Projected Revenue Gains and (Losses) of LB 312 for Tax Years 2008-2017, by Fiscal Year

Incentive tax credits (ITC) can influence the Nebraska economy positively, and those economic effects, can in turn, impact state revenue. Using a Computable General equilibrium (CGE) model, the fiscal impacts of the program are estimated over the next ten years. This estimate is based upon completed and ongoing Employment and Investment Growth Act (LB 775) projects. These assumptions will be modified in the future with experience gained from LB 312 projects.

To analyze the fiscal impact of the tax credits, the dynamic Tax Revenue Analysis In Nebraska (TRAIN) model, a custom built Nebraska CGE model, is used. With TRAIN, the Nebraska economy has been divided into 72 distinct sectors in order to explicitly trace economic flows. The TRAIN model is constructed based on Walrasian general equilibrium theory, which assumes all markets adjust through price changes, so the TRAIN analysis works well for analyzing structural changes and their consequences in the long run, rather than dealing with short term fluctuations.

TRAIN details state government sectors in order to capture the sensitivity of state government revenue and expenditure flows. TRAIN calculates most tax impacts within the model, without requiring additional calculations outside of the model to obtain final results. This allows the researcher to avoid rigid assumptions that may deliver vague results.

TRAIN mathematically expresses the Nebraska economy with over 1,300 equations and a social accounting matrix (SAM) database. It has 26 industrial sectors, two factor sectors, an investment sector, nine household sectors, 33 government sectors, and a rest-of-world sector.

When constructing a general equilibrium model, the critical assumption is that the initial condition of the economy is in equilibrium. Therefore, the model is constructed so that its equilibrium replicates observed data in the base year. The date for TRAIN is the latest SAM and parameters. The estimate of tax credits used is based on LB 775, and the first use of credits under LB 312.

Fiscal Impact Analysis of LB 312

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Generated by ITC	$3,232,030	$ 6,034,590	$15,389,902	$21,702,183	$24,052,940
Tax Credits	3,817,075	16,115,610	36,053,990	49,655,511	68,695,426
Revenue Loss	731,697	2,765,637	9,555,709	18,167,187	29,874,259
Credit Use	230,434	872,881	2,881,211	6,166,357	11,792,774
Direct Sales and Use Tax Refund	501,264	1,892,756	6,674,498	12,000,829	18,081,485
Net Revenue Gains (Loss)	2,500,333	3,268,953	5,834,193	3,534,996	(5,821,319)
Cumulative	$2,500,333	$ 5,769,286	$11,603,479	$15,138,476	$ 9,317,157

	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Generated by ITC	$28,130,682	$ 30,515,439	$ 32,812,140	$ 34,615,087	$ 36,485,571
Tax Credits	92,137,214	109,633,271	123,877,126	138,064,482	148,916,044
Revenue Loss	46,183,459	62,641,829	77,510,825	91,901,574	104,841,762
Credit Use	20,213,932	30,128,025	40,407,750	50,479,021	59,087,002
Direct Sales and Use Tax Refund	25,969,526	32,513,804	37,103,075	41,422,553	45,754,760
Net Revenue Gains (Loss)	(18,052,777)	(32,126,391)	(44,698,685)	(57,286,487)	(68,356,191)
Cumulative	$ (8,735,620)	$(40,862,010)	$(85,560,695)	$(142,847,182)	$(211,203,373)