

May 12, 2023

The 2023 Legislative Session is heading into the home stretch. Prior to adjourning for a long, four-day weekend, lawmakers took action on bills relating to the state budget (LB 814 and LB 818), K-12 education funding (LB 583), property tax relief (LB 243) and income tax relief (LB 754). When the Legislature reconvenes next Tuesday, they will consider a Revenue Committee priority bill (LB 727) containing 21 separate bills and an amendment that will combine revised versions of a bill to restrict abortions (LB 626) and a bill to restrict transgender surgery and use of hormone blockers (LB 574).

TAX RELIEF ONE STEP CLOSER TO PASSAGE

In a flurry of activity on Thursday, the Legislature advanced bills to provide extensive property tax relief (LB 243) and income tax relief (LB 754). Prior to advancing the bills, amendments were adopted to reduce the fiscal impact of each measure. As amended, the two tax relief bills, combined with Governor Pillen's proposal to increase state aid to schools, would provide approximately \$6.4 billion in tax relief over the next six years.

LB 243, in part, would increase state tax credits provided against property tax payments and provide state funding for the state's six community colleges, taking this funding off the local property tax rolls.

LB 754 would reduce the maximum individual income tax rate from 6.84% to 3.99%, reduce the maximum corporate income tax rate from 7.25% to 3.99% over the next five years, as well as phase-out state income taxes on social security benefits and certain federal pension payments, among other things. To reduce the fiscal impact of the income tax cuts, amendments were adopted to eliminate a proposal to reduce income taxes on business assets and research expenditures, as well as to increase a deduction for state and local taxes paid by individual taxpayers. In addition, a package of tax credits for childcare expenses and providers were reduced to save approximately \$10 million each year.

BUDGET BILLS TO FINAL READING

The mainline budget bill appropriating \$10.7 billion for state operations has been given second-round approval. Under the bill, state General Fund spending would grow by an average of 2.3% over the next two years.

Highlights of the budget include additional funding (\$95.8 million) for a new \$350 million prison; \$574.5 million for the Perkins County Canal; \$20 million for Rural Workforce Housing; and \$20 million for Middle-Income Workforce Housing.

Prior to advancing the budget bills (LB 814 and LB 818), lawmakers deferred a portion of the transfer to the Cash Reserve Fund, retaining an extra \$170 million in the state's General Fund. This action leaves \$896 million available for tax cuts and other uses during the biennium, rather than the \$726 billion originally available. The reduction in transfers into the Cash Reserve Fund will leave the fund at \$779 million (13% of annual state revenues) rather than the 16% level originally proposed.

K-12 EDUCATION FUNDING BILL ADVANCES

LB 583, introduced and designated as a priority bill by Senator Rita Sanders (Bellevue), has been advanced to the final stage of debate. The legislation would use funding from a \$1 billion Education Future Fund contained within the state budget bill to provide \$1,500 per student in foundation aid and help cover 80% of special education costs.

OTHER BILLS OF INTEREST

A bill designed to transition Nebraska's E-10 ethanol blend to E-15 (LB 562) was amended to include provisions of a bill (LB 116), supported by the NBA. The amendment to LB 562 contains provisions of LB 116, introduced by Senator Tom Brandt (Plymouth), which would increase the net worth requirements for individuals to be qualified as a beginning farmer or livestock producer under the Beginning Farmer Tax Credit Act from \$200,000 to \$750,000 (pensions, retirement, or other types of deferred benefit accounts owned by the beginning farmer or livestock producer including such accounts owned by a spouse or dependent would be excluded from the determination of a qualified beginning farmer's or livestock producer's net worth). The amendment limits the total amount of credits granted under the Beginning Farmer Tax Credit Act to \$2 million per year.