PREPARED BY: DATE PREPARED: PHONE: Keisha Patent February 17, 2022 402-471-0059

LB 827

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 | \$152,218 | (\$31,522,000) | | (\$55,122,000) | | |
| CASH FUNDS | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER FUNDS | | | | | | |
| TOTAL FUNDS | \$152,218 | (\$31,522,000) | | (\$55,122,000) | | |

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

LB 827 provides for a reduction to federal adjusted gross income (FAGI) and, for corporations and fiduciaries, federal taxable income (FTI), for expenditures made on qualified property or investment property. Such qualified expenditures are eligible for full expensing, so long as the expenditures have not already been deducted. In the event that full expenses are not deducted, the taxpayer may depreciate the costs over a five year period.

LB 827 also allows taxpayers to reduce their FAGI or FTI for research or development expenditures incurred during the tax year, so long as the expenditures made have not already been deducted. In the event that the expenditures are not fully deducted, the taxpayer may amortize the costs over a five year period.

The changes made by LB 827 would go into effect beginning in tax year 2022. LB 827 authorizes the Department of Revenue to regulate and administer the changes made by this bill.

REVENUE:

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

FY22-23: (\$31,522,000) FY23-24: (\$55,122,000) FY24-25: (\$70,859,000) FY25-26: (\$77,945,000)

EXPENDITURES:

The department estimates a one-time cost of \$152,218 for a programming charge to OCIO to implement the bill.

There is no basis to disagree with these estimates.

| LB: 827 AM: AGENCY/POLT. SUB: Department of Revenue | | | | |
|--|--|--|--|--|
| 79 | | | | |
| REVIEWED BY: Neil Sullivan DATE: 2/17/2022 PHONE: (402) 471-4179 COMMENTS: No basis to disagree with the Department of Revenue assessment of fiscal impact from LB 827. | | | | |

LB 827 Fiscal Note 2022

| State Agency Estimate | | | | | | | |
|--|----------------|-----------------|---------------|-----------------|-----------------|-----------------|--|
| State Agency Name: Department of Revenue | | | Date Due LFO: | | | | |
| Approved by: Tony Fulton | Date Prepared: | | 2/17/2022 | | Phone: 471-5896 | | |
| | FY 2022-2023 | | FY 2023-2024 | | FY 2024-2025 | | |
| | Expenditures | Revenue | Expenditures | Revenue | Expenditures | Revenue | |
| General Funds | \$152,218 | \$ (31,522,000) | | \$ (55,122,000) | | \$ (70,859,000) | |
| Cash Funds | | | | | | | |
| Federal Funds | | | | | | | |
| Other Funds | | | | | | | |
| Total Funds | \$152,218 | \$ (31,522,000) | | \$ (55,122,000) | | \$ (70,859,000) | |
| | | | | | · · · · · | | |

LB 827 creates two deductions for taxable years beginning on or after January 1, 2022. LB 827 amends Neb. Rev. Stat. §77-2716 to provide that taxpayers may reduce federal adjusted gross income (AGI) or, for corporations and fiduciaries, federal taxable income by the following amounts.

For taxable years beginning on or after January 1, 2022, the cost of expenditures for business assets that are qualified property and 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 taxable year in which the property is placed in service, nowwithstnading any changes to federal law related to depreciation of property beginning January 1, 2023, or any other date. The following definitions apply:

- Full expensing means a method for taxpayers to recover costs for certain expenditures in depreciable business assets by immediately deducting the full cost of such expecitures in the tax year in which the property is placed in service.
- Qualified property has the same meaning as IRC § 168(k), as it existed on January 1, 2021, and applies to property placed in service after December 31, 2021.
- Qualified improvement property has the same meaning as IRC § 168(e)(6), as it exsited on January 1 2021, and applies to property placed in service after December 31, 2021.

This deduction is allowed only to the extent such costs have not already been deducted from federal AGI or federal taxable income. Taxpayers that do not fully expense these costs in the taxable year in which the property is placed in service may elect to depreciate the costs over a five-year irrvocable term.

For taxable years begging on or after January 1, 2022, taxpayers may elect to treat research or experimental expenditures paid or incurred by the taxpayer during the taxable year that are connected to the taxpayer's trade or business as expenses which are not chargeable to the capital account. The expenditures so treated are allowed as a deduction, nowwithstanding any changes to the IRC related to amortization of such research or experimental

| 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 |
| | | | | | | | |
| | | | | | | | |
| Benefits | | | | | | | |
| Operating Costs. | | | | \$152,218 | | | |
| | | | | | | | |
| Capital Improvements. | | | | | ***** | | |
| Total | | | | ••••• | \$152,218 | | |

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expenditures. Research and experimental expenditures have the same meaning as in 26 C.F.R.1.174.2 as it existed on January 1,2022.

This deduction is only allowed to the extent the research or experimental expenditures have not already been deducted from the federal AGI or taxable income of the taxpayers. Taxpayers that do not fully deduct the expenditures in the taxable year that the expenditures are paid or incurred may elect to amortize the expenditures over a five-year irrevocable term.

It is estimated that LB 827 will have the flowing impact on the General Fund revenues:

| FY2022-2023 | \$ (31,522,000) |
|-------------|--------------------|
| FY2023-2024 | \$ (55,122,000) |
| FY2024-2025 | \$ (70,859,000) |
| FY2025-2026 | \$ (77,945,000) |

LB 827 will require a one-time programming charge of \$152,218 paid to the OCIO to add lines and schedules to the Forms 1120N, 1041N, and the NebFile online filing system.

The operative date for this bill is January 1, 2022.