

Nebraska State Legislature

SENATOR GALEN HADLEY

District 37
3112 Country Club Lane
Kearney, Nebraska 68845
(308) 237-3794

Legislative Address:
State Capitol
PO Box 94604
Lincoln, Nebraska 68509-4604
(402) 471-2726
ghadley@leg.ne.gov



COMMITTEES

Chairperson - Revenue
Transportation and Telecommunications
Committee on Committees

FOR IMMEDIATE RELEASE, September 6, 2013

CONTACT: Mary Jane Egr Edson or Bill Lock, Committee Staff 402-471-2726

TAX MODERNIZATION COMMITTEE PUBLIC HEARING AGENDA

Lincoln, NE – State Senator Galen Hadley, Chair of the Tax Modernization Committee, has released the agenda for the public hearings to be held by the Committee during September and October. The Committee was created during this past legislative session by Legislative Resolution 155, which requires the Committee to hold five (5) public hearings across the state on topics of tax reform. Please see the attached “Schedule of Public Hearings” for locations, dates and times. LR155 also requires the Committee to issue a report by mid-December that makes recommendations for any changes, if necessary, to Nebraska's tax system.

Over the past several months, the Committee has held three public Working Meetings and two Executive Working Meetings. The purpose of those meetings was to provide committee members with important background information, an overview of Nebraska's existing tax system, and analysis of that system by national experts on tax policy, economics and tax reform initiatives. Committee members were able to meet with these experts and with each other to debate potential areas for further analysis.

From these discussions, the Committee has identified certain tax issues and potential options that could be used to address these issues. Please see the attached “Issues and Options List” for details. The Committee welcomes public comment on these issues and options, and on other tax issues the public would like to include in the discussion. The issues and options are not recommendations of the Committee but are intended to generate public comment. The Committee would like to hear comments on these issues and options, but would also like to hear comments on other tax matters of importance to Nebraskans.

The issues and options are divided into three categories – property tax, individual and corporate income tax, and sales and use taxes. The hearings will be recorded and transcribed but will not be broadcast or live streamed. Please watch our website for any changes or developments.

www.leg.ne.gov/tmc

**TAX MODERNIZATION COMMITTEE
PUBLIC HEARING SCHEDULE. 2013**

Monday, September 23 – Harms Advanced Technology Center, Western Nebraska Community College, Scottsbluff, 4:00 – 7:00 pm. (Mountain Time)

Tuesday, September 24 – Mid Plains Community College, North Platte, 1:30 pm – 4:30 pm.

Thursday, September 26 – Northeast Nebraska Community College, Lifelong Learning Center, Norfolk, 1:30 – 4:30 pm.

Thursday, October 17 – Metro Community College, South Omaha Campus, Omaha, 1:30 – 4:30 pm.

Friday, October 18 – State Capitol Building, Room 1113, Lincoln, 10:00 – 1:00 pm

TAX MODERNIZATION COMMITTEE MEMBERS:

Sen. Galen Hadley, Kearney, District 37 - Chair

Sen. Paul Schumacher, Columbus, District 22 – Vice-Chair

Sen. Tom Hansen, North Platte, District 42

Sen. Beau McCoy, Omaha, District 39

Sen. Kate Sullivan, Cedar Rapids, District 41

Sen. Heath Mello, Omaha, District 5

Sen. Kathy Campbell, Lincoln, District 25

Sen. John Harms, Scottsbluff, District 48

Sen. Ken Schilz, Ogallala, District 47

Sen. Jeremy Nordquist, Omaha, District 7

Sen. Pete Pirsch, Omaha, District 4

Sen. Burke Harr, Omaha, District 8

Sen. Charlie Janssen, Fremont, District 15

Sen. Kate Bolz, Lincoln, District 29

NEBRASKA UNICAMERAL LEGISLATURE
TAX MODERNIZATION COMMITTEE
FALL, 2013

The options and issues on the agenda are not recommendations of the Committee. The Committee has the authority to make recommendations but only if we believe they are truly necessary to make our tax system more fair, more balanced and a more stable source of funding for government services. After three months of study, these are some of the more frequent issues that arise. And that's why we are asking for your input on these and any other tax matters that you want us to know about.

We want to know, for example, if you think there is a specific problem with the combination of Nebraska state and local taxes – income and sales tax at the state level and property taxes at the local level, plus the miscellaneous taxes that round out the system. If you think there is a particular problem, please identify it when you testify and also help us think about potential solutions to the problem.

One of our goals as a Committee has been to conduct our review in a “revenue-neutral manner.” In other words, if we believe we should reduce income taxes by \$100 million, where will the money come from to replace that \$100 million? Should we make other changes within the income tax – for example, eliminating a credit that costs \$100 million? Or, should we start taxing more consumer services and use the increase in sales tax to cover the \$100 million? Or should that \$100 million in new sales tax be used for property tax relief?

As you read the issues and options, keep in mind that a reduction in one tax will likely result in shifting that tax burden to another type of tax or to another group of taxpayers. For example, if we reduce property taxes on agricultural property, that would likely shift the property tax burden more heavily to residential and commercial land owners. If we do not want to shift the property tax burden, then the State must provide more money for schools and local government. Since the State doesn't impose property taxes, would we increase sales taxes or income taxes to pay for the reduction in property tax?

We want to hear your solutions!

We sincerely appreciate your participation in this process.

I. PROPERTY TAX OPTIONS

Property Tax issue Number 1. Agricultural Land Property Taxes.

Statement of the Issue. Owners of Nebraska agricultural land pay a higher effective property tax rate than owners of this asset in other states.

Policy Options:

1. Reduce agricultural land value.
 1. A. Reduce current percentage of value from 75% of market to a lower percentage.
 1. B. Value agricultural land using the value approach used in other states in our region. This approach is an income capitalization approach. This could involve choosing a capitalization rate which lowers the value from current levels.

Property Tax Issue Number 2. Local Governments and the Property Tax.

Statement of the Issue. Nebraska's state and local revenue system is more reliant on property taxes than the national average.

Policy Options

2. Reduce property taxes use by increasing state aid funding from sales tax, or income tax for
 2. A. Schools
 2. B. Counties
 2. C. Cities.
 2. D. Community colleges.
 2. E. Give local governments authority to use other tax sources, including sales tax.
 2. E.1. Schools
 2. E 2. Counties (counties currently have this option, but in a limited fashion)
 2. E 3. Community colleges.

NOTE: Cities already have the option to use sales tax, and have been given authority to ask voters for a higher rate and higher use.

Property Tax Issue Number 3. Commercial and Residential Land Taxes.

Statement of the Issue. Homeowners and businesses pay property tax effective rates that are higher than the national average.

Policy Options.

3. Direct property tax relief to taxpayers using these options.
 3. A. Increase funding of current property tax credit from current 115 million, or redirect these funds to be distributed through other property tax relief options mechanisms, including granting an income tax credit for property taxes paid.
 3. B. Create a “circuit breaker” program, which provides credit against income tax liability for property tax payments on homes when tax payments exceed a predetermined percent of household income. (5% is a recommended level of excess burden. A lower threshold of 4% would impact more taxpayers) The existing homestead exemption program for the elderly would reduce the number of households benefiting from this policy, and the cost of this option.
 3. C. Create a “circuit breaker” program for farm owner operators with a structure similar to 3.B, including the use of an income tax credit.

Property Tax Issue Number 4. Business and Agricultural Personal Property Tax.

Statement of the Issue. Businesses, including farm operators and other business persons pay personal property taxes on business equipment, unlike their competitors in several other nearby states. This imposes a cost on businesses, particularly start up business, which they would not experience in other states.

Policy Options.

4. A. Give income tax credits for property tax paid on agricultural and business personal property value.
4. B. Exempt all business equipment from personal property tax.
4. C. Exempt a portion of each taxpayers personal property value from taxation.

Property Tax Issue Number 5. A Progressive Property Tax System.

Statement of the Issue. Property ownership has become concentrated. Property value-based taxes are paid at the same rate of tax for all taxpayers, despite large differences between the amount of property owned.

Policy Option

5. A. Impose a higher rate of property tax on owners of larger amounts of property value. This would require a constitutional amendment.

II. SALES TAX OPTIONS

Sales Tax Issue Number 1. Agricultural Machinery and Equipment Repair and Replacement Parts.

Statement of the Issue: The Nebraska Comprehensive Tax Study of 1988 (“The Syracuse Study”) recommended exempting business and farm purchases of materials, machinery and equipment. Nebraska exempts farm machinery and equipment but not repair or replacement parts. Nebraska also exempts manufacturing machinery and equipment, as well as repair and replacement parts. Non-manufacturing businesses are not exempt on these purchases.

Policy Options:

1. Fully implement these recommendations.
 - 1 A. Exempt farm repair and replacement parts.
 - 1 B. Expand the manufacturing machinery and equipment exemption to all businesses, not just manufacturing businesses.

Sales Tax Issue Number 2. Exemptions.

Statement of the Issue: Many sales tax exemptions have been in place for decades. Some of these exemptions may no longer be needed or no longer make sense. Nebraska should have a methodical process for reviewing sales tax exemptions.

Policy Options:

2. Develop a system to ensure periodic review of sales tax exemptions.
 2. A. Amend **all** sales tax exemptions to include a sunset date. This will require the Legislature to review and, if appropriate, reauthorize the exemptions every five (5) years.

2. B. Amend **certain** sales tax exemptions to include a sunset and require review every five (5) years.

Sales Tax Issue Number 3. Tax on Consumer Services.

Statement of the Issue: The Nebraska Comprehensive Tax Study of 1988 (“The Syracuse Study”) recommended taxing personal or “consumer” services.

Policy Options:

3. Implement these recommendations.
 3. A. Expand the sales tax base by taxing certain consumer services.

III. INDIVIDUAL INCOME TAX OPTIONS

Income Tax Issue Number 1. Income Tax Rates and Brackets.

Statement of the Issue: Nebraska's income tax rates for the four income brackets (2.46%, 3.51%, 5.01% and 6.84%) are approximately in the middle compared to other states with an income tax, but neighboring states South Dakota and Wyoming have no income tax at all and Colorado uses a single flat rate.

Policy Options:

1. Reduce income tax rates.
 1. A. Reduce each bracket rate by some amount (e.g. 0.5%) to provide overall relief.
 1. B. Reduce the top rate only to below 6.0% to make us look more competitive
 1. C. Adjust the rates and brackets to provide relief (e.g. LB970)
 1. D. Index the brackets for inflation to avoid “bracket creep.”

Income Tax Issue Number 2. Social Security Income.

Statement of the Issue: A total of 30 states exempted all Social Security income from taxation in 2011. 14 states tax some Social Security income – eight states, including Nebraska, follow federal law and six states provide their own taxation method.

There is no tax if your benefits are less than \$25,000 for a single filer and \$32,000 if you are married filing joint. If you are above those amounts, 50% of the benefits are taxable. If you are above \$34,000 single filer and \$44,000 married filing joint, then 85% are taxable.

Policy Options:

2. Provide tax relief to senior citizens on their Social Security income.
 2. A. Exempt all Social Security benefits from income tax.
 2. B. Exempt all Social Security benefits for filers with an income below \$62,000 for married filing joint and \$57,000 for all other filers.
 2. C. Exempt more Social Security benefits by raising the federal thresholds for Nebraska purposes to \$30,000 single filer and \$37,000 married filing joint at 50%; and to \$40,000 single filer and \$50,000 married filing joint at 85%.

Income Tax Issue Number 3. Capital Gains.

Statement of the Issue: Capital gains (other than on the sale of a residence) are generally fully taxable at the federal level regardless of how long the assets were held, but they are taxed at lower rates than ordinary income. Nebraska taxes most capital gains at the same rate as ordinary income and provides a special, one-time exclusion for a limited number of taxpayers in certain situations.

Policy Options:

3. Change Nebraska's taxation of most capital gains to match the federal treatment.
3. A. Tax all capital gains, regardless of how long the assets were held, at a rate lower than the highest marginal rate of 6.84%.
3. B. Eliminate the one-time special exclusion to off-set revenue lost from 4A.
3. C. Eliminate the one-time special exclusion but continue taxing capital gains the same as ordinary income.

IV. CORPORATE INCOME TAX OPTIONS

Corporate Tax Issue Number 1.

Statement of the Issue: Nebraska taxes C corporations using two brackets and rates - 5.58% on the first \$100,000 of taxable income 7.81% for all income above that amount. Nebraska's rates are relatively high compared to other states and neighboring states South Dakota and Wyoming do not impose a corporate income tax.

Policy Options:

1. Nebraska should reduce its corporate income tax.
1. A. Increase the first threshold amount from \$100,000 to \$250,000.
1. B. Change to a single bracket and rate.
1. C. Increase the first threshold and/or lower the top rate to no more than the top individual income tax rate of 6.84%.
1. D. Index the brackets for inflation if the two brackets are retained.