

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2015-16		FY 2016-17	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$50,614	\$26,193,000	\$50,614	\$21,240,000
CASH FUNDS	\$60,000,000	\$40,000,000	\$100,000,000	\$40,000,000
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$60,050,614	\$66,193,000	\$100,050,614	\$61,240,000

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

LB 357 amends the Nebraska Revenue Act of 1967, Sections 77-2715.03 and 77-2734.02, regarding individual and corporate income tax rates.

The bill changes the individual income tax rate for each of the four tax brackets as follows:

Bracket:	Current Rate: %	Tax Year 2016: %	Tax Year 2017: %	Tax Year 2018: %	Tax Year 2019: %	Tax Year 2020: %	Tax Year 2021: %	Tax Year 2022: %	Tax Year 2023: %
1	2.46	2.25	2.25	2.25	2.04	1.84	1.62	1.43	1.23
2	3.51	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
3	5.01	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
4	6.84	6.69	6.69	6.69	6.54	6.38	6.24	6.08	5.92

In addition, for tax years 2024 and after, the Tax Commissioner is given the authority to determine the brackets and rates by reducing each rate by 0.15 percent from the prior year rate if General Fund net receipts for the most recently completed fiscal year exceed estimated General Fund net receipts. The bill also specifies that the lowest percentage to which rates may be reduced is: 0% for bracket 1; 3.5% for bracket 2; 5.0% for bracket 3; and 5.0% for bracket 4. The Tax Commissioner is also authorized to adjust the brackets for inflation.

LB 357 changes corporate income tax rates as follows:

Income Level:	Current Rate: %	Tax Year 2016: %	Tax Year 2017: %	Tax Year 2018: %	Tax Year 2019: %	Tax Year 2020: %	Tax Year 2021: %	Tax Year 2022: %	Tax Year 2013: %
First \$100,000	5.58	5.41	5.41	5.41	5.23	5.07	4.90	4.72	4.54
Over \$100,000	7.81	7.58	7.58	7.58	7.35	7.11	6.89	6.62	6.41

In addition, for tax years 2024 and after, the Tax Commissioner is given the authority to determine the tax rates by reducing each rate by 0.15 percent from the prior year rate if General Fund net receipts for the most recently completed fiscal year exceed estimate General Fund net receipts. The rate for the first \$100,000 may go no lower than 3.5% and the rate for income over \$100,000 may go no lower than 5.0%.

For FY2015-16, LB 357 requires a transfer of \$40,000,000 from the Cash Reserve to the Property Tax Credit Cash Fund on or before December 15, 2015 and a transfer of \$20,000,000 from the Cash Reserve to the General Fund on or before June 30, 2016.

For FY2016-17, LB 357 requires a transfer of \$40,000,000 from the Cash Reserve to the Property Tax Credit Cash Fund on or before December 15, 2016 and a transfer of \$60,000,000 from the Cash Reserve to the General Fund on or before June 30, 2017.

The Department of Revenue indicates the cost to implement the provisions of LB 357 will require annual programming charges of \$50,614, paid to the Office of the CIO for mainframe development as well as the web development costs for the NebFile online filing system.

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

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 357:

Fiscal Year:	Individual Income Tax:	Corporate Income Tax:	Cash Reserve Transfer:	Interest Foregone:	Total:
2015-16:	\$ 8,786,000	(\$ 2,504,000)	\$ 20,000,000	(\$ 89,000)	\$ 26,193,000
2016-17:	(\$ 29,801,000)	(\$ 7,487,000)	\$ 60,000,000	(\$ 1,472,000)	\$ 21,240,000
2017-18:	(\$ 18,405,000)	(\$ 9,897,000)	\$ 0	(\$ 5,597,000)	(\$ 33,899,000)
2018-19:	(\$ 5,685,000)	(\$ 9,735,000)	\$ 0	(\$ 5,615,000)	(\$ 21,035,000)
2019-20:	(\$ 69,633,000)	(\$ 12,322,000)	\$ 0	(\$ 5,615,000)	(\$ 87,570,000)
2020-21:	(\$ 91,110,000)	(\$ 20,771,000)	\$ 0	(\$ 5,615,000)	(\$ 117,496,000)
2021-22:	(\$ 131,781,000)	(\$ 32,257,000)	\$ 0	(\$ 5,615,000)	(\$ 169,653,000)
2022-23:	(\$ 180,803,000)	(\$ 44,163,000)	\$ 0	(\$ 5,615,000)	(\$ 230,581,000)
2023-24:	(\$ 217,704,000)	(\$ 57,178,000)	\$ 0	(\$ 5,615,000)	(\$ 280,497,000)
Total:	(\$ 736,136,000)	(\$ 196,314,000)	\$ 80,000,000	(\$ 40,848,000)	(\$ 893,298,000)

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

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 2/13/15				
Approved by: Len Sloup		Date Prepared: 2/13/2015				
		Phone: 471-5896				
	FY 2015-2016		FY 2016-2017		FY 2017-2018	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$50,614	\$26,193,000	\$50,614	\$21,240,000	\$50,614	(\$33,899,000)
Cash Funds	\$60,000,000	\$40,000,000	\$100,000,000	\$40,000,000		
Federal Funds						
Other Funds						
Total Funds	\$60,050,614	\$66,193,000	\$100,050,614	\$61,240,000	\$50,614	(\$33,899,000)

LB 357 reduces individual income tax rates and corporate income tax rates for tax years 2016 through 2023. The individual income tax brackets and tax rates are as follows for tax years 2015-2023.

Individual Income Tax Brackets for Tax Years 2015 - 2023			
	Single / Married, Filing Separate	Married, Filing Jointly	Head of Household
Bracket 1	\$0 - \$3,000	\$0 - \$6,000	\$0 - \$5,600
Bracket 2	\$3,000 - \$18,000	\$6,000 - \$36,000	\$5,600 - \$28,800
Bracket 3	\$18,000 - \$29,000	\$36,000 - \$58,000	\$28,800 - \$43,000
Bracket 4	\$29,000 and Over	\$58,000 and Over	\$43,000 and Over

Individual Income Tax Rates for Tax Years 2015-2023									
	2015 (No Change)	2016	2017	2018	2019	2020	2021	2022	2023
Bracket 1	2.46%	2.25%	2.25%	2.25%	2.04%	1.84%	1.62%	1.43%	1.23%
Bracket 2	3.51%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Bracket 3	5.01%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Bracket 4	6.84%	6.69%	6.69%	6.69%	6.54%	6.38%	6.24%	6.08%	5.92%

For tax years beginning on or after tax year 2024, the brackets would be adjusted for inflation and the rates for bracket 1 and bracket 4 would each decline an additional 0.15% if the actual net General Fund receipts for the most recently completed prior fiscal year exceed the certified estimate. The tax rate for bracket 1 could be no lower than 0% and the tax rate for bracket 4 could be no lower than 5.00%.

The corporate income tax brackets and tax rates are as follows for tax years 2015-2023.

Corporate Income Tax Brackets and Rates for Tax Years 2015-2023									
	2015 (No Change)	2016	2017	2018	2019	2020	2021	2022	2023
Bracket 1 (\$0 - \$100,000)	5.58%	5.41%	5.41%	5.41%	5.23%	5.07%	4.90%	4.72%	4.54%
Bracket 2 (Over \$100,000)	7.81%	7.58%	7.58%	7.58%	7.35%	7.11%	6.89%	6.65%	6.41%

Beginning in tax year 2024, the first bracket would continue to be \$100,000, but the rates for each bracket would decline by 0.15% if the actual net General Fund receipts for the most recently completed prior fiscal year exceed the certified estimate, except that the rate for bracket 1 could not decline below 3.50% and the rate for bracket 2 could not decline below 5.00%.

LB 357 transfers \$40 million from the Cash Reserve Fund to the Property Tax Credit Cash Fund on or before December 15, 2015 and transfers an additional \$40 million on or before December 15, 2016.

LB 357 also transfers \$20 million from the Cash Reserve Fund to the General Fund on or before June 30, 2016 and transfers an additional \$60 million on or before June 30, 2017.

The estimated impact of LB 357 on General Fund revenues would be as follow:

General Fund Revenues					
	Individual Income Tax	Corporate Income Tax	Cash Reserve Transfer	Interest Foregone	Total General Fund
FY15-16	\$ 8,786,000	\$ (2,504,000)	\$ 20,000,000	\$ (89,000)	\$ 26,193,000
FY16-17	\$ (29,801,000)	\$ (7,487,000)	\$ 60,000,000	\$ (1,472,000)	\$ 21,240,000
FY 17-18	\$ (18,405,000)	\$ (9,897,000)	\$ -	\$ (5,597,000)	\$ (33,899,000)
FY 18-19	\$ (5,685,000)	\$ (9,735,000)	\$ -	\$ (5,615,000)	\$ (21,035,000)
FY 19-20	\$ (69,633,000)	\$ (12,322,000)	\$ -	\$ (5,615,000)	\$ (87,570,000)
FY 20-21	\$ (91,110,000)	\$ (20,771,000)	\$ -	\$ (5,615,000)	\$(117,496,000)
FY 21-22	\$ (131,781,000)	\$ (32,257,000)	\$ -	\$ (5,615,000)	\$(169,653,000)
FY 22-23	\$ (180,803,000)	\$ (44,163,000)	\$ -	\$ (5,615,000)	\$(230,581,000)
FY 23-24	\$ (217,704,000)	\$ (57,178,000)	\$ -	\$ (5,615,000)	\$(280,497,000)

LB 357 would require annual programming charges of \$50,614 paid to the OCIO for mainframe development as well as the web development costs for the NebFile online filing system.

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
	Benefits.....						
	Operating Costs.....				\$50,614	\$50,614	\$50,614
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	Total.....				\$50,614	\$50,614	\$50,614