PREPARED BY: DATE PREPARED: PHONE: Keisha Patent February 28, 2022 402-471-0059

LB 982

Revision: 00

## **FISCAL NOTE**

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT - STATE AGENCIES (See narrative for political subdivision estimates)					
	FY 202	22-23	FY 2023-24		
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE	
GENERAL FUNDS	\$328,790		\$419,062	(\$7,339,000)	
CASH FUNDS					
FEDERAL FUNDS					
OTHER FUNDS					
TOTAL FUNDS	\$328,790		\$419,062	(\$7,339,000)	

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

LB 982 adopts the Education Savings Account Act. The bill defines terms, including education savings account, designated beneficiary, eligible school, and qualified expenses. The act is to be administered by the Department of Revenue (DOR).

An account is available to a parent or legal guardian of an eligible student. The account owner must then notify DOR of the financial institution where the account is located, they type of account, and the designated beneficiary (student) on the account.

The education savings account is to be used by the account owner to pay for qualified expenses, which include tuition, books, computers, entrance exams, etc. The account owner may notify DOR to change the designated beneficiary at any time.

Contributions to this education savings account are limited to \$2,000 per year. The contributor is not limited to the account owner, and can be any natural person or business.

Distributions are allowed for qualified expenses, as defined under the Act. Distributions for nonqualified expenses are subject to a 10% penalty on the amount of the expense. The account's balance must be fully distributed before the designated beneficiary graduates from high school.

## Revenue:

DOR estimates the following impact to the General Fund:

FY22-23	\$0
FY23-24	(\$7,339,000)
FY24-25	(\$7,721,000)

## **Expenditures:**

DOR estimates the need to develop a novel tracking system, adding lines to the tax forms, and creating a new schedule, as well as contracting for temporary employees for four months each year. Estimates costs are \$328,790 in FY 22-23, \$419,062 in FY 23-24, and \$50,955 in FY 24-25.

There is no basis to disagree with these estimates.

LB: 982	AM:	AGENCY/POLT. SUB: Depart	AGENCY/POLT. SUB: Department of Revenue	
REVIEWED BY	: Neil Sullivan	DATE: 3/1/2022	PHONE: (402) 471-4179	

LB 982 Fiscal Note 2022

		State Agency	Estimate			
State Agency Name: Department	of Revenue				Date Due LFO:	
Approved by: Tony Fulton		Date Prepared:	3/1/2022		Phone: 471-5896	
	FY 2022-	2023	FY 2023	3-2024	FY 2024	<u>-2025</u>
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$328,790	\$ 0	\$419,062	(\$ 7,339,000)	\$50,955	(\$ 7,721,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$328,790	\$ 0	\$419,062	(\$ 7,339,000)	\$50,955	(\$ 7,721,000)

LB 982 creates the Education Savings Account Act, which permits parents or legal guardians to open education savings accounts for a designated beneficiary at financial institutions. The accounts must be designated as an education savings account (account). Parents or legal guardians are the account owners. Account owners must notify the Department of Revenue (DOR) of the account and provide the following to DOR: the name of the financial institution; the type of account; and the designated beneficiary on the account. A designated beneficiary is a resident of Nebraska, a student at an eligible school, and is named beneficiary on the account. Eligible schools are generally public, private, denominational, or parochial K-12 schools in Nebraska. Owners may change the beneficiary by notifying DOR of the new designated beneficiary.

Any person, firm, partnership, limited liability company, association, or corporation may contribute up to \$2,000 in cash per calendar year to the account. At the direction of the account owner, contributions may be invested in stocks, bonds, mutual funds, or certificates of deposit of the financial institution holding the account.

Federal adjusted gross income (AGI) or taxable income may be reduced by (1) the interest earned on the account, to the extent included; and (2) by contributions to an account, to the extend not deducted for federal income tax purposes.

Distributions from accounts must be for the beneficiary's qualified education expenses. These include tuition, fees, and room and board at a school; books, supplies, equipment, and uniforms required by the school; extracurricular activities of the school; computers, computer equipment, software, and Internet access if used primarily for school purposes; distance education classes; and college entrance exams. Accounts must be fully distributed before the designated beneficiary graduate's high school.

If distributions are used for nonqualified expenses, federal AGI or federal taxable income must be increased by the amount of any withdrawals by the owner for nonqualified expenses to the extent previously deducted under the Act. The Act imposes a penalty of 10% of the nonqualified expenses. All penalties collected by DOR must be remitted to the State Treasurer for distribution pursuant to Article VII, §5 of the Constitution of Nebraska.

Major Objects of Expenditure							
Class Code	Classification Title	22-23 <u>FTE</u>	23-24 <u>FTE</u>	24-25 <u>FTE</u>	22-23 Expenditures	23-24 Expenditures	24-25 Expenditures
Operating Costs					\$328,790	\$419,062	\$50,955
Capital Outlay							
					\$328,790	\$419,062	\$50,955

LB 982 page 2 Fiscal Note 2022

DOR assumes that most of the revenue impact proposed by LB 982 would result from beneficiaries attending private, parochial, or denominational schools. Using data on school expenditures and enrollment from the National Center for Education Statistics, DOR estimates the following reduction to General Fund revenues:

FY 2022-23	\$ 0
FY 2023-24	\$ 7,339,000
FY 2024-25	\$ 7,721,000

LB 982 becomes operative for tax years on and after January 1, 2023.

LB 982 would require developing a novel tracking system, adding lines to the 1040N, 1041N, NebFile, 1120N, and creating a new schedule. Additionally, DOR will also need to contract with Department of Administrative Services an additional temporary employee for four months each year. The estimated costs total to \$328,790 in FY 2022-2023, \$419,062 in FY 2023-2024 and \$50,955 in FY 2024-2025.