

**TESTIMONY OF THE CENTER FOR RURAL AFFAIRS  
IN OPPOSITION TO LB 405  
REVENUE COMMITTEE  
FEBRUARY 6, 2013**

Members of the Committee, my name is Jon Bailey, Director of Research and Analysis at the Center for Rural Affairs. I come before you today to offer testimony in opposition to LB 405.

LB 405 is harmful to rural Nebraska. It is estimated LB 405 will cause 80 percent of Nebraskans to pay higher taxes, primarily in income groups below \$60,000. With average incomes significantly lower in rural Nebraska, many of those paying higher taxes as a result of LB 405 will be residents of rural Nebraska.

LB 405 will also directly hit the pocketbooks of Nebraska's farmers and ranchers. Farmers and ranchers would pay taxes on seed, machinery, chemicals, water for irrigation and energy – items that have been exempt from sales tax for decades. Nebraska's agricultural sector, one of the largest in the state and one of the top in the nation, is based upon those items and farmers and ranchers build their budgets and operations on those items. From Nebraska Department of Revenue data, placing a sales tax on those items would result in nearly \$300 million taken in increased taxes from our agricultural operations and our farm and ranch families.

LB 405 will also harm health care in rural Nebraska. Over \$140 million will be taken from Nebraskans in new sales taxes for prescription drugs, medical equipment and hospital rooms. Public health insurance programs like Medicare and Medicaid will not pay the sales tax caused by the removal of sales tax exemptions proposed by LB 405. The result is the elderly, the middle class, those without health insurance and with inadequate health insurance and people with disabilities will be hit with major health care sales taxes, a new "sick tax" that is imposed only because someone needs medical care. Further, rural health care facilities that are facing economic pressure will be damaged by having to pay increases in sales taxes and from patients struggling to pay increased health care costs. No one needs the imposition of a new "sick tax" with the cost of health care escalating. That is particularly true in rural areas where our analysis and Census Bureau data show more rural people are uninsured; where there are more elderly citizens on Medicare and Medicaid; and where household incomes are significantly lower. Combined with the fact that rural residents have higher rates of nearly all illnesses and conditions, thus requiring a considerable amount of health care treatments and procedures, LB 405 has the potential to seriously damage the health and well-being of many rural Nebraskans. As the new "sick tax" increases the cost of health care, more and more rural Nebraskans will forego needed medical procedures and devices.

LB 405 could also cause higher property taxes for rural Nebraska. In analyzing Kansas' efforts to eliminate their state income tax, the Center on Budget and Policy Priorities, a non-partisan policy research organization, found that Kansans would likely face higher property taxes. Their research found that individuals and businesses in states with no income tax

pay higher property taxes than the national average.[1] Nebraska already has some of the highest property taxes in the nation – the tax we should be concerned about in terms of ratings. However, according to the Center on Budget and Policy Priorities report, Nebraska property taxes per capita and as a percentage of personal income are lower than the average of the nine states without a state income tax. If Nebraska property taxes rise to the average of states without a state income tax, Nebraskans will pay \$189.3 million in additional property taxes.[2]

The consequences and added taxes of LB 405 lead to the conclusion that LB 405 is simply a tax shift to selected sectors of our state's economy and to lower- and middle-income Nebraskans. A tax shift toward businesses and industries that will be economically harmed is not a way to build the state's economy or reform the state's tax system. Shifting from a reliable tax system to one built on an unreliable tax is no way to invest in sound public systems and structures. In the long-run, LB 405 will cause more cuts to the high quality of living in our state.

LB 405 is a risky gamble for Nebraskans and the Nebraska economy. While we agree that discussing Nebraska's tax system is a worthwhile discussion to have, there has been no in-depth study or analysis of the consequences – intended and unintended – that would result from LB 405. This is a proposal that requires extensive study and debate. To that end, Senator Schumacher's LB 613 is the perfect vehicle to accomplish the needed study and debate. We would respectfully urge the committee to Indefinitely Postpone LB 405 and we would request that committee members support LB 613 to begin a thorough and comprehensive review of Nebraska's tax system and how it can be modernized to benefit Nebraska's economy and all Nebraskans.

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[1] Johnson, Nicholas and Williams, Erica. 2012. *Without a State Income Tax, Other Taxes are Higher*. Washington, DC: Center on Budget and Policy Priorities.

[2] Based on 2009 data (the most recent available, Nebraskans pay \$1,443 per capita annually in property taxes. States without a state income tax pay an average of \$1,545 annually in property taxes. The difference of \$102 per capita multiplied by the 2012 estimated population of Nebraska of 1,855,525 equals \$189,263,550.