


2020 Property Tax Update


J. David Aiken, UNL Ag Law Specialist
402-472-1848; daiken@unl.edu
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Nebraska property tax update

- State & local taxing & spending overview
- Agland property tax issues
- 2019-2020 legislative proposals & prospects
- Property tax relief initiative—LR3CA
 - “35% solution”; petition active for 2020 ballot


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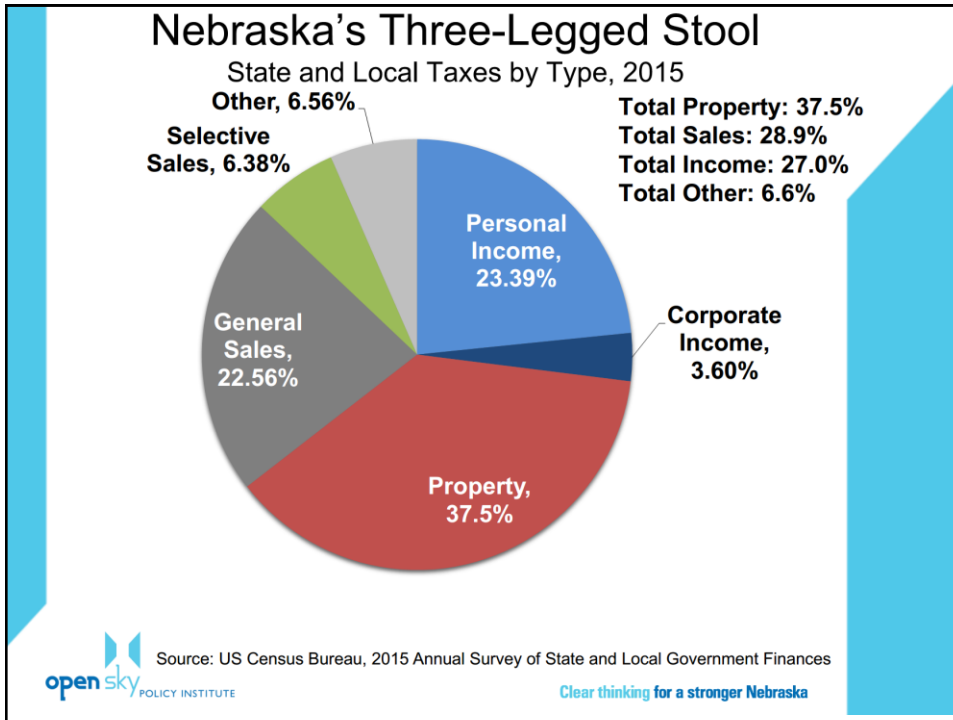


Neb state & local taxes FY2015

	State & local	% of total	State %	Local %
Total taxes collected	\$9.6 billion	---	53%	47%
Property taxes	\$3.6 billion	38%	---	100%
Sales tax	\$2.8 billion	29%	84%	16%
Income tax	\$2.5 billion	26%	100%	---
Other taxes	\$0.6 billion	7%	30%	70%

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- ### State & local taxes, con't
- State taxes are 53% of total state-local tax collections
 - **Sales** taxes = 45% of total state taxes
 - **Income** taxes = 51% of total state taxes
 - Other taxes = 4% of total state taxes
 - Local taxes are 47% of total state-local tax collections
 - **Property** taxes = 80% of total local taxes
 - Sales taxes = 10% of total local taxes
 - Other taxes = 10% of total local taxes
 - 60% of property taxes go for k-12 school funding
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Balancing the 3-Legged Stool

State and Local Taxes			
	% Actual (2015)	% - Balanced	Difference
Property	37.5%	31.13%	-\$612M
Sales (Includes General + Selective)	28.9%	31.13%	+\$210M
Income (Includes Personal + Corporate)	27%	31.13%	+\$397M
Other	6.6%	6.56%	\$0

Source: US Census Bureau, 2015 Annual Survey of State and Local Government Finances

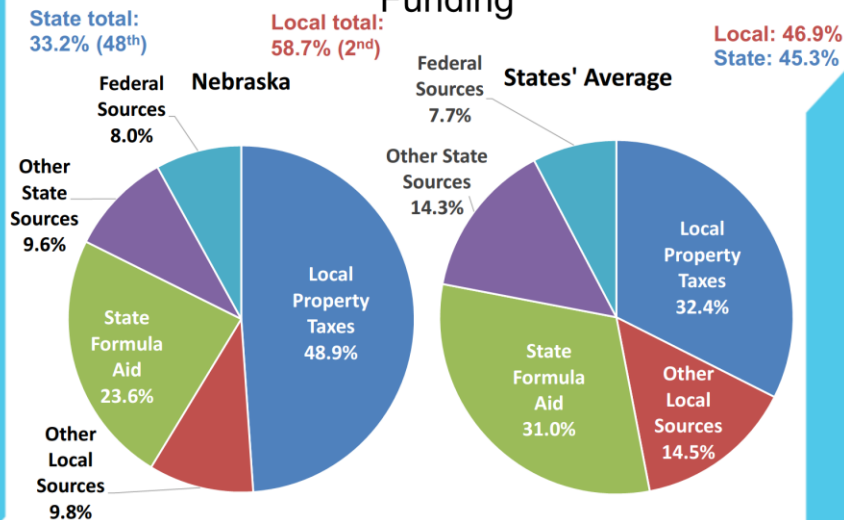
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Nebraska state tax & school funding rankings


- Tax Foundation 2019 business climate study:
 - Overall tax burden: 24/50 (1 is lowest burden)
 - Income taxes 26/50 (1 is lowest tax)--middle
 - Sales taxes 9/50 (1 is lowest tax)--low
 - Property taxes 40/50 (1 is lowest tax)--high
- US census bureau school finance 2014-15 data
 - State k-12 funding 48/50 (1 is highest funding)
 - Local k-12 funding 2/50 (1 is highest funding)

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NE and States' Average of Total Education Funding



Source: US Census Bureau, 2016 Annual Survey of School System Finances




State general fund spending

General Fund Appropriations, FY 2016-17		
Total state k-12 funding	\$1,308 million	29%
Medicaid & CHIP	\$856 million	19%
Other state aid to individuals (HHS)	\$803 million	18%
Higher education <small>NU; state & community colleges</small>	\$730 million	16%
Law enforcement & public safety	\$501 million	11%
Other state agencies	\$160 million	4%
State aid to local governments <small>(proptax credits)</small>	\$98 million	2%
Total	\$4,456 million	

Source: 2018 General Fund Functional Summary

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Local property tax spending

Property taxes levied in Nebraska by:			
60%	School districts	1.9%	NRDs
16%	Counties	1.3%	Rural fire districts
10%	Cities & villages	0.9%	ESUs
5.5%	Community colleges	0.4%	Townships
4%	Miscellaneous districts (SIDs etc)	100%	total

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Ag property tax issues

- Nebraska property taxes on agricultural land are 146% of the US average 1950-2017 as a percentage of net ag income—so very high Neb agland property taxes ☹
- 2007: Neb net farm income \$2 billion, property taxes paid \$606 million, 20.6% of net farm income
- 2017: Neb net farm income \$2.7 billion, property taxes paid \$1.3 billion, 48% of net farm income
- **Neb agland property taxes are higher than in most other states and take a very high percentage of net farm income**

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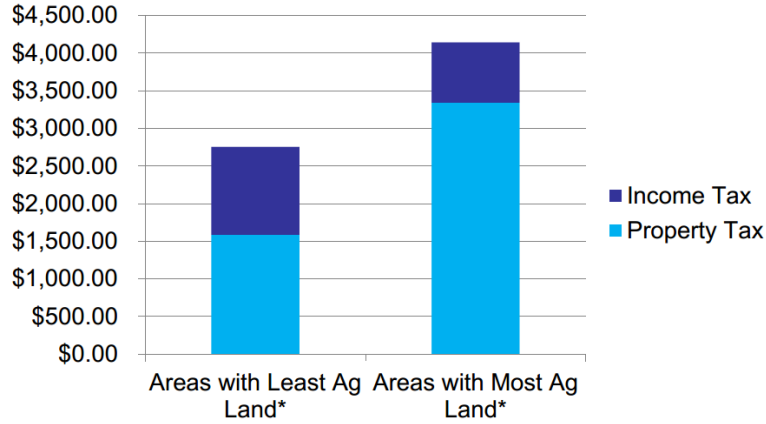
agland property taxes

- Agland property taxes assessed
 - (& due in the following year):
- 2012: \$769 million
- 2013: \$893 million—up 16%
- 2014: \$1 billion—up 12%
- 2015: \$1.16 billion—up 16%
- 2016: \$1.2 billion—up 3%
- 2017: \$1.2 billion—no change
- 2018: \$1.18 billion—down 2%

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Residents in highly agricultural counties pay more in taxes

Property and Income Taxes per person, 2015

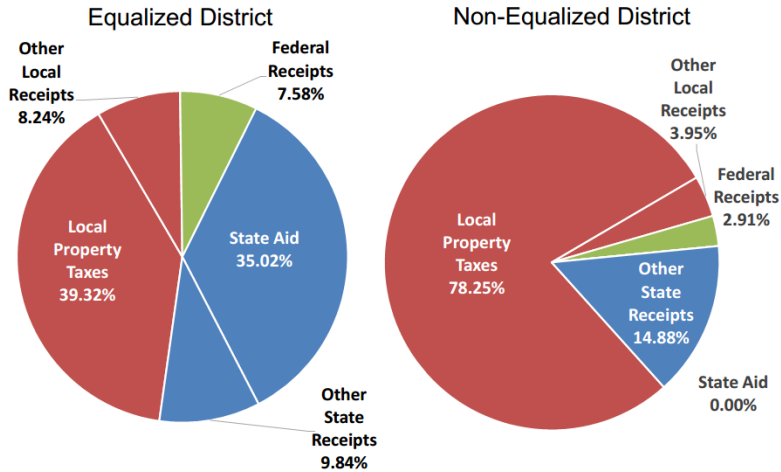


*Areas with Least Ag Land are Nebraska counties where ag land is less than 20% of the county's total real property valuation. Areas with Most Ag Land are Nebraska counties where ag land consists of 60% or more of the county's total real property valuation.
 Note: Amounts are net of Property Tax Credit and Homestead Exemption
 Sources: US Census Bureau, NE Department of Revenue



Clear thinking for a stronger Nebraska


How These Inequities Play Out



Source: Nebraska Department of Education 2016/17 Annual Financial Reports




Clear thinking for a stronger Nebraska



LB829 — “30% solution”

- Property tax initiative petition--would have been on 2018 ballot
- Would have provided refundable state income tax credits for 50% of k-12 property taxes (about 30% prop tax paid)
- Property value x property tax rate x 30%
- \$150,000 house x 1.6% x .3 = \$720 refund
- \$2.5 million farm x 1.2% x .3 = \$9,000 refund
- Would have cost about \$1.1 billion, 25% of state GF budget
- Zero out state agencies budget & cut NU budget 50% = \$1.15 billion [Gov Ricketts]
- Or else increase sales tax 64%, income tax 39% or sales & income taxes 24%. ☺

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Sales tax options

- Applying sales tax to untaxed services possible source of property tax relief funding
 - Avoid sales tax on business expenditures (“intermediate goods”) to not make Neb products more expensive

\$198 million: physicians	\$11 million: personal services (hair, nail care)
\$194 million: non-profit purchases	\$8.6 million: storage & moving services
\$183 million: motor fuels	\$7 million: accounting services
\$166 million: groceries	\$7 million: chiropractors
\$164 million: Rx’s & Rx home health care equip	\$6 million: investment advice
[total: \$741 million]	\$4.5 million: mental health counselors
\$63 million: legal services	\$4.4 million: optometrists
\$41 million: dentists	\$4 million: other personal services (weight loss, tattoo, funeral & cremation, etc)
\$33 million: real estate agents	\$2.6 million: dry-cleaning & clothing repair
\$20 million: other outpatient services	\$2 million: travel agencies
\$19 million: motor vehicle cleaning & repair	\$1 million: taxi, limo & other transport services
\$16 million: pet related services	About \$1.17 billion in total ☺
\$13 million: home repair etc services	

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2019 major property tax/ school funding bills

- Governor: const amdt to limit proptax spending 3%/year
 - proptax credit fund increase \$51 million/year
 - School aid increase \$50 million/year
 - Capitalized earning test for agland valuation
- LR3CA (Erdman): const amdt to give refundable state income tax credits for 35% of property tax payments
 - Similar to LB829 "30% solution"
- Several other bills to broaden sales taxes, change school aid formula, etc.


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2019 bills, con't

- Rev Comm chair Sen. Lineham (Elkhorn) LB289 (late)
 - Broadened sales tax base & raised rate 0.75% (to 6.25%)
 - Increase state aid to cover 33% of every student's cost
 - Limit k12 spending to inflation + enrollment increases
- Lots of sales tax pushback;
 - IMO urban schools did not like state aid changes
 - Proptax relief supporters could not break filibuster
- Some LB289 supporters voted against LB720, state econ dev program rewrite to link the two bills in 2020 session


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2020 prospects

- LB974: Revenue Committee bill that would
 - increase per-student school aid over 3 years
 - would lower property valuation for school taxes purposes
 - would pay for most increased school aid by temporary budget surpluses
- opponents include Omaha & Lincoln school districts, who would likely lose funding under LB974.
- political question is whether rural senators will withhold state economic development program votes if they don't get urban senator property tax relief votes—watch for this
- the contest—to urban senators who will decide the outcome of property tax reform--is between farmers & ranchers vs. Lincoln & Omaha school kids.

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"35% solution"

- LB3CA: rewrite of LB829
- Would require refundable state income tax credits for 35% of taxpayer's property taxes
- \$150,000 house x 1.6% x .35 = \$840 refund
- \$2.5 million farm x 1.2% x .35 = \$10,500 refund
- If approved by voters, refunds would cost ~33% state budget
 - If no state tax increase, cut state spending 33%
 - 17% sales & income tax increase would cover 50% of refunds
 - 33% sales & income tax increases would cover all refunds
- Hopefully Unicameral & Gov don't want to deal with this, will enact a "grand bargain" compromise & oppose LR3CA if it gets on the ballot ☺

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