PREPARED BY: DATE PREPARED: PHONE: Austin Ligenza December 23, 2021 (402)471-0050

**LB 502** 

Revision: 01

## **FISCAL NOTE**

LEGISLATIVE FISCAL ANALYST ESTIMATE

Revised for 2022 session

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 202	2-23	FY 2023-24				
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE			
GENERAL FUNDS	\$186,119	(\$11,700,000)	\$44,800	(\$5,900,000)			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$186,119	(\$11,700,000)	\$44,800	(\$5,900,000)			

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

LB 502 seeks to amend sections of the Nebraska Advantage Act. LB 502 redefines direct sales tax refunds as sales tax exemptions for various sections. LB 502 allows for a sales and use tax exemption to be claimed on purchases for a tier 2, 4, 5, or 6 project agreements under the Nebraska Advantage Act. Direct payment permits are to be issued to these qualifying taxpayers, to be used in place of any direct sales tax refund.

LB 502 becomes operative three months after adjournment.

## Revenue:

The Department of Revenue estimates LB 502 will create an immediate General Fund revenue loss from the sales and use tax exemptions granted. This is due to taxpayers qualifying for the new permit being exempt from sales and use tax on relevant purchases immediately, rather than being refunded at a later date. The Department of Revenue estimates the following General Fund revenue impact:

- FY22-23: (\$11,700,000)
- FY23-24: (\$5,900,000)
- FY24-25: (\$2,000,000)
- FY25-26: -

There is no basis to disagree with these estimates.

## **Expenditures:**

The Department of Revenue estimates a one-time OCIO programming charge of \$137,319 to implement LB 502. Additionally, it is expected that a 1.0 FTE Revenue Analyst II will be needed to implement the changes made by LB 502. There is no basis to disagree with these estimates.

The estimates provided are from the 2021 session. For purposes of this fiscal note, the years have been moved forward to coincide with the 2022 session.

LB 502 Fiscal Note 2021

State Agency Estimate							
State Agency Name: Department	of Revenue				Date Due LFO:		
Approved by: Tony Fulton		Date Prepared:	LEAVE BLA	NK	Phone: 471-5896		
FY 2021-2022		FY 2022-2023		FY 2023-2024			
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue	
General Funds	\$186,119	(\$11,700,000)	\$44,800	(\$5,900,000)	\$45,800	(\$2,000,000)	
Cash Funds							
Federal Funds							
Other Funds							
Total Funds	\$186,119	(\$5,900,000)	\$44,800	(\$5,900,000)	\$45,800	(\$2,000,000)	
	·						

LB 502 amends section 77-5725 of the Nebraska Advantage Act to allow taxpayers with tier 2, tier 4, tier 5, or tier 6 agreements to receive a direct pay permit and utilize a sales tax exemption in the place of a direct refund of sales and use taxes for purchases made during the entitlement period. The exemption covers sales and use tax, including local option tax, paid on purchases, including rentals, listed in 77-5725(2)(a), except that the exemption for subdivisions 77-5725(2)(a)(iii), (iv), and (v) is for the actual materials purchased.

Upon execution of the agreement or, for taxpayers whose agreement was executed prior to the effective date of this act, within 60 days after the effective date of this act, the taxpayer will be issued a direct payment permit under 77-2705.01 notwithstanding the 3 million limitation. The taxpayer will receive the certificate unless they opt out of the requirement. Taxpayers with agreements signed prior to the effective date of this act will have the option to make a one-time election to have the provisions of this act apply to their agreement.

Taxpayers who have received the permit must pay and remit sales and use tax until they meet the required employment and investment levels. Once the taxpayer has met levels they receive the sales tax refund described in 77-5725(2)(a). For any year in which the taxpayer is not at the required levels, they must report all sales and use taxes owned for the period on their income tax return for the year. DOR believes "income" tax is a drafting error that was copied from a similar error in LB 1107(2020), the Nebraska ImagiNE Act.

The operative date for LB 502 is three months after adjournment.

Major Objects of Expenditure								
		23-24	21-22	22-23	23-24			
Class Code	Classification Title	<u>FTE</u>	<u>FTE</u>	FTE	<u>Expenditures</u>	<b>Expenditures</b>	<b>Expenditures</b>	
S29112	Revenue Analyst II	1.0	1.0	1.0	\$32,900	\$33,700	\$34,400	
Benefits.					\$10,900	\$11,100	\$11,400	
Operating Costs					\$137,319			
Capital Outlay					\$5,000			
	ents						-	
Total				\$186,119	\$44,800	\$45,800		

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Note that the revenue impact is mainly the shift in revenue when taxpayers take the exemption rather than refund at some later date. It is estimated that LB 502 will have the following impact to the General Fund revenues:

FY21-22	\$ (11,700,000)
FY22-23	\$ (5,900,000)
FY23-24	\$ (2,000,000)
FY24-25	\$ -

Because most income tax forms do not have a line to report use tax if the taxpayer is not at the required levels, LB 502 will require a one-time charge of \$137,319 for OCIO mainframe changes and a programming contractor. Additionally, DOR would require 1.0 FTE Revenue Analyst II to implement the bill.

**FISCAL NOTE** 

**LB**<sup>(1)</sup> 502

State Agency OR Political Subdivision Nan	ne: (2) Nebrasł	Nebraska Department of Economic Development						
Prepared by: (3) Anthony Goins	Date P	Prepared: (4)	1/23/2021	Phone: (5)	402-471-3777			
ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION								
	FY 2021-22			FY 2022	-23			
EXPENDIT	<u>URES</u> <u>R</u>	<u>REVENUE</u>	EXPEND:	<u>ITURES</u>	<u>REVENUE</u>			
GENERAL FUNDS								
CASH FUNDS								
FEDERAL FUNDS								
OTHER FUNDS								
TOTAL FUNDS	<u> </u>							
LB502 amends the Nebraska Advan receive a direct pay permit from the qualification levels are reached. The Advantage become a sales tax exer	Department of n the direct sal	Revenue to	report and pay	sales and use	e taxes until the			
<u>BREAKI</u> Personal Services:	DOWN BY MAJO	OR OBJECTS	S OF EXPENDIT	<u>'URE</u>				
POSITION TITLE	NUMBER OF 21-22	F POSITION <u>22-23</u>	S 2021 EXPEND		2022-23 EXPENDITURES			
			_					
Benefits								
Operating								
Travel								
Capital outlay								
Aid								
Capital improvements								
TOTAL								