

Revised to correct an omission and clarify additional tax provisions

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$89,238	\$34,865,000	\$42,000	\$93,010,000
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$89,238	\$34,865,000	\$42,000	\$93,010,000

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

LB 661 amends the Nebraska Revenue Act of 1967. The bill removes the adjustment for inflation to individual income tax brackets for tax years on or after January 1, 2020, but retains the inflation adjustment for the social security income reduction thresholds. The applicable individual income tax brackets for tax years beginning on or after January 1, 2020, are the brackets in section 77-2715.03(2).

LB 661 provides a reduction in the personal exemption amount by 2% for each \$2,500 or fraction thereof, \$1,250 for married filing separate returns, that the taxpayer's federal adjusted gross income exceeds the applicable threshold amounts listed in federal law limiting itemized deductions, as they existed prior to December 22, 2017. The Department of Revenue must index the applicable amounts under federal law as they existed prior to December 22, 2017.

The bill also reinstates the additional tax in section 77-2716.03, tying the tax liability to the applicable threshold amounts listed in federal law limiting itemized deductions, as they existed prior to December 22, 2017. The Department of Revenue must index the applicable amounts under federal law as they existed prior to December 22, 2017.

The amount of revenue from state income tax received as a result of this bill will be credited to the Property Tax Credit Cash Fund. The department must annually certify the amount to be transferred to the Property Tax Credit Cash Fund.

Revenue:

The revised estimates from the Department of Revenue for revenue to the General Fund, the amount certified and transferred to the Property Tax Credit Fund, and the expenditures from the Property Tax Credit Cash Fund are as follows:

Fiscal Year	General Fund revenue	Transfer to Property Tax Credit Fund	Property Tax Credit Fund Expenditure
FY 2019-20	\$34,865,000	\$ -	\$ -
FY 2020-21	\$93,010,000	\$ -	\$ -
FY 2021-22	\$116,131,000	\$83,676,000	\$83,676,000
FY 2022-23	\$141,488,000	\$106,077,000	\$106,077,000

Expenditures:

The Department of Revenue estimates the following administrative costs:

- A one-time programming charge of \$49,348 to OCIO for mainframe and web development costs; and
- The salary and benefits for 0.5 FTE Revenue Economist for a cost of \$39,800 in FY20 and \$42,000 in FY21.

There is no basis to disagree with these estimates.

State Agency Estimate

State Agency Name: Department of Revenue		Date Prepared: 3/27/2019		Date Due LFA:		
Approved by: Tony Fulton				Phone: 471-5896		
	FY 2019-2020		FY 2020-2021		FY 2021-2022	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$89,238	\$34,865,000	\$42,000	\$93,010,000	\$41,200	\$116,131,000
Cash Funds			\$83,676,000	\$83,676,000	\$106,077,000	\$106,077,000
Federal Funds						
Other Funds						
Total Funds	\$89,238	\$34,865,000	\$83,718,000	\$176,686,000	\$106,118,2000	\$222,208,000

LB 661 amends § 77-2715.03 to remove the adjustment to the individual income tax brackets based on inflation and the percentage change in the Consumer Price Index for taxable years beginning or deemed to begin on or after January 1, 2020. In effect, this removal of adjustments will revert the brackets back to the brackets as stated in § 77-2715 (2) for January 1, 2020 and after. LB 661 does not remove the inflation adjustment to the federal adjusted gross income threshold for purposes of the Social Security adjustment.

LB 661 amends § 77-2716.01 to reduce the personal exemption credit amount for any taxpayer whose AGI exceeds the applicable amount in effect under 26 U.S.C.A § 68 as it existed prior to December 22, 2017. In such case the personal exemption amount will be reduced to two percentage points for each \$1,250 for married filing separate return, \$2,500 for all other returns, or fraction thereof that the taxpayer’s AGI for the taxable year exceeds the applicable amount. The Department shall index the applicable amount for inflation as provided under 26 U.S.C.A § 68 (b) (2) as it existed prior to December 22, 2017.

Lastly, LB 661 amends § 77-27,132 to provide that any increase in state income tax revenue received as a result of LB 661 shall be determined by the Department of Revenue, certified to the State Treasurer and transferred to the Property Tax Credit Cash Fund annually.

The Department assumes the two percentage points reduction to the personal exemption credit amount will be rounded to the nearest dollar. The Department used the micro simulation model with individual income tax for tax year 2017 to model the change proposed by LB 661 simultaneously to estimate the increase in revenues from LB 661. The Department assumes the following timeline for the certification and transfer of the increase: Taxpayers will file their 2020 income tax in 2021 and the Department will use the individual income tax for tax year 2020 data with cutoff date around November 1st of 2021 and the certification of the increase for tax year 2020 will be certified on December 15, 2021. The transfer from General Fund revenues to the Property Tax Credit fund will be after the certification and before December 31, 2021. So the transfer to the Property Tax Credit Cash Fund lags the increase in General Fund revenues by almost two years. The cycle repeats itself for future years. The fiscal impact of LB 661 is as follows:

Fiscal Year	Increase to General Fund revenue	Increase in General Fund Expenditure	Increase in Property Tax Credit Fund
FY 2018-19	\$ -	\$ -	\$ -
FY 2019-20	\$ 34,865,000	\$ -	\$ -
FY 2020-21	\$ 93,010,000	\$ -	\$ -
FY 2021-22	\$ 116,131,000	\$ 83,676,000	\$ 83,676,000
FY 2022-23	\$ 141,488,000	\$ 106,077,000	\$ 106,077,000

The estimates assume taxpayers will change their withholding and estimated payments beginning on January 1, 2020 and thereafter.

