

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

**ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)**

	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$59,194	(\$15,682,000)		(\$71,555,000)
CASH FUNDS	\$75,000,000	\$75,000,000	\$75,000,000	\$75,000,000
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$75,059,194</b>	<b>\$59,318,000</b>	<b>\$75,000,000</b>	<b>\$3,445,000</b>

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

LB 615 amends the Nebraska Revenue Act of 1967. The bill requires the Tax Rate Review Committee to examine the expected rate of growth in net General Fund receipts and the balance in the Cash Reserve Fund each November, beginning in 2019. If the expected rate of growth is at least 3.5% for the upcoming fiscal year and the Cash Reserve Fund balance is at least \$500 million, the committee must certify: (1) the growth rate to the Tax Commissioner so the top individual and corporate income tax rates can be reduced as prescribed in the bill, until the rates reach 5.99%; and (2) the balance in the Cash Reserve Fund to the State Treasurer so the State Treasurer can transfer \$75 million from the Cash Reserve Fund to the Property Tax Credit Cash Fund as required.

The bill prescribes a four step schedule for reducing the top individual and corporate income tax rate following certification by the committee to the Tax Commissioner. Each rate is reduced, from 6.84% for individual and 7.81% for corporate, to 6.75% the first time, 6.5% the second time, 6.25% the third time, and 5.99% the fourth time. The new rate takes effect for taxable years beginning on or after the first January 1 following the reduction and w remains in effect until the next reduction takes effect.

**Revenue:**

The Department of Revenue assumes the rate of growth and Cash Reserve Fund balance will meet the requirements in LB 615 to reduce the income tax rates and transfer funds from the Cash Reserve Fund to the Property Tax Credit Cash Fund each year, beginning in 2020. Using this assumption, the department estimates the following revenue to the General Fund:

	General Fund Revenue Due to Lower Individual Income Tax Rate	General Fund Revenue Due to Lower Corporation Income Tax Rate	General Fund Revenue Due to Foregone Interest	Total General Fund Revenue
FY 19-20	(\$9,119,000)	(\$5,063,000)	(\$1,500,000)	(\$15,682,000)
FY 20-21	(\$48,607,000)	(\$21,448,000)	(\$1,500,000)	(\$71,555,000)
FY 21-22	(\$114,887,000)	(\$41,911,000)	(\$1,500,000)	(\$158,298,000)
FY 22-23	(\$187,562,000)	(\$56,852,000)	(\$1,500,000)	(\$245,914,000)
FY 23-24	(\$236,712,000)	(\$67,255,000)	\$0	(\$303,967,000)
FY 24-25	(\$246,480,000)	(\$73,919,000)	\$0	(\$320,399,000)

The department estimates the following revenue to the Cash Reserve Fund and the Property Tax Credit Fund:

	Cash Reserve Fund	Property Tax Credit Fund
FY 19-20	(\$75,000,000)	\$75,000,000
FY 20-21	(\$75,000,000)	\$75,000,000
FY 21-22	(\$75,000,000)	\$75,000,000
FY 22-23	(\$75,000,000)	\$75,000,000

**Expenditures:**

The department estimates a one-time programming charge of \$59,195 to OCIO for mainframe and web development costs.

There is no basis to disagree with these estimates.

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 6/14/19				
Approved by: Tony Fulton		Date Prepared: 6/14/19				
		Phone: 471-5896				
	<b>FY 2019-2020</b>		<b>FY 2020-2021</b>		<b>FY 2021-2022</b>	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$59,194	(\$15,682,000)		(\$71,555,000)		(\$158,298,000)
Cash Funds	\$75,000,000	\$75,000,000	\$75,000,000	\$75,000,000	\$75,000,000	\$75,000,000
Federal Funds						
Other Funds						
Total Funds		\$59,318,000	\$75,000,000	\$3,445,000	\$75,000,000	(\$83,298,000)

LB 615 establishes that if the Tax Rate Review committee determines, after examination of the expected growth rate in General Fund net receipts from the current to the upcoming fiscal year (Applicable Growth Rate), that the expected growth rate is at least 3.5% for the upcoming fiscal year and the balance of the Cash Reserve Fund is at least \$500 million, the Tax Rate Review committee shall certify the Applicable Growth Rate and Cash Reserve Fund balance to the Tax Commissioner and the State Treasurer. This examination begins in November of 2019 and each November thereafter until the top corporate and individual income tax rates are set at 5.99%. Each time the Tax Commissioner receives the certification, the Tax Commissioner reduces the top corporate and individual income tax rate. Pursuant to section 5 each time the State Treasurer receives certification of the Applicable Growth Rate and Cash Reserve Fund balance, the State Treasurer shall transfer \$75 million from the Cash Reserve Fund to the Property Tax Credit Cash Fund on a date as directed by the budget administrator.

LB 615 provides that each time there is the certification described above, the Tax Commissioner will adjust the fourth bracket individual income tax rate and the top corporate tax rate as follows: first time – both are reduced to 6.75%; second time – 6.50%; third time – 6.25%; and the fourth time – 5.99%. The new rates are operative on or after the first January 1 following the reduction and remain in place until the next reduction takes effect, if any.

The Department utilized the micro simulation model using the 2017 individual income tax data and 2015 corporate income tax data to estimate the reduction in revenues due to the lower rate. Also, for fiscal impact illustration purposes, the Department assumed the reduction in rates will happen beginning in 2020 and every year after until the rates hit 5.99% in tax year 2023, and similarly, the transfer from the Cash Reserve to the Property Tax Credit fund will be in the same timeframe. Under these assumptions, the estimated fiscal impacts of LB 615 are as follows:

**Fiscal Impact on General Fund Revenues:**

	Reduction to GF Due to Lower Individual Income Tax Rate	Reduction to GF Due to Lower Corporation Income Tax Rate	Reduction to General Fund Revenue due to Foregone Interest	Total Reduction to General Fund Revenue
FY 18-19	\$ -	\$ -		
FY 19-20	\$ 9,119,000	\$ 5,063,000	\$ 1,500,000	\$ 15,682,000
FY 20-21	\$ 48,607,000	\$ 21,448,000	\$ 1,500,000	\$ 71,555,000
FY 21-22	\$ 114,887,000	\$ 41,911,000	\$ 1,500,000	\$ 158,298,000
FY 22-23	\$ 187,562,000	\$ 56,852,000	\$ 1,500,000	\$ 245,914,000
FY 23-24	\$ 236,712,000	\$ 67,255,000	\$ -	\$ 303,967,000
FY 24-25	\$ 246,480,000	\$ 73,919,000	\$ -	\$ 320,399,000

