

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

| ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates) | | | | |
|---|---------------------|----------------|---------------------|----------------------|
| | FY 2017-18 | | FY 2018-19 | |
| | EXPENDITURES | REVENUE | EXPENDITURES | REVENUE |
| GENERAL FUNDS | \$323,184 | \$0 | \$59,490 | (\$1,420,000) |
| CASH FUNDS | | | | |
| FEDERAL FUNDS | | | | |
| OTHER FUNDS | | | | |
| TOTAL FUNDS | \$323,184 | \$0 | \$59,490 | (\$1,420,000) |

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

LB 443 creates the Student Loan Repayment Tax Credit Act.

The bill would provide a nonrefundable tax credit to employers who repay the principal and interest on behalf of a qualified employee's student loan. The amount of the credit would be equal to fifty percent of the amount repaid up to a maximum credit per employee of \$1,800. An employer may earn the credits for a maximum of twenty employees.

A qualified employee is defined as one who is employed by the employer for at least 480 hours in this state during the taxable year; graduated or earned certification from a postsecondary educational institution and who incurred a student loan while attending the postsecondary educational institution.

Beginning January 1, 2018, an employer seeking these credits will be required to submit an application to the Department of Revenue. If approved the Department will certify the amount of credits. Unused credits may be carried forward.

Total credits available under the Act are capped at \$1,500,000 per taxable year and at least 25% of the credits must go to businesses employing less than 30 employees or that are located in a first or second class city or village in Nebraska.

In the event an employer failed to make the student loan repayment for which tax credits were granted, the Department of Revenue shall recapture all or a portion of the credits. The recapture period is three years after the taxable year in which the credits were claimed.

Because the loan repayment will be considered taxable income to the employee the Department of Revenue has indicated that the fiscal impact to the General Fund will be slightly reduced. However, because the credit is claimed by the business and not the employee we believe the effect of the credit will be full utilization by eligible businesses.

The Department indicates implementation of LB 443 will require a one-time programming charge of \$251,462 paid to the Office of the CIO. The Department will also require 1.0 FTE Revenue Tax Specialist to implement the bill in the first year and 0.5 FTE Revenue Tax Specialist and 0.5 FTE Fiscal Compliance Analyst to administer the program in subsequent years. PSL in FY17-18 will be \$50,167, \$44,729 in FY18-19 and \$45,400 in FY19-20.

We have no basis to disagree with the Department's estimate of fiscal impact and cost.

State Agency Estimate

| | | | | | | |
|--|---------------------|-----------------|---------------------|----------------------|---------------------|----------------------|
| State Agency Name: Department of Revenue | | Date Due LFA: | | | | |
| Approved by: Tony Fulton | | Date Prepared: | | | | |
| | | Phone: 471-5896 | | | | |
| | FY 2017-2018 | | FY 2018-2019 | | FY 2019-2020 | |
| | <u>Expenditures</u> | <u>Revenue</u> | <u>Expenditures</u> | <u>Revenue</u> | <u>Expenditures</u> | <u>Revenue</u> |
| General Funds | \$323,184 | \$0 | \$59,490 | (\$1,420,000) | \$60,382 | (\$1,420,000) |
| Cash Funds | | | | | | |
| Federal Funds | | | | | | |
| Other Funds | | | | | | |
| Total Funds | \$323,184 | \$0 | \$59,490 | (\$1,420,000) | \$60,382 | (\$1,420,000) |

LB 443 would adopt the Student Loan Repayment Tax Credit Act (Act). The Act grants tax credits, which may be used against the income tax or franchise tax, to employers of individuals who graduated with a two or four-year degree or who earned a certification from a postsecondary educational institution and incurred a student loan. The employee must work at least 480 hours during the year. The credit is earned by the employer who pays the student loan principal and interest on behalf of the employee. The credit is nonrefundable and is equal to half the amount repaid up to \$1,800 per employee for up to 20 employees.

“Employer” is defined to include individuals, partnerships, corporations, LLCs and other business entities that are subject to the Nebraska income tax or franchise tax and are physically located in the state. Employers are to apply for the tax credit on a form prescribed by the Department, beginning January 1, 2018. No applications may be filed after December 31, 2022.

Applications are considered in the order received and no more than \$1.5 million in tax credits may be granted in any calendar year. At least 25% of the credits must go to employers with 30 or fewer employees or which are located in a city of the first or second class or a village. The credit can be claimed by employers beginning in 2019 by attaching the certification of the Department’s approval to their tax returns. Unused credits may be carried forward until fully utilized. The employer must add back to federal AGI, or federal taxable income, any amount deducted under the IRC for which the Nebraska credit is sought. If the Department determines that the employer did not pay the student loans, the credit may be partially or totally recaptured, (although the bill does not specify any conditions under which the credit would be partially recaptured).

The Department may adopt regulations to carry out the Act.

The Department is required to submit a report to the Governor and Legislature by July 1 of each year beginning July 1, 2019.

The Department estimates the reduction to the General Fund revenues as follows:

| | | |
|--------------|----|-----------|
| FY 2017-2018 | \$ | - |
| FY 2018-2019 | \$ | 1,420,000 |
| FY 2019-2020 | \$ | 1,420,000 |
| FY 2020-2021 | \$ | 1,420,000 |

The credit is expected to be fully utilized; however, the loan repayment would be considered taxable income to the employee, partially offsetting the revenue loss due to the credit.

