Doug Gibbs February 10, 2014 402-471-0051

LB 902

Revision: 00 FISCAL NO LEGISLATIVE FISCAL ANALYST ESTIMA

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 201	4-15	FY 20	15-16			
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE			
GENERAL FUNDS	\$31,533	(\$8,644,000)		(\$6,494,000)			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$31,533	(\$8,644,000)		(\$6,494,000)			

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

LB 902 amends the Nebraska Revenue Act of 1967 Section 77-2716 to exclude certain income from the state income tax.

Beginning January 1, 2014 and for tax years thereafter, the bill would exclude some or all military retirement income from federally adjusted gross income (AGI) for state income tax purposes.

The amount excluded would equal one dollar for every dollar of nonretirement income, not to exceed \$60,000 for someone filing a married filing joint (MFJ) return and not to exceed \$30,000 for all other types of returns. This exclusion is reduced dollar for dollar by the amount AGI exceeds \$120,000 for a married filing joint return and \$60,000 for all other returns.

For example: For a MFJ return, if military retirement income is \$50,000 and nonretirement income is \$45,000, the amount of military retirement income excluded from AGI for Nebraska income tax purposes would be \$45,000 and \$5,000 of such retirement would be included for tax purposes.

For a MFJ return, if military retirement income is \$75,000 and nonretirement income is \$60,000, for a total of \$135,000, the exclusion would be reduced by \$15,000 (the amount AGI exceeds \$120,000). The amount of military retirement income subject to inclusion in the adjusted AGI would be \$60,000 with \$15,000 excluded.

Nonretirement income is defined as income other than military retirement income that is included in the filer's federal AGI, is earned in Nebraska and excludes investment income.

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

FY2014-15:	(\$ 8,644,000)
FY2015-16:	(\$ 6,494,000)
FY2016-17:	(\$ 6,836,000)

Note: The cost for FY2014-15 is higher than the costs for the following fiscal years due to the fact that with an exemption starting with tax years beginning on or after January 1, 2014, estimated payments and withholding will have been made in 2014 that will be refunded in 2015.

The Department of Revenue indicates they will incur a one-time programming charge of \$31,533 paid to the office of the CIO to add a line to the Form 1040N, Schedule I, as well as to the NebFile online filing system.

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

Fiscal Note 2014

State Agency Estimate								
State Agency Name: Department of Revenue Date Due LFA: 1/24/2014								
Approved by: Kim Conroy		Date Prepared:	1/24/2014		Phone: 471-5896			
FY 2014-2015		FY 2015-2016		FY 2016-2017				
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue		
General Funds	\$31,533	(\$8,644,000)		(\$6,494,000)		(\$6,836,000)		
Cash Funds								
Federal Funds								
Other Funds								
Total Funds	\$31,533	(\$8,644,000)		(\$6,494,000)		(\$6,836,000)		

State A man any Estimate

LB 902 allows a dollar-for-dollar adjustment (subtraction) to federal adjusted gross income (AGI) for military retirement benefits included in federal AGI to the extent the taxpayer earns nonretirement income. The exclusion is also reduced on a dollar-for-dollar basis to the extent that a taxpayer's federal AGI exceeds \$120,000 for married, filing jointly and \$60,000 for any other returns. The exclusion is capped at \$60,000 for married, filing jointly and \$30,000 for any other returns.

The exclusion would be available for all taxable years beginning or deemed to begin on or after January 1, 2014.

Military retirement income is defined as retirement benefits that are periodic payments attributable to service in the uniformed services of the U.S. for personal services performed by an individual prior to his or her retirement and that are included in the taxpayer's federal AGI.

Nonretirement income is defined as income other than military retirement income that is included in the taxpayer's federal AGI and is earned in Nebraska, but does not include investment income.

The estimated reduction to General Fund revenues would be as follows.

FY 2014-2015	\$ 8,644,000
FY 2015-2016	\$ 6,494,000
FY 2016-2017	\$ 6,836,000

The cost for FY2014-2015 is greater than the cost for FY2015-2016 due to the fact that with an exemption starting with tax years beginning on or after January 1, 2014, estimated payments and withholding will have been made in 2014 that will be refunded in 2015.

LB 902 will require a one-time programming charge of \$31,533 paid to the OCIO to add a line to the Form 1040N, Schedule I, as well as to the NebFile online filing system.

Major Objects of Expenditure							
14-15 15-16 16-17 14-15 15-16							
Class Code	Classification Title	<u>FTE</u>	<u>FTE</u>	<u>FTE</u>	Expenditures	Expenditures	<u>Expenditures</u>
-							
	Benefits						
Operating Costs					\$31,533		
Travel Capital Outlay Aid.							
Capital Improvements							
Total				\$31,533			