

Revised to include revised agency response

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2022-23		FY 2023-24	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		(\$115,541,000)		(\$213,813,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS		(\$115,541,000)		(\$213,813,000)

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

LB 873, as amended on General File by AM2649, amends provisions related to income taxes, and incorporates the provisions of LB 723, LB 825, LB 938, and LB 939. The original provisions of LB 873 were stricken by committee amendment.

LB 873 amends the top rate, currently 6.84%, for individual income taxes as follows:

- For tax year 2023: 6.64%
- For tax year 2024: 6.44%
- For tax year 2025: 6.24%
- For tax year 2026: 6.00%
- For tax year 2027: 5.84%

LB 873 amends the percentage of social security benefits received that are excluded from adjusted gross income, beginning in tax year 2022 as follows:

- For tax year 2022: Increases from 20% to 40%
- For tax year 2023: Increases from 30% to 60%
- For tax year 2024: Increases from 40% to 80%
- For tax year 2025: Increases from 50% to 100%

The impact of the changes to individual income taxes on the General Fund is as follows:

FY22-23	(\$65,541,000)
FY23-24	(\$130,755,000)
FY24-25	(\$212,186,000)
FY25-26	(\$299,995,000)
FY26-27	(\$383,175,000)
FY27-28	(\$434,321,000)

LB 873 amends the top rate, currently 7.5% for tax year 2022 and 7.25% for tax year 2023, for corporate taxes on taxable income on all income in excess of \$100,000 as follows:

- For tax year 2024: 6.50%
- For tax year 2025: 6.24%
- For tax year 2026: 6.00%
- For tax year 2027: 5.84%

The impact of the changes to corporate income tax rates on the General Fund is as follows:

FY22-23	\$0
FY23-24	(\$5,177,000)
FY24-25	(\$23,233,000)
FY25-26	(\$48,301,000)
FY26-27	(\$69,071,000)
FY27-28	(\$84,176,000)

LB 873 amends provisions of the Nebraska Property Tax Incentive Act to change the calculation of total credits available under the act for taxes paid to school districts. Under LB 873, subsection 2(e) would be struck, eliminating the original language related to tax year 2024, which set the total amount of credits to \$375,000,000, and the amount is set as follows:

- For tax year 2022: \$548,000,000
- For tax year 2023: \$560,700,000
- For tax year 2024 and thereafter: Prior year plus allowable growth

The bill also creates a new type of income tax credit under the Nebraska Property Tax Incentive Act, which is a refundable income tax credit for community college property taxes paid. Community college taxes exclude taxes for bonded indebtedness or taxes as for an override of a levy limit approved by voters. The credit percentage is set by the Department of Revenue so that the total amount of credits equals the following amount:

- For tax year 2022: \$50,000,000
- For tax year 2023: \$100,000,000
- For tax year 2024: \$125,000,000
- For tax year 2025: \$150,000,000
- For tax year 2026: \$195,000,000
- For tax year 2027 and thereafter: Prior year plus allowable growth

The Nebraska Economic Forecast Advisory Board met February 28, 2022, and based on the forecast set by the board for FY22-23, the estimate for the credit for FY23-24 increased from \$560.7 million to \$582.7 million, creating a revenue gain in FY23-24 by setting the income tax credit for school property taxes paid at \$560.7 million. As such, we estimate the impact of the changes to the Nebraska Property Tax Incentive Act, including the new credit for community college taxes paid, to the General Fund as follows:

FY22-23	(\$50,000,000)
FY23-24	(\$77,881,000)
FY24-25	(\$330,325,000)
FY25-26	(\$362,511,000)
FY26-27	(\$414,949,000)
FY27-28	(\$429,472,000)

The total General Fund revenue impact is as follows:

FY22-23	(\$115,541,000)
FY23-24	(\$213,813,000)
FY24-25	(\$565,744,000)
FY25-26	(\$710,807,000)
FY26-27	(\$867,195,000)
FY27-28	(\$947,969,000)

EXPENDITURES:

The Department of Revenue estimates programming costs related to the rate changes and implementation of the refundable tax credit for community colleges taxes paid of \$580,081 for FY23 and \$103,408 for FY24. The agency now indicates these costs can be accommodated by their current appropriation.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 873	AM: 2694	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Neil Sullivan	DATE: 4/5/2022	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Department of Revenue assessment of revenue impact from LB 873 as amended by AM 2694.		

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFO:			
Approved by: Tony Fulton		Phone: 471-5896			
Date Prepared: 04/05/2020					
<u>FY 2022-2023</u>		<u>FY 2023-2024</u>		<u>FY 2024-2025</u>	
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$ (115,541,000)		\$(213,813,000)		\$(565,744,000)
Cash Funds					
Federal Funds					
Other Funds					
Total Funds	\$ (115,541,000)		\$(213,813,000)		\$(565,744,000)

AM 2649 strikes the original sections of LB 873 and inserts the following new sections.

Section 1 amends Neb. Rev. Stat. § 77-2715.03 to change the top rate of individual income taxes as follow:

- 6.84% for taxable years beginning on or after January 1, 2014 and before January 1, 2023;
- 6.64% for taxable years beginning on or after January 1, 2023 and before January 1, 2024;
- 6.44% for taxable years beginning on or after January 1, 2024 and before January 1, 2025;
- 6.24% for taxable years beginning on or after January 1, 2025 and before January 1, 2026;
- 6.00% for taxable years beginning on or after January 1, 2026 and before January 1, 2027; and
- 5.84% for taxable years beginning on or after January 1, 2027.

Section 2 amends Neb. Rev. Stat. § 77-2716 to change the provisions related to the taxation of benefits received by taxpayers under the federal Social Security Act that are included in the federal adjusted gross income (AGI) of the taxpayer.

Federal AGI would be reduced by a percentage of social security benefits as follows:

- 40% for taxable years beginning on or after January 1, 2022 and before January 1, 2023;
- 60% for taxable years beginning on or after January 1, 2023 and before January 1, 2024;
- 80% for taxable years beginning on or after January 1, 2024 and before January 1, 2025; and
- 100% for taxable years beginning on or after January 1, 2025.

For taxable years beginning before January 1, 2025, a taxpayer may claim the greater reduction to federal AGI allowed under subsection (13) and (14) of section 77-2716. In addition, this bill provides that the reduction of federal AGI of social security benefits under section 77-2716(13) for married, filing jointly taxpayers with federal AGI of \$58,000 or less, or any other taxpayers with federal AGI of \$43,000 or less will apply only to taxable years beginning before January 1, 2025.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>22-23 FTE</u>	<u>23-24 FTE</u>	<u>24-25 FTE</u>	<u>22-23 Expenditures</u>	<u>23-24 Expenditures</u>	<u>24-25 Expenditures</u>
	Benefits.....						
	Operating Costs.....				\$580,081	\$103,408	
	Travel.....						
	Capital Outlay.....						
	Capital Improvements.....						
	Total.....				\$580,081	\$103,408	

Section 3 amends Neb. Rev. Stat. § 77-2734.02 and changes the corporate tax rate that applies to taxable income in excess of \$100,000 to:

- 6.50% for taxable years beginning on or after January 1, 2024 and before January 1, 2025;
- 6.24% for taxable years beginning on or after January 1, 2025 and before January 1, 2026;
- 6.00% for taxable years beginning on or after January 1, 2026 and before January 1, 2027; and
- 5.84% for taxable years beginning on or after January 1, 2027.

The corporate rate that applies to the first \$100,000 of taxable income remains at 5.58%.

Sections 4 to 7 amend the Nebraska Property Tax Incentive Act (Act) to add a refundable income tax credit for community college taxes paid by eligible taxpayers and changes to the credit percentage for school district property taxes paid.

Section 5 amends the definitions in Neb. Rev. Stat. § 77-6702 of the Act as follows. The bill defines community college taxes as property taxes levied on real property in this State by a community college area, excluding any property taxes levied for bonded indebtedness and any property taxes levied because of an override of limits on property tax levies approved by voters pursuant to Neb. Rev. Stat. § 77-3444. The payment of community college taxes during a taxable year is added to the definition of eligible taxpayer. Allowable growth percentage is defined as the percentage increase, if any, in the total assessed value of all real property in the State from the prior year to the current year, as determined by the Nebraska Department of Revenue (DOR), not to exceed 5% in any one year. Section 6 amends Neb. Rev. Stat. § 77-6703 of the Act to change the credit percentage for school district property taxes paid by eligible taxpayers. DOR must set the credit percentage so the total amount of credits for such taxable years is as follows:

- \$548,000,000 for taxable years beginning or deemed to begin during calendar year 2022;
- \$560,700,000 for taxable years beginning or deemed to begin during calendar year 2023; and
- The maximum amount of credits allowed in the prior year increased by the allowable growth percentage, for taxable years beginning or deemed to begin during calendar year 2024 and each calendar year thereafter.

Section 7 allows a refundable income tax credit for community college taxes paid by eligible taxpayers during such taxable year, for tax years beginning or deemed to begin on or after January 1, 2022. The credit is allowed against the income tax imposed by the Nebraska Revenue Act of 1967 or the franchise tax imposed under sections 77-3801 to 77-3807. The credit must equal the credit percentage for the taxable year, as set by DOR under the Act, multiplied by the amount of community college taxes paid by the eligible taxpayer during such taxable year. DOR must set the credit percentage so the total amount of credits for such taxable year is as follows:

- \$50,000,000 for taxable years beginning during calendar year 2022;
- \$100,000,000 for taxable years beginning during calendar year 2023;
- \$125,000,000 for taxable years beginning during calendar year 2024;
- \$150,000,000 for taxable years beginning during calendar year 2025;

- \$195,000,000 for taxable years beginning during calendar year 2026; and
- The maximum amount of credits allowed in the prior year increased by the allowable growth percentage, for taxable years beginning during calendar year 2027 and each calendar year thereafter.

The estimated fiscal impact to the General Fund revenues would be as follows:

	Individual Income Tax	Corporation Income Tax	Refundable Property Tax Credit - School District	Refundable Property Tax Credit - Community College	Total General Fund Revenues
FY 2022-23	\$ (65,541,000)	\$ -	\$ -	\$ (50,000,000)	\$ (115,541,000)
FY 2023-24	\$ (130,755,000)	\$ (5,177,000)	\$ 22,119,000	\$ (100,000,000)	\$ (213,813,000)
FY 2024-25	\$ (212,186,000)	\$ (23,233,000)	\$ (205,325,000)	\$ (125,000,000)	\$ (565,744,000)
FY 2025-26	\$ (299,995,000)	\$ (48,301,000)	\$ (212,511,000)	\$ (150,000,000)	\$ (710,807,000)
FY 2026-27	\$ (383,175,000)	\$ (69,071,000)	\$ (219,949,000)	\$ (195,000,000)	\$ (867,195,000)
FY 2027-28	\$ (434,321,000)	\$ (84,176,000)	\$ (227,647,000)	\$ (201,825,000)	\$ (947,969,000)

AM 2649 to LB 873 would require \$580,081 for FY 2022-23 and \$103,408 for FY 2023-24 paid to the OCIO for mainframe costs for the rate changes and the implementation of the refundable tax credit for community college taxes paid. However, the cost can be accommodated by the DOR current budget.