PREPARED BY: Douglas Gibbs
DATE PREPARED: February 22, 2018
PHONE: 402-471-0051

LB 996

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)

	FY 2018-19		FY 2019-20	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

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

LB 996 amends the Nebraska Advantage Act.

Section 77-5709 is amended to change terminology from “equivalent employee” to “established employee” and defines “established employee’ to mean an individual who is employed in Nebraska and is subject to the Nebraska income tax on compensation received from the taxpayer or its predecessors.

Section 77-5714 is amended to strike “equivalent” and insert “established” wherever it refers to employee and changes the wage requirement from 60% of the Nebraska average weekly wage to 110% of the county average weekly wage, for the year of application. This change impacts the way employment levels are calculated for compliance with the Act.

Section 77-5725 is amended to change the wage percentages required for earning compensation tax credits as follows:

- If wages are at least 110% of the county average weekly wage the credit is 3%;
- If wages are at least 125% of the county average weekly wage the credit is 4%;
- If wages are at least 150% of the county average weekly wage the credit is 5%;
- If wages are at least 175% of the county average weekly wage the credit is 6%.

Section 77-5726 is amended to limit the utilization of the tax credits over the entitlement period.

The changes made by LB 996 are in affect for applications filed after the effective date of the bill.

The Department of Revenue indicates that LB 996 will allow companies to meet employment qualification levels by hiring more part-time people without increasing the number of hours or shifts. A company that previously employed 30 people could reduce all of its employees to part-time employment and hire 30 additional part-time employees and meet the employment qualification level of 30 employees even though the company still pays for the same number of hours. While this aspect of LB 996 may result in more projects qualifying for benefits under the Advantage Act, the higher wage requirement will result in fewer projects qualifying for benefits. Overall, the Department anticipates slightly fewer qualifying projects and less capacity to use credits due to the limits on the use of compensation credits against withholding. The Department of Revenue estimates the total increase to General Fund revenue as follows:

FY2018-19:	$ 0
FY2019-20:	$ 0
FY2020-21:	$ 531,000
FY2021-22:	$ 932,000
FY2022-23:	$ 1,127,000
FY2023-24:	$ 2,176,000
FY2024-25:	$ 4,499,000
FY2025-26:	$ 4,931,000

The Department of Revenue indicates that there will be minimal cost to the Department to implement the provisions of LB 996.

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

LB 996

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 996	AM:	AGENCY/POLT. SUB: Revenue
REVIEWED BY: Lyn Heaton	DATE: 2/23/2018	PHONE: (402) 471-4181
COMMENTS: No basis upon which to disagree with the Department of Revenue's analysis.		

LB 996 Fiscal Note 2018

State Agency Estimate

State Agency Name: Department of Revenue				Date Due LFA:	2/26/2018	
Approved by: Tony Fulton		Date Prepared:		Phone: 471-5896		

	FY 2018-2019		FY 2019-2020		FY 2020-2021	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds						531,000
Cash Funds						
Federal Funds						
Other Funds						
Total Funds						531,000

The bill changes the way employment levels are calculated by replacing equivalent employee with "established employee." Established employee is defined as an individual who is employed in Nebraska and is subject to the Nebraska income tax on compensation received from the taxpayer or its predecessors.

The bill increases the wage rate an employee must make to count as a new employee to 110% of the county average weekly wage. If a project is located in more than one county, the higher county average weekly wage would apply.

The bill changes the amount of compensation credits that may be earned. The credit will be equal to 3% times the average wage of new employees times the number of established new employees, if the average wage of the new employees equals at least 110% of the county average weekly wage. The percentage will be 4% if the average weekly wage is at least 125% of the county average weekly wage. The percentage will be 5% if the average weekly wage is at least 150% of the county average weekly wage. The percentage will be 6% if the average weekly wage is at least 175% of the county average weekly wage.

The bill limits the way credits can be used against income tax withholding for tiers 1, 2, 3, and 4. For the first three years of the entitlement period the amount of credits used against the income tax withholding may not exceed 100% of withholding attributable to new employees employed at the project, excluding any compensation in excess of one million dollars paid to any one employee during the year. For years 4 and 5 of the entitlement period, the use of credits against withholding is limited to 50%. For years 6 and 7 of the entitlement period and any year thereafter, the taxpayer cannot use credits against income tax withholding.

The bill also limits the way credits can be used against income tax withholding for tier 6. For the first three years of the entitlement period, the amount of credits used against income tax withholding may not exceed 100% of the withholding attributable to all employees employed at the project, excluding base-year employees and excluding any compensation in excess of one million dollars paid to any one employee during the year. For years 4 and 5 of the entitlement period the amount of credits used against income tax withholding is limited to 50%. For years 6 and 7 of the entitlement period and any year thereafter, the taxpayer cannot use credits against income tax withholding.

Major Objects of Expenditure

Class Code	Classification Title	18-19 FTE	19-20 FTE	20-21 FTE	18-19 Expenditures	19-20 Expenditures	20-21 Expenditures
Benefits							
Operating Costs							
Travel							
Capital Outlay							
Capital Improvements							
Total							

The changes in this bill applies to all applications filed after the effective date.

This bill will allow companies to meet employment qualification levels by hiring more part time people without increasing the number of hours or shifts. A company that previously employed 30 people could reduce all of its employees to part time and hire 30 additional part time employees and meet the employment qualification level of 30 even though the company still pays for the same number of hours. While this aspect of LB 996 may result in more projects qualifying for benefits under the Act, the higher wage requirement will result in fewer projects qualifying for benefits. Overall, the Department anticipates slightly fewer qualifying projects and less capacity to use credits due to the limits on the use of compensation credits against withholding. The Department estimates the total increase to General Fund revenues as follows:

FY 2017-2018	$	-
FY 2018-2019	$	-
FY 2019-2020	$	531,000
FY 2020-2021	$	932,000
FY 2021-2022	$	1,127,000
FY 2022-2023	$	2,176,000
FY 2023-2024	$	4,499,000
FY 2024-2025	$	4,931,000

It is estimated that there will be minimal costs to the Department to implement this bill.