John Wiemer January 23, 2024 402-477-0051

LB 1023

Revision: 00 FISCAL NOTE LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)					
	FY 202	4-25	FY 2025-26		
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE	
GENERAL FUNDS	\$175,899			(\$28,565,000)	
CASH FUNDS					
FEDERAL FUNDS					
OTHER FUNDS					
TOTAL FUNDS	\$175,899			(\$28,565,000)	

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

LB 1023 provides for a reduction to Federal Adjusted Gross Income (FAGI) or, for corporations and fiduciaries, federal taxable income starting in taxable year 2025 for the cost of expenditures for business assets that are qualified property or qualified improvement property and for research or experimental expenditures.

The Department of Revenue (DOR) could adopt and promulgate rules and regulations to implement this bill.

The DOR estimates the following impact to General Fund revenues from this bill:

- FY 25-26: (\$28,565,000)
- FY 26-27: (\$44,648,000)
- FY 27-28: (\$53,460,000)
- FY 28-29: (\$44,394,000)
- FY 29-30: (\$29,545,000)

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The DOR also estimates a one-time charge for programming to be paid to the Office of the Chief Information Officer (OCIO) of \$175,899 as a result of this bill.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE				
LB: 1023 AM: AGENCY/POLT. SUB: Department of Revenue				
REVIEWED BY: Neil Sullivan	DATE: 1/23/2024	PHONE: (402) 471-4179		
COMMENTS: The Department of Revenue assessment of fiscal impact from LB 1023 appears reasonable.				

Fiscal Note 2024

State Agency Name: Department of	of Revenue				Date Due LFO:	
Approved by: James R. Kamm		Date Prepared:	LEAVE BLANK <u>FY 2025-2026</u>		Phone: 471-5896	
	FY 2024-2025				FY 2026-2027	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$175,899	\$ 0		\$(28,565,000)		\$(44,648,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$175,899	\$ O		\$(28,565,000)		\$(44,648,000)

LB 1023 creates two deductions for taxable years beginning on or after January 1, 2025. Taxpayers may reduce federal adjusted gross income (AGI) or, for corporations and fiduciaries, federal taxable income by the following amounts that are allowed to be deducted:

- Cost of expenditures for business assets that are qualified property or qualified improvement property covered under IRC § 168 will be eligible for full expensing and may be deducted as an expense incurred by the taxpayer during the tax year in which the property is placed in service notwithstanding any changes to federal law related to the depreciation of property beginning January 1, 2023 or on any other date. This allows for accelerated expensing as opposed to expensing over the class life of the asset. This is allowed to the extent that the cost has not already been deducted when determining federal AGI or federal taxable income. If not fully expensed in the tax year in which the property is placed in service, the taxpayer may elect to depreciate the costs over a five-year irrevocable term.
- Taxpayers may elect to treat research or experimental expenditures which are paid or incurred by the taxpayer during the tax year in connection with the taxpayer's trade or business as expenses which are not chargeable to the capital account. Expenditures so treated will be allowed as a deduction, notwithstanding changes to the Internal Revenue Code to the amortization of such expenditures. This allows for accelerated expensing as opposed to expensing over the class life of the asset. This deduction is only allowed to the extent the research or experimental expenditures have not already been deducted in determining federal AGI or federal taxable income. If not fully deducted in the tax year in which the research or experimental expenditures may elect to amortize the expenditures over a five-year irrevocable term.

If either deduction is taken by an S corporation, partnership, limited liability company, estate, or trust, the deduction may be claimed by the shareholders, partners, members, or beneficiaries in the same manner as those shareholders, partners, members, or beneficiaries account for their proportionate shares of the income or losses of the S corporation, partnership, limited liability company, estate, or trust.

Major Objects of Expenditure							
<u>Class Code</u>	Classification Title	24-25 <u>FTE</u>	25-26 <u>FTE</u>	26-27 <u>FTE</u>	24-25 <u>Expenditures</u>	25-26 <u>Expenditures</u>	26-27 <u>Expenditures</u>
Benefits							
Operating Costs							
Travel							
Capital Outlay							
Capital Improvements							
Total				\$175,899			

LB 1023 provides the following definitions. Full expensing means a method for taxpayers to recover their costs for certain expenditures in depreciable business assets by immediately deducting the full cost of such expenditures in the tax year in which the property is placed in service. Internal Revenue Code means the Internal Revenue Code of 1986, as amended. Qualified improvement property has the same meaning as in IRC § 168(e)(6) and will apply to property placed in service after December 31, 2024. Qualified property has the same meaning as in IRC § 168(k) and will apply to property placed in service after December 31, 2024. Research or experimental expenditures has the same meaning as in 26 C.F.R. 1.174-2

The Department of Revenue may adopt and promulgate rules and regulations.

The Department of Revenue (DOR) estimates the following reduction in General Fund revenue:

FY2025-26	\$ 28,565,000
FY2026-27	\$ 44,648,000
FY2027-28	\$ 53,460,000
FY2028-29	\$ 44,394,000
FY2029-30	\$ 29,545,000

LB 1023 will require a one-time programming charge of \$175,899 paid to the OCIO for adding lines to Schedule I, NebFile, 1120N, K1N, and 1041N as well as mainframe development costs.

LB 1023 becomes operative for tax years beginning on or after January 1, 2025.