

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2015-16</b>		<b>FY 2016-17</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$188,796	(\$160,000,000)	\$120,223	(\$162,500,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$188,796</b>	<b>(\$160,000,000)</b>	<b>\$120,223</b>	<b>(\$162,500,000)</b>

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

LB 69 amends the Nebraska Revenue Act of 1967, Section 77-2715.07 and 77-2734.03, regarding individual income tax and corporate income tax.

The bill would provide for a nonrefundable credit against an individual's state income tax liability based on a credit received from a corporate taxpayer.

A corporate taxpayer would receive a nonrefundable income tax credit in an amount equal to 100% of corporate income taxes paid by the taxpayer in the current taxable year. However, the corporate taxpayer could not use the credit against its own income tax liability but, rather, would have to distribute the credit as follows:

- 50% of the credit is to be distributed to its shareholders who are natural persons in the same manner as dividends are distributed;
- 50% of the credit is to be distributed to all employees of the corporate taxpayer, based on the following formula:

$$A \times (B/C) = D$$

- A = Total amount available for distribution
- B = Employee's wages subject to withholding for social security tax
- C = All employees' wages subject to withholding for social security tax
- D = Amount distributed to employee for credit

Both the shareholder and the corporate employee would then be able to use the amount distributed as a nonrefundable credit against their state income tax liability.

Corporate taxpayers distributing these credits are required to report the shareholders and employees receiving the credits and the amounts to the Department of Revenue.

Corporate taxpayers who are receiving tax credits or other incentives under the following state programs are ineligible for the credit:

- Angel Investment Tax Credit Act
- Beginning Farmer Tax Credit Act
- Nebraska Advantage Act
- Nebraska Advantage Microenterprise Tax Credit Act
- Nebraska Advantage Research and Development Act
- Nebraska Advantage Rural Development Act
- Nebraska Job Creation and Mainstreet Revitalization Act
- New Markets Job Growth Investment Act

The act becomes operative for tax years beginning January 1, 2016.

The Department of Revenue estimates the following fiscal impact of LB 69:

FY2015-16:	(\$160,000,000)
FY2016-17:	(\$162,500,000)
FY2017-18:	(\$159,530,000)
FY2018-19:	(\$156,425,000)

The Department of Revenue indicates the cost to implement LB 69 will include a one-time programming cost paid to the Office of the CIO of \$61,571, and ongoing staff requirements necessary to validate distribution of the credits to eligible taxpayers and claims for credit filed by those taxpayers. This includes costs for 2.0 FTE for an IT Application Developer Senior, a Fiscal Compliance Agent, and a Revenue Agent. PSL for FY2015-16 is \$85,094 and \$87,136 for FY2016-17.

We have no basis to disagree with the Department of Revenue's estimate of fiscal impact or cost.

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 2/4/2015				
Approved by: Len Sloup		Date Prepared: 2/4/2015				
		Phone: 471-5896				
	<b>FY 2015-2016</b>		<b>FY 2016-2017</b>		<b>FY 2017-2018</b>	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$188,796	(\$160,000,000)	\$120,223	(\$162,500,000)	\$123,029	(\$159,530,000)
Cash Funds						
Federal Funds						
Other Funds						
<b>Total Funds</b>	<b>\$188,796</b>	<b>(\$160,000,000)</b>	<b>\$120,223</b>	<b>(\$162,500,000)</b>	<b>\$123,029</b>	<b>(\$159,530,000)</b>

LB 69 provides a nonrefundable income tax credit to corporations, which must be distributed to individual shareholders or employees of the corporation, for 100% of a corporation’s income taxes paid to this State. The corporation must distribute 50% of the credit to individual shareholders (in the same manner as dividends are distributed), and 50% to employees based on a formula in the act.

Corporate taxpayers receiving tax credits or other incentives under one or more of the following programs are not eligible for the credit: the Angel Investment Tax Credit Act, the Beginning Farmer Tax Credit Act, the Nebraska Advantage Act, the Nebraska Advantage Microenterprise Tax Credit Act, the Nebraska Advantage Research and Development Act, the Nebraska Advantage Rural Development Act, the Nebraska Job Creation and Main Street Revitalization Act, or the New Markets Job Growth Investment Act.

A corporation must file a report with the Department of Revenue identifying taxpayers receiving a credit.

The formula for distributing the credit to employees is calculated by taking the total amount available for distribution under this subdivision and multiplying such amount by a ratio, the numerator of which is the amount of such employee’s wages subject to withholding for federal social security tax and the denominator of which is the amount of all employees’ wages subject to withholding for federal social security tax.

The estimated reduction to General Fund revenues would be as follows:

- FY 2015-16: \$160,000,000
- FY 2016-17: \$162,500,000
- FY 2017-18: \$159,530,000
- FY 2018-19: \$156,425,000

The Department’s costs to implement LB 69 include a one-time programming cost paid to the OCIO of \$61,571, and ongoing staff requirements necessary to validate distribution of the credits to eligible taxpayers and claims for credit filed by those taxpayers.

**Major Objects of Expenditure**

Class Code	Classification Title	15-16	16-17	17-18	15-16	16-17	17-18
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
A07012	IT Application Developer Senior	0.5	0.5	0.5	\$31,279	\$32,030	\$32,799
A21211	Fiscal Compliance Analyst (0.5)	1.0	1.0	1.0	\$36,922	\$37,808	\$38,716
X29222	Revenue Agent	0.5	0.5	0.5	\$16,893	\$17,298	\$17,714
	Benefits.....				\$32,311	\$33,087	\$33,880
	Operating Costs.....				\$61,571		
	Travel.....						
	Capital Outlay.....				\$10,000		
	Aid.....						
	Capital Improvements.....						
<b>Total</b> .....					<b>\$188,976</b>	<b>\$120,223</b>	<b>\$123,029</b>