



April 24, 2019

The Honorable Lou Ann Linehan
Chair, Senate Committee on Revenue
Nebraska State Capitol
Lincoln, NE 62756

Dear Chair Linehan,

My name is Thomas Aiello, and I am the Policy and Government Affairs Associate for National Taxpayers Union (NTU). On behalf of NTU, I am here to express our concerns regarding Amendment 1381 to LB 289, which seeks to address the timely issue of ballooning property tax burdens affecting taxpayers across Nebraska. While we commend the laudable intentions of Amendment 1381, we have concluded that this legislation simply amounts to a shifting of the tax burden while failing to address the structural challenges that have fueled higher property tax assessments. We encourage the committee to work towards comprehensive reform without raising taxes and I look forward to working with you to achieve such an outcome.

About NTU

Founded in 1969, NTU is the oldest non-partisan taxpayer advocacy group in the United States. Every one of our fifty years of existence has prioritized policies to lessen burdensome taxation, streamline inefficiencies in government, promote private markets, and so much more. Our work has culminated in victories across the United States, from stopping property tax hikes at the local level, advocating for responsible budgets in state capitols, and bringing to fruition historic tax cuts in Congress. All this has been made possible by our dedication to taxpayers and the belief that citizens make the best decisions over their hard earned money than government ever can.

Thousands of lobbyists work for special interests, but at NTU we are proudly the “Taxpayers’ Lobbyist;” we fight to ensure all Americans are able to pursue their dreams without the heavy hand of government holding them back.

Property taxes are a significant source of concern -- and frustration -- for many individuals. In most cases, these locally levied taxes are the second largest expense for homeowners after their mortgage payment. The added cost, which is often complicated by an opaque assessment process, can be extremely expensive and make it more difficult for people to purchase homes and achieve the American Dream. As such, NTU regularly opposes proposed property tax increases and we actively work with state legislators to enact safeguards that make these increases smaller and less frequent. In fact, this is such an important issue to so many homeowners that it motivated NTU to release a comprehensive guidebook that teaches taxpayers all the steps they can take to reduce their property taxes.

Introduction

Property tax liabilities are a significant expense for homeowners nationwide, especially for property owners in Nebraska, which pay the eighth highest effective property tax rate in the country, according to the nonpartisan Tax Foundation. [Data from the Nebraska-based Platte Institute](#) also indicate per capita property tax collections have risen by about \$700 from 2000 to 2017. As the growing assessments and soaring property tax bills of

recent years have demonstrated, the current system can create uncertainty and hardship for Nebraska taxpayers, taking a bigger bite out of family budgets. It should be no surprise that these taxes are on the forefront of taxpayers' minds, with 95 percent of Nebraskans holding the opinion the legislature should take action to combat high property taxes.

Broaden the Sales Tax Base, Don't Raise the Rate

The predominant funding mechanism in Amendment 1381 is a three-fourths of a cent increase to the state levied sales tax. If enacted, the state rate without any additional local level levies would increase from 5.50 to 6.25 percent, which amounts to a 14 percent increase for consumers in all areas of Nebraska. While the Amendment does call for the elimination of certain exemptions on goods and services, Amendment 1381 does not go far enough in this regard. Before lawmakers consider raising the overall sales tax rate, they should work on applying the current rate to goods and services which currently enjoy exemption.

Sales tax hikes are particularly harmful to lower-income consumers and small businesses. Sales tax hikes are extremely regressive, as these new burdens will fall heaviest on lower-income consumers who spend a greater share of their income on everyday products. Additionally, raising the sales tax rate would be harmful to small businesses, particularly to those in counties that neighbor another state. If enacted, this rate would be higher than each of Nebraska's six neighbors, save Kansas, which would now only be slightly higher. With a new rate that would be considerably higher than most neighboring states, consumers could simply take their money to a business just across state lines to avoid paying the higher tax rate. With many businesses struggling as it is, they would have a more difficult time competing with businesses operating just beyond state lines.

Rather than generate new revenue through a significant increase to the tax rate, lawmakers should make the tax code fairer by expanding the sales tax base to include select goods and services currently granted exemption while cutting the rate to avoid a net tax hike. Amendment 1381 does propose to apply the sales tax on some goods and services, but it does not go far enough and continues to leave inefficiencies in the code. It is important for lawmakers to review each exemption individually to see which are meritorious. Broadening the base creates a more stable sales tax, with government out of the business of picking winners and losers through the tax code.

Avoid Increasing Tobacco Taxes

Amendment 1381 would also permanently raise the cigarette excise tax by 33 percent from 64 cents to \$1.00 per pack. For a pack-a-day user, they will need to pay an additional \$131 annually to cover this added tax burden. While it is true that cigarette tax increases usually correspond with a short-term bump in revenue, after a few years revenue drops precipitously due to smuggling or declines in smoking rates. In fact, a 2013 study from NTU's research arm, National Taxpayers Union Foundation, found 7 out of every 10 state-level tobacco tax hikes enacted between 2001 and 2011 resulted in lower-than-anticipated revenues. All too often, this meant additional levies were soon to follow. In fact, our study found that 66 out of 96 tobacco tax hikes were followed by additional hikes within two years.

This was the case following Nebraska's last cigarette state excise tax increase, as this revenue now matches where it was in 2000. This is common in instances with increases to the excise tax rates, the state nearly always overestimates the amount of revenue that would flow to the treasury. This makes excise tax revenue extremely unstable and difficult to predict over the long-term. It is therefore concerning that lawmakers would try to fund property tax credits with uncertain revenue streams such as an excise tax increase.

Additionally, high cigarette excise taxes lead to many unintended consequences, like cross border illegal smuggling. An increase would make Nebraska's rate higher than three of its six neighbors, and about six times higher than Missouri's rate. With nearly half of all tobacco sales occurring close to a store along the state

border, another hike to the tax rate would increase the likelihood of smuggling, further depriving Nebraska of tax revenue.

Improving Property Tax Provisions

If the purpose of Amendment 1381 is to provide property tax relief, we would urge this Committee and Legislature to avoid raising taxes and instead implement a combination of the following provisions that would more directly curb property tax increases:

- Cap future property tax revenue growth. Limiting the property tax rate is important, but limiting the total amount of property taxes collected at the same time is key to keeping property taxes under control and defending against ever-increasing property assessments. Property tax limits around the country typically allow local revenue to increase only through an affordability factor tied to personal income growth, inflation plus population growth, inflation growth plus additional value from new construction, or inflation plus student enrollment growth.
- Set a supermajority. Most successful property tax limits impose a high “override” requirement on the local governing body (two-thirds or three-quarters). To protect taxpayers and to make sure the reforms you adopt are meaningful, we suggest a high override threshold that cannot be easily tossed aside, and/or a voter approval safeguard for any attempts to circumvent a tax cap.
- Increase public input and transparency. Require public referendum for school and local government projects over specified dollar amounts determined by the Legislature. If increased assessments will create automatic property tax increases, an extensive public notification and hearing process that not only notifies citizens of the intent to raise taxes, but also explains why additional revenue is needed, has proven effective in other states.
- Make certain the limit applies to all taxpayers. While it is tempting to divide taxpayers into separate and distinct legal classifications, like those based on land types, none should be singled out for punitive treatment through “split roll” or other schemes. Business owners, farmers, and homeowners may face different methods of assessment or property categories, but they all deserve the protection of limited taxes.
- Amend administrability. In 2014 the Council on State Taxation and the International Property Tax Institute graded states on the fairness and efficiency of their property tax administrative practices. Nebraska received an overall grade of “C+,” coming up shortest in the category of “procedural fairness.” Any property tax reform effort should focus on simplifying categories of property, increasing transparency in assessments and valuations, and providing a fair, expeditious appeals process. An extensive public hearing process should also be strongly considered as part of the property tax solution.

Conclusion

Amendment 1381 is poorly designed. Using unstable revenue sources coupled with higher taxes on working class households is not a sensible way to fund property tax reductions. Additionally, simply diverting revenue to the property tax credit fund does not solve the structural problems associated with high property taxes, it would simply place a bandaid on the problem. As is the case with most proposed tax swaps, taxes are shifted around to other taxpayers; some benefit from property tax credits while others pay for it at the checkout counter. Most concerning, Amendment 1381 disproportionately places the burden on lower-income consumers in order to provide relief for landowners, who are by and large more well-off. This scheme is irresponsible and regressive twice over.

Enacting new protections to shield Nebraska families and businesses from rising, unaffordable property tax bills should be a bipartisan and common sense task. Done correctly without new tax increases, these reforms can rein

in local government spending and force policymakers to better prioritize spending. Thank you for the consideration of these views and I look forward to answering any questions about this testimony or discussing the property tax reform approaches of other states.

Sincerely,

Thomas Aiello, Policy and Government Affairs Associate
National Taxpayers Union