

5/10/11

PREPARED BY: Doug Gibbs
DATE PREPARED: February 22, 2011
PHONE: 471-0051

LB 642

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2011-12		FY 2012-13	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below	See Below	See Below	See Below
CASH FUNDS	See Below	See Below	See Below	See Below
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	See Below	See Below	See Below	See Below

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

LB 642 would permit the Department of Revenue to contract with outside vendors to identify nonfilers, underreporters, or nonpayers of taxes administered by the Department.

Fees for such services may be on a contingency basis and the vendor and Department are only compensated when the taxes, penalties, and interest are actually collected.

Ten percent of all proceeds received each calendar year due to these contracts are to be deposited in the Department of Revenue Enforcement Fund and used to identify nonfilers, underreporters, and nonpayers of taxes. The remainder, minus compensation for the contracted vendors, would be deposited in the General Fund.

The bill requires the Tax Commissioner to report annually to the Revenue Committee and the Appropriations Committee of the Legislature and also includes intent language regarding appropriations to pay for the services, reimbursements, costs incurred by the Department or other remuneration provided for in the bill. In addition, vendors would be subject to the same confidentiality requirements as Department of Revenue employees.

LB 642 provides that contracts under this bill are not subject to the public notice provisions of Sections 73-201 to 73-204.

Because LB 642 is permissive and does not mandate that the Department of Revenue enter into the contingency contract described above, any fiscal impact is indeterminate. Any fiscal impact would occur only if and after the Department entered into this type of contract and even then the impact would depend on the fee negotiated, length of contract, and number of employees the Department would need to implement.

Based on Fiscal Office research it does appear that these types of contracts have yielded revenue in other states, sometimes in substantial amounts, so if such a contract was in place in Nebraska we could reasonably expect additional collections and an increase to the General Fund and the Revenue Enforcement Cash Fund. However, there would also be an expenditure for additional Department of Revenue personnel to conduct the necessary audits and collections. At least initially, this would be a General Fund expenditure and then shift to the Revenue Enforcement Cash Fund as collections are made.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Lyn Heaton	DATE	2/23/11	PHONE	471-2526
COMMENTS					
DEPT. OF REVENUE – Without knowing how much would be required to be paid to the vendor, it is difficult to accurately estimate the fiscal impact including the amount that would be available to the department to hire personnel.					
ADMINISTRATIVE SERVICES – Concur. No fiscal impact to the Materiel Division.					

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LEGISLATIVE FISCAL

LB 642

Fiscal Note 2011

State Agency Estimate

State Agency Name: Department of Revenue		Date Prepared: 2/11/2011		Date Due LFA: 2/18/2011		
Approved by: Douglas Ewald				Phone: 471-5700		
	FY 2011-2012		FY 2012-2013		FY 2013-2014	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds		\$6,250,000		\$6,250,000		\$6,250,000
Cash Funds	\$642,000	\$694,000	\$643,700	\$694,000	\$656,800	\$694,000
Federal Funds						
Other Funds						
Total Funds	\$642,000	\$6,944,000	\$643,700	\$6,944,000	\$656,800	\$6,944,000

LB 642 authorizes the Department of Revenue (Department) to enter into contingency fee contracts with third party vendors to identify nonfilers, underreporters, or nonpayers of taxes administered by the Department. The Department and vendors are only compensated for the taxes, penalty, and interest that are collected. Of the revenue collected, 90% of all proceeds would be deposited into the General Fund, minus compensation for the contracted vendors and Departmental expenses, while 10% would be deposited into the Department of Revenue Enforcement Fund for purposes of identifying nonfilers, underreporters, or nonpayers.

The contingency fee contracts are exempt from public notice requirements. The vendors are subject to the same confidentiality provisions as Department employees. The Tax Commissioner must also annually report to the Legislature on the amounts collected under such contracts.

Baseline expenditure and revenue data are estimated by assuming a mix of additional enforcement staff, and using the Department's average tax collections per auditor and revenue agent. The average annual collection is currently \$1,035,000 per revenue agent working business accounts, and \$850,000 working individual accounts; and \$368,000 for auditors. Assuming that the contract will require three auditors and six revenue agents, and using historical average collections, the additional staff can be expected to collect an additional \$6.9 million annually. This baseline figure does not include any estimate of increased productivity due to the vendor's efforts, or due to the the additional IT and other support staff; and does not include any payment to a vendor. It is expected that 10% of the additional collections will cover the proposed increase in enforcement staff.

The estimated increase to the General Fund would be \$6.25 million in FY2011-12, FY2012-13, and FY 2013-14 under the baseline scenario. All vendor compensation will be paid from General Fund proceeds, and those amounts depend on the terms of the agreement. The estimated impact to the Department of Revenue Enforcement Fund, under the baseline scenario, is \$0.694 million in FY2011-12, FY2012-13, and FY 2013-14. Under this scenario, estimated cash fund expenditures are \$0.642 million in FY2011-12, \$0.644 million in FY2012-13, and \$0.657 million in FY 2013-14.

The bill carries the emergency clause.

Major Objects of Expenditure

Class Code	Classification Title	11-12	12-13	13-14	11-12	12-13	13-14
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
A21213	Auditor Senior	3.0	3.0	3.0	\$138,800	\$141,500	\$144,400
X29222	Revenue Agent	6.0	6.0	6.0	\$186,000	\$189,600	\$193,400
A07011	IT Applications Developer	2.0	2.0	2.0	\$82,000	\$83,700	\$85,400
S29111	Revenue Operations Clerk I	1.0	1.0	1.0	\$23,400	\$23,900	\$24,400
S01113	Office Clerk III	2.0	2.0	2.0	\$44,400	\$45,300	\$46,200
Benefits.....					\$156,600	\$159,700	\$163,000
Operating Costs.....							
Travel.....							
Capital Outlay.....					\$10,800		
Aid.....							
Capital Improvements.....							
Total.....					\$642,000	\$643,700	\$656,800

2011 Legislative Bill Proposal Fiscal Note

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JAN 28 2011
LEGISLATIVE FISCAL

Bill #: 642

State Agency: Administrative Services, Materiel Division

Prepared by: Kim Johanns

Date Prepared: 1/25/2011

Phone: 471-4134

Approved by:

Estimate of Fiscal Impact – State Agencies

	FY 2011-12		FY 2012-13	
	Expenditures	Revenue	Expenditures	Revenue
General Funds				
Cash Funds				
Federal Funds				
Other Funds				
Total Funds	0	0	0	0

Explanation of Estimate:

LB642 would allow the Department of Revenue to enter into contracts to develop, deploy or administer systems or programs for identifying non-filers, under-reporters and non-payers of taxes administered by the Department of Revenue. Fees, costs and other remuneration are to be funded from and not to exceed the amounts collected after they are collected. Furthermore, this legislation provides for these contracts not to be subject to sections 73-201 to 72-204.

Due to specific purpose of this legislation and the limitations on funding we believe any changes will have no fiscal impact to the Materiel Division.

Major Objects of Expenditure

Personal Services:

Position Title:	Number of Positions			2011-12	2012-13
	11-12	12-13		Expenditures	Expenditures
Benefits					
Operating					
Travel					
Capital Outlay					
Aid					
Capital Improvements					
TOTAL					