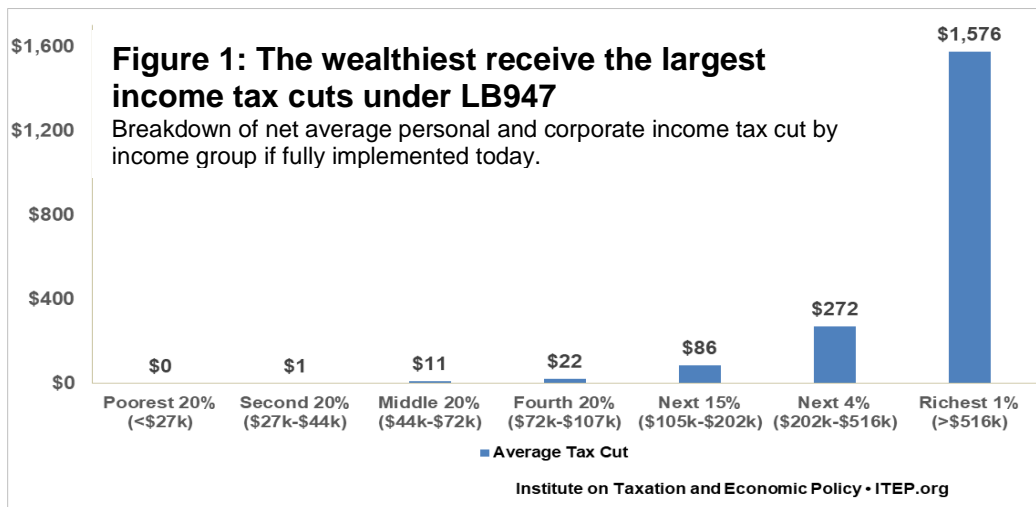


LB 947 would prioritize tax cuts for wealthy Nebraskans, fail to provide meaningful property tax relief and do little to nothing to grow our economy. The measure also proposes revenue reductions at a time when Nebraska is coming off significant budget cuts and faces more amid lagging state revenues. Furthermore, tremendous uncertainty regarding federal tax and budget changes, as well as shifting state demographics that have serious funding ramifications for schools, pensions and health care, make LB 947 an even riskier proposition.

What LB 947 changes and its fiscal impact

The tax and budget changes of LB 947 include reductions to the top personal and corporate income tax rates, the implementation of a new tax credit for homeowners and resident agricultural landowners to offset property taxes, and a \$10 million increase in state funding for workforce development. Commercial property owners would not receive the new tax credit, which would be funded by eliminating the state's current property tax credit program and the personal property exemption. Although the cost of the measure is partially offset, LB 947's budget impact in the next biennium is estimated to exceed \$247 million, and its fiscal impact is expected to grow to about \$463 million by FY27-28.¹



Personal income tax cuts largely benefit the wealthy

LB 947 lowers the top personal income tax rate from 6.84 percent to 6.75 percent in 2019 and 6.69 percent in 2020. According to analysis (Figure 1) from the Institute on Taxation and Economic Policy, when LB 947 is fully implemented, the top one percent of

¹ Nebraska Legislature, "LB 947 Fiscal Note," downloaded from https://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB947_20180130-104120.pdf on Jan. 30, 2018.

taxpayers in Nebraska -- those with incomes greater than \$516,000 -- would receive the largest cuts in personal and corporate income taxes. These taxpayers would receive income tax cuts of more than \$1,500 on average, while the middle 20 percent of Nebraska taxpayers would receive average tax cuts of \$11. Based on Nebraska's 2018 tax brackets and standard deduction, taxpayers would have to earn \$36,920 for individuals and \$73,840 for married filing jointly to even get a personal income tax cut under LB 947. Even then, it's only the income above those thresholds that would be subject to the tax cuts.

About 86 percent of LB 947's personal income tax cut would go to the highest-earning 20 percent of Nebraskans with annual incomes greater than \$98,000. About 30 percent of the bill's personal income tax cut would go the wealthiest one percent of Nebraskans, who on average earn about \$1.6 million annually.² The personal income tax savings experienced by wealthy Nebraskans would likely come in addition to large federal tax savings that many gained from recent federal tax changes.

Corporate tax cuts would also add to new federal tax savings but some businesses may pay more property taxes

LB 947 would lower Nebraska's top corporate income tax rate from the current 7.81 percent to 6.75 percent in 2019 and then to 6.69 percent in 2020. While access to individual corporations' state-level tax data is not presently available, it is widely known that many Nebraska corporations expect to experience significant tax savings from the recent federal tax changes. LB 947 would create state-level tax savings to go on top of these significant federal tax savings for corporations. Some businesses, however, would be likely to experience significant property tax increases under LB 947 as they would no longer receive tax savings from the current property tax credit program nor be eligible for the new tax credit created by the bill.

Large chunk of income tax cut would leave state

Almost half -- 47 percent -- of LB 947's income tax cuts would go to non-residents, ITEP data show. About eight percent of LB 947's personal income tax cut and about 83 percent of the bill's corporate income tax cut would go to non-residents.

Comparing LB 947's tax credit to the current Property Tax Credit

Currently, Nebraska homeowners, agricultural landowners and commercial property owners receive a property tax credit based on the value of their property. In 2017, the property tax credit for residential property was worth \$87.95 per \$100,000 of taxable valuation and the credit for agricultural land was \$105.56 per \$100,000 of taxable

² The average tax changes reflected here include the deductibility of state income taxes on the federal return, sometimes called the "federal offset."

valuation.³ Under LB 947, homeowners and resident agricultural land owners may instead claim 10 percent of their property taxes as a refundable tax credit, which could grow by two percent in each year where state revenue exceeds projections. For homeowners, the credit is limited to \$230 in the first year and may increase by \$50 each year that state revenues come in higher than forecast. This new residential tax credit is capped at \$730. Because of the credit caps, many homeowners with relatively high property valuations would receive smaller tax credits under LB 947 than under the current Property Tax Credit. For example, the initial maximum credit amount is \$230, which is lower than the current credit amount for homeowners with property valued at more than \$261,512.⁴ For homeowners with lower property values, LB 947 would increase their amount of property tax reduction, relative to the current Property Tax Credit Program. There is no dollar limit for the credit for resident agricultural land owners but the credit would also start at 10 percent and would grow by two percent each year that revenue exceeds forecast. The credit for residential landowners would be capped at 30 percent of what they pay in property taxes. As is the case under the current Property Tax Credit, taxpayers who rent would receive no direct property-tax relief under LB 947, nor would nonresident agricultural landowners.

Overall impact on Nebraska taxpayers likely to be a mix of tax cuts, increases

An analysis of taxpayer data from eight Nebraska taxpayers⁵ from various income ranges and property types shows that for most, LB 947 would lead to a very small net tax impact in the initial years. For some, this impact is positive, for others, it is negative but the largest benefits go to those with the highest incomes. For example, a couple who earn about \$1.4 million annually would see a \$814 net tax cut under the bill while another couple who earn about \$35,000 annually would see their taxes increase by \$162. Furthermore, the two renters examined in the analysis would see no change in their taxes.

Conclusion

Faced with continued revenue challenges on the heels of considerable cuts to key services like higher education, the major question LB 947 poses is where do these tax cuts rank in terms of state priorities? LB 947 does little to truly address property taxes and will not generate enough economic activity to offset the revenue losses it will create. It would, however, provide the largest tax savings to the state's wealthiest residents on top of major tax savings these residents and entities just received at federal level.

[Download a printable PDF of this analysis.](#)

³ Nebraska Department of Revenue, Real Property Tax Credit (non-agland) and Agricultural Land Tax Credit for Tax Year 2017, http://www.revenue.nebraska.gov/news_rel/sep_17/2017_Real_Property_Tax_Credit_9-14-2017.html.

⁴ Calculated using: http://www.revenue.nebraska.gov/news_rel/sep_17/2017_Real_Property_Tax_Credit_9-14-2017.html.

⁵ OpenSky Policy Institute, "The Real Taxpayers of Nebraska," downloaded from <http://www.openskypolicy.org/the-real-taxpayers-of-nebraska> on Jan. 29, 2018.