

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$56,236	(\$140,741,000)	\$56,236	(\$403,818,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$56,236	(\$140,741,000)	\$56,236	(\$403,818,000)

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

LB 1097 amends the Nebraska Revenue Act of 1967 Sections 77-2715.03 and 77-2734.02.

The bill amends Section 77-2715.03 dealing with the individual income tax to phase in changes to the brackets and rates over a three-year period.

For taxable years beginning on or after January 1, 2015 and before January 1, 2016 the following brackets and rates are proposed:

Bracket Number:	Single Individuals:	Married, Filing Jointly:	Head of Household:	Married, Filing Separate:	Estates and Trusts:	Tax Rate:
1	\$0 - \$17,999	\$0 - \$35,999	\$0 - \$24,999	\$0 - \$17,999	\$0 - \$999	2.30%
2	\$18,000 - \$35,999	\$36,000 - \$71,999	\$25,000 - \$39,999	\$18,000 - \$35,999	\$1,000 - \$19,999	4.90%
3	\$36,000 – and over	\$72,000 – and over	\$40,000 – and over	\$36,000 – and over	\$20,000 – and over	6.50%

For taxable years beginning on or after January 1, 2016 and before January 1, 2017, the income brackets would remain as above but the tax rate would be changed as follows:

Bracket 1:	2.30%
Bracket 2:	4.80%
Bracket 3:	6.00%

For taxable years beginning on or after January 1, 2017 and thereafter, the income brackets would remain unchanged from the previous two taxable years but the tax rate would be as follows:

Bracket 1:	2.30%
Bracket 2:	4.75%
Bracket 3:	5.90%

The bill also provides that beginning on or after January 1, 2018 that the brackets shall be adjusted for inflation by the method provided for in section 151 of the Internal Revenue Code of 1986.

LB 1097 also amends Section 77-2734.02 dealing with the corporate income tax to phase in changes to the corporate tax rate over a three-year period as follows:

Tax Year:	Tax Rate on First \$100,000 of Taxable Income:	Tax Rate on Taxable Income in Excess of \$100,000:
2015:	4.75%	7.00%
2016:	4.00%	6.50%
2017 & thereafter:	3.50%	5.90%

The current corporate tax rate is 5.58% for the first \$100,000 of taxable income and 7.81% on all taxable income in excess of \$100,000.

The Department of Revenue estimates the following fiscal impact to the General Fund:

Fiscal Year:	Individual Income Tax:	Corporate Income Tax:	Total:
2014-15:	(\$134,888,000)	(\$ 5,853,000)	(\$140,741,000)
2015-16:	(\$377,772,000)	(\$26,046,000)	(\$403,818,000)
2016-17:	(\$474,443,000)	(\$50,517,000)	(\$524,960,000)
2017-18:	(\$521,767,000)	(\$72,313,000)	(\$594,080,000)
2018-19:	(\$564,664,000)	(\$80,706,000)	(\$645,370,000)

The Department of Revenue indicates that LB 1097 will require a programming charge of \$56,236 paid to the office of the CIO for mainframe and web development costs for each year in which brackets and rates change.

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

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 1/31/2014				
Approved by: Kim Conroy		Date Prepared: 1/31/2014				
		Phone: 471-5896				
	FY 2014-2015		FY 2015-2016		FY 2016-2017	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$56,236	(\$140,741,000)	\$56,236	(\$403,818,000)	\$56,236	(\$524,960,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$56,236	(\$140,741,000)	\$56,236	(\$403,818,000)	\$56,236	(\$524,960,000)

LB 1097 merges individual income tax brackets and gradually reduces individual income tax rates between tax years 2015 and 2017.

2014 Individual Income Tax Brackets and Rates				
Bracket Number	Married, Filing Jointly	Head of Household	Single Individuals	Tax Rate
1	\$0 - 6,000	\$0 - 5,600	\$0 - 3,000	2.46%
2	\$6,000 - 36,000	\$5,600 - 28,800	\$3,000 - 18,000	3.51%
3	\$36,000 - 58,000	\$28,800 - 43,000	\$18,000 - 29,000	5.01%
4	Over \$58,000	Over \$43,000	Over \$29,000	6.84%

LB 1097 individual income tax brackets and rates are adjusted as follows:

Bracket Number	Married, Filing Jointly	Head of Household	Single Individuals	TY 2015 Tax Rate	TY 2016 Tax Rate	TY 2017 and After Tax Rate
1	\$0 - 36,000	\$0 - 25,000	\$0 - 18,000	2.30%	2.30%	2.30%
2	\$36,000 - 72,000	\$25,000 - 40,000	\$18,000 - 36,000	4.90%	4.80%	4.75%
3	Over \$72,000	Over \$40,000	Over \$36,000	6.50%	6.00%	5.90%

For tax years beginning on or after January 1, 2018, each individual income tax bracket is adjusted annually for inflation as provided under section 151 of the Internal Revenue Code. The Tax Commissioner is required to update tax rate schedules to reflect changes due to the inflation adjustment.

LB 1097 also gradually reduces the corporation income tax rates for taxable income above and below \$100,000 between taxable years 2015 and 2017. Currently the corporation tax rate for the first \$100,000 of taxable income is 5.58% and 7.81% for taxable income above \$100,000. The current and proposed corporation income tax rates are as follows:

Bracket Number	Taxable Income	TY 2014 Tax Rate	TY 2015 Tax Rate	TY 2016 Tax Rate	TY 2017 and After Tax Rate
1	\$0 - 100,000	5.58%	4.75%	4.00%	3.50%
2	Over \$100,000	7.81%	7.00%	6.50%	5.90%

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

Fiscal Year	Individual Income Tax	Corporation Income Tax	Total
FY 2014-15	\$ 134,888,000	\$ 5,853,000	\$ 140,741,000
FY 2015-16	\$ 377,772,000	\$ 26,046,000	\$ 403,818,000
FY 2016-17	\$ 474,443,000	\$ 50,517,000	\$ 524,960,000
FY 2017-18	\$ 521,767,000	\$ 72,313,000	\$ 594,080,000
FY 2018-19	\$ 564,664,000	\$ 80,706,000	\$ 645,370,000

LB 1097 will require a programming charge of \$56,236 paid to the OCIO for mainframe and web development costs for each year in which the brackets and rates changes.

Major Objects of Expenditure

Class Code	Classification Title	14-15	15-16	16-17	14-15	15-16	16-17
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
	Benefits.....						
	Operating Costs.....				\$56,236	\$56,236	\$56,236
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	Total.....				\$56,236	\$56,236	\$56,236