

# 2006 Revenue Legislation

The following is a summary of the major legislation passed by the 2006 Legislature that relates to taxes collected by the Nebraska Department of Revenue.

## **Income Tax**

### ***Renewable Energy Credit***

Producers of electricity generated by a new zero-emission facility, with a rated production of at least one megawatt, are eligible for a renewable energy tax credit which can be used to reduce the producer's income tax or to obtain a refund of any sales and use taxes paid by the producer. The credit is based on kilowatt hours generated. The total credit is limited to \$400,000 for all taxpayers. Effective July 14, 2006. (LB 872)

### ***Long-Term Care Savings***

Individuals may make contributions to the Nebraska Long-Term Care Savings Plan. Contributions to the plan are deductible from an individual's federal adjusted gross income to the extent not already deducted for federal income tax purposes. The deduction is limited to \$2,000 per year for married couples filing a joint return and \$1,000 for all other taxpayers. Principal and interest may be withdrawn from the plan tax-free to reimburse long-term care expenses of a person who is age 65 or older, or a disabled person who has a medical necessity. Withdrawals can also be made by a person who is age 62 or older to reimburse long-term health care insurance payments. The deduction is operative for tax years beginning on and after January 1, 2006. (LB 965)

### ***Income Tax Brackets***

The income tax brackets for most individuals have been widened. A larger portion of the income will be taxed at lower rates. Operative for tax years beginning on and after January 1, 2006. (LB 968)

### ***Earned Income Tax Credit***

A refundable earned income tax credit is allowed to resident individuals equal to 8% of the federal earned income tax credit. Operative for tax years beginning on and after January 1, 2006. (LB 968)

### ***Bonus Depreciation and Section 179 Add-Backs Eliminated***

The add-back of bonus depreciation and enhanced Section 179 expense has been eliminated. Operative for tax years beginning on and after January 1, 2006. (LB 968)

### ***Phase-out Provisions for Higher-Income Individuals Eliminated***

The phase-out of the standard or itemized deduction and the Nebraska personal exemption credit has been eliminated. Operative for tax years beginning on and after January 1, 2006. (LB 968)

## **Sales Tax**

### ***Contractor Labor***

Several changes were made to the rules governing sales tax on contractor labor. Although all building materials and fixtures remain taxable according to the contractor option chosen, the following changes to the taxation of contractor labor become effective on July 1, 2006:

Charges for contractor labor will continue to be taxed except when performed in connection with the following projects:

- The first or original construction of a new structure, building, or unit of a building;
- The addition to, or remodel, restoration, repair, or renovation of a residential dwelling (single family home or duplex). Included in this category are the addition of an entire room or floor, the completion of an unfinished portion of the dwelling, and repairs to a dwelling damaged by fire, flood, tornado, or other natural disaster;
- The construction, repair, or annexation of any structure used for the generation, transmission, or distribution of electricity; and
- The major addition, remodel, restoration, repair, or renovation of an existing building, unit of a building, or structure that costs at least 50% of the current value of the building, unit, or structure. The addition of an entire room or floor, the completion of an unfinished portion of the building, unit, or structure, and repairs of damage caused by fire, flood, tornado, or other natural disaster are taxable unless the cost exceeds 50% of the current value of the building, unit, or structure. No application for approval of the project by the department is required.

Charges for contractor labor performed on a building containing three or more residential units (e.g., apartment, townhouse, condominium) are taxable. An owner-occupant of the residential unit may apply for a refund of sales and use taxes paid on the charges for contractor labor performed on such unit. (LB 968)

### ***Exempt Organizations***

Beginning July 1, 2006, purchases by a local or regional housing agency are exempt from tax. This includes purchases for use in a commercial operation that exclusively benefits the residents of an affordable housing project. (LB 1189)

Beginning July 1, 2006, purchases by a nonprofit organization certified to provide community-based services to

persons with developmental disabilities are exempt from tax. (LB 1189)

#### ***Fine Art***

Purchases of fine art by a museum are exempt from tax. The exemption extends to certain nonprofit institutions located in Nebraska. Operative July 1, 2006. (LB 1189)

#### ***Molds and Dies***

Purchases of materials necessary to create molds and dies for use in manufacturing, whether permanent or temporary in nature, including chemicals, solutions, or catalysts utilized in the mold or die process are exempt from tax. Operative July 1, 2006. (LB 1189)

#### **Tax Incentives**

##### ***Beginning Farmer Tax Credit***

Several aspects of the Beginning Farmer Tax Credit were amended.

- A new one-time, refundable income tax credit may be claimed by a qualified beginning farmer equal to the cost of participation in a financial management program required for eligibility as a beginning farmer or livestock producer. The credit is limited to \$500. Operative for tax years beginning on or after January 1, 2006. (LB 990)
- Eligibility to claim the credit has been expanded to include immediate family successors in ownership of agricultural assets. Operative for tax years beginning on and after January 1, 2007. (LB 990)
- The tax credit calculation for rentals becomes a two-tiered formula of either 5% of the gross rental income on cash rentals or 15% of the cash equivalent of a share-rent agreement. Operative for tax years beginning on and after January 1, 2007. (LB 990)

##### ***Nebraska Advantage Act***

The definition of taxpayer was changed to clarify that the ownership limitation that more than 10% of the ownership can be held by exempt entities applies only to pass-through entities. The recapture provisions were modified to correct references to credits that can be recaptured, provide for the recapture

of any benefit received that was in excess of the amount that should have been allowed, and modify the standard for Tier 5 projects so that recapture is based on the average employment level for the length of the entitlement period rather than the level of employment each year.

The relationship between the Nebraska Advantage Act and other existing incentive acts was clarified with regard to possible overlapping projects. The timing of the indexing of the investment levels was changed to be the same as the determination of the wage levels for each new calendar year. Credits that are distributed to the owners of pass-through entities are considered used by the entity and, if subject to recapture, are recovered from the entity. Cooperatives are added to the list of entities that can distribute credits. Effective July 1, 2006. (LB 1003)

##### ***Nebraska Rural Development Act***

A refundable income tax credit equal to 10% of new investment is available to livestock producers for modernization or expansion projects. The investment in the project must be at least \$50,000. The credit is limited to \$30,000. This credit is in addition to the credit already available to businesses which make investments in new property and add employees. Operative for tax years beginning on and after January 1, 2007. (LB 990)

Eligibility to receive credits under the Nebraska Advantage Rural Development Act was expanded to encompass cooperatives, including exempt cooperatives.

The formula for calculating new investment in rented property was also changed to use the annual rent times the number of years in the lease, not to exceed ten years. Operative for tax years beginning on and after January 1, 2006. (LB 1003)

##### ***Nebraska Advantage Microenterprise Act***

Eligibility to receive credits under the Nebraska Advantage Microenterprise Tax Credit Act was expanded to include nonresident estates and trusts.

The size of the company that is eligible was increased to 5 full-time equivalent employees, rather than just 5 employees.

The allowable expenditures were changed to include repairs.

The criteria for a distressed area was changed to include more of the state. See the department's Web site for further information. Operative for tax years beginning on and after January 1, 2006. (LB 1003)

##### ***Charitable Contributions***

The income tax credit for gifts to a qualified Nebraska endowment was changed to allow both the federal deduction and a state credit for the same contributions. The credit limit was changed to 10% of the contribution by a corporation, or 15% of the present value of the planned gift for resident individuals, shareholders of small business corporations, partners of partnerships, members of limited liability companies, and resident estates and trusts. The maximum credit is \$5,000 for any taxpayer. Operative for tax years beginning on and after January 1, 2006. (LB 1010)

##### **Miscellaneous Taxes**

###### ***Homestead Exemption***

The maximum value of a homestead that can qualify for the homestead program increased and a larger portion of the value is eligible for exemption. These changes are operative for applications filed in calendar year 2007. (LB968)