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DATE PREPARED: February 01, 2012
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LB 1128

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	$145,226	$25,000	$46,851	$25,000
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$145,226	$25,000	$46,851	$25,000

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

LB 1128 amends Nebraska Revised Statutes dealing with revenue and taxation to create the New Markets Job Growth Investment Act.

The bill would provide a nonrefundable nontransferable income tax credit for investment in entities that invest in low-income community businesses. The bill appears to target financial institutions and insurance companies as the credit may be used against the financial institutions tax, the insurance premium tax, and income taxes.

The bill appears to mirror the federal provisions for these types of entities and the credit is similar to the federal credit.

Credits are not allowed for the first two years of investment and are then allowed for the next five. In the third year the credit is 7% and then 8% for the next four years for a total of 39%. The actual dollar amount of the credit is equal to the applicable percentage for that particular credit allowance date multiplied by the purchase price paid to the issuer of the equity investment. The amount of the credit claimed shall not exceed the amount of the taxpayer's tax liability for that tax year.

The total amount of credits is limited to $15 million in any fiscal year. Once the limit is reached the Tax Commissioner may not certify any more qualified equity investments for that fiscal year. Once the investments are approved to reach the annual limit, no further approvals would be possible because new credits are earned on the same investment for a number of years.

An entity seeking to have an equity investment or long-term debt security designated as a qualified entity investment eligible for tax credits under the Act must apply to the Tax Commissioner and in addition to providing pertinent information regarding the entity and investment, pay a $5,000 application fee. There is no fund specified for the application fee so it would be credited to the General Fund.

The Department of Revenue indicates that because credits cannot be earned until two years after the loan, no credits can be taken before tax year 2014, which means no credits will be paid before FY2014-15. Refunds due to this credit are not expected to exceed the $15 million cap in any fiscal year.

The cost to implement LB 1128 will include modifications to the 1040N, 1120N, and 1041N tax returns. Mainframe programming changes will incur a one-time charge of $90,794 by the OCIO. The Department will also require a 1.0 FTE Fiscal Compliance Analyst at an initial cost of $54,432 for salary, benefits and operating costs.

We agree with the Department's estimate of fiscal impact for FY2012-13 and FY2013-14 but disagree with their estimate for FY2014-15. We estimate a net loss to the General Fund of $7,475,000 for FY2014-15.

We agree with the Department's estimate of cost to implement LB 1128.

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LB 1128 Fiscal Note 2012

State Agency Estimate

State Agency Name: Department of Revenue				Date Due LFA:	1/26/2012	
Approved by: Douglas Ewald		Date Prepared:	1/31/2012	Phone: 471-5700		

	FY 2012-2013		FY 2013-2014		FY 2014-2015	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	$145,226	$25,000	$46,851	$25,000	$47,788	$25,000
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	$145,226	$25,000	$46,851	$25,000	$47,788	$25,000

LB 1128 would enact the New Markets Job Growth Investment Act, which is an income tax credit for investment in entities that invest in low-income community businesses. The bill mirrors federal provisions for these types of entities and will provide a credit for similar activities as the federal credit. The target investment entities are financial institutions and insurance companies.

No credit is allowable for the first two years of investment, and is then allowed for the next five years. The credit is 7% for the third year and 8% the next four years. The total credit could be 39% of the investment. The credit is nonrefundable and may be carried forward for up to five years.

Credits for pass-through entities are divided among the owners. The credit can be used against the financial institutions tax, the insurance premiums tax, and income taxes. The entities must apply to the Tax Commissioner for approval of the investments and must identify the purchasers. Once approved, the investments must be sold within thirty days, or the approval lapses.

There is recapture if there is either a recapture on the federal level or the investor redeems the investment. The amount of the credit that can be allowed for any year is $15 million. Once the investments are approved to reach the annual limit, no further approvals would be possible because new credits are earned on the same investment for a number of years.

Because credits cannot be earned until two years after the loan, no credits can be taken before tax year 2014, which means that no credits will be paid before fiscal year FY 2014-15. The total amount of credits is capped at $15 million. Refunds due to this credit are not expected to exceed the $15 million cap in any fiscal year. There is a $5,000 application fee, but the bill does not specify which fund is to be credited. The proceeds would be credited to the General Fund.

Departmental cost to implement LB 1128 includes modification to the 1040N, 1120N, and 1041N tax returns. Mainframe programming to accommodate these changes will result in a one-time charge of $90,794 by the OCIO. The Department will also require an FTE Fiscal Compliance Analyst.

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
A21211	Fiscal Compliance Analyst	1	1	1	$34,535	$35,226	$35,931
Benefits					$11,397	$11,625	$11,857
Operating Costs					$99,294		
Travel							
Capital Outlay							
Aid							
Capital Improvements							
Total					$145,226	$46,851	$47,788