PREPARED BY: DATE PREPARED: PHONE: Keisha Patent February 10, 2022 402-471-0059

LB 1265

Revision: 00

## **FISCAL NOTE**

## LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)						
	FY 202	22-23	FY 2023-24			
	EXPENDITURES	REVENUE	EXPENDITURES REVENUE			
GENERAL FUNDS	\$105,660	(\$16,853,000)		(\$12,297,000)		
CASH FUNDS						
FEDERAL FUNDS						
OTHER FUNDS						
TOTAL FUNDS	\$105,660	(\$16,853,000)		(\$12,297,000)		

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

LB 1265 provides for a reduction to Federal Adjusted Gross Income (FAGI) for Nebraska law enforcement officers. Beginning in tax year 2022, LB 1265 would allow officers to reduce their FAGI based on the number of years they have been employed as a law enforcement officer.

The amount of FAGI reduced is split into 3 tiers and is a percentage of the compensation received for service as a law enforcement officer in the tax year the reduction is claimed, as follows:

- 1-10 years of employment: 50%
- 10-20 years of employment: 75%
- 20 or more years of employment: 100%

## **REVENUE:**

The Department of Revenue estimates the following impact on the General Fund:

FY22-23 FY23-24	(\$16,853,000)
	(\$12,297,000)
FY24-25	(\$12.666.000)

The estimate includes a larger impact in FY22-23 due to the timing of claiming the tax year 2022 deduction: the impact effectively includes 17 months because taxpayers are unlikely to adjust their withholding during 2022, but rather claim the deduction when the return is filed in 2023. There is no basis to disagree with this estimate.

## **EXPENDITURES:**

The Department of Revenue estimates a one-time charge for programming to OCIO of \$105,660. There is no basis to disagree with this estimate.

LB: 1265 AM: AGENCY/POLT. SUB: Department of Revenue			
REVIEWED BY: Neil Sullivan		DATE: 2/11/2022	PHONE: (402) 471-4179

LB 1265 Fiscal Note 2022

	State Agency	Estimate			
Revenue				Date Due LFO:	
Date Prepared:		2/11/2022		Phone: 471-5896	
FY 2022-2023		FY 2023-2024		FY 2024-2025	
Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
\$105,660	(\$ 16,853,000)		(\$12,297,000)		(\$12,666,000)
\$105,660	(\$ 16,853,000)		(\$12,297,000)		(\$12,666,000)
	FY 202 Expenditures \$105,660	Date Prepared:  FY 2022-2023  Expenditures Revenue  \$105,660 (\$ 16,853,000)	Date Prepared: 2/11/2022   FY 2022-2023   FY 2022   Expenditures   Revenue   Expenditures   S105,660   (\$ 16,853,000)	Date Prepared: 2/11/2022   FY 2023-2024   Expenditures   Revenue   Expenditures   Revenue   (\$12,297,000)	Date Prepared:         2/11/2022         Phone: 471-5896           FY 2022-2023         FY 2023-2024         FY 202           Expenditures         Revenue         Expenditures         Revenue         Expenditures           \$105,660         (\$16,853,000)         (\$12,297,000)         ————————————————————————————————————

LB 1265 amends Neb. Rev. Stat. §77-2716 to provide that a law enforcement officer, as defined in §81-1401, may reduce federal adjusted gross income (AGI), to the extent included in federal AGI, by the following amounts of the compensation received for his or her service as an officer.

- 50%, if the officer completed at least one year but less than ten years of employment;
- 75%, if the officer completed at least ten years but less than 20 years of employment; and
- 100%, if the officer completed at least 20 years of employment.

The Department of Revenue (DOR) estimates that there are approximately 3900 law enforcement officers in Nebraska. Using an estimated average wage for each category listed above, DOR estimates the following reductions to General Fund revenue.

FY 2022-23	\$ 16,853,000
FY 2023-24	\$ 12,297,000
FY 2024-25	\$ 12,666,000

Fiscal Year 2022-23 shows a larger impact because the affected taxpayers are unlikely to adjust withholding in 2022 and will claim the deduction when they file their 2022 tax return in early 2023. They will then likely adjust their withholding or estimated payment, or both beginning January 1, 2023 to reflect their reduced tax burden. The fiscal impact for FY22-23 effectively includes 17 months rather than 12 months.

LB 1265 will require a one-time programming charge of \$105,660 paid to the OCIO for the following: adding a line to the Schedule I, adding a line to NebFile for Individuals, and adding two new schedules.

LB 1265 becomes operative on taxable years beginning on or after January 1, 2022.

Major Objects of Expenditure							
Class Code	Classification Title	22-23 <u>FTE</u>	23-24 <u>FTE</u>	24-25 <u>FTE</u>	22-23 Expenditures	23-24 Expenditures	24-25 Expenditures
D . C.							
Operating Costs					\$105,660		
					\$105,660		