Doug Gibbs January 23, 2017 402-471-0051

## I R 118

## **Revision: 00** FISCAL NO LEGISLATIVE FISCAL ANALYST ESTIMA

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)						
	FY 201	7-18	FY 2018-19			
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE		
GENERAL FUNDS	\$172,916	\$0	\$0	(\$7,890,000)		
CASH FUNDS						
FEDERAL FUNDS						
OTHER FUNDS						
TOTAL FUNDS	\$172,916	\$0	\$0	(\$7,890,000)		

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

LB 118 creates the Education Savings Account Act and amends Nebraska Revised Statutes Section 77-2716.

The bill allows the parent or legal guardian of a student attending an eligible school to establish an education savings account with a financial institution and designate the beneficiary of the account. The account shall be used to pay the qualified education expenses of the designated beneficiary of the account.

Eligible school is defined as a public, private, denominational, or parochial school which provides education for students in any grades kindergarten through grade twelve and meets the requirements for legal operation or elects not to meet accreditation or approval requirements.

Qualified education expense is defined as tuition, fees, room and board, books, supplies, equipment and uniforms, extracurricular activities, computers, computer equipment, software, internet access, distance education classes, and college entrance exams.

Any natural person, firm, partnership, limited liability company, association, or corporation may contribute up to \$2,000 per calendar year, in cash, to an account.

The account owner shall notify the Department of Revenue that the account has been established, the financial institution, type of account, and the designated beneficiary.

Distributions from the account may only be made for qualified education expenses as defined in the bill and if made for a nonqualified expense the account owner is subject to a penalty of ten percent of the non-qualified amount, to be collected by the Department of Revenue.

Section 77-2716 is amended to provide that federal adjusted gross income (AGI) shall be reduced by the amount of contributions to and interest earned by an education savings account. AGI shall be increased by the amount of any withdrawals from such account for non qualified expenses to the extent they were previously deducted.

The Department of Revenue is given rule and regulation authority to carry out the provisions of the Act.

The bill has an operative date of January 1, 2018.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of the provisions of LB 118:

FY2017-18:	\$	0
FY2018-19:	(\$ 7,89	90,000)
FY2019-20:	(\$ 8,30	0,000)
FY2020-21:	(\$ 8,74	10,000)

The Department of Revenue estimates the implementing LB 118 will require a one-time programming charge of \$172,916 paid to the Office of the CIO to add lines to the Form 1040N, 1041N, 1120N, and Nebfile and a contract programmer to develop a tracking system.

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

## Fiscal Note 2017

State Agency Estimate						
State Agency Name: Department of			Date Due LFA:	1/24/2017		
Approved by: Tony Fulton Date		Date Prepared:	1/24/2017		Phone: 471-5896	
	<u>FY 2017-2018</u>		FY 2018-2019		FY 2019-2020	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$172,916	\$0	\$0	(\$7,890,000)	\$0	(\$8,300,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$172,916	\$0	\$0	(\$7,890,000)	\$0	(\$8,300,000)

LB 118 creates the Education Savings Account Act, which permits the creation of education savings accounts and allows up to \$2,000 per calendar year to be contributed to the account by individuals, partnerships, limited liability corporations, associations, firms, and corporations.

LB 118 provides a reduction to federal AGI, or for corporations and fiduciaries, federal taxable income, to the extent the contribution to the education savings account is not deducted for federal income tax purposes. Federal AGI, or federal taxable income, may be reduced by the amount of interest earned on the account to the extent it is included in the same.

Federal AGI, or federal taxable income, must be increased by the amount of any nonqualified withdrawals to the extent previously deducted. A penalty of 10% of the amount used for nonqualified expenses must be paid to the Department, and remitted to the State Treasurer in accordance with Article VII, section 5 of the Constitution of Nebraska.

Contributions to the education savings account must be used for eligible expenses for a designated beneficiary who is a student at a K-12 public, private, denominational, or parochial school in Nebraska. Eligible expenses are: tuition, fees, required room and board, books, supplies, equipment, required uniforms, extracurricular activities (offered at an eligible school), computers, computer equipment, software, Internet access (if used primarily for school purposes), distance education classes, and college entrance exams. The parent or legal guardian of the designated beneficiary must establish the education savings account with a financial institution and is considered the owner of the account.

The account owner must notify the Department of the creation of the account and may change the designated beneficiary of the account at any time by notifying the Department.

Major Objects of Expenditure							
Class Code	Classification Title	17-18 FTE	18-19 FTE	19-20 FTE	17-18 Expenditures	18-19 Expenditures	19-20 Expenditures
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Benefits							
Operating Costs					\$172,916		
Travel							
Capital Outlay							
Aid							
Capital Improvement	nts						
Total				\$172,916	\$0	\$0	

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

FY 2017-2018	\$ 0
FY 2018-2019	\$ 7,890,000
FY 2019-2020	\$ 8,300,000
FY 2020-2021	\$ 8,740,000

LB 118 would require a one-time programming charge of \$172,916 paid to the OCIO and to add lines to the 1040N, 1041N, NebFile, 1120N, and contract programmer to develop a tracking system.