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PREPARED BY: Doug Gibbs
DATE PREPARED: January 25, 2012
PHONE: 402-471-0051

LB 872

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2012-13		FY 2013-14	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$ 0	(\$ 2,751,000)	\$ 91,110	(\$ 5,766,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$ 0	(\$ 2,751,000)	\$ 91,110	(\$ 5,766,000)

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

LB 872 deals with revenue and taxation and changes the apportionment method for corporate income tax for the sales of services or intangible property from the location of the income-producing activity to the location of the corporation's customer. The bill has an operative date of January 1, 2013.

The bill adopts definitions of several services and intangible property and describes the method for determining how income is apportioned for services and intangibles based on the location of the customer.

The Department of Revenue indicates that LB 872 will reduce corporate income tax for corporations located in Nebraska that provide services or intangibles to customers located outside of Nebraska. The bill will increase corporate income tax for corporations located outside of Nebraska that provide services or intangibles to customers located in Nebraska.

The Department estimates that the average corporate income tax remitted to Nebraska will be reduced by 30% for Nebraska corporations that provide services or intangibles to customers located outside the state. It is estimated that approximately 40% of this loss will be offset by corporate income tax increases from corporations outside of Nebraska, initially. The amount of offset is expected to increase with education and enforcement activities; however, the Department does not expect that the loss will be completely offset.

The Department estimates the following fiscal impact to revenue as a result of LB 872:

FY2012-13:	(\$ 2,751,000)
FY2013-14:	(\$ 5,766,000)
FY2014-15:	(\$ 6,443,000)

The Department indicates they will incur minimal mainframe computer programming costs, paid to the OCIO, and will require several staff positions to identify and collect corporate income tax from businesses that currently have no Nebraska liability. These positions include 1.0 FTE Attorney III, 2.0 FTE Revenue Agent, and 3.0 FTE Auditor Senior. The Attorney III will begin in FY2013-14, and the auditors in FY2015-16. Total implementation costs are estimated at \$91,110, \$185,700 and \$374,730 for fiscal years 2013-14 through 2015-16, respectively.

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

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Lyn Heaton	1/26/12	PHONE 471-2526
COMMENTS			
DEPT. OF REVENUE – No basis upon which to disagree with the department's analysis.			

LB 872 Revised

Fiscal Note 2012

State Agency Estimate

State Agency Name: Department of Revenue

Date Due LFA: 01/24/2012

Approved by: Douglas Ewald

Date Prepared: 01/20/2012

Phone: 471-5700

	FY 2012-2013		FY 2013-2014		FY 2014-2015	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds		(\$2,751,000)	\$91,110	(\$5,766,000)	\$185,700	(\$6,443,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds		(\$2,751,000)	\$91,110	(\$5,766,000)	\$185,700	(\$6,443,000)

LB 872 changes the apportionment method for the corporate income tax for the sales of services or intangible property from the location of the income-producing activity to the location of the corporation's customer. LB 872 adopts definitions of several services and intangibles. The bill describes the method for determining how income is apportioned for services and intangibles based on the location of the customer, that is, billing address or location of order placement per regular business practice.

LB 872 will reduce corporate income tax for corporations located in Nebraska that provide services or intangibles to customers located outside of Nebraska. At the same time, the bill will increase corporate income tax for corporations located outside of Nebraska that provide services or intangibles to customers located in Nebraska.

Using available tax information, it is estimated that the average corporate income tax remitted to Nebraska will be reduced by 30% for Nebraska corporations that provide services or intangibles to customers located outside of Nebraska. It is estimated that approximately 40% this loss will be offset by corporate income tax increases from corporations outside Nebraska, initially. The amount of offset is expected to increase with education and enforcement activities; however, we do not expect that the loss will be completely offset.

We estimate that LB 872 will reduce General Fund corporate income tax collections by \$2.751 million, \$5.766 million, and \$6.443 million in FY 2012-2013 through FY 2014-2015, respectively.

The Department will have minimal one-time mainframe computer programming costs, paid to the OCIO, and the bill will require several staff positions to assist in identifying and collecting corporate tax from businesses that currently have no Nebraska liability. These include 1.0 FTE Attorney III, 2.0 FTE Revenue Agent, and 3.0 FTE Auditor Senior. The attorney will begin in FY 2013-14, the agents in FY 2014-15, and the auditors in FY 2015-16. Total implementation costs are expected to be \$91,110, \$185,700, and \$374,730 for fiscal years FY 2013-14 through FY 2015-16, respectively.

Major Objects of Expenditure

Class Code	Classification Title	12-13	13-14	14-15	12-13	13-14	14-15
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
G31113	Attorney III		1.0	1.0		\$61,775	\$63,320
X29222	Revenue Agent			2.0			63,520
A21213	Auditor Senior - Begin in FY 2015-16						
Benefits.....						20,835	41,860
Operating Costs.....							
Travel.....							
Capital Outlay.....						8,500	17,000
Aid.....							
Capital Improvements.....							
Total.....						\$91,110	\$185,700