

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$55,563	(\$87,003,000)	\$44,338	(\$171,318,000)
CASH FUNDS	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$35,055,563	(\$52,003,000)	\$35,044,338	(\$136,318,000)

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

LB 721 amends the Nebraska Revenue Act of 1967.

Section 77-201 is amended to change the agricultural and horticultural land valuation percentage from 75% to 65% of actual market value. Agricultural and horticultural land receiving special valuation is also changed from 75% to 65%.

Section 77-367 is amended to require the Department of Revenue to contract with a vendor or vendors that provide services to identify nonfilers of tax returns, nonpayers of tax, underreporters of tax, or fraudulent payments of state taxes. Current statute states that the Department “may” contract for such services.

Section 77-2715.03 is amended to change state individual income tax brackets and rates as follows for taxable years beginning January 1, 2014 and thereafter:

Proposed Tax Rates for all Filing Statuses:

Bracket Number:	Tax Year 2014:	Tax Year 2015:	Tax Year 2016:	Tax Year 2017:	Tax Year 2018 & After:
1	2.46%	2.44%	2.42%	2.23%	1.96%
2	3.51%	3.49%	3.47%	3.02%	2.78%
3	5.01%	4.99%	4.97%	4.37%	4.02%
4	6.84%	6.82%	6.80%	5.99%	5.50%

Proposed Bracket Amounts for each Filing Status:

Bracket Number:	Single:	Married, Filing Joint:	Head of Household:	Married, Filing Separate:	Estates and Trusts:
1	\$0 - \$2,999	\$0 - \$5,999	\$0 - \$5,599	\$0 - \$2,999	\$0 - \$499
2	\$3,000 - \$17,999	\$6,000 - \$35,999	\$5,600 - \$28,799	\$3,000 - \$17,999	\$500 - \$4,699
3	\$18,000 - \$28,999	\$36,000 - \$57,999	\$28,800 - \$42,999	\$18,000 - \$28,999	\$4,700 - \$15,149
4	\$29,000 and over	\$58,000 and over	\$43,000 and over	\$29,000 and over	\$15,150 and over

The bill further provides in this section that, for taxable years beginning January 1, 2015 and thereafter, each tax bracket shall be adjusted for inflation by the method provided in section 151 of the Internal Revenue Code of 1986.

Section 77-2716 is amended, for taxable years beginning on or after January 1, 2015, to reduce federal adjusted gross income (AGI) by the amount received as social security benefits which are included in AGI for Nebraska income tax purposes.

This section is further amended, for taxable years beginning on or after January 1, 2015, to exclude military retirement income from AGI to the extent it is included in AGI.

Section 77-4212 is amended to increase the amount of the property tax credit to \$150 million for tax year 2014. The State Treasurer is to transfer \$150 million from the General Fund to the Property Tax Credit Cash Fund by August 1, 2014. This is an increase of \$35 million over the current budgeted amount.

Section 77-5023 is amended to reduce the acceptable range of valuation for agricultural or horticultural land to 59% to 65% of actual value; for such lands receiving special valuation the range is also adjusted to 59% to 65% of special valuation.

Section 77-1016 is amended to reduce the adjusted valuation for agricultural or horticultural land for purposes of determining state aid under TEEOSA to 62% of actual valuation or 62% of special valuation.

Sections 1, 6, 7, and 9, dealing with agricultural and horticultural land valuation, have an operative date of January 1, 2015. The rest of LB 721 becomes operative on its effective date.

The Department of Revenue estimates the following fiscal impact of LB 721:

<u>Fiscal Year:</u>	<u>General Fund:</u>	<u>Property Tax Credit Cash Fund:</u>
2014-15:	(\$ 87,003,000)	\$ 35,000,000
2015-16:	(\$ 171,318,000)	\$ 35,000,000
2016-17:	(\$ 329,437,000)	\$ 35,000,000
2017-18:	(\$ 625,133,000)	\$ 35,000,000
2018-19:	(\$ 783,194,000)	\$ 35,000,000
2019-20:	(\$ 838,586,000)	\$ 35,000,000

The Department of Revenue indicates that LB 732 will require a one-time programming charge of \$55,563 paid to the office of the CIO for mainframe programming costs, as well as to the NebFile online filing system to implement the income tax changes portion of the bill. For the second year and beyond, the bill will require a charge of \$44,338 paid to the office of the CIO each year that the tax brackets change.

In addition, the Department has indicated that the cost to contract with vendors to develop, deploy, or administer systems or programs which identify non-filers of tax returns, under-reports of taxes, or nonpayers of taxes are undeterminable at this time and vary widely by vendor and service. It is likely that such contracts will result in a positive revenue impact but the exact amount is undeterminable.

We agree with the Department of Revenue's estimate of fiscal impact and cost.

<u>ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES</u>		
LB: 721	AM:	AGENCY/POLT. SUB: NE Assoc. of County Officials (NACO)
REVIEWED BY: Lyn Heaton	DATE: 2/11/2014	PHONE: 402.471.4181
COMMENTS: The net impact on county budgets resulting from the reduction of the assessed valuation of agricultural and horticultural land is indeterminate as it is unknown to what extent counties would offset the reduction with an increase in levy rates or with reductions in spending.		

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2014

LB⁽¹⁾ 721

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska Association of County Officials (NACO)

Prepared by: ⁽³⁾ Elaine Menzel

Date Prepared: ⁽⁴⁾ 1/13/2014

Phone: ⁽⁵⁾ 402.434.5660,
ext 225

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

Among other things, this bill would reduce the percentage of the valuation of agricultural and horticultural land from 75 percent to 65 percent. The fiscal impact is indeterminable at this time.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15 EXPENDITURES</u>	<u>2015-16 EXPENDITURES</u>
	<u>14-15</u>	<u>15-16</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 1/20/2014				
Approved by: Kim Conroy		Date Prepared: 1/13/2014				
Phone: 471-5896						
	FY 2014-2015		FY 2015-2016		FY 2016-2017	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$55,563*	(\$87,003,000)*	\$44,338*	(\$171,318,000)*	\$44,338*	(\$329,437,000)*
Cash Funds		\$35,000,000		\$35,000,000		\$35,000,000
Federal Funds						
Other Funds						
Total Funds	\$55,563*	(\$52,003,000)*	\$44,338*	(\$136,318,000)*	\$44,338*	(\$294,437,000)*

LB 721 gradually reduces individual income tax rates between tax years 2015 and 2018. The following table shows the individual income tax rates for tax year 2014 and four new tax brackets for tax years 2015 through 2018:

	Tax Year 2014 Rate	Tax Year 2015 Rate	Tax Year 2016 Rate	Tax Year 2017 Rate	Tax Year 2018 Rate
Bracket 1	2.46%	2.44%	2.42%	2.13%	1.96%
Bracket 2	3.51%	3.49%	3.47%	3.02%	2.78%
Bracket 3	5.01%	4.99%	4.97%	4.37%	4.02%
Bracket 4	6.84%	6.82%	6.80%	5.99%	5.50%

The indexing of the individual income tax brackets will begin for tax years beginning or deemed to begin on or after January 1, 2015.

LB 721 also excludes military retirement benefits and Social Security benefits from income subject to Nebraska income tax to the extent it is included in federal adjusted gross income. Military retirement benefits is defined as retirement benefits that are periodic payments attributable to service in the uniformed services of the U.S. for personal services performed by an individual prior to his or her retirement.

LB 721 uses General Fund revenues to increase funds available under the Property Tax Credit Act from \$115 million to \$150 million for tax year 2014. It is assumed that the Property Tax Credit Act will continue at \$150 million per year after tax year 2014.

LB 721 adjusts agricultural and horticultural land valuation in 2015 to 65% of its actual value. The acceptable range for agricultural and horticultural land, for the purpose of statewide equalization, would be 59% to 65% of actual value. LB 721 also adjusts agricultural and horticultural land valuation for purposes of school aid to 62% of its actual value.

LB 721 also requires the Department of Revenue (Department) to contract with vendors to develop, deploy, or administer systems or programs which identify non-filers of returns, under-reporters, or nonpayers of taxes administered by the Department or improper or fraudulent payments made through programs administered by the Department.

* The expenditure and revenue does not account the cost and revenue impact of the provision that require the Department to contract with vendors.

The estimated impact to the following funds would be as follows:

Fiscal Year	General Fund	Property Tax Credit Fund	Total
FY 2014-2015	\$ (87,003,000)	\$ 35,000,000	\$ (52,003,000)
FY 2015-2016	\$ (171,318,000)	\$ 35,000,000	\$ (136,318,000)
FY 2016-2017	\$ (329,437,000)	\$ 35,000,000	\$ (294,437,000)
FY 2017-2018	\$ (625,133,000)	\$ 35,000,000	\$ (590,133,000)
FY 2018-2019	\$ (783,194,000)	\$ 35,000,000	\$ (748,194,000)
FY 2019-2020	\$ (838,586,000)	\$ 35,000,000	\$ (803,586,000)

The costs to the Department to contract with vendors to develop, deploy, or administer systems or programs which identify non-filers of returns, under-reporters, or nonpayers of taxes are undeterminable at this time and vary widely by vendor and service. In addition, the purchase of such services or products will likely be subject to a public bidding process. It is reasonable to assume that the contract with vendors to identify potential tax fraud, will result in a positive revenue impact to General Fund revenues. However, the positive impacts to General Fund revenues are undeterminable due to the uncertainty in the selection of vendors and identified projects.

LB 732 will require a one-time programming charge of \$55,563 paid to the OCIO for mainframe programming cost, as well as to the NebFile online filing system to implement the income tax changes portion of the bill. For the second year and beyond, LB 987 will require a charge of \$44,338 paid to the OCIO each year that the tax brackets change.

Major Objects of Expenditure

Class Code	Classification Title	14-15	15-16	16-17	14-15	15-16	16-17
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
	Benefits.....						
	Operating Costs.....				\$55,563*	\$44,338*	\$44,338*
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	Total.....				\$55,563*	\$44,338*	\$44,338*

* The expenditure and revenue does not account the cost and revenue impact of the provision that require the Department to contract with vendors.