

Bill Summary, LB 968 (2006)

As passed and signed into law, LB 968 impacts three different areas of taxation: property tax, sales tax, and income tax.

Property tax

LB 968 reduces the level of assessment of agricultural land from 80% to 75%. Because of a loss of an estimated \$1.6 billion in taxable valuations, it is estimated the amount of state aid for equalized school systems will increase by up to \$12.5 million in FY2008 and \$13 million in FY2009.

LB 968 changes the maximum value of a homestead that can qualify for the homestead program. It provides a larger property tax exemption for those who qualify. These provisions will be operative for applications filed in calendar year 2007.

- The maximum exemptions are increased from 80% and 100% to 100% and 120% of the assessed value for the over 65 and disabled portions of the program.
- The maximum valuations are increased from 150% and 200% to 175% and 225% for the over 65 and disabled portions of the program.

The legislation also would amend section 77-3442, relevant to maximum levy limits, to eliminate the scheduled reduction in the levy limit for schools from \$1.05 to \$1.00 that was to take place in fiscal year 2008-09. It is estimated that the elimination of this decline in the levy limit will save the state an estimated \$59.7 million in state aid to schools.

FISCAL IMPACT STATE'S GENERAL FUND: Property Tax Changes under LB 968 (2006)

	FY2008	FY2009
Change Ag land valuations	12,500,000	13,000,000
Changes to Homestead Program	6,894,000	7,068,000
<i>Subtotal</i>	19,394,000	20,068,000
Eliminate levy limit reduction	0	(59,664,404)
<i>Total</i>	19,394,000	(39,596,404)

Sales Tax

Effective July 1, 2006, sales tax on contractor labor is changed to exempt single family dwellings and duplexes. Moreover, a refund is allowed for sales tax paid on contractor labor for other owner-occupied units (primarily condominiums). Finally, the definition of "major renovation" is changed for the purposes of commercial property.

Income Tax

LB 968 provides for a refundable earned income tax credit (EITC) equal to 8% of the federal EITC allowed under §32 of the IRS code. The credit is for tax years beginning January 1, 2006. Based on the number of Nebraska filers taking the federal credit in 2004, the Department of Revenue estimates between 111,000 and 113,000 returns claiming this credit.

LB 968 also changes the income tax rate schedule for tax years beginning January 1, 2006. Furthermore, the phase-outs of the personal credit, itemized deductions, and standard deductions are eliminated.

Old Brackets	New Brackets
Single\$2,400, \$17,000, \$26,500	Single\$2,400, \$17,500, \$27,000
Married filing jointly\$4,000, \$30,000, \$46,750	Married filing jointly\$4,000, \$31,000, \$50,000
Head-of-household\$3,800, \$24,000, \$35,000	Head-of-household\$3,800, \$25,000, \$35,000
Married filing separate\$2,000, \$15,000, \$23,375	Married filing separate\$2,000, \$15,550, \$25,000