

## LEGISLATIVE BILL 1042

Approved by the Governor August 07, 2020

Introduced by La Grone, 49; McDonnell, 5.

A BILL FOR AN ACT relating to the Nebraska educational savings plan trust; to amend sections 77-3,110, 85-1808, and 85-1810, Reissue Revised Statutes of Nebraska, and sections 77-2716, 85-1807, 85-2802, and 85-2803, Revised Statutes Supplement, 2019; to change provisions relating to the Department of Revenue Miscellaneous Receipts Fund and the College Savings Plan Expense Fund; to provide tax deductions for certain contributions to the Nebraska educational savings plan trust as prescribed; to provide that certain contributions to the Nebraska educational savings plan trust not be recognized as income for certain purposes; to redefine qualified private contribution for purposes of the Meadowlark Act; to change provisions relating to the Meadowlark Endowment Fund; to harmonize provisions; to repeal the original sections; and to declare an emergency.

Be it enacted by the people of the State of Nebraska,

Section 1. Section 77-3,110, Reissue Revised Statutes of Nebraska, is amended to read:

77-3,110 (1) All funds received pursuant to sections 77-3,109 and 77-3,118 shall be remitted to the State Treasurer for credit to the Department of Revenue Miscellaneous Receipts Fund which is hereby created.

(2) On or before September 1, 2020, the State Treasurer shall transfer fifty-nine thousand five hundred dollars from the College Savings Plan Expense Fund to the Department of Revenue Miscellaneous Receipts Fund.

(3) All money in the Department of Revenue Miscellaneous Receipts Fund shall be administered by the Department of Revenue and shall be used as follows:

(a) Any money transferred to the fund under subsection (2) of this section shall be used by the Department of Revenue to defray the costs incurred to implement this legislative bill; and

(b) All other funds shall be used to defray the cost of production of the publications listed in section 77-3,109 or of the listings described in section 77-3,118 and to carry out any administrative responsibilities of the department.

(4) Transfers ~~, except that transfers~~ may be made from the fund to the General Fund at the direction of the Legislature. Any money in the Department of Revenue Miscellaneous Receipts Fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

Sec. 2. Section 77-2716, Revised Statutes Supplement, 2019, is amended to read:

77-2716 (1) The following adjustments to federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be made for interest or dividends received:

(a)(i) There shall be subtracted interest or dividends received by the owner of obligations of the United States and its territories and possessions or of any authority, commission, or instrumentality of the United States to the extent includable in gross income for federal income tax purposes but exempt from state income taxes under the laws of the United States; and

(ii) There shall be subtracted interest received by the owner of obligations of the State of Nebraska or its political subdivisions or authorities which are Build America Bonds to the extent includable in gross income for federal income tax purposes;

(b) There shall be subtracted that portion of the total dividends and other income received from a regulated investment company which is attributable to obligations described in subdivision (a) of this subsection as reported to the recipient by the regulated investment company;

(c) There shall be added interest or dividends received by the owner of obligations of the District of Columbia, other states of the United States, or their political subdivisions, authorities, commissions, or instrumentalities to the extent excluded in the computation of gross income for federal income tax purposes except that such interest or dividends shall not be added if received by a corporation which is a regulated investment company;

(d) There shall be added that portion of the total dividends and other income received from a regulated investment company which is attributable to obligations described in subdivision (c) of this subsection and excluded for federal income tax purposes as reported to the recipient by the regulated investment company; and

(e)(i) Any amount subtracted under this subsection shall be reduced by any interest on indebtedness incurred to carry the obligations or securities described in this subsection or the investment in the regulated investment company and by any expenses incurred in the production of interest or dividend income described in this subsection to the extent that such expenses, including amortizable bond premiums, are deductible in determining federal taxable income.

(ii) Any amount added under this subsection shall be reduced by any expenses incurred in the production of such income to the extent disallowed in the computation of federal taxable income.

(2) There shall be allowed a net operating loss derived from or connected with Nebraska sources computed under rules and regulations adopted and promulgated by the Tax Commissioner consistent, to the extent possible under the Nebraska Revenue Act of 1967, with the laws of the United States. For a resident individual, estate, or trust, the net operating loss computed on the federal income tax return shall be adjusted by the modifications contained in this section. For a nonresident individual, estate, or trust or for a partial-year resident individual, the net operating loss computed on the federal return shall be adjusted by the modifications contained in this section and any carryovers or carrybacks shall be limited to the portion of the loss derived from or connected with Nebraska sources.

(3) There shall be subtracted from federal adjusted gross income for all taxable years beginning on or after January 1, 1987, the amount of any state income tax refund to the extent such refund was deducted under the Internal Revenue Code, was not allowed in the computation of the tax due under the Nebraska Revenue Act of 1967, and is included in federal adjusted gross income.

(4) Federal adjusted gross income, or, for a fiduciary, federal taxable income shall be modified to exclude the portion of the income or loss received from a small business corporation with an election in effect under subchapter S of the Internal Revenue Code or from a limited liability company organized pursuant to the Nebraska Uniform Limited Liability Company Act that is not derived from or connected with Nebraska sources as determined in section 77-2734.01.

(5) There shall be subtracted from federal adjusted gross income or, for corporations and fiduciaries, federal taxable income dividends received or deemed to be received from corporations which are not subject to the Internal Revenue Code.

(6) There shall be subtracted from federal taxable income a portion of the income earned by a corporation subject to the Internal Revenue Code of 1986 that is actually taxed by a foreign country or one of its political subdivisions at a rate in excess of the maximum federal tax rate for corporations. The taxpayer may make the computation for each foreign country or for groups of foreign countries. The portion of the taxes that may be deducted shall be computed in the following manner:

(a) The amount of federal taxable income from operations within a foreign taxing jurisdiction shall be reduced by the amount of taxes actually paid to the foreign jurisdiction that are not deductible solely because the foreign tax credit was elected on the federal income tax return;

(b) The amount of after-tax income shall be divided by one minus the maximum tax rate for corporations in the Internal Revenue Code; and

(c) The result of the calculation in subdivision (b) of this subsection shall be subtracted from the amount of federal taxable income used in subdivision (a) of this subsection. The result of such calculation, if greater than zero, shall be subtracted from federal taxable income.

(7) Federal adjusted gross income shall be modified to exclude any amount repaid by the taxpayer for which a reduction in federal tax is allowed under section 1341(a)(5) of the Internal Revenue Code.

(8)(a) Federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be reduced, to the extent included, by income from interest, earnings, and state contributions received from the Nebraska educational savings plan trust created in sections 85-1801 to 85-1817 and any account established under the achieving a better life experience program as provided in sections 77-1401 to 77-1409.

(b) Federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be reduced by any contributions as a participant in the Nebraska educational savings plan trust or contributions to an account established under the achieving a better life experience program made for the benefit of a beneficiary as provided in sections 77-1401 to 77-1409, to the extent not deducted for federal income tax purposes, but not to exceed five thousand dollars per married filing separate return or ten thousand dollars for any other return. With respect to a qualified rollover within the meaning of section 529 of the Internal Revenue Code from another state's plan, any interest, earnings, and state contributions received from the other state's educational savings plan which is qualified under section 529 of the code shall qualify for the reduction provided in this subdivision. For contributions by a custodian of a custodial account including rollovers from another custodial account, the reduction shall only apply to funds added to the custodial account after January 1, 2014.

(c) For taxable years beginning or deemed to begin on or after January 1, 2021, under the Internal Revenue Code of 1986, as amended, federal adjusted gross income shall be reduced, to the extent included in the adjusted gross income of an individual, by the amount of any contribution made by the individual's employer into an account under the Nebraska educational savings plan trust owned by the individual, not to exceed five thousand dollars per married filing separate return or ten thousand dollars for any other return.

(d) ~~(e)~~ Federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be increased by:

(i) The amount resulting from the cancellation of a participation agreement refunded to the taxpayer as a participant in the Nebraska educational savings plan trust to the extent previously deducted under subdivision (8)(b)

of this section; and

(ii) The amount of any withdrawals by the owner of an account established under the achieving a better life experience program as provided in sections 77-1401 to 77-1409 for nonqualified expenses to the extent previously deducted under subdivision (8)(b) of this section.

(9)(a) For income tax returns filed after September 10, 2001, for taxable years beginning or deemed to begin before January 1, 2006, under the Internal Revenue Code of 1986, as amended, federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be increased by eighty-five percent of any amount of any federal bonus depreciation received under the federal Job Creation and Worker Assistance Act of 2002 or the federal Jobs and Growth Tax Act of 2003, under section 168(k) or section 1400L of the Internal Revenue Code of 1986, as amended, for assets placed in service after September 10, 2001, and before December 31, 2005.

(b) For a partnership, limited liability company, cooperative, including any cooperative exempt from income taxes under section 521 of the Internal Revenue Code of 1986, as amended, limited cooperative association, subchapter S corporation, or joint venture, the increase shall be distributed to the partners, members, shareholders, patrons, or beneficiaries in the same manner as income is distributed for use against their income tax liabilities.

(c) For a corporation with a unitary business having activity both inside and outside the state, the increase shall be apportioned to Nebraska in the same manner as income is apportioned to the state by section 77-2734.05.

(d) The amount of bonus depreciation added to federal adjusted gross income or, for corporations and fiduciaries, federal taxable income by this subsection shall be subtracted in a later taxable year. Twenty percent of the total amount of bonus depreciation added back by this subsection for tax years beginning or deemed to begin before January 1, 2003, under the Internal Revenue Code of 1986, as amended, may be subtracted in the first taxable year beginning or deemed to begin on or after January 1, 2005, under the Internal Revenue Code of 1986, as amended, and twenty percent in each of the next four following taxable years. Twenty percent of the total amount of bonus depreciation added back by this subsection for tax years beginning or deemed to begin on or after January 1, 2003, may be subtracted in the first taxable year beginning or deemed to begin on or after January 1, 2006, under the Internal Revenue Code of 1986, as amended, and twenty percent in each of the next four following taxable years.

(10) For taxable years beginning or deemed to begin on or after January 1, 2003, and before January 1, 2006, under the Internal Revenue Code of 1986, as amended, federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be increased by the amount of any capital investment that is expensed under section 179 of the Internal Revenue Code of 1986, as amended, that is in excess of twenty-five thousand dollars that is allowed under the federal Jobs and Growth Tax Act of 2003. Twenty percent of the total amount of expensing added back by this subsection for tax years beginning or deemed to begin on or after January 1, 2003, may be subtracted in the first taxable year beginning or deemed to begin on or after January 1, 2006, under the Internal Revenue Code of 1986, as amended, and twenty percent in each of the next four following tax years.

(11)(a) For taxable years beginning or deemed to begin before January 1, 2018, under the Internal Revenue Code of 1986, as amended, federal adjusted gross income shall be reduced by contributions, up to two thousand dollars per married filing jointly return or one thousand dollars for any other return, and any investment earnings made as a participant in the Nebraska long-term care savings plan under the Long-Term Care Savings Plan Act, to the extent not deducted for federal income tax purposes.

(b) For taxable years beginning or deemed to begin before January 1, 2018, under the Internal Revenue Code of 1986, as amended, federal adjusted gross income shall be increased by the withdrawals made as a participant in the Nebraska long-term care savings plan under the act by a person who is not a qualified individual or for any reason other than transfer of funds to a spouse, long-term care expenses, long-term care insurance premiums, or death of the participant, including withdrawals made by reason of cancellation of the participation agreement, to the extent previously deducted as a contribution or as investment earnings.

(12) There shall be added to federal adjusted gross income for individuals, estates, and trusts any amount taken as a credit for franchise tax paid by a financial institution under sections 77-3801 to 77-3807 as allowed by subsection (5) of section 77-2715.07.

(13)(a) For taxable years beginning or deemed to begin on or after January 1, 2015, under the Internal Revenue Code of 1986, as amended, federal adjusted gross income shall be reduced by the amount received as benefits under the federal Social Security Act which are included in the federal adjusted gross income if:

(i) For taxpayers filing a married filing joint return, federal adjusted gross income is fifty-eight thousand dollars or less; or

(ii) For taxpayers filing any other return, federal adjusted gross income is forty-three thousand dollars or less.

(b) For taxable years beginning or deemed to begin on or after January 1, 2020, under the Internal Revenue Code of 1986, as amended, the Tax Commissioner shall adjust the dollar amounts provided in subdivisions (13)(a)(i) and (ii) of this section by the same percentage used to adjust individual income tax brackets under subsection (3) of section 77-2715.03.

(14) For taxable years beginning or deemed to begin on or after January 1, 2015, under the Internal Revenue Code of 1986, as amended, an individual may make a one-time election within two calendar years after the date of his or her retirement from the military to exclude income received as a military retirement benefit by the individual to the extent included in federal adjusted gross income and as provided in this subsection. The individual may elect to exclude forty percent of his or her military retirement benefit income for seven consecutive taxable years beginning with the year in which the election is made or may elect to exclude fifteen percent of his or her military retirement benefit income for all taxable years beginning with the year in which he or she turns sixty-seven years of age. For purposes of this subsection, military retirement benefit means retirement benefits that are periodic payments attributable to service in the uniformed services of the United States for personal services performed by an individual prior to his or her retirement.

Sec. 3. Section 85-1807, Revised Statutes Supplement, 2019, is amended to read:

85-1807 (1) The State Treasurer shall deposit money received by the Nebraska educational savings plan trust into three funds: The College Savings Plan Program Fund, the College Savings Plan Expense Fund, and the College Savings Plan Administrative Fund. The State Treasurer shall deposit money received by the trust into the appropriate fund. The State Treasurer and Accounting Administrator of the Department of Administrative Services shall determine the state fund types necessary to comply with section 529 of the Internal Revenue Code and state policy. The money in the funds shall be invested by the state investment officer pursuant to policies established by the Nebraska Investment Council. The program fund, the expense fund, and the administrative fund shall be separately administered. The Nebraska educational savings plan trust shall be operated with no General Fund appropriations.

(2) The College Savings Plan Program Fund is created. All money paid by participants in connection with participation agreements and all investment income earned on such money shall be deposited as received into separate accounts within the program fund. Contributions to the trust made by participants may only be made in the form of cash. All funds generated in connection with participation agreements shall be deposited into the appropriate accounts within the program fund. A participant or beneficiary shall not provide investment direction regarding program contributions or earnings held by the trust. Money accrued by participants in the program fund may be used for the benefit of a beneficiary for payments to any eligible educational institution, but shall not be used to pay expenses associated with attending kindergarten through grade twelve. Any money in the program fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

(3) The College Savings Plan Administrative Fund is created. Money from the trust transferred from the expense fund to the administrative fund in an amount authorized by an appropriation from the Legislature shall be utilized to pay for the costs of administering, operating, and maintaining the trust, to the extent permitted by section 529 of the Internal Revenue Code. The administrative fund shall not be credited with any money other than money transferred from the expense fund in an amount authorized by an appropriation by the Legislature or any interest income earned on the balances held in the administrative fund. Any money in the administrative fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

(4)(a) The College Savings Plan Expense Fund is created. The expense fund shall be funded with fees assessed to the program fund. The State Treasurer shall use the expense fund:

(i) To pay costs associated with the Nebraska educational savings plan trust;

(ii) For the purposes described in the Meadowlark Act; and

(iii) On or before September 1, 2020, to transfer from the expense fund to the Department of Revenue Miscellaneous Receipts Fund fifty-nine thousand five hundred dollars to defray the costs incurred to implement this legislative bill; and

(iv) (iii) To transfer from the expense fund to the State Investment Officer's Cash Fund an amount equal to the pro rata share of the budget appropriated to the Nebraska Investment Council as permitted in section 72-1249.02, to cover reasonable expenses incurred for investment management of the Nebraska educational savings plan trust. Annually and prior to such transfer to the State Investment Officer's Cash Fund, the State Treasurer shall report to the budget division of the Department of Administrative Services and to the Legislative Fiscal Analyst the amounts transferred during the previous fiscal year. The report submitted to the Legislative Fiscal Analyst shall be submitted electronically.

(b) Any money in the expense fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

Sec. 4. Section 85-1808, Reissue Revised Statutes of Nebraska, is amended to read:

85-1808 (1) A participant may cancel a participation agreement at will by submitting a request to terminate the participation agreement. Additionally, if a participant requests and obtains a nonqualified withdrawal, the participation

agreement shall be deemed canceled with respect to the amount of the nonqualified withdrawal. A participation agreement shall not be deemed canceled if a participant requests and obtains a distribution of his or her entire account balance for qualified higher education expenses and subsequently closes his or her account. Furthermore, the State Treasurer shall have the power to terminate, freeze, or suspend a participation agreement if he or she determines that the participant provided false or misleading information to the detriment of the Nebraska educational savings plan trust, if the participant's account has a zero balance, or if the State Treasurer is unable to verify the identity of the participant.

(2) If a participation agreement is canceled for any of the causes listed in this subsection, the participant shall be entitled to receive the principal amount of all contributions made by the participant under the participation agreement plus the actual program fund investment income earned on the contributions, less any losses incurred on the investment, and such distribution will generally not be subject to federal tax penalty:

(a) Death of the beneficiary if the distribution is paid to the estate of the beneficiary or transferred to another beneficiary as set forth in subsection (10) of section 85-1809;

(b) Permanent disability or mental incapacity of the beneficiary;

(c) The beneficiary is awarded a scholarship as defined in section 529 of the Internal Revenue Code, but only to the extent the distribution of earnings does not exceed the scholarship amount; or

(d) A qualified rollover is made as permitted by section 529 of the Internal Revenue Code, except that if a qualified rollover is made into a plan sponsored by another state or entity, the participation agreement shall be deemed to have been canceled for purposes of subdivision (8)(d) ~~(8)(e)~~ of section 77-2716 and federal adjusted gross income shall be increased to the extent previously deducted as a contribution to the trust.

(3) Notwithstanding any other provisions of this section, under no circumstances shall a participant or beneficiary receive a distribution that is more than the fair market value of the specific account on the applicable liquidation date.

(4) If a participant cancels a participation agreement, obtains a rollover into a plan sponsored by another state or entity, or obtains a distribution, a portion of which constitutes a nonqualified withdrawal, the amount of the distribution, rollover, or withdrawal will be subject to recapture of previous Nebraska state income tax deductions as set forth in subdivision (8)(d) ~~(8)(e)~~ of section 77-2716. The transfer of assets among plans sponsored by the State of Nebraska shall be considered an investment option change and not a rollover.

Sec. 5. Section 85-1810, Reissue Revised Statutes of Nebraska, is amended to read:

85-1810 (1) A student loan program, student grant program, or other program administered by any agency of the state, except as may be otherwise provided by federal law or the provisions of any specific grant applicable to the federal law, shall not take into account and shall not consider amounts available for the payment of qualified higher education expenses pursuant to the Nebraska educational savings plan trust in determining need and eligibility for student aid.

(2) A government program administered by any agency of the state that provides benefits or aid to individuals based on financial need, except as may be otherwise provided by federal law or the provisions of any specific grant applicable to the federal law, shall not take into account and shall not consider contributions made to a participant's account by the participant's employer in determining the income of such participant.

Sec. 6. Section 85-2802, Revised Statutes Supplement, 2019, is amended to read:

85-2802 For purposes of the Meadowlark Act:

(1) Eligible educational institution has the same meaning as in section 85-1802;

(2) Nebraska educational savings plan trust has the same meaning as in section 85-1802;

(3) Qualified higher education expenses has the same meaning as in section 85-1802;

(4) Qualified individual means an individual born on or after January 1, 2020, who is a resident of this state at the time of birth; and

(5) Qualified private contribution means a contribution from an individual or private entity which is made for the purpose of providing a ~~an ongoing~~ source of funding for the Meadowlark Program established in section 85-2804.

Sec. 7. Section 85-2803, Revised Statutes Supplement, 2019, is amended to read:

85-2803 (1) There is hereby established in the state treasury a trust fund to be known as the Meadowlark Endowment Fund. The fund shall be administered by the State Treasurer and shall consist of qualified private contributions and any amounts appropriated or transferred to the fund by the Legislature. No General Funds shall be transferred to the Meadowlark Endowment Fund. Any money in the fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act. No portion of the principal of the fund shall be expended for any purpose except investment pursuant to this subsection.

(2) The State Treasurer may ~~shall~~ accept qualified private contributions and shall credit all such contributions received either to the Meadowlark Endowment Fund or to accounts opened under the Meadowlark Program, at the

direction of the donor. Such contributions shall not be used to pay expenses associated with attending kindergarten through grade twelve.

(3) On or before April 1 of each year, the ~~The~~ State Treasurer shall determine the total amount of qualified private contributions received under ~~this~~ subsection (2) of this section in the previous calendar year and shall transfer an equal amount from the College Savings Plan Expense Fund or the Unclaimed Property Escheat Trust Fund, as determined by the State Treasurer, to the Meadowlark Endowment Fund or to accounts opened under the Meadowlark Program. For any amount transferred from the College Savings Plan Expense Fund or the Unclaimed Property Escheat Trust Fund that is not being transferred to the Meadowlark Endowment Fund, the State Treasurer shall evenly distribute such amount to the accounts opened under the Meadowlark Program in the previous calendar year.

Sec. 8. Original sections 77-3,110, 85-1808, and 85-1810, Reissue Revised Statutes of Nebraska, and sections 77-2716, 85-1807, 85-2802, and 85-2803, Revised Statutes Supplement, 2019, are repealed.

Sec. 9. Since an emergency exists, this act takes effect when passed and approved according to law.