

Frequently Asked Questions about LB 280 – Impact on Taxpayers:

[LB 280](#) would protect funding for K-12 education, while reducing Nebraska's heavy reliance on property taxes to fund schools. To accomplish this, the bill would:

- Reduce agricultural land valuation from 75 percent to 65 percent for K-12 funding formula purposes only. This would direct more state aid to school districts with high agricultural land values without reducing revenue for schools or other local services.
- Expand the resource calculation of the school aid formula by adding a school-funding surtax (local income tax) tied to a reduction in property taxes. This would assess a community's ability to pay based on property and income wealth, would lower property taxes across the state and would keep the school-funding surtax revenues with the local school district. School districts can raise additional revenue by increasing their school-funding surtax rate by a supermajority vote of the school board or a majority of district voters.
- Create a per-student aid component. The proposal would provide a per-pupil amount of \$500 to every district, regardless of whether a school receives equalization aid or not.

Read on to learn more about LB 280.

1. How does the school-funding surtax (local income tax component) work?

LB 280 creates a school-funding surtax, which is the local income tax component. A surtax is calculated by multiplying a person's state individual income tax liability by a set percentage -- the rate set in LB 280 is 19.4% of state income tax liability. As a very simplistic example, if a person owes \$1,000 in state income tax, the school-funding surtax would be an additional \$194. Alternatively, if a person owes no state income tax, he or she pays no school-funding surtax either. This surtax would be paid at the same time as state income taxes and on the same form.

2. How does LB 280 impact property taxes?

Under LB 280, property taxes would be reduced by about \$400 million. All Nebraskans would experience lower property taxes under this proposal, and many residents -- particularly low- and middle-income Nebraskans -- would pay less in taxes overall. The reduction in property taxes results from the lowered maximum property tax levy, coupled with the addition of school-funding surtax revenue (local income tax component), state aid increases and existing school budget growth restrictions.

Unlike some other property tax proposals, which simply reduce the taxable value of agricultural land from 75 percent to 65 percent for tax purposes, LB 280 does not result in a loss of revenue to schools and other local governmental entities, such as counties and community colleges. The lowered agricultural land value in LB 280 only occurs within the K-12 funding formula, thus reducing the reliance on ag land in the determination of local resources available to fund schools. However, the local resources calculation will also take into account the amount of school-funding surtax (local income tax) revenue that a district will raise locally. Where a district's needs exceed its resources, state equalization aid will fill in the gap.

3. Won't this raise taxes on some Nebraskans?

Some Nebraskans would pay more in taxes but many will pay less, as their lower property taxes will offset the new local income tax. Those most likely to pay higher taxes under LB 280 are Nebraska's highest-income individuals, who currently pay a lower tax rate than low- and middle-income Nebraskans.

4. What is the benefit for Nebraskans who live in urban areas?

Urban residents would also benefit from the reduction in property taxes in LB 280, and many -- particularly low- and middle-income Nebraskans -- would pay less in overall taxes.

But perhaps the most important benefit of LB 280 for urban Nebraskans is the balance it will bring to our school funding system. Currently, urban schools benefit from the historically high agricultural land values because higher resources in rural Nebraska means more state aid is available for urban districts. Urban schools would be threatened with cuts should agricultural land values drop because if this were to occur, many urban districts may lose state funding to rural schools that suddenly have increased need for it. With many urban districts at or near their property tax levy limits, their ability to make up the lost state aid with increased property tax revenue would be limited, which would make school cuts a very real threat. Giving those urban districts access to the income wealth in their districts will improve their ability to weather such a drop in agricultural land values.

5. Is this adding taxes to the working poor?

No. All Nebraskans would experience lower property taxes under this proposal, and many residents would pay less in taxes overall. LB 280 makes our tax code more progressive, ensuring that low- and middle-income Nebraskans pay less in overall taxes than our highest-income individuals. While the effects will vary depending on each

taxpayer's income, property value, and school district, an analysis by the Institute on Taxation and Economic Policy confirms that LB 280 will have a progressive effect overall.

6. How does this make the tax system more progressive?

Our tax system presently relies heavily on property taxes to fund schools and other key investments. Property taxes are regressive taxes that cause low- and middle- income earners to pay more of their income in taxes. The income tax is a progressive tax, which means people pay higher tax rates as their income grows. By introducing income into the school funding equation, we make the tax system more progressive and reduce the taxes paid by lower- and middle-income Nebraskans to fund our K-12 schools.

7. What about Nebraskans who rent?

The rent paid by Nebraskans reflects the cost of property taxes. Although renters will not experience direct tax reductions under this proposal, the market will adjust as competition puts downward pressure on rents. Supplementing that effect by providing direct property tax reductions to renters through a targeted circuit breaker or renters' credit may be desirable in combination with LB 280.

8. What about non-residents who own property in Nebraska?

Non-residents with income from Nebraska sources will pay the 19.4 percent school-funding surtax and that money will go into the state General Fund to support other state aid changes. So, while those income tax revenues will not be tied directly to the school district where the land is, those revenues would make the per-student aid and other TEEOSA changes possible -- which benefit all districts.

9. Is the state giving away its taxing authority to a local body?

No. The state maintains control over state revenue sources and sets a uniform school-funding surtax rate at 19.4% of income tax liability. LB 280 helps maintain local control over public schools and gives districts access to a broader, more stable revenue base.

10. Will the income tax increase in LB 280 reduce economic growth in Nebraska and drive people and jobs out of the state?

Academic research fails to find a conclusive link between taxes and economic growth, employment or state-to-state migration. Many of the states known to have relatively high

income taxes have economically outperformed and have lower unemployment than states with relatively low or no income taxes. Furthermore, when we stabilize and balance our school finance system, we strengthen our investment in one of our state's strongest economic engines.

11. Sounds like farmers and ranchers will get a tax break from this. Who will be paying more, under LB 280, to make up the difference and protect our investment in schools?

Presently, property wealth is used to determine a community's ability to pay for schools. This excludes important wealth measures like income, and therefore, places pressure on those with lots of land -- namely members of our agricultural community. LB 280 spreads out taxes among more Nebraskans and will actually lead to lower taxes for many Nebraskans, particularly low- and middle-income residents. Those most likely to pay higher taxes under LB 280 are Nebraska's highest-income individuals, who currently pay lower effective tax rates than low- and middle-income Nebraskans.

12. Why not just reduce the taxable valuation of agricultural land from 75 percent to 65 percent to provide property tax relief for rural communities?

Proposals which reduce the taxable value of agricultural land from 75 percent of market value to 65 percent result in significant revenue losses for schools, cities and counties, while having disparate results for communities - depending upon the rural-urban makeup of the community. These local entities would either have to make cuts and reduce services or raise their levies to make themselves whole -- if they are able to do so under existing levy limits.

Unlike other proposals that simply reduce the taxable value of agricultural land from 75 percent of market value to 65 percent, the lowered agricultural land value in LB 280 only occurs within the TEEOSA formula. This will not change the tax base for schools, but will reduce the state's estimate of the district's ability to pay for its schools. Such a reduction in the state's accounting of local resources will draw more state aid to agricultural districts who have recently lost state aid due to rising agricultural land values, without harming schools and other local governments.

13. Won't rural Nebraskans shelter their income by buying new equipment and pre-paying for supplies to avoid paying any income tax, while still reaping the benefits of the property tax reductions?

There is a common misconception that Nebraska's farmers and ranchers pay little or no state income taxes, so it follows that they should pay more in property taxes. But a look

at property and income taxes combined over the past several years shows Nebraskans in areas of the state that have high amounts of agricultural land (rural areas) paid more taxes -- both on a per-capita basis and as a share of income -- than people in areas that have the least agricultural land (urban areas). By 2012, the last year for which such data are available, rural Nebraskans paid more than \$1,000 more per person than their urban counterparts -- a difference of nearly 40 percent.

Under LB 280, the funding responsibility for K-12 education will be more broadly shared among those with property *and* income wealth. This represents a more balanced approach to protecting and prioritizing our investments in K-12 education.