PREPARED BY: DATE PREPARED: PHONE: Douglas Gibbs January 31, 2018 402-471-0051

**LB 1074** 

Revision: 00

## FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT — STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 201	FY 2018-19 FY 2019-20					
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE			
GENERAL FUNDS	\$69,266	\$106,056,000	\$0	\$77,887,000			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$69,266	\$106,056,000	\$0	\$77,887,000			

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

LB 1074 amends the Nebraska Revenue Act of 1967 regarding the state income tax.

The bill changes the individual income tax brackets and adds a fifth tax bracket effective for tax year beginning January 1, 2018 and after. The new bracket would be \$200,000 and over for married filing jointly returns, \$100,000 and over for single and married filing separate filers, and \$150,000 for head of household filers. The rate for the fifth bracket would be 7.84%.

The bill also provides that in addition to the tax calculated by the tax brackets, a tax of 1% is imposed on the portion of taxable income in excess of \$1,000,000 and a tax of 2% is imposed on the portion of taxable income in excess of \$2,000,000. These rates are to be adjusted for inflation.

In addition, for taxable years beginning on or after January 1, 2018, the Nebraska earned income tax credit is increased to 12% of the federal credit.

The Department of Revenue estimates the following fiscal impact of LB 1074:

	Increased Revenue Due to	Decreased Revenue Due to		
Fiscal Year:	New Tax Brackets:	Increase in EITC Rate:	Total:	
2018-19:	\$ 112,269,000	(\$ 6,313,000)	\$ 106,056,000	
2019-20:	\$ 84,162,000	(\$ 6,275,000)	\$ 77,887,000	
2020-21:	\$ 88,791,000	(\$ 6,338,000)	\$ 82,453,000	
2021-22:	\$ 93,674,000	(\$ 6,401,000)	\$ 87,273,000	

NOTE: The increase in revenues for FY2018-19 are due to an increase in final payments in April 2019 due to the new tax brackets and rates for tax year 2018. The Department of Revenue will update the withholding tables beginning January 1, 2019 to account for the new tax brackets.

The Department indicates that they will require a one-time programming charge of \$69,266 paid to the Office of the CIO for mainframe costs and web development costs for the NebFile individual income tax filing system.

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

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE					
LB: 1074 AM: AGENCY/POLT. SUB: Dept. of Revenue					
REVIEWED BY: Lyn Heaton DATE: 1/31/2018 PHONE: <u>(402)</u> 471-4181					
COMMENTS: No basis upon which to disagree with the Department of Revenue's analysis.					

## LB 1074 Fiscal Note 2018

		State Agency	Estimate			
State Agency Name: Department	of Revenue				Date Due LFA:	2/1/2018
Approved by: Tony Fulton		Date Prepared:	1/31/2018		Phone: 471-5896	
	FY 2018	<u>3-2019</u>	FY 2019	9-2020	FY 20	20-2021
	Expenditures	Revenue	<b>Expenditures</b>	Revenue	Expenditures	Revenue
General Funds	\$69,266	\$106,056,000	1	\$77,887,000		\$82,453,000
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$69,266	\$106,056,000		\$77,887,000		\$82,453,000

LB 1074 changes the existing individual income tax brackets and adds an additional fifth bracket for tax years beginning on or after January 1, 2018. The fifth brackets will tax income at 7.84% for single individuals or married, filing separate with taxable income of \$100,000 or more, married, filing jointly with taxable income of \$200,000 or more, and head of household with taxable income of \$150,000 or more. LB 1074 adds an additional 1% tax on the portion of taxable income in excess of \$1 million (for a total tax rate of 8.84%) and a 2% tax on the portion of taxable income in excess of \$2 million (for a total tax rate of 10.84%). The income thresholds for the 1% and 2% tax will be adjusted for inflation.

LB 1074 increases the earned income tax credit to 12% of the federal credit for taxable years beginning on or after January 1, 2018.

The estimated increase to General Fund revenues are as follows:

Fiscal Year	Increase in Revenues Due to New Brackets	Decrease in Revenues Due to Increase in EITC Rate	Total Increase to General Fund Revenues
FY18-19	\$ 112,269,000	\$ (6,213,000)	\$ 106,056,000
FY19-20	\$ 84,162,000	\$ (6,275,000)	\$ 77,887,000
FY20-21	\$ 88,791,000	\$ (6,338,000)	\$ 82,453,000
FY21-22	\$ 93,674,000	\$ (6,401,000)	\$ 87,273,000

The increase in General Fund revenues for FY18-19 are higher due to an increase in final payments in April 2019 due to the new tax brackets and rates for tax year 2018. The Department will update the withholding tables beginning January 1, 2019 to account for the new brackets.

LB 1074 will require a one-time programming charge of \$69,266 paid to the OCIO for mainframe and web development costs for the NebFile for individual income tax filing system.

Major Objects of Expenditure							
Class Code	Classification Title	18-19 <u>FTE</u>	19-20 <u>FTE</u>	20-21 <u>FTE</u>	18-19 Expenditures	19-20 Expenditures	20-21 Expenditures
Operating Costs					\$69,266		
Travel							
Capital Outlay							
	3						
Total		••••••		•••••	\$69,266		