PREPARED BY: DATE PREPARED: PHONE: Doug Gibbs February 24, 2014 402-471-0051

**LB 709** 

Revision: 00

## **FISCAL NOTE**

## LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT - STATE AGENCIES (See narrative for political subdivision estimates)							
	FY 201	l <b>4-1</b> 5	FY 2015-16				
	EXPENDITURES REVENUE		EXPENDITURES	REVENUE			
GENERAL FUNDS	\$11,225	(\$1,602,0000		(\$5,547,000)			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$11,225	(\$1,602,000)		(\$5,547,000)			

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

LB 709 amends the Nebraska Revenue Act of 1967, Section 77-2716 to make adjustments to income subject to Nebraska state income tax

The bill would, for purposes of determining Nebraska income tax liability, for the tax year beginning January 1, 2015 and before January 1, 2016, exclude 20% of income received from military retirement to the extent it is included in federal AGI.

For the tax year beginning January 1, 2016 and before January 1, 2017, 40% of income received from military retirement to the extent it is included in federal AGI would be excluded.

For the tax year beginning January 1, 2017 and before January 1, 2018, 60% of income received from military retirement to the extent it is included in federal AGI would be excluded.

For the tax year beginning January 1, 2018 and before January 1, 2019, 80% of income received from military retirement to the extent it is included in federal AGI would be excluded.

For the tax year beginning January 1, 2019 and thereafter, 100% of income received from military retirement to the extent it is included in federal AGI would be excluded.

The reduction to AGI is not allowed if federal AGI exceeds \$250,000 for a married, filing jointly tax return. For all other returns the reduction to AGI is not allowed if federal AGI exceeds \$125,000.

Military retirement benefit is defined to mean periodic payments attributable to service in the uniformed services of the United States for personal services performed by the individual.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 709:

FY2014-15: (\$ 1,602,000) FY2015-16: (\$ 5,547,000) FY2016-17: (\$ 9,705,000) FY2017-18: (\$ 14,048,000) FY2018-19: (\$ 18,577,000) FY2019-20: (\$ 21,766,000)

The Department also estimates a cost of \$11,225 for a one-time programming charge paid to the office of the CIO to add a line to the Form 1040N, Nebraska Schedule I, and the NebFile online system.

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

		State Agency	Estimate			
State Agency Name: Department	of Revenue				Date Due LFA:	1/17/2014
Approved by: Kim Conroy		Date Prepared:	1/13/2014		Phone: 471-5896	
	FY 2014-2015		FY 2015-2016		FY 2016-2017	
	Expenditures	Revenue	<b>Expenditures</b>	Revenue	<b>Expenditures</b>	Revenue
General Funds	\$11,225	(\$1,602,000)	\$0	(\$5,547,000)	\$0	(\$9,705,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$11,225	(\$1,602,000)		(\$5,547,000)		(\$9,705,000)

LB 709 would amend Neb. Rev. Stat. § 77-2716 to exclude military retirement benefits from income subject to Nebraska income tax to the extent it is included in federal adjusted gross income. The amount of exclusion is phased-in over five years – 20% for tax year 2015; 40% for tax year 2016; 60% for tax year 2017; 80% for tax year 2018; and 100% for tax year 2019 and thereafter.

The exclusion is disallowed if federal adjusted gross income exceeds \$250,000 for married, filing jointly and \$125,000 for all other returns.

Military retirement benefits 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.

The estimated reduction to General Fund revenue would be as follows:

FY 2014-2015	\$ 1,602,000
FY 2015-2016	\$ 5,547,000
FY 2016-2017	\$ 9,705,000
FY 2017-2018	\$ 14,048,000
FY 2018-2019	\$ 18,577,000
FY 2019-2020	\$ 21,766,000

LB 709 will require a one-time programming charge of \$11,225 paid to the OCIO to add a line to the Form 1040N, Nebraska Schedule I, as well as to the NebFile online filing system.

Major Objects of Expenditure							
Class Code	Classification Title	14-15 <u>FTE</u>	15-16 <u>FTE</u>	16-17 <u>FTE</u>	14-15 Expenditures	15-16 Expenditures	16-17 Expenditures
Benefits							
					\$11,225	\$0	\$0
Capital Outlay							
Total					\$11.225	\$0	\$0