

Property tax “circuit breakers” like the one proposed in LB 910 – a bill before the Legislature’s Revenue Committee -- are a way to provide targeted tax reductions to those whose property taxes are high in relation(ship) to their incomes. They are called “circuit breakers” because the tax credits are triggered once property taxes reach a certain percentage of a person’s income, similar to how electrical circuit breakers are triggered when electricity surges. The tax reduction comes in the form of an income tax credit that helps offset the cost of property taxes. LB 910 creates a residential property tax circuit breaker refundable income tax credit and a separate agricultural property circuit breaker refundable income tax credit. The \$224 million presently used to fund the state’s Property Tax Credit would be reallocated to pay for LB 910’s circuit breaker provisions. The overall amount for the residential circuit breaker would be capped at \$119 million and the agricultural circuit breaker would be capped at \$105 million.¹ Commercial property owners, who presently receive some of the “non-ag” portion of the Property Tax Credit, would not be eligible for the circuit breaker tax credits proposed in LB 910.

About LB 910’s residential/renter circuit breaker

LB 910’s residential circuit breaker would go to taxpayers with Adjusted Gross Income (AGI) less than \$175,000 who rent or own their primary residence in Nebraska. For homeowners, the credit calculation is based on their property taxes paid on the value of their home.² For renters, the circuit breaker assumes that 20 percent of their rents goes toward the landlord’s property taxes. As income increases, the circuit breaker credit calculation assumes that taxpayers can afford to put greater percentages of income toward property taxes. Qualified taxpayers would receive refundable income tax credits equal to the amount of their property taxes that exceed the set percent of income, up to the maximum amount of credit, as detailed in the table below.

Percent of Income:	Married Filing Jointly	All Other Taxpayers	Maximum Credit:
1 percent	\$0 - 6,290	\$0 - \$3,150	\$1,200
2 percent	\$6,291 - \$37,760	\$3,151 - \$18,880	\$900
4 percent	\$37,761 – \$60,840	\$18,881 - \$30,420	\$600
6 percent	\$60,841 - \$121,680	\$30,421 - \$60,840	\$300
8 percent	\$121,680 and over	\$60,840 and over	

Source: Income amounts are based upon the 2018 individual income tax brackets, as reported by the Nebraska Department of Revenue. http://www.revenue.nebraska.gov/education/PowerPoints/FedState_2017_color.pdf

¹ These caps represent the amount of the property tax credit that went to non-ag land (\$119 million) and ag land (\$105 million) in 2017. Source: Nebraska Department of Revenue, Press Release, “Real Property Tax Credit (non-agland) and Agricultural Land Tax Credit for Tax Year 2017,” September 14, 2017.

² The credit calculation is based on property taxes paid up to 200 percent of the county average value for a single family home. This percent threshold is a way of limiting the eligibility for a circuit breaker to reasonable valuations of property. Per NRS 77-3506.02, the county assessor is tasked with determining this average assessed value of single family residential property and certifying it to the Department of Revenue on or before Sept. 1 of each year.

About the LB 910 agricultural land circuit breaker

The agricultural land circuit breaker in LB 910 would be available to individuals who own agricultural land or horticultural land that is a part of a farming operation that has federal AGI of less than \$350,000. The tax credit would be calculated based upon the amount by which the property taxes paid exceed 7 percent³ of farm income.

Impact on taxpayers

Under a circuit breaker similar to the one proposed in LB 910, a couple that owns a home valued at \$142,000, earns \$73,865 annually and pays \$2,822 in property taxes would receive a \$300 property tax reduction. The same family currently receives a \$125 tax credit under the existing Property Tax Credit Program. A renter who earns \$14,816 annually and pays \$889 in property taxes would get a \$624 property tax reduction under the circuit breaker but receives no direct property tax reduction under the existing Property Tax Credit program. A couple that owns a home valued at \$87,598 and earns \$164,743 annually would not receive a property tax reduction under the circuit breaker, but they do presently get \$77 under the Property Tax Credit Program.

Circuit breaker use in other states

In 2017, 14 states and the District of Columbia offered circuit breaker programs that targeted property tax relief based upon the relationship between property taxes and income.⁴ Fifteen other states provide property tax credits for low-income families based on income only, without consideration of the property tax-to-income relationship.⁵

Conclusion

Property tax circuit breakers have garnered support across the country and in Nebraska. They were mentioned as a possible solution to Nebraska's property tax challenges in the Tax Modernization Committee Final Recommendations in 2013⁶ and in a December

³ The 7 percent threshold is roughly double the national average. Taxes represented 5.3% and 5.1% of farm production expenditures in Nebraska in 2015 and 2016, respectively. The average for other "Plains States" in these years was 3.9% in both years. Source: USDA, "Farm Production Expenditures, 2016 Summary," August 2017, p. 7, <http://usda.mannlib.cornell.edu/usda/current/FarmProdEx/FarmProdEx-08-03-2017.pdf>.

⁴ Institute on Taxation and Economic Policy, "Property Tax Circuit Breakers in 2017," September 2017, https://itep.org/wp-content/uploads/Brief_Property-Tax-CB_2017.pdf.

⁵ Institute on Taxation and Economic Policy, "Property Tax Circuit Breakers in 2017," September 2017, https://itep.org/wp-content/uploads/Brief_Property-Tax-CB_2017.pdf.

⁶ Nebraska Tax Modernization Committee, "Balancing the Scales" A Comprehensive Review of Nebraska's State-Local Revenue System" (December 2013).

2014 Revenue Committee report on property taxes.⁷ As the state looks at ways to address the financial burden of property taxes on those least able to afford them, LB 910 provides targeted property tax reductions to those who need it most.

⁷ Bill Lock, LR 566 Report to Revenue Committee (December 2014), http://www.nebraskalegislature.gov/pdf/reports/committee/revenue/2014_lr566.pdf.