PREPARED BY: DATE PREPARED: PHONE: Keisha Patent February 07, 2019 402-471-0059

LB 182

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 201	9-20	FY 2020-21				
	EXPENDITURES	REVENUE	EXPENDITURES REVENUE				
GENERAL FUNDS	\$238,055						
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$238,055						

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

LB 182 adopts the School District Local Option Income Surtax Act. The bill allows school boards to impose a local option income tax surtax rate of up to 20% which cannot exceed five years in duration. A school board can place the surtax on the ballot by passing a resolution, and the surtax can be imposed if approved by a majority of affirmative votes in a school district at an election.

The surtax is imposed on individuals living in the school district and collected by the Tax Commissioner when individuals file their state income tax returns. The surtax is equal to the individual's state income tax liability, less nonrefundable credits, multiplied by the rate determined by the school board. The Tax Commissioner must determine the total surtax owed to each school district and distribute it prior to July 1 each year. School districts must notify the Tax Commissioner by August 1 of the surtax rate for the following year. A school district can rescind or modify its surtax if approved by a majority of voters.

The tax revenue can be used to reduce property taxes or for building construction, remodeling, and site acquisition. Tax revenue to reduce property taxes will be distributed to the school district's general fund. If the purpose is building construction, remodeling, or site acquisition, the revenue will be distributed in the district's special building fund. The imposition of a surtax does not increase the budget authority for a school district.

The Department of Revenue can adopt and promulgate rules and regulations to carry out the act.

The Department of Education estimates no fiscal impact to the agency and minimal fiscal impact to school districts because surtax revenue would replace property tax revenue.

The fiscal impact to individual school districts will vary depending on whether they choose to implement the surtax, at what rate, and for what purpose. It is not possible to determine what decisions will be made at the local level pursuant to the bill. If districts impose a surtax for building and site needs, there will be increased expenditures for these purposes, which could offset expenditures that would have been made from other sources of revenue.

The extent to which a 20% surtax would offset property taxes depends on the income tax liability of the residents and the property taxes levied for school purposes. The maximum 20% surtax statewide would lower school district property taxes by 16.8%, but the largest impact for a school district would be a 38.4% reduction and the smallest impact for a school district would be a 1.8% reduction in property taxes.

The Department of Revenue estimates a one-time programming charge of \$238,055 to OCIO for mainframe development cost to add a line to the 1040N, to add a line to the 941N, and for web development costs for adding the corresponding line to the NebFile filing system. The Department also estimates the agency will require 0.5 FTE Revenue Operations Clerk II to implement the bill. However, the Legislative Fiscal Office disagrees that additional staff is necessary to perform the required functions of the bill.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE						
LB: 182	AM:	AGENCY/POLT. SUB: Department of Reven	ue			
REVIEWED BY:	Lee Will	DATE: 2/11/2019	PHONE: (402) 471-4175			
COMMENTS: Concur with the Department of Revenue's assessment of fiscal impact.						

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE							
LB: 182	AM:	AGENCY/POLT. SUB: Department of Ed	lucation				
REVIEWED BY:	Lee Will	DATE: 1/23/2019	PHONE: (402) 471-4175				
COMMENTS: Concur with the Department of Education's assessment of fiscal impact.							
This also would potentially cause a "tax shift" with schools relying on income taxes versus property taxes to fund their operations and infrastructure investment.							

LB 182 Fiscal Note 2019

		State Agency	Estimate				
State Agency Name: Department of Revenue Date Due LFA: 2/8/19							
Approved by: Tony Fulton		Date Prepared:	2/6/19		Phone: 471-5896		
	FY 2019-	-2020	FY 2020	-2021	FY 202	21-2022	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue	
General Funds	\$264,055	\$0	\$22,200	\$0	\$21,700	\$0	
Cash Funds							
Federal Funds							
Other Funds							
Total Funds	\$264,055	\$0	\$22,200	\$0	\$21,700	\$0	

LB 182 adopts the School District Local Option Income Surtax Act (ACT). The Act would allow school districts to levy an income tax surcharge for either property tax reduction or building construction, remodeling or site acquisition. The surtax would be imposed only on individuals who are residents of the school district, based upon the district designated on the income tax form. To be levied, the surtax must be proposed to the voters in the school district by resolution of the school board. The question would be provided to the county clerk or election commissioner at least 30 days before the election (20 if it is a special election), and the ballot question must state the rate of tax (based on a percent of tax liability after refundable credits), its duration, and its purpose. The surtax cannot exceed 20% of tax liability after nonrefundable credits.

If the voters approve imposition of a surtax, the Tax Commissioner (TC) would collect the surtax along with the income tax and modify the income tax and withholding forms accordingly. The TC must determine the total local option income surtax "owed" to each school district and distribute those amounts to the applicable school districts on or before July 1 of each year. School districts are to notify the TC of any imposition of the surtax by August 1 of the previous year.

Adopting a surtax does not increase the school district's budget authority. Proceeds for property tax reduction are deposited in the general fund and proceeds for capital construction are deposited in the building fund. A local option income surtax may be rescinded by vote using the same procedure as adoption. The Department is given regulation authority.

The operative date for LB 182 is 3 months after the end of the session.

It is estimated that this bill will have no impact on General Fund revenues.

The Department estimates a one-time OCIO cost of \$238,055 for mainframe development cost to add a line to the 1040N, addition of a line to the 941N, and for web development costs for adding the corresponding line to the web based NebFile online filing System. The Department estimates ½ FTE Revenue Operations Clerk II will be required to implement the bill.

Major Objects of Expenditure								
Class Code	Classification Title	19-20 <u>FTE</u>	20-21 <u>FTE</u>	21-22 <u>FTE</u> 0.5	19-20 Expenditures	20-21 Expenditures	21-22 Expenditures	
S29112	Revenue Operations Clerk II	0.5	0.5	0.5	\$15,800	\$16,700	\$16,300	
					\$5,200 \$238,055	\$5,500	\$5,400	
Travel Capital Outlay					\$238,033			
Capital Improvements. Total.				\$264,055	\$22,200	\$21,700		

LB ⁽¹⁾ 182 Revise	d					FISCAL NOTE	
State Agency OR Political Subd	livision Name: ⁽²⁾	Department of Education					
Prepared by: (3) Bryce Wil	son	Date	e Prepared: ⁽⁴⁾	1/15/19	Phone: (5)	402-471-4320	
EST	TIMATE PROV	IDED BY	STATE AGE	NCY OR POLIT	CICAL SUBDIVI	SION	
	FY	<u> 2019-20</u>			FY 202	0-21	
<u>E</u> 2	KPENDITURES		<u>REVENUE</u>	EXPEN	<u>DITURES</u>	REVENUE	
GENERAL FUNDS		_		<u> </u>			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS				<u></u>			
TOTAL FUNDS							
-		= =					
Explanation of Estimate:							
construction, remodeling of There would be no fiscal i impact as well as the surta	mpact to the I ix would repla	Departme	rty taxes.			y have minimal fisca	
Personal Services:	BREAKDOY	WN BY M	AJOR OBJECT	S OF EXPENI	<u>DITURE</u>		
		NUMBER (OF POSITION		19-20	2020-21	
POSITION TITLE	<u> </u>	<u>19-20</u>	<u>20-21</u>	EXPEN	<u>DITURES</u>	<u>EXPENDITURES</u>	
			_	<u> </u>			
Benefits	 -			-			
Operating				-			
Travel							
Capital outlay							
Aid							
Capital improvements							
TOTAL							