

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2014-15</b>		<b>FY 2015-16</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$266,554	\$ 0	\$164,000	(\$97,833,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$266,554</b>	<b>\$ 0</b>	<b>\$164,000</b>	<b>(\$97,833,000)</b>

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

LB 995 amends the Nebraska Revenue Act of 1967 to provide an income tax credit.

For taxable years beginning on or after January 1, 2015, the bill creates a refundable tax credit for a portion of state and local taxes to which a Nebraska resident has been subject for the taxable year.

The proposed credit is based on federal adjusted gross income (AGI) and number of exemptions. The upper limit of income is \$25,500 and the upper limit of exemptions that may be claimed is four. The credit may be claimed even if the filer has no taxable income. The credit is the same regardless of filing status, except for married filing separately returns each spouse may only claim one-half of the credit.

The bill restricts eligibility for the credit to Nebraska residents who are not claimed as a dependent on another tax return and who were physically present in the state for at least six months during the taxable year. In addition, an individual who was an inmate of a public institution for more than six months during the taxable year may not claim the credit.

The bill provides a table of income levels and number of exemptions with the corresponding credit amounts. Beginning with taxable years on and after January 1, 2016 the income eligibility amounts shall be adjusted annually for inflation.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 995:

FY2014-15:	\$ 0
FY2015-16:	(\$ 102,401,000)
FY2016-17:	(\$ 103,512,000)

We disagree somewhat with the Department's estimate of fiscal impact. We believe the number of current nonfilers who will now file returns to obtain the credit will be somewhat lower than those included in the Department's estimate. We estimate the following fiscal impact to the General File:

FY2014-15:	\$ 0
FY2015-16:	(\$ 93,265,000)
FY2016-17:	(\$ 94,272,000)

We therefore estimate the following fiscal impact to the General Fund as a result of LB 995:

FY2014-15:	\$ 0
FY2015-16:	(\$ 97,833,000)
FY2016-17:	(\$ 98,892,000)

The Department of Revenue indicates that LB 995 would require a one-time programming charge of \$72,163 paid to the office of the CIO for mainframe and web development costs.

The Department also estimates the Department will require 2.0 FTE Office Clerks III, 2.0 FTE Revenue Operations Clerk II, and 0.5 FTE Revenue Agent. The need for additional staff is a result of the projected increase in the number of tax filers, those individuals who currently are not required to file income taxes but who would file to receive the refundable credit. The cost is \$194,391 and \$164,000 for FY14-15 and FY15-16, respectively. PSL for each of the fiscal years would be \$120,595 and \$123,308, respectively.

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

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 1/29/2014				
Approved by: Kim Conroy		Date Prepared: 1/29/2014				
		Phone: 471-5896				
FY 2014-2015		FY 2015-2016		FY 2016-2017		
Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue	
General Funds	\$266,554	\$0	\$164,000	(\$102,401,000)	\$167,690	(\$103,512,000)
Cash Funds						
Federal Funds						
Other Funds						
<b>Total Funds</b>	<b>\$266,554</b>	<b>\$0</b>	<b>\$164,000</b>	<b>(\$102,401,000)</b>	<b>\$167,690</b>	<b>(\$103,512,000)</b>

LB 995 provides a new refundable income tax credit for resident individuals who are not a dependent of another individual. The credit would be available beginning in tax year 2015 and the taxpayer would have to be physically present in Nebraska for at least six months during the tax year to be eligible.

The amount of the credit is based on the resident’s federal adjusted gross income (AGI) and the number of the individual’s qualifying exemptions that are domiciled in Nebraska. The credit is phased-out for individuals with an AGI above \$25,500. The income thresholds are also adjusted annually for inflation by the method provided in I.R.C. § 151, with a base year of 2015.

A qualifying exemption includes exemptions claimed on an individual’s federal return that are domiciled in Nebraska, plus additional exemptions for individuals who are 65 years or older and for individuals who are blind. However, an individual may not claim more than four exemptions for purposes of calculating the credit.

The credit is the same regardless of filing status, but for married filing separate returns, the credit is to be taken one-half by each spouse. There is no requirement that individuals must pay taxes to receive this credit.

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

FY 2014-2015	\$	-
FY 2015-2016	\$	102,401,000
FY 2016-2017	\$	103,512,000

LB 995 would require a one-time programming charge of \$72,163 paid to the OCIO for mainframe and web development costs.

LB 995 would require 2 FTE Office Clerk IIIs, 2 FTE Revenue Operations Clerk IIs, and .5 FTE of a Revenue Agent. The increase in staff is a result of the increase in the number of tax filers, those individuals who currently are not required to file incomes taxes but would file to receive the refundable credit.

Major Objects of Expenditure

Class Code	Classification Title	14-15	15-16	16-17	14-15	15-16	16-17
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
X29222	Revenue Agent	.5	.5	.5	\$16,522	\$16,894	\$17,274
R29112	Revenue Operations Clerk II	2	2	2	\$57,747	\$59,046	\$60,375
S01113	Office Clerk III	2	2	2	\$46,326	\$47,368	\$48,434
	Benefits.....				\$39,796	\$40,692	\$41,607
	Operating Costs.....				\$72,163	\$0	\$0
	Travel.....						
	Capital Outlay.....				\$34,000	\$0	\$0
	Aid.....						
	Capital Improvements.....						
	<b>Total.....</b>				<b>\$266,554</b>	<b>\$164,000</b>	<b>\$167,690</b>