

PREPARED BY: Keisha Patent
 DATE PREPARED: February 22, 2022
 PHONE: 402-471-0059

LB 1225

Revision: 00

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2022-23		FY 2023-24	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		\$8,960,000		\$33,436,000
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS		\$8,960,000		\$33,436,000

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

LB 1225 would exempt financial institutions, as defined in section 77-3801, from the franchise tax. Beginning in tax year 2023 and each year after, such financial institutions would be subject to corporate income taxes.

Revenue:

The Department of Revenue estimates the following impact to the General Fund:

FY22-23	\$8,960,000
FY23-24	\$33,436,000
FY24-25	\$56,632,000
FY25-26	\$66,598,000

Expenditures:

The department estimates minimal cost to implement the bill.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 1225	AM:	AGENCY/POLT. SUB: Department of Revenue	
REVIEWED BY: Neil Sullivan		DATE: 2/17/2022	PHONE: (402) 471-4179
COMMENTS: The Department of Revenue assessment of fiscal impact from LB 1225 appears reasonable.			

State Agency Estimate

State Agency Name: Department of Revenue Date Due LFO:
 Approved by: Tony Fulton Date Prepared: 2/17/2022 Phone: 471-5896

	FY 2022-2023		FY 2023-2024		FY 2024-2025	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds		\$8,960,000		\$33,436,000		\$56,632,000
Cash Funds						
Federal Funds						
Other Funds						
Total Funds		\$8,960,000		\$33,436,000		\$56,632,000

Under LB 1225, the franchise tax imposed on financial institutions in Neb. Rev. Stat. § 77-3802 will apply in taxable years beginning before January 1, 2023. For taxable years beginning on or after January 1, 2023, financial institutions will be subject to the corporate income tax in § 77-2734.02. In addition, the bill eliminates the exclusion of financial institutions from the corporate taxpayer definition in § 77-2734.04(9). This bill effectively eliminates the nonrefundable income tax credit § 77-2715.07(5) allowed to partners, shareholders, members, or beneficiaries for their proportionate share of the franchise tax paid by the flow-through financial institution and cancels the corresponding increasing adjustment for the credit in § 77-2716(12).

The Department of Revenue (DOR) analyzed the financial institution and corporation income tax data from other states that currently tax financial institutions through the corporation income tax. DOR also made a separate estimate by discounting net financial income data from Nebraska financial institution tax returns to account for the differences between net financial income and taxable income. DOR estimates the fiscal impact to General Fund revenues as a result of LB 1225 as follows:

Fiscal Year	General Fund Revenues
FY2022-23	\$ 8,960,000
FY2023-24	\$ 33,436,000
FY2024-25	\$ 56,632,000
FY2025-26	\$ 66,598,000

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

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	22-23	23-24	24-25	22-23	23-24	24-25
		<u>FTE</u>	<u>FTE</u>	<u>FTE</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>
Total							