CAMBRIDGE ADVISORS INC. · RETIREMENT INCOME EDUCATION

Nebraska Taxes and Retirement Income

How Nebraska's tax rules affect retirement income, property taxes and what you leave to family.

- What Nebraska taxes and what it excludes
- The income tax rate change scheduled for 2027
- Why the source of each withdrawal matters
- The homestead exemption for homeowners 65 and older
- How Nebraska's inheritance tax works
- Five questions to review before making income decisions

Justin Anderson, AAMS · Vice President and Portfolio Manager

Cambridge Advisors Inc.
17330 Wright Street, Suite 205, Omaha, Nebraska 68130
402.697.1166 · cambridgeadvisors.net

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AT A GLANCE

What Nebraska taxes, and what it doesn't

Nebraska doesn't tax Social Security benefits. But withdrawals from traditional IRAs and 401(k)s, along with most private pensions, generally remain subject to state income tax.

Nebraska starts with federal adjusted gross income, then applies its own adjustments. The table shows the general treatment for Nebraska residents.

Type of income	Nebraska income tax
Social Security benefits	**Not taxed**
Qualifying military retirement pay	**Not taxed**
Federal Civil Service Retirement System (CSRS) annuities	**Not taxed**
Railroad Retirement Board benefits	**Not taxed**
Qualified Roth IRA distributions	**Generally not taxed**
Interest on qualifying U.S. government obligations	**Not taxed**
Traditional IRA and 401(k) withdrawals	Generally taxed
Roth conversions	Generally taxed in the year of conversion
Private pensions and federal FERS annuities	Generally taxed (a qualifying military portion of a FERS annuity may be excluded)
Interest on other states' municipal bonds	Taxed
Other interest, dividends and capital gains	Generally taxed

Federal income tax may still apply. Up to 85% of Social Security benefits can still be subject to federal income tax, depending on income. This table isn't a complete list of Nebraska's income adjustments.

THE 2027 RATE CHANGE

Nebraska's top income tax rate is scheduled to fall

4.55%
Top two brackets, tax year 2026

3.99%
Top two brackets, tax years beginning on or after January 1, 2027

Nebraska's individual income tax remains graduated. The two lower rates, 2.46% and 3.51%, are unchanged under current law. The scheduled reduction applies only to taxable income in the third and fourth brackets.

For retirees whose taxable income reaches those brackets, the change lowers the state marginal rate on taxable IRA and 401(k) withdrawals, pension income and Roth conversions. On $10,000 of income taxed entirely in the affected brackets, the rate difference equals $56 of Nebraska tax, before any other tax effects.

Why timing may be worth a look

For retirees considering a large traditional IRA withdrawal or Roth conversion, the scheduled reduction is one factor in deciding whether income falls in 2026 or a later year. The timing of realized capital gains may also be worth reviewing.

> **Compare the full tax effect**
>
> Moving income between years can change federal tax, Medicare premiums, future required distributions and the amount of Social Security subject to federal income tax. Compare those effects with the 0.56-percentage-point difference in Nebraska's rate.

The rates are set by Neb. Rev. Stat. § 77-2715.03. Bracket thresholds change with inflation; consult Nebraska's current tax-year guidance for the applicable thresholds.

WHERE INCOME COMES FROM

Why the source of retirement income matters

Two retirees with similar income and investments could have different Nebraska tax bills, and different property-tax relief, depending on how they receive their money.

Withdrawal from	Federal and Nebraska income tax	Homestead exemption household income
Traditional IRA or 401(k)	Taxable distributions are generally included in federal adjusted gross income and taxed by Nebraska.	Taxable distributions generally increase household income.
Qualified Roth IRA distribution	Generally not included in federal adjusted gross income and not taxed by Nebraska.	Ordinarily doesn't increase household income.
Taxable investment account	Withdrawing money isn't itself income. Interest, dividends and gains realized when investments are sold are generally taxable.	Taxable interest, dividends and gains generally count. Interest from Nebraska state and local bonds also counts, even though Nebraska doesn't tax it.

What this means in practice

- **Roth conversions add income now.** Converting traditional retirement assets to a Roth IRA typically creates taxable income in the year of conversion, which can also affect the following year's homestead exemption.
- **Qualified Roth withdrawals generally don't add income.** A qualified Roth IRA distribution must meet the applicable five-year requirement and another qualifying condition, such as reaching age 59½.
- **Social Security retirement benefits have separate treatment.** Nebraska doesn't tax them, but they generally count toward homestead household income.

The withdrawal order depends on spending needs, taxes and eligibility for property-tax relief. Its effects can extend beyond the year of the withdrawal.

PROPERTY TAXES

The homestead exemption for homeowners 65 and older

Nebraska homeowners age 65 and older may qualify for a property-tax exemption based on their household income and the value of their home.

Who may qualify

- Reached age 65 before January 1 of the year they apply.
- Own and occupy the home from January 1 through August 15.
- Meet the household-income and property-value requirements.
- File Form 458 and Schedule I with the county assessor every year, after February 1 and by June 30. Limited late-filing exceptions apply.

How retirement income affects eligibility

Homestead relief changes in 10-percentage-point steps based on prior-year household income. Household income generally starts with federal adjusted gross income of the claimant, spouse and other owners who occupy the home. It also includes specified additions, such as nontaxable Social Security and railroad retirement benefits and certain Nebraska bond interest. Qualifying medical expenses above 4% of household income, calculated before the deduction, may reduce the total.

- **A withdrawal this year can affect next year's relief.** A taxable IRA withdrawal or Roth conversion in one year may reduce the exemption available the following year. Near an income threshold, a relatively modest change can matter.

Income and home value are tested separately

The income-based relief percentage applies to an eligible portion of the home's assessed value, generally limited by the county average for a single-family home. Even 100% income-based relief may not cover the home's full value. Homes above a county-specific maximum may receive reduced relief or none; certain prior recipients are protected.

Application-year limits change. For 2026 applications, the 100% income-based relief tier used 2025 household income up to $37,000.99 (single) or $43,400.99 (married or closely related). For a later application, check the Department of Revenue's table for that year.

INHERITANCE TAX

Inheritance tax depends on the heir

Nebraska has an inheritance tax, and the amount owed depends largely on who receives the property. The tax is figured separately for each beneficiary.

Beneficiary	Exempt amount	Rate above exemption
Surviving spouse	Fully exempt	0%
Beneficiaries under age 22	Fully exempt	0%
Qualifying charities and governmental entities	Fully exempt	0%
Parents, grandparents, siblings, children and other lineal descendants	$100,000	1%
Aunts, uncles, nieces and nephews	$40,000	11%
Other beneficiaries, including friends	$25,000	15%

Example: the same $300,000, three different heirs

Beneficiary	Exempt	Taxable	Nebraska inheritance tax
Child age 22 or older	$100,000	$200,000 at 1%	**$2,000**
Niece	$40,000	$260,000 at 11%	**$28,600**
Friend	$25,000	$275,000 at 15%	**$41,250**

Hypothetical example, not an actual client situation or a calculation of an estate's final tax liability. Assumes each beneficiary is age 22 or older, the full amount is subject to Nebraska inheritance tax, and no other deductions or exclusions apply. The estate-planning attorney should confirm how any other property passing to the same beneficiary affects the calculation.

Beneficiary designations do not settle the tax question on their own. Life insurance paid to the estate may be included, while proceeds paid directly to a named individual may be excluded. Employee benefit plan payments have separate rules. An estate-planning attorney should review the policy, account and beneficiary details.

Rates shown apply to deaths on or after January 1, 2023. The tax is separate from federal estate tax, paid to the county, and generally due 12 months after death.

A PLANNING CHECKLIST

Five questions for your retirement income plan

Nebraska's rules use different tests in different years. These questions can help bring them into one conversation.

1. **Which accounts will this year's income come from?**
   Traditional, Roth and taxable accounts show up differently on federal and Nebraska returns, and in homestead household income.

2. **Does the timing of a withdrawal or Roth conversion matter this year?**
   Nebraska's scheduled rate change is one factor. Federal brackets, Medicare premiums and future required distributions may matter more.

3. **Could this year's income change next year's homestead exemption?**
   The exemption uses prior-year household income, generally including Social Security retirement benefits. The income table changes relief in 10-percentage-point steps.

4. **Do beneficiary designations reflect who you want to inherit?**
   A beneficiary's relationship to you, age and applicable exemptions can affect Nebraska inheritance tax. Equal dollar amounts don't necessarily produce equal after-tax inheritances.

5. **Will heirs have the cash to meet obligations on time?**
   Nebraska inheritance tax is generally due 12 months after death. When an estate is mostly real estate, farmland or a business, beneficiaries may need a plan to pay without an unwanted sale.

Consider a withdrawal's effect on spending needs, taxes and property-tax relief together. Even if it reduces next year's homestead exemption, it may still accomplish an important goal or produce a better long-term tax outcome.

NEXT STEPS

Read more, and talk it through

For current figures, eligibility details and the controlling law, consult these Nebraska primary sources:

- Nebraska income tax rates
- Homestead exemption forms and guidance
- 2026 homestead household income table
- Nebraska inheritance tax statutes

Discuss your retirement income plan

At Cambridge Advisors, we review how retirement withdrawals and investment decisions affect your broader plan. We encourage clients to work with their tax professionals and estate-planning attorneys on specific calculations and legal documents.

If you'd like to discuss how these rules fit your plan, we'd be glad to talk. Schedule a complimentary discovery meeting at cambridgeadvisors.net/contact or call 402.697.1166.

PRIMARY SOURCES

Neb. Rev. Stat. §§ 77-2715.03 (rates), 77-2716 (income adjustments), 77-3504 to 77-3514.01 (homestead exemption) and 77-2001 to 77-2010 (inheritance tax), at nebraskalegislature.gov. Nebraska Department of Revenue: Form 1040N-ES; Homestead Exemption Information Guide, annual Household Income Table and Form 458 Schedule I instructions, at revenue.nebraska.gov. 45 U.S.C. § 231m (Railroad Retirement). IRS and Social Security Administration guidance on federal taxation of benefits and IRA conversions. **Information reviewed October 2026.**

IMPORTANT DISCLOSURES

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Tax laws and interpretations can change. Individual results depend on personal circumstances, account types, applicable law, and available deductions and exemptions. The county assessor and Nebraska Department of Revenue determine homestead exemption eligibility, and the county court determines Nebraska inheritance tax. The examples are hypothetical, don't represent actual clients and don't guarantee any tax result.

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