Austin Ligenza January 27, 2022 (402)471-0050

LB 740

Revision: 01 FISCAL NOTE LEGISLATIVE FISCAL ANALYST ESTIMATE

Revised to clarify language

| ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates) | | | | | | |
|--|--------------|----------------|--------------|----------------|--|--|
| | FY 202 | 2-23 | FY 2023-24 | | | |
| | EXPENDITURES | REVENUE | EXPENDITURES | REVENUE | | |
| GENERAL FUNDS | \$105,660 | (\$37,311,000) | | (\$38,617,000) | | |
| CASH FUNDS | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER FUNDS | | | | | | |
| TOTAL FUNDS | \$105,660 | (\$37,311,000) | | (\$38,617,000) | | |

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

LB 740 provides for a reduction to Federal Adjusted Gross Income beginning in taxable years on or after January 1, 2023 for individual taxpayers renting their principle dwelling. The deduction is to be equal to lesser of either the total rent paid in the tax year or \$3,000.

LB 740 limits the deduction for a married taxpayer filing jointly to \$3,000, and for a married taxpayer filing separately to \$1,500. Taxpayers that are exempt from property taxes are identified as ineligible for this deduction.

The Department of Revenue estimates that approximately 257,000 households will claim this deduction for the maximum allowed by their filing status. This would have the following impact on General Fund revenues:

• FY22-23: \$0

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- FY23-24: (\$37,311,000)
- FY24-25: (\$38,617,000)

Additionally, the Department of Revenue estimates a one-time OCIO charge of \$105,660 to implement LB 740.

There is no basis to disagree with these estimates.

| ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE | | | | | | |
|---|-----------------|---------------------------|---|--|--|--|
| LB: 740 | AM: | AGENCY/POLT. SUB: Departm | AGENCY/POLT. SUB: Department of Revenue | | | |
| REVIEWED BY | : Neil Sullivan | DATE: 1/25/2022 | PHONE: (402) 471-4179 | | | |
| COMMENTS: The Department of Revenue assessment of fiscal impact from LB 740 appears reasonable. | | | | | | |

| State Agency Estimate | | | | | | | |
|----------------------------------|--------------|----------------|--------------|----------------|-----------------|----------------|--|
| State Agency Name: Department of | f Revenue | | | | Date Due LFO: | | |
| Approved by: Tony Fulton | | Date Prepared: | 1/24/2022 | | Phone: 471-5896 | | |
| FY 2022-2023 | | -2023 | FY 2023-2024 | | FY 2024-2025 | | |
| | Expenditures | Revenue | Expenditures | Revenue | Expenditures | Revenue | |
| General Funds | \$105,660 | \$ 0 | | (\$37,311,000) | | (\$38,617,000) | |
| Cash Funds | | | | | | | |
| Federal Funds | | | | | | | |
| Other Funds | | | | | | | |
| Total Funds | \$105,660 | \$ 0 | | (\$37,311,000) | | (\$38,617,000) | |
| | | | | | | | |
| | | | | | | | |

For taxable years beginning on or after January 1, 2023, LB 740 amends Neb. Rev. Stat. §77-2716 to provide a deduction from federal adjusted gross income (AGI) for individuals who rent a dwelling for use as their principal place of residence. The deduction will be the lesser of:

- The rent paid by the individual for the dwelling during the taxable year; or
- \$3,000

Married couples filing joint returns cannot claim more than \$3,000; and a married individual filing a separate return cannot claim more than \$1,500. The deduction does not apply to a renter of a dwelling that is exempt from property taxes. Dwelling includes single-family dwellings and units of multi-family dwelling.

Using the American Community Survey data, The Department of Revenue (DOR) estimates the number of rental households in Nebraska to be 257,000 and assumes most will receive the full deduction. DOR assumes no change in withholding and estimates the total reduction to the General Fund revenues as follows:

| FY 2022-23 | \$ 0 |
|------------|------------------|
| FY 2023-24 | \$ 37,311,000 |
| FY 2024-25 | \$ 38,617,000 |

LB 740 becomes operative for tax years on and after January 1, 2023.

LB 740 will require a one-time programming charge of \$105,660 paid to the OCIO for mainframe and web development costs.

| 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 <u>Expenditures</u> | 23-24 <u>Expenditures</u> | 24-25 Expenditures |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Benefits | | | | | | | |
| Operating Costs | | | | | \$105,660 | | |
| | | | | | | | |
| Capital Outlay | | | | | | | |
| | | | | | | | |
| | | | | | \$105.660 | | |