PREPARED BY: DATE PREPARED: PHONE: John Wiemer February 6, 2023 402-471-0051

LB 294

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)						
	FY 202	23-24	FY 2024-25			
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE		
GENERAL FUNDS	\$152,647	(\$513,963,000)	\$98,200	(\$372,998,000)		
CASH FUNDS						
FEDERAL FUNDS						
OTHER FUNDS						
TOTAL FUNDS	\$152,647	(\$513,963,000)	\$98,200	(\$372,998,000)		

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

LB 294 creates the Child Tax Credit Act (Act). Under the Act, starting in taxable year 2023, a taxpayer with a qualifying child would be eligible for a refundable credit against the income tax imposed by the Nebraska Revenue Act of 1967.

Under the Act, a qualifying child means an individual who:

- Is under 18 years of age at the end of the taxable year;
- Is claimed as a dependent on the taxpayer's federal income tax return; and
- Has been issued either a social security number or an individual taxpayer identification number.

The refundable tax credits would be in the following amounts:

- For married filing jointly taxpayers: \$1,000 per qualifying child, except the credit is reduced by 5% for each \$2,000 by which Federal Adjusted Gross Income (FAGI) exceeds \$110,000 but not below zero.
- For head of household taxpayers: \$1,000 per qualifying child, except the credit is reduced by 5% for each \$1,500 by which FAGI exceeds \$92,500 but not below zero.
- For any other filing status: \$1,000 per qualifying child except the credit is reduced by 5% for each \$1,000 by which FAGI exceeds \$75,000 but not below zero.

Starting in taxable year 2024, the Department of Revenue (DOR) is to make adjustments for inflation by the same percentage used to adjust individual income tax brackets for tax credit amounts, threshold amounts at which the tax credit amounts begin to be reduced, and increments at which the tax credit amounts are reduced.

The DOR would need to submit an annual report to the Legislature under the bill on the usage of the tax credits.

The bill adds that in bankruptcy and in the collection of a money judgment, the full amount of any tax credit refund received under the Act is to be exempt from attachment, garnishment, or other legal or equitable process and from all claims of creditors.

The DOR estimates the following impact to General Fund revenue as a result of this bill:

- FY23-24: (\$513,963,000)
- FY24-25: (\$372,998,000)
- FY25-26: (\$382,324,000)
- FY26-27: (\$391,882,000)

The DOR estimates a one-time charge for programming to be paid to the Office of the Chief Information Officer (OCIO) of \$54,147 for mainframe and web development costs. Additionally, the DOR estimates a 1 FTE Revenue Economist needed to implement this bill to analyze the issue of poverty and the effectiveness of the program.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE				
LB: 294	LB: 294 AM: AGENCY/POLT. SUB: Department of Revenue			
REVIEWED BY: Neil Sullivan		DATE: 2/3/2023	PHONE: (402) 471-4179	
COMMENTS: The Department of Revenue assessment of fiscal impact from LB 294 appears reasonable.				

LB 294 Fiscal Note 2023

State Agency Estimate					
of Revenue				Date Due LFO:	
	Date Prepared:	02/03/2023		Phone: 471-5896	
FY 202	3-2024	FY 202	<u>4-2025</u>	FY 202	<u>5-2026</u>
Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
\$152,647	\$(513,963,000)	\$98,200	\$(372,998,000)	\$100,700	\$(382,324,000)
\$152,647	\$(513,963,000)	\$98,200	\$(372,998,000)	\$100,700	\$(382,324,000)
	<u>Expenditures</u> \$152,647	Date Prepared:	Total Revenue Date Prepared: 02/03/2023 FY 2023-2024 FY 202 Expenditures Revenue Expenditures \$152,647 \$(513,963,000) \$98,200	Date Prepared: 02/03/2023	Date Due LFO: Date Prepared: 02/03/2023 Phone: 471-5896 FY 2023-2024 FY 2024-2025 FY 2024-2025 Expenditures Revenue Expenditures Revenue Expenditures \$152,647 \$(513,963,000) \$98,200 \$(372,998,000) \$100,700

LB 294 adopts the Child Tax Credit Act (Act). For taxable years beginning on or after January 1, 2023, the Act provides that individual taxpayers with a qualifying child are eligible to receive a refundable income tax credit. The Act defines a qualifying child as an individual who is:

- a. under 18 years of age at the end of the taxable year;
- b. claimed as a dependent on the taxpayer's federal income tax return; and
- c. has been issued either a social security number or an individual taxpayer identification number.

The credit will equal the following amounts:

- For married filing jointly taxpayers:
 - o \$1,000 per qualifying child, except the credit is reduced by 5% for each \$2,000 by which federal AGI exceeds \$110,000 but not below zero.
- For head of household taxpayers:
 - o \$1,000 per qualifying child, except the credit is reduced by 5% for each \$1,500 by which federal AGI exceeds \$92,000 but not below zero.
- For any other filing status:
 - o \$1,000 per qualifying child except the credit is reduced by 5% for each \$1,000 by which federal AGI exceeds \$75,000 but not below zero.

For taxable years beginning on or after January 1, 2024, the Nebraska Department of Revenue (DOR) must adjust for inflation the tax credit amounts, the threshold amounts at which the credit begins to be reduced; and the increments at which the credit amounts are reduced by the same percentage used to adjust individual income tax brackets under Neb. Rev. Stat. § 77-2715.03

Beginning in 2024, the DOR must submit to the Legislature not later than July 15 of each year an annual report on the credit usage under the Act.

LB 294 amends Neb. Rev. Stat. § 25-1553 to exempt the full credit refund received under the Act from attachment, garnishment, or other legal or equitable process and from all claims of creditors in bankruptcy and in the collection of a money judgment.

Major Objects of Expenditure							
Class Code A29511	Classification Title Revenue Economist	23-24 <u>FTE</u>	24-25 <u>FTE</u>	25-26 <u>FTE</u>	23-24 <u>Expenditures</u> \$70.300	24-25 <u>Expenditures</u> \$73,800	25-26 <u>Expenditures</u> \$75,700
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Benefits					\$23,200	\$24,400	\$25,000
					\$54,147		
Capital Outlay					\$5,000		
	ents				\$152,647	\$98,200	\$100,700

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The estimated fiscal impact of LB 294 to the General Fund revenues would be as follows:

FY23-24	\$ (513,963,000)
FY24-25	\$ (372,998,000)
FY25-26	\$ (382,324,000)
FY26-27	\$ (391,882,000)

Fiscal Year 2023-24 shows a larger impact because taxpayers already paid their withholding for tax year 2023 and will claim it when the taxpayer file their 2023 tax return in early 2024. Taxpayers will begin to adjust their withholding or estimated payment, or both beginning January 1, 2024 to reflect the new refundable income tax credit. Hence the fiscal impact for FY2023-24 effectively includes 17 months rather than 12 months.

LB 294 would require a one-time programming charge of \$54,147 paid to the OCIO for mainframe and web development costs. DOR will also need 1 FTE of revenue economist position to collect and research on poverty issue and to analyze the effectiveness of the program.