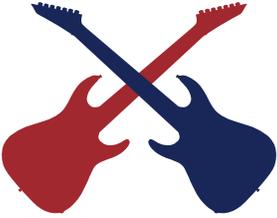


GREATEST HITS



Most major tax reform legislation has now received a hearing. Here's our review of key policy ideas the committee discussed that can deliver substantial, sustainable tax reform, along with a few ideas that should be avoided.

1. Expand the state and local sales tax base.

Currently, state and local sales taxes are only collected on 1 in 3 purchases in Nebraska. Experts from the Tax Foundation recommend that states levy sales tax on all final consumer transactions, exempting only business inputs. These broad and stable revenues can then be used to reduce tax rates, including the sales tax itself, or to fund targeted credits for taxpayers in need. Bills with sales tax base expansion language include **LB314, LB497, LB507 and LB508.**

2. Codify online sales tax requirements.

Nebraska must pass legislation establishing an appropriate transaction threshold for sales tax collection compliance, and prohibiting retroactive collections prior to the Wayfair decision. **LB284** would achieve these objectives.

3. Increase voter participation for bonding.

All bond issues should be voter-approved, and elections should be scheduled for a primary or general election in order to maximize voter participation. Bills that address bonding include **LB20 and LB412 (these bills were heard in the Government, Military and Veterans Affairs Committee).**

4. Limit property tax windfalls.

When valuations increase, local political subdivisions should reduce their property tax levies. **LB103** would require a levy reduction by the same amount as the overall increase in valuations, until a public hearing and vote is held to adopt any property tax increase.

5. Reduce property tax levies and/or assessment ratios.

In combination with revenue replacements from state or local sources, a reduction in allowed property tax levies or assessment ratios of real property makes for an effective reduction in local reliance on property tax. Bills including levy rate reductions or assessment ratio changes include **LB183, LB530, and LB695 (heard before Education)**.

6. Reduce state income tax rates gradually as reserve and revenue growth requirements are met.

Requiring a cash reserve balance of \$500 million or more and actual General Fund revenue growth of 3.5% or greater before any state income tax reductions were made would prioritize property tax reform and avoid tax reductions in years with weaker revenue growth. Language in **LB615**, with amendments, could achieve this goal.

SOUR NOTES

1. Increasing the Property Tax Credit Fund.

The property tax credit was a well-intended attempt to offset property taxes with state revenues, but it has not worked. As an alternative, the revenues can be used to fund structural property tax reforms.

2. Increasing state tax rates.

Nebraska already has the 7th highest average property tax rate, the 16th highest income tax rate, and the 25th highest combined state and local sales tax rate. In total, Nebraska's Tax Foundation State Business Tax Climate Index ranking stands at 24.

In addition, many of the session's proposed tax rate increases, including high-earner income tax rates and excise tax increases are regarded as particularly unstable revenue sources. As an alternative, the Unicameral could enact legislation permitting counties to seek voter approval for countywide local option sales tax increases for property tax reduction.