the Tax Commissioner and the Legislative Fiscal Analyst are to adjust the forecast provided by the NEFAB accordingly and certify the adjusted forecast to the Governor and Legislature no later than five days following the meeting of the TRRC.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 337:

FY17-18:	\$ 0
FY18-19:	\$ 0
FY19-20:	(\$ 11,770,000)
FY20-21:	(\$ 40,939,000)
FY21-22:	(\$ 71,202,000)
FY22-23:	(\$ 103,307,000)
FY23-24:	(\$ 138,151,000)
FY24-25:	(\$ 174,978,000)
FY25-26:	(\$ 214,823,000)
FY26-27:	(\$ 256,890,000)
FY27-28:	(\$ 287,883,000)

The Department of Revenue indicates that the cost to implement the provisions of LB 337 will be minimal.

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

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE

LB:337                      AM:                      AGENCY/POLT. SUB: Department of Revenue.

REVIEWED BY: Lyn Heaton                      DATE: 2/6/2017                      PHONE: [\(402\) 471-4181](tel:4024714181)

COMMENTS: The annual revenue impact estimated by the Dept. of Revenue is based on the incremental reduction in the income tax rate as is written in section 2 of the bill. The \$30-\$35 million incremental revenue impact of each reduction in the rate as shown in the Department's fiscal note will occur only if revenue growth is forecast to grow by more than 3.5%, after accounting for the rate reduction when developing the forecast.

**State Agency Estimate**

State Agency Name: Department of Revenue				Date Due LFA:			
Approved by: Tony Fulton				Date Prepared:			
Phone: 471-5896							
	<b>FY 2017-2018</b>		<b>FY 2018-2019</b>		<b>FY 2019-2020</b>		
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	
General Funds	\$0	\$0	\$0	\$0	\$0	(\$11,770,000)	
Cash Funds							
Federal Funds							
Other Funds							
Total Funds	\$0	\$0	\$0	\$0	\$0	(\$11,770,000)	

LB 337 would amend Neb. Rev. Stat. § 77-2715.03 to decrease the individual income tax rate applicable to the highest tax bracket over eight years beginning in tax year 2020. The top bracket rate would be as follows:

Tax Year	2019	2020	2021	2022	2023	2024	2025	2026	2027
Top Rate	6.84%	6.73%	6.62%	6.52%	6.41%	6.31%	6.20%	6.10%	5.99%

LB 337 would also amend Neb. Rev. Stat § 77-2715.01 to provide duties for the Tax Rate Review Committee (Committee) for the November meetings. If the expected rate of growth in net General Fund revenues for the upcoming year does not exceed 3.5%, the Committee must declare an income tax rate deferral, causing the statutory decline in rate to be deferred. The deferral will continue until the expected growth rate in net General Fund revenues exceeds 4.2% until 2027 and 3.5% thereafter. If those growth rates are reached, the oldest remaining deferral is voided and the highest individual income tax rates would decrease for the next year.

If there is a deferral, or a void of a prior deferral, the Tax Commissioner is to adjust, or not adjust the tax tables and withholding table appropriately, and the Tax Commissioner and Legislative Fiscal Office will adjust the revenue forecast appropriately.

The estimated reduction to the General Fund revenues would be as follows:

FY17-18	\$ -
FY18-19	\$ -
FY19-20	\$ (11,770,000)
FY20-21	\$ (40,939,000)
FY21-22	\$ (71,202,000)
FY22-23	\$ (103,307,000)
FY23-24	\$ (138,151,000)
FY24-25	\$ (174,978,000)
FY25-26	\$ (214,823,000)
FY26-27	\$ (256,890,000)
FY27-28	\$ (287,883,000)

It is assumed that taxpayers will change their withholding January 1, 2020 and each year thereafter.

The cost for the Department to implement this bill is expected to be minimal.

