PREPARED BY: DATE PREPARED: PHONE: Doug Gibbs February 08, 2017 402-471-0051

LB 121

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT - STATE AGENCIES (See narrative for political subdivision estimates)						
	FY 201	7-18	FY 2018-19			
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE		
GENERAL FUNDS		(\$4,157,000)		(\$13,112,000)		
CASH FUNDS						
FEDERAL FUNDS						
OTHER FUNDS						
TOTAL FUNDS		(\$4,157,000)		(\$13,112,000)		

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

LB 121 amends the Nebraska Revenue Act of 1967, Section 77-2716, regarding modifications and exclusions to federal adjusted gross income (AGI) for Nebraska state income tax purposes.

Military retirement benefits are defined as periodic payments attributable to service in the uniformed services of the U.S. for personal services performed by the individual prior to their retirement date.

The bill provides that beginning taxable year January 1, 2018, AGI shall exclude a portion of income received as military retirement benefits for each individual included in the tax return who receives such benefits to the extent it is included in federal AGI, as follows:

- ➤ For tax year 2018, income to be excluded shall not exceed \$10,000
- For tax year 2019, income to be excluded shall not exceed \$20,000
- For tax year 2020, income to be excluded shall not exceed \$30,000
- For tax year 2021, income to be excluded shall not exceed \$40,000
- For tax year 2022 and thereafter, income to be excluded shall not exceed \$50,000

The bill also changes the current language regarding the one-time election a taxpayer may make regarding the exclusion of military retirement income by an individual to say that they may choose such exclusion on or before December 31, 2017 or within two calendar years from the date of their retirement from the military, whichever comes first. LB 121 also adds language to this section to allow an individual who has previously made such an election to revoke that election by notifying the Department of Revenue before December 31, 2018.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 121:

FY2017-18: (\$ 4,157,000) FY2018-19: (\$ 13,112,000) FY2019-20: (\$ 19,519,000) FY2020-21: (\$ 23,834,000) FY2021-22: (\$ 27,045,000)

The Department of Revenue indicates the cost to implement LB 121 will be minimal.

We agree with the Department of Revenue's estimate of fiscal impact and cost.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE					
LB:121	AM:	AGENCY/POLT. SUB: Department of Revenue			
REVIEWED BY: Lyn Heaton DATE: 2/8/2017 PHONE			PHONE: (402) 471-4181		
COMMENTS: No basis upon which to disagree with the Dept. of Revenue's analysis.					

LB 121 Fiscal Note 2017

State Agency Estimate							
State Agency Name: Department of	Revenue				Date Due LFA:	2/8/2017	
Approved by: Tony Fulton		Date Prepared:	2/7/2017		Phone: 471-5896		
	FY 2017-2018		FY 2018-2019		FY 2019-2020		
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue	
General Funds		\$ (4,157,000)		\$ (13,112,000)		\$ (19,519,000)	
Cash Funds							
Federal Funds							
Other Funds							
Total Funds		\$ (4,157,000)		\$ (13,112,000)		\$ (19,519,000)	
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LB 121 provides that for taxable years beginning on or after January 1, 2018, an individual may exclude income received as a military retirement benefit to the extent included in federal AGI. Income excluded shall not exceed:

- \$10,000 for each individual included in the tax return who receives military retirement benefits for tax year 2018;
- \$20,000 for tax year 2019;
- \$30,000 for tax year 2020;
- \$40,000 for tax year 2021; and
- \$50,000 for tax year 2021 and beyond.

LB 121 does not repeal the current military retirement benefit exclusion permitted by Rev. Stat. Section 77-2716 (14). Instead, individuals are permitted to make an election under the current law on or before December 31, 2017 or within two years of the date of his or her retirement from the military, whichever comes first.

Individuals will not be permitted to exclude military retirement benefits under both the current law and LB 121 for the same taxable year. Individuals who have previously made an election to exclude military retirement benefits may revoke their election by December 31, 2018 and be eligible to exclude income under LB 121.

The estimated reduction to the General Fund revenues would be as follows:

FY 2017-18	\$ 4,157,000
FY 2018-19	\$ 13,112,000
FY 2019-20	\$ 19,519,000
FY 2020-21	\$ 23,834,000
FY 2021-22	\$ 27,045,000

The estimated cost for the Department to implement LB 121 is minimal.

Major Objects of Expenditure							
Class Code	Classification Title	17-18 <u>FTE</u>	18-19 <u>FTE</u>	19-20 <u>FTE</u>	17-18 Expenditures	18-19 <u>Expenditures</u>	19-20 Expenditures
D							
Benefits							
Travel							
Aid							
Capital Improvements							
10(3)							