

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2018-19		FY 2019-20	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below	See Below	See Below	See Below
CASH FUNDS	See Below	See Below	See Below	See Below
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	See Below	See Below	See Below	See Below

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

LB 947 makes a number of changes to the Nebraska Revenue Act of 1967; creates the Nebraska Property Tax Cuts and Opportunities Act; and eliminates credits under the Property Tax Credit Act and the Personal Property Tax Relief Act.

Sections 1 through 6 of the bill create the Nebraska Property Tax Cuts and Opportunities Act. For tax years on or after January 1, 2018 each resident owner of a homestead is allowed a refundable income tax credit equal to a percentage of property taxes paid during the taxable year on the homestead. For 2018 the percentage is 10% with a dollar limitation of \$230. For 2019 and thereafter the percentage may increase as specified in Section 5 of the bill but not to exceed 30% with a limitation of \$730.

Section 77-3502 defines homestead as either:

- (1) A residence or mobile home, and the land surrounding it, not exceeding one acre, in this state actually occupied as such by a natural person who is the owner of record thereof from January 1 through August 15 in each year,
- (2) A residence or mobile home located on land leased by the owner of record from January 1 through August 15 in each year, or so occupied by the surviving spouse and minor children, if any, of such owner of record during the year of the owner's death, or so much thereof as shall be so occupied,
- (3) A residential unit in a dwelling complex, the record owner of which is a not-for-profit corporation, when the purchase for fair market value of a life tenancy in a taxable unit of the dwelling complex entitles the purchaser to exclusive occupancy of that unit for life, actually occupied by a natural person who has a life tenancy therein from January 1 through August 1 in each year.
- (4) For purposes of this section, mobile home shall include every transportable or relocatable device of any description without motive power and designed for living quarters, whether or not permanently attached to real estate, but shall not include a cabin trailer registered for operation upon the highways of this state.

For agricultural land for tax years on or after January 1, 2018, each resident individual is allowed a refundable income credit equal to a percentage of property tax paid during the taxable year on agricultural or horticultural land, farm sites, and improvements on farm sites. For 2018 the percentage is 10% and for 2019 and thereafter the percentage may be increased as provided by Section 5 of the act not to exceed 30%.

Section 5 of the bill provides that the percentage described above may be increased if actual General Fund net receipts for the fiscal year ending during the taxable year are at least 101% of the certified estimated receipts for such fiscal year. The percentage for both homesteads and agricultural land may be increased by two percentage points.

Sections 7 through 11 of the bill amend sections of statute dealing with personal property to eliminate exemptions as provided in the Personal Property Tax Relief Act for tax years 2019 and thereafter.

Section 12 of LB 947 amends Nebraska income tax brackets and rates. For tax year 2019 the top bracket is changed from 6.84% to 6.75% and for tax year 2020 and thereafter, the top bracket rate is changed to 6.69%.

Section 14 amends the Nebraska corporate income tax rate for tax year 2019 to 6.75% on all taxable income in excess of \$100,000 and for tax year 2020 and thereafter, at a rate of 6.69% for all taxable income in excess of \$100,000.

For the first \$100,000 of corporate income the rate remains at 5.58%.

Section 77-4211 is amended to require the State Treasurer to transfer the unobligated balance in the Property Tax Credit Cash Fund to the General Fund on or before September 30, 2018.

Section 77-4212 is amended to eliminate the relief provided under the Property Tax Credit Act for tax year 2018 and thereafter.

Section 77-4602 is amended to change the transfer to the Cash Reserve Fund. Beginning July 2019:

- (1) If the excess of amount of actual General Fund net receipts for the fiscal year is less than 1% of the estimated General Fund net receipts, the excess amount shall be transferred to the Cash Reserve Fund; or
- (2) If the excess amount is 1% or more of estimated General Fund net receipts for the fiscal year, the amount transferred to the Cash Reserve Fund is the amount by which the excess amount exceeds 1% of the estimated net receipts.

Section 81-1201.21 dealing with the Job Training Cash Fund, is amended to provide for a transfer of \$5,000,000 from the General Fund to the Job Training Cash Fund on or before July 15, 2018 and \$5,000,000 from the General Fund to the Job Training Cash Fund on or before July 15, 2019.

The bill contains the emergency clause.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of the provisions of LB 947:

Fiscal Year:	Elimination of Real and Personal Property Tax programs:	Transfer to Job Training Cash Fund:	Transfer from Property Tax Credit Cash Fund:	Refundable Income Tax Credit:	Individual Income Tax Rate Reduction:	Corporate Income Tax Rate Reduction:	Total General Fund Impact:
FY2018-19:	\$221,000,000	(\$ 5,000,000)	\$ 5,000,000	(\$210,320,000)	(\$ 8,680,000)	(\$ 4,750,000)	(\$ 2,740,000)
FY2019-20:	\$240,000,000	(\$ 5,000,000)		(\$275,660,000)	(\$27,220,000)	(\$18,960,000)	(\$ 86,830,000)
FY2020-21:	\$240,000,000			(\$329,850,000)	(\$36,970,000)	(\$33,580,000)	(\$160,830,000)
FY2021-22:	\$240,000,000			(\$334,050,000)	(\$38,960,000)	(\$39,410,000)	(\$172,410,000)
FY2022-23:	\$240,000,000			(\$392,530,000)	(\$41,100,000)	(\$40,460,000)	(\$234,090,000)
FY2023-24:	\$240,000,000			(\$453,540,000)	(\$43,360,000)	(\$41,480,000)	(\$298,380,000)
FY2024-25:	\$240,000,000			(\$459,140,000)	(\$45,750,000)	(\$42,930,000)	(\$307,830,000)
FY2025-26:	\$240,000,000			(\$524,940,000)	(\$48,260,000)	(\$44,650,000)	(\$377,850,000)
FY2026-27:	\$240,000,000			(\$593,560,000)	(\$50,920,000)	(\$46,440,000)	(\$450,910,000)
FY2027-28:	\$240,000,000			(\$600,750,000)	(\$53,720,000)	(\$48,300,000)	(\$462,770,000)

The Department of Revenue assumes the refundable income tax credit rate and cap increase for the following years: 2019, 2020, 2022, 2023, 2025, 2026.

The Department indicates they will require a one-time programming cost of \$120,599 to add lines to the 1040N, add a new schedule, and incorporate other changes to the mainframe system. They will also require 1.0 FTE for an IT Applications Developer Senior level to develop and maintain the new database of information collected from counties to verify the credit. PSL for FY18-19 is \$65,200 and for FY19-20 is \$66,700. Total expenditures for FY18-19 is \$212,299 and for FY19-20 is \$88,700.

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: 947	AM:	AGENCY/POLT. SUB: Dept. of Revenue	
REVIEWED BY: Lyn Heaton		DATE: 1/29/2018	PHONE: (402) 471-4181
COMMENTS: Given the stated assumptions, we have no basis upon which to disagree with the Department of Revenue's analysis of the impact on General Fund revenue. It is also reasonable to conclude that the Department will incur costs to administer the collection and validation of data from taxpayers and from counties regarding the new refundable tax credit program.			

State Agency Estimate

State Agency Name: Department of Revenue				Date Due LFA:		
Approved by: Tony Fulton				Date Prepared:		
				Phone: 471-5896		
	FY 2018-2019		FY 2019-2020		FY 2020-2021	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$ 212,299	(\$2,740,000)	(\$15,911,300)	(\$102,830,000)	(\$15,910,000)	(\$176,400,000)
Cash Funds	(\$216,000,000)	(\$221,000,000)	(\$219,000,000)	(\$219,000,000)	(\$224,000,000)	(\$224,000,000)
Federal Funds						
Other Funds						
Total Funds	(\$215,787,701)	(\$223,740,000)	(\$234,911,300)	(\$321,830,000)	(\$239,910,000)	(\$400,400,000)

LB 947 would adopt the Nebraska Property Tax Cuts and Opportunities Act. Beginning with taxable years beginning on or after January 1, 2018, a resident individual who is the owner of a homestead will receive an income tax credit equal to 10% of the property taxes paid on the homestead during the taxable year, not to exceed \$230. Also, beginning with taxable years beginning on or after January 1, 2018, a resident individual who owns, directly or indirectly, agricultural or horticultural land, farm sites or improvements to farm sites will receive an income tax credit equal to 10% of the property taxes paid on that property during the taxable year.

Corporate taxpayers and pass-through entities (i.e., S corps, partnerships, estates, trusts, and LLCs) would not be eligible to take either credit, but the real property taxes paid by the pass-through would be allocated to the individual owners in the same proportion as income.

Beginning in tax year 2019, the percentage of the taxes paid that is allowable as a credit will be increased by 2% if the General Fund receipts for the fiscal year that ends June 30 of the tax year exceed the certified forecast by 1% or more. If that occurs, the limitation on the homestead credit will also increase by \$50. The percentage of relief cannot exceed 30% and the limitation cannot exceed \$730. Section 13 would amend Neb. Rev. Stat. § 77-2715.07 to incorporate these credits into the individual income tax credits.

Sections 7 through 11 would amend §§ 77-202, 77-693, 77-801, 77-1238, and 77-1248 to repeal the personal property tax exemption for the first \$10,000 of personal property in each tax district beginning with property tax year 2019.

Sections 15 and 16 eliminate the money available for the Property Tax Credit Act beginning with property tax year 2018, and transfer the unobligated balance to the General Fund on or before September 30, 2018.

Section 12 would amend Neb. Rev. Stat. § 77-2715.03 to decrease the highest individual income tax rate from 6.84% to 6.75% for tax year 2019 and to 6.69% for tax years beginning on or after January 1, 2020.

Section 14 would amend Neb. Rev. Stat. § 77-2734.02 to decrease the highest corporate income tax rate from 7.81% to 6.75% for tax year 2019, and to 6.69% for tax years beginning on or after January 1, 2020.

Section 18 would amend Neb. Rev. Stat. § 81-1201.21 to transfer \$5 million from the General Fund to the Job Training Cash Fund on or before July 15, 2018, and another \$5 million on or before July 15, 2019.

Section 19 is the repealer and section 20 declares an emergency.

The estimated fiscal impact of LB 947 would be as follows (values are in million dollars):

