

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2020-21		FY 2021-22	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$320			(\$17,098,000)
CASH FUNDS	\$59,180	\$0		
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$59,500	\$0		(\$17,098,000)

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

LB 1042 amends the Revenue Act of 1967 to provide a deduction to an individual's federal adjusted gross income equal to the amount of any contribution made by the individual's employer into a Nebraska education savings trust (NEST) account. The deduction is limited to \$5,000 for married filing joint returns and \$10,000 for any other return. The deduction is available for tax years beginning on or after January 1, 2021.

The bill also amends the definition of "qualified higher education expenses" for purposes of NEST accounts to include (1) costs incurred on or after January 1, 2019, for participation in an apprenticeship program registered and certified with the U.S. Secretary of Labor; and (2) amounts paid on or after January 1, 2019, as principal or interest on any qualified education loan of the designated beneficiary or sibling of the beneficiary, not to exceed \$10,000 total for all tax years.

In addition, provisions relating to the College Savings Plan Program Fund are amended to permit payments made by persons other than the participant. The bill also clarifies that any contributions made to a participant's NEST account must not be taken into account in determining the participant's income for purposes of any government program that provides benefits or aid based on financial need.

The bill requires a transfer of \$59,188 from the College Savings Expense Fund to the Department of Revenue Miscellaneous Receipts Fund to be used by the department to defray costs to implement the bill.

The bill contains the emergency clause.

Revenue:

The Department of Revenue estimates revenue to the General Fund as follows:

FY 20-21	\$0
FY 21-22	(\$8,597,000)
FY 22-23	(\$9,295,000)

For 2019, the average student loan debt in Nebraska was approximately \$25,000, and, according to the Federal Reserve Survey of Consumer Finances, the median monthly payment was approximately \$220. The average monthly payment is close to \$400. Borrowers who make no change in behavior in terms of the amount of student loan repayment could put the money into a NEST account prior to paying the interest and, unaccounted for by the department, also the principal. While taxpayers utilizing this provision would reach the \$10,000 cap under LB 1042 earlier than anticipated by the department's estimate, it would significantly increase the overall revenue loss due to the bill. We estimate that the more likely scenario is that a taxpayer would use this provision to deduct both principal and interest payments for fewer years, rather than to deduct only interest for a longer period of time. Therefore, we estimate the revenue loss due to this provision is higher to account for the deduction of contributions to NEST accounts to be used for principal payments on education loans.

Revenue to the General Fund as a result of the bill is estimated as follows:

FY 20-21	\$0
FY 21-22	(\$17,098,000)
FY 22-23	(\$18,494,000)

Expenditures:

The department estimates a one-time programming charge of \$59,500 to OCIO for mainframe and web development charges. Of this, \$59,180 is estimated to be paid from the Department of Revenue Miscellaneous Receipts Fund, and the remaining \$320 is estimated to be paid from the General Fund.

The State Treasurer's Office estimates no cost to implement the bill.

There is no basis to disagree with this estimate.

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA:				
Approved by: Tony Fulton		Phone: 471-5896				
Date Prepared:						
FY 2020-2021		FY 2021-2022		FY 2022-2023		
Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue	
General Funds	\$320	\$0	minimal	(\$8,597,000)	minimal	(\$9,295,000)
Cash Funds	\$59,180	\$59,180				
Federal Funds						
Other Funds						
Total Funds	\$59,500	\$59,180	minimal	(\$8,597,000)	minimal	(\$9,295,000)

The bill provides that, for taxable years on or after January 1, 2021, federal adjusted gross income will be reduced, to the extent included, the amount of any contribution made by the individual's employer into a Nebraska educational savings plan trust account owned by the individual. The reduction will not exceed \$5,000 per married filing separate return or \$10,000 for any other return.

The bill amends the College Savings Plan Administrative Fund definition of qualified higher education expenses to include costs incurred on or after January 1, 2019 for participation in an apprenticeship program registered and certified with the US Secretary of Labor and amounts paid on or after January 1, 2019 as principal or interest on any qualified education loan of the designated beneficiary or sibling of the designated beneficiary. The amount of principal and interest paid as a qualified higher education expense will not exceed \$10,000 in total for all tax years for the loans of any designated beneficiary or for the loans of any sibling of a designated beneficiary. This retroactive date nullifies any recapture for tax year 2019 due to a taxpayer using 529 contributions against apprenticeship costs or student loans, which DOR assumes is minimal.

The bill further provides that no state agency that provides benefits to individuals based on financial need will take into account contributions made to a participant's account by the participant's employer in determining the income of such participant. The bill requires the State Treasurer to transfer \$59,180 from the College Savings Plan Expense Fund to the Department of Revenue Miscellaneous Receipts Fund. The transferred funds will be used by DOR to offset the costs of implementing this bill.

This bill expands the utilization of contributions to Nebraska educational savings plan trusts. The largest increase in participation will come from those who have a tax liability and student loans. These individuals will reduce their Nebraska tax liability by funding a Nebraska educational savings plan trust account and then paying their loan from that account. The 529 accounts can serve as short-term accounts that provide an opportunity to reduce Nebraska tax liability. Over 93,000 returns used the federal student loan interest deduction in Nebraska in tax year 2018. This tax deduction is only on the interest paid on qualified student loans up to \$2,500. Assuming no new behavior, other than those who are currently utilizing the Federal loan deduction putting this money into a 529 plan prior to paying the interest, the bill will result in more than \$100 million in deductions.

DOR assumes that employer contributions will be minimal resulting in a negative but minimal impact to the General Fund revenues as a result of the employer contribution portion of the bill.

DOR utilized data from the Employment and Training Administration of the U.S. Department of Labor to estimate roughly \$1.4 million in additional contributions as a result of allowing apprenticeship program costs to be included in the definition of qualified higher education expenses.

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

FY 2020-2021	\$	-
FY 2021-2022	\$	8,597,000
FY 2022-2023	\$	9,295,000

LB 1042 would require a one-time programming charge of \$59,500 paid to the OCIO for mainframe and web development changes. The difference between the OCIO cost and the transfer of \$59,180 is shown as a General Fund expenditure. It is estimated that there will be minimal costs to DOR to implement this bill.

Major Objects of Expenditure							
<u>Class Code</u>	<u>Classification Title</u>	<u>20-21 FTE</u>	<u>21-22 FTE</u>	<u>22-23 FTE</u>	<u>20-21 Expenditures</u>	<u>21-22 Expenditures</u>	<u>22-23 Expenditures</u>
	Benefits.....						
	Operating Costs.....				\$59,500		
	Travel.....						
	Capital Outlay.....						
	Capital Improvements.....						
	Total.....				\$59,500		

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2020

LB⁽¹⁾ 1042 _____

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ State Treasurer _____

Prepared by: ⁽³⁾ Tyson Larson _____ Date Prepared: ⁽⁴⁾ 1/27/20 _____ Phone: ⁽⁵⁾ (402) 471-1234 _____

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2020-21</u>		<u>FY 2021-22</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	-	-	-	-
CASH FUNDS	-	-	-	-
FEDERAL FUNDS	-	-	-	-
OTHER FUNDS	-	-	-	-
TOTAL FUNDS	-	-	-	-

Explanation of Estimate:

The State Treasurer's Office doesn't expect any fiscal impact from LB1042 to the office.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2020-21</u>	<u>2021-22</u>
	<u>20-21</u>	<u>21-22</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				