

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2009-10		FY 2010-11	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below	See Below	See Below	See Below
CASH FUNDS	See Below	See Below	See Below	See Below
FEDERAL FUNDS		See Below		See Below
OTHER FUNDS				
TOTAL FUNDS	See Below	See Below	See Below	See Below

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 385 would amend Nebraska statutes dealing with revenue and taxation. The bill has an operative date of January 1, 2010.

The bill suspends the collection of fees from January 1, 2010 until January 1, 2015 derived from the following sections of Nebraska statute:

60-3,110 (local truck, special permit), 60-3,111 (farmers and ranchers, special permit), 60-3,112 (nonresident licensed vehicle hauling grain or seasonally harvested products, permit), 60-3,143 (passenger motor vehicle, leased motor vehicle), 60-3,144 (buses), 60-3,145 (local trucks), 60-3,146 (farm trucks), 60-3,147 (commercial motor vehicles), 60-3,148 (commercial motor vehicle, increase of gross vehicle weight, where allowed), 60-3,149 (soil and water conservation vehicle), 60-3,150 (truck-tractor and semitrailer, commercial trailer), 60-3,151 (trailers, recreational vehicles), 60-3,151 (trailers, recreational vehicles), 60-3,152 (ambulances, hearses), 60-3,153 (motorcycle), 60-3,154 (taxicabs), and 60-3,155 (well-boring apparatus and well-servicing equipment). Beginning January 1, 2015 these fees would again be collected.

The bill suspends the collection of taxes from January 1, 2010 to January 1, 2015 derived from the following sections of Nebraska statute:

60-3,184 (motor vehicle tax and fee), 60-3,185 (motor vehicle tax), 60-3,186 (motor vehicle tax, notice, taxes and fees, payment, proceeds, disposition), 60-3,187 (motor vehicle tax schedules, calculation of tax), 60-3,188 (motor vehicle tax, valuation of vehicles, department , duties), 60-3,189 (tax exemption, procedure, appeal), and 60-3,190 (motor vehicle fee, fee schedules, Motor Vehicle Fee Fund created, use, investment). Beginning January 1, 2015 these taxes would again be collected.

LB 386 changes the state sales tax rate levied pursuant to section 77-2703 for the period from July 1, 2010 to July 1, 2015 from the current rate of five and one-half percent to four and seventy-three hundredths percent. Commencing July 1, 2015 the sales tax rate would return to five and one-half percent.

The bill amends section 77-2701.16(10), definition of gross receipts generally dealing with rebates granted by motor vehicle or motorboat manufacturer or dealer and refunds, to provide that the definition does not apply after January 1, 2015.

LB 386 amends section 77-2701.24(2), 77-2701.24(3) and 77-2701.24(4), dealing generally with the occasional sales, to provide that those sections do not apply until January 1, 2015.

From January 1, 2010 to January 1, 2015, the bill would amend sections 77-2701.16 and 77-2701.35 to eliminate the allowance for motor vehicle rebates and trade-ins

The bill changes the sales tax collection fee from the current two and one-half percent of the first \$3,000 remitted each month to five percent of the first \$1,500 remitted each month.

Suspends the following sales tax exemptions for the period beginning January 1, 2010 to January 1, 2015:

77-2704.03 (aircraft fuel), 77-2704.04 (minerals, oil, or gas), 77-2704.05 (motor vehicle fuels, diesel & compressed fuels), 77-2704.07 (newspapers), 77-2704.08 (leased property), 77-2704.09 (insulin, prescription drugs, medical equipment), 77-2704.10 (meals and food products), 77-2704.11 (shipments outside this state), 77-2704.12 (nonprofit religious, service, education, or medical organization), 77-2704.13 (fuel, energy, or water sources), 77-2704.14 (coin-operated laundering & cleaning services), 77-2704.15 (purchases by state, schools, governmental units), 77-2704.16 (purchases by Nebraska State Fair Board), 77-2704.17 (purchases by Nebraska Investment Finance Authority), 77-2704.19 (purchases by Small Business Development Authority), 77-2704.20 (purchases by licensees of the State Racing Commission), 77-2704.21 (purchase of motor vehicle for disabled person), 77-2704.22 (manufacturing machinery and equipment & related services), 77-2704.23 (semen and insemination services), 77-2704.24 (food or food ingredients), 77-2704.25 (sales by school organizations), 77-2704.26 (aircraft), 77-2704.27 (railroad rolling stock), 77-2704.28 (leases between related companies), 77-2704.29 (sales tax payment, exemption from use tax), 77-2704.30 (Use tax, general exemptions), 77-2704.32 (projects outside the United States, refund of tax), 77-2704.36 (agricultural machinery and equipment), 77-2704.38 (state lottery tickets), 77-2704.39 (copyrighted material used for rebroadcasting), 77-2704.40 (molds, dies, and patterns), 77-2704.41 (feed, water, veterinary medicines and agricultural chemicals), 77-2704.42 (copies of public records), 77-2704.43 (industrial machinery and equipment), 77-2704.44 (use tax, when imposed), 77-2704.45 (ingredient or component parts), 77-2704.46 (food for human consumption), 77-2704.47 (containers), 77-2704.48 (occasional sale); 77-2704.50 (railroad rolling stock, common or contract carrier), 77-2704.51 (telecommunications services between telecommunications companies), 77-2704.52 (prepaid telephone calling arrangements), 77-2704.53 (videotape & film rentals, satellite programming & service), 77-2704.54 (purchase by electronic benefits transfer or food coupons), 77-2704.56 (purchase of fine art by museum), 77-2704.57 (personal property used by C-BED projects, community-based energy development), 77-2704.58 (depositions, bills of exceptions, transcripts sold by court reporter), 77-2704.59 (medical records).

LB 386 changes the corporate income tax rate to zero for tax years beginning on or after January 1, 2009 and before January 1, 2015.

The bill amends the Property Tax Credit Act, section 77-4212(1) to provide that it is the intent of the Legislature for tax years 2010 through 2015 to fund the property tax credit in an amount sufficient to reduce property taxes to zero.

The Department of Revenue estimates the following fiscal impact of LB 386:

	<u>FY2009-10:</u>	<u>FY2010-11:</u>	<u>FY2011-12:</u>	<u>FY2012-13:</u>
Repeal Sales Tax Exemptions (2.5% growth/yr):	\$1,500,000,000	\$3,757,000,000	\$3,851,000,000	\$3,947,000,000
Amend Retailer's Collection Fee (2.5% growth/yr):	\$ (14,750,000)	\$ (15,000,000)	\$ (15,375,000)	\$ (15,759,000)
Lower State Sale Tax Rate to 4.73%:	\$ 0	\$ (179,100,000)	\$ (206,400,000)	\$ (217,900,000)
Corporate Income Tax Rate to 0:	\$ (39,600,000)	\$ (180,500,000)	\$ (209,600,000)	\$ (213,300,000)
Fund Property Tax Credit (7.5% growth/yr):	\$ (115,000,000)	\$ (3,207,186,000)	\$ (3,447,725,000)	\$ (3,766,304,000)
Vehicle Registration Fees & Taxes(2.5% growth/yr):	\$ (44,000,000)	\$ (90,000,000)	\$ (92,250,000)	\$ (94,556,000)
Revenue Increase:	\$1,500,000,000	\$3,757,000,000	\$3,851,000,000	\$3,947,000,000
Revenue Decrease:	\$ (213,350,000)	\$ (3,671,786,000)	\$ (3,971,350,000)	\$ (4,307,819,000)
Net Revenue Increase or Decrease:	\$1,286,650,000	\$ 85,214,000	\$ (120,350,000)	\$ (360,819,000)

The Department of Revenue estimates the cost to implement LB 386 to be the following:

FY2009-10:	\$1,865,845 (this includes \$1,480,345 for personal service and \$385,500 for one-time operations costs)
FY2010-11:	\$3,065,685
FY2011-12:	\$3,143,324

The Department of Roads estimates the following impact to the department as follows:

Approximately \$66,000,000 of motor vehicle registration fees are reported each year. The NDOR receives 53 1/3% and cities and counties receive 46 2/3%. The elimination of motor vehicle fees and taxes would be a revenue loss of approximately \$35,000,000 to the department and \$31,000,000 to cities and counties.

Sales tax revenue up to the 5% level is deposited into the Highway Trust Fund with NDOR receiving 53 1/3% or \$83,000,000. A sales tax rate at 4.73% would result in lost revenue to NDOR of \$5,000,000. Sales tax revenue over the 5% level, approximately \$15,000,000, is shared by the cities and counties. Therefore, cities and counties would lose the \$15,000,000 as well as 46 2/3% of the reduced tax at 4.73% or \$4,000,000 for a total loss of \$19,000,000.

With the repeal of all sales tax exemptions, the NDOR would pay sales tax on all purchases, including materials incorporated into infrastructures. Assuming 60% of all construction costs are for materials, this bill would result in the department paying approximately \$14,000,000 in sales taxes each year.

If the variable motor fuel tax was adjusted to cover the lost revenue, it would result in an increase in the variable tax of 3.4 cents per gallon.

The Department of Health and Human Services indicates that two programs within the department would be affected by the changes proposed by LB 386. Those programs are the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), and the Federal Supplemental Nutrition Assistance Program (SNAP) – formerly known as the Food Stamp program.

The bill terminates the sales tax exemption found in section 77-2704.24 (food or food ingredients). The federal Child Nutrition Act of 1966 authorizing the WIC Program and federal WIC regulations prohibit the collection of sales tax on WIC food purchases. If 77-2704.24 were terminated, this would result in a sales tax on food. States collecting sales tax on WIC foods are not eligible to participate in the WIC Program.

For SNAP, federal regulations (CFR 272.1 (b)) provide that state sales tax may not be levied on food purchased with SNAP benefits.

The Department of Health and Human Services estimates the fiscal impact as follows:

The state-wide WIC Program could potentially lose over \$30,000,000 in federal USDA funds and over \$10,000,000 in Formula rebates. The loss of funding would result in the elimination of 11 FTE (10 FTE dedicated to WIC and 1 IS&T FTE that is 95% assigned to WIC).

It is unknown at this time what federal sanctions would be imposed by the federal USDA on the state's Food Stamp/SNAP Programs, which in calendar year 2008 provided \$138,000,000 in benefits to participants in Nebraska.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Lyn Heaton	DATE	3/19/09	PHONE	471-2526
COMMENTS					
DEPT. OF MOTOR VEHICLES – The agency analysis appears reasonable.					
DEPT. OF ROADS – No basis upon which to disagree.					
CITY OF LINCOLN – Fiscal impact is indeterminate.					