

To: Members of the Committee on Revenue
From: Kay Stilwell Bergquist
Research Analyst for the Committee
Re: LR302 (Schumacher)
Examine imposing a sales or income tax on the sale of agricultural land
Date: December 31, 2015

LR302, introduced by Senator Schumacher, asked for an examination of imposing a sales or income tax on the sale of agricultural land. The revenue generated from the sales or income tax would be used to provide property tax relief to owners of agricultural property. Other viable alternatives to provide property tax relief to owners of agricultural property could also be considered for LR302.

Five issues were identified by LR302:

- (1) The dramatic increase in the price, and thus the valuation, of agricultural land in the past decade and the failure to offset the increase with a decrease in the levy which has resulted in significant increases in the property tax burden on agricultural land and corresponding increases in local spending commitments;
- (2) Whether significant relief from the increased property tax burden on agricultural property can only come from a severe downturn in the price of agricultural land or from large increases in income or sales taxes which already are high;
- (3) The variability of agricultural income due to weather, grain or livestock prices, and other economic factors which can from time to time cause shortfalls in available cash and acute difficulty in paying agricultural property taxes;
- (4) How the dramatic increase in the price of agricultural land causes very large amounts of income to be transferred, often to out-of-state heirs at the time of the sale of agricultural land; and
- (5) Why there is currently no sales tax collected at the time of the sale of agricultural land and, in cases where the owner is deceased, no income tax collected on very large amounts of income.¹

The rapid increase in the sales price of farmland during the past two decades and modern technology and favorable markets have increased farm income and buying power. High volatility in equity markets and central bank suppression of interest rates incited purchases of real estate at speculative prices not

¹ Legislative Resolution 302, <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Intro/LR302.pdf>, Downloaded 12-21-2015.

justified by normal economics.² A large amount of money is available at the time of the sale of agricultural property. Diverting a small percentage of this money to property tax relief targeted to owners of agricultural property may be more palatable than having to finance agricultural property tax payments in years with low farm incomes.

LB71, introduced in the 2015 Legislative Session, proposed a funding mechanism for property tax relief to owners of agricultural property by levying a tax on the sales price of agricultural land in excess of the price increase justified by currency inflation over the last 21 years.³ The tax on the sale of farmland would be used to fund tax relief for owners of agricultural property.

If the provisions of LB71 were implemented for the 2015/16 fiscal year, the estimated revenue for the Agricultural Property Tax Relief Fund would be \$81.9 million. Table 1 shows the estimated revenue in the Agricultural Property Tax Relief Fund through the 2018/19 fiscal year.

Table 1.

Fiscal Year	Dollar Amount
2015/16	\$81,900,000
2016/17	\$83,900,000
2017/18	\$86,000,000
2018/19	\$88,200,000

Source: Fiscal Note, LB71, http://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB71_20150121-133541.pdf, Downloaded 12-21-15.

Other alternatives to address the agricultural property tax situation are:

- Reducing agricultural valuation from 75% of market value to 65% of market value.
- Target property tax credit to agricultural land owners facing higher than average total tax rates.
- A circuit breaker only for agricultural land owners.

Additional information on these alternatives has been outlined in the LR566 Report (December 2014).⁴

The full report may be found at:

http://www.nebraskalegislature.gov/pdf/reports/committee/revenue/2014_lr566.pdf.

² LB 71 Introducer's Statement of Intent, <http://nebraskalegislature.gov/FloorDocs/Current/PDF/SI/LB71.pdf>, Downloaded 12-21-25.

³ Ibid.

⁴ Lock, Bill, LR 566 Introduced by Hadley 37, http://www.nebraskalegislature.gov/pdf/reports/committee/revenue/2014_lr566.pdf, Downloaded 12-22-15.

The remaining issues outlined in LR302 will continue to be reviewed and researched as the Legislature continues to address property tax relief not only for agricultural land owners but all property taxpayers.