

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2013-14		FY 2014-15	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$30,248	(\$141,806,000)		(\$104,371,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$30,248	(\$141,806,000)		(\$104,371,000)

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

LB 5 amends the Nebraska Revenue Act of 1967, Section 77-2716 to make adjustments to income subject to Nebraska state income tax.

The bill, for the tax year beginning January 1, 2013 and tax years thereafter, would reduce federal adjusted gross income (AGI) by the total amount of Social Security benefits received which are included in federal AGI.

The bill would also, for the tax year beginning January 1, 2013 and tax years thereafter, exclude income received from military retirement to the extent it is included in federal AGI.

Military retirement benefit is defined as periodic payments attributable to service in the uniformed or civilian services of the U.S. Department of Defense for personal services performed by the individual.

The Department of Revenue estimates the following fiscal impact as a result of LB 5:

FY2013-14:	(\$141,806,000)
FY2014-15:	(\$104,371,000)
FY2015-16:	(\$110,294,000)
FY2016-17:	(\$116,257,000)

The cost for FY2013-14 is more than the subsequent fiscal years due to the fact that with an exemption starting with tax years beginning on or after January 1, 2013, estimated payments and withholding will have been made in 2013 that will then be refunded in 2014.

The Department of Revenue estimates a one-time programming cost of \$30,248 paid to the Office of the CIO to add a line to the Nebraska Schedule I, and a new schedule to the Form 1040N, as well as to the NebFile online system.

There is 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. RESPONSES			
LB: 5	AM:	AGENCY/POLT. SUB: Dept. of Revenue	
REVIEWED BY: Lyn Heaton		DATE: 1/29/2013	PHONE: 402.471.4181
COMMENTS: No basis upon which to disagree with the Dept. of Revenue's analysis. The estimated operational cost to implement the bill appears reasonable.			

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 01/17/2013			
Approved by: Douglas Ewald		Date Prepared: 01/17/2013			
Phone: 471-5896					
FY 2013-2014		FY 2014-2015		FY 2015-2016	
Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$30,248	(\$141,806,000)			
Cash Funds					
Federal Funds					
Other Funds					
Total Funds	\$30,248	(\$141,806,000)			
			(\$104,371,000)		(\$110,294,000)

LB 5 would amend Neb. Rev. Stat. § 77-2716 to exclude Social Security benefits and military retirement benefits from Nebraska income subject to tax to the extent it is included in federal adjusted gross income. Military retirement is defined to include both uniformed and civilian employment with the U.S. Department of Defense.

The exclusion would be available for all taxable years beginning, or deemed to begin, on or after January 1, 2013.

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

FY 2013-2014	\$	141,806,000
FY 2014-2015	\$	104,371,000
FY 2015-2016	\$	110,294,000
FY 2016-2017	\$	116,257,000

Of the total, the civilian portion of the military retirement (included in the above estimates) is estimated as follows:

FY 2013-2014	\$	6,688,000
FY 2014-2015	\$	4,935,000
FY 2015-2016	\$	5,215,000
FY 2016-2017	\$	5,497,000

The estimate for the civilian employment with the U.S. Department of Defense is based on the percentage of the civil servants that are employed by the Department of Defense at any given time. This is the minimum estimated fiscal impact and is dependent upon two assumptions:

1. If the retired federal employee was employed by more than one federal agency, including the Department of Defense, the exclusion is limited to that portion of the total benefit that reflects the percentage of the service that was for the Department of Defense; and
2. That retired military personnel that are subsequently employed as civil servants, do not “buy back” or convert their service years to their civil service employment, thus distorting the ratio used in the estimate.

The cost for FY2013-2014 is greater than the cost for FY2014-2015 due to the fact that with an exemption starting with tax years beginning on or after January 1, 2013, estimated payments and withholding will have been made in 2013 that will be refunded in 2014.

LB 5 will require a one-time programming charge of \$30,248 paid to the OCIO to add a line to the Nebraska Schedule I, and a new schedule to the Form 1040N, as well as to the NebFile online filing system.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>13-14 FTE</u>	<u>14-15 FTE</u>	<u>15-16 FTE</u>	<u>13-14 Expenditures</u>	<u>14-15 Expenditures</u>	<u>15-16 Expenditures</u>
	Benefits.....						
	Operating Costs.....				\$30,248	\$0	\$0
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	Total.....				\$30,248	\$0	\$0