

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2015-16		FY 2016-17	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$165,000	\$0	\$67,200	(\$10,000,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$165,000	\$0	\$67,200	(\$10,000,000)

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

LB 26 creates the Choice for the Advancement of Nebraska Children in Education Act.

The Act creates nonrefundable income tax credits for contributions to a scholarship-granting organization (SGO) that provides scholarships to eligible students to attend a private school in Nebraska. The same basic credits would be available to individuals (resident and non-resident), pass-through entities, estates or trusts, and corporations. The SGO is required to be a 501(c)(3) tax exempt organization, must have programs to grant scholarships to eligible students, will offer one or more scholarships, will provide scholarships without limiting the scholarships to students of only one qualified school, and is certified by the Tax Commissioner as a SGO.

In addition, an SGO must allocate at least 90% of its revenue for education scholarships so long as the aggregate limit of all tax credits does not exceed \$20 million in a year or allocate at least 95% of its revenue for education scholarships as long as the aggregate limit of all tax credits exceeds \$20 million.

The credit against Nebraska income tax is 60% of the total contributions made during the tax year. The tax credit allowed shall not exceed a taxpayer's income tax liability for the tax year; however, any amount over the limitation that would otherwise qualify may be carried forward for up to five years following the original tax year.

LB 26 limits scholarships to eligible students who are residents of Nebraska whose household gross income for the most recent calendar year does not exceed two times the income standard used to qualify for reduced price meals under the U.S. Code, and who is or may be, a full-time student in grades kindergarten through twelve at a qualified school; is receiving an education scholarship for the first time and is either entering kindergarten or ninth grade in a qualified school or is transferring from a public school to a qualified school and is entering any grade; has previously received a scholarship and is continuing education at a qualified school; or is the sibling of a student who is receiving an education scholarship and resides in the same household.

Currently, students from a household of two would be eligible for scholarships if the household income is less than \$58,202, with this threshold increasing with household size. For example, the income threshold for a household of four would be \$88,246.

The bill requires the taxpayer to notify the SGO of their intent to donate and the amount of the contribution. The SGO shall then request preapproval from the Department of Revenue for the tax credit granted by LB 26. The Department of Revenue is to notify the SGO within 30 days of its determination regarding the credit. The SGO then notifies the taxpayer. The taxpayer then has 30 days to make the contribution in order to qualify for the credit. The credit will not be allowed if the taxpayer designates all or part of the contribution to the organization for the direct benefit of a specific student.

The aggregate amount of tax credits is not to exceed \$10 million for calendar year 2016. In calendar year 2017 and thereafter, the annual limit is the annual limit in the prior calendar, except in any calendar year when the aggregate tax credit amount for the prior year is equal to or greater than 90% of the annual limit applicable to that calendar year, the annual amount shall increase by 25%.

The Department of Revenue is given rule and regulation authority.

The bill contains the severability clause and will be operative for the 2016 tax year.

It is assumed the potential reduction in students impacted by the bill will not appreciably reduce general fund operating expenditures for TEEOSA purposes because of the dispersion of students. Not all students who may be impacted by the bill will be transfer students from the public schools. The bill provides that scholarships will be available to students entering kindergarten or ninth grade in a qualified school. Based upon the size of the credit and the potential pool of eligible students, it is estimated that the cap will be reached every year and will increase the aggregate amount of the credits that may be issued annually.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 26:

FY2015-16:	\$	0
FY2016-17:	(\$	10,000,000)
FY2017-18:	(\$	12,500,000)
FY2018-19:	(\$	15,625,000)

The Department of Revenue indicates LB 26 will require a one-time programming charge of \$94,400 to the Office of the CIO to add lines to the Form 1040N, Form 1120N, Form 1041N, as well as to the NebFile online filing system. Department costs include 0.5 FTE Auditor and 1.0 FTE Revenue Operations Clerk II to process and approve certifications, to track and preapprove credits, and to process and audit returns. PSL for FY2015-16 is \$49,300 and for FY2016-17 is \$50,500.

We agree with the Department of Revenue's estimate of fiscal impact and cost.

State Agency Estimate

State Agency Name: Department of Revenue Date Due LFA: 3/2/2015
 Approved by: Len Sloup Date Prepared: 3/2/2015 Phone: 471-5896

	FY 2015-2016		FY 2016-2017		FY 2017-2018	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$ 165,000	\$ 0	\$ 67,200	(\$ 10,000,000)	\$ 68,900	(\$ 12,500,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$ 165,000	\$ 0	\$ 67,200	(\$ 10,000,000)	\$ 68,900	(\$ 12,500,000)

LB 26 adopts the Choice for the Advancement of Nebraska Children in Education Act. The Act allows I.R.C. § 501(c)(3) organizations to be certified by the Tax Commissioner as scholarship-granting organizations (organizations). To be certified, the organization must have programs to grant scholarships for eligible students, and the organization must grant scholarships totaling at least 90% of its annual revenues. Eligible students are Nebraska residents whose household’s gross incomes are less than two times the income threshold for free or reduced lunches. Currently, students from a household of two would be eligible for scholarships if household income is less than \$58,202, with this threshold increasing with household size. Once a student is eligible, they will continue to be eligible for ongoing scholarships regardless of household income.

Once the organization is certified, individuals (resident and non-resident), trusts, estates, pass-through entities, and corporations may receive a tax credit equal to 60% of any contribution to the organization. The credit may not exceed the taxpayer’s tax liability for the tax year, but may be carried forward for the next five years following the tax year in which the credit is first allowed. The credit will not be allowed if the taxpayer designates all or any part of the contribution to the organization for the direct benefit of an eligible student. The individual contribution amount is not limited, but the total amount of tax credits granted in each tax year is limited to \$10 million for calendar year 2016, potentially increasing by 25% annually.

Before making the contribution, the taxpayer is to notify the organization, which then must receive preapproval from the Department of Revenue to assure compliance with the overall cap. The contribution must be made within 30 days of receiving preapproval. The Department is given regulation authority. The bill is to be operative beginning in tax year 2016 and it contains a severability clause.

Based upon the size of the credit and the potential pool of eligible students, it is estimated that the cap will be reached every year and will increase the aggregate amount of the credits that may be issued annually.

LB 26 will require a one-time programming charge of \$94,400 paid to the OCIO to add lines to the Nebraska Individual Income Tax Return, Form 1040N, Nebraska Corporate Income Tax Return, Form 1120N, and Nebraska Fiduciary Income Tax Return, Form 1041N, as well as to the NebFile online filing system. Department costs will include 1.5 FTEs to process and approve certifications, to track and preapprove credits, and to process and audit returns.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>
		<u>FTE</u>	<u>FTE</u>	<u>FTE</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>
A21212	Auditor	0.5	0.5	0.5	\$ 19,800	\$ 20,300	\$ 20,800
S29112	Revenue Operations Clerk II	1.0	1.0	1.0	\$ 29,500	\$ 30,200	\$ 31,000
	Benefits.....				\$ 16,300	\$ 16,700	\$ 17,100
	Operating Costs.....				\$ 94,400		
	Travel.....						
	Capital Outlay.....				\$ 5,000		
	Aid.....						
	Capital Improvements.....						
	Total.....				\$ 165,000	\$ 67,200	\$ 68,900

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2015

LB⁽¹⁾ 26

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Dept of Education

Prepared by: ⁽³⁾ Bryce Wilson

Date Prepared: ⁽⁴⁾ 1/13/15

Phone: ⁽⁵⁾ 402-471-4320

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2015-16</u>		<u>FY 2016-17</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	<u>\$(10,000,000)</u>	_____	<u>\$(12,500,000)</u>
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>_____</u>	<u>\$(10,000,000)</u>	<u>_____</u>	<u>\$(12,500,000)</u>

Explanation of Estimate:

LB 26 provides tax credits for scholarship granting organizations which would reduce the amount of revenue available for other needs across the state. The exact amount of the tax credit cannot be determined at this time but the total amount cannot exceed \$10,000,000 for 2016 and \$12,500,000 for 2017.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2015-16 EXPENDITURES</u>	<u>2016-17 EXPENDITURES</u>
	<u>15-16</u>	<u>16-17</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____