

One Hundred Fifth Legislature - First Session - 2017

Introducer's Statement of Intent

LB48

Chairperson: Senator Jim Smith

Committee: Revenue

Date of Hearing: January 18, 2017

The following constitutes the reasons for this bill and the purposes which are sought to be accomplished thereby:

There are two results of the rapid increase in the sales price of real estate which is most pronounced in the agricultural sector. The first is an aberration in the property tax system that causes cash flow problems in paying the property tax and a shifting of tax burden from urban to rural sectors. The second is the abundance of multimillion dollar estates passing virtually tax free to the heirs of the property taxpayer. The second result may hold the answer to the problem posed by the first. It may provide a better source of funding for property tax relief than the already high income tax, the sales tax mostly paid by families earning \$20,000 to \$120,000, or the state reserves.

In years past, there was a reasonably high estate tax imposed at both the federal and state levels. In recent years the amount of estate value exempted from federal estate tax was raised to \$10,000,000 per couple. To be competitive with other states, Nebraska recently eliminated its estate tax. In order to be fair and not subject assets in an estate being taxed by both an income tax and an estate tax, there was a special income tax rule, called "stepped up basis", that allowed for a different method of computing income tax on inherited property.

For purposes of income taxation the "basis" of property is usually the amount paid for the property. When the property is sold during the life of the owner, income tax is imposed on the sales price minus the "basis". However, where the property passes to the heirs upon the owner's death, the heirs get a new "stepped up basis" equal to the value of the property on the day the owner died. Thus, if Grandpa purchased a quarter section of land in 1975 for \$80,000 (\$500/acre) and sold it in 2016 for \$1,680,000.00 (\$10,500/acre), there would be approximately \$109,440 income tax due to Nebraska on the \$1,600,000.00 difference. However, if Grandpa dies in 2016 and the heirs sell the property for the same \$1,680,000.00 the heirs are allowed to subtract the \$1,680,000.00 it was worth on the day Grandpa died. Thus, \$1,600,000 of income escapes both estate and income taxation and, except for a 1% county inheritance tax, it passes tax free to the heirs, many of whom may live out of state. LB48 eliminates the stepped up basis and would have the heirs pay the same tax to Nebraska that Grandpa would have paid had he sold it. The proceeds from the tax go to the State's General Fund.

This bill is consistent with the campaign statements of the new administration in Washington D.C. that it will be pursuing elimination of the stepped up basis at the federal level.

Principal Introducer: _____

Senator Paul Schumacher