

Effects of the One Big Beautiful Bill Act on the State of Nebraska's Tax Revenue

**Prepared by the
Nebraska Department of Revenue**

September 2, 2025



Jim Pillen, Governor

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Honorable Jim Pillen
Governor of Nebraska

Senator John Arch
Speaker of the Legislature

Senator Ben Hansen
Chairperson of the Executive Board of the Legislative Council

Senator R. Brad von Gillern
Chairperson of the Revenue Committee

Senator Robert Clements
Chairperson of the Appropriations Committee

Keisha Patent
Legislative Fiscal Analyst

RE: Effects of One Big Beautiful Bill Act on the State of Nebraska's Tax Revenue.

Dear Governor, Speaker, Senators, et al.:

This report is made pursuant to Neb. Rev. Stat. § 77-27,222, which requires the Department of Revenue to issue a report to the Governor, the Legislative Fiscal Analyst, and select members of the Legislature within 60 days after a change to the Internal Revenue Code of 1986, (IRC) as amended, detailing the changes to the IRC and the impact of the changes on state income tax revenues and various classes and types of taxpayers. On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act. This report addresses its impact on the State of Nebraska.

Sincerely,

James R. Kamm
Tax Commissioner

Effects of One Big Beautiful Bill Act on the State of Nebraska's Tax Revenue

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act, Public Law 119-21 (OBBBA), which amends several provisions of the federal tax code. Nebraska is a state of rolling conformity to the federal tax code, so any changes in the federal tax code may affect the Nebraska Revenue Act of 1967, thereby influencing Nebraska tax receipts. This report summarizes the major provisions of the OBBBA and their impact on Nebraska tax receipts – both individual and corporate income tax receipts.

This report is submitted pursuant to § 77-27,222, which requires the Department of Revenue (DOR) to issue a report to the Governor and Legislature within 60 days following a change in the IRC, detailing the changes and their impact on state income tax revenues and various classes and types of taxpayers.

This report covers whether the following OBBBA amendments directly impact Nebraska tax receipts:

- No tax on tips, overtime, and car loan interest.
- Limitation on the itemized deduction for state and local taxes.
- Full expensing for certain business property.
- Full expensing of domestic research and experimental expenditures.
- Increase dollar limitations for expensing of certain depreciable business assets.
- Special depreciation allowance for qualified production property.
- Excess business loss limitation.
- Child tax credit.
- Adoption tax credit.
- Child and dependent care tax credit.
- Employer-provided dependent care assistance.
- Modification of limitation on business interest.
- Modification related to foreign tax credit limitation.
- Other international tax reforms.

Individual Income Tax

Nebraska individual income tax calculations begin with federal adjusted gross income (AGI); thus, any tax provisions that impact the calculation of federal AGI automatically affect the Nebraska individual income tax. However, deductions taken after federal AGI (such as itemized deductions or deductions in addition to the standard deduction) do not automatically flow through. Those who itemize their deductions for federal income tax purposes may, for Nebraska tax purposes, take either the federal itemized deductions or the Nebraska standard deduction. Therefore, any federal tax provisions that change the calculation of itemized deductions may impact Nebraska returns if taxpayers elect to itemize.

No tax on tips, overtime; and car loan interest

Section 70201, 70202, and 70203 of the OBBB provide deductions for:

- Tip income
- Overtime income
- Car loan interest

These deductions are amendments to IRC Subchapter B Part VII, governing the allowance of deductions for taxable income under IRC Subtitle A Chapter 1 Subchapter B Part 1 Section 63. The deductions for tip income, overtime income, and car loan interest are taken after the computation of the federal AGI and before calculating federal taxable income. Therefore, these deductions will have no automatic impact on Nebraska individual income tax receipts.

Limitation on the Itemized Deduction for State and Local Taxes

Section 70120 temporarily increases the cap on the State and Local Tax (SALT) itemized deduction for tax years 2025 through 2029. The cap is increased from \$10,000 to \$20,000 for married, filing separately returns and \$40,000 for all other returns for tax year 2025 and will increase by 1% annually for tax years 2026 through 2029. There is a phase-out provision for taxpayers with federal modified AGI above \$250,000 for married, filing separately returns and \$500,000 for all other returns. The deduction cannot be reduced below \$10,000. The increase in the SALT cap results in more deductions from federal AGI which lowers taxpayers overall taxable income, effectively lowering Nebraska's tax receipts.

Expensing

Section 70301 permanently extends the 100% bonus depreciation for qualified property acquired and placed in service on or after January 20, 2025, and for certain fruit or nut bearing plants planted or grafted on or after January 20, 2025.

Section 70302 allows for the immediate deduction of domestic research and experimental expenditures incurred in tax years beginning after December 31, 2024 (tax years beginning on or after January 1, 2025). It also allows eligible small businesses to retroactively elect to apply the immediate deduction to expenses incurred after December 31, 2021. The small business election must occur within one year of the OBBBA enactment and be made on amended returns. These two provisions mainly affect individual returns of sole proprietors and pass-through entities.

Section 70306 significantly increases the dollar limitations for Internal Revenue Code (IRC) § 179 expensing of section 179 property placed in service in tax years beginning after December 31, 2024 (tax years beginning on or after January 1, 2025). It raises the threshold from \$1 million to \$2.5 million, with the phase-out to begin at \$4 million, up from \$2.5 million. The increased amounts will be adjusted for inflation for tax years beginning after 2025. The definition of section 179 property is unchanged from the Tax Cuts and Jobs Act.

Section 70307 creates a temporary 100% depreciation deduction for certain non-residential structures. It applies to qualified production property constructed after January 19, 2025, and

before January 1, 2029 (between January 20, 2025 and December 31, 2028), that is placed in service before January 1, 2031. This deduction generally applies to buildings used for manufacturing, refining, agricultural production, or chemical production.

The changes in expensing under sections 70301, 70302, 70306, and 70307 of the OBBBA result in less taxable income for owners of pass-through businesses, effectively lowering Nebraska tax receipts.

Excess Business Loss Limitation for Noncorporate Taxpayers

For taxable years beginning after December 31, 2026 (tax years beginning on or after January 1, 2027), Section 70601 makes the limitation on excess business losses of noncorporate taxpayers permanent. The dollar amount for determining an excess business loss will be adjusted for inflation.

The limitation on excess business losses decreases the losses a noncorporate taxpayer may recognize and the deductions a taxpayer may claim for such losses. This change will increase taxable income of noncorporate taxpayers and have an impact on Nebraska tax receipts.

Child Tax Credit

Section 70104 increases the child tax credit from \$2,000, which included \$1,400 as a refundable credit and \$600 as a non-refundable credit, to \$2,200 per child, which includes \$1,400 as a refundable credit and \$800 as a non-refundable credit. The phase-out threshold for the credit is permanently increased to \$400,000 of federal AGI for married, filing jointly taxpayers and \$200,000 for all other taxpayers. The increase in the child tax credit does not impact Nebraska's individual income tax receipts.

Adoption Tax Credit

Section 70402 makes up to \$5,000 of the IRC § 23 federal adoption tax credit refundable. This refundable credit amount is subject to inflation and cannot be carried forward.

For tax years beginning on or after January 1, 2026, Neb. Rev. Stat. § 77-3172 allows a refundable adoption tax credit equal to 10% of the federal tax credit allowed to the taxpayer in the same tax year. The changes to the federal adoption tax credit do not impact Nebraska tax receipts.

Child and Dependent Care Tax Credit

For background, the federal child and dependent care tax credit (federal credit) allows a nonrefundable tax credit for up to 35% of child and dependent care expenses incurred for the care of one or more qualifying individuals. Married taxpayers must file married, filing joint returns to claim the credit. The maximum credit amount is \$3,000 for one and \$6,000 for two or more qualifying individuals. The maximum amount is reduced by amounts excluded from gross income under an employer-dependent care assistance program in IRC § 129. The 35% maximum credit

percentage of the employment-related dependent care expenses is reduced, but not below 20%, for each \$2,000 of AGI exceeding \$15,000.

For taxable years beginning on or after January 1, 2026, Section 70405 increases the applicable credit percentage from 35% to 50%. In addition, the 50% maximum credit percentage is reduced (but not below 35%) by one percentage point for each \$2,000 of federal AGI exceeding \$15,000; and is further reduced (but not below 20%) by one percentage point for each \$2,000 (\$4,000 for married filing joint returns) of federal AGI exceeding \$75,000 (\$150,000 for married filing joint returns).

Neb. Rev. Stat. § 77-2715.07(2)(b) allows resident and partial-year resident taxpayers with federal AGI of \$29,000 or less a refundable credit equal to a percentage of the federal credit, whether or not it was limited by federal income tax liability. The percentage of the federal credit is 100% for taxpayers with federal AGI less than \$22,000 and is reduced by 10% for each \$1,000 of federal AGI that exceeds \$22,000. Nebraska also allows resident and partial-year resident taxpayers a nonrefundable tax credit equal to 25% of the federal credit who have federal AGI greater than \$29,000. Generally, married taxpayers must file married, filing joint Nebraska returns to claim the Nebraska dependent and child care tax credits.

These changes will increase the amount of the federal credit and the number of taxpayers who may claim it, which will increase the Nebraska credits claimed and decrease Nebraska individual income tax receipts.

Employer-Provided Dependent Care Assistance Exclusion

Section 70404 increases the exclusion from gross income for employee participation in an employer dependent care assistance program for tax years beginning after December 31, 2024 (tax years beginning on or after January 1, 2026). For tax years beginning before December 31, 2025, taxpayers may exclude up to \$5,000 on single, head of household, and married filing joint returns and \$2,500 on married filing separate returns.

For tax years beginning on or after January 1, 2026, the exclusion increases to \$7,500 for single, head of household, and married filing jointly taxpayers and \$3,750 for married filing separately taxpayers. The increased exclusion will decrease the federal AGI of taxpayers and decrease Nebraska individual income tax receipts.

Corporation Income Tax

Unlike individual income tax, Nebraska corporation income tax starts with federal taxable income. Thus, any tax provisions that alter the calculation of federal taxable income will affect Nebraska corporation income tax receipts.

Limitation on the Business Interest Expense Deduction

Sections 70303, 70341 and 70342 provide the following amendments to the business interest expense deduction. Generally, a taxpayer's business interest expense deduction for the tax year is limited to business interest income, 30% of adjusted taxable income (ATI), and floor-plan financing interest. For tax years beginning after December 31, 2021, the definition of ATI excluded deductions for depreciation, amortization, or depletion.

For tax years beginning after December 31, 2024 (tax years beginning on or after January 1, 2025), the calculation of ATI is made without regard to depreciation, amortization, or depletion. In addition, the definition of motor vehicle for floor plan financing interest includes trailers or campers designed to provide temporary living quarters for recreational, camping, or seasonal use and that are designed to be towed by, or affixed to, a motor vehicle.

For tax years beginning after December 31, 2025 (tax years beginning on or after January 1, 2026), the limitation is calculated before applying any interest capitalization rules. In addition, ATI excludes income from Subpart F, net CFC tested income under § 951(a) and 951A(1) (formerly GILTI), gross ups under IRC § 78, and the portion of the deductions allowed under sections §§ 245A(a) (by reason of § 964(e)(4)) and 250(a)(1)(B) by reason of such inclusions.

The changes to the limitation on the business interest expense deduction generally allow for higher deductions which decreases taxable income for a corporation and decreases Nebraska corporation income tax receipts.

International Provisions

There are several provisions of the OBBBA that substantially modify rules affecting multinational corporations. This report does not contain an explanation for every modification or extension that will impact Nebraska taxpayers.¹ The following provides explanations of the most impactful federal changes and concludes with a net impact of how the federal amendments affect Nebraska corporate tax receipts .

Foreign Tax Credit

Section 70311 modifies the rules for allocating deductions when calculating the foreign tax credit limitation related to global intangible low-taxed income (GILTI), now renamed as net controlled foreign corporation tested income (NCTI). In addition, Section 70313 provides that up to 50% of

¹ For more detail on the change of international tax provision - https://www.budget.senate.gov/imo/media/doc/the_one_big_beautiful_bill_act.pdf

income from the foreign sale of inventory property produced in the U.S. may be treated as foreign source income if attributable to the foreign office or fixed place of business of the taxpayer.

The foreign tax credit is taken after the corporate taxpayer determines their federal taxable income and against their federal tax liability. Neb. Rev. Stat. § 77-2716(6) allows an adjustment to corporations for certain foreign taxes paid and is reduced by any foreign tax credit claimed on the federal return. The modifications of the foreign tax credit limitation generally make the rules more favorable for U.S. companies, likely reducing their overall tax burden on foreign income.

Changes to the GILTI and FDII (§ 250(a) Deductions)

Background. For tax years beginning before January 1, 2026, the § 250(a) deductions provide that:

- For GILTI, a domestic corporation may claim a deduction equal to 50% of the GILTI included in gross income and the amount treated as a dividend received by the corporation under IRC § 78 attributable to GILTI. GILTI is calculated as the taxpayer's net CFC tested income over the taxpayer's net deemed tangible income return.
- For foreign-derived intangible income (FDII), a domestic corporation may claim a deduction equal to 37.5% of a domestic corporation's FDII, which is calculated as the taxpayer's deemed intangible income multiplied by foreign-derived deduction eligible income over deduction eligible income.

Sections 70321, 70322, and 70323 amend the § 250(a) deductions and related statutes for tax years beginning after December 31, 2025 (tax years beginning on or after January 1, 2026).

FDII is renamed foreign-derived deduction eligible income (FDDEI). The FDDEI deduction is calculated as 33.34% of the FDDEI of the domestic corporation. FDDEI means any deduction eligible income derived from foreign sales of property to non-U.S. persons for foreign use, and services provided to persons or with respect to property not located in the U.S.

GILTI is renamed net CFC tested income (NCTI). The NCTI deduction is equal to 40% of the NCTI included in gross income of a domestic corporation and the amount treated as a dividend received by such corporation under IRC § 78 that is attributable to the NCTI.

The federal changes remove the FDII, deemed tangible income, and deemed tangible income return definitions. In addition, sales and other dispositions giving rise to income from intangible property and from depreciable, amortizable, or depletable property is added as an exclusion from gross income when determining deduction eligible income. This new exclusion applies to sales or other dispositions that occur after June 16, 2025. Deduction eligible income will be calculated using "expenses and deductions (including taxes), other than interest expense and research or experimental expenditures, properly allocable to such gross income," rather than "deductions (including taxes) properly allocable to gross income."

On net, changes to the federal international tax provisions reduce federal taxable income for multinationals, thereby decreasing Nebraska's corporation income tax receipts.

Fiscal Impact

The DOR used various data sources to analyze the impact of the OBBBA on Nebraska income tax receipts. The data used included the DOR's internal income tax data, data from the U.S. Census, data from the Bureau of Economic Analysis, and estimates prepared by the Joint Committee on Taxation. Based on these sources, the DOR estimates the impact of the main provisions of the OBBBA affecting Nebraska income tax as follows:

Fiscal Year	Corporation Income Tax	Individual Income Tax	Total General Fund revenues
FY2025-26	\$ (63,060,000)	\$ (39,454,000)	\$ (102,514,000)
FY2026-27	\$ (77,605,000)	\$ (36,420,000)	\$ (114,025,000)
FY2027-28	\$ (73,702,000)	\$ (34,614,000)	\$ (108,316,000)
FY2028-29	\$ (60,195,000)	\$ (21,431,000)	\$ (81,626,000)

Appendix A – General Fund Revenues by Provision:

	FY2025-26	FY2026-27	FY2027-28	FY2028-29
State and Local Tax (SALT) Deduction Cap Increases	\$ (22,650,000)	\$ (14,552,000)	\$ (14,145,000)	\$ (8,487,000)
100% Bonus Depreciation	\$ (19,528,000)	\$ (28,571,000)	\$ (28,454,000)	\$ (18,108,000)
Expensing of R&E Expenditures	\$ (10,071,000)	\$ (8,974,000)	\$ (6,825,000)	\$ (3,317,000)
Modification of limitation on business interest	\$ (9,583,000)	\$ (7,562,000)	\$ (6,540,000)	\$ (6,047,000)
Expanded §179 Expensing	\$ (5,227,000)	\$ (4,565,000)	\$ (3,551,000)	\$ (2,972,000)
Enhancement of Child and Dependent Care Tax Credit	\$ -	\$ (575,000)	\$ (602,000)	\$ (579,000)
Employer-Provided Dependent Care Assistance Exclusion	Minimal General Fund Revenue Effect			
Excess Business Loss Limitation for Noncorporate Taxpayers	\$ 114,000	\$ 180,000	\$ 117,000	\$ 2,827,000
Depreciation for Non-Residential Structures	\$ (28,830,000)	\$ (36,219,000)	\$ (34,566,000)	\$ (30,325,000)
Modification related to foreign tax credit limitation	\$ (1,392,000)	\$ (2,946,000)	\$ (3,387,000)	\$ (3,862,000)
International Tax Reform (70321-70354)	\$ (5,347,000)	\$ (10,241,000)	\$ (10,363,000)	\$ (10,756,000)
Total General Fund	\$ (102,514,000)	\$ (114,025,000)	\$ (108,316,000)	\$ (81,626,000)