**For Release Wednesday, March 22, 2023**

**Capitol View**

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**The Consumption Tax Just Won’t Go Away, but It Should**

The consumption tax, or the transaction tax, or maybe it's the EPIC tax, has reared its ugly, shortsighted head again.

Call it what you will, but elimination of the highly sustainable three-pronged tax system that has been on the books since 1976 and cost Governor Norbert Tieman his political future, is simply not a good idea.

First introduced in the 1990s as the so-called brainchild of a McCook businessman, the “transaction tax” never got out of committee. A couple years ago it came back as the “consumption tax” and while it made it out of committee, it never made it to debate by the full Legislature because it got caught up in a logjam of bills dealing with spending Covid-related federal recovery dollars and such. Chief sponsor Sen. Steve Erdman of Bayard had threatened a constitutional amendment to let voters decide the issue. But that never happened.

But it’s back with the same old bad ideas and a new name, EPIC (Elimination of Property, Income and Corporate Taxes). I’ll give Sen. Erdman points for the best name yet for the bill, which is also known as LB79. It’s a mouthful, but at least it’s descriptive.

Those taxes would be replaced by a one-time tax on new transactions with numerous exceptions and the potential for litigation. Never mind that said tax would have to be at least 22 percent to provide enough money to fund state government, as we now know it. Sorry senator, I’m going to take points away for that.

In addition to repealing state income tax, inheritance tax, state and local sales and use taxes and real and personal property taxes the bill would impose a consumption tax on taxable property and services of 7.5 percent beginning Jan. 1, 2026. Counties, cities and villages could impose their own consumption tax within their boundaries. Ooh, that sounds like fun. Let’s blur some lines.

Erdman entertained the Legislature’s Revenue Committee with two companion constitutional amendments, LR6CA and LR7CA, to amend the state constitution to prohibit government entities from imposing taxes other than retail consumption and excise taxes and require the state to impose a consumption tax on all new goods and services except groceries. Let’s go to court to sort all of that out.

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Erdman complains that Nebraska’s overall tax rate is one of the highest in the country, which limits economic productivity. A tax system that allows people to choose when they pay taxes — by purchasing a new good or service — would drive population growth, he said, broadening the state’s tax base and allowing for a smaller individual tax burden. I’m still waiting to see the data that supports such a claim.

Imagine the devil in the details on these proposed exemptions. The consumption tax would NOT be imposed on any: sale of land; taxable property or service subject to an excise tax; purchase of used property; purchase of groceries for off-premises consumption; and purchase of taxable property and services used for educational, business or investment purposes.

Now, let’s add some bureaucracy to make sure all this works. Under the proposal, schools, counties and other political subdivisions would submit their proposed budgets to one of five regional boards that then would review and approve those budgets before forwarding them to the governor and the Legislature’s [Appropriations Committee](http://news.legislature.ne.gov/app%22%20%5Ct%20%22_blank%22%20%5Co%20%22Link%20to%20the%20website%20of%20the%20Appropriations%20Committee). The state treasurer would direct funding to those entities at the direction of the Legislature. What could possibly go wrong with that many layers?

So, if new revenue generated by LB79 would be directed to funds and political subdivisions affected by the elimination of other state taxes, the state Department of Revenue estimates that the bill would result in a net revenue loss of $763 million in fiscal year 2025-26, $2.3 billion in FY2026-27 and $5.1 billion in FY2027-28.

Stop right there and look at those numbers again. Do we even need to continue? Oh, and giving that money to funds and political subdivisions. I’m sure there won’t be any disagreement there. Remember what I have been saying for years about taxes. It all depends on whose ox is getting gored.

Some people testified in support of the measure. An equal number spoke against it.

The Nebraska Chamber of Commerce and Industry, the Greater Omaha Chamber of Commerce and the Lincoln Chamber of Commerce spokesman said a consumption tax system would be complex to administer and require a much higher rate than proposed to fund state and local services.

Rebecca Firestone of OpenSky Policy Institute said a consumption tax rate of approximately 22 percent would be necessary to generate as much revenue as the state’s current tax system. It would fall most heavily on low- and middle-income Nebraskans, who spend a greater proportion of their income on goods and services than those with higher incomes.

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Bottom line here folks, let’s let this one die again. I’m all for desperately needed tax reform, but this is not the answer.

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