



2022 Candidate Education Sessions: Nebraska Taxes 101

Today's agenda

- Tax basics: property, sales, income
- How the tax code stacks up
- Recent tax legislation

Property tax

- Levied by local governments
 - Public school districts, community colleges, cities, counties, NRDs, etc.
- Funds local services
 - School district operating costs, roads, bridges, staffing, correctional services, public health, etc.
- Levied on assessed value of property
 - \$0.50 levy = for each \$100 assessed value, taxpayer owes \$0.50 annually

Property tax

- Inheritance tax
 - Similar to property tax: tax on transfer of assets
 - Rates and thresholds lowered 2022 session
 - Nebraska distribution of revenue unique – to counties
 - Used for property tax reduction, cash reserves, capital projects, etc.

Sales and use tax

- Levied by the state with local option
- State levies 5.5%; cities up to 2%; counties up to 1.5%
 - State revenue collected to general fund
 - City revenue to general fund; county to specific purposes

Sales and use tax

- Goods, some services, labor charges taxed
- Many services, groceries, business inputs not taxed
 - 81 of 176 services taxed
- Regressive tax – Falls hardest on low- and middle-income

Income tax – Personal and corporate

- State imposes tax on income generated
 - Revenue collected to general fund
- Progressive: Taxes increase as income increases
- Single sales factor apportionment factor state: Corporate

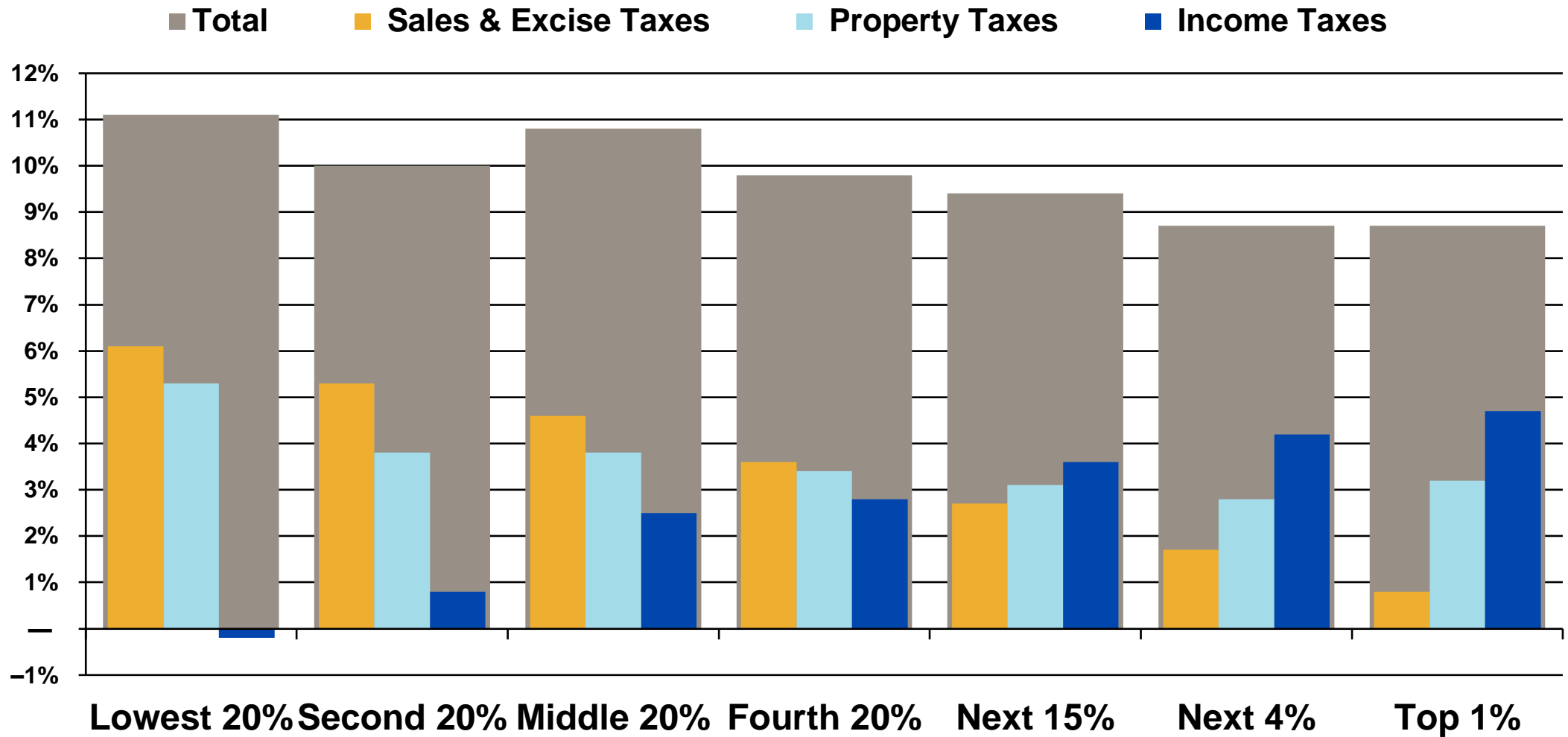
Income tax – Personal and corporate

- Marginal rate = advertised; effective rate = what's paid
 - Recent legislation to reduce top marginal rates

Tax Year 2022			
Personal Income Tax (married filing jointly)		Corporate Income Tax	
\$0 - \$6,860	2.46%	\$0 - \$100,000	5.58%
\$6,861 - \$41,190	3.51%	\$100,000 +	7.50%
\$41,191 - \$66,360	5.01%		
\$66,361 +	6.84%		
Nebraska Standard Deduction*: \$14,700			

**Add standard deduction to income thresholds to determine income required to pay rates*

Nebraska's tax code regressive overall



Source: Institute for Taxation and Economic Policy, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States" (6th Edition, October 2018).

State rankings

- *Be cautious of rankings and comparisons to other states*
 - Often touted as basis for policy change
 - Easily cherry-picked to support specific policy outcomes
- Nebraska's effective personal income tax rate for wealthy people is lower than Iowa's new flat tax

NE top <u>marginal</u> rate	NE <u>effective</u> rate, top 500 returns	IA flat tax rate*
6.84%	3.82%	3.9%

Source: Nebraska Department of Revenue, 2018 Nebraska Tax Burden Study, October 29, 2021.

*IA flat tax phased-in by 2026

Consumption tax

- Proposal to eliminate all current forms of taxation for one 'consumption tax' – similar to sales tax
 - Drastic shift from current system and all other states
- Would hinder local control
- \$4 billion revenue loss
 - Rate required to be revenue neutral: at least 20%

Recent tax legislation

- Past three legislative sessions have enacted significant tax cuts:
 - 2020: Property tax (LB 1107)
 - 2021: Corporate income and Social Security (LB 432)
 - 2022: Personal and corporate income, Social Security, property taxes (LB 873)

LB 1107 (2020)

- Property Tax Incentive Act
 - Refundable income tax credit against public school district property taxes paid
 - ***Doesn't actually reduce property taxes***
- \$125 million first year (2020) – 6% of school taxes refunded
- \$548 million in 2021 – 25% of school taxes refunded
 - Remain at least this amount forward

2021 tax cuts (LB 432)

- Phased in corporate income tax cuts
 - Top rate reduction over two years: 7.81% to 7.25%
 - Cut predominately (83%) flows to out-of-state taxpayers
- Phased in 50% exemption of Social Security benefits from state income tax
 - Vast majority of low-income seniors already exempted from state income tax on benefits prior to its passage

2022 tax cuts (LB 873)

- Corporate income tax (*\$85 million annually*)
 - Reduce top rate to 5.84%
 - 83% to out-of-state taxpayers
- Personal income tax (*\$340 million annually*)
 - Reduce top rate to 5.84%
 - Top 5% get 54%; bottom 40% get <1%
 - *Not a low- or middle-income tax cut*

2022 tax cuts (LB 873)

- Social Security
 - 100% exemption (nullifies last year's exemption)
 - *\$150 million annually*
 - A tax cut for high-income seniors
 - Wealthiest 20% get 65% of benefits; bottom 80% get 35%
 - Lowest 40% get 0% (already exempt)

2022 tax cuts (LB 873)

- Property tax (*\$400 million annually*)
 - Set LB 1107 floor at current level and growing into future
 - Added community college credit to LB 1107
 - *Does nothing to reduce reliance on property taxes*
- **Total annual cost of total package: \$950 million**
 - About one-fifth of state budget

Thank you!

- Questions?
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2019 Rankings (U.S. Census Bureau)	Per Capita	Per \$1k of Personal Income	Per \$1k GDP
State & Local Taxes	18 th	17 th	28 th
State & Local Spending (Direct Expenditures)	27 th	31 st	41 st
Individual Income Tax	20 th	24 th	30 th
Corporate Income Tax	16 th	16 th	21 st
Sales Tax	22 nd	28 th	31 st
Property Tax	13 th	10 th	12 th

Source: US Census Bureau 2019 Census of State and Local Government Finances; US Bureau of Economic Analysis.