



State Aid Not the Path to Nebraska Property Tax Relief

The Tax Foundation's 2014 State Business Tax Climate Index^[1] rates Nebraska poorly against other states, with the state coming in thirty-fourth nationally in the state tax comparison. The index looks not only at overall tax rates, but also at the complexity of tax systems and their neutrality. Softening the blow of this low ranking, the authors of this study predict modest improvement in Nebraska's overall competitiveness thanks to the recent abolition of the state alternative minimum tax and improvements in how businesses are allowed to write off losses.^[2] Even with this expected bump in future rankings, Nebraska will still be no better than middle of the pack. Unfortunately, that has been the case for at least thirty-five years.^[3]

Over the past decade, the Nebraska Legislature has attempted to blunt the market-stagnating effects of high taxation with the Nebraska Advantage Act and subsequent legislation.^[4] These tax incentives effectively reduce or eliminate various taxes on the enterprises that the economic development community in the state believes are most critical for Nebraska's future growth. However, in the face of ever expanding state and local spending, those not directly sheltered by the program are left in the crosshairs for paying the tab for government spending.

After Governor Dave Heineman's 2013 proposal that the Legislature eliminate the state income tax and implement other tax reforms to make the state more competitive nationally, the Unicameral created a special committee to review the state's tax structure. The Tax Modernization Committee was charged with analyzing Nebraska's taxation system, with a particular focus on fairness, competitiveness, simplicity, and stability.^[5] The Committee published its report to the Legislature^[6] examining property tax, income taxes, and sales and use taxes. Noting that further study is needed in all of these areas, the signatories^[7] to the report nonetheless provided a dozen specific tax policy recommendations, including five relating to property taxation.^[8]

Property tax is heavily relied upon for the funding of local government functions in Nebraska. Property tax is especially important to local school districts, serving as their primary source of revenue.^[9] It is no surprise that a heavily agricultural state like Nebraska would have a strong dissatisfaction with a property tax status quo where property owners shoulder more than half of the local tax burden.^[10] In the Tax Modernization Committee's press conference on December 13 where the results of the report were announced, Senator Galen Hadley, committee chair, said that in their public hearings the committee members heard more complaints about property tax than any other form of taxation in Nebraska.

One mechanism often discussed^{[11][12]} as a means for relieving the property tax burden is

increased state aid to political subdivisions, especially for school districts. A 1987 study^[13] conducted by two researchers at Syracuse University asserted that “local property taxes in the state are far too high” and recommended both reorganization of the state education system and “major changes to state aid to local governments.”^[14] Citing the Syracuse study, and subsequent changes to Nebraska’s public schools, the Tax Modernization Committee’s first recommendation in its December 2013 report was to “[i]ncrease the state aid commitment to schools to offset property tax use and reduce property taxes as a share of total state and local taxes.”^[15]

This proposal is not a new idea, nor was it a new idea when the Syracuse researchers published their study in 1988. Nebraska radically restructured its tax system in 1967 in an effort championed by Governor Norbert Tiemann and Senator Terry Carpenter from Scottsbluff.^[16] The package included expanded state aid for schools that was to be funded by a new progressive personal income tax and a flat corporate income tax.^[17] Despite this system-wide reform and the promises of lower property taxes that made it politically viable, by the time of the Syracuse study only twenty years later property taxes had reassumed their primacy in local budgets. Nebraskans are now additionally saddled with the state income and sales taxes that were originally created to replace property tax revenue.

Property tax reform efforts in New Jersey present a similar study in the failure of property tax relief through state aid when it is not paired with meaningful controls on spending. In 1975, Garden State voters were persuaded to amend the state constitution to allow for an income tax by promises that income tax proceeds would be dedicated to property tax relief.^[18] Although the new income tax provided funds for additional state aid to schools, the promised property tax relief never materialized. Even after recent efforts to curb state aid^[19] and cap property taxes,^[20] New Jersey now ranks 49th in the Tax Foundation’s 2014 State Business Tax Climate Index.^[21]

After reviewing these historical examples and others like them, it is clear that increased state aid is not a reliable way to reduce the tax exacted from property owners. The only sure path to lasting tax relief and the economic vitality that it brings is to reduce public spending. While property taxes are touted as being more responsive to the wants and needs of local populations,^[22] the programs that they fund —especially primary education—and the entrenched interest groups active in this policy area make it extremely difficult for local property owners to actually rein in property tax rates. State aid is no lasting replacement for the property tax because free-spenders always seek to tap back into those old sources of public revenue when spending again balloons beyond their ability to pay. Whatever shape it takes, tax reform must be paired with serious spending discipline in order to yield a competitive advantage for Nebraska.

[1] Drenkard, Scott and Joseph Henschman. “2014 State Business Tax Climate Index.” Background Paper No. 68. Tax Foundation. October 2013. [URL: <http://taxfoundation.org/article/2014-state-business-tax-climate-index>]

[2] Hammel, Paul. “Nebraska No. 34, Iowa No. 40 among states in tax ranking.” *Omaha World-Herald*. October 9, 2013. [URL: <http://www.omaha.com/article/20131009/NEWS/131019995/1697>]

[3] Malm, Elizabeth and Gerald Prante. "Nebraska's State and Local Tax Burden, 1977–2010." Excerpted from Background Paper No. 65, "2010 Annual State-Local Tax Burden Rankings." Tax Foundation. October 3, 2012. [URL: <http://taxfoundation.org/article/nebraskas-state-and-local-tax-burden-1977-2010>]

[4] Currently codified as Neb. Rev. Stat. §77–5701 et seq.

[5] Legislative Resolution 155 (2013) was introduced by Sen. Ernie Chambers and co-sponsored by Sen. Paul Schumacher. [URL: http://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=20365]

[6] Tax Modernization Committee. "Balancing the Scales: A Comprehensive Review of Nebraska State-Local Revenue System." Report to the Legislature: LR155. Nebraska Legislature. 2013. [URL: http://www.nebraskalegislature.gov/pdf/reports/committee/select_special/lr155_taxmod2013.pdf] Appendices to the report are available from [URL: <http://www.nebraskalegislature.gov/reports/taxmod.php>]

[7] Senators Charlie Janssen, Beau McCoy, Ken Schilz, and Pete Pirsch declined to join the other eight members of the committee is signing the report.

[8] Tax Modernization Committee, p. 86.

[9] *Ibid.*

[10] Anderson, John E. "Property Taxes in Nebraska." University of Nebraska-Lincoln. Presentation to the Tax Modernization Committee of the Nebraska Legislature. August 9, 2013. [<http://news.legislature.ne.gov/tmc/files/2013/08/Property-Taxes-in-Nebraska1.pdf>]

[11] "Real Taxpayers of Nebraska' and increased state aid to K-12 education." Open Sky Policy Institute. October 9, 2013. [URL: <http://www.openskypolicy.org/real-taxpayers-of-nebraska-and-increased-state-aid-to-local-governments>]

[12] Winter, Deena. "Nebraska governor open to scaling back business incentives for lower income tax." *Nebraska Watchdog*. October 2, 2013. [URL: <http://watchdog.org/108706/nebraska-governor-open-to-scaling-back-business-incentives-for-lower-income-tax/>]

[13] Wasylenko, Michael and John Yinger. "Final Report: Nebraska Comprehensive Study." Metropolitan Studies Program. The Maxwell School at Syracuse University. June 1988. [URL: http://www.nebraskalegislature.gov/pdf/reports/committee/select_special/lr155_syracuse.pdf]

[14] *Ibid.*, p. iii.

[15] Tax Modernization Committee, p. 86.

[16] Luebke, Frederick C. "Tiemann, Taxes, and the Centennial Legislature of 1967: Beginning

Nebraska's Second Century." *Nebraska History* 71. 1990. pp. 106–120. [URL: http://www.nebraskahistory.org/publish/publicat/history/full-text/1990-Tiemann_Taxes.pdf]

[17] *Ibid.*

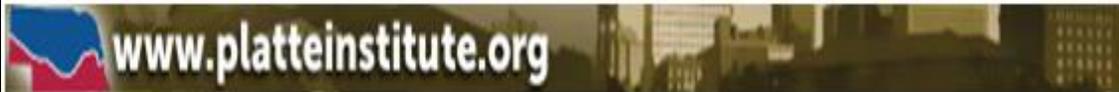
[18] "A Short History of the New Jersey Property Tax & The Long Road to Reform." New Jersey State League of Municipalities. p. 5.

[19] Brown, Amanda. "Education Law Center motion could restore N.J. school funding cut by Gov. Christie." *The Star-Ledger*. June 9, 2010. [URL: http://www.nj.com/news/index.ssf/2010/06/education_law_centers_motion_t.html]

[20] Heining, Claire. "N.J. Gov. Christie signs 2 percent property tax cap bill." *NJ.com*. July 13, 2010. [URL: http://www.nj.com/news/index.ssf/2010/07/gov_christie_signs_2_percent_p.html]

[21] Drenkard and Henschman.

[22] Anderson, p. 7.



If you do not wish to receive this newsletter or if you wish to be removed from all future newsletters, please [click here](#) to manage your subscriptions.