

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$846,215	\$136,065,000	\$818,749	(\$4,007,000)
CASH FUNDS		\$5,530,000		(\$876,000)
FEDERAL FUNDS				
OTHER FUNDS	\$890,098		\$907,900	
TOTAL FUNDS	\$1,736,313	\$141,595,000	\$1,726,649	(\$4,883,000)

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

LB 794 amends several sections of statute dealing with sales and use taxes.

Section 77-1784 is amended to require the use of electronic fund transfers for payment to the Department of Revenue for sales and use taxes related to credit and debit card transactions. Section 77-2708 is amended to require that such sales and use taxes on credit and debit card transactions shall be payable daily and submitted by electronic funds transfer. All other sales and use taxes continue to be due on the 20th of the month.

Sections 77-2703 and 77-2708 are amended to, beginning January 1, 2015, increase the sales and use tax collection fee kept by retailers to two and one-half percent of the first three-thousand dollars remitted each month and one-half of one percent of amounts over three-thousand dollars remitted each month. Currently, retailers keep two and one-half percent of the first three-thousand dollars remitted monthly.

The bill has a January 1, 2015 operative date.

The Department of Revenue estimates the following fiscal impact as a result of the change in the sales and use tax collection fee:

Fiscal Year:	General Fund:	Highway Trust Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund: (Local)	State Visitors Promotion Cash Fund:	Tobacco Products Administration Cash Fund:
2014-15:	(\$2,750,000)	(\$247,000)	(\$ 89,000)	(\$278,000)	(\$24,000)	(\$15,000)
2015-16:	(\$6,863,000)	(\$617,000)	(\$278,000)	(\$705,000)	(\$63,000)	(\$36,000)
2016-17:	(\$7,138,000)	(\$642,000)	(\$289,000)	(\$733,000)	(\$67,000)	(\$36,000)
2017-18:	(\$7,424,000)	(\$667,000)	(\$300,000)	(\$762,000)	(\$72,000)	(\$37,000)

The Department of Revenue estimates the following fiscal impact as a result of requiring daily transfers by retailers of sales and use taxes on credit and debit card purchases:

Fiscal Year:	General Fund:	Highway Trust Fund:	State Highway Capital Improvement Fund:	Highway Allocation Fund: (Local)
2014-15:	\$138,815,000	\$341,000	\$5,564,000	\$1,344,000
2015-16:	\$ 2,856,000	\$ 7,000	\$ 111,000	\$ 26,000
2016-17:	\$ 2,999,000	\$ 7,000	\$ 117,000	\$ 27,000
2017-18:	\$ 3,149,000	\$ 8,000	\$ 123,000	\$ 28,000

The large increase in revenue in FY2014-15 is due primarily to the accelerated collection and is more of a cash flow change rather than new revenue, although part of the gain can be ascribed to some taxpayers no longer being in arrears on their payments. There should also be some gain in interest earned by the state.

The Department of Revenue indicates a one-time programming charge of \$19,954 paid to the Chief Information Officer for mainframe programming costs. The Department will also require 1.0 FTE for a Revenue Agent due to the large increase in number of payments at a cost of \$72,403 in FY14-15 and \$44,937 in FY15-16. PSL for this position is \$33,044 and \$33,788 for the respective fiscal years.

We agree with the Department of Revenue's estimate of fiscal impact and cost.

The State Treasurer has indicated that the cost to the state for each electronic funds transfer (ACH) payment that is received by the state is approximately \$.05. According to information received from the Department of Revenue, in 2013 there were 86,230 sales tax permit holders. Of those 86,230:

- 34,440 have a yearly tax liability of over \$3,000 and file sales tax reports monthly;
- 16,271 have a yearly tax liability of more than \$900 and less than \$3,000 and file sales tax reports quarterly;
- 35,519 have a yearly tax liability of less than \$900 and file sales tax reports annually.

The State Treasurer estimates that all monthly filers would need to pay collected sales tax to the Tax Commissioner every day; quarterly filers would need to pay collected sales tax to the Tax Commissioner three days per week; and annual filers would on average need to pay collected sales tax to the Tax Commissioner one day per week.

The State Treasurer estimates an expenditure for ACH payments by the state of \$890,098 for FY2014-15 and \$907,900 for FY2015-16.

Banking fees on the ACH contract are paid by an electronic payment and aren't an appropriated item.

We agree with the State Treasurer's estimate of cost.

The Nebraska Game and Parks Commission has indicated increased personnel costs as a result of the daily transmission of sales taxes collected required by LB 794. The Commission projects increased costs of \$773,812 for FY2014-15 and FY2015-16 to the General Fund. PSL for each year would be \$551,110.

We have no basis to disagree with the Commission's estimate of cost.

IMPACT TO LOCAL POLITICAL SUBDIVISIONS:

The Department of Revenue estimates the following impact to the Highway Allocation Fund:

FY2014-15:	\$1,066,000
FY2025-16:	(\$ 679,000)
FY2016-17:	(\$ 706,000)

We agree with the Department of Revenue's estimate of fiscal impact.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 794	AM:	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Lyn Heaton	DATE: 1/29/2014	PHONE: 402.471.4181
COMMENTS: No basis upon which to disagree with the Dept. of Revenue's analysis.		

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 794	AM:	AGENCY/POLT. SUB: Game and Parks Commission
REVIEWED BY: Lyn Heaton	DATE: 1/29/2014	PHONE: 402.471.4181
COMMENTS: The Game and Parks Commission has envisioned a highly manual process based on the assumption that no transaction processing software and related equipment is available. Given their assumption, it is reasonable to expect a higher level of staffing versus a scenario where processing software is available. Of course, the software and any related equipment would also come with a cost. The Commission's fiscal note does not pro-rate the first year cost to reflect the January 1, 2015 operative date. The Commission's fiscal note also does not include an estimate of the amount of revenue that would be gained due to the increase in the collection fee that may be retained. Based on the amount of sales tax remitted by the Commission in 2013 the estimated revenue increase would be about \$32,000 annually.		

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 1/23/2014				
Approved by: Kim Conroy		Date Prepared: 1/23/2014				
		Phone: 471-5896				
	FY 2014-2015		FY 2015-2016		FY 2016-2017	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$72,403	\$136,065,000	\$44,937	(\$4,007,000)	\$45,949	(\$4,139,000)
Cash Funds		\$5,530,000		(\$876,000)		(\$910,000)
Federal Funds						
Other Funds		\$1,066,000		(\$679,000)		(\$706,000)
Total Funds	\$72,403	\$142,661,000	\$44,937	(\$5,562,000)	\$45,949	(\$5,755,000)

LB 794 requires daily electronic funds transfers of sales and use taxes collected by retailers for purchases made by customers using credit or debit cards. LB 794 also allows retailers' collection fees of 2.5% of the first \$3,000 of tax remitted per tax return and an additional 0.5% of any tax collected in excess of \$3,000. Currently, a retailers' collection fee is limited to 2.5% of the first \$3,000 of tax remitted per tax return.

The bill becomes effective on January 1, 2015.

The collection fee portion of LB 794 will decrease the following funds:

Fiscal Year	General Funds	Highway Trust Fund	State Highway Capital Improvement Fund	Highway Allocation Fund (Cities and Counties)	State Visitors Promotion Cash Fund	Tobacco Products Administration Cash Fund
FY 2014-15	(\$2,750,000)	(\$247,000)	(\$89,000)	(\$278,000)	(\$24,000)	(\$15,000)
FY 2015-16	(\$6,863,000)	(\$617,000)	(\$278,000)	(\$705,000)	(\$63,000)	(\$36,000)
FY 2016-17	(\$7,138,000)	(\$642,000)	(\$289,000)	(\$733,000)	(\$67,000)	(\$36,000)
FY 2017-18	(\$7,424,000)	(\$667,000)	(\$300,000)	(\$762,000)	(\$72,000)	(\$37,000)

Counties remitting motor vehicle sales tax are expected to see an increase in their collection fees of \$0.510 million, \$1.273 million, and \$1.324 million in FY 2014-15, FY 2015-16, and FY 2016-17, respectively.

The portion of LB 794 that requires daily transfers by retailers of sales and use taxes on credit and debit card purchases increases the following funds:

Fiscal Year	General Fund	Highway Trust Fund	State Highway Capital Improvement Fund	Highway Allocation Fund (Cities and Counties)
FY 2014-15	\$138,815,000	\$341,000	\$5,564,000	\$1,344,000
FY 2015-16	\$2,856,000	\$7,000	\$111,000	\$26,000
FY 2016-17	\$2,999,000	\$7,000	\$117,000	\$27,000
FY 2017-18	\$3,149,000	\$8,000	\$123,000	\$28,000

The estimated increase to the General Fund, Highway Trust Fund, and State Highway Capital Improvement Fund in FY2014-15 includes 13 months of sales and use taxes reported and remitted during the fiscal year (including June 2015 sales and use taxes, which historically would have been remitted in FY2015-16), and interest derived from daily remittance of sales and use tax.

LB 794 is anticipated to enhance collection of sales and use taxes from delinquent business taxpayers because of the automatic and daily collection of sales tax proceeds on credit and debit cards purchases; however, any potential revenue gain is uncertain at this time.

The bill will require a one-time programming charge of \$19,954 paid to the OCIO for mainframe programming costs. The Department also requires 1.0 FTE due to the dramatic increase in the number of payments processed on a monthly basis, processing of additional reporting errors, and responding to taxpayer inquiries regarding balance dues notices and credits balances as a result of the reconciliation process following each reporting period.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>14-15 FTE</u>	<u>15-16 FTE</u>	<u>16-17 FTE</u>	<u>14-15 Expenditures</u>	<u>15-16 Expenditures</u>	<u>16-17 Expenditures</u>
X29222	Revenue Agent	1.0	1.0	1.0	\$33,044	\$33,788	\$34,548
	Benefits.....				\$10,905	\$11,150	\$11,401
	Operating Costs.....				\$28,454		
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	Total.....				\$72,403	\$44,937	\$45,949

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2014

LB⁽¹⁾ 794

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska Game and Parks Commission

Prepared by: ⁽³⁾ Patrick H. Cole

Date Prepared: ⁽⁴⁾ 1/27/2014

Phone: ⁽⁵⁾ 402-471-5523

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$773,812		\$773,812	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	<u>\$773,812</u>		<u>\$773,812</u>	

Explanation of Estimate:

The proposed legislation would require the use of electronic fund transfers for sales and use taxes related to credit and debit card transactions. All such taxes on credit card and debit card transactions would also be due and payable to the Tax Commissioner on a daily basis. Each retailer shall be responsible for acquiring the software necessary to comply. All other sales and use tax (i.e. non 'card; e.g. cash, check, money order type sales) would continue to be due monthly. Additionally the legislation would provide for an additional one-half of one percent of all amounts remitted in excess of three thousand dollars each month to reimburse the cost of collecting the tax.

Since there is no apparent exemption for government agencies, the proposed legislation would have a fiscal impact. Currently the Nebraska Game and Parks Commission (Commission) collects and pays both state and local sales tax on a multitude of products and activities under its purview. This includes miscellaneous resale items from its catalog, gift shops, craft shops, and various park locations; admissions to pools, theaters and activities such as miniature golf, boat rentals, horse rides and rodeos; camping and lodging; and magazine subscriptions to name a few. Annually the Commission collects and remits over \$650,000 worth of sales (\$684,295 in 2013) and use tax (plus around \$400,000 in lodging tax – \$419,602 in 2013). Currently all taxes are reported on a monthly basis with no differentiation in payment method of original purchase. It is thought that 50% or more of our sales are with credit/debit card.

Continued.....

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15</u>	<u>2015-16</u>
	<u>14-15</u>	<u>15-16</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
See narrative			551,109.64	551,109.64
Benefits.....			222,702.36	222,702.36
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....			<u>773,812</u>	<u>773,812</u>

We are unaware of a specific software that would be able to assist in the proposed legislative requirements, thus adjusting to the daily versus monthly reporting requirements would necessitate more staff for manual processing. Since our current process doesn't differentiate in payment method, it would be anticipated that all sales/use tax would be processed daily for simplification.

We have over 36 area/locations that currently make credit/debit card taxable sales. Some of these areas have a single point of sale, while others have multiple sites within a given location (e.g. a pool, a theater, a marina, a main office etc). Some areas are open 8-5 M-F (primarily our district/customer service areas), most are open 7 days a week (our Park areas), and we have '24/7' online catalog sales and reservation systems. At least three point of sale systems are utilized and while tax is added to most sales, some, like admissions, the tax is backed out (a manual process). None of the operations affords a quick and simple automated sales tax reporting option. All involve some manual calculations.

Due to the manual operational needs of reporting sales tax, moving to a daily reporting structure, versus monthly would require an estimated additional 37 employees (4 FTE and 33 part time seasonal staff). It is anticipated that the additional work load at key transaction areas (33) would require a temporary worker 4 hours a day on average to fulfil the reporting requirements. For those areas only open M-F (8 locations), that would require 1,040 hours a year at each location; for those open 7 days a week (25 areas), 1460 hours a year/location would be needed. Using the wage rate of a Temporary Park Worker III (\$9.457/hr), that would translate into \$423,862.74 for wages, \$32,425.50 for OASDI and an estimated \$105,170.16 for elective insurance by some of the employees for a total of \$561,458.40.

In addition to the work needed at the field level for initial compilation of data, it is anticipated that 4 fulltime staff would be needed in the main headquarters office in Lincoln to finalize the necessary reporting documentation and payment processing. Three Accounting Clerk II positions, at \$28,098.22/year wages (each) and \$20,714.08/year benefits – retirement, OASDI, insurance, EAP) and due to the various recording systems it is anticipated that a IT Database Analyst would need to be employed to facilitate some of the data collection and analysis (\$42,952.25/year wages plus \$22,964.47 in benefits). Total permanent staff needs would be \$127,246.90 in wages and \$85,106.70 in benefits for a total of \$212,353.60.

For purposes of simplifying this fiscal note, no estimates are made for the additional costs of supplies and materials (e.g. desks, computers, etc). Staffing needs alone are estimated to total approximately \$773,812/year. The need to cover salary/wage increases as well as insurance increases would be anticipated in the second and subsequent years, but no estimate is made since these increases are currently unknown.

Since the work necessitated by this proposed legislation is targeted solely at facilitation of sales/use tax collection and reporting, use of agency cash funds seems ill appropriate based on their legislatively defined use, thus General Fund authority would be requested to cover the additional costs.

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2014

LB⁽¹⁾ 794

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ _____

State Treasurer _____

Prepared by: ⁽³⁾ Jason Walters

Date Prepared: ⁽⁴⁾ January 29, 2014

Phone: ⁽⁵⁾ 402-471-2793

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	<u>\$890,097.80</u>	_____	<u>\$907,899.76</u>	_____
TOTAL FUNDS	<u><u>\$890,097.80</u></u>	<u>_____</u>	<u><u>\$907,899.76</u></u>	<u>_____</u>

Explanation of Estimate:

LB 794 would make the sales and use taxes on credit card and debit card transactions due and payable to the Tax Commissioner on a daily basis, by electronic funds transfer. There is a cost to the State for each ACH (electronic funds transfer) payment that is received by the State. To prepare this fiscal note, a cost of \$.05 per transaction was used.

According to the Department of Revenue, in 2013 there were 86,230 sales tax permit holders. Of these 86,230 permit holders;

34,440 have a yearly tax liability of over \$3,000 and file sales tax reports monthly

16,271 have a yearly tax liability of more than \$900 and less than \$3,000 and file sales tax reports quarterly

35,519 have a yearly tax liability of less than \$900 and file sales tax reports annually

Some of these did not make a payment in 2013.

We estimate that all monthly filers would need to pay collected sales tax to the Tax Commissioner every day (34,440 taxpayers * 365 days per year = 12,570,600 transactions * \$.05 per transaction), resulting in ACH charges of \$628,530.00.

We estimate that quarterly filers would on average need to pay collected sales tax to the Tax Commissioner three days per week (16,271 taxpayers * 156 days per year = 2,538,276 transactions * \$.05 per transaction), resulting in ACH charges of \$169,218.40.

We estimate that annual filers would on average need to pay collected sales tax to the Tax Commissioner one day per week (35,519 taxpayers * 52 days per year = 1,846,988 transactions * \$.05 per transaction), resulting in ACH charges of \$92,349.40.

Banking fees on the ACH contract are paid by an electronic payment and aren't an appropriated item.

For FY 2015-16, we projected a 2% increase in the number of taxable transactions.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15</u>	<u>2015-16</u>
	<u>14-15</u>	<u>15-16</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	<u>\$890,097.80</u>	<u>\$907,899.76</u>