

Revised due to adoption of amendments on General File.

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	\$0	(\$27,000)	\$0	(\$56,000)
CASH FUNDS		(\$530)		(\$1,060)
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$0	(\$27,530)	\$0	(\$57,060)

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

LB 291, as amended by AM350 and AM941, to create the Special Economic Impact Zone Act.

A qualified business locating in a Special Economic Impact Zone (SEIZ) would be exempt from Nebraska sales and use taxes for the first \$250,000 of purchases in a calendar year and would be allowed to exclude from taxable income that amount of income equal to the portion of its sales that are sold or delivered from within a SEIZ beginning with tax year 2018.

A qualified business is any corporation, partnership, limited liability company, sole proprietorship, or other business entity that is:

- Subject to income taxes or sales and use taxes under the Nebraska Revenue Act of 1967;
- Establishes a business location within a SEIZ;
- Derives no more than 5% of its income from the sale of agricultural grain which it or one of its subsidiaries actively produced;
- Does not engage in Class III gaming activity authorized by the federal Indian Gaming Regulatory Act.

LB 291 establishes the following areas in the state as SEIZs:

- Each Indian reservation in the state;
- For any Indian tribe without a reservation in Nebraska, the trust lands of that tribe that lies within a federally designated or established service area.

A qualified business receiving tax incentives under the Nebraska Advantage Act are also eligible to qualify for the tax incentives offered by LB 291.

The Department of Revenue estimates the following fiscal impact of LB 291:

Fiscal Year:	Income Tax: (General Fund)	Sales Tax: (General Fund)	Total: (General Fund)	State Highway Capital Improvement Fund: (Cash Fund)	Highway Allocation Fund: (Local)
2017-18:	(\$ 14,000)	(\$ 13,000)	(\$ 27,000)	(\$ 530)	(\$ 95)
2018-19:	(\$ 30,000)	(\$ 26,000)	(\$ 56,000)	(\$ 1,060)	(\$ 190)
2019-20:	(\$ 31,000)	(\$ 39,000)	(\$ 70,000)	(\$ 1,595)	(\$ 280)
2020-21:	(\$ 33,000)	(\$ 52,000)	(\$ 85,000)	(\$ 2,125)	(\$ 375)

If there were a revenue sharing agreement with a federally recognized Indian Tribe as a result of LB 291, such an agreement would reduce sales tax revenues collected by the state. The amount depends on the Tribe or Tribes involved and the time when the agreement becomes effective. Both are uncertain and no estimate has been made for this impact.

The Department of Revenue indicates a minimal cost to implement the provisions of LB 291.

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

The bill, as amended, also amends the Nebraska Investment Finance Authority Act to require, for purposes of allocating federal low-income housing tax credits, that a bonus be given to the highest-scoring application that involves a development located in a SEIZ. No more than one application per calendar year may be awarded credits as a result of the bonus provided by LB 291.

The Nebraska Investment Finance Authority (NIFA) originally indicate no fiscal impact to NIFA.

We have no basis to disagree with NIFA's estimate of fiscal impact.

The Nebraska Commission on Indian Affairs failed to respond to the original request.

State Agency Estimate

State Agency Name: Department of Revenue		Date Prepared: 4/12/2017		Date Due LFA: 4/12/2017	
Approved by: Tony Fulton				Phone: 471-5896	
FY 2017-2018		FY 2018-2019		FY 2019-2020	
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$0 (\$27,000)	\$0 (\$56,000)	\$0 (\$70,000)	\$0 (\$70,000)	\$0 (\$70,000)
Cash Funds	(\$530)	(\$1,060)	(\$1,595)	(\$1,595)	(\$1,595)
Federal Funds					
Other Funds	(\$95)	(\$190)	(\$280)	(\$280)	(\$280)
Total Funds	\$0 (\$27,625)	\$0 (\$57,250)	\$0 (\$71,875)	\$0 (\$71,875)	\$0 (\$71,875)

LB 291 creates an incentive for new businesses operating on an Indian Reservation, a preference for NIFA projects located on an Indian Reservation, and authorizes a sales tax and revenue sharing agreement between the state and Indian Tribes.

The first nine sections of LB 291 would adopt the Special Economic Impact Zone Act (Act). The Act defines “qualified business” as any corporation, partnership, LLC, sole proprietorship, or other business entity that is subject to income taxes or sales taxes and that establishes a business location inside a special economic impact zone after the effective date of the Act. The qualified business cannot derive more than 5% of its income from the sale of agricultural grain or be engaged in Class III gaming authorized under the federal Indian Gaming Regulatory Act.

Under AM 941 a special economic impact zone is any Indian Reservation. “Reservation” means Indian country as defined in 18 U.S.C. § 1151 and trust land. If a tribe does not have an established reservation, any trust land that lies within a federally designated “service area” is also part of a special economic impact zone. With the amendment, LB 291 still provides that before any trust land located within a metropolitan, primary, or first class city be included in such a zone, the city must give its approval, but there is no procedure outlined in the bill to create a zone.

Under AM 941, for taxable years beginning on or after January 1, 2018, a qualified business may exclude a portion of its taxable income equal to the portion of the sales of the qualified business that are sold or delivered from within the special economic impact zone. Also, beginning January 1, 2018, a qualified business is exempt from sales and use taxes due on the first \$250,000 of taxable purchases for use in the zone. Qualifying businesses will apply for, and receive, a Direct Pay Permit regardless of size and will be required to remit use tax on purchases exceeding \$250,000 during the year.

Under original LB 291, businesses may qualify for these benefits in addition to benefits under the Nebraska Advantage Act. Activities relocated from another part of the state into the zone are not eligible for the benefits under the Act. The Department may adopt rules and regulations to carry out the provisions of the Act. These provisions are unchanged under AM 941.

AM 941 adopts a new section in the NIFA Act to require NIFA to give a two percent bonus to the highest scoring application from a development located in a special economic impact zone that involves federal low-income housing credits.

The provisions of LB 291 that pertained to a sales tax and revenue sharing agreement between the state and Indian Tribes were unchanged by AM 941.

AM 941, which incorporates AM 530, is estimated to result in a reduction to the General Fund as follows:

	Income Tax	General Fund Sales Tax	Total General Fund	State Highway Capital Improvement Fund	Highway Allocation Fund
FY 2017-2018	\$14,000	\$13,000	\$27,000	\$530	\$95
FY 2018-2019	\$30,000	\$26,000	\$56,000	\$1,060	\$190
FY 2019-2020	\$31,000	\$39,000	\$70,000	\$1,595	\$280
FY 2020-2021	\$33,000	\$52,000	\$85,000	\$2,125	\$375

*Totals may not add exactly due to rounding.

It is estimated that there will be minimal costs to the Department to implement these amendments.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	17-18	18-19	19-20	17-18	18-19	19-20
		<u>FTE</u>	<u>FTE</u>	<u>FTE</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>
Total						