

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	\$8,402	See Below	\$0	See Below
CASH FUNDS		See Below		See Below
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$8,402	See Below	\$0	See Below

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

LB 452 amends the Nebraska Revenue Act of 1967 regarding sales and uses tax, personal income tax, and corporate income tax.

Section 77-2701.16 is amended to impose sales and use tax on the following services:

- Storage and moving services;
- Personal care services, including hair care, hair removal, massage, nail care, skin care, tanning, tattoos, other body modifications, and other beauty and personal care services;
- Local taxi, limousine, or other luxury vehicle services and any other local ground transportation services provided by motor vehicle;
- Dry cleaning and other laundry services, including any coin-operated machines used for dry cleaning or other laundry services.

The bill outright repeals Sections 77-2704.07, 77-2704.14, and 77-2704.38, which are the sales and use tax exemptions for newspapers, coin-operated laundering and cleaning machines, and state lottery tickets.

Technical Note: Removing the sales tax exemption for lottery ticket purchases could raise constitutional issues regarding the distribution of proceeds from the lottery and violate provisions of the Multi-state lottery compact.

Section 77-2716.01, regarding the Nebraska income tax, is amended to phase out the personal exemption credit in relation to an increase in federal adjusted gross income (AGI), as follows for single, head of household, and married filing separately:

- 10% if AGI is greater than or equal to \$75,000 but less than \$85,000;
- 20% if AGI is greater than or equal to \$85,000 but less than \$95,000;
- 30% if AGI is greater than or equal to \$95,000 but less than \$105,000;
- 50% if AGI is greater than or equal to \$105,000 but less than \$115,000;
- 75% if AGI is greater than or equal to \$115,000 but less than \$125,000;
- 100% if AGI is greater than \$125,000.

For married filing jointly, the phase-out percentages remain the same but the AGI thresholds are double the amounts listed for the other filing statuses.

Section 77-2715.03 is amended to decrease the individual income tax rate applicable to the highest tax bracket over eight years beginning in tax year 2018. The bill also eliminates the bottom bracket altogether and lowers the brackets relative to the current, inflation-adjusted amounts, as follows:

	Single:	Married Filing Jointly:	Head of Household:	Married Filing Separately:	Estates and Trusts:
Bracket 1:	\$ 18,000	\$ 37,000	\$ 29,000	\$ 18,000	\$ 4,700
Bracket 2:	\$ 29,000	\$ 59,000	\$ 43,000	\$ 29,000	\$ 15,150
Bracket 3:	Over \$29,000	Over \$59,000	Over \$43,000	Ove \$29,000	Over \$15,150

The proposed individual income tax rates for tax years 2018 through 2025 are as follows:

	2018:	2019:	2020:	2021:	2022:	2023:	2024:	2025:
Bracket 1:	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Bracket 2:	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%
Bracket 3:	6.73%	6.62%	6.52%	6.41%	6.31%	6.20%	6.10%	5.99%

Section 77-2715.01 is amended to require the Tax Rate Review Committee (TRRC), beginning in November 2019 and each subsequent November through 2026, to examine the expected rate of growth in net General Fund receipts from the then current fiscal year to the next fiscal year, as it is determined by the Nebraska Economic Forecasting Advisory Board (NEFAB).

If the expected rate of growth in net General Fund does not exceed 3.5% for the upcoming fiscal year, the Committee is to declare an income tax rate deferral. This means the statutorily required decrease in the tax rate for the top bracket is to be deferred until the expected growth rate in net General Fund revenues exceeds 4.2% (except for years 2027 and after this rate is to be 3.5%). The rate already in effect will remain in place for that year. If the required growth rates are reached, the oldest remaining deferral is voided and the income tax rate for the top bracket would decrease for the next year.

In the event of a deferral or the void of a deferral, the Tax Commissioner is to adjust the tax tables and withholding tables as necessary. The rate decreases in LB 452 begin in 2018 and the actions to defer the scheduled decreases, depending on the revenue forecast, do not begin until 2020.

The bill also amends section 77-2734.02 to eliminate the bottom income tax bracket for the corporate income tax and decreases the tax rate applicable to the remaining bracket over eight years beginning in 2018 as follows:

2018	2019	2020	2021	2022	2023	2024	2025
7.58%	7.35%	7.13%	6.91%	6.68%	6.45%	6.22%	5.99%

In addition, for the corporate income tax the Tax Rate Review Committee would meet beginning in 2019 and would defer a tax rate decrease if the expected rate of growth in net General Fund revenue for the next year does not exceed 3.7%. The deferral would continue until the expected growth rate exceeds 4.5%, until 2017 and then it would only need to exceed 3.7%. As with the personal income tax rate decreases and deferrals, the year the rate decrease begins and when the deferral could take place do not match.

The Department of Revenue estimates the following fiscal impact:

Fiscal Year:	Highway Allocation Fund: (Cities and Counties) (Cash Fund)	State Highway Capital Improvement Fund: (Cash Fund)	General Fund:
2017-18:	\$ 121,000	\$ 688,000	\$ 6,341,000
2018-19:	\$ 312,000	\$ 1,766,000	(\$ 12,173,000)
2019-20:	\$ 329,000	\$ 1,866,000	(\$ 67,884,000)
2020-21:	\$ 345,000	\$ 1,955,000	(\$ 106,669,000)
2021-22:	\$ 362,000	\$ 2,053,000	(\$ 149,524,000)
2022-23:	\$ 380,000	\$ 2,155,000	(\$ 195,084,000)
2023-24:	\$ 399,000	\$ 2,263,000	(\$ 244,602,000)
2024-25:	\$ 419,000	\$ 2,376,000	(\$ 297,569,000)
2025-26:	\$ 440,000	\$ 2,495,000	(\$ 341,299,000)

The Department of Revenue estimates that LB 452 will require a one-time payment of \$8,402 to the Office of the CIO for programming changes to the Nebfile online tax filing system.

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

The Nebraska Environmental Trust estimates a loss of revenue (cash funds) of \$4.4 million each year of the biennium due to the removal of the sales tax exemption on the purchase of lottery tickets. They assume the sales tax increase would be deducted from the beneficiary's share of the lottery proceeds.

The Nebraska State Fair Board estimates a loss of revenue (cash funds) of \$1.089 million each year of the biennium due the removal of the sales tax exemption on the purchase of lottery tickets. They assume the sales tax would be deducted from the beneficiary's share of lottery proceeds.

The Coordinating Commission for Postsecondary Education estimates a loss of revenue (cash funds) of \$1.5 million for FY2017-18 and \$3.0 million for FY2018-19 due to the removal of the sales tax exemption on the purchase of lottery tickets. They assume the sales tax would be deducted from the beneficiary's share of lottery proceeds.

We have no basis to disagree with Trust, the Fair Board, or the Commission's estimate of fiscal impact. We should note, that a diversion of proceeds could raise constitutional questions regarding the allocation of lottery proceeds.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 452	AM:	AGENCY/POLT. SUB: Coord. Comm. for Postsecondary Education
REVIEWED BY: Lyn Heaton	DATE: 2/13/2017	PHONE: (402) 471-4181
COMMENTS: Assuming that the sales tax can be applied to lottery ticket sales in a way as is assumed by the Commission in their fiscal note, the requirement in 9-812 (2) that no less than 22% of the dollar amount of annual lottery sales must be distributed to the various "beneficiary funds", including the Nebraska Opportunity Grant Fund and the Community College Gap Assistance Program Fund, may limit the reduction in revenue to an amount that is less than estimated in the Commission's fiscal note and, consequently, have a smaller negative impact on the amount of financial aid that can be awarded.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 452	AM:	AGENCY/POLT. SUB: NE Environmental Trust
REVIEWED BY: Lyn Heaton	DATE: 2/13/2017	PHONE: (402) 471-4181
COMMENTS: Assuming that the sales tax can be applied to lottery ticket sales in a way as is assumed by the Environmental Trust in their fiscal note, the requirement in 9-812 (2) that no less than 22% of the dollar amount of annual lottery sales must be distributed to the various "beneficiary funds", including the Nebraska Environmental Trust Cash Fund, may limit the reduction in revenue to an amount that is less than estimated in the Trust's fiscal note and, consequently, have a smaller negative impact on the amount of grants that can be awarded.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 452	AM:	AGENCY/POLT. SUB: State Fair Board
REVIEWED BY: Lyn Heaton	DATE: 2/13/2017	PHONE: (402) 471-4181
COMMENTS: Assuming that the sales tax can be applied to lottery ticket sales in a way as is assumed by the Commission in their fiscal note, the requirement in 9-812 (2) that no less than 22% of the dollar amount of annual lottery sales must be distributed to the various "beneficiary funds", including to the State Fair Board, may limit the reduction in revenue to an amount that is less than estimated in the Board's fiscal note.		

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2017

LB⁽¹⁾ 452

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Coordinating Commission for Postsecondary Education

Prepared by: ⁽³⁾ Gary Timm Date Prepared: ⁽⁴⁾ 2/2/17 Phone: ⁽⁵⁾ 402-471-0020

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	<u>-\$1,500,000</u>	_____	<u>-\$3,000,000</u>
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>0</u>	<u>-\$1,500,000</u>	<u>0</u>	<u>-\$3,000,000</u>

Explanation of Estimate:

LB 452 Sec. 9 repeals Neb. Rev. Stat. §77-2704.38 which provides a state sales tax exemption for lottery ticket sales. Currently, on-line, multi-state games require tickets to be sold at face value, which would require the sales tax amount to be deducted from the price of the ticket. Based on the implementation of LB 452, non-multi-state lottery tickets could either be treated in the same manner as the multi-state games with the cost kept at an even dollar amount, or state sales tax could be collected on the face value of the ticket, with a \$1 ticket costing \$1.06. Our estimates do not take into account the effect of an odd dollar amount on sales. To arrive at our estimated revenue loss, it was assumed ticket prices for all lottery tickets would remain in even dollar increments and any sales tax collections would be deducted from the value of the ticket.

The Commission administers the Nebraska Opportunity Grant (NOG) program which provides scholarships to students from low-income families to attend college. A combination of General funds and lottery proceeds fund the NOG program. During the 2015-16 fiscal year, the Nebraska Opportunity Grant received \$10.5 million in lottery proceeds and provided an average scholarship of \$1,225 to 13,740 recipients. It is estimated NOG funding from the lottery would decrease \$2.6 million and would result in 2,130 fewer students receiving a NOG scholarship. With an operative date of January 1, 2018, FY2017-18 revenue was reduced by half of the FY2018-19 estimate.

The Commission also administers the Community College Gap Assistance Program that provides funding to community colleges to offer financial aid to low-income community college students taking non-credit courses that could lead to jobs in high-need fields. Because these students are taking non-credit courses, they are not eligible for Pell grants or other financial aid. During the 2015-16 fiscal year, the Gap Assistance Program received \$1.5 million in lottery proceeds. It is estimated Gap Assistance Program funding from the lottery would decrease \$400,000. With an operative date of January 1, 2018, FY2017-18 revenue was reduced by half of the FY2018-19 estimate.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18</u>	<u>2018-19</u>
	<u>17-18</u>	<u>18-19</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____

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2017

LB⁽¹⁾ 452

FISCAL NOTE

State Agency OR Political Subdivision Name: (2) Nebraska Environmental Trust c/o NGPC

Prepared by: (3) Patrick H. Cole Date Prepared: (4) 2/8/17 Phone: (5) (402) 471-5523
Mark Brohman

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	*	_____	*
CASH FUNDS	_____	(4,400,000)	_____	(4,400,000)
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 452 would propose to remove the sales tax exemption on lottery ticket sales. Proceeds from lottery sales are distributed in part to four beneficiary programs (Gamblers Assistance Fund, Nebraska Education Fund, Nebraska Environmental Trust Fund and the Nebraska State Fair) in addition to covering its operating expenses and prizes. Since the Nebraska Environmental Trust is administratively placed under the Nebraska Game and Parks Commission, only the impact associated with the Trust will be addressed here, however, similar proportional impacts would be expected to the other beneficiaries.

The Nebraska Department of Revenues 2016 Nebraska Tax Expenditure Report estimated the 'lost sales taxes' from the exemption status at \$9.9 million dollars. Officials from the Commission on Problem Gambling, using FY16 sales and expense figures estimate that the taxes could be between \$9.9 million (at 5.5% state rate only) to \$12.6 million at average 7% rate (state and local) (details on next pages). For purposes of this analysis the \$9.9 figure will be used.

There are 44 state lotteries in the US, none of which adds sales tax to the sales of lottery tickets. It is presumed that should this bill pass, the sales tax would be deducted from the beneficiaries share of the proceeds, and not be additive to the sales themselves.

Continued on next page(s)

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18</u>	<u>2018-19</u>
	<u>17-18</u>	<u>18-19</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____

The distribution formula for the beneficiaries' portion (after prizes paid, operating expenses covered and an initial \$500,000 to the Compulsive Gamblers Assistance Fund) has the Environmental Trust Fund and Nebraska Education Fund each receiving 44.5% (plus 10% to State Fair and additional 1% to Gamblers Assistance Fund). IF the taxes were entirely deducted from the beneficiaries portion, and in a similar proration the Environmental Trust Fund loss could be \$4.4 million (44.5% of \$9.9 million tax estimate). This would be 23.4% of the Trust's total FY16 share reducing the amount of grant awards accordingly.

The following calculations are from the Commission on Problem Gambling

IMPACT OF 7% SALES TAX ON STATE LOTTERY TICKETS

FYE 2016 results of Lottery operations:

Reported ticket sales year end June 30, 2016:	180,322,444
Prizes paid:	104,524,366
Other operating expenses:	30,919,740
Net operating income:	44,878,338
Cash paid to beneficiary funds:	42,782,923
Cash paid to beneficiaries as percentage of net operations:	95.33%

Projected 7% sales tax on total lottery ticket sales:	12,622,571
Projected net operating income after sales tax:	32,255,767
Beneficiary distributions at 95.33% of net:	30,749,423

Impact on Beneficiary Funds:

Gamblers Assistance Fund: 500,000 + 1% of remainder

Gamblers Assistance Fund distribution FYE 2016	922,830
Projected distribution after subtracting sales tax	802,494
Projected reduction of fund distribution	120,336

Education Programs: 44.5% of remainder after subtraction of first 500,000

Education distributions FYE 2016	18,815,900
Projected distribution after subtracting sales tax	13,460,993
Projected reduction of fund distribution	5,354,907

Environmental Trust: 44.5% of remainder after subtraction of first 500,000

Environmental Trust distributions FYE 2016	18,815,901
Projected distribution after subtracting sales tax	13,460,993
Projected reduction of fund distribution	5,354,908

State Fair: 10% of remainder after subtraction of first 500,000

State Fair distributions FYE 2016	4,228,292
Projected distribution after subtracting sales tax	3,024,942
Projected reduction of fund distribution	1,203,350

IMPACT OF 5.5% SALES TAX ON STATE LOTTERY TICKETS

FYE 2016 results of Lottery operations:

Reported ticket sales year end June 30, 2016:	180,322,444
Prizes paid:	104,524,366
Other operating expenses:	30,919,740
Net operating income:	44,878,338
Cash paid to beneficiary funds:	42,782,923
Cash paid to beneficiaries as percentage of net operations:	95.33%

Projected 5.5% sales tax on total lottery ticket sales:	9,917,734
Projected net operating income after sales tax:	34,960,604
Beneficiary distributions at 95.33% of net:	33,327,944

Impact on Beneficiary Funds:

Gamblers Assistance Fund: 500,000 + 1% of remainder

Gamblers Assistance Fund distribution FYE 2016	922,830
Projected distribution after subtracting sales tax	828,279
Projected reduction of fund distribution	94,551

Education Programs: 44.5% of remainder after subtraction of first 500,000

Education distributions FYE 2016	18,815,900
Projected distribution after subtracting sales tax	14,608,435
Projected reduction of fund distribution	4,207,465

Environmental Trust: 44.5% of remainder after subtraction of first 500,000

Environmental Trust distributions FYE 2016	18,815,901
Projected distribution after subtracting sales tax	14,608,435
Projected reduction of fund distribution	4,207,466

State Fair: 10% of remainder after subtraction of first 500,000

State Fair distributions FYE 2016	4,228,292
Projected distribution after subtracting sales tax	3,282,794
Projected reduction of fund distribution	945,498

Please complete ALL (5) blanks in the first three lines.

2017

LB⁽¹⁾ 452

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska State Fair Board

Prepared by: ⁽³⁾ Joseph McDermott Date Prepared: ⁽⁴⁾ 2/9/17 Phone: ⁽⁵⁾ (308) 382-1620

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____*	_____	_____*
CASH FUNDS	_____	_____ (1,089,000)	_____	_____ (1,089,000)
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 452 would propose to remove the sales tax exemption on lottery ticket sales. Proceeds from lottery sales are distributed in part to four beneficiary programs (Gamblers Assistance Fund, Nebraska Education Fund, Nebraska Environmental Trust Fund and the Nebraska State Fair) in addition to covering its operating expenses and prizes. Only the impact associated with the State Fair will be addressed here, however, similar proportional impacts would be expected to the other beneficiaries.

The Nebraska Department of Revenues 2016 Nebraska Tax Expenditure Report estimated the 'lost sales taxes' from the exemption status at \$9.9 million dollars. Officials from the Commission on Problem Gambling, using FY16 sales and expense figures estimate that the taxes could be between \$9.9 million (at 5.5% state rate only) to \$12.6 million at average 7% rate (state and local) (details on next pages). For purposes of this analysis the \$9.9 figure will be used.

There are 44 state lotteries in the US, none of which adds sales tax to the sales of lottery tickets. It is presumed that should this bill pass, the sales tax would be deducted from the beneficiaries share of the proceeds, and not be additive to the sales themselves.

Continued on next page(s)

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18 EXPENDITURES</u>	<u>2018-19 EXPENDITURES</u>
	<u>17-18</u>	<u>18-19</u>		
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	=====	=====	=====	=====

The distribution formula for the beneficiaries' portion (after prizes paid, operating expenses covered and an initial \$500,000 to the Compulsive Gamblers Assistance Fund) has the Environmental Trust Fund and Nebraska Education Fund each receiving 44.5% plus 10% to State Fair and additional 1% to Gamblers Assistance Fund. IF the taxes were entirely deducted from the beneficiaries portion, and in a similar proration the Nebraska State Fair loss could be \$990,000. As the host city, the City of Grand Island is required to match the Lottery payment by 10% or in this case \$99,000. Therefore, the total loss to the State Fair would be \$1,089,000 annually. This would be 25.7% of the Fair's total FY16 share reducing funds available for programming, capital projects and debt repayment.

The following calculations are from the Commission on Problem Gambling
IMPACT OF 7% SALES TAX ON STATE LOTTERY TICKETS

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State Fair: 10% of remainder after subtraction of first 500,000

State Fair distributions FYE 2016	4,228,292
Projected distribution after subtracting sales tax	3,024,942
Projected reduction of fund distribution	1,203,350
Loss from City of Grand Island match	120,335
Total loss to Nebraska State Fair	1,323,685

IMPACT OF 5.5% SALES TAX ON STATE LOTTERY TICKETS

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State Fair: 10% of remainder after subtraction of first 500,000

State Fair distributions FYE 2016	4,228,292
Projected distribution after subtracting sales tax	3,282,794
Projected reduction of fund distribution	945,498
Loss from City of Grand Island match	94,549
Total loss to Nebraska State Fair	1,040,047

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 2/13/2017			
Approved by: Tony Fulton		Phone: 471-5896			
Date Prepared: 2/10/2017					
FY 2017-2018		FY 2018-2019		FY 2019-2020	
Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$ 8,402	\$ 6,341,000	\$ (12,173,000)	\$ (67,884,000)	\$ (67,884,000)
Cash Funds		\$ 688,000	\$ 1,766,000	\$ 1,866,000	\$ 1,866,000
Federal Funds					
Other Funds		\$ 121,000	\$ 312,000	\$ 329,000	\$ 329,000
Total Funds	\$ 8,402	\$ 7,150,000	\$ (10,095,000)	\$ (65,689,000)	\$ (65,689,000)

LB 452 would amend Neb. Rev. Stat. § 77-2701.16, the definition of “gross receipts” to extend the Nebraska sales and use tax to include four more services as follows:

- a) Storage and moving services;
- b) Personal care services, including hair care and removal, massage, skin care, tanning, and tattoo services;
- c) Taxi, limousine, other luxury vehicle services, and other ground transportation services; and
- d) Dry cleaning and other laundry services.

LB 452 would also repeal outright the statutory exemptions for lottery tickets, coin operated laundries, and newspapers.

LB 452 would also amend Neb. Rev. Stat § 77-2716.01 to phase out the personal exemption credit as federal adjusted gross income (AGI) increases. For single, head of household, or married filing separately individuals, the personal exemption is reduced by:

- 10% if AGI is greater than or equal to \$75,000 and less than \$85,000;
- 20% if AGI is greater than or equal to \$85,000 and less than \$95,000;
- 30% if AGI is greater than or equal to \$95,000 and less than \$105,000;
- 50% if AGI is greater than or equal to \$105,000 and less than \$115,000;
- 75% if AGI is greater than or equal to \$115,000 and less than \$125,000;
- 100% if AGI is greater than or equal to \$125,000;

For married, filing jointly returns, the phase-out percentages remain the same, but the AGI thresholds are double the amounts listed above.

LB 452 would also amend Neb. Rev. Stat § 77-2715.03 to decrease the individual income tax rate applicable to the highest tax bracket over eight years beginning in tax year 2018. The bill also eliminates the bottom bracket altogether and lowers the brackets slightly relative to the current, inflation-adjusted amounts. The proposed brackets and rates are as follows:

	Single	Married, Filing Jointly	Head of Household	Married, Filing Separate	Estates and Trusts
Bracket 1	\$ 18,000	\$ 37,000	\$ 29,000	\$ 18,000	\$ 4,700
Bracket 2	\$ 29,000	\$ 59,000	\$ 43,000	\$ 29,000	\$ 15,150
Bracket 3	Over \$29,000	Over \$59,000	Over \$43,000	Over \$29,000	Over \$15,150

	2018	2019	2020	2021	2022	2023	2024	2025
Bracket 1	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Bracket 2	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%
Bracket 3	6.73%	6.62%	6.52%	6.41%	6.31%	6.20%	6.10%	5.99%

LB 452 would also amend Neb. Rev. Stat § 77-2715.01 to provide duties for the Tax Rate Review Committee (Committee) for its November meetings, beginning in 2019. If the expected rate of growth in net General Fund revenues for the upcoming year does not exceed 3.5%, the Committee must declare an income tax rate deferral, causing the statutory decline in rate to be deferred. The deferral will continue until the expected growth rate in net General Fund revenues exceeds 4.2% until 2027 and 3.5% thereafter. If those growth rates are reached, the oldest remaining deferral is voided and the highest individual income tax rate would decrease for the next year.

If there is a deferral, or a void of a prior deferral, the Tax Commissioner is to adjust, or not adjust the tax tables and withholding tables appropriately, and the Tax Commissioner and Legislative Fiscal Office will adjust the revenue forecast appropriately. The rate decreases in LB 452 begin in 2018 and the actions to defer the scheduled decreases depending on forecasted revenues do not begin until 2020. Therefore, there is a mismatch between the rate decreases and the authority to defer them.

Similarly, LB 452 would amend Neb. Rev. Stat. § 77-2734.02 to eliminate the bottom income tax bracket and decrease the corporation income tax rate applicable to the remaining bracket over eight years beginning in 2018 as follows:

Corporation Income Tax Rate for Tax Years 2018 through 2025							
2018	2019	2020	2021	2022	2023	2024	2025
7.58%	7.35%	7.13%	6.91%	6.68%	6.45%	6.22%	5.99%

Similar to the individual income tax rate reduction, the Tax Rate Review Committee would meet beginning in November 2019 and defer a rate decrease if the expected rate of growth in net General Fund revenues for the upcoming year does not exceed 3.7%. The deferral will continue until the expected growth rate in net General Fund revenues exceeds 4.5% until 2027 and 3.7% thereafter. Again, the years of the Committee’s actions do not match the years of the rate reductions.

The estimated impact to the General Fund and Cash Fund revenues would be as follows:

Fiscal Year	Highway Allocation Fund (Cities and Counties)	State Highway Capital Improvement Fund	General Fund
FY16-17	\$ -	\$ -	\$ -
FY17-18	\$ 121,000	\$ 688,000	\$ 6,341,000
FY18-19	\$ 312,000	\$ 1,766,000	\$ (12,173,000)
FY19-20	\$ 329,000	\$ 1,866,000	\$ (67,884,000)
FY20-21	\$ 345,000	\$ 1,955,000	\$ (106,669,000)
FY21-22	\$ 362,000	\$ 2,053,000	\$ (149,524,000)
FY22-23	\$ 380,000	\$ 2,155,000	\$ (195,084,000)
FY23-24	\$ 399,000	\$ 2,263,000	\$ (244,602,000)
FY24-25	\$ 419,000	\$ 2,376,000	\$ (297,569,000)
FY25-26	\$ 440,000	\$ 2,495,000	\$ (341,299,000)

LB 452 would require a one-time payment to the OCIO of \$8,402 for programming changes to the online income tax filing system (Nebfile).

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>17-18 FTE</u>	<u>18-19 FTE</u>	<u>19-20 FTE</u>	<u>17-18 Expenditures</u>	<u>18-19 Expenditures</u>	<u>19-20 Expenditures</u>
	Benefits.....						
	Operating Costs.....				\$ 8,402		
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	Total.....				\$ 8,402		