PREPARED BY: DATE PREPARED: PHONE: Doug Gibbs January 25, 2015 402-471-0051

**LB 165** 

Revision: 00

## **FISCAL NOTE**

## LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT - STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 201	5-16	FY 2016-17				
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE			
GENERAL FUNDS	\$11,815	(\$22,734,000)	\$3,855	(\$40,975,000)			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$11,815	(\$22,734,000)	\$3,855	(\$40,975,000)			

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

LB 165 amends the Nebraska Revenue Act of 1967, Section 77-2716.

The bill strikes language that provides for a reduction in federal adjusted gross income (AGI) for Nebraska state income tax purposes by the amount received as benefits under the Social Security Act which are included in AGI, that meet certain income guidelines.

The bill amends Section 77-2716 to phase in a complete elimination of state income tax on Social Security benefits, to the extent they are include in federal AGI for federal tax purposes, beginning tax year 2015 at a rate of twenty percent each year. The Department of Revenue estimates the following fiscal impact to the General Fund:

Tax Year Beginning:	Percentage Reduction in AGI:	Fiscal Year:	Impact to General Fund:
January 1, 2015	20%	2015-16:	(\$ 22,734,000)
January 1, 2016	40%	2016-17	(\$ 40,975,000)
January 1, 2017	60%	2017-18	(\$ 65,248,000)
January 1, 2018	80%	2018-19	(\$ 91,179,000)
January 1, 2019	100%	2019-20	(\$109,305,000)

The bill has an operative date of January 1, 2015.

The Department of Revenue estimates a programming charge of \$11,815 paid to the Office of the CIO to add a line to the Form 1040N, Schedule I, as well as to the NebFile system. For subsequent years, an annual charge of \$3,855 paid to the Office of the CIO will be necessary for mainframe development costs to address the phased in adjustment percentage for the reduction.

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

State Agency Estimate						
State Agency Name: Department	of Revenue				Date Due LFA:	
Approved by: Len Sloup		Date Prepared:	1/22/2015		Phone: 471-5896	
FY 2015-2016		FY 2016-2017		FY 2017-2018		
	<b>Expenditures</b>	Revenue	<b>Expenditures</b>	Revenue	Expenditures	Revenue
General Funds	\$11,815	(\$22,734,000)	\$3,855	(\$40,975,000)	\$3,855	(\$65,248,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$11,815	(\$22,734,000)	\$3,855	(\$40,975,000)	\$3,855	(\$65,248,000)

LB 165 allows a reduction to federal adjusted gross income for Social Security benefits included in federal adjusted gross income as follows: 20% for tax year 2015, 40% for tax year 2016, 60% for tax year 2017, 80% for tax year 2018, and 100% for tax year 2019 and each tax year thereafter.

The estimated reduction to General Fund revenues would be as follows:

FY 2015-2016	22,734,000
FY 2016-2017	40,975,000
FY 2017-2018	65,248,000
FY 2018-2019	91,179,000
FY 2019-2020	109,305,000

LB 165 requires a programming charge of \$11,815 paid to the OCIO to add a line to the Form 1040N, Schedule I, as well as to the NebFile online filing system. For subsequent years, an annual charge of \$3,855 paid to the OCIO will be necessary for mainframe development costs to address the phased in adjustment percentage for the reduction.

	Major	Objects of I	Expendit	ure			
Class Code	Classification Title	15-16 <u>FTE</u>	16-17 <u>FTE</u>	17-18 <u>FTE</u>	15-16 Expenditures	16-17 Expenditures	17-18 Expenditures
Benefits							
					\$11,815	\$3,855	\$3,855
Capital Outlay							
					\$11,815	\$3,855	\$3,855