

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2022-23		FY 2023-24	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$1,150,494	(\$2,192,870,000)	\$996,710	(\$1,329,064,000)
CASH FUNDS		(\$24,995,000)		\$26,424,000
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$1,150,494	(\$2,167,875,000)	\$996,710	(\$1,302,640,000)

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

LB 1264 eliminates and amends various sections relating to inheritance, sales & use, and income taxes.

Section 1 amends terms reported by the Department of Revenue in the tax expenditure report. The tax expenditures removed are amended into gross receipts in Section 5 of LB 1264:

Sections 2 through 4 eliminate the inheritance tax beginning in taxable years on or after January 1, 2023.

Section 5 amends the definition of gross receipts, adding the following items:

- Labor for repair or maintenance of motor vehicles;
- All animal specialty services;
- Maintenance and repair of real property;
- Storage and moving services;
- Cleaning of tangible personal property;
- Investment counseling services;
- Taxi, limousine, and other transportation services;
- Weight loss services;
- Burial-related services;
- Accounting services;
- 20% of the gross income received for physician, dentist, optometrists, and chiropractor services;
- Real estate agent and appraisal services; and
- Legal services

Section 6 amends the sales and use tax exemption on durable medical equipment, providing that 60% of the gross receipts on the sale, lease, or rental of such equipment be exempt.

Section 7 provides for a new individual income tax rate and bracket system beginning in taxable years on or after January 1, 2022. The section also sets forth a schedule for reducing the top income tax rate in tax year 2025, and again in tax year 2028. The bracket 2 rate would decrease to 5.3% on January 1, 2025, and to 4.99% on January 1, 2028. The new individual income tax brackets and rates would be as follows:

Individual Income Tax Brackets and Rates								
Bracket #	Single	Married, Joint	Head of House	Married, Separate	Estates & Trusts	2022 Rates	2025 Rates	2028 Rates
1	\$0-49,999	\$0-99,999	\$0-49,999	\$0-49,999	\$0-49,999	0%	0%	0%
2	\$50,000+	\$100,000+	\$50,000+	\$50,000+	\$50,000+	5.6%	5.3%	4.99%

Section 8 amends the process that the Tax Commissioner uses adjust the maximum income for reducing all social security benefits from federal adjusted gross income. The original language ties the process to the adjustment of the individual income tax brackets, but LB 1264 would require the adjustment be based on the prior 12 month percentage change in the Consumer Price Index for All Urban Consumers.

Section 9 eliminates the standard deduction for individual taxpayers, beginning in taxable years on or after January 1, 2022.

Section 10 sets a new schedule for reducing the income tax rates imposed on corporate income, as follows:

Corporate Income Tax Brackets and Rates					
Bracket	Income Range	Current 2022 Tax Rates	New 2022 Tax Rates	2025 Tax Rates	2028 Tax Rates
1	\$0-100,000	5.58%	4.00%	4.00%	4.00%
2	\$100,000+	7.5%	5.60%	5.30%	4.99%

Section 10 also strikes intent language passed by the legislature in the 2021 session.

Section 11 amends the credit provided in the Nebraska Advantage Research and Development Act. For research and development expenses made by a business in Nebraska, the credit available will be increased from 15% to 30% of the federal credit for research expenses. Additionally, the credit available for research expenses made on the campus of a college or university is increased from 35% to 70% of the federal credit for research expenses.

Section 12 provides intent language to eliminate tax incentive programs to offset any General Fund revenue losses caused by LB 1264, excluding the Nebraska Advantage Research and Development Act.

Section 13 provides additional intent language to create a 5 year student loan relief program for recent graduates in science, technology, engineering, or mathematics degrees. The amount available to each graduate would be up to \$12,000 annually.

Furthermore, section 13 provides intent language to create a second 5 year student loan relief program for recent graduates of a qualified trade program. The amount available to each graduate would be up to \$1,200 annually.

LB 1264 also outright repeals sections 77-2704.05, 77-2704.25, and 77-2704.67, which are the exemptions from sales and use tax for (1) motor vehicle fuels, (2) sales by school organizations, and (3) memberships or admissions to or purchases by zoos or aquariums, respectively.

LB 1264 becomes operative October 1, 2022.

Revenue:

The Department of Revenue estimates the following revenue increase to the expansion of the sales tax:

Year	General Fund	State Highway Capital Improvement Fund	Highway Allocation Fund
FY22-23	\$411,689,000	\$29,995,000	\$4,411,000
FY23-24	\$652,831,000	\$26,424,000	\$4,663,000
FY24-25	\$694,876,000	\$28,126,000	\$4,963,000
FY25-26	\$739,854,000	\$29,946,000	\$5,285,000

The department estimates the following revenue decreases to the changes in the individual and corporate income tax:

Year	General Fund
FY22-23	(\$2,593,675,000)
FY23-24	(\$1,970,847,000)
FY24-25	(\$2,106,430,000)
FY25-26	(\$2,266,650,000)

The department estimates the following revenue decrease due to doubling the tax credit percentages, assumed to be effective January 1, 2022, for the Nebraska Advantage Research and Development tax credit:

Year	General Fund
FY22-23	(\$10,884,000)
FY23-24	(\$11,048,000)
FY24-25	(\$11,240,000)
FY25-26	(\$11,462,000)

The department does not estimate a fiscal impact related to the intent language to eliminate tax incentive programs due to lack of detail on how the programs would end and which programs are considered. We concur. LB 1264 does not provide termination dates for any of the current tax incentive programs. Additionally, even if all current tax incentive programs are terminated on the effective date of the act, agreements pursuant to the programs result in ongoing revenue losses to the General Fund for many years in the future.

The department estimates the student loan relief programs to be created as an income tax credit, and for the impact to be as follows:

Year	General Fund
FY22-23	(\$38,880,000)
FY23-24	(\$74,895,000)
FY24-25	(\$110,654,000)
FY25-26	(\$121,694,000)

While we have no basis to disagree with the department's assumptions or estimate of impact, the bill states only intent to create such programs and does not clarify the way in which the student loan relief programs will be administered. As such, the estimate of impact for this particular provision is not included in the table at the top of the fiscal note.

LB 1264 will have a negative impact to counties. The Nebraska Association of County Officials estimates an approximate revenue loss of \$76.8 million across all counties due to the elimination of the inheritance tax. The impact will vary by county. Because the impact of the elimination of the inheritance tax is to counties, the estimate of impact for this particular provision is not included in the table at the top of the fiscal note.

Expenditures:

The Department of Revenue estimates a one-time expenditure of \$57,788 to OCIO for mainframe development and ongoing costs for 19.0 FTE of \$1,092,706 in FY22-23 and \$996,710 in FY23-24, decreasing to 17.0 FTE in FY24-25.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 1264	AM:	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Neil Sullivan	DATE: 2/17/2022	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Department of Revenue assessment of fiscal impact from LB 1264. Undefined intent language regarding incentive elimination was not assessed.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 1264	AM:	AGENCY/POLT. SUB: Department of Transportation
REVIEWED BY: Neil Sullivan	DATE: 2/17/2022	PHONE: (402) 471-4179
COMMENTS: The Department of Transportation assessment of fiscal impact from LB 1264 appears reasonable.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 1264	AM:	AGENCY/POLT. SUB: Lancaster County
REVIEWED BY: Neil Sullivan	DATE: 1/27/2022	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Lancaster County assessment of fiscal impact from LB 1264.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 1264	AM:	AGENCY/POLT. SUB: Nebraska Association of County Officials (NACO)
REVIEWED BY: Neil Sullivan	DATE: 1/26/2022	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the NACO assessment of fiscal impact from LB 1264.		

State Agency Estimate

State Agency Name: Department of Revenue (DOR)				Date Due LFO:		
Approved by: Tony Fulton		Date Prepared: 2/17/2022		Phone: 471-5896		
	FY 2022-2023		FY 2023-2024		FY 2024-2025	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$1,150,494	(\$2,231,750,000)	\$996,710	(\$1,400,959,000)	\$919,061	(\$1,533,448,000)
Cash Funds		\$24,995,000		\$26,424,000		\$28,126,000
Federal Funds						
Other Funds		\$4,411,000		\$4,663,000		\$4,963,000
Total Funds	\$1,150,494	(\$2,202,344,000)	\$996,710	(\$1,369,872,000)	\$919,061	(\$1,500,359,000)

LB 1264 would expand the sales tax base, reduce and simplify income taxes, and eliminate the inheritance tax. Specifically, LB 1264 would:

1. Eliminate the inheritance tax for all classes of descendants for decedents dying on or after January 1, 2023.
2. Expand the sales tax base, effective October 1, 2022, to include:
 - a. Motor vehicle repair,
 - b. Motor Vehicle fuels, diesel, and compressed fuels,
 - c. Sales by school organizations,
 - d. Veterinary services, livestock specialty services, and animal grooming in connection with a veterinary treatment,
 - e. Maintaining, painting, and repairing real property,
 - f. Storage and moving services,
 - g. Investment counseling services,
 - h. Taxi, limousine, and other transportation services,
 - i. Weight loss services,
 - j. Burial-related services,
 - k. Accounting services,
 - l. 20% of physician, dentist, optometry, and chiropractic services,
 - m. Real estate and appraisal services,
 - n. Legal services, and
 - o. 40% of durable medical equipment sales.

Major Objects of Expenditure

Class Code	Classification Title	22-23	23-24	24-25	22-23	23-24	24-25
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
A29621	Revenue Tax Specialist	1.0	1.0	1.0	\$50,900	\$51,900	\$53,000
X29222	Revenue Agent	9.0	9.0	7.0	\$319,200	\$325,600	\$258,300
X29223	Revenue Agent Senior	0.5	0.5	0.5	\$20,500	\$20,900	\$21,300
S29112	Revenue Operations Clerk II	1.0	1.0	1.0	\$31,000	\$31,600	\$32,200
S01011	Office Technician	1.0	1.0	1.0	\$25,000	\$25,500	\$26,000
G31113	Attorney III	1.0	1.0	1.0	\$67,000	\$68,300	\$69,700
A21211	Discovery and Nexus Examiners	4.5	4.5	4.5	\$174,400	\$177,900	\$181,500
A21212	Auditor	1.0	1.0	1.0	\$41,700	\$42,500	\$43,300
Benefits.....					\$240,800	\$240,800	\$221,700
Operating Costs.....					\$89,994	\$11,710	\$12,061
Travel.....							
Capital Outlay.....					\$90,000	\$0	\$0
Capital Improvements.....							
Total.....					\$1,150,494	\$996,710	\$919,061

3. Change the individual income tax brackets and rates as follows:

Tax Bracket	Taxable Income		Tax Rate		
	Married Filing Joint	Other Return	TY2022 to TY2024	TY2025 to TY2027	TY2028 and Beyond
1	\$0 - 99,999	\$0 - \$49,000	0%	0%	0%
2	\$100,000 and Over	\$50,000 and Over	5.60%	5.30%	4.99%

There would be no change in the brackets after 2022 and no adjustment of brackets for inflation in future years.

4. Eliminate the standard deduction and itemized deduction beginning with taxable year 2022.

5. Lower the corporate income tax rate as follows:

Tax Bracket	Taxable Income	Tax Rate		
		TY2022 to TY2024	TY2025 to TY2027	TY2028 and Beyond
1	\$0 - \$100,000	4.00%	4.00%	4.00%
2	Over \$100,000	5.60%	5.30%	4.99%

6. Double the Nebraska Advantage Research and Development tax credit percentages from 15% to 30% of the federal credit for research expenditures occurring in Nebraska and 35% to 70% for research conducted on the campus of a college or the University of Nebraska or a facility owned by a college or university of Nebraska.

7. State legislative intent is to eliminate tax incentive programs to fund the revenue shortfall created by the tax cuts; and

8. State legislative intent is to provide student loan relief of up to \$12,000 annually for up to five years for college graduates with degrees in science, technology, engineering, or math and up the \$1,200 annual for up to five years for graduates of a qualified trade program.

Fiscal Impact of LB 1264:

The elimination of inheritance tax provision does not have a fiscal impact to General Fund revenues however it will reduce each county’s collected inheritance tax an indeterminable amount.

The estimated fiscal impact due to the expansion of the sales tax would be as follows:

Fiscal Year	General Fund Revenues	State Highway Capital Improvement Fund	Highway Allocation Fund
FY 2022-23	\$ 411,689,000	\$ 24,995,000	\$ 4,411,000
FY 2023-24	\$ 652,831,000	\$ 26,424,000	\$ 4,663,000
FY 2024-25	\$ 694,876,000	\$ 28,126,000	\$ 4,963,000
FY 2025-26	\$ 739,854,000	\$ 29,946,000	\$ 5,285,000

The estimated fiscal impact due to the change in the individual income tax brackets and rate, and eliminating the standard deduction and itemized deduction would be as follows:

Fiscal Year	General Fund Revenues
FY 2021-22	\$ -
FY 2022-23	\$ (2,514,909,000)
FY 2023-24	\$ (1,872,266,000)
FY 2024-25	\$ (2,003,765,000)
FY 2025-26	\$ (2,156,336,000)
FY 2026-27	\$ (2,265,677,000)
FY 2027-28	\$ (2,425,165,000)
FY 2028-29	\$ (2,610,694,000)
FY 2029-30	\$ (2,743,011,000)

Fiscal Year 2022-23 shows a larger impact because taxpayers already paid their withholding for tax year 2022 and will claim it when they file their 2022 tax return in early 2023. To reflect the new individual income tax bracket and rates, taxpayers will begin to adjust their withholding or estimated payment, or both beginning January 1, 2023. Hence the fiscal impact for FY22-23 effectively includes 17 months rather than 12 months.

The Department of Revenue (DOR) assumes that doubling the Nebraska Advantage Research and Development tax credit percentages will be effective on January 1, 2022 and estimated the fiscal impact for this would be as follows:

Fiscal Year	General Fund Revenues
FY 2022-23	\$ (10,884,000)
FY 2023-24	\$ (11,048,000)
FY 2024-25	\$ (11,240,000)
FY 2025-26	\$ (11,462,000)

The estimated fiscal impact due to the lower corporate income tax rate would be as follows:

Fiscal Year	General Fund Revenues
FY 2021-22	\$ -
FY 2022-23	\$ (78,766,000)
FY 2023-24	\$ (95,581,000)
FY 2024-25	\$ (102,665,000)
FY 2025-26	\$ (110,314,000)
FY 2026-27	\$ (122,880,000)
FY 2027-28	\$ (133,955,000)
FY 2028-29	\$ (148,662,000)
FY 2029-30	\$ (164,236,000)

The DOR is unable to estimate the fiscal impact for the legislative intent to eliminate tax incentive programs due to the lack of detail on how the incentive programs would end and which programs are considered.

For the student loan relief program, DOR estimated that there are approximately 5,000 graduates from STEM programs annually and another 3,000 from a trade school program. Further, DOR estimates the average debt owed upon graduation is approximately \$13,700 for Certificate Holders and Associate's degrees, \$35,000 for Bachelor's degree, \$65,000 for a Graduate degree, and \$103,000 for a Ph.D. degree. DOR further assumes the payment will be in the form of a refundable income tax credit beginning with calendar year 2023 (claimed on the 2022 tax return). With those assumptions, the estimate for the fiscal impact of the legislative intent of providing student loan relief is as follows:

Fiscal Year	General Fund Revenues
FY 2022-23	\$ (38,880,000)
FY 2023-24	\$ (74,895,000)
FY 2024-25	\$ (110,654,000)
FY 2025-26	\$ (121,694,000)
FY 2026-27	\$ (132,899,000)

LB 1264 will require a one-time programming charge of \$57,788 paid to the OCIO for mainframe development. DOR will also need a Tax Specialist, an Attorney III, Auditor, four Revenue Agents for Collections, two .5 FTE Revenue Operations Clerk II, an Office Technician, four Discovery Examiners, .5 FTE Nexus Examiner, .5 FTE Senior Agent, five Revenue Agents for Tax Payer Assistance for the first two years, three Revenue Agents for Tax Payer Assistance in the subsequent years, as well as contracting with DAS for two temporary SOS Staff at the Revenue Operations Clerk II level for four months in the first year and three additional SOS Staff each year for the first month and a half to aid in operations of non-electronic submissions in order to implement the bill.

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

2022

LB⁽¹⁾ 1264

FISCAL NOTE

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

Prepared by: ⁽³⁾ Jenessa Boynton Date Prepared: ⁽⁴⁾ 2/17/2022 Phone: ⁽⁵⁾ 402-479-4691

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2022-23		FY 2023-24	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS		\$24,995,000		\$26,424,000
FEDERAL FUNDS				
OTHER FUNDS		\$4,441,000		\$4,663,000
TOTAL FUNDS		\$29,406,000		\$31,087,000

Explanation of Estimate:

LB 1264 applies to Dept. of Transportation with respect to the proposed expansion of the sales tax base effective October 1, 2022.

Revenue to Build Nebraska Act Funds				
	FY2022/23	FY2023/24	FY2024/25	FY2025/26
State Highway Capital Improvement Fund	\$24,995,000	\$26,424,000	\$28,126,000	\$29,946,000
Highway Allocation Fund (cities and counties)	\$4,411,000	\$4,663,000	\$4,963,000	\$5,285,000
Total	\$29,406,000	\$31,087,000	\$33,089,000	\$35,231,000

This estimate of increased revenue was obtained from the Nebraska Department of Revenue. The change in the sales tax base will increase revenues to the Build Nebraska Act funds, the State Highway Capital Improvement Fund for NDOT and the Highway Allocation Fund for cities and counties.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS		2022-23	2023-24
	22-23	23-24	EXPENDITURES	EXPENDITURES
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				

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

2022

LB⁽¹⁾ 1264

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Lancaster County

Prepared by: ⁽³⁾ Dennis Meyer Date Prepared: ⁽⁴⁾ 1-26-22 Phone: ⁽⁵⁾ 402-441-6869

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2022-23</u>		<u>FY 2023-24</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	<u>(4,000,000)</u>	_____	<u>(8,200,000)</u>
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>

Explanation of Estimate:

LB 1264 would eliminate inheritance taxes for Lancaster County. FY2022-23 estimated loss is based off the amount Lancaster County received for the first six months of FY21-22.

The loss shown for FY2023-24 is the average amount Lancaster County has received over the last three years. Lancaster County has received the following amounts for inheritance tax over the last three fiscal years: FY20-21 \$8.7 million, FY2019-20 \$6.6 million, and FY2018-19 \$9.2 million.

Lancaster County would need to raise property taxes to make up the shortfall in revenue. One cent in property taxes generates approximately \$3.2 billion in Lancaster County.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2022-23</u>	<u>2023-24</u>
	<u>22-23</u>	<u>23-24</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____

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

2022

LB⁽¹⁾ 1264

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Association of County Officials (NACO)

Prepared by: ⁽³⁾ Elaine Menzel Date Prepared: ⁽⁴⁾ 1/24/2022 Phone: ⁽⁵⁾ 402.434.5660

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2022-23</u>		<u>FY 2023-24</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 1264 would, among other things, outright eliminate the inheritance taxes paid to county without any replacement source of revenue. While the amount of collections of the inheritance tax varies each year for every county, in FY 2020/2021, inheritance taxes collected were approximately \$76.8 million dollars; therefore, if LB 1264 had been in effect at during that time period, there would have been a loss of that amount to counties.

LB 1264 has a substantial negative⁴ fiscal impact on counties.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2022-23</u>	<u>2023-24</u>
	<u>22-23</u>	<u>23-24</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____