PREPARED BY: Doug Gibbs
DATE PREPARED: March 20, 2017
PHONE: 402-471-0051

LB 373

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below	See Below	See Below	See Below
CASH FUNDS		See Below		See Below
FEDERAL FUNDS				
OTHER FUNDS		See Below		See Below
TOTAL FUNDS	See Below	See Below	See Below	See Below

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

LB 373 amends or repeals numerous sections of statute dealing with taxes, exemptions, revenue, credits and incentives.

LB 373 repeals or terminates the following:

- The Build Nebraska Act;
- The Personal Property Tax Relief Act;
- The Property Tax Credit Act;
- The sales tax exemption for molds and dies used in manufacturing;
- The sales tax exemption for fees and admissions for certain sporting events and youth development organizations;
- The sales tax exemption for C-BED wind energy development projects;
- The sales tax exemption on repair and replacement parts for agricultural machinery;
- The sales tax refund for agricultural machinery repair parts;
- The expansion of the sales tax exemption on contractor labor;
- The income tax exclusion from AGI for Social Security and military retirement benefits;
- The exclusion of extraordinary dividends and capital gains income.

The bill prohibits new applications after January 1, 2018 (the operative date of LB 373) for the following:

- The Sports Arena Facility Financing Assistance Act;
- The New Markets Job Growth Assistance Act;
- The Nebraska Job Creation and Mainstreet Revitalization Act;
- The Nebraska Advantage Act.

LB 373 returns agricultural and horticultural land valuation to 80% of actual value.

The bill reinstates the estate tax and generation-skipping transfer tax.

LB 373 changes the income tax as follows:

- Returns brackets and rates to the levels in effect in 2007;
- Strikes the requirement that brackets be indexed for inflation;
- Provides for a phase-out of personal exemptions;
- Provides for a phase-out of the standard deduction and itemized deductions;
- Reduces the Earned Income Tax Credit from the current 10% to 8% of the federal credit allowed;
- Net operating losses would be limited to five years instead of twenty;
- The special capital gains exclusion would be eliminated;
- The apportionment of sales of intangible services;
- The decreasing adjustment for income of a pass-through entity that is not Nebraska-sourced income for a resident would be eliminated;
- Reinstates the alternative minimum tax.

It also redirects the sales tax on motor vehicles above 5% to cities and counties, and the sales tax on leased vehicles to the General Fund.

The bill makes changes to the homestead exemption's exemption to reduce maximum values of homestead property.

LB 373 has an operative date of January 1, 2018.

Fiscal Impact:

The Department of Revenue estimates the following fiscal impact of the various provisions of LB 373:

Fiscal Year:	State Highway Capital Improvement Fund: (Cash)	Premium and Retaliatory Tax Suspense Fund: (Cash)	Property Tax Credit Cash Fund: (Cash)	Personal Property Tax Credit Cash Fund: (Cash)	Total Cash Funds:
2017-18:	($ 27,695,000)	$ 0	$ 0	$ 0	($ 27,695,000)
2018-19:	($ 69,087,000)	$ 0	($224,000,000)	($ 15,200,000)	($ 308,287,000)
2019-20:	($ 71,795,000)	$ 2,750,000	($224,000,000)	($ 16,200,000)	($ 309,287,000)
2020-21:	($ 74,658,000)	$ 3,125,000	($224,000,000)	($ 17,200,000)	($ 313,033,000)

Fiscal Year:	Highway Allocation Fund: (Local)	Total:
2017-18:	($ 4,887,000)	($ 4,887,000)
2018-19:	($ 12,192,000)	($ 12,192,000)
2019-20:	($ 12,670,000)	($ 12,670,000)
2020-21:	($ 13,175,000)	($ 13,175,000)

Fiscal Year:	General Fund Revenue:	General Fund Expenditures:	Total Increase to the General Fund:
2017-18:	$ 238,278,000	$ 147,545	$ 238,130,455
2018-19:	$ 381,837,000	($ 239,112,000)	$ 620,949,000
2019-20:	$ 419,709,000	($ 240,111,000)	$ 659,820,000
2020-21:	$ 454,343,000	($ 241,410,000)	$ 695,753,000

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

The Department of Revenue indicates they will require 1.0 FTE Revenue Tax Specialist and 0.5 FTE Revenue Operations Clerk II to make changes to tax forms, instructions, information guides, regulations, website information and other areas. The bill will also require a one-time programming charge of $55,518 paid to the Office of the CIO for mainframe development and web development costs. PSL for FY2017-18 would be $65,434 and $66,251 for FY208-19. Total expenditures would be $147,545 for FY2017-18 and $88,114 for FY2018-19,

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

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 373	AM:	AGENCY/POLT. SUB: Department of Roads
REVIEWED BY: Lyn Heaton	DATE: 3/15/2017	PHONE: (402) 471-4181
COMMENTS: The Dept. of Roads' analysis appears reasonable.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 373	AM:	AGENCY/POLT. SUB: Parole Board
REVIEWED BY: Lyn Heaton	DATE: 3/7/2017	PHONE: (402) 471-4181
COMMENTS: Concur. No fiscal impact on the Parole Board.		

LB 373 Fiscal Note 2017

State Agency Estimate

State Agency Name: Department of Revenue					Date Due LFA:	03/20/2017
Approved by: Tony Fulton		Date Prepared:	03/17/2017		Phone: 471-5896	

	FY 2017-2018		FY 2018-2019		FY 2019-2020	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	$147,545	$238,278,000	($239,112,000)	$381,837,000	($240,111,000)	$419,709,000
Cash Funds		($27,695,000)		($308,287,000)		($309,245,000)
Federal Funds						
Other Funds		($4,887,000)		($12,192,000)		($12,670,000)
Total Funds	$147,545	$205,696,000	($239,112,000)	$61,358,000	($240,111,000)	$97,794,000

LB 373 would amend 35 sections of statutes and repeal outright an additional six sections to eliminate numerous sales tax exemptions or preferences; income tax deductions, credits, or preferences; and incentives beginning January 1, 2018. These changes would increase the revenue to the state. These exemptions, deductions or preferences are listed below-

Property Tax:
1. The value for agricultural and horticultural land would change from 75% of actual value to 80% of actual value, reducing the preference afforded to this class of property
2. The homestead exemption value for those over 65 years of age would be reduced from 100% of the average assessed value of single-family residential property in the county to 80% and the maximum value reduced from 200% to 150%. In addition, for 2018 the percentage of relief would phase-out faster as income increases. The homestead exemption value for those who are disabled or unremarried servicing spouse of a serviceman or servicewoman, would be reduced from 120% of the average assessed value of a single-family residential property in the county to 100% and the maximum value reduced from 200% to 175%.;
3. The Property Tax Credit would be eliminated; and
4. The Personal Property Tax Relief Act would be eliminated.

Sales and Use Taxes:
1. The Build Nebraska Act, which provides ¼ cent of sales tax be transferred to two funds for highway and street construction or maintenance would be terminated;
2. The exclusion for installing public utilities on the customer's side of the utility demarcation point would be eliminated;
3. Molds and dies would be excluded from the definition of manufacturing machinery and equipment;
4. The exemption for fees and admissions charged by organizations conducting sporting events for children and adults would be eliminated;
5. The exemption for fees and admissions charged to participants in youth sports would be eliminated;
6. Both the straight exemption and the refund for agricultural machinery repair parts would be eliminated;
7. The exemption for C-BED would be eliminated; and
8. Construction labor would again become taxable to the same extent as it was before October, 2007. This includes the exemptions for new construction, the addition of an entire room or floor, the completion of an unfinished portion, the restoration of a structure destroyed by a natural disaster, the construction of electrical infrastructure, and major renovations.

Income Taxes:
1. The Nebraska alternative minimum tax would be restored;
2. The individual income tax brackets would no longer be adjusted for inflation;
3. The rates to be applied to the first three brackets would increase from 2.46% to 2.56%, 3.51% to 3.57%, and 5.01% to 5.12%, respectively. The highest bracket would remain the same;
4. The earned income tax credit would be reduced from 10% of the federal credit amount to 8%;
5. The decreasing adjustment for income of a pass-through entity that is not Nebraska-source income for a resident would be eliminated;

6. The decreasing adjustment for some social security income would be eliminated;
7. The decreasing adjustment for some military retirement income would be eliminated;
8. The special capital gains exclusion would be eliminated;
9. The personal exemption credit would be phased out for incomes greater than $90,000 for single or married, filing separate returns, $75,000 for a head of household return, and $180,000 for a married, filing joint return. These thresholds would be indexed for inflation;
10. The standard deduction and itemized deductions would be phased out for higher incomes according to federal phase-out guidelines as they were prior to 2006;
11. The net operating loss carryover would be limited to five years;
12. The apportionment for service income derived in more than one state would return to the cost of performance method.

Incentives:
1. The Sports Arena Facility Financing Assistance Act would be terminated;
2. The New Markets Job Growth Investment Act would be terminated;
3. The Job Creation and Mainstreet Revitalization Act would be terminated; and
4. The Nebraska Advantage Act would be terminated.

Also, both the Nebraska Estate Tax and the Generation-skipping Transfer Tax would be restored in the form they were before 2007.

It is estimated that LB 373 will have the following impact to the General Fund, Cash Funds, and Other Funds:

Fiscal Year	General Fund Revenue	General Fund Expenditures	Total Increase to General Fund
FY 2017-18	$ 238,278,000	$ 147,545	$ 238,130,455
FY 2018-19	$ 381,837,000	$ (239,112,000)	$ 620,949,000
FY 2019-20	$ 419,709,000	$ (240,111,000)	$ 659,820,000
FY 2020-21	$ 454,343,000	$ (241,410,000)	$ 695,753,000

Fiscal Year	State Highway Capital Improvement Fund	Premium and Retaliatory Tax Suspense Fund	Property Tax Credit Cash Funds	Personal Property Tax Credit Cash Funds	Total Cash Fund
FY 2017-18	$ (27,695,000)	$ -	$ -	$ -	$ (27,695,000)
FY 2018-19	$ (69,087,000)	$ -	$ (224,000,000)	$ (15,200,000)	$ (308,287,000)
FY 2019-20	$ (71,795,000)	$ 2,750,000	$ (224,000,000)	$ (16,200,000)	$ (309,245,000)
FY 2020-21	$ (74,658,000)	$ 3,125,000	$ (224,000,000)	$ (17,500,000)	$ (313,033,000)

Fiscal Year	Highway Allocation Fund (Cities and Counties)	Total Other Funds
FY 2017-18	$ (4,887,000)	$ (4,887,000)
FY 2018-19	$ (12,192,000)	$ (12,192,000)
FY 2019-20	$ (12,670,000)	$ (12,670,000)
FY 2020-21	$ (13,175,000)	$ (13,158,000)

The bill will require the addition of one full time Revenue Tax Specialist and one 0.5 FTE Revenue Operations Clerk II to make changes to tax forms, instructions, information guides, regulations, website information and other areas. Also, the bill will require a one-time programming charge of $55,518 paid to the OCIO for mainframe development and web development costs.

The bill would become operative January 1, 2018.

Major Objects of Expenditure

Class Code	Classification Title	17-18 FTE	18-19 FTE	19-20 FTE	17-18 Expenditures	18-19 Expenditures	19-20 Expenditures
A29621	Revenue Tax Specialist	1.0	1.0	1.0	$50,167	$50,794	$51,556
S29112	Revenue Operations Clerk II	0.5	0.5	0.5	$15,267	$15,457	$15,689
Benefits					$21,593	$21,863	$22,191
Operating Costs					$55,518		
Travel							
Capital Outlay					$5,000		
Aid							
Capital Improvements							
Total					$147,545	$88,114	$89,436

Please complete ALL (5) blanks in the first three lines. **2017**

LB(1) 373 **FISCAL NOTE**

State Agency OR Political Subdivision Name: (2) Nebraska Department of Roads

Prepared by: (3) Becky Fleming **Date Prepared: (4)** 3/9/2017 **Phone: (5)** (402) 479-4692

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2017-18		FY 2018-19	
	EXPENDITURES	**REVENUE**	**EXPENDITURES**	**REVENUE**
GENERAL FUNDS				
CASH FUNDS	($29,250,000)*	($29,250,000)*	($70,200,000)	($70,200,000)
FEDERAL FUNDS				
OTHER FUNDS				
	($29,250,000)	($29,250,000)	($70,200,000)	($70,200,000)

Explanation of Estimate:
LB 373 terminates the Build the Nebraska Act (BNA) and strikes the collection of sale tax on motor vehicles, trailers and semi-trailers leased for periods of more than thirty-one days. This bill also takes the excess of motor vehicle sales tax over the 5% collected and credits it to the general fund instead of the Highway Allocation Fund which affects the cities and counties. If this bill should pass the operative date is January 1, 2018.

The Build Nebraska Act provided for:
Effective July 1, 2013 until July 1, 2033, the proceeds from a sales and use tax rate of one-quarter of one percent are credited 85% to the State Highway Capital Improvement Fund and 15% to the Highway Allocation Fund. The State Highway Capital Improvement Fund will be administered by the Department of Roads and the Highway Allocation Fund is distributed to cities and counties. At least, twenty-five percent of the funds to Dept. of Roads are for construction of the expressway system and federally designated high priority corridors with the remaining funds for surface transportation projects of highest priority as determined by the Dept.

Based on data for fiscal year 2016 Dept. of Roads revenue loss would be as follows:

	FY18	FY19
State Highway Capital Improvement Fund (BNA)	($26,250,000)*	($63,000,000)
Sales Tax on Leased Motor Vehicles etc	($3,000,000)*	($7,200,000)
Total revenue loss	($29,250,000)	($70,200,000)

This loss of revenue to the Dept. will result in a reduction of highway construction and surface transportation project expenditures of a like amount.

Cities and counties combined would loss $10.9 million received from the BNA during the FY17-19 biennium, $6.3 from sales tax on leased vehicles etc and the 1/2% share of motor vehicle sales tax collected which will be credited to the general fund.

*Calculated at 5/12 of annual amount since bill would be effective January 1, 2018.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	**NUMBER OF POSITIONS 17-18**	**18-19**	**2017-18 EXPENDITURES**	**2018-19 EXPENDITURES**
Benefits..				
Operating..				
Travel..				
Capital outlay..			($29,250,000)	($70,200,000)
Aid..				
Capital improvements..........................				

TOTAL……………………………….….	($29,250,000)	($70,200,000)