NEBRASKA'S PTET LAW SIMPLIFIED
KEY UPDATES FOR CPAs & TAX ADVISORS

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NEBRASKA'S RECENT LEGISLATIVE UPDATES TO ITS Pass-Through Entity Tax (PTET) framework offer CPAs and tax professionals more streamlined methods for managing PTET elections for pass-through clients. With retroactive applicability, simplified elections, and clarified credit mechanisms, Nebraska's PTET law continues to offer a compelling opportunity for proactive tax planning. The recent legislation also enacted taxpayer protections requiring greater transparency when Nebraska tax deficiencies are issued.

PTET REFRESHER: ENTITY-LEVEL TAXATION TO BYPASS SALT CAP

The PTET election allows partnerships and S corporations to pay Nebraska income tax at the entity level, enabling owners to bypass the federal SALT deduction cap. This structure converts state income tax payments into fully deductible business expenses for federal purposes, aligning with IRS Notice 2020-75. Importantly, the recently enacted One Big Beautiful Bill Act retains a modified and increased SALT deduction cap and does not impact PTET laws. Thus, PTET laws will continue to offer tax savings opportunities for individual owners of pass-through entities for the foreseeable future.

Nebraska enacted its PTET regime via LB754 in 2023, and the 2025 follow-up legislation, LB647, addresses key implementation challenges and expands taxpayer flexibility. The authors of this article helped draft and submit proposed legislation that state senators ultimately used in LB754 and LB647. They collaborated with the Omaha and Nebraska Chambers of Commerce and testified in front of the Nebraska Unicameral's Revenue Committee in support of this legislation.

LB647 HIGHLIGHTS: WHAT CPAs NEED TO KNOW

☑ Retroactive Elections (2018-2022)

Entities may elect PTET treatment for tax years 2018 through 2022 without amending prior returns. Payments made in 2025 for those years are deductible in the year paid. This retroactive feature allows CPAs to unlock federal deductions for clients who previously hit the SALT cap.

Planning Tip: Consider advising clients to make retroactive PTET payments before year-end to capture deductions in 2025.

☑ Updated Forms & Filing Mechanics

The Nebraska Department of Revenue (NDOR) has released updated guidance and forms:

- Form PTET-E: Used to make the election.
- Schedule PTET: Filed with Form 1065N or 1120SN.
- Schedule K-1N: Reflects the refundable credit passed through to owners.
- Form 1099-G: Issued by NDOR for each retroactive year elected.

Note: Credits are applied in the year the payment is made, not the year of the original income. This simplifies compliance and avoids amended returns.

☑ Owner-Level Credit & Refundability

Owners receive a refundable credit equal to their share of the PTET paid. This credit is reported on Schedule K-1N and can offset Nebraska personal income tax liabilities.

CPA Consideration: Ensure clients understand the timing mismatch between the deduction (federal) and the credit (state), especially for retroactive elections.

☑ Enhanced Deficiency Notice Requirements

A notable taxpayer protection added by LB647 is the requirement that the NDOR must issue a written notice detailing the facts, circumstances, and reasons the tax commissioner used to determine a deficiency when issuing a deficiency notice.

This change improves transparency and should equip CPAs and other tax advisors with the necessary information to:

- Evaluate the validity of the deficiency.
- Prepare a timely and informed response.
- Advise clients on whether to dispute or comply with the notice.

Practice Insight: This provision aligns with best practices in tax administration and supports more efficient resolution of disputes.

STRATEGIC IMPLICATIONS FOR CPA FIRMS

The PTET framework now offers a clean and efficient way to reduce federal taxable income for high-net-worth clients and closely held businesses. CPAs should evaluate:

- **Eligibility:** Confirm entity type and ownership structure.
- **Timing:** Coordinate PTET payments with year-end planning.
- **Documentation:** Maintain records of elections, payments, and owner allocations.
- **Client Communication:** Educate clients on the benefits and mechanics of PTET elections, especially retroactive options.

ACTION STEPS FOR CPAs

1. **Review client rosters.** Identify partnerships and S corps with significant Nebraska income from 2018-2022.
2. **Model tax impact.** Estimate federal savings from PTET deductions and Nebraska credits.
3. **Monitor NDOR guidance.** Stay current on form updates and procedural clarifications.

FINAL THOUGHTS

Nebraska's PTET law is now more accessible, transparent, and strategically valuable. CPAs are well-positioned to guide clients through elections, optimize deductions, and respond effectively to any state-level notices. With retroactive flexibility and simplified compliance, the law is a powerful tool for tax planning in 2025 and beyond. ◀

Jeff Schaffart and Nick Bjornson, attorneys at Koley Jessen, regularly advise businesses on federal and state tax matters. They were instrumental in the passage and subsequent refinement of Nebraska's PTET law, drafting and submitting proposed legislation that state senators ultimately used in LB647, collaborating with the Omaha and Nebraska Chambers of Commerce, and testifying in front of the Unicameral's Revenue Committee to ensure the PTET process is more user-friendly and the deficiency notice process more transparent and fair for Nebraska taxpayers. For further details about Nebraska's PTET law or to get in touch, email jeff.schaffart@koleyjessen.com and nicholas.bjornson@koleyjessen.com, respectively.