

Nebraska's long struggle with high reliance on property taxes to fund K-12 education has been well documented. It has been noted in every major study of Nebraska taxes since 1962 and it continues to frustrate taxpayers, legislators and school officials alike. LB 911, a bill that will be the focus of a Revenue Committee hearing Wednesday, could help reduce our reliance on property taxes by bringing more income tax revenue into the way schools are funded.

More about LB 911, the School District Local Option Income Surtax Act

LB 911 creates a mechanism by which local school boards can ask their voters to approve a local option income surtax for property tax reduction and/or building construction, remodeling or site acquisition. The local option income surtax amount cannot exceed 20 percent of tax liability and voter approval only lasts up to five years. With a majority vote of the school board, the income surtax can be put to the ballot in a primary, general or special election. This proposal is modeled after the local income surtax in Iowa, where it is used by 85 percent of the state's public school districts.¹

What is a local option income surtax?

A local option income surtax is an additional percent of tax applied to tax liability. For example, if a resident of School District A has a state income tax liability of \$1,000² and School District A has imposed a voter-approved local option income surtax of 1 percent, the local option income surtax amount is \$10. The new surtax revenue would be collected along with their income tax and returned to the district to support property tax reduction or to preclude the reliance on more property tax revenue to pay for building construction, remodeling or site acquisition.

LB 911's property tax impact would vary

OpenSky analysis of LB 911 shows the surtax would have varying effect throughout the state in terms of reducing property taxes. For example, a 20 percent surtax could potentially allow the Bennington Public School District to lower its property tax levy by about 39 cents while the Sioux County Public School District could only lower its levy by 1.2 cents by using a 20 percent surtax. According to the LB 911 fiscal note,³ imposition of the maximum 20 percent income tax surtax statewide would lower school district property taxes by 15.6 percent, ranging from 1.9 percent to 35.3 percent property tax reduction for individual school districts.

¹ For more information, visit <https://www.legis.iowa.gov/docs/publications/FT/14439.pdf>

² After refundable credits are applied.

³ Nebraska Legislature, "LB 911 Fiscal Note," downloaded from https://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB911_20180213-110518.pdf on Feb. 13, 2018.

LB 911 and the school funding formula

The local option income surtax, as drafted in LB 911, would not impact the existing school funding formula but would instead provide a separate local funding stream that districts could access to reduce or preclude further reliance on property taxes. State support through the Tax Equity and Educational Opportunities Support Act (TEEOSA) would remain the same, regardless of whether schools enact an income surtax or not. School districts also would still be subject to existing restrictions intended to keep property taxes down, such as property tax levy limits, spending caps that limit how much their budget can grow from year to year, and limits on how much districts can hold in reserves.

If the intent is to use the local option income surtax for building construction, remodeling, and/or site acquisition, the new revenue would be deposited in the Special Building Fund, which is currently used when a district decides to acquire or improve sites and/or to erect, alter or improve buildings.⁴ If the intent is to use the surtax for property tax reduction, the new revenue will be deposited into the district's General Fund and subject to existing budget authority limits. LB 911 does not include any required reductions in property taxes commensurate to new surtax revenue but leaves the property tax reduction decisions to the local school board.

LB 911 can make school funding less regressive

Property taxes are more regressive than income taxes, meaning that low- and middle-income residents pay a greater percentage of their income in property taxes than they do income taxes. By introducing a local option income surtax, lawmakers can help reduce our reliance on a regressive tax. This would lighten the K-12 funding load for low- and middle-income Nebraskans.

Conclusion

Property taxes make up the great majority of revenue used to support schools in Nebraska and our high reliance on property taxes has long been a sore spot for many in the state. The local option income surtax proposed in LB 911 would give school districts another option for funding education and help reduce the need to rely on so heavily on property taxes. It also would help make school funding more progressive and take some of the load of funding our schools off the plates of low and middle-income residents.

⁴ Nebraska Department of Education, "Program Budgeting, Accounting, and Reporting System for Nebraska School Districts 2017 Users' Manual," <https://2x9dwr1yq1he1dw6623gg411-wpengine.netdna-ssl.com/wp-content/uploads/2017/07/2017UsersManual.pdf>.