

Revised to correct error in calculation of fiscal impact.

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$71,722	(\$35,707,000)	\$453,988	(\$111,654,000)
CASH FUNDS		\$145,229,000		\$344,532,000
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$71,722	\$109,522,000	\$453,988	\$232,878,000

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

LB 312 amends the Nebraska Revenue Act of 1967 regarding sales and use taxes and tax credits.

Section 77-2701.16 is amended to impose sales and use tax on the following services:

- Repair or maintenance of motor vehicles;
- Pet related services which would now include veterinary services, specialty services performed on livestock, animal grooming performed by a licensed veterinarian or a licensed veterinary technician in conjunction with medical treatment;
- Cleaning of tangible personal property;
- Storage and moving services;
- Investment advice;
- Personal care services, including hair care, massage, nail services, spa services, and tattoo services;
- Maintenance, painting, repair, and interior decoration services for single-family housing;
- Limousine, taxi, and other transportation services;
- Services of travel agents and tour operators;
- Lawn care, gardening, and landscaping services;
- Parking lot services;
- Swimming pool cleaning and maintenance services;
- Dating and escort services;
- Instruction in music, dance, golf, and other recreational activities;
- Custom meat slaughtering services;
- Legal services; excluding legal services performed in the furtherance of a for-profit business enterprise;
- Accounting services, excluding accounting services performed in the furtherance of a for-profit business enterprise;
- Real estate services relating to the sale of single-family housing;
- Architectural services for single-family housing;
- Telefloral delivery services;
- Labor of a contractor for any major addition, remodeling, restoration, repair, or renovation of owner-occupied residential housing.

Section 77-2701.35 is amended to remove from the exclusion of “sales price” and therefore impose the sales tax on the trade-in value of motor vehicles, motorboats, all-terrain vehicles, and utility-type vehicles.

Section 77-2703 is amended regarding the trade-in value of motor vehicles, semitrailers, and trailers; motorboats, all-terrain vehicles, and utility-type vehicles.

Section 77-2704.10 is amended to remove the sales tax exemption for the following:

- School lunches;
- Fees and admissions for political events;
- Fees and admissions to school events;
- Fees and admissions charged participants in any activity provided by a nonprofit organization which conducts statewide sports events with multiple sports for both adults and youth;
- Fees and admissions charged participants in any activity provided by a nonprofit organization affiliated with a national organization primarily dedicated to youth development and healthy living offering sports instruction and sports leagues or sports events.

Section 77-2704-24 is amended to remove the sales tax exemption for soft drinks, candy, and bottled water.

Section 77-2715.07 is amended regarding the earned income tax credit, to increase the credit to 17% of the federal credit for tax years beginning on or after January 1, 2018.

Section 77-27,132 is amended to add new language that provides that the amount of net tax increase as a result of the provisions of LB 312 shall be credited to the Excess Revenue Property Tax Credit Fund. This amount to be determined annually by the Tax Commissioner.

New language in the bill creates the Excess Revenue Property Tax Credit Fund. The Fund is to be used to provide a property tax credit to owners of real property.

The amount to be disbursed to each county is equal to the amount in the Fund multiplied by the ratio of the real property valuation in each county to the real property valuation in the state. To determine the amount of the credit, the county treasurer is to multiply the amount disbursed to the county by the ratio of the real property valuation of the parcel to the total real property valuation in the county.

If a property owner qualifies for the homestead exemption, they shall also be qualified for the property tax credit to the extent of any remaining liability after receiving the homestead exemption tax relief. Any unused amounts are to be returned to the State Treasurer and credited to the Excess Revenue Property Tax Credit Fund.

The following sections are outright repealed, which removes the sales tax exemption for those items:

- 77-2704.07 Newspapers;
- 77-2704.14 Coin-operated laundering and cleaning machines;
- 77-2704.38 State Lottery tickets;***
- 77-2704.52 Prepaid calling service or prepaid wireless calling service;
- 77-2704.55 Certain contract labor;
- 77-2704.56 Purchase of fine art by a museum;
- 77-2704.65 Purchases by a historic automobile museum;
- 77-2704.67 Membership or admissions to or purchases by a zoo or aquarium.

*****Technical Note:** Removing the sales tax exemption for state lottery ticket purchases could raise constitutional issues regarding the distribution of proceeds to beneficiaries and violate provisions of the Multi-state lottery compact. In addition, the Department of Revenue indicates that repeal of the statutory exemption for lottery tickets would not necessarily impose a sales tax on lottery tickets, which represent intangible rights and do not constitute tangible personal property or taxable services. Lottery tickets were not included in the Department's calculation of fiscal impact.

The bill has an operative date of January 1, 2018.

The Department of Revenue estimates the following fiscal impact of LB 312:

Fiscal Year:	Excess Revenue Property Tax Credit Fund:	Highway Cash Fund:	Highway Allocation Fund: (Local)	Game and Parks Commission Capital Maintenance Fund:	General Fund:
2017-18:	\$ 127,993,000	\$ 16,632,000	\$ 18,471,000	\$ 604,000	(\$ 35,707,000)
2018-19:	\$ 301,710,000	\$ 41,335,000	\$ 45,555,000	\$ 1,487,000	(\$ 111,654,000)
2019-20:	\$ 319,295,000	\$ 42,729,000	\$ 46,761,000	\$ 381,000	(\$ 112,975,000)
2020-21:	\$ 337,261,000	\$ 44,174,000	\$ 48,001,000	\$ 0	(\$ 115,568,000)

LB 312 required any increase in sales tax revenue to be applied to the Excess Revenue Property Tax Credit Fund. Current law requires all sales tax on motor vehicles, All-terrain vehicles, Utility-type vehicles, and motorboats to be applied to the Highway Allocation Fund, the Highway Cash Fund, and the Game and Parks Commission Capital Maintenance Fund. The repeal of the trade-in exclusion for motor vehicles, motorboats, ATVs and UTVs will increase the amounts deposited in those cash funds. The estimate increased sales tax revenues associated with these sales for FY2018-19, for example, of \$87,377,000 will also be applied to the Excess Revenue Property Tax Credit Cash Fund resulting in an \$87,377,000 loss to the General Fund. The negative impact to the General Fund also includes the increase in the Earned Income Tax Credit.

The Department of Revenue estimates that they will require 1.0 FTE Revenue Tax Specialist to make changes to tax forms, instructions, information guides, regulations, website information, and other areas and continued administration in subsequent years. Additionally, 8.0 FTE Auditors necessary to provide the same audit coverage and 3.0 FTE Attorneys III. PSL for FY2017-18 would be \$50,167 and \$318,788 for FY2018-19.

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

The Coordinating Commission for Postsecondary Education estimates a loss of Cash Fund revenue of \$1,500,000 in FY2017-18 and \$3,000,000 in FY2018-19, if the sales tax exemption for lottery tickets is removed. (Please see technical note above)

IMPACT TO POLITICAL SUBDIVISIONS: The fiscal impact to the Highway Allocation Fund is as follows:

FY2017-18:	\$ 18,471,000
FY2018-19:	\$ 45,555,000
FY2019-20:	\$ 46,761,000
FY2020-21:	\$ 48,001,000

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 2/17/2017				
Approved by: Tony Fulton		Date Prepared: 3/31/2017				
Phone: 471-5896						
	FY 2017-2018		FY 2018-2019		FY 2019-2020	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$71,722	(\$35,707,000)	\$453,988	(\$111,654,000)	\$674,758	(\$112,975,000)
Cash Funds		\$145,229,000		\$344,532,000		\$362,405,000
Federal Funds						
Other Funds		\$18,471,000		\$45,555,000		\$46,761,000
Total Funds	\$71,722	\$127,993,000	\$453,988	\$278,433,000	\$674,758	\$296,191,000

LB 312 would expand the sales tax base by repealing several exemptions and extending the tax to include many services. The revenue generated would be deposited in a new fund called the Excess Revenue Property Tax Credit Fund and distributed as property tax credits in the same way the current property tax credit is distributed. The bill would also amend Neb. Rev. Stat. § 77-2715.07 to increase the refundable earned income tax credit from 10 percent of the federal credit amount to 17 percent beginning with taxable year 2018.

The repealed sales tax exemptions are: Trade-in exclusions from sales price for motor vehicles, motorboats, ATVs, and UTVs; Prepared food and food ingredients served by schools, student organizations, PTOs, etc. in primary, secondary, or higher educational institutions; Fees and admissions to school events; Fees and admissions to multi-sport events for youth and adults; Fees and admissions for youth sports; Soft drinks, candy, and bottled water currently within the definition of exempt food and food ingredients; Newspapers; Coin-operated laundries; Prepaid calling or prepaid wireless services; Lottery tickets; Museums and historic automobile museums; and Purchases by and admissions to zoos and aquariums.

The new services to be subject to sales taxes are: Veterinary services; Cleaning tangible personal property; Storage and moving services; Investment advice: Personal care, including hair care, massage, nail services, spa services, and tattoo services; Painting, repair, and interior decorating of single-family houses; Limousine, taxi, and other transportation services; Travel agent services and tour operators; Lawn care, gardening, and landscaping services; Automobile parking; Swimming pool cleaning and maintenance; Dating and escort services; Personal instruction; Custom meat slaughtering; Legal and accounting services, except for for-profit businesses; Real estate services and architectural services relating to single-family housing; Telefloral delivery services; and Construction labor for major additions, remodeling, restoration repair or renovation of owner-occupied residential housing.

Overall, LB 312 would have the following impact on the General Fund and Cash Fund Revenues.

Fiscal Year	Excess Revenue Property Tax Credit Fund	Highway Cash Fund	Highway Allocation Fund	Game and Parks Commission Capital Maintenance Fund	General Fund
FY17-18	\$127,993,000	\$16,632,000	\$18,471,000	\$604,000	(\$35,707,000)
FY18-19	\$301,710,000	\$41,335,000	\$45,555,000	\$1,487,000	(\$111,654,000)
FY19-20	\$319,295,000	\$42,729,000	\$46,761,000	\$381,000	(\$112,975,000)
FY20-21	\$337,261,000	\$44,174,000	\$48,001,000	\$0	(\$115,568,000)

Repeal of the statutory exemption for lottery tickets would not necessarily impose a sales tax on lottery tickets, which represent intangible rights and do not constitute tangible personal property or taxable services. For this reason, lottery tickets are not included in the above calculations.

LB 312 requires any increase in sales tax revenues to be applied to the Excess Revenue Property Tax Credit Fund. Current law requires all sales tax on motor vehicles, ATVs, UTVs and Motor Boats to be applied to the Highway Allocation Fund, the Highway Cash Fund, and the Game and Parks Commission Capital Maintenance Fund. The repeal of the trade-in exclusion for motor vehicles, motorboats, ATVs and UTVs will increase the amounts deposited in those cash funds. The estimated increased sales tax revenues associated with these sales for FY 2018-19, for example, of \$88,377,000 will also be applied to the Excess Revenue Property Tax Credit Fund resulting in an \$88,377,000 loss to the General Fund. The negative impact to the General Fund also includes the increase in the Earned Income Tax Credit.

The bill will require the addition of one full time Revenue Tax Specialist to make changes to tax forms, instructions, information guides, regulations, website information and other areas and to continue the effective administration of these changes in the years following. Additionally, eight full time Auditors would be needed in order to keep the same audit coverage as well as 1.5 Attorneys III.

The bill would be operative January 1, 2018.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>17-18 FTE</u>	<u>18-19 FTE</u>	<u>19-20 FTE</u>	<u>17-18 Expenditures</u>	<u>18-19 Expenditures</u>	<u>19-20 Expenditures</u>
A29621	Revenue Tax Specialists	1.0	1.0	1.0	\$50,167	\$50,794	\$51,556
A21212	Auditor	0	4.0	8.0	\$0	\$166,234	\$337,456
G31113	Attorney III	0	1.5	1.5	\$0	\$101,760	\$103,287
Benefits.....					\$16,555	\$105,200	\$162,459
Operating Costs.....							
Travel.....							
Capital Outlay.....					\$5000	\$30,000	\$20,000
Aid.....							
Capital Improvements.....							
Total.....					\$71,722	\$453,988	\$674,758