



CENTER *for*
RURAL AFFAIRS

Lyons, NE 68038

Population 851

TESTIMONY OF THE CENTER FOR RURAL AFFAIRS

TAX MODERNIZATION COMMITTEE

SEPTEMBER 26, 2013

Senator Hadley and members of the Tax Modernization Committee, my name is Jon Bailey, Director of Research and Analysis at the Center for Rural Affairs in Lyons, Nebraska.

We would like to thank the committee for taking on the important task of reviewing our tax system, something that is long overdue. We would also like to thank the committee for holding this series of public hearings. We are impressed by the statements of all members of the committee on the importance of public input in this process. There may be no other state issue in which public input is so critical as all citizens, all institutions and all businesses will be affected by the decisions this committee makes.

We are not tax policy experts – you have heard from those, you will continue to hear from them and there are others in the state better positioned to provide you detailed policy opinions. However, we have worked and lived in rural Nebraska for 40 years. We have experience on how the tax system affects farmers, ranchers, small businesses and rural residents and have heard from rural people and rural businesses for 40 years about the state’s tax system. So today we wish to offer some general principles that we hope will guide your work and some basic opinions of the options you have released.

By many measures Nebraska has an outstanding quality of life – the “Good Life” as we all call it. The committee should focus on making sure the state has the resources necessary to continue this strong tradition. Nebraska needs a tax system that allows the state to invest in things that enhance the Good Life and boost our economy and the things average families rely on, like top-notch community schools, world-class universities, and safe communities. The committee should focus on policies that create jobs and on making sure Nebraska can invest in things that do boost the economy. And finally, the committee should ensure that middle-class and low-income Nebraskans are not paying a higher percent of their income in taxes than the wealthy.

We would offer the following comments and recommendations regarding your tax system options:

1. **Income Tax.** We recommend that the committee make no changes in the personal income tax such as cutting rates or adjusting brackets. The personal income tax is the largest source of the state's general fund revenues and the only progressive part of the current tax system. Cuts to the personal income tax would drain resources from schools, health care, communities and infrastructure – the things that make the Good Life. Experts you have heard from earlier this summer stated that they see nothing out of line with Nebraska's personal income tax and its rates. Most Nebraskans would get no benefit from a cut to the personal income tax, with most Nebraskans likely seeing pennies per day from any income tax cut.
2. **Sales Tax.** We recommend expanding the state sales tax to additional consumer services. The economy and consumer behavior have changed since the state sales tax was created. It is time to bring Nebraska's state sales tax up-to-date with an economy and consumer behavior that purchases more and relies more on services. All estimates reveal that expanding the sales tax to more services would result in increased revenue that could help pay for other changes in the tax system, particularly changes to property taxes. As you develop legislation to implement changes to the state sales tax we urge you to consider the potential regressive nature of a sales tax and make certain an expanded sales tax does not hit low- and middle-income taxpayers the hardest.
3. **Property Tax.** As you have heard on previous stops in the state, Nebraska residents appear to be most concerned about their property taxes. Property taxes for many are too high and local government entities throughout the state are too reliant on property taxes. As you know, Nebraska ranks among the highest of all states in its reliance on property taxes for local governments and among the lowest in its state aid to K-12 schools. This is increasingly apparent in rural areas where increased agricultural land valuations are causing property taxes to explode, where state aid to schools is inconsistent with a formula based in large part on enrollment that is declining and where residential and commercial property taxes are contributing to abandoned homes and businesses. We have heard concerns about property taxes in rural areas constantly during our 40 year history. This committee now has a mandate to address those concerns. To address those concerns we would offer the following recommendations:
 - a. Increase state aid to local government entities. This will help reduce property taxes while ensuring a more equitable distribution of resources. We would also recommend reinstating state aid for municipalities and counties.
 - b. Enact targeted property tax assistance through a circuit breaker system. We have long supported a circuit breaker as a method to provide property tax assistance, including LB 684 introduced in 2007. Eighteen other states have used circuit breakers to offset high property taxes. We would urge Nebraska to join these states by providing a new and creative means to offset high property taxes. We suggest that a circuit breaker

apply to both residential and agricultural property and that it include renters. We would also recommend that the state not expand its current property tax credit program.

4. **Regular review of tax system and exemptions.** This committee is a good start to the review and modernization of Nebraska's tax system. We suggest that the Legislature maintain the momentum of this committee and develop a system of periodic reviews of the tax system and exemptions within the system. Other states such as Oregon do such periodic reviews every five years or so; we urge Nebraska to follow that lead. An alternative is to build a sunset clause into every exemption or tax expenditure to force review and future debate.

Thank you again for the opportunity to share our thoughts on this issue of importance to every Nebraskan. We wish you well in your future deliberations and stand ready to provide any assistance you may need.