PREPARED BY:	Doug Gibbs
DATE PREPARED:	January 13, 2017
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LB 52

Revision: 00

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	$1,080,595	$216,765,000	$944,355	$522,404,000
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$1,080,595	$216,765,000	$944,355	$522,404,000

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

LB 52 creates the Modern Tax Act.

The bill would impose a tax on the amount of interest paid by a qualified debtor on an eligible loan at a rate of five and one-half percent. The lender would be responsible for collecting the tax which would be due as the same time as any regularly scheduled payment and submitted to the Department of Revenue and then credited to the General Fund.

Eligible loans include the following:

- Loans secured by real estate located in Nebraska;
- Loans secured by a filing with the Secretary of State under the UCC;
- Loans secured by a vehicle titled in Nebraska;
- Loans secured by a security or commercial paper held in or delivered to a creditor in Nebraska;
- Loans over which Nebraska courts have jurisdiction and venue in an action for default in payment.

Qualified debtor is defined to include the following:

- Any resident of Nebraska;
- Any trust created under Nebraska law;
- Any corporation, LLC, or other type of business entity organized under Nebraska law or which has a principal office in Nebraska and has obtained an eligible loan.

The tax does not apply to what are essentially wholesale loans or interbank loans, loans to government entities, or publicly traded bonds.

The Department of Revenue may adopt and promulgate rules and regulations to carry out the provisions of the Modern Tax 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 LB 52:

FY2017-18:	$ 216,765,000
FY2018-19:	$ 522,404,000
FY2019-20:	$ 527,628,000
FY2020-21:	$ 532,904,000

The Department estimates the cost to implement LB 52 will include a one-time programming charge of $83,373 paid to the Office of the CIO to develop a new tax application and to cover mainframe development costs and required changes to the NebFile system.

In addition, the Department will require the following personnel to implement and enforce the new tax program and pursue collections against debtors under the Act: 2.0 FTE Attorney III, 2.0 FTE Revenue Auditor II, 2.0 FTE Revenue Auditor III, 1.0 FTE Revenue Audit Manager, 7.0 Revenue Agents, and 1.0 FTE Revenue Senior Agent.

PSL costs for FY2017-18 are estimated at $693,400, and for FY 2018-19 is estimated at $710,041.

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

LB 52 **Fiscal Note 2017**

State Agency Estimate

State Agency Name: Department of Revenue					Date Due LFA:	1/13/2017
Approved by: Tony Fulton		Date Prepared: 1/12/2017			Phone: 471-5896	

	FY 2017-2018		FY 2018-2019		FY 2019-2020	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	$1,080,595	$216,765,000	$944,355	$522,404,000	$967,020	$527,628,000
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	$1,080,595	$216,765,000	$944,355	$522,404,000	$967,020	$527,628,000

LB 52 (Modern Tax Act) imposes a 5.5 percent tax on the amount of interest paid by a qualified debtor on any eligible loan. Eligible loans are those secured by:

- Real estate located in Nebraska;
- Filing with the Secretary of State under the Uniform Commercial Code;
- A security or commercial paper held in or delivered to a creditor in Nebraska;
- A vehicle titled in Nebraska;
- Any loan over which Nebraska courts have jurisdiction and venue in an action for default in payment.

A qualified debtor is a Nebraska resident individual, trust created under Nebraska law, or business entity that organized under Nebraska law or has its principal office located in Nebraska, which has obtained an eligible loan.

The qualified debtor would pay the tax at the same time as any regularly scheduled loan payment with the lender collecting the tax and remitting it monthly on a form prescribed by the Tax Commissioner. All proceeds from the tax are deposited in the General Fund.

The tax is delinquent after 30 days. The qualified debtor is liable for a 5% penalty on any delinquent payment.

Loans to governmental entities, publicly traded bonds, or loan proceeds ultimately used by a licensed financial institution or insurance company to make loans are not subject to the tax imposed by this Act.

The Modern Tax Act takes effect on or after January 1, 2018.

The estimated increase in the General Fund revenues would be as follows:

FY 2017-2018	$	216,765,000
FY 2018-2019	$	522,404,000
FY 2019-2020	$	527,628,000
FY 2020-2021	$	532,904,000

LB 52 would require a one-time programming charge of $83,373 paid to the OCIO to develop a new tax application, and to cover mainframe development costs and required changes to the NebFile online filing system.

The bill would also require 2.0 Attorney III, 2.0 Revenue Auditor II, 2.0 Revenue Auditor III, 1 Revenue Audit Manager, 7 Revenue Agent, and 1 Revenue Senior Agent to administer and enforce the new tax program and pursue collection against debtors under the Act.

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
A21252	Revenue Auditor II	2	2	2	$ 96,179	$ 98,487	$ 100,851
A21253	Revenue Auditor III	2	2	2	$ 103,395	$ 105,876	$ 108,417
G21261	Revenue Audit Manager	1	1	1	$ 69,037	$ 70,694	$ 72,391
X29222	Revenue Agent	7	7	7	$ 247,989	$ 253,940	$ 260,035
X29223	Revenue Agent Senior	1	1	1	$ 40,937	$ 41,920	$ 42,926
G31113	Attorney III	2	2	2	$ 135,863	$ 139,124	$ 142,463
Benefits					$ 228,822	$ 234,314	$ 239,937
Operating Costs					$83,373		
Travel							
Capital Outlay					$ 75,000		
Aid							
Capital Improvements							
Total					$1,080,595	$ 944,355	$ 967,020