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PREPARED BY: Doug Gibbs
DATE PREPARED: January 25, 2012
PHONE: 402-471-0051

LB 850

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2012-13		FY 2013-14	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	$ 0	$ 0	$ 101,270	($ 2,250,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$ 0	$ 0	$ 101,270	($ 2,250,000)

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 850 creates the incentive area tax credit program. The program begins January 1, 2013 and continues through tax year 2017.

An incentive area is defined as any county in Nebraska that had a net loss of population of five percent or more between the 2000 and 2010 federal decennial census.

The bill would provide a refundable income tax credit of $1,500 per year to any individual who establishes residency in an incentive area after residing outside of Nebraska for at least five years immediately before establishing residency in the incentive area. The individual must also have had less than $10,000 of income from a Nebraska source during the five years preceding establishing residency here. The individual must be a resident of the incentive area for the entire tax year and not be delinquent in filing any tax return or paying any tax due.

An individual applies to the Tax Commissioner for the credit and if the application is approved the tax credit is available each year without reapplication.

The Tax Commissioner is required to prepare a report each year, beginning January 1, 2014, detailing how many individuals have applied for and received the tax credit and the dollar amount of the credits.

Funding for the program is dependent on legislative appropriation.

The Department of Revenue indicates, based on Census data, that 54 counties qualify as incentive areas. Approximately 1,210 Nebraska returns were filed in 2009 that could have qualified for the credit, if it had been available, and another 650 moved into counties bordering an incentive county, who could have qualified for the credit by moving a relatively short distance.

The Department assumes that a total of 1,500 taxpayers qualify for the tax credit annually and that there is one credit available per return. The Department also assumes that the entire amount necessary would be appropriated. Given these assumptions, the Department estimates the following fiscal impact to the General Fund:

FY2012-13:	$ 0
FY2013-14:	($ 2,250,000)
FY2014-15:	($ 4,500,000)
FY2015-16:	($ 6,750,000)
FY2016-17:	($ 9,000,000)
FY2017-18:	($11,250,000)

The Department also indicates the cost to implement the provisions of LB 850 to include one-time costs for computer programming of $44,340 for mainframe and $7,515 for NebFile, and 1.5 FTE for Revenue Operations Clerk II's to review and process the applications for the credit. Because the first year of the credit is for tax year 2013, returns for which will be filed in tax year 2014, the programming costs will be incurred in FY2013-14 and the staff positions added beginning October 2013 at 0.5 FTE and 1.0 FTE in January 2014.

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

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Lyn Heaton	1/26/12	PHONE 471-2526

COMMENTS

DEPT. OF REVENUE – No basis upon which to disagree with department's estimate. It should be noted that it would not be necessary to make an appropriation to limit the program. The impact of the bill would be a revenue loss, not an expenditure.

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LEGISLATIVE FISCAL

LB 850 Fiscal Note 2012

State Agency Estimate

State Agency Name: Department of Revenue				Date Due LFA:	1/13/2012	
Approved by: Douglas Ewald		Date Prepared:	1/10/2012	Phone: 471-5700		

	FY 2012-2013		FY 2013-2014		FY 2014-2015	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	$0	$0	$101,270	($2,250,000)	$58,235	($4,500,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	$0	$0	$101,270	($2,250,000)	$58,235	($4,500,000)

LB 850 provides a refundable $1,500 income tax credit for individuals establishing residency in an incentive area for tax years beginning on or after January 1, 2013 and before January 1, 2017. The credit is subject to the Legislature appropriating funds for the tax incentive program. An incentive area means any county in Nebraska that had a net loss of 5% or more in population between the 2000 federal decennial census and the 2010 federal decennial census.

Beginning January 1, 2013, an individual may apply to the Department for the credit. The credit shall be approved if the individual had established residency in an incentive area, on or after July 1, 2012, for at least one year, had resided outside of the State for the previous five years before establishing residency in the incentive area; had less than $10,000 in Nebraska source income in any of the five years before establishing residency in an incentive area; and does not have a delinquent state or local tax liability or return. The Tax Commissioner shall send the notice of approval to the taxpayer. Upon approval, the taxpayer may claim the credit each year the program is available. Beginning Jan. 1, 2014, the Tax Commissioner must report to the Legislature on the number of applicants and recipients of the incentive area tax credit.

According to Census data, there are 54 counties that qualify as incentive areas. A review of 2008 and 2009 income tax returns suggests that approximately 1,210 Nebraska returns were filed in 2009 that could have qualified for the credit, if it were available in that year, and another 650 moved into counties bordering an incentive county, who could have qualified by moving a relatively small distance. For this analysis, we assume a total of 1,500 taxpayers qualifying for the incentive annually. In addition, it is assumed that there is one credit available per return. Finally, it is assumed that the full amount needed is appropriated. Based on these assumptions, the revenue impact of LB 850 would be a reduction in individual income tax revenues of $2.25 million in fiscal year FY 2013-14, and $4.5 million in FY 2014-15, increasing by $2.25 million per year until it reaches $11.25 million in fiscal year FY 2017-18.

The costs to the Department to implement LB 850 include one-time costs for computer programming of $44,340 for mainframe and $7,515 for NebFile programming, and 1.5 FTE for Revenue Operations Clerk II's to review and process the applications for the credit. Because the first year of the credit is for tax year 2013, which will be filed in tax year 2014, the programming costs will be incurred in FY 2013-14. We expect to need the staff positions beginning October 2013 at a 0.5 FTE per year level, and add 1.0 FTE in January 2014.

Major Objects of Expenditure

Class Code	Classification Title	12-13 FTE	13-14 FTE	14-15 FTE	12-13 Expenditures	13-14 Expenditures	14-15 Expenditures
S29112	Revenue Operations Clerk II		0.875	1.5		$32,780	$43,100
Benefits						8,135	15,225
Operating Costs						51,855	
Travel							
Capital Outlay						8,500	0
Aid							
Capital Improvements							
Total						$101,270	$58,235