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**Capitol View**

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**Are the State’s Coffers Really Flush? Is a Tax Cut Sustainable?**

As if propping up the school aid formula to historic proportions wasn’t enough, the new governor appears to be getting his way in the Legislature with a package of tax changes that could cost the state more than $3 billion over the next six years.

The plan would increase Nebraska’s two property tax credit programs, cap school property tax growth and eliminate almost all community college property taxes. Oh, and this bill works in concert with one that would cut the state’s top income tax rate by one-third and make other tax changes.

A measure that includes LB754 and LB243 and a whopping amendment (AM906) that becomes the bill has cleared one round of consideration on a 41-1 vote, with seven abstentions.

Albion Senator Tom Briese’s 243 would increase Nebraska’s two property tax credit programs, cap school property tax growth and eliminate almost all community college property taxes.

The Revenue Committee’s 754 and amendment would cut the state’s top income tax rate by one-third and make other changes.

Briese promises "substantial property tax relief for everyday Nebraskans." He and Sen. Lou Ann Linehan of Elkhorn, who chairs the Revenue Committee, have pledged to continue seeking equivalent tax relief.

As advanced, the property tax package also would ratchet up the size of Nebraska’s long-standing property tax credit program, which uses state money to offset a portion of property owners’ bills.

The bill would gradually increase the program from $313 million this year to $560 million by tax year 2029, after which the credit program would grow by the same percentage as

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the assessed valuation of property statewide. In addition, the package would limit the growth of school revenues to 3%, with some exceptions, with the goal of forcing schools to reduce property taxes when they get more state aid.

Finally, LB243 would end community colleges’ ability to levy property taxes, except for building needs, starting in 2024. The bill would replace those tax revenues with state aid. State aid to the colleges would increase by 3.5% annually, with additional money available based on enrollment growth. Community colleges could levy property taxes to fill the gap if the state does not meet its funding obligations.

In an opinion piece in the Nebraska Examiner, Platte Institute CEO Jim Vokal of Omaha says, “A more competitive income tax code is a top priority for Nebraska, as it is for other states. In fact, a genuine state tax revolution has unfolded over the last three years, with a majority of states using surplus revenues to reduce income tax burdens on families and businesses.

“Income tax reforms continue to sweep across the Great Plains states in 2023. North Dakota is eyeing full income tax repeal, Oklahoma and Kansas are advancing legislation for lower, flatter income taxes and Missouri is advancing a bill to accelerate individual income tax cuts and slash its corporate rate from 4% to 2%. Iowa, which is already bringing its income tax rate down from 8.53% to 3.9%, is now considering a phase-out of its income tax over the remainder of Gov. Kim Reynolds’ second term.

“Income tax reform is mission-critical for states that want to remain competitive in the post-pandemic world. Workers and businesses have vastly more opportunities for remote work and will increasingly build their homes and businesses in tax-friendly jurisdictions that provide high-quality government services. Furthermore, new changes to the federal tax code cap the federal deductibility of state and local taxes paid. This effectively increases the incentive for higher-earning families to relocate to lower-tax, lower-cost states,” Vokal said.

Meanwhile, the Lincoln-based OpenSky Policy Institute says it has worked with the Institute on Taxation and Economic Policy, a nonpartisan think tank, to analyze the proposals.

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The preliminary conclusion from ITEP and Open Sky was that the initiatives might force the state to tap into its cash reserves, a “rainy day” fund intended for one-time expenditures during tough times, not funding long-term commitments.

“To ensure our state’s future fiscal health, it will be important for policymakers this session to prudently use the projected $1.9 billion on proven initiatives that empower hardworking Nebraskans to support their families and their communities,” the think tank said in a news release.

OpenSky maintains the state’s glut of funds was, in large part, caused by the influx of billions of dollars of federal funds to deal with the COVID-19 pandemic. So much for the “flush coffers,” let alone sustainability.

What to do? What to do?

In a session that will see very few important issues passed and signed into law, call, text, write or e-mail your senator and let them know what you think. If they listen to you, something might change for the better.

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*J.L. Schmidt has been covering Nebraska government and politics since 1979. He has been a registered Independent for more than 20 years*.