



More State Aid Will Not Alleviate Property Taxes

As the Tax Modernization Committee continues to hold public hearings across the state to discuss potential tax reform, the major theme emphasized by citizens has been that property taxes must be lowered.^[i]

Nebraska's property taxes are very high, the 16th highest in the nation per capita according to the Tax Foundation.^[ii] This uncompetitive position is even more apparent when compared to our neighboring states, where only Wyoming has higher per capita property taxes—most likely due to its much smaller population.^[iii] Wyoming balances their high property taxes by having no individual or corporate income tax and boasting one of the lowest sales tax rates in the nation at 4 percent.^[iv] In contrast, Nebraska compounds its high tax problem with a top individual income tax rate of 6.84 percent, a top corporate tax rate of 7.81 percent, and a state sales tax rate of 5.5 percent; only Iowa has a higher individual income tax rate, and Iowa and Kansas both have slightly higher sales tax rates.^[v]

Unfortunately, figuring out how to lower property taxes is fairly difficult. First, the Legislature has no jurisdiction over property tax levies. Since the passage of a 1966 ballot initiative, property taxes have been levied solely by local governments.^[vi] One possible option is to increase state aid to cities and counties to allow local entities to reduce property taxes. This would be a mistake.

As the Platte Institute noted in our new study, "Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska," released in conjunction with the Tax Foundation, increasing state aid to alleviate local property taxes would not reduce the burden and may even lead to higher taxation generally. Several states that provide large amounts of state aid to local governments, such as Vermont, Michigan, and Wisconsin, still have high property taxes. The Tax Foundation ranks Vermont and Wisconsin higher than Nebraska at 6th and 12th respectively, and Michigan comes in at 18th.^[vii]

An infamous example can also be found in New Jersey, where state income and sales taxes were raised in order to fund generous state aid to local governments.[viii] Yet, despite the aid and increased taxes, property taxes continued to rise to the point where New Jersey now has the highest property taxes in the nation, along with the 5th highest individual income tax, 6th highest corporate income tax, and 2nd highest sales tax in the nation.[ix] Because of budget problems at the state level, New Jersey cut state aid to local governments between 2009 and 2012, resulting in property taxes increasing by 18.7 percent in order to compensate.[x] These new levels are breaking records in the Garden State and placing an incredible burden on its citizens, where the average household is paying \$7,885 in property taxes despite the fact that average household income has dropped due to the recession, with a 2.7 percent drop in median income from 2010-2011.[xi]

There is no question that Nebraska must address its high property taxes, just as it must address its high income and sales taxes, but increasing state aid is not the solution. Increased state aid will not lower property taxes; it simply incentivizes localities to increase spending. It also makes local governments more dependent on the state government, making them more vulnerable to budget changes and tax policy at the state level, to the detriment of the individual citizen. The best course of action to lower property taxes is to reduce spending.

[i] Paul Hammel, "Nebraskans concerned about high property taxes make road trip to Scottsbluff to state their case," *Omaha World Herald*, September 24, 2013. Accessed October 8, 2013, <http://www.omaha.com/article/20130923/NEWS/130929445>.

[ii] Tax Foundation, "Nebraska." Accessed October 8, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>.

[iii] Tax Foundation, "State and Local Property Tax Collections Per Capita by State, 2006-2010," September 13, 2013. Accessed October 8, 2013, <http://taxfoundation.org/article/state-and-local-property-tax-collections-capita-state-2006-2010>.

[iv] Tax Foundation, "Wyoming." Accessed October 8, 2013, <http://taxfoundation.org/state-tax-climate/wyoming>.

[v] Tax Foundation, "Nebraska." Accessed October 8, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>; Tax Foundation, "Kansas." Accessed October 8, 2013, <http://taxfoundation.org/state-tax-climate/kansas>; Tax Foundation, "Iowa." Accessed October 8, 2013 <http://taxfoundation.org/state-tax-climate/iowa>.

[vi] Nebraska Legislature, "Property Taxes," Taxes in Nebraska. Accessed October 8, 2013, http://www.legislature.ne.gov/app_rev/source/proptax.htm.

[vii] Tax Foundation, "State and Local Property Tax Collections Per Capita by State, 2006-2010," September 13, 2013. Accessed October 8, 2013, <http://taxfoundation.org/article/state-and-local-property-tax-collections-capita-state-2006-2010>.

[viii] Joseph Henchman & Scott Drenkard, "Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska," Platte Institute for Economic Research October 2013. Accessed October 8, 2013, http://www.platteinstitute.org/Library/docLib/20131002_Building_on_Success_Final_Low_Res.pdf.

[ix] Tax Foundation, "New Jersey." Accessed October 8, 2013, <http://taxfoundation.org/state-tax-climate/new-jersey>; Scott Drenkard, "State and Local Sales Tax Rates in 2013," Tax Foundation, February 11, 2013. Accessed October 8, 2013, <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2013>.

[x] John Reitmeyer, "Report: Property taxes hit new high in New Jersey," *North Jersey*, May 14, 2013. Accessed October 8, 2013, http://www.northjersey.com/news/Report_Average_NJ_property_tax_bills_grow_to_record_high.html.

[xi] *Star Ledger Staff*, "N.J. median household income drops nearly 3 percent over past year," *New Jersey Star Ledger*, September 22, 2011. Accessed October 8, 2013, http://www.nj.com/news/index.ssf/2011/09/nj_median_household_income_dro.html.