

LB 947 as amended by Revenue Committee AM 2542¹ offers the vast majority of Nebraska taxpayers modest tax savings but it would create a significant and growing state revenue reduction as the Legislature is making significant budget cuts. It also is being proposed at a time when Nebraska faces considerable uncertainty regarding future revenues and the ability to fund health care, education and other key services because of changing state demographics and the unclear impact of federal tax changes. Furthermore, the measure offers no way to pay for itself after the first year, which means large cuts to essential services or increases in other revenue sources, such as sales taxes and fees, are likely as the measure’s cost balloons in future years.

What LB 947 changes and its fiscal impact

The tax and budget changes of LB 947 as amended include the implementation of a new refundable income tax credit for homeowners and agricultural landowners to offset property taxes, reductions to the top corporate income tax rates and a \$5 million increase in state funding for workforce development. Commercial property owners would not receive the new tax credit. The amended version of the bill would retain the state’s current property tax credit program, which was initially eliminated under the bill to help fund the new income tax credit. LB 947’s budget impact this biennium would be offset by a \$39.7 million withdrawal from the state’s cash reserve. After that, however, the proposal contains no provisions to compensate for its fiscal impact, which is projected to grow to almost \$650 million by 2030.² The experience of states like Kansas, Oklahoma and Louisiana illustrate that LB 947’s tax reductions are unlikely to pay for themselves in terms of new economic activity. This means service cuts or increases in other revenue sources would likely be needed.

LB 947’s credit rates and caps by year

Year	Ag credit %	Residential credit %	Residential credit cap
2018	2%	1%	\$25
2019	4%	2%	\$50
2020	6%	3%	\$75
2021	8%	4%	\$100
2022	10%	5%	\$125
2023	12%	6%	\$150
2024	14%	8%	\$200
2025	16%	10%	\$250
2026	18%	12%	\$300
2027	20%	14%	\$350
2028	20%	16%	\$400
2029	20%	18%	\$450
2030	20%	20%	\$500

About LB 947’s tax credits

LB 947 as amended creates refundable income tax credits for residential and agricultural property. The residential credit starts at one percent of property taxes paid in the first year (2018) and increases by one percent each year until 2024, and from 2024 until 2030, the credit increases by two percent each year maxing out at 20 percent. (See chart) The agricultural property credit starts at two percent of property taxes paid in 2018 and increases by two percent each year thereafter until it reaches 20 percent of property

¹ Nebraska Legislature, “LB 947, AM 2542 (2018),” downloaded from <https://nebraskalegislature.gov/FloorDocs/105/PDF/AM/AM2542.pdf>, on March 25, 2018.
² Revenue Committee handout, March 20, 2018

taxes paid in 2027. The residential credit is subject to a cap while the agricultural property credit is not. The residential credit cap starts out at \$25 in 2018, increases \$25 each year until 2024, and from then until 2030, it increases by \$50 each year until 2030, when the credit is ultimately capped at \$500. Renters receive no property tax relief under LB 947's credits.

Credit could go unnoticed by many Nebraskans

The credit proposed in LB 947 doesn't address Nebraska's longstanding problem with high reliance on property taxes to fund K-12 education. Instead it creates an income tax credit that many Nebraskans may not even realize they have received. They would, however, still have to write the checks for their property taxes, which means the effects of LB 947 could go completely unnoticed by many Nebraskans and lead to a scenario in which many continue to implore the Legislature to take steps to lower property taxes even after LB 947 is implemented.

Impact on some actual taxpayers

An analysis of some actual taxpayer data shows that under LB 947, one couple with \$1.4 million in annual income and a property tax bill of \$12,669 would receive a \$25 income tax credit in the first year and would receive \$500 upon full implementation. Another couple that owns agricultural land, makes \$46,408 and pays \$9,919 in property taxes would receive \$139 in the first year and \$1,643 by full implementation. A renter who earns \$14,816 a year would receive no property tax relief under LB 947.

Corporate tax cuts would also add to new federal tax savings

LB 947 as amended would lower Nebraska's top corporate income tax rate – which applies to income in excess of \$100,000 -- from 7.81 percent to 6.84 percent over five years. 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 cuts.³ LB 947 would create state-level tax cuts in addition to substantial federal tax cuts for corporations.

LB 947's costs far exceed projected future revenues

The revenue growth projected in the next biennium⁴ is considerably higher than what has been realized in recent years. Even if revenues meet these projections, lawmakers still wouldn't have close to enough available funds to offset LB 947's tax cuts. The

³ Institute on Taxation and Economic Policy, "The Final Trump-GOP Tax Plan: National and 50-State Estimates for 2019 & 2027," downloaded from <https://itep.org/finalgop-trumpbill/>, on March 26, 2018.

⁴ Nebraska Legislature, "Appropriations Committee Budget Proposal, Mid-Biennium Budget Adjustments FY 2017-18 and FY 2018-2019 (Page 4)" downloaded from <https://nebraskalegislature.gov/pdf/reports/fiscal/2018proposal.pdf>, on March 25, 2018.

budget proposal assumes revenue growth in the next budget cycle would average about 6.4 percent per year and leave lawmakers with \$98 million for legislation in the next biennium. However, revenue growth in recent years has been low, including growth of 0.3 percent in FY15-16⁵ and an actual one percent decrease in revenue in FY16-17⁶ compared to the prior year. Uncertainty regarding the impact of federal tax cuts makes the revenue projections even more tenuous. But even if revenues were to meet expectations, LB 947's projected cost of about \$224.5 million in the next biennium would far exceed the revenue lawmakers are projected to have available for new legislation. This means more cuts to key services or increases in other revenue sources like sales taxes and fees would be needed to offset LB 947.

Cash reserve withdrawal concerning

LB 947's \$39.7 million withdrawal from the state's rainy day fund to cover its initial year of implementation would leave the fund's balance at \$256.7 million. This is well below recommended levels and would leave Nebraska vulnerable to damaging cuts to health programs, schools and other vital services.

Conclusion

LB 947 does not address the root of Nebraska's property tax issues, will not generate enough economic activity to offset the large revenue losses it will create and any tax relief could very well go unnoticed by many Nebraska taxpayers. It would, however, prioritize tax cuts for corporations at a time when these entities are already receiving large tax breaks at the federal level, and it creates large revenue reductions at a time when lawmakers are having to cut essential services because of a lack of revenue. Also looming is major uncertainty regarding the effects of federal tax changes on state revenues and funding for key services. All things considered, Nebraskans would be best served by lawmakers rejecting LB 947.

⁵ Nebraska Legislature, "State of Nebraska FY2017-18/2018-19 Biennial Budget, p. 2," downloaded from <https://nebraskalegislature.gov/pdf/reports/fiscal/2017budget.pdf>, on March 26, 2018.

⁶ Nebraska Department of Revenue, "General Fund Receipts, June 2017," downloaded from http://www.revenue.nebraska.gov/research/gen_fund/nr0717.html, on March 26, 2018.