[LB10 LB282 LB325 LB331 LB338 LB436]

The Committee on Revenue met at 1:30 p.m. on Wednesday, January 31, 2007, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB331, LB325, LB338, LB436, LB10, and LB282. Senators present: Ray Janssen, Chairperson; Merton "Cap" Dierks, Vice Chairperson; Carroll Burling; Abbie Cornett; Chris Langemeier; Don Preister; Ron Raikes; and Tom White. Senators absent: None. []

SENATOR JANSSEN: Good afternoon, ladies and gentlemen. Welcome to the Committee on Revenue. For the record, my name is Ray Janssen. I'm from Nickerson, Nebraska and I happen to be the chair of the committee. And the committee members that are with us here today, I know Senator Preister was here and I'm sure he's coming back. He's the far left. Senator Burling is the next in line. Senator Abbie Cornett from Bellevue. Vice chair of the committee, Senator Cap Dierks from Ewing. To my far right is Senator White and to his left, Senator Langemeier, and to Senator Langemeier's left is Senator Raikes. Committee counsel, George Kilpatrick and Erma James is the clerk. And our page today is Marcus. One thing I would ask you all to do is please turn off your cell phones. Don't even leave them on buzz, because we had a person up here the other day that had...that was the largest dang buzz I ever heard in my life. You could hear all the way up here. Sign-in sheets are back by each door, I believe. And if you are going to testify make sure you have them filled out prior to your coming up to testify, and drop them in that box right by Erma. There are clipboards back there if you wish to let someone know that you were here, but don't want to testify. Fill that sheet out and leave it there. With that, I believe I have the first bill up today and I'll turn the chair over to Senator Dierks. [LB331]

SENATOR DIERKS: While Senator Janssen is getting seated I'd like to just take the opportunity to welcome all of you here and want you to know that we want you to be comfortable when you come up to testify. Senator Janssen, whenever you're ready. [LB331]

SENATOR JANSSEN: Thank you, Senator Dierks. My pleasure to be here today to introduce to you LB331. This bill would reduce the state taxes more than $200 million annually. It would repeal the Nebraska estate tax and generation-skipping transfer tax, eliminate the sales tax on construction labor on commercial properties, and significantly revise the income tax. With regard to the individual income tax, and that total would be about $200 million, the bill would reduce the number of brackets from four to three, it would broaden the size of the income tax brackets, it would increase the standard deductions for married individuals so that they are twice the single standard deduction. Fourth thing it would do it would adjust the brackets for inflation beginning in 2011. And the fifth thing, it would reduce the income tax rate on the highest bracket over three years. LB331 would cut taxes around $241.5 million for fiscal year 2007-08 and $235 million for fiscal year 2008-09. Most of that over $200 million would be from the cuts in the individual income taxes. That's my story and I'm sticking to it. (Laughter) [LB331]

SENATOR DIERKS: Thank you. Are there questions for Senator Janssen? Committee members have any questions? Thank you very much, Senator. First proponent, please. Welcome to the hearing, Governor. [LB331]

GOVERNOR DAVE HEINEMAN: (Exhibit 1) Thank you. Good afternoon, Senator Dierks and members of the committee. For the record, my name is Dave Heineman, H-e-i-n-e-m-a-n, Governor of the state of Nebraska. I want to begin by thanking Senator Janssen for introducing LB331 on my behalf. Today, we are here to discuss tax relief, and that is good news for Nebraska's taxpayers. Clearly, one of the themes of this legislative session will be tax relief, and I am delighted that we have so many options to consider. Lowering taxes and controlling spending are two ways we in government can help stimulate job creation in the private sector and provide opportunities for young people to remain in Nebraska. In developing this proposal for tax relief, I sought to lay the groundwork for our state's future. Today I am asking that you support fundamental income tax reform so that we can take another important step toward reshaping our tax system for a future of increased investment and economic growth. I want to take this opportunity to share with you my thoughts on what an effective tax reform package should accomplish. First and foremost, it should provide for fundamental tax reform and we should pursue a package that’s fair. For example, is it fair for a married construction worker and a waitress to pay income taxes at the same marginal rate as the CEO of the construction company? The answer is no, but that’s exactly how our income tax system works. The bottom line is that if you’re a middle-class family with an adjusted gross income of greater than $50,000 a year, you’re paying taxes at the same marginal rate as Warren Buffett and other billionaires. In regards to the fairness issue, I want to point out that the Department of Revenue estimates that 96 percent of all taxpayers in the state would see their income taxes reduced as a result of the reforms contained in LB331. I believe that any effective tax reform package should be easy to administer, it should simplify our tax code, the reforms should be permanent, and finally, any tax relief we pursue should lower the tax burden for Nebraskans. LB331 meets each of these criteria, and we need to pursue this tax relief package because our current income tax system is outdated, outmoded and fundamentally flawed. I would like to highlight several key components of LB331, and then I will let our new State Tax Commissioner speak about the bill in greater detail. I want to point out that we’ve made a concerted effort to design a package that is aimed first at middle-income earners. LB331 widens the middle-class tax bracket to better reflect the earnings of the modern middle class and it lowers tax rates. LB331 eliminates the marriage penalty by making changes to the tax brackets and increasing the standard deduction. The bill also repeals the estate tax and the remaining sales tax on construction labor. Our focus is middle income earners, and that’s why the top marginal rate, doesn’t begin to come down until after new rates for other brackets have taken effect. That’s also why it takes four years to get our top marginal rate under the 6 percent threshold. Once these changes are in place we propose indexing the tax brackets, which ensures the new brackets automatically adjust for inflation. Under LB331, a family of four earning $30,000 a year would receive an income tax cut of approximately 44 percent. A family of four earning $50,000 would receive a tax cut of nearly 20 percent, while a family of four earning half a million dollars would receive a smaller percentage cut at 13.5 percent, even after the top rate changes are phased in. It is time to help the working families who pay income taxes in our state, and we need to remember that many small business owners, who are among the largest job creators in our state, pay their business taxes through the income tax system. I know this committee is well aware that our state is at a competitive disadvantage with neighboring states because of our high tax status. This year, we have an opportunity to pass one of the most substantial tax reform packages in the United States. As someone who spends a significant amount of time talking to people who are interested in doing business in Nebraska, I can tell you that our income tax structure presents problems for companies looking to expand in our state and for new companies looking to locate here. LB331 puts Nebraska in a position to improve our national stature and grow jobs. I am here today because I believe that we can accomplish something extraordinary for the people of this state. LB331 provides real and immediate income tax reform. Moving this bill forward would help create a brighter future for Nebraska’s young people and middle-class families. Thank you for the opportunity to testify and I welcome any questions you may have. [LB331]

SENATOR DIERKS: Thank you, Governor. Are there questions for the Governor? Senator Raikes. [LB331]

SENATOR RAIKES: Governor, thanks for being here. [LB331]

GOVERNOR DAVE HEINEMAN: Senator Raikes. [LB331]

SENATOR RAIKES: A little bit about your choice of direction here. You mentioned in your comments that there are several possibilities for reducing taxes. In the view of some, income tax is our least onerous tax structure. We're rated below the average for the country, whereas in sales tax we're higher than the average and property taxes we're also higher than the average. Why would we decide to spend our tax cut money on income taxes? [LB331]

GOVERNOR DAVE HEINEMAN: You know I really appreciate the question and I've heard the discussion. You know, I don't believe this is an either/or situation, as some would suggest, between property tax relief or fundamental income tax reform. We need both. As I traveled this state the last couple of years, the thing I heard from every parent and every grandparent: Governor, you need to create jobs for our sons and daughters. So what I propose through our budget, the bill that's in the Appropriations Committee, record property tax relief. $2.4 billion in state aid to school and aid to local governments.

And then we propose fundamental income tax reform so we can be more competitive in a global economy. I believe we need to do both. As I traveled this state, I heard from Nebraskans say, Governor, taxes are too high. Property taxes are too high. Income taxes are too high. Sales taxes are too high. And we need to control spending. So I tried to take a comprehensive view if we're going to be competitive in this global economy, particularly with our neighboring states. [LB331]

SENATOR RAIKES: Okay, thank you. [LB331]

SENATOR DIERKS: Thank you, Senator Raikes. Other questions? Committee members? I think you're home free, Governor (laughter). [LB331]

GOVERNOR DAVE HEINEMAN: Thank you very much. I appreciate that. Thank you, Senator Dierks. [LB331]

SENATOR DIERKS: Next proponent, please. Whenever you're ready, Doug. [LB331]

DOUG EWALD: (Exhibit 2) Good afternoon Senator Dierks, members of the Revenue Committee. My name is Doug Ewald, E-w-a-l-d and I am here as the State Tax Commissioner. I'm representing the Department of Revenue in support of LB331. LB331 changes provisions of the individual income tax, repeals the estate tax, and repeals the contract labor--sales and use tax on contract labor. With respect to the income tax, it has an effective date of January 1, 2007, reduces the current brackets from four to three, broadens the brackets which means we have more income taxed at lower levels, eliminates the marriage penalty by making married joint brackets and standard deductions equal to twice the single amounts--approximately 65 percent of Nebraska returns are subject to the marriage penalty--increases the standard deduction amounts to federal levels, indexes the brackets for inflation beginning in 2011, and generally reduces marginal tax rates and phases in a reduction of the top bracket tax rate through 2010. In the handout there you have what the current system is as well as what the proposed system would look like there. One of the most important things to remember about this proposal is that it's more than an idea for achieving tax reform. It's also a plan to reform Nebraska's income tax system. There are several principles of sound tax policy at work in LB331. First, a good tax system should be simple. The cost of compliance is a real cost to taxpayers and that's what we should try to eliminate. A good tax system should be based on the idea of keeping the burden on taxpayers low. Taxes should consume a small portion of income as possible and should not interfere with economic growth and investment. As the Governor has mentioned, taxes on corporations, families and individuals, as well as goods and services should be competitive with surrounding states. Approximately 30 percent of Nebraska businesses pay their taxes through the income tax. These are the small businesses, the S-Corps, the partnerships, and the sole-proprietors. Finally, tax policies should be neutral. The fundamental purpose of taxes is to raise the necessary revenue for programs and services. The Governor's Tax Reform Bill touches on each of these principles. Number one, simplification. We have fewer tax brackets. Number two, it lowers the tax burden. Individual income tax reductions across the board with the focus on the middle class, complete repeal of the sales tax on construction labor and elimination of the estate tax. Neutrality. This package returns excess tax revenue to the taxpayers for their use, not increased government spending with approximately 96 percent of all taxpayers receiving a benefit. Competition. This tax package will make us more competitive in the eyes of businesses looking to expand. Our goal should be to be more competitive with neighboring states. With respect to the repeal of the estate tax. This tax applies to estates where the amount of federal taxable income exceeds $1 million. Several of the sections, specifically 77-2108 through 77-2112, relate to apportionment of not only Nebraska estate tax, but also the federal estate tax. The language of these specific sections relating to the apportionment of the federal estate tax must be retained and therefore should be transferred to Section 30-24,114 of the Nebraska Probate Code. Revenue Committee counsel has prepared an amendment to the committee to accomplish this requirement. Lastly, the repeal of the sales and use tax on construction labor. LB331 as drafted will repeal the remaining sales and use tax on construction services, contract labor, as of October 1, 2007. Previous legislation repealed the sales and use tax on construction labor on repaired or remodeled residential properties and commercial property where the cost of the project exceeded fifty percent of the value of the building. This bill removes sales and use tax on construction labor in its entirety. Materials purchased by contractors will remain taxable based on the contractor's particular taxability option. With that I would entertain any questions from the committee. [LB331]

SENATOR DIERKS: Thank you, Doug. Questions for Mr. Ewald? Senator Raikes. [LB331]

SENATOR RAIKES: Thank you. Mr. Commissioner, one of the questions I guess I'd ask you to start with is there a good reason to eliminate the estate tax other than that other states have done it? [LB331]

DOUG EWALD: I think we are one of a few left that actually have an estate tax. [LB331]

SENATOR RAIKES: Other than that is there a good reason? [LB331]

DOUG EWALD: Other than that, I don't know that it makes us more competitive. I know we have a number of people that if when they're doing their tax planning what they will do is they will move out of state before they do a number of things, but honestly that's probably... [LB331]

SENATOR RAIKES: What I'm doing is lamenting the fact that I think a lot of other states and the federal government have made a mistake and we're forced to follow that mistake simply because we're one of the few that so far hasn't made the mistake. [LB331]

DOUG EWALD: I would concur with that, yes. [LB331]

SENATOR RAIKES: Okay. Thank you. But one other question. Elimination of the sales tax on construction labor. As you know, our sales tax base is under attack. There's more and more internet sales. It's more and more difficult to collect sales tax on transactions that are typically made these days. Is it good tax policy to narrow the tax base when it is already being narrowed, and by doing so putting off the eventual date at which you could lower the rate for everyone and everything from 5.5 percent down to five or some lower number? [LB331]

DOUG EWALD: That's a very good question. And obviously, today we have a fairly narrow base. You are correct. And with the internet, with what's going on there, the base has narrowed compared to what it was in the past. The economy, the way things are done today, are quite different than what they were 20 or 30 years ago. Now with that being said, we have found with the Department of Revenue that it's been difficult for taxpayers to understand what their requirements were. And it has been difficult to audit and make sure that everybody is on the same page with respect to that. So I think this particular provision eliminates an issue that probably has created a lot of confusion out there in the small business community with the contractors on what they should be doing, what they should be charging, and I echo that. I mean, we've seen that through the audits. [LB331]

SENATOR RAIKES: Okay, thank you. [LB331]

DOUG EWALD: You're right with respect to we should probably broaden the base at some point in time and give a hard look at that. And hopefully that's something that Senator Burling's, the committee on the Tax Policy Reform, that's one of the things that that gross receipts committee will be looking at. [LB331]

SENATOR RAIKES: Okay, thank you. [LB331]

SENATOR DIERKS: Senator Langemeier. [LB331]

SENATOR LANGEMEIER: Thank you, Chairman Dierks and Commissioner Ewald. You talk about the confusion on the construction labor repeal and the confusion out in the industry. Is that truly an argument to repeal something based on confusion? If not, why doesn't any taxing entity complain that it's just too confusing so take it away? [LB331]

DOUG EWALD: That's a good question. You know, based on our audit experience it has been confusing. And you could argue that why should we have it if it's confusing.

Everybody could obviously argue that one way or another. I guess it's a mechanism to maybe clean up something in its entirety, that there is some cost to it--it's not a huge cost--and obviously difficult to administer. [LB331]

SENATOR LANGEMEIER: The other question I have is we're told on many occasions that the confusion and the increased tax is a burden on future development, it's an inhibitor. But looking at the fiscal note, as that number grows, that would indicate that at least the fiscal office does not see this an as inhibitor in any way. It doubles over four years, the amount of revenue that would have been generated which is going to be lost. What's your thoughts on that? [LB331]

DOUG EWALD: Yeah, I know that there will be a number of people that will testify with respect to the industry, those type of people that are actually doing the work out there on a daily basis. Obviously, not a huge cost there. And it's something that's obviously in play here. [LB331]

SENATOR LANGEMEIER: $9 million. I thought it was huge. Thank you. [LB331]

DOUG EWALD: Um-hum. [LB331]

SENATOR DIERKS: Senator White, please. [LB331]

SENATOR WHITE: Thank you, Mr. Commissioner. With regard to the estate tax I have two questions. First, how many estates in Nebraska actually paid this tax last year? And in lieu of getting rid of the estate tax given that citizens, prominent citizens like Warren Buffett, argue against getting rid of it, has the administration considered raising the amount to ensure that our family farms, small businesses can pass unimpeded? But we prevent what Tocqueville called the dangerous accumulation of inherited wealth that can threaten democracy. Were those issues considered by the administration? [LB331]

DOUG EWALD: To answer your first question, the department receives approximately 500 estate tax returns during any given year of which approximately half of those actually have a liability. The other half file because they feel they want to bring closure to something or somebody tells them they need to file, when in all practical purposes there was actually no need for them to file. So we get 500 returns. Half of them actually have some sort of liability on them. Now with respect to your other question, I don't know what the administration has actually looked at. I mean, you could argue that well maybe we should bump that to $2 million, you know, $3 million. Something there that would...and protect the family farms at the same time. So I think that there's a number of things that could be at play here. [LB331]

SENATOR WHITE: Thank you, Mr. Commissioner. [LB331]

SENATOR DIERKS: Other questions? Senator Preister, please. [LB331]

SENATOR PREISTER: Thank you, Chairman Dierks. Commissioner, I want to refer back to the labor charge, the sales tax on construction labor. Can you give me a more accurate picture of what revenue we actually generate? We've got the sales tax that's bringing some revenue, but the business can depreciate, can recapture. There are mechanisms available. Do you have a better picture of what the actual revenue is from that sales tax? [LB331]

DOUG EWALD: Are you saying with respect to the service side of it, specifically, or... [LB331]

SENATOR PREISTER: Yes, singling that out. [LB331]

DOUG EWALD: I think it's approximately $4 million to $5 million a year. I can verify. I can validate that for you if you like. [LB331]

SENATOR PREISTER: Okay. All right. [LB331]

DOUG EWALD: Make a note and do that. [LB331]

SENATOR PREISTER: Thank you. [LB331]

SENATOR DIERKS: Other questions? I think not, thank you very much, Commissioner. [LB331]

DOUG EWALD: Thank you. [LB331]

SENATOR DIERKS: Next proponent, please. [LB331]

SENATOR HOWARD: For the record, I am Senator Gwen Howard from District 9 in Omaha and I've come in today to speak in support of the contract labor tax removal on LB331. A year ago I came before you and was successful in convincing you, shall we say, to look at the issue of removing the sales tax from home repairs, and I'm very grateful for that as is my district. It's made such a difference and I'm happy to come back here to you and report that the homeowners, and my district is mainly older homes, established homes, and people, in many cases, are older people trying to stay in their homes and of course to keep them up. And over the summer, even in the neighborhood where I would walk my dog I could see the improvements. I could see the people that were putting on new roofs and doing needed home repairs that they have waited a long time to do. So I am very much in support of the removal of the remainder of this tax. And I think it will make a difference, especially to our smaller businesses and the older sections of town. I think we need to encourage people to keep their businesses up as well as their homes. And I appreciate your time. Thank you. [LB331]

SENATOR DIERKS: Thank you very much, Senator. Are there questions for Senator Howard? [LB331]

SENATOR HOWARD: Good. [LB331]

SENATOR DIERKS: No questions, thank you very much. [LB331]

SENATOR HOWARD: Thank you, sir. [LB331]

SENATOR DIERKS: Next proponent, please. [LB331]

RICHARD BAIER: (Exhibit 3) Good afternoon vice chairman Dierks, members of the committee. For the record, my name is Richard Baier, last name is spelled B-a-i-e-r. For the past several years I have had the pleasure of serving as director for the Nebraska Department of Economic Development and I've had the chance to work with many of you in your districts. I am here today to offer my support for LB331. You've heard from Governor Heineman and Tax Commissioner Ewald in outlining the proposal and the changes and the reasoning for those proposed changes. My job is to share with you the proposed income tax restructuring and its importance to our state's economic development effort, and to share a couple of general examples with you. We all recognize that businesses grow and expand in specific geographic locations based upon a myriad of forces. Nationally and internationally competition for these business start-ups and expansions is intense and increasing every year. As outlined by the previous testifiers, Nebraska's clearly at a disadvantage in this effort when it comes to our overall costs of doing business because of our income tax structure. Leading site selection consultants like Ron Pollina of Chicago continue to recognize Nebraska as a high tax state in their annual rankings and in their annual analysis. This type of thinking then becomes a contagious perception among other business development consultants around the country and around the world. Similarly, DED continues to deal with business development prospects where Nebraska's overall cost of doing business places us at a competitive disadvantage with surrounding states. One limited liability company we worked with recently made a sizable manufacturing expansion in our state. And I'll tell you that they loved the facility in our state. But this firm specifically chose to retain their parent operations in a state with no income tax. When I asked them over a recent event about relocating their home office the owner simply said are you crazy. And again, I think it reflects the perceptions that we have in our state. Similarly I've had several entrepreneurial business start-ups tell me over the past year that Nebraska is at a competitive disadvantage because of our high tax climate. At the recent Entrepreneurial Form sponsored by the University of Nebraska in November, we had two businesses approach our staff indicating a desire to move out of Nebraska once they become more profitable as new businesses. We also worked closely this past year with a fast growing financial service business that has chosen to maintain operations in Nebraska, but with a parent office on the east coast with a lower tax rate. Unfortunately, I can't name one entrepreneurial business that would voluntarily pay a 6.84 percent income tax rate on Nebraska rather than a much smaller rate or no tax at all in competing states. The proposed income tax cut also plays an important role in our state's ability to recruit and retain middle income, semiskilled and skilled workers. A study by the Nebraska Department of Labor last fall highlighted more than 34,000 job openings across our state that paid in excess of $30,000 per year. These jobs were spread across the state in various sized communities and represented a wide variety of career occupations and industry classifications. Again, I think we all recognize that these workers and potential workforce members will make career choices based upon a number of factors. However, the presence of a high personal tax burden makes a clear difference. Last week, for example, I talked with a North Platte business owner who recently hired a new maintenance director to join his growing business. This maintenance worker's spouse worked as a registered nurse at Great Plains Regional Medical Center. This new young couple experienced what they called significant pay stub shock when they realized moving to Nebraska the high income tax rate that they were being assessed as well as being subject to the current marriage penalty in our tax code. My business owner friend is very concerned about his ability to retain this new maintenance person over the long haul for his business. This type of story is not uncommon as we talk with business owners and employers across the state. If we hope to retain and recruit a strong work force, and what I would call a world-class work force, and to ultimately grow our state's population we must begin to deal with our individual tax burden head on. Allowing continual tax creep will only place us at a greater disadvantage as we look to grow our businesses and our work force. When we talk about leaving a better Nebraska for our children and grandchildren, I don't think any of us truly means creating a tax and spending culture that continues to creep out of control. With that I would be happy to take any questions that you might have. [LB331]

SENATOR DIERKS: Questions for Richard? Senator Preister. [LB331]

SENATOR PREISTER: Mr. Baier, I was reading so I may not have heard what you were saying, but what I think I heard you say was that you were working with some businesses and I assume if you're working with them they've been receiving some tax incentives. And they said that once they get profitable after using those tax incentives, they're looking to move out of the state? [LB331]

RICHARD BAIER: Traditionally those are in small start-ups who would not benefit under most of the Nebraska Advantage programs. Typically, we see what I call traditional start-ups maybe here in Lincoln. As an example, maybe it's a start-up software company and in many cases those companies aren't profitable five, six, seven, eight years. And if you look at, you know, things like PayPal for example, that started out as a small start-up that ultimately became what it is today. Those folks weren't profitable for the first 10 years of operation. And so I think we see a lot of that kind of same thing happening with small start-ups here in Nebraska. And one of the challenges that we have, if you look at, you know, the University has done a fantastic job in developing new technology and leveraging resource dollars in Nebraska, both from a federal and industry perspective in terms of R&D. What we haven't done quite as well is in terms of making that spin out of those industries. You know, last year a CFED report just came out, we were eighth in the county in R&D research dollars at the University. We're 38th or 39th in terms of spin-outs. So again, this becomes a tool to help leverage that research into jobs for our kids. And so those are the folks that are really going to benefit the most. [LB331]

SENATOR DIERKS: Senator White, please. [LB331]

SENATOR WHITE: I have read with interest your comments particularly that we are competing with people with no income tax. [LB331]

RICHARD BAIER: Um-hum. [LB331]

SENATOR WHITE: Such as Wyoming, Florida. [LB331]

RICHARD BAIER: Um-hum. [LB331]

SENATOR WHITE: Now Wyoming has coal... [LB331]

RICHARD BAIER: Sure. [LB331]

SENATOR WHITE: ...and the severance tax from that largely funds their state. We have no such blessings here. [LB331]

RICHARD BAIER: Right. Yeah, wish we did. [LB331]

SENATOR WHITE: Yes. How can we, for example, fund R&D at a level of eighth in the nation in this state? If what you say is inevitable, we're competing with no-tax states. Aren't you raising us to the bottom? And the only thing we can do is slash services, education, other essential matters to the point where we're not at all attractive. [LB331]

RICHARD BAIER: What I'll tell you, Senator, in terms of our race to the bottom I would tell you first and foremost I think the University has done a great job in leveraging federal research dollars. So I think that's been part of the work they've done. And President Milliken and his staff across the board have said let's make this process work. Where I think we run into a challenge, and I don't think, you know, it's a case of having to have no income tax, but I think what happens is I think our level is so high in terms of our competing states as simple as Kansas or other states around us. I think people begin to look at that. And it sort of becomes a lightning rod for discussion. You know, I've sat in the meetings of the entrepreneurs and the small business owners and it always gets back to that issue. And so I think as much as anything else it really becomes a lightning rod for perception and reality. So I think what we can do is begin to change that perception by beginning to implement things like proposals and LB331. Begin to send a message that Nebraska's open for business. We're open for entrepreneurship and we're open for small business. I don't think I can argue that we have a replacement source in that we can do away with income tax tomorrow. I would exactly agree with your perception. [LB331]

SENATOR DIERKS: Go ahead, Senator. [LB331]

SENATOR WHITE: But not even leaving the university, Mr. Milliken would tell you the Governor's proposal as it is threatens to close the university which you tout as being such a good thing. How do you balance those? [LB331]

RICHARD BAIER: Well, I think that's a challenge, obviously, that if you look at where I'm at I'll tell you that my agency who is in the same boat of having to try and go out and leverage investment across the state, is looking at a budget increase identical to the university. And it's not going to be easy. What it's done for me is forced me to make some priorities and begin to look at things where we can develop niche opportunities and make sure that we focus on our highest growth areas and make the biggest impact. I think we're going to have to address those issues. [LB331]

SENATOR WHITE: Thank you. Thank you. [LB331]

SENATOR DIERKS: Other questions for Richard? You made a remark about some Department of Labor study that said that there were 34,000 job openings that pay in excess of $30,000 a year. How does that square away with the state of Kansas for instance? Do you have figures on that? [LB331]

RICHARD BAIER: You know, Senator, I don't have specific numbers. I will tell you and it really gets back to the fundamental philosophy of my comments today, we face a work force challenge in this state long term. And our challenge is to bring people back. I will tell you I'm a native of northwest Kansas and they are aggressively, monthly, trying to recruit me back to Kansas. And so as we begin to look at the kinds of openings, everybody in the country is dealing with we have lots of openings. We've got to be able to attract a work force and we've got to do a better job as a state of keeping our young people, bringing back some of our young people, and finding ways to bring back what I'd call some of the folks who are empty nesters as well to bring them and incorporate them into our work force. But it's a challenge not only in Nebraska, but around the country. And you see it really in places in the rural communities in Nebraska at this point. [LB331]

SENATOR DIERKS: Okay. Thank you very much. Any other questions for Richard? I think that's it, Richard. [LB331]

RICHARD BAIER: Thank you. [LB331]

SENATOR DIERKS: Could I see a show of hands, please, of those people wanting to testify as proponents of this bill? Way up in the air so I can get a count. Okay, thank you. Six. Go ahead, sir. [LB331]

JOHN CEDERBERG: Good afternoon. I'm John, J-o-h-n, Cederberg, C-e-d-e-r-b-e-r-g. I'm a CPA here in Lincoln and in response to your poll, Senator Dierks, I think I'm going to shorten the list of testifiers significantly by the long list of organizations that I'm here for. In fact, I will turn in the paper after I finish so I don't forget any. I am the treasurer and the vice chair of the taxation counsel of Nebraska's Chamber of Commerce and Industry. And I am here representing the Nebraska Chamber this afternoon. I'm also a member of the Lincoln Chamber of Commerce and a member of its public affairs committee. And I'm here representing the Lincoln Chamber of Commerce. I've also been asked to represent the Greater Omaha Chamber of Commerce, the Bellevue Chamber of Commerce, the Nebraska Bankers Association, the Nebraska Federation of Independent Businesses, the Nebraska Economic Developers Association, and another organization of which I'm proud to be a member, the Nebraska Diplomats. And finally, particularly I suspicion if we get into some questions, I'm here representing myself. [LB331]

SENATOR DIERKS: Well, that really shortened the list, didn't it? (Laughter) [LB331]

JOHN CEDERBERG: Last fall, I was asked by a couple of different people to suggest to them what I viewed as perhaps some of the very top priorities in terms of the tax strategies for the state of Nebraska. And I did. I responded in fairly extensive e-mails. And you can't imagine my pleasure, in looking at LB331, to notice that three of my top priorities are the subjects of this bill. I wrote last fall that the repeal of the state estate tax was very important. And the organizations that I'm representing here this afternoon similarly believe the repeal of the state estate tax is very important. These organizations are the organizations that are interested and are focused on growing the nonfarm economy of our state. Back in the eighties, we kind of woke up to the proposition during the recession, during the time of troubles, if you will remember how tough it was in 1984 and '85, that when we made a decision in the 1960's that we were going to move and shift in many respects the sources of revenue and public revenue in the state of Nebraska from the property tax to broad-based sales and income taxes. That we had not recognized all the implications of that. The most important implication being that property tax is designed to raise revenue from property--farms, homes, business buildings, commercial structures. The sales and income tax is designed to raise money from transactions. The sales and income tax only works well in an urban economy where the earning cycle is 30 days, maybe 14 days, maybe seven days. But as the money churns through the cycle, as the employee gets paid, goes and pays his rent, buys groceries, buys clothes, that grocer pays their employees and so forth and churns through the economy anywhere from maybe 10 or 12 to 25 times a year that every one of those is an opportunity to collect income tax and to collect sales tax. And so for us to be successful in the political decision that we made, in the sixties, that we are going to move the focus of our public finance from property to sales and income taxes. We kind of learned in the eighties that one of the implications of that is we aren't going to be a success unless we substantially diversify our economy into the non-production agriculture realm. Now that doesn't mean that production agriculture doesn't remain vital to the state. We all recognize that we are a farming state and production agriculture is absolutely vital and critical to the financial health of our state. But we need to catch up with Iowa, we need to catch up with Kansas, Missouri, in diversifying our economy, because that is the basis for sales and income taxes and we do that through economic development. And that's why you hear so much and you have heard for the last 20 years or your predecessors hear so much about the implications of taxation and tax strategies on economic development. The estate tax makes us stand out. As has been said earlier, we are one of the very few states that still have it. It was a recession era tax that was used to balance our revenue shortfalls at state. The recession is over. The economy is strong. And when one does recession era taxes one really does need to look as to whether they shouldn't end when the recession ends. And so from the economic development standpoint and from a tax strategy standpoint, I listed the repeal of the estate tax very high on my list. As a matter of fact, last year's bill to repeal the estate tax was one of the very few that enticed me over to testify before the Revenue Committee and I still continue to feel that that's very, very important. The second change that I listed was perhaps more tactics than strategy. It's in this bill. And that's the repeal of the remaining sales tax on construction labor. I first got started in this legislative foray, my first foray into it I should say, was back in 1983 when the U.S. Supreme Court declared the Tennessee tax on banks to be unconstitutional. And we talked about this the other day. And I got involved at that time in attempting to help revise the Nebraska tax. Our first attempt at it was not successful and I learned then that one of the most key elements of a good tax is a tax that the taxpayers and the taxpayers' advisors understand and can accurately comply with. The sales tax on construction labor in the last few years, and you heard the commissioner talk about it, has proven to be as bad a tax as the original bank tax was in 1983 and 1984. And we replaced the bank tax in 1985 with the deposits tax which you heard me say the other day is working beautifully. Similarly, the construction labor tax is a bad tax, simply because taxpayers have not found it possible to comply accurately and their advisors have found it impossible to assist them efficiently in complying accurately. And so I suggest that it's very important that we go ahead and get that tax off the books. Like the estate tax, that's a recession era tax and again, the recession is over and I believe it's time to end that tax. And then finally, of course, we come to the income tax which I have spent a good part of my life being around. You, perhaps, saw a quote which was accurate in the Omaha World-Herald last Sunday that I referred to the income tax in Nebraska as a lightning rod. I'm not offended by the fact that the reporter didn't finish that sentence, but what I said to him when I said that it was a lightning rod in the economic development area was that it probably did more damage to the image of our tax structure than it may deserve, because it's a lightning rod and it's so visible. And I'll just give you a couple of examples of things that have come to pass in my practice just in the last couple of years that illustrate why it's such a lightning rod. As I think most of you know, most of my practice is serving as a consultant to independent public accounting firms who do not have their own national service office, and so I talk to CPA's over the whole country. I received a call from one of my client accounting firms in Illinois and their client was considering a purchase and expansion to Nebraska. Their client is in pass-through form. It's an S corporation. And the accountants were so alarmed or amazed--I shouldn't say alarmed--they were so amazed at the level of the Nebraska income tax liability on the Illinois shareholders and the degree to which the tax liability on their Nebraska operations would exceed the liability in Illinois, and therefore, not be fully creditable against their Illinois tax, that they called me and asked me to review all their calculations to see what they had missed. And they e-mailed me a picture of all their calculations and I looked at it, and yeah, they had missed a couple things, but I regretted to have to tell them essentially you're right. The tax in Nebraska would only be about 50 percent creditable against your owner's Illinois returns. I can't tell you that this did or did not manage the decision for them to come to Nebraska. I did follow up in a few weeks and determine that they had decided not to make the deal. And, you know, it may have been other things that had the same thing. The other example is I was consulting with a Nebraska company that had an opportunity to work with a California company to develop an internet business. And of course, now we end up with all sorts of interesting issues, because they are also in pass-through form. And one of those issues is California tax, but the other issue of course was the Nebraska tax on the operations. And I can tell you that operation ended up in Texas. Not solely because it's a no tax state. Somewhat because when they advertised for programmers they had some excellent responses from Texas, but taxes did play a part and they were certainly a focus of many of our consultations. LB331 starts the process of rationalizing our income tax. It, over a period of time, will reduce the degree to which our income tax becomes a lightning rod for people's perception of our tax structure. Unfortunately, this is an area in which at the top decision-making levels of businesses perception becomes reality and in this case it gives us an outstanding opportunity to bring perception, perhaps, closer to reality. And so therefore, I come and the organizations I represent come strongly supporting the income tax changes, the repeal of the construction labor, the repeal of the estate tax, generally all-encompassed in LB331. With that I would be happy to respond to questions. [LB331]

SENATOR DIERKS: Questions for Mr. Cederberg? Senator White. [LB331]

SENATOR WHITE: Thank you. Mr. Cederberg, thank you for coming here today. I listened with interest that we have 30,000 jobs going begging that pay over $30,000 a year in the state. I mean, that is the equivalent to one of the larger cities in our state with no one there. And I appreciate that we need, do we not, to attract young people here, fill those jobs to ensure our fiscal future. Is that correct? [LB331]

JOHN CEDERBERG: Oh yeah. Absolutely. [LB331]

SENATOR WHITE: One of the things that concerns me is part of the Governor's program, in fact the next bill that will be heard is LB325. LB325, at the request of the Governor, would repeal the business child care income tax credits. Now isn't that inconsistent with what we are hearing that what we must do is encourage young families to come to the state to take away such an important benefit to working families? At the same time we claim we're trying very hard to attract them. [LB331]

JOHN CEDERBERG: Interesting you should ask me that question, Senator White. Being new to the Legislature, you won't remember the same history that Senator Raikes does that guess who wrote many of their tax provisions of the employer child care credit and lobbied very hard for it back in 2000-2001. The employer child care credit was brought to Senator Landis at the time because we had a extraordinarily high percentage of our elementary and preschool age mothers in the work force, and because we have a shortage of not only day care, but quality day care. And when you pick out the really quality centers, they're fairly expensive. And the decision was felt appropriate to entice employer resources into that market. And that particular bill was structured with some relatively unique features. One of them being that not only would it have incented large day care centers such as the time the Union Pacific's power was under construction, but it was designed to make it available to people with one and two employees. By not having to own the center, but rather being able to work with and establish that. [LB331]

SENATOR WHITE: Mr. Cederberg, I understand that. I just ask you... [LB331]

JOHN CEDERBERG: Yeah. [LB331]

SENATOR WHITE: ...can you harmonize the testimony and the need to attract young couples, young families to fill these jobs we are creating and hope to create more of with removing such credit? [LB331]

JOHN CEDERBERG: No, the answer is no. [LB331]

SENATOR WHITE: Thank you. [LB331]

JOHN CEDERBERG: That program has not had an opportunity to come into effect and it should be given that opportunity now. [LB331]

SENATOR WHITE: Thank you. [LB331]

SENATOR DIERKS: Other questions for John? Senator Cornett. [LB331]

SENATOR CORNETT: No, Senator Langemeier's trying to... [LB331]

SENATOR DIERKS: Senator Langemeier, please. [LB331]

SENATOR LANGEMEIER: Thank you, Chairman Dierks and Mr. Cederburg, thank you for your testimony. And I just want to go back to a little bit of your earlier testimony. You talked about the three top priorities that you have that also falls within this bill and you appreciate that, and with that it would grow the nonfarm sector. If this truly is one of the goals and one of the accomplishments of this bill would be to grow the nonfarm sector, would that not be at the expense of our farming economy then putting the burden back on property tax even more? [LB331]

JOHN CEDERBERG: LB331 is not designed to reduce the state resources that are made available to local jurisdictions for aid to jurisdictions such as support of public schools. You heard the Governor say there's like $2.4 billion in his budget for local aid. A very large percentage and I have not done the calculations, but I've read the budget and, you know, the greatest increases that are in the Governor's budget--and of course this is an appropriations issue not a revenue issue--are aid to public schools and are, you know, are sharing with the local jurisdictions. So this bill is designed to do, with state taxes, some strategic redirection, strategic adjustments, without a shift onto property tax. Now we all know that property taxes are levied and collected locally and I don't think there's anybody sitting behind me in the room who will come up here and say property taxes are too low. I mean, property taxes are a political issue in this state, have been, will continue to be, but this bill doesn't raise them. This bill continues to share the state's resources with the local jurisdictions. And with the economic growth in the populous counties, basically 13 of our counties are populous counties with economic growth in those counties, I believe that it makes more probable the sustainability of our level of sharing of the state resources with local jurisdictions and I believe it makes more probable the sustainability of property tax relief. [LB331]

SENATOR LANGEMEIER: Thank you. [LB331]

SENATOR DIERKS: Other questions? I guess that's it, John. Thank you very much. [LB331]

JOHN CEDERBERG: Thank you. [LB331]

SENATOR DIERKS: Next proponent, please. Whenever you're ready, sir. [LB331]

BLAINE WILCOXSON: Thank you. [LB331]

SENATOR DIERKS: Did they inform you when you testify you should tell us your name and then spell it for the record? [LB331]

BLAINE WILCOXSON: They did. [LB331]

SENATOR DIERKS: Okay. Thank you. [LB331]

BLAINE WILCOXSON: Thank you. Senator Dierks and members of the Revenue Committee, good afternoon. My name is Blaine Wilcoxson, B-l-a-i-n-e W-i-l-c-o-x-s-o-n, vice president of the Waldinger Corporation in Omaha, Nebraska. I represent members of the Associated General Contractors Nebraska Building Chapter along with memberships of the Mechanical Contractors Association of Omaha and Nebraska Electrical Contractors Association. We are here in support of LB331 and to provide testimony to support the elimination of the sales tax on construction services. The sales tax on construction labor was established in 2003 as a temporary measure to improve the budget deficit encountered that year in the state of Nebraska. The deficit budget has become a surplus budget so it is time to eliminate the temporary labor tax. The sales tax on construction services adds another layer of taxation expense to commercial property ownership, in addition to taxing labor which is already taxed as the individual earns the labor and as the business entity makes a profit on the labor. The rules and regulations for administering the labor tax are very complex. They're very complicated and confusing. In 2004 and 2006, attempts were made to clarify and simplify the law, but when it came to the implementation both changes only added to the complexity and the confusion of the law. The Nebraska Department of Revenue administers the audit and audits the sales tax laws based on the retail business model. The construction business model is very different from the retail business model. This in part is what leads us to some confusion and complexity when applying the law. The rules and procedures change very often. With the current law you truly do not know what the sales taxes are due on some projects until you get through the audit process and appeal the process with the Nebraska Department of Revenue. This tax is very complicated and should not exist anymore. And then I actually brought my counterpart with me, Mark Benjamin, to testify to similar...when I'm complete. So I don't know if we want to open up for questions or let Mark complete our testimony. [LB331]

SENATOR DIERKS: We'll take questions for you right now, I think, if you're through. [LB331]

BLAINE WILCOXSON: Certainly. [LB331]

SENATOR DIERKS: Okay. Any questions for Blaine? I guess not. [LB331]

BLAINE WILCOXSON: Thank you. [LB331]

SENATOR DIERKS: So, thank you very much. [LB331]

MARK BENJAMIN: Senator Dierks and members of the Revenue Committee, good afternoon. I'm Mark Benjamin, that's B-e-n-j-a-m-i-n. I'm president of BD Construction in Kearney, Nebraska. I'm here today representing the Associated General Contractors of the Nebraska Building Chapter, along with a membership of the Mechanical Contractors Association of Omaha and the Nebraska Electrical Contractors Association. We are here in support of LB331 and here to provide testimony to support the elimination of the sales tax on construction services. My specific task here today is to give you examples of how the current situation with tax on construction labor plays out in the construction process. I'd like to give you some examples. Over the course of a commercial building renovation starting from when a project is bid, the specifications are not clear as to whether a job is taxable. Design professionals and owners are not clear on the tax or the construction service laws. They feel that is the problem of the general contractor. However, because owners are very reluctant to provide assessed value information on their property, the property is often grouped with other property in a parcel. And it can become a challenge for the general contractor to gather the necessary information up front to determine the amount of labor tax necessary in a particular project. I'll give you a specific example of a project we recently completed in York, Nebraska. We had a situation where we were doing a major renovation and we were doing the renovation to a particular structure that was a group of many structures. It was very clear to us that the renovations of this structure were a greater value than the individual structure itself. However, due to the fact that this particular building was grouped with the other improvements on the property, we found it necessary to charge sales tax on labor for this project because we were not able to break that particular valuation down without going through an appraisal process, thus delaying the project. So in that specific situation this owner was subject to sales tax on labor, because of the circumstances that presented itself. Typically, as a project proceeds there's often communication problems between the general contractor, the vendor, and the subcontractor as to the application of the sales tax to different components and processes within the project. Often, a missed code or a wrong wording on an invoice will cause a major shift, unfortunately, in the sales tax due at audit time. Oftentimes, an out-of-state or a small business vendor or a subcontractor will look to us, the GC, for education and advice on the issue. Now we're willing to help and we're willing to assist as much as possible and we try to provide assistance, but to be honest with you we're reluctant because of the complexity and the ongoing changes that have been transpiring during this process. Bottom line, we are not the Department of Revenue for the state of Nebraska. When a question arises in the process it's difficult to get a clear answer or the same answer twice from the Department of Revenue. The law is so complicated that they are not sure on some issues and they consistently need to revise the rules as they go. Again, a point made, we had asked specifically for a clarification. This clarification took three calls to the Department of Revenue. Every single call we made we talked to a different person and got a different answer on the same question that had been asked to the two previous. In some cases, when we, the contractor, bill an owner for sales tax they are reluctant to pay, especially if it involves a change in mid-project that's brought on by a change in department rules and regulations. If the property owner refuses to pay, that leaves us as the general contractor bearing the burden. Again, I'll give you a specific example. We had another project recently where we started under the rules and regulations of a previous revision of the current statute where the work we were doing actually was considered a natural disaster. Well, halfway through the process the interpretations changed and we then had to look at the valuation of this structure on a different basis to determine whether we could look at it and include or exclude sales tax on labor. What happened in this situation was midstream we went from a project that was not applicable to the sales tax on labor to one that was. Now fortunately, in this situation we had an owner that did understand this, but regardless, they had about another $17,000 surprise because of a change midstream in the construction process. The next part that's interesting to me is that somewhere between project completion and the three-year audit cycle that the Nebraska Department of Revenue utilizes, everything that we think we're doing correctly and in tune with the rules and regulations as they've been explained to us, they go out the window. And what we have found is that some auditors actually interpret the regulations differently than the Department of Revenue's own educators schooled us to begin with. Matter of fact, we were subject to an audit recently. We had two auditors in our office for six solid weeks and during that point and during those time periods, we actually had those two auditors differ on interpretations of what was the correct action to take or not to take. I've been asked by many why don't we just add more to our project costs to cover the possibility, question mark, of the sales tax liability. The answer is quite simple. If we did that we probably would price ourself out of the market and unfortunately, every competitor that we compete against looks at the situation differently. Contrary to popular belief, we do not operate on wide margins. As an industry, we want to make it clear that we are not opposed to an audit process. And as a matter of fact, we view the general auditing process as a method to ensure that everyone in the industry is playing by the same rules. Unfortunately, we have a system here that is not working. In summary, we support LB331 and we hope that because the deficit no longer exists in this state budget and because current sales tax on construction services is confusing, it's complex, and it generates relatively small amount of revenue, that you will continue to include this elimination of service tax in the committee's tax reduction bill. Thank you and I'll answer any questions you may have. [LB331]

SENATOR DIERKS: Thank you very much, Mark. Are there questions for Mark? Senator Langemeier, please. [LB331]

SENATOR LANGEMEIER: Thank you, Chairman Dierks and I apologize for my absence in the loss of your name. We've heard today a lot about the structure and how the Department of Revenue is handling this. I didn't want to ask you the question, but I hope you'll just plead the fifth and not answer it, but maybe this is also a awakening to our new director of the Department of Revenue that maybe there needs to be some revamping within that agency to be more user friendly. [LB331]

MARK BENJAMIN: You know, we have worked with them recently and I think we brought some things to light, but yes, I would agree with that. [LB331]

SENATOR LANGEMEIER: Thank you. [LB331]

SENATOR DIERKS: Other questions for Mark? I guess that's all, Mark. Thank you very much. [LB331]

MARK BENJAMIN: Thank you. [LB331]

SENATOR DIERKS: Next proponent, please. [LB331]

WILLIAM J. LINDSAY, JR: (Exhibit 4) Mr. Chairman, members of the Revenue Committee, my name is William J. Lindsay, Junior, spelled L-i-n-d-s-a-y. I'm currently an attorney with the Gross & Welch Law Firm in Omaha and a large portion of my law practice consists of estate planning, probates, and trust administration. I've been in practice in Omaha for about 28 years and I'm here to testify in support of the LB331 as well as LB282 and LB10. I'm here on behalf of the following organizations: the Coalition for the Repeal of the Nebraska Estate Tax, the Greater Omaha Chamber of Commerce, the Lincoln Chamber of Commerce, the Lincoln Estate Planning Council, Nebraska Bankers Association, Nebraska Cattlemen, Nebraska Chamber of Commerce and Industry, Nebraska Farm Bureau Federation, Nebraska Federation of Independent Business, Nebraska Home Builders Association, Nebraska Independent Community Bankers, Nebraska New Car and Truck Dealers Association, and the Omaha Estate Planning Council. Thank you for providing me this opportunity to testify today. I also want to thank Governor Heineman, Senators Janssen, Stuthman, and Mines for bringing forth these proposals that include the repeal of the estate tax. I'd like to share with you why we believe it is important that the estate tax repeal be included in a package of bills that will help grow this state. For those of you who are new to this committee, I thought it might be helpful to begin today with an overview of Nebraska's estate tax, the difference between the Nebraska state estate tax and the county inheritance tax, and then answer any questions. In the packets that I've handed to the clerk, you'll find there are a number of documents that may help explain this including what is an estate tax, an example of estates and how the tax impacts these estates, and a map that shows how Nebraska compares to other states with regard to estate taxes and inheritance tax. Simply speaking, an estate tax is a transfer by the deceased individual by any means to his or her beneficiaries. This includes an inheritance, wills, joint tenancy, beneficiary on the life insurance policy, or trusts. As estate planners, we recommend that our clients start when they're young. Many of our clients are in their thirties or forties and quite often earlier. An inheritance tax, the tax on the receipt by the beneficiary from the deceased individual. Nebraska's inheritance tax and estate tax are tied together in their calculation. The Nebraska inheritance tax is subtracted from the Nebraska estate tax. These bills would repeal the Nebraska estate tax only. The Nebraska inheritance tax would remain in effect. The revenue received from the Nebraska estate tax cannot be looked at without considering the effect of the existence of this tax on other tax revenues. Once a taxpayer leaves the state we lose that taxpayer's income tax, business tax, sales tax revenue, and potentially property tax revenue. I wish all of you could have heard the discussions I've had involving attorneys and accountants from all across the state of Nebraska. Some handle farm estates, others handle small businesses, and some handle the very wealthy. The level of concern has increased each and every year and has hit a new high last year. Estate planners are very concerned about the number of Nebraskans who are leaving or considering leaving the state because of the Nebraska estate tax. In many cases, these individuals also mention they are paying lower or no state income tax in another state and that their property taxes are less. Mobility is a fact of life. Nebraskans are more mobile than ever before. Other states are more competitive than ever before, not only for companies and jobs, but for individual taxpayers as well. We cannot assume that our taxpayers will remain in Nebraska. Let me give you a few examples. I recently spoke with a trust officer who told me of a customer who resettled in another state. That trust company lost the business to a trust company in another state. One attorney I know mentioned a Nebraska taxpayer who sold a local business. Retirement was not all that the client thought it was going to be, so he wanted to open another business. After discussing all the tax ramifications with his attorney, he opened a business in a neighboring state. We have lost that client's income tax and sales tax as well as the income tax on the employee's wages, but more importantly we have lost jobs. As you continually review tax policy, it is important to examine who is paying what tax and how these taxes affect the decisions of individual taxpayers as well as fund important government programs like education, Medicaid, and other programs. We believe that it is imperative that estate tax repeal be a top priority. You may ask how can we afford to give up this source of revenue. Senators, we can tell you that this state is quietly losing hundreds of taxpayers each year and if one looked at the trickle down impact of losing those families, of losing their investments, of losing the taxes those taxpayers pay, the number, we believe, would be greater than the current fiscal note. What also must be considered is the charitable contributions made by these taxpayers and the fund-raising abilities of these lost citizens. The number of middle class Nebraskans who are planning their estates earlier than ever before and are quietly moving is alarming to estate planners. These middle class Nebraskans involve farmers, ranchers, small business owners, and soon to be middle-class retirees. These people represent hard working Nebraskans who, if given the choice, most would prefer to stay in Nebraska. I have a, today, in the packet a letter from a former Nebraskan who dearly loves this state. Many people wouldn't admit or be willing to share their story. Mr. Faith felt strongly enough about this issue to share his story. I'm going to read a portion of this and in essence of time, I'm not going to read the whole thing. For most of my life, I lived in Nebraska, and I still have a second home in Omaha. During my years as a resident of Nebraska, I saw the state's tax structure become more and more unfriendly to its citizens. The revised Nebraska estate tax imposed by the Legislature in 2003 convinced me that it is in my family's best interests for me to avoid that tax, as all as much of the Nebraska income tax, by becoming a resident of Florida where I previously had spent only a limited amount of time. Reluctantly, I have done that. In discussing this situation with many of my friends who are similarly situated, I find that they are of the same mind and are considering changing their residences to Florida, Arizona, California, or elsewhere so that their estates will not be burdened by the Nebraska estate tax. They will take with them, as I have, the income tax and sales tax revenue that they otherwise would pay to Nebraska and their local communities. As we come more and more involved in our adopted communities outside of Nebraska, the incentive to support religious institutions and other charities in Nebraska diminishes, and I find myself more focused on life in Florida. Repealing the estate tax is good tax policy. It is a policy that fits with what we believe is important criteria and includes changing taxpayer behavior, making Nebraska more competitive with other states, keeping more dollars in Nebraska, helping our local charities function, and keeping Nebraskans here. Please help change what is now becoming an increasingly common state involving Nebraskans taking up residence in another state. I'd also like to bring your attention to a map that appears in your packets. It looks like this. The green that you will see are those states that have no state estate tax and no state inheritance tax. You'll see a few of them, like Iowa, are light green. That's because, although they do have a state inheritance tax, in Iowa, for example, it does not apply to children or grandchildren. You'll see that there are three states that have both an estate tax and an inheritance tax--Nebraska, Maryland, and New Jersey. Please remember that if the bills are passed, Nebraska still would have an inheritance tax. The inheritance tax is paid to the counties, but that is revenue that is used for government functions in Nebraska. As we strive to keep taxpayers in this state we look for ways to make Nebraska more competitive. As I look for ways to send a strong message both inside and outside the state and as you look for ways to positively impact tax policy in Nebraska and impact Nebraskans all across Nebraska, we encourage you to send out a committee bill to repeal the Nebraska estate tax and generation-skipping tax. Finally, I'd also like to point out we have a few examples in your packet. A south central Nebraska farmer is one example. In this particular case, the net worth was about $4.3 million after including machinery and land. The Nebraska estate tax is $245,124 and would be a savings of nearly $130,000 if the Nebraska estate tax was repealed. Second example would be a single parent with two children. $1.5 million of term life insurance would be involved and there's minimal other assets after payments of his or her debts. The total net worth, including the life insurance, in this example is $1,515,000 because life insurance payable to somebody other than the estate is not subject to Nebraska inheritance tax. The only tax imposed in this case is the Nebraska estate tax and it would be $32,280. I did some checking this morning and I found that an individual could buy a term policy if that person was between 30 and 35 on particular group term policy of about $86.50 a month. The final example I want to bring your attention to is the northeast Nebraska small business owner. This would be an example of someone who has a larger estate, but there would be a substantial estate tax savings. We have a question as to whether or not the owner should be advised to move the operation to South Dakota, Iowa, or someplace else where the Nebraska estate taxes are saved and where 80 Nebraska jobs would be lost. Thank you for this time and if you have any questions I would be happy to answer them. [LB331]

SENATOR DIERKS: Okay, thank you, William. Are there questions? Senator Langemeier, please. [LB331]

SENATOR LANGEMEIER: Thank you, Chairman Dierks and thank you for your testimony. And I guess my question is are you fairly familiar with these examples that you've handed out? [LB331]

WILLIAM J. LINDSAY, JR: Yes, I am. [LB331]

SENATOR LANGEMEIER: On your south central Nebraska farmer example there, as you can look at it, it shows a credit for grain and livestock, breeding livestock, machinery buildings, land, nonfarm assets. And it shows on here total liabilities which in roughly adding up there, it looks like the total liabilities would be the equivalent of the market value, the market animals, the breeding animals, and the machinery, though it shows 230 acres of farm ground that would be paid for as well as the buildings that totaling a little over $3 million. Do you know what percent of our Nebraska farmers that are of that size have everything paid for except for their machinery and their livestock? [LB331]

WILLIAM J. LINDSAY, JR: I don't know what percentage... [LB331]

SENATOR LANGEMEIER: Okay. [LB331]

WILLIAM J. LINDSAY, JR: ...have that paid for. I guess it becomes a question of where you think the $1,600,000 in liabilities is attached. That wasn't necessarily specifying a particular asset. [LB331]

SENATOR LANGEMEIER: It just seems like an awful ideal situation and I hope all our farmers are in that condition. [LB331]

WILLIAM J. LINDSAY, JR: Well, I would hope they would be, too, Senator. [LB331]

SENATOR LANGEMEIER: Thank you. [LB331]

WILLIAM J. LINDSAY, JR: Um-hum. [LB331]

SENATOR DIERKS: Other questions? I think that's all. Thank you very much. [LB331]

WILLIAM J. LINDSAY, JR: Thank you. [LB331]

SENATOR DIERKS: Next proponent, please. How many proponents are there left? Two? Okay. Three. I should just remind you we have four more bills, I believe, or five more bills after this. And so we're kind of...we've spent an hour and a half on this and then we ought to kind of speed things up a little bit if you can, please. [LB331]

WALTER RADCLIFFE: I will speed things up, Senator Dierks. [LB331]

SENATOR DIERKS: That's what we want. (Laughter) [LB331]

WALTER RADCLIFFE: My name is Walter Radcliffe, R-a-d-c-l-i-f-f-e, appearing before you today as a registered lobbyist on behalf of the Nebraska Realtors Association and the Nebraska State Homebuilders Association, in support of the provision in LB331 which removes the sales tax on construction services. I'd be happy to answer any questions. [LB331]

SENATOR DIERKS: That's pretty short, Walt. [LB331]

WALTER RADCLIFFE: It's about as short as I can do, Senator Dierks. I could've done it a little faster probably. [LB331]

SENATOR DIERKS: Any questions for Mr. Radcliffe? I guess not. Thanks so much. [LB331]

WALTER RADCLIFFE: Thank you. [LB331]

SENATOR DIERKS: Next proponent, please. [LB331]

CURT BECK: I will also be very fast. Senator Dierks, members of the committee, my name is Curt Beck, C-u-r-t B-e-c-k. I'm the executive director of the Nebraska Chapter of the Associated General Contractors. I'm here today to testify in support of LB331. In addition to AGC, and in order to expedite testimony, I'm here on behalf of the Eastern Nebraska Development Council as well as the Nebraska Association of Commercial Property Owners. The sales tax on construction labor, as you've already heard, is difficult to comply with and is very complex. We would ask you to support LB331 and repeal the sales tax on construction labor. [LB331]

SENATOR DIERKS: Thank you. [LB331]

CURT BECK: Thank you. [LB331]

SENATOR DIERKS: That was very short, too, Curt. [LB331]

CURT BECK: I'm trying. [LB331]

SENATOR DIERKS: Any questions for Mr. Beck? Thanks for coming, Curt. [LB331]

KEITH OLSEN: Senator Dierks and members of the Revenue Committee, I am Keith Olsen, O-l-s-e-n. I'm from Grant and today I'm representing Nebraska Farm Bureau which I serve as their state president. A couple of the issues to go over real quick like, we support the elimination of the estate tax. It's been well verbalized today. We also support the removal of the sales tax on construction labor. That affects agriculture, farmers and ranchers, just as much as it affects people doing construction work in our towns and our cities. The one issue we have with LB331, and I should say that our support for LB331 is conditional on this issue, we have at the organization long time support for property tax relief. That is what our members tell us. We want property tax relief. But at the same time, we recognize the need and we understand Senator Burling and his task force is looking at the total tax structure in the state of Nebraska and we support that effort. And we understand that the right tax policy is important for the state of Nebraska in order to have economic growth to create jobs and efforts to retain the population in our entire state. Growing our population will help, also, to relieve the property tax load on each and every one of us. To the extent in which the reduction of income tax rates would fulfill these objectives is a goal worth considering. But we also believe that property tax relief is just as critical for our future economic growth of the state and it should be a major component of any tax relief package considered. Briefly, I'll make one personal comment. I live in southwest Nebraska. If my grandfather, in 1920, would have settled on a piece of land five miles west I'd been in Colorado. If I would have been in Colorado my income tax would be less, my property tax would be less, and my sales tax would be less. And so, you know, that's what's happening to us and, you know, that's why agriculture is extremely concerned about this, because we are at a disadvantage to our neighboring states with the tax situation. So with that, I will conclude remarks. We look forward to working with the committee as we develop a solution to these magnitude of problems we're being presented with. [LB331]

SENATOR DIERKS: Thanks, Keith. Are there questions for Keith? I guess not. Thank you very much. Any other proponents? Proponents? Opponents? Are you a proponent? [LB331]

JENNIFER CARTER: I'm an opponent. [LB331]

SENATOR DIERKS: Opponent. Okay, well we're taking opponents now. [LB331]

JENNIFER CARTER: Okay. [LB331]

SENATOR DIERKS: How many opponents do we have today? Okay, thank you. We'd like to expedite things as much as we can, folks. Whenever you're ready go right ahead. [LB331]

JENNIFER CARTER: (Exhibit 5) Okay. Good afternoon, members of the Revenue Committee. My name is Jennifer Carter, C-a-r-t-e-r, and I am a staff attorney at the Nebraska Appleseed Center for Law in the Public Interest. Nebraska Appleseed is a nonprofit, nonpartisan law firm that works to address systemic issues which create barriers to self-sufficiency for low-income Nebraskans and I am here to testify in opposition to LB331. Nebraska values would dictate that every Nebraskan should pay their fair share of taxes and no more. The proposed changes in LB331 are not fair. The changes favor only the very wealthiest among us, reducing our state revenue and jeopardizing services that benefit all Nebraskans. This proposal will not provide tax relief to Nebraska's middle class. When the Governor's tax proposal is fully phased in, it will on average only save middle-income Nebraskans making between $32,000 and $50,000 a year, about $100 per year on their taxes. Families making between $17,000 and $32,000 a year will save even less, a mere $38. Even those with slightly higher wages, between $50,000 and $78,000, will only see a change in their taxes of $250. However, those with the highest incomes in the state--making on average $1 million a year--who generate only 17 percent of the income in the state, will save $6,700. A good portion of the proposed tax cut will end up in the federal government's pocket, not the pocket of Nebraskans. $35 million of the Governor's tax cut will go to the federal government. When a person itemizes their taxes they can deduct the previous year's state tax liability. That federal income tax deduction is reduced or eliminated under this proposal, thereby increasing the amount of taxes that Nebraskans must pay on their federal taxes. As a result, 15 percent of the tax benefit from the Governor's plan will go to the federal government. In any other circumstance, a program that proposed giving away 15 percent or $35 million of its savings would not be considered fiscally responsible. Perhaps most importantly, Nebraska will lose under this proposal $205 million in revenue. Our state government is responsible for the essential infrastructure and public services that are the basis of a productive society: roads, courts, human services, parks, police, fire fighters, and schools, just to name a few. Maintaining high quality public services, resulting in part in a healthy and well-educated work force, are essential to attracting businesses to the community. However, the state needs revenue to meet these obligations and this bill would deprive the state of $205 million with which to meet these obligations. Much has been said in the press lately about Nebraska's rate of taxation in comparison to other states. And while Nebraska's property tax rate is high, according to the U.S. Census data, our income tax rate in fact ranks thirtieth in the country. The regressive structure of LB331 tax proposal provides little relief to most Nebraskans while depriving the state of revenue to provide the basic public services on which our communities rely. In addition, this reduction in revenue will further jeopardize the critical human services the state provides. For example, this tax cut is being proposed at a time when the low-income children in our state are at risk of losing their health care coverage. Nebraska's state children's health insurance program, called Kid's Connection, and its Medicaid program provide critical health care access to 30 percent of our children. This program has been highly successful, and yet 35,000 Nebraska children are still without health care coverage. With a small investment, we can do more to cover these uninsured children. In addition, Nebraska faces a $14 million shortfall in federal money for this program next year. If Congress does not act, the state will need to make up a significant portion of this shortfall just to maintain the coverage for the children who are currently enrolled in the program and will not help any of the children who are currently income eligible which is probably a little under 18,000 kids, but who are not currently enrolled. Investing in our children's health makes fiscal sense and is the right thing to do. Similarly, this tax cut is being proposed at a time when low-income working families, seniors, and children are going hungry. More and more working parents are turning to food pantries or skipping meals so their children can eat. No one who works full time should have to sacrifice one basic need for another. With a small investment in the Food Stamp Program, we could help 13,000 working families put food on the table while they work their way to self-sufficiency. With a small investment in the Food Stamp Program, we could make sure that low-income seniors never have to skip a meal in order to get their prescriptions filled. Nebraskans should only pay their fair share of taxes and no more. Tax cuts can be appropriate when the state has already met all its responsibilities, but we are not there yet. We must be clear that, at its core, this is a discussion about priorities. The decision is whether to decrease income taxes, that are already below average in the nation, in a way that benefits the few, or continue to provide the state with the means to meet its responsibilities, maintain a solid and productive community, and allow all of us to honor our obligation to the most vulnerable in our society. We respectfully request that this committee not advance LB331 and I'm happy to take any questions. [LB331]

SENATOR DIERKS: Thank you, Jennifer. Are there questions for Jennifer? I don't think so. Thank you. [LB331]

JENNIFER CARTER: Thank you very much. [LB331]

SENATOR DIERKS: If I could make a suggestion to people that are going to testify, if you have your comments written for us could you just hand them to us and then give us a brief summary of what you're going to say instead of reading the whole word, because we all can read this when we have a little more time. It would be helpful. [LB331]

MARK VASINA: (Exhibit 6) My name is Mark Vasina, V-a-s-i-n-a. I'm president of Nebraskans for Peace and the package I've given has a number of things that I won't read, but I would like to have the opportunity to read my organized thoughts which I have presented here. Nebraskans for Peace is the oldest statewide peace and justice organization in the United States. I am here today representing Nebraskans for Peace because LB331 presents a challenge to economic justice in Nebraska--tax justice for the majority of Nebraskans. With your vote on LB331 you are facing a clear choice between income tax cuts and property tax relief. Portrayed by the Governor as a middle class tax cut, this bill is designed to provide huge tax cuts targeted at Nebraska's wealthiest residents. I've attached an article from the Lincoln Journal-Star in this package and there was also an excellent one in the Omaha World-Herald last Sunday. You are being asked to make a trade-off between income tax cuts and property tax relief. I am sure I don't need to explain what every economist and homeowner knows to be simple fact--that income taxes are a progressive method of taxation while property taxes are regressive. This means that income taxes are born proportionately by those with the means to pay taxes, while property taxes hit hardest on those with low to moderate incomes. This is why the majority of your constituents want you to tackle high property taxes as your legislative priority. But there is a special interest group that wants you to do something at cross purposes with this popular agenda. Wealthy Nebraskans want you to focus on cutting their taxes. For these folks property taxes are not the bite they are for most Nebraskans. High income earners give up a proportionately bigger chunk of their incomes to income taxes. So you are being asked to place a priority on tax relief for them. Labeling this as a middle class tax cut is a tactic designed to obscure what is really going on here. What do the opponents of legislative property tax reform say? High property taxes are a local problem and state senators can't do anything about them. Not true. Ask Senator Hudkins or Senator Fischer or Senator White. These senators and others introduced important legislation to tackle this issue. Most obviously, state senators can pass legislation which can effectively cripple any effective property tax reform. I included an editorial from the World-Herald and a letter response in this package called "Don't Doom Tax Reform." LB331 is one such piece of crippling legislation. It will assure that high property tax levy lids established by the state Legislature will remain in place. It will threaten state budgets in future times of fiscal difficulties, and force other regressive taxation measures to cover deficits arising from cuts to income taxes. What else do opponents of property tax reform say? Requiring the state to pick up more costs funded by property taxes such as public education, is merely a tax shift disguised as tax reform. I guess this means that if the Legislature moves program payments from one revenue source to another nothing of value is accomplished. We are simply shifting the tax source. However, this simplistic notion of tax shifts misses, perhaps deliberately, the underlying economic reality. Different taxes hit different classes of taxpayers differently. Moving from reliance on one tax to another shifts the tax burden across taxpayer classes. For example, shifting funding for public education away from property taxes and onto statewide taxes, a program begun in the early 1990's, shifts the burden of funding education away from homeowners with modest incomes, small businesses, farmers, and ranchers, and onto higher income earners with the ability to pay. This sort of tax shift has social and economic value. It provides economic relief to those Nebraskans who truly need it, assures strong financial support for public education, and as a result of both of these results, strengthens our state economy. Nebraska taxpayers were in fact served a real tax shift last year in LB968. That bill's modest income tax cuts for most Nebraskans were swept away by the higher property taxes imposed by LB968's continuation of school levy lids which were scheduled to be lowered. That legislation shifted the tax burden away from wealthy Nebraskans and onto the majority of Nebraskans with more modest means. And I've included an opinion piece by five economists that appeared in the Omaha World-Herald addressing this tax shift away from those with the ability to pay onto the majority of Nebraskans. Faced with all this Economic 101 stuff, proponents of tax cuts which disproportionately benefit the wealthy have turned to the argument that these are needed for economic development. While the old supply-side theories of the 1980's have been largely discredited and abandoned, the twists on the argument calling for favorable tax treatment for the highest income earners lives on in other guises, and you've certainly heard about a lot of this so far today. Many economic studies on economic growth, however, suggest that attention to strong funding for infrastructure and education, and not lower tax rates, is highly correlated with growth in state and local economies. Demand evidence to support the link between these tax cut policies and the desired outcome for economic growth, the kind of evidence that you would demand if you paid for these policies yourselves. Don't just take the words of those who will clearly benefit or their representatives, war stories and all. Demand hard evidence. Study the issue seriously. Seek out and engage objective professionals in this study. I've included in the last page the last chapter of a very good book, Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development. It summarizes academic literature from real economists on the effect of state and local taxes on economic growth, and they come to some conclusions that are very different from the answers that you've been given all afternoon so far. Senators, I ask you to not advance this bill. Listen to the majority of your constituents on tax reform. If you can't pass legislation this year that tackles property tax reform, study it seriously. And refrain from legislation that will cripple your attempts to address the high tax issue that demands your attention--property taxes. Thank you very much. [LB331]

SENATOR DIERKS: Thank you, Mark. Are there questions for Mr. Vasina? Senator Langemeier. [LB331]

SENATOR LANGEMEIER: Thank you, Chairman Dierks and Mr. Vasina. [LB331]

MARK VASINA: Senator. [LB331]

SENATOR LANGEMEIER: We go back a ways. So is it my understanding you are in support of the lowering of the levy limit from the 1.05 downward? Did I understand that correctly? [LB331]

MARK VASINA: Certainly. I mean, the devil in all of this is in the details and there are all sorts of competing issues here, but our organization is in support of tackling property tax relief and not focusing attention on income tax. I mean, there are income tax issues--bracket creep, indexing--that should be addressed appropriately, but the kind of reforms presented in LB331 are not what will help most Nebraskans in your hometown, in your district, across Nebraska. [LB331]

SENATOR LANGEMEIER: Thank you. [LB331]

SENATOR DIERKS: Other questions? I guess that's it, Mark. Thank you. [LB331]

MARK VASINAS: Thank you. [LB331]

SENATOR DIERKS: Next opponent, please. [LB331]

REV. JAY SCHMIDT: Senators, Jay Schmidt, S-c-h-m-i-d-t. Income is the most just indicator of ability to pay taxes to support education and infrastructure in this state. I have a considerable interest in justice issues. As a clergy person, I've always seen that jump out of Scripture somehow. Those at the top have benefitted the most from the state's infrastructure. And so the graduated income tax is the way to go. I've heard the argument before that we must drop taxes to keep people of wealth, or attract them. Some years ago, Mr. Harper, who was CEO of ConAgra, inferred that if we eliminate the capital gains taxes on Nebraska-based corporations then we would make those people happy and they would stay in Nebraska. Did we benefit? Don't think so. But we're always promised that kind of thing in a tax cut. It's not likely that the money will stay in Nebraska, because tax cuts don't somehow create ocean beaches here or mountain scenes or moderate climate that some of these people want. And they cash in and they go. On the other hand, a person who has a home valued at a $100,000 or less and gets a good property tax cut on it, I guarantee you that money will go back into the local economy. I worked with low-income people in North Omaha. I saw it from that angle. I studied classes in economics, and most economists would certainly tell you that's what would happen. That it would go back into the economy. Let us not cut the fairest tax we have, the income tax, but let us cut the property tax on all residences. We have created a society where the top 1 percent owe more than the bottom 90 percent, which is destructive of democracy. Let us not contribute further to this. This is class warfare against the most powerless and voiceless of people--the poor and the lower middle class. And let us not cut so much revenue as to compromise appropriations for our children's and grandchildren's education, from early childhood learning through graduate school, nor harm the health and well-being of low income people. It is great to have a state with a university system and accompanying educational systems of which you can be proud. It costs, but it also does bring in some of the brightest and most capable of peoples. Thank you. [LB331]

SENATOR DIERKS: Thank you. Questions for Reverend Schmidt? I guess not. Thank you very much. Next opponent. [LB331]

JOHN K. HANSEN: Vice chairman Dierks, members of the Revenue Committee, for the record, my name is John K. Hansen, H-a-n-s-e-n. I appear before you today as the president of Nebraska Farmers Union and their paid lobbyist. We are in support of some parts of LB331. We would be good with the repeal of the sales and use tax on construction and repairs and contract labor. I think that makes sense. Having gone through that myself the last two years in home repairs, it is so complicated that it's too complicated to be a reasonable tax in our view. Secondly, the marriage penalty elimination, we're good with that. And it kind of goes downhill after that. And so we think that the amount of income tax repeal is too great. The loss of revenue is too great. If it were less enthusiastic we may have been on the other side of the ledger. But we believe that it is so large that it does, in fact, impair our state's ability to be able to respond to other tax issues, primarily property taxes. Of the three tax sources of revenue in the state of Nebraska that are primary in nature, the one that is far and away the most out of control and needs fixing is property taxes. And unlike some of those folks who claim that there is not a relationship between total amount of appropriations and revenue, we would argue that there is a very close relationship, in fact, between the amount of money you have available and what it is that you can spend money on. That mirrors my own experience as well. When you have more money, you have other spending options. When you have less money, you have fewer spending options. There's been a very substantial shift in the last eight years in the total cost of funding K-12 education. We have gone down the hill from the high water mark of around 45 percent of the total cost of paying for K-12 education with income and sales taxes. We are, depending on who's doing the measurement, we're somewhere around 8 or 9 percent less than that amount today. So that has been a very substantial shift in the total cost of K-12 education in property taxes. I have a member who owns farmland and farms in southwest Nebraska, who is next to the Colorado border, and the property taxes in his right across the fence Nebraska land is four times higher than is his Colorado land. Same land class, same land right across the border. That is what needs fixing in our view. And the last issue we would say where we are in disagreement with LB331 would be the outright repeal of the estate tax. We think that the level ought to be raised, not repealed, and that in the end of the day we think that the outright repeal does, in fact, create a situation where more and more land gets concentrated in fewer and fewer hands and from a public policy standpoint we think that's not a good thing to do in the balance. With that I'll close and be glad to answer any questions if you have any. [LB331]

SENATOR DIERKS: Thanks, John. Questions for John? No questions, thanks so much. [LB331]

JOHN K. HANSEN: Thank you very much. [LB331]

SENATOR DIERKS: Next opponent, please. [LB331]

JACK CHELOHA: (Exhibit 7) Good afternoon, Senator Dierks and members of the Revenue Committee. My name is Jack Cheloha, the last name is spelled, C-h-e-l-o-h-a. I'm the registered lobbyist for the city of Omaha. I'm here to testify in opposition to one provision and one only, of LB331. The city of Omaha is officially taking a stand, or a policy, against repealing the tax on construction labor. With that we're handing out a handout for you to take a look at. If I can back up to that the time when Nebraska moved to a sales and income tax state, we used to have property tax on a whole number of other personal property items and local governments benefitted from that. It's my understanding through the years, since I obviously wasn't lobbying back in the late sixties, early seventies, that because local governments lost their property tax on this personal property the state said we'll make that up to you in state aid. We'll give you direct state aid the cities, the counties, NRD's if they were in existence, etcetera. And through that, as you look at my handout, that would be LB816 way back when in terms of what's happened with state aid. This sheet only pertains to the city of Omaha, but in the past decade we've lost, in terms of aid to municipalities indirectly to Omaha, $4.3 million or roughly 55 percent of what we used to receive from the state. In the meantime, we've added population. We've added services in terms of police and fire protection, etcetera. So with that, what I'm trying to say is cities are hurting and if we narrow the sales tax base it hurts cities once again, because if you look at your fiscal note on this particular bill, I think the construction labor repeal as it gets up we're going to partially repeal it in fiscal year '08, but then as it gets up and going it's roughly about $9 million. And of that, as you know, local option sales tax affects a number of cities which Omaha is at the 1.5 percent. And the estimate on page 2 of this fiscal note is roughly about $2 million annually of which Omaha's percent would probably be about 25 percent or roughly about $500,000. And in order to be consistent as I've been instructed to testify before this committee on other bills that would narrow the sales tax base, I'm here today for that same reason and ask you, you know, to take that provision out of this bill should you decide to advance it. In the meantime, if you look at my handout, there's some other items in terms of amount of money we've received in street and highway funds, even though we added money to it last year with LB904, it still is diminished from where it was just five years ago. And finally, the last segment of my handout has to do with the sales tax base where in Omaha sales tax revenues pay roughly 48 percent of our general fund budget. And if we lower our base, if you will, the revenues will decline and ultimately that creates problems on your political subdivision. And so for those reasons we're opposed to this repeal and I'll try and answer any questions. [LB331]

SENATOR DIERKS: Thank you, Jack. Questions for Mr. Cheloha? I guess not. Thank you. [LB331]

JACK CHELOHA: Thank you. [LB331]

SENATOR DIERKS: Anymore opponents? [LB331]

SARAH ANN LEWIS: (Exhibit 8) Good afternoon, members of the Revenue Committee. My name is Sarah Ann Lewis, L-e-w-i-s. I'm the policy coordinator and registered lobbyist for Voices for Children in Nebraska, and I'm here today in opposition to LB331. I'm not here as a tax expert. I'm here as a child advocate with serious concerns over a tax plan lacking in any real and targeted relief for middle and low income families in Nebraska. With all due respect to the Governor, we are left with grave concern over whether it is in the state's best interest to provide the greatest tax benefit to those whose income is $329,000 and higher at the expense of vulnerable families and children. Social programs like the child care subsidy program, cut during times of deficit without any legislative or public debate, still await financial restoration. Bills to eliminate the provision of food stamps and Medicaid to legal immigrants, to lower reimbursement rates for child care providers who accept Title 20, and the repeal of the business child care income tax credit are being met with the Governor's clear intention to hold the line on the budget in an effort to pay for the proposed tax plan. We do not disagree that spurring business will increase jobs and decrease poverty, but while we wait for the predicted economic development to emerge we must not neglect the needs of middle income families struggling to make ends meet now. And even more so the attention deserved through our assistance to families working their way out of poverty. Voices for Children is a proponent of fiscal responsibility, but we have a social responsibility as well. Thank you for your time and consideration of these concerns. [LB331]

SENATOR DIERKS: Thank you, Sarah. Any questions for Ms. Lewis? [LB331]

SARAH ANN LEWIS: Thank you. [LB331]

SENATOR DIERKS: Thank you very much. Further opponents? Other opponents? Anyone testifying neutral today? Would you like to close Senator Janssen? [LB331]

SENATOR JANSSEN: Briefly. Thank you, Senator Dierks. Thanks for your patience, committee. I know there was some good testimony on both sides. I would like to say one thing about the construction labor tax. Visiting with the Department of Revenue, the scenario was brought up that when a business pays that sales tax it is either depreciated out or is taken off as a business expense. Sometimes it takes awhile, but that money does come back to those people. So you borrow the money for awhile. With that I'd answer any questions. [LB331]

SENATOR DIERKS: Any questions for Senator Janssen? I don't think so. Thanks, Ramie. [LB331]

SENATOR JANSSEN: Thank you for your patience. [LB331]

SENATOR DIERKS: That ends the hearing on LB331. Thank you all for your attention. We will go now to LB325 and Senator Flood. I believe that Senator Janssen will be chairing the committee. Is that right? [LB325]

SENATOR JANSSEN: Yeah. We'll stand at ease for a minute until the next introducer is here. It'll give everyone a chance to vacate the room that wants to leave right now. There he is. Senator Flood, welcome to the committee on Revenue. [LB325]

SENATOR FLOOD: Thank you, Mr. Chairman, members of the Revenue Committee. LB325 was introduced by myself at the request of the Governor, and it is part of the Governor's biennial budget recommendations. LB325 eliminates the business child care tax credit. The credit was enacted by LB433 in 2001 which authorized a tax credit for businesses that opened and operated a child care center. The start date of this program was subsequently delayed by LB4, Nebraska law's 2004 special session, and LB283 in 2003. Another 2003 law change, LB759 made tax credit unavailable to any business until 2007. This bill proposes that the tax credit program not be implemented through a repeal of the authorizing statute language. And with that I will turn it over to members of our executive branch team that are here to answer your questions. [LB325]

SENATOR JANSSEN: Any questions of Senator Flood while we've got him on the hot seat here? [LB325]

SENATOR FLOOD: When you don't have committee hearings you lose track of time in that office upstairs. [LB325]

SENATOR JANSSEN: All right. Seeing none. Are you going to stick around and close then, Mr. Speaker? [LB325]

SENATOR FLOOD: I waive closing. [LB325]

SENATOR JANSSEN: You'll waive closing? [LB325]

SENATOR FLOOD: Um-hum. Thank you. [LB325]

SENATOR JANSSEN: Okay, we'll take proponents first. Go ahead. [LB325]

DOUG EWALD: (Exhibit 9) Good afternoon, Chairman Janssen and members of the Revenue Committee. My name is Doug Ewald and I am the State Tax Commissioner, that is E-w-a-l-d. As you heard Senator Flood say LB325 repeals the Business Child Care Credit which is scheduled to go into effect for tax years beginning on or after January 1, 2007. This is part of the Governor's budget package. I will not reiterate the historical perspective that Senator Flood just gave us, but my knowledge here is since its passage in 2001, I am not aware of any business that failed to begin a child care facility because they were waiting for the Nebraska credit to become effective. Businesses implemented child care facilities because it was the right thing to do with respect to employee recruitment and retention. In this case, market forces have played a major role. So recruiting was an issue for a number of companies. There's a lot of companies out there, top 100 companies in the nation, that are friendly to working moms. Those type of things. There was an overriding, I'll say, pressure amongst the business community that once it started with one, you saw it pick up with others. First National had it. Union Pacific has it. Gallup, ConAgra, Deloitte...once one has it, it all starts to trickle out to the rest of them, because it's a competitive issue at that point in time. In recent years, the state has also made significant contributions in early childhood efforts that enabled school districts to provide before and after school care to child programs. The 2005 enactment of LB577 provided new state funds for early child care programs for at-risk children. Through LB1256, passed last year, the state provided $40 million to the Early Childhood Endowment Fund. In addition, voters in November approved the deposit of 10 percent of the value of the Permanent School Fund or $40 million from the school fund, whichever is greater, to the Early Childhood Endowment Fund. There have been significant changes since the passage of the Business Child Care Credit in 2001, both in the marketplace and through state appropriations. I urge the committee to advance LB325 so full discussion on the Governor's budget package can take place. With that I would entertain any questions. [LB325]

SENATOR JANSSEN: Any questions? Senator White. [LB325]

SENATOR WHITE: Mr. Commissioner, thank you. Is it the administration's position that high-quality affordable child care is no longer a problem for Nebraska families? [LB325]

DOUG EWALD: I guess I don't know the answer to that, but I know that out there in the business community which this affects, that businesses are doing it to remain competitive with other business, with respect to retention of employees. [LB325]

SENATOR JANSSEN: Any other questions? Seeing none, thank you for your testimony today, Mr. Ewald. Any other proponents? Proponents? Opponents? [LB325]

JOHN CEDERBERG: Good afternoon again. I jumped up to go first, because I do have to return to the office and get a private letter ruling in the UPS package yet tonight. I am John Cederberg, C-e-d-e-r-b-e-r-g. I come forward to urge the committee not to advance LB325 and to allow this program to go into effect. I spent a great deal of time along with others and the Senators in 2000 and 2001 developing a very good program that emphasizes not only child care, but quality child care. This program was never intended to subsidize permanently an employer's participation in the provision of child care for their employees. It was intended as an opportunity to get the attention of employers, because in other parts of the country employers are very active, and in our part of the country they were not. The other thing that was intended here was to get the intention of small employers by including a provision that did not require them to, in fact, own the child care facility, but rather allowed them to work with independent child care providers to subsidize or pay for the child care of their employees. So an employer with two, three, or four employees might become involved in this process through the incentive and then, of course, when the three year period was over they would graduate from the program, but hopefully continue to be involved. The objective was, and is, to bring the resources of employers to bear in the provision of quality child care in Nebraska. Ergo, the extra two years of benefit if the child care center becomes accredited nationally. We have not had the opportunity to implement this. If this bill is not advanced and we determine that the program is viable, I am going to then do what I did back in 2001 when it was first enacted, before it was delayed. And that is go about writing articles for the Bacar (phonetic) magazine, for the CPA Society magazine, for the business groups. So that the program is much better known. It has become stale in terms of being forgotten, so that it is much better known. And we hope that it will be utilized and that employers will become permanently involved in helping to finance the quality child care for their employees. With that I would be happy to take any questions that you might have. [LB325]

SENATOR JANSSEN: Any questions? Senator Raikes. [LB325]

SENATOR RAIKES: John, do you really think that employers, companies, won't do these kinds of things unless they're lead there by a tax break? [LB325]

JOHN CEDERBERG: Experience tells us that it is important to get people's attention. And significantly, over the years, we have gotten people's attention by tax benefits at both the federal and the state level. Senator Cole convinced the federal government to enact a child care credit the same year that we enacted this for that very same reason. And that credit continues to be available to this day. I don't think that any child care facilities have probably been deferred pending the effective date of this program. I am convinced from having been a CPA for many years, that child care activities and particularly by small businesses...I mean the Union Pacifics, the First Nationals, they're going to do what they're going to do regardless, but the small businesses who would work through independent child care providers. I am convinced that programs have not been started because their CPA's have not been saying to them, you know you could get some help from the federal and state government to start this up. And our credit is actually broader than the federal one. Small employers would get a much better benefit and that gets their attention. And then once they see the benefits in attendance, absenteeism, recruiting, retention that they might experience by having this program then you keep them in the program. [LB325]

SENATOR RAIKES: So that would suggest that you have a tax credit, but then you could ask the companies to pay it back after they see the benefits from the investment?

[LB325]

JOHN CEDERBERG: I would not support that. [LB325]

SENATOR RAIKES: Okay. Thank you. [LB325]

SENATOR JANSSEN: Any other questions? Senator White, did you have a question? [LB325]

SENATOR WHITE: No, sir. [LB325]

SENATOR JANSSEN: Okay, all right. Seeing none, thank you. [LB325]

JOHN CEDERBERG: Thank you. [LB325]

SENATOR JANSSEN: Next opponent. [LB325]

SARAH ANN LEWIS: (Exhibit 10) Good afternoon again members of the Revenue Committee. My name is Sarah Ann Lewis, L-e-w-i-s, and I am the policy coordinator and registered lobbyist for Voices for Children in Nebraska. I'm here today in opposition to LB325 and in respect for your time and not to be redundant I would just like to touch on a couple points. Employers who provide employees with high quality child care see an increase in employee recruitment, attendance, and retention. Additionally, when children receive high quality education at an early age they receive the foundation for their learning, integration with the group, scholastic success, and eventually their full participation in community life. With 73 percent of working mothers with children under the age of six in Nebraska, we rank third nationally for women in the work force. Access to quality and affordable child care is crucial to the self-sufficiency of Nebraska's working families and to successful work force development. We agree this is something businesses should be doing without an incentive, but the fact is many businesses are not. We see this as a vehicle that not only encourages the attention of businesses to the need for child care as Mr. Cederberg referred to, but we also appreciate that it encourages a further incentive for accreditation and we would urge you to oppose LB325. [LB325]

SENATOR JANSSEN: All right. Thank you. Senator Langemeier. [LB325]

SENATOR LANGEMEIER: Thank you, Chairman Janssen and Ms. Clark (sic-Lewis) thank you for your testimony. A number of times you referenced high quality child care. [LB325]

SARAH ANN LEWIS: Yes. [LB325]

SENATOR LANGEMEIER: Could you define high quality for me? [LB325]

SARAH ANN LEWIS: Well, high quality child care is holistic child care. Well more to the point, accreditation is what I think that you're driving at here. An accredited center is one that focuses not only on licensing, what licensing requirements require such as staff ratio and cleanliness, the size of a facility. Accreditation focuses on the actual education plan for a child to improve their development both mentally and physically. [LB325]

SENATOR LANGEMEIER: Okay. My understanding is this legislation, if we don't strike it, and businesses basically would have to open a facility as long as they have enough people and enough space and it's cleanliness they would qualify. [LB325]

SARAH ANN LEWIS: Would have to open up? [LB325]

SENATOR LANGEMEIER: To get this credit, a business would merely have to open a room per se with the right number of ratio of teachers to students and make it clean. As a parent, I would hope high quality would mean there's some programs other than just putting them in a room with toys to play all day. And I fear that this program doesn't go any farther than opening a room and having a number of supervision. [LB325]

SARAH ANN LEWIS: Well, day care centers they would be required by the state to become licensed which would affect the quality of the child care. Unfortunately, many child care facilities in this state are not accredited because it's very costly and time consuming. And this piece of legislation encourages the further high quality education of these facilities. [LB325]

SENATOR LANGEMEIER: Okay. Thank you. [LB325]

SENATOR JANSSEN: Any other questions for Ms. Lewis? I have one. Most day cares are licensed by the state. Am I correct? [LB325]

SARAH ANN LEWIS: I would be happy to get back to you with the numbers on how many are licensed and unlicensed. There is a problem with unlicensed day cares in Nebraska. They are throughout the state, yes. [LB325]

SENATOR JANSSEN: Isn't there a penalty, though, for someone who is running a unlicensed day care? [LB325]

SARAH ANN LEWIS: It's the choice of the parent to send their child to that facility. [LB325]

SENATOR JANSSEN: Um-hum. Okay. So what would you say the percentage of unlicensed day cares compared to the licensed day cares? [LB325]

SARAH ANN LEWIS: I apologize, Senator Janssen, but I would be happy to get back to you with the information. [LB325]

SENATOR JANSSEN: Could you get me that information? [LB325]

SARAH ANN LEWIS: I would be happy to. [LB325]

SENATOR JANSSEN: I think you'd probably be surprised how many there are in this state. [LB325]

SARAH ANN LEWIS: Unlicensed or licensed? [LB325]

SENATOR JANSSEN: No, licensed. Any other questions? Seeing none, thank you very much. [LB325]

SARAH ANN LEWIS: Thank you. [LB325]

SENATOR JANSSEN: Next opponent. Any other opponents? Anyone in a neutral capacity? Seeing none, I believe Senator Flood waived closing. That ends the hearing on this particular bill, LB325, and Senator Gay is here to tell us all about LB338. Senator Gay, the floor is all yours. [LB325]

SENATOR GAY: (Exhibits 11, 12, and 13) I'm back. Good afternoon, Senator Janssen and members of the committee. My name, for the record, is Tim Gay. I represent Legislative District 14 and I'm here this afternoon to introduce LB338. LB338 would increase the amount a contributor to the Nebraska Educational Savings Plan could deduct from $1,000 to $10,000. When Governor Heineman asked me to introduce LB338 on his behalf I did not hesitate one bit. When I was first elected, I decided improving the plan would be one of my primary goals. Unfortunately, the Governor cannot be here in person to speak on the bill, but I do have a letter that I will hand out to you that states his interest in this as well. As a father of three young children and a financial advisor, I do have a personal understanding of these issues and the importance for saving for college early. LB338 provides an incentive for more people to save and begin the savings process earlier. The average age right now with beneficiary, for the college savings account, is seven years old. So I think this could improve getting those ages lowered. A report released by the college board in October shows that the cost of attending college increased 6.3 percent nationwide outpacing inflation which rose only 2.4 percent. Locally, tuition rose 6 percent at the University of Nebraska. Tuition and fees at Nebraska's private four-year colleges increased 8 percent and by 7 percent under public two-year colleges. Right now, Nebraska has an 87 percent high school graduation rate which is one of the highest in the United States; however, our state is in the middle when it comes to the college going rate. We're about 58 percent.

As the Governor mentions in his letter, a mere 5 percentage point increase will put us in the top ten with respect to how many of our high school graduates go on to pursue a degree. The Governor recognizes that improving our college attendance rate is crucial to the state's future prosperity. I know today you've heard about a lot of tax issues and I'm sure that had to deal with work force and some of those. Education, in my mind, is one of the keys to our future and that's why I wanted to bring this up and it means so much to me. I have some handouts here and I'm just going to kind of have a little conversation with you of how I see these plans work. If you could hand those out? I'm going to wait for him to hand those out just so you can follow along with me, because it is kind of a...I did blow those up, too, by the way. They were hard for me to see so I tried to blow them up as best I could. What we handed out here is, I ran a few analyses of some situations just so you can kind of get a mental picture of what we're talking about. This first graph shows, again, if we just had a newborn. Just born, 18 years until they go to college, with a cost inflation rate of 6 percent. And on that 6 percent, you know, there are other...I'm going low on inflation rate and high on my return rate. So keep that in mind on all these analyses. The amount of money that would have to be contributed on average each month by parents, grandparents, or friends, anybody who can contribute to one of these plans, is $202 if you start the day that child is born. And what we did, we took the current annual college cost of $12,234, which we got that information from the University of Nebraska-Lincoln. That's what a instate resident would pay for books, tuition, you know, everything that goes with college. Assuming the child saves zero, and you do this for 17 years because in the 18th year you probably wouldn't be contributing. And then we get a return on our investment of 10 percent. So when you put it in the 529 you're going to invest it in a mutual fund or something like that. Shows the estimated future cost of college. Anyway that bar graph, as you go up, and I won't go over the whole thing, but as you work your way up you're--and this is assuming you're going to get 10 percent every year, which as we all know, in investments there's no guarantee--so the graph goes up. Then when we start taking from the funds to pay for our college, you can see that's just enough for a four year education. Now granted there's other vehicles available to pay for college, but that is what we're talking about. If somebody wanted to pay the full bore of their child's education. On the next page, if you'll turn it, I ran another example because...and I used age eight. If you had an eight year old right now and you just started savings, it hit you in the head and said I better start saving for college for my son, daughter, grandson, whatever. You'd have to save $400 a month in order to pay for that education. So later start, just like anything you've got to start putting more away. And that situation happens quite some time. That's why we mention the average age of the beneficiary is seven years old. I plucked eight out and they were close enough. So anyway, you've got 10 years to save. Again, I'm using what I consider a average inflation rate. Our inflation rate at the university, I have some statistics here--I won't go over all of them--some years has been 10 percent that inflation is going up. So I think being realistic a 6 percent inflation rate for college education is a good rate. So again, 10 percent. When you get your draw down that's where you're at, but the idea I want to get through $400 a month is what you'd have to be saving. The third case I wanted to put in there, we have the same 8-year-old, but let's say now somebody came in and with the wealth transfer that's going on in the country and I think will continue in the next 15, 20 years we're going to have this tremendous wealth transfer, let's say now that somebody came into some money through an inheritance or windfall profit, whatever, and they said I want to put it in their Nebraska College Savings Plan and I'm going to drop $10,000 in there. Even if I do that, for an 8-year-old, I still need to be putting away $264 a month for that child just to be able to pay for that college. So I took two scenarios the idea being you never know what you're going to run into as each case is different. For everybody out there in the state that's trying to save, there's a lot of different cases of how you're going to get this done. But those scenarios are kind of real world scenarios. Those happen quite a bit. Someone will come in and they want to save for, and as you know, you can save for your own child, your grandchildren, whatever. Other people can contribute to these plans. One more handout. And I know, I'm not going to go over all of this, but this is just some information on the 529 plan and it's a brief history, and some other things for you to review. But what I would say, and like I say is when we look at these proposals that are out there, there are many different scenarios that are coming in. And I've got clients that anyone else, they'll be other people speaking on this so I won't belabor the issue. I know you're having a long day. But a lot of these cases come in where we will see somebody, they usually do not start when...I just had a child. The first thing you don't go rush to your financial advisor or insurance agent or whoever it is, and start putting money away for college. That would be great. So those other two examples, I think, are real world examples. The point being if we're going to encourage people to save that kind of money for college, some incentive, and I think this incentive that the Governor budgeted for would be very helpful to get that conversation going. Again, you know, an incentive starts the process to do the right thing. And I would say this is...the way I get savers, I've got school teachers that are saving for their kids, I've got grandparents, I've got young parents, and I've got, well, I don't know what middle age is. I don't want to describe that. But just across the spectrum, educational savings is a very important issue to a lot of our constituents, a lot of Nebraskans. So as we look at something that could be cut across all income levels. I see it, like I say, from people who are of modest means to those who have a little more money to put into these programs. So I think this is an opportunity where we could step forward and really help boost our college going rate. Hopefully, they will go to the University of Nebraska or one of our universities and stay in state. But either way, this education component that we all talk about, this is an excellent way that we can promote a more college-bound, educated work force and along the way, I think, help parents achieve those goals which are so important to them and their children. With that any questions? [LB338]

SENATOR JANSSEN: Any questions? Chris. [LB338]

SENATOR LANGEMEIER: Thank you, Chairman Janssen. Senator Gay, I need a little help with this. [LB338]

SENATOR GAY: Um-hum. [LB338]

SENATOR LANGEMEIER: What happens if in your estimation here, if let's say I overshoot my expectations. I think it's going to be the $120,000, but it turns out it's not. What happens to the surplus at the end? Is there some tax liability? Whose is it at the end? And then what also, then to follow up with that, what happens if the child decides not to go to college? [LB338]

SENATOR GAY: Well, historically... [LB338]

SENATOR LANGEMEIER: What's the tax liability? [LB338]

SENATOR GAY: Okay. Historically, there's not too many people overshooting these numbers. Now if you did, though, the beauty of this 529 program is it can be then passed onto another beneficiary. So, and I'm just using again, here's one thing, this is only for one child. If you have three or five children in your family these numbers are astronomical. So that's just for one child. So what happens if you have, let's say you would have an excess or that beneficiary decides college isn't for me or...and it doesn't need to be college. It could be a two-year institution. Anybody that's receiving federal aid usually these monies can be used for. But let's say well, my oldest is not going to go. I can transfer the money to another beneficiary, my next child, whatever. Let's say I have three children and none of them are going to use these monies I've saved up. I could then hold onto it and let it continue to grow and use it for grandchildren or anyone else down the road. Or if I wanted to get to it and I needed the money, you incur a penalty. There's a 10 percent penalty for taking it out if you don't use it for educational purposes. So again, this is money you're going to put it away for education purposes, because if you take it out early--well, not taking it out early--you don't use it for education, you're going to get a penalty on it. That's the federal law. [LB338]

SENATOR LANGEMEIER: Thank you. [LB338]

SENATOR GAY: Um-hum. [LB338]

SENATOR JANSSEN: Senator Raikes. [LB338]

SENATOR RAIKES: Senator Gay, probably the people who would contribute to this plan would not be parents in the households of poverty kids, generally speaking? [LB338]

SENATOR GAY: Well, I wouldn't say of poverty. I wouldn't also say that this is for wealthy...I've got clients and I think we all do or it's very important and they're sacrificing other things to put money into these programs. So it's tougher. It's tougher just like anything else. [LB338]

SENATOR RAIKES: Okay, well my concern is this. You know, if you look at the college going rate in Nebraska, probably the greatest opportunity to increase that is the group of students that are from economic situations or cultures where college going is not very high. And these would be poverty students, you know, it would be the case with certain ethnic groups. I'm just guessing that the college savings plan--although I admit a very successful program--probably doesn't enhance the opportunities for kids from that sort of a situation. And if it doesn't, is there a danger that at some point you're actually increasing the disparity between more well-to-do kids and families as compared to the poverty kids in terms of their financial ability to go on to college? [LB338]

SENATOR GAY: I don't know if this would help increase the disparity. I think it would be a good benefit for those who want to see their kids go to school. I'm going to let people...if it isn't covered, the Governor has proposed some aid for what you're talking about and I'll let Commissioner Ewald will discuss that. But I don't know how this would widen that gap. I think it's a need we need to address. What this does is, I still think that there's a group of people--I know there is, I include myself in this--but they're a group of...well, I don't know...I guess we're going to say middle class. I'll throw labels out. It is a hard challenge and it's very imposing to save this kind of money. So I don't know that this would broaden that gap. I think we need to address that, what you talk about, and how we do that is maybe on another bill. I don't see how this would widen that gap and I don't see the correlation. I see this as a way to increase, and again, I've got clients, personal situations where the grandparents are saving for a granddaughter or a grandson where the parents are, you know, they're actually raising the children. I've got other parents who don't have a lot of means that are putting money into these things. So I think the people that want to save for college will save. This is an incentive to help them along that road. Because the cost, you know, we're going to have that discussion further. The cost of tuition keeps increasing and I don't see any end to that. This is just a vehicle to help offset that, I suppose. If we're going to ask people to pay more on tuition they're either going to take out a student loan or they're going to have to come up with more tuition or just not go. The benefit to the college education won't be...they'll perceive it as not that great of a benefit. I can't come up with the money. If anything they'll just throw their hands up and say I'm not going to do it. So maybe we would increase that disparity if we don't do something. Or it just becomes well, it's not for me. I just can't do it, period. You know? [LB338]

SENATOR RAIKES: Thank you. [LB338]

SENATOR GAY: Thanks. [LB338]

SENATOR JANSSEN: Any other questions? Seeing none, thank you. [LB338]

SENATOR GAY: Thank you. [LB338]

SENATOR JANSSEN: Proponents? [LB338]

SHANE OSBORN: (Exhibit 14) Good afternoon, Chairman Janssen and members of the Revenue Committee. For the record, my name is Shane Osborn, S-h-a-n-e O-s-b-o-r-n, and I am the Treasurer for the state of Nebraska. I'm here today to testify in support of LB338. As Treasurer, you know I serve as the trustee of the Nebraska Educational Savings Plan Trust and I believe this bill would have a significant positive impact for Nebraskans. The Nebraska Educational Savings Plan Trust began in January 2001 and is comprised of the college savings plan of Nebraska, the TD Ameritrade 529 College Savings Plan, the AIM College Savings Plan, and the State Farm College Savings Plan. As of December 31, 2006, the assets of the Nebraska 529 plan were $1.65 billion and the number of accounts in all four plans were over 142,000. You can see this further broken down in the handout I've provided for you by the four different plans. Obviously, the College Savings Plan of Nebraska is the majority of the number of plans as well as assets. The total number of Nebraska accounts as of December 2006 were 35,995. There are 428,932 children under the age of 18 in Nebraska. Therefore, our penetration rate for the College Savings Plan is about 8.4 percent which is also broke out in the next number of participants where I have it broken out by county. While this number is in the upper tier when compared to other states we recognize that we have work to do. My office will be working hard as we continue to spread the college savings message and increase the number of Nebraska state income tax deductions would assist us in encouraging these families to save for college. I wanted to give the committee some data on the Nebraska account owners who contribute $1,000, $5,000, and $10,000 or more, and that's also broken out by each plan showing you the number as well. I won't go through all that. If you have questions on it later I can certainly address them, but that gives you a general idea of how many people currently are contributing larger amounts of money to the plan. There are Nebraska families who could benefit from the increased tax deduction. The increase from $1,000 to $10,000 would help Nebraska families striving to achieve a solid future for their children and it would keep Nebraska competitive with other states. Nebraska residents and taxpayers would have a significant financial incentive to save for the expenses of higher education and that is incredibly important for Nebraska's children's families and our state's future. The importance of helping families save for college is underscored by recent statistics indicating that the total charges, including tuition fees, books, room and board, and other living costs, for a four-year public university increased by 6.3 percent, 4.1 percent for a two-year public college, 5.9 for a four-year private college. Those increases are more than double the overall rate of inflation and more than triple the average increase in wages. Total charges for full-time undergraduates are $12,796 at the average four-year public university and $30,367 at the average four-year private college nationwide. I provided some information on colleges in Nebraska for your comparison. A good example that I can use that's near and dear to me is I just had a baby girl

Saturday. My wife did. My wife and I, our third child. And the information I'm providing will be using her, Addison, as an example of what we need to do to save for her. If she wants to attend the University of Nebraska-Lincoln, which I hope she does, the first year will cost $48,658. All four years will cost $212,860. This is based on a tuition inflation rate of 6 percent. If I contribute monthly $25 to the College Savings Plan of Nebraska I'll end up with about $11,552 which is $37,000 short of the first year of tuition. So we know that that's not going to work if we want to cover all expenses. I'd need to save $414 a month for 18 years to cover the entire cost, and that's a large monthly commitment. I've also provided data for Creighton University, Chadron, and Southeast Community College right here in Lincoln. As you can see, no matter where these children go to receive their education there will be a significant cost. Providing a tax relief for people saving for college with the Nebraska 529 program, should help Nebraska students attend college in Nebraska or wherever they choose. It's going to help them out. I want to give you a perspective on how Nebraska's current tax deduction compares to other states. I've got a handout as well that breaks down, state by state, the current deductions. Currently, Nebraska account holders can deduct $1,000, $500 if married filing separate, on their Nebraska state income tax form. Nebraskan residents can deduct up to $1,000 per account owner. Our neighbors to the west, Colorado residents, have an unlimited deduction. Kansas' deduction is $3,000 and $6,000 joint per beneficiary, rather than account owner. So if there's multiple children they can even increase that depending on the number of children or the number of accounts. It doesn't have to be their children as well. Beginning this year, in 2007, Kansas residents can claim a deduction to any 529 plan in the country. Iowa state income tax deduction is $2,500 per beneficiary, which means their residents can deduct for each child they contribute up to $2,500. Other states have even higher deductions. Missouri is $8,000 and $16,000 for a joint return. Illinois' is 10 and 20. Oklahoma, 10 and 20. Mississippi is 10 and $20,000. It's time for Nebraska's deduction to be raised to $10,000. While the College Savings Plan of Nebraska has recently been ranked one of the top three plans in the nation, we need to remain competitive. The next few years will be an interesting time in the 529 industry. As contracts begin to expire, the initial contracts from when this program started, states are looking for lower fees and higher performance. We need to be sure Nebraskans continue to have access to one of the top plans in the nation. With an increased tax deduction families will have the extra incentive to open or remain in a Nebraska College Savings Plan versus a competitive plan offered by another state. The current $1,000 deduction may not be enough for some families to keep investing in the Nebraska program. I have talked to families all across our fine state and this is a tax break that would benefit those families. Higher education costs are ever increasing and this initiative reflects our state's commitment to keep the Nebraska 529 program competitive. The future of Nebraska is dependent on a highly educated work force. An investment in education will ultimately yield positive results for families and the economic health of our state. LB338 would be a definite win for Nebraska families who are looking for ways to save for higher education. The majority of states with state income tax offer a tax benefit for contributions to their higher education savings program. It is time for Nebraska residents to have a significant new incentive for investing in their children's and grandchildren's future. College savers gained a nice benefit with last year's pension bill. The federal tax exclusion will not expire at 20,010 (sic-2010) meaning continued tax-free withdrawals for qualified college expenses. This removes the uncertainty and makes 529 college savings plans an attractive and preferred way to save for college, and there are Nebraska families ready to save more money for college, and it is time they were rewarded for their efforts. Before I take questions, I wanted to answer a little bit, add, expand on Senator Raikes' question of this level, a $10,000 deduction, how that can help common families that may not be able to give $10,000 a year. Obviously, there's several people that fall in that category in Nebraska. Obviously, I hit on how this is a very competitive plan nationwide. The industry is becoming more competitive, especially with the pension plan passed last year. But the overall benefit is the more money we get into this fund, and it's at $1.65 billion, but the more money we get into these individual funds over time will reduce the overhead costs and fees. So over time, you know, a $5 fee if you're putting $10,000 in a year, a $5 fee, a quarterly fee for maintenance on that isn't a lot, but if you're only able to afford $100, that $5 fee is obviously a much larger percentage not including the basis points and fees involved in handling the program. So the more money that we can get invested in this program, the less overhead over time for everyone. Not just those people contributing the most money. Grandparents, obviously estate planning, things like that, if you're a grandparent and you want to give a large amount of money to your grandkids to help them out this is definitely a case where I think this would be used. And another issue is for people like me. I received a Navy ROTC scholarship. I wouldn't have went to school. I would've had to enlist in the United States Navy. I couldn't have afforded college, but they picked it up. However, there are also federal programs that are dedicated, including Pell grants and things like that, towards lower income families. This, obviously, $10,000 isn't going to affect many lower income families, but it's really geared towards the middle class that doesn't have the level of incentives outside of your kids earning a scholarship, to be able to save for college. And there are a lot of middle class families that will put a large amount in, especially myself with three children. I'll be placing more money than the average family would, maybe with just one child. So that's something that I wanted to discuss. As we grow this fund, also, the amount it increases in the fund will also increase the fees that come back to the Treasurer's Office to this college savings plan to market. That's one of the things that I really want to promote. I think this is a great marketing tool to go out there and increase awareness. Whether somebody wants to put $2,000 or $10,000 a year, it's important that we get up above that 8.4 penetration rate, percent rate in Nebraska. So with that I'd love to answer any questions that you may have for me. [LB338]

SENATOR JANSSEN: Questions? Ron. [LB338]

SENATOR RAIKES: Yes, sir. Thanks for your attention. And my question, what you might suggest, this comes out to be million and a half bucks a year loss to the state in revenue. Why don't we take the million and a half bucks, put it in the college savings plan, let it grow, and then use that result in the year, what, 18 years from now for need based aid to support those students who can't afford to go? [LB338]

SHANE OSBORN: Well, that is definitely an idea. However, what about the children now? We also need to make sure the plan maintains competitiveness nationwide with the number of people willing to not go outside of the plan. Currently, with the $1,000 that deduction isn't really going to offer enough incentive for somebody to choose the Nebraska plan over a comparable outside plan. That's not a large amount of money; however, when you get up to the $10,000 amount this is going to really provide incentives, and the more competitive our plan is the better it is for all Nebraskans. And so I think that this is an overall way to help increase that and make those people think twice, Nebraska citizens, that go outside of our plan, to take it more serious. Senator? [LB338]

SENATOR JANSSEN: Any other questions? Chris. [LB338]

SENATOR LANGEMEIER: Thank you, Chairman Janssen. You're testifying saying that you think people say $1,000 isn't worth my time. They wouldn't put the $1,000 in as well as go out into another plan? [LB338]

SHANE OSBORN: I think they would choose one plan or the other. And they don't want to have several plans. They would just as soon put it in one plan. And right now, $1,000 off your state income tax, while it's nice, is not a large incentive to stick with the Nebraska College Savings Plan. $10,000 is much more incentive. Even if you're at $5,000. And I've spoke to plenty of people that it just right now it isn't as much of a factor in their thinking when they look at these plans. We've got a great plan in place we just want to increase participation and keep that money here in our plan. I think it's good for everyone involved. [LB338]

SENATOR LANGEMEIER: Um-hum. Thank you. [LB338]

SHANE OSBORN: Sure. [LB338]

SENATOR JANSSEN: Any other questions? Seeing none, thank you for being here with us today. [LB338]

SHANE OSBORN: Thank you for your time. I appreciate it. [LB338]

SENATOR JANSSEN: Next proponent, please. [LB338]

DOUG EWALD: (Exhibit 15) Good afternoon, Chairman Janssen, members of the Revenue Committee. My name is Doug Ewald, E-w-a-l-d, and I'm the State Tax

Commissioner. I appear before you today on behalf of the Governor in support of LB338. I'm not going to go through all the details I've written down here. However, this really is an offshoot of the Governor's discussions last year with officials with respect to our postsecondary education institutions. Obviously, we have a very high graduation rate at the high school level, but we have a lagging rate with respect to those going on to postsecondary education. And hopefully LB338 provides a mechanism to encourage more friends, family members, interested individuals, to encourage people to save more and go to college. Now, what I'm going to give you here is, the middle part of the page here is some of our data off our 2004 tax returns that have been filed. So with respect to the 2004 year, the median contribution was $1,350. So that means there was an equal number of contributions above and below that amount. With respect to the most reoccurring contribution amounts they were $600, $1,200, and $1,000. So you can see there the number of times that that particular contribution occurred with respect to the contributions into this plan. Now what I find interesting here is that there were a total of a little over 55,000 contributors with the average contribution of a little over $5,500. Nebraska resident tax returns. Out of that 55,000, only 11,000 took the credit because they were actually Nebraska residents. What does that mean? That means we have a huge influx of grandparents that live outside the state or other interested parties that are contributing to children, grandchildren, usually grandchildren's education plans in the state of Nebraska. So one in five contributors are able to claim the benefit on the Nebraska individual income tax return. All their contributors are not Nebraska residents so obviously they don't receive a benefit. So that might be part of the reason you say it's a million and a half dollars a year. Is that really a high number or a low number? I don't know, but if you look at this that might be one of the reasons why it's kind of not that great, Senator Raikes. When you look at it all the, you know, four and five are from out of state with respect to that. Now one thing that's interesting here is that with respect to our need-based education. I think the Governor's budget calls for a 17 percent increase in need-based scholarships. That's the million dollars a year, I think, up to a million dollars a year. I don't recall or I don't know what it was in the past, but that's a 17 percent increase as well as we could figure that out pretty easily. So all the data here is from the Union Bank and Trust Company, the contract vendor for the Nebraska state plan, and that hopefully by providing a significant increase in the income tax deduction we'll be providing an avenue for Nebraskans to prioritize their personal savings for their children's college attendance. It is a priority for this state to provide ample opportunities and for capable students from Nebraska to pursue postsecondary education thereby increasing their personal value in this competitive global marketplace. That's all I have. I would entertain any questions. [LB338]

SENATOR JANSSEN: Any questions? Senator Raikes. [LB338]

SENATOR RAIKES: Doug, I'll ask you some questions that I should know the answer to, but don't. Someone from outside the state can invest in Nebraska's plan... [LB338]

DOUG EWALD: That's correct. [LB338]

SENATOR RAIKES: ...on behalf of children who reside outside the state? [LB338]

DOUG EWALD: I think they have to be on behalf of children that reside in the state. [LB338]

SENATOR RAIKES: So the...I'm getting the... [LB338]

SENATOR JANSSEN: No. [LB338]

DOUG EWALD: No. [LB338]

(MAN IN AUDIENCE): No. [LB338]

(WOMAN IN AUDIENCE): Both. [LB338]

DOUG EWALD: Both? Okay. [LB338]

SENATOR RAIKES: Both. [LB338]

DOUG EWALD: Well I guess then in that particular situation they would assume that if you have somebody contributing to...they lived in Council Bluffs, for example, but their grandchildren or child expected to attend a Nebraska university, they would receive a benefit. I mean, they would go to a Nebraska university. The funds could go for that. [LB338]

SENATOR RAIKES: Or I guess I'm asking and I'll pursue this on my own. I live in Michigan. My grandkids are in Michigan. I look around and I decide, you know, the best savings plan in terms of return on investment is in Nebraska. So I'm going to invest in Nebraska simply because I think I'm going to get a better return over time and my kids may go to Michigan or maybe Nebraska, but you know, maybe not. But still I'm going to choose that plan. [LB338]

DOUG EWALD: Sure. [LB338]

SENATOR RAIKES: And I guess the other question for you is suppose Michigan's got a state income tax deduction for college savings plan contributions. Does that deduction apply for my investment in Nebraska? [LB338]

DOUG EWALD: I don't know the answer to that, what Michigan would do in that particular situation. [LB338]

SENATOR RAIKES: Or would Nebraska's deduction only apply in Nebraska if I decided to apply to the one in Michigan, if they got one? [LB338]

(MAN IN AUDIENCE): Zero. [LB338]

SENATOR RAIKES: I'm getting a no. [LB338]

DOUG EWALD: I don't think you get anything there. [LB338]

(MAN IN AUDIENCE): The answer is zero. [LB338]

SENATOR RAIKES: Okay. All right. Thanks. [LB338]

SENATOR JANSSEN: Any other questions? Seeing none, thank you for being with us today. [LB338]

DOUG EWALD: Thank you. [LB338]

SENATOR JANSSEN: Next proponent, please. [LB338]

JAY STEINACHER: Chairman Janssen, members of the Revenue Committee, my name is Jay Steinacher, S-t-e-i-n-a-c-h-e-r. I work with Union Bank and Trust in Lincoln. We're the program manager for the Nebraska 529 program. 529 plans provide an excellent structure and manner for parents and grandparents to save for a loved one's college education. At the federal tax level, the federal government provides tax deferred growth of dollars so when contributions and earnings are in the plan there's no taxes each year. If the dollars come out for a qualified college expense, which is pretty much all expenses--tuition fees, room and board, books and supplies--it comes out federally income tax free. In addition, the state of Nebraska provides a $1,000 tax deduction which is a reduction in taxable income. When we do presentations across the state, we do get the question from investors whether it's parents or grandparents, is that $1,000 tax deduction for each of my three children. Is it for each of my five grandchildren? And the current structure is it's a $1,000 tax deduction per tax return--single, married filing jointly, $500 if married filing separately. In addition to the benefits at the federal and the state level, the one thing parents and grandparents love about 529 plans like the Nebraska 529 is they can make a gift and stay in control. So if that student doesn't go to school, goes down the wrong path, that owner, that parent or grandparent, unlike a Uniform Transfer to Minors Act account where they get it at age 21, with a 529 the parent/grandparent owner stays in control. The college savings plan, as the Treasurer has mentioned, has gained national recognition because of its investment structure, it's investment flexibility, and its attractive cost structure. While there's 35,000 accounts for Nebraska citizens in the college savings program of Nebraska, that still means that there's close to 390,000 children across the state that are not setting dollars aside in a

529 program in the Nebraska 529 program. As we look at the benefits and the pros and cons of a tax deduction adjustment, I think there's three things that we would like to point out for your consideration. Tax benefits gain attention, they motivate, and they encourage. When you look back, 30 years ago, there was a foresight at the federal level to put into place 401K plans and IRA's. What those have done over the last 30-plus years have encouraged people to take ownership and on their own set dollars aside. We believe the federal government will be better off with the problems that social security is facing that they've encouraged people to set dollars aside for retirement. We think 529's have that same potential. They're only five, seven years old so they're still relatively in their infancy stages and people are learning about them. But we think with an increase in the deduction that definitely gains attention. When we're out doing presentations, the one thing grandparents say over and over if they can do one thing in their later years...yes, they want to travel, yes, they want to take care of their medical expenses or nursing home expenses, but they definitely want to take care of the grandchildren. This program today, for that grandparent that maybe has two children, if they have two children that probably means they have four, six, eight grandchildren. There's a lot of grandparents out there that I think would put additional dollars aside, that additional money they have, if there was an additional benefit to them. I think this would encourage. I think it would also create additional discussion on saving for college by the professionals out there, whether it's the investment professional meeting with a client, whether it's a CPA meeting with a client. And lastly, I think to some extent the level you set from a tax policy standpoint provides a target for savers. As the Tax Commissioner mentioned, the average savings rate is about $1,300. 73 percent of the savers last year saved $1,000 or less in the Nebraska College Savings Program. I think people need to be encouraged and pushed to save additional. Maybe with those two kids they start out at $25 or $50 a month. Maybe they're bumping up to $75 or $100 down the road to pay for the escalating costs, but I think when you set a deduction level, I think there's a number of people that are saying if they set the level at $1,000 there's a reason for that and that's what I need to save for college. So we think it would be beneficial to the college saver to set dollars aside. Will this address people that can't save? The State Treasurer has said we want no minimum contribution amount in the plan. So the Nebraska plan is one of, maybe it's the only one, or maybe one of two that has no minimum contributions. So are there people setting aside $10 and $15 a month? Yes, there are. So the plan design tries to encourage those people, but truthfully if they ask us at a presentation should we save for college. We ask them are you saving for retirement first, because retirement there is no college loan program like there is for college. We tell people take care of your retirement first, but saving for college is very, very important. Thank you for your time and consideration and I'd be happy to answer any questions you may have. [LB338]

SENATOR JANSSEN: Any questions? Senator Langemeier. [LB338]

SENATOR LANGEMEIER: Thank you, Chairman. Thank you for your testimony. I have one quick question. I should have asked it earlier, but you brought up the discussion about control. So I'm a parent, my kid is now 16, 17. We're having problems at home, whole other realm of issues. And I go ahead and decide to cash this thing in. I'm mad at my kid, I want a new car. I decide to go cash it in. I can give you some examples. (Laughter) Who bears that tax liability? Now does the child now have a tax consequence with the IRS or do I have that as that parent? Who are they going to come knock on the door and say hey, by the way, you owe us some money? [LB338]

JAY STEINACHER: I think Senator Gay hit it when he said that you can change the beneficiary, but in the situation you're raising if they take the funds out, if the account owner that controls it takes the dollars back, the IRS says you pay income tax on the interest, the earnings portion, and an IRS 10 percent penalty on the earnings portion. You take the money back that you contributed, the principal amount, without any tax or penalty, but the interest in earnings would be taxed to the account owner that takes the funds back as a non-qualified, non-college expense. [LB338]

SENATOR LANGEMEIER: Okay. Thank you. [LB338]

SENATOR JANSSEN: Senator Dierks. [LB338]

SENATOR DIERKS: Jay, I should have asked Senator Gay this, but the chart that he handed out showed that there are four different plans that have been utilized. The College Saving Plan of Nebraska is notably the largest one used, number of accounts. Is there differences between these four plans? Why does one take one over the other? [LB338]

JAY STEINACHER: That's a good question. The programs in the College Savings Plan of Nebraska is the largest of the different distribution tracks or programs. It is direct sold and advisor sold. So if an investor wants to invest on their own, typically that's going to be at a lower cost. So there's a number of do-it-yourself investors in the College Savings Plan of Nebraska. The other programs are primarily advisor sold, which means you get the guidance, the expertise, the assistance of an investment professional. To compensate them for their time, typically, as an investor you will pay a little bit more for their services. [LB338]

SENATOR DIERKS: But the results are roughly the same as far as savings and tax incentives? [LB338]

JAY STEINACHER: The state level tax benefits are the same, the programs structures. Each one will have different investment options. The College Savings Plan of Nebraska and TD Ameritrade use six fund families that are monitored and under the guidance of the Nebraska Investment Council and the state investment officer. The AIM State Farm programs use AIM mutual funds. So there are different investment structures under each of the programs and cost structures. [LB338]

SENATOR DIERKS: Thank you. [LB338]

SENATOR JANSSEN: Any other questions? Thank you, Jay, for being here. [LB338]

JAY STEINACHER: Thank you. [LB338]

SENATOR JANSSEN: Any other proponents? [LB338]

ROBERT J. HALLSTROM: Chairman Janssen, members of the committee, my name is Robert J. Hallstrom. I appear before you today as registered lobbyist for the Nebraska Bankers Association in support of LB338. The Bankers Association was supportive of the creation of the College Savings Plan and although there is but a single financial institution administrator of the program, our banks across the state regularly assist their customers in making contributions for the savings for college education for their children and grandchildren. With that we think this enhances the attractiveness of the program and would encourage the committee to advance the bill accordingly. Thank you. [LB338]

SENATOR JANSSEN: Questions? Seeing none, thank you, Mr. Hallstrom for your being here. [LB338]

ROBERT J. HALLSTROM: Thank you. [LB338]

SENATOR JANSSEN: Next proponent. [LB338]

DAVID BOMBERGER: Good afternoon, Senator Janssen and Revenue Committee members. My name is David Bomberger, B-o-m-b-e-r-g-e-r. I'm the Nebraska state investment officer and I represent the Nebraska Investment Council. As you probably know, the Nebraska Investment Council is responsible for the selection and monitoring of the investment options in the various college savings plans of Nebraska. And so we're very actively involved and closely involved with the State Treasurer's Office in the plan. I'm here simply to express the Investment Council's support of this initiative to increase the attractiveness of this program. We think it's very worthwhile and we think it's very important to have the appropriate incentives for parents and grandparents to save for their children's education. Thank you. Any questions for me? [LB338]

SENATOR JANSSEN: Questions? Seeing none, thank you. [LB338]

DAVID BOMBERGER: Thank you. [LB338]

SENATOR JANSSEN: Next proponent. I think this is the last one. Am I correct? Last proponent? Well, let's get up here in front you fellas. Okay, go right ahead. [LB338]

ROBERT H. FITZSIMMONS: (Exhibit 16) Mr. Chairman, members of the Revenue Committee, my name is Robert H. FitzSimmons, that's spelled F-i-t-z-s-i-m-m-o-n-s. I'm a certified financial planner professional, president of Bob FitzSimmons, Inc. That's a financial services firm, knowledge in personal investments, insurance located right here in Lincoln, Nebraska. I am here to testify on behalf of the National Association of Insurance and Financial Advisors, the Nebraska group. We certainly support LB338. NAIFA-Nebraska membership is comprised of about 1,150 members. There are insurance producers as well as financial advisors such as myself throughout the state of Nebraska. Over 85 percent of our membership can sell the College Savings Plan of Nebraska. We strongly support this bill and we would like to see the increase in income tax deduction approved by this committee. Our support is based on the following rationale. First, we believe a state tax incentive will, as you've heard already, help to motivate--I've emphasized that--more parents of the approximately, I think there are close to 430,000 K-12 students in Nebraska to enroll in one of these many 529 college savings plans offered. You've heard earlier that only about 8.4 percent are enrolled. That's about 35,000 students who participate. Based on my own client experience with 529's, the current level of state income tax savings is simply not adequate to retain my clients' college monies in one of the Nebraska 529 college savings plan alternatives. We believe strongly that the current maximum income tax savings is only maximum $68 per year on a $100,000 contribution per taxpayer. That's simply not enough in our judgment to provide an adequate incentive to motivate families to begin, and then of course to continue to save for college in one of our excellent plans; however, if you raise that level up to a potential of somewhere close to $680 maximum, I think you'll certainly get heightened consideration. The current national amount I haven't heard expressed to you guys, gals, but it is close to $82 billion. As you've heard, the plan is in existence across the country for about eight years, that's other plans. Our plan, as you heard, in Nebraska has about $1.6 billion in it and it's only been in operation about six years. I haven't heard expressed too much, but last summer Congress and the President signed a bill making permanent the tax-free treatment of the appreciation in 529 college savings plans. And what that did was that eliminated that uncertainty that perhaps this was just a temporary tax relief plan. Now it's a certainty and we think that will heighten further some interest. If you look on websites, and there are a number out there, that provide information about what college will cost, and again, it is a bit of a guessing game as to what college will cost. You've heard a couple of them here. I have a four year old grandchild. I have a 15 year old grandchild. And so I put down there just about what they might cost. The potential cost for my 15 year old grandchild is estimated to go to the University of Nebraska at $89,000 and my four year old granddaughter is $168,000 in order for her to attend four years at the University of Nebraska. You've heard also that the plan currently that we have in Nebraska that's administered by Jay and Union Bank has just over $13,000 as the average amount in their plans--$13,000. And you just heard what the number is for my four year old granddaughter and my 15 year old grandchild. The Nebraska savings plans have been recognized by a number of financial professional groups, including the financial press, as among the very best. You heard that. What are the rationale for those good marks? Well, the basic reason in my opinion that I'm reading about our plan is that it offers a variety of different things. It has age-based, it has targeted portfolios, and individual portfolios. It is an amazing plan and one that our group recognizes very impressively. Further, another leading advisor to 529 plans advisors like ourselves is Morningstar, and they evaluate plans and they placed our plan at among the very best. So you've got a great plan. We think. But what's holding back, we think, some of our potential investors. It is not attractive as some other states when it comes to income tax deductions. The proposed tax income deduction increase then would make the Nebraska plan equal to four other states--equal to four other states. That includes Arkansas, Connecticut, Michigan, and New York. So whatever you know as your proposed bill that's the four states we would match. There are five other states, though, where we would not compare quite as favorably and those include Colorado, a neighbor, New Mexico, a little bit further a neighbor, Pennsylvania, South Carolina, and West Virginia. They have higher deductions is what I'm trying to say to you. But the proposed bill would still make us then very attractive against those states without a deduction or no income tax at all. So in conclusion, Nebraska NAIFA membership members encourage this committee to favorably consider LB338, but more importantly, though, after you favorably consider it to make it a high priority, Senator, with respect to how it gets out of this committee. Wrapping up, in conclusion, we believe this bill is good public policy. It will help more families save for college expenses so that more of our children, and including my grandchildren, will attend postsecondary education colleges, and then of course that will help the state. I believe that those youth will stay here and they want to raise their families here. Well, thank you very much for the opportunity. Waited all afternoon for this special moment, sir, as you know. [LB338]

SENATOR JANSSEN: We've been here all the time, too. [LB338]

ROBERT H. FITZSIMMONS: Yeah. [LB338]

SENATOR JANSSEN: All right. Any questions? [LB338]

ROBERT H. FITZSIMMONS: I'm happy to answer any questions. I've heard a couple of them, Senator, that you've had. So did you get all your questions answered, Senator? [LB338]

SENATOR RAIKES: I did, thank you. [LB338]

ROBERT H. FITZSIMMONS: All right. [LB338]

SENATOR JANSSEN: Thank you for being here. [LB338]

ROBERT H. FITZSIMMONS: You bet. Thank you very much. [LB338]

SENATOR JANSSEN: We've got three left. Try not to be repetitive. [LB338]

THOMAS J. O'NEILL: That will be difficult, Senator. [LB338]

SENATOR JANSSEN: (Laughter) Tell us something we haven't heard, Mr. O'Neill. [LB338]

THOMAS J. O'NEILL: Senator Janssen, members of the Revenue Committee, I'm Tip O'Neill. That's O-N-e-i-l-l. I am the president of the Association of Independent Colleges and Universities of Nebraska and we appear on behalf of LB338 today. Couple things maybe you haven't heard. One of the best justifications I think for this is that there are going to be times in an income earner's life where he or she is going to have more income in one year than they're going to have in another. For instance, the farmer selling $4 corn this year is going to have more money than he or she did when they sold $2 corn three years ago. So this would give some flexibility in terms of when the timing is of a contribution to the 529 plan and allow someone to get the full benefit of the tax benefit in a particular year. Second, these plans are treated better for purposes of determining the expected family contributions under the federal methodology for determining eligibility for federal financial aid and so if you make the contribution directly to your child who's going to be a student, and it's under the Uniform Gift to Minors Act or whatever, the federal government is going to say we expect 35 percent of those savings to be used for your college education in the first year, plus 50 percent of whatever money you as a student earn. If it's in a 529 plan, the feds are going to say we expect the families to contribute 5.64 percent of their combined assets and income for a particular year. So that's another reason why it's a good deal. I'd be happy to answer any questions you might have. [LB338]

SENATOR JANSSEN: Questions? Seeing none, thanks, Tip. Ron, welcome to the Revenue Committee. [LB338]

RON WITHEM: Thank you, Senator Janssen. Ron Withem, W-i-t-h-e-m, representing University of Nebraska. I really will not belabor the point. Most of it has been said. We at the university believe it's important to increase the college going rate, think this will be a piece of that puzzle. I believe you received a letter from President Milliken... [LB338]

SENATOR JANSSEN: We did. [LB338]

RON WITHEM: ...indicating his personal support, the support of the University of Nebraska. Unless there are any questions, I'll conclude with that. [LB338]

SENATOR JANSSEN: Thank you, Ron. [LB338]

RON WITHEM: Thank you. [LB338]

DENNIS BAACK: Senator Janssen and members of the Revenue Committee, for the record, my name is Dennis Baack, B-a-a-c-k. I'm the executive director of the Community College Association here in support of LB338. I visited with Stan Carpenter, the chancellor of the state college system and he wanted me to say for the record that they are also in support of this. I mean, the main thing is we want more and more students to go to college and I think this certainly promotes that. [LB338]

SENATOR JANSSEN: I believe so. Any other questions? Thank you, Dennis. Any other proponents? Seeing none. Any opponents? Seeing none. Anyone in a neutral capacity? Seeing none. Senator Gay, to close. [LB338]

SENATOR GAY: Very quickly. I appreciate everyone's support on this. A couple things I want to address as I've heard testimony. Things we need to look at in the future and to take into mind. When you're talking out of state people investing here sooner or later they're going to be caught by their advisor saying why are you investing there. You should invest in Michigan, which by the way, if you did that you could get a $5,000 per account deduction. So that money will then come back and say...because I could invest in Michigan even if my grandchild or whatever is in Nebraska. And people will say well, pull it out of there, bring it over here and we'll give you your tax deduction. So we could lose those accounts. We were a early leader in this program to get started and we got a lot of accounts from out of state, but now this is a very common investment for a lot of people. We're talking $82 billion right now, going to $300 billion by 2010 now that the federal government relieved...there was some uncertainty whether this would be around after 2009. That uncertainty is gone. So these are going to go through the roof. State Treasurer talked about being competitive. When you're talking about this amount of money, it's a lot cheaper to run a fund when you have more assets in there. It's just economies with scale. So, and another thing too, just to summarize, when you're looking to visit with your client you are going to look at that tax incentive and it is not that great to keep them here when returns or other things could be better somewhere else. There's just not that draw. But the first thing you want to look at is what does your state provide for a tax incentive. If you're in Nebraska, or if you're in Colorado, or if you're in Michigan or wherever you're going to look at what does my state offer, because you can save for a grandchild here in our state and get a deduction. They can use this money anywhere remember. Just because you're saving it here in Nebraska it could be used at any university. If you're saving it in Michigan they can still use it in Nebraska. So we could lose assets that way. So with that, you've got a long day ahead of you and I appreciate your listening to all this. I appreciate the support and if there are any last questions I'd be happy to answer them. [LB338]

SENATOR JANSSEN: Any questions? Seeing none. [LB338]

SENATOR GAY: Thank you very much. [LB338]

SENATOR JANSSEN: Thank you. That ends the hearing on LB338. Senator Raikes with LB436. [LB436]

SENATOR RAIKES: (Exhibits 17, 18, and 19) I'd like to report I was threatened on the way up here to this...(Laughter). Members of the Revenue Committee and Senator Janssen, Ron Raikes, District 25, here to introduce LB436. LB436 proposes a restructuring of the Nebraska income tax. New idea here. The bill would create two brackets in a competition with the Governor. He's only going down to three. This is down to two. Above and below $45,000 for single and married taxpayers filing separate returns and above and below $90,000 for married filing joint returns and head of household. The rates for the low and high brackets are set at 4.8 percent and 7.1 percent respectively. Along with the changes in brackets and rates, LB436 also increases the personal exemption credit and standard deductions. The amount of the personal exemption credit is increased to $300 while the standard deductions would increase to $6,100 for single taxpayers and married taxpayers filing separate and $12,200 for joint returns. LB436 eliminates several components of the current income tax structure. The ability to itemize deductions for purpose of state income tax return is eliminated. Also repealed are provisions that impose additional taxes on taxpayers with 2006 adjusted gross incomes above $150,500 or $75,250 in the case of married filing singly. LB436 also gets rid of the state alternative minimum tax. And kind of the original purpose of this effort, the marriage penalty goes away with this effort. There's several reasons I think this is an approach that could be helpful to the committee in its deliberations on income tax. This greatly simplifies the calculation of state income tax, more so than what certainly what the current return is and more so than what the Governor has proposed. The second thing is the change in brackets offers more than just convenience. We have a very highly progressive income tax structure. A lot of aspects of which I like. Income tax is the only progressive tax we have so the fact that it is progressive doesn't necessarily bother me that much. But one thing for you to consider, and some of us old hands had firsthand experience at this, with a very highly progressive income tax rates, as taxable incomes go up, receipts to the state rise fairly quickly. On the other hand, when they go the other direction they fall very quickly, more rapidly than if you have a less progressive structure. And certainly I think, Senator Preister, that's one of the elements we were battling in the early 2000's when we had this serious drop in revenues. The other thing is this proposal is a means to accomplish income tax relief to whatever extent that may be deemed appropriate by the committee. And obviously I know all of you have different views on that. For the record, I'm not convinced that income tax cuts are our highest priority or should be our highest priority, but if we do go down that path, and to the extent that we do go down that path, I think this offers us some ideas, some concepts that may be useful. I've got a couple of sets of comparisons which I think are probably...you should have three separate charts, and hopefully this will be most of the benefit from me offering you this bill. The first is comparison of the basic structures of LB436 and the current income tax structure, excluding credits and deductions that vary on an individual basis. In other words, I've standardized them for purposes of comparison. As you can see from the numbers, joint taxpayers in every income range receive a tax cut under this proposal. And nearly every income range of single taxpayers will also pay less. Only single taxpayers with an AGI of $25,000 would pay more and they would do so by just $5. So compared to the current income tax structure, this is less income tax. And you would ask yourself, well, how can taxpayers at the high end of the spectrum end up with a tax cut when this proposal causes an increase in the highest marginal tax rate. And it does. The highest marginal tax rate is 6.84, this one is 7.1. A combination of three factors, first, the standard deduction of personal credits are significantly increased under this proposal. Second, the change in brackets results in less income that is subject to the highest tax rate, which the current structure phases in at the relatively low amounts of $27,000 and $50,000 for single and joint respectively. And in this bill the highest rate doesn't phase in until $45,000 and $90,000 respectively. So with that you end up with lower tax obligations even for the highest income. All right. Maybe most importantly, I've put together a comparison with the Governor's plan. You've got a spreadsheet showing joint returns. The marginal tax rates, and I didn't dwell on it, but on the other one you show the marginal tax rate under the current structure the ones that have a hump in it. The marginal tax rate goes up for a ways and then drops back down again. That's due to the added tax feature in our current structure. But if you compare this with the Governor's, in the handout, the overall fiscal impact of this bill is significantly less than the approach offered by the Governor. In fact, by the time both proposals are fully phased in for 2010-11, the difference between the two would amount to nearly $100 million. And this is shown on this sheet. The two plans also differ in the effects on the individual taxpayer. The packet gives you a rough estimate. As I mentioned, to arrive at the numbers for the Governor's proposal I just combined the personal exemption and standard deduction amounts for 2007. As you can see, LB436 offers less tax relief than would be realized under the Governor's plan for most of the income increments included on the spreadsheet. Where that isn't the case is for taxpayers in the lower as well as upper middle income ranges. This proposal provides greater tax relief than the Governor's plan for joint filers earning $20,000 to $30,000 and $80,000 to $110,000, and for singles making $10,000 to $15,000 and also $40,000 to $55,000. So both proposals offer meaningful tax cuts, but they differ as to how those cuts are distributed. And also I would, again, emphasize that if you look at the total fiscal impact a proposal along the lines of this allows money revenues to do some other programs other than just income tax, which again, I hope will be useful to the committee in its deliberations on this issue. [LB436]

SENATOR JANSSEN: Questions? You'll get them later probably. Proponents? Thank you, Ron. Opponents? [LB436]

JOHN BOEHM: Good afternoon, Senators. My name is John Boehm and I'm a registered lobbyist on behalf of the Nebraska Mortgage Association, which is a trade association of the mortgage industry in Nebraska. We're testifying in opposition to a portion of LB436. We don't necessarily disagree with all of it. I might add, also, that I'm kind of acting here as a relief pitcher, because one of our board members who sat here for approximately three hours could no longer wait here...(laughter)...and so he asked me to fill in. But what we're concerned about and what we're in opposition to is the elimination of the federal itemized deduction from the Nebraska state income tax, and the reason is is that by eliminating the federal itemized deduction from the state income tax you are eliminating the home mortgage interest deduction as well as the property tax deduction from state income taxes. And these are probably, for Nebraska taxpayers, are the two most significant itemized deductions that they are able to claim against their Nebraska income tax. Historically, the home mortgage interest deduction has been a significant incentive to encourage home ownership, particularly at the federal level. And I won't deny that's the most important aspect of that deduction from an incentive standpoint, but every little bit helps and certainly the home mortgage interest deduction from state income taxes as well as the property tax deduction from state income taxes, particularly in a high property tax state like Nebraska, are significant incentives for home ownership. An additional benefit from these incentives then is also to spur new home construction which in turn will generate additional economic growth and activity within the state of Nebraska. We anticipate that this change by eliminating these two itemized deductions will result in significant tax increases for those individuals in the state of Nebraska who are currently using the federal itemized deduction on their state income tax, particularly as to their home mortgage interest deduction and the property tax deduction. And by the same token, it will result in shifts amongst different categories and groups of taxpayers. So in terms of how it affects these taxpayers and how it affects the home ownership industry, the mortgage industry, the home building industry, we think that it would not be prudent to eliminate the use of the federal standard deduction. If you have any questions I'd be glad to try and answer them at this time. [LB436]

SENATOR JANSSEN: Any questions? Seeing none, thank you, John, for being here. [LB436]

JOHN BOEHM: All right. Thank you. [LB436]

SENATOR JANSSEN: Next opponent? Anyone in a neutral capacity? Seeing none, Senator Raikes, would you like to close? That ends the hearing on LB436. Senator Mines is here. Crowd is getting smaller, Senator Mines. [LB436]

SENATOR MINES: It certainly does late in the day, Mr. Chairman. [LB10]

SENATOR JANSSEN: Welcome to the Revenue Committee. [LB436]

SENATOR RAIKES: The last one took three minutes, Mines. (Laughter) [LB436]

SENATOR MINES: That's about all I need, Senator. You've heard this already today. My staff told me they were...by the way, my name is Mick Mines, M-i-n-e-s. I represent the 18th Legislative District and I'm the principal introducer for LB10. This has to do with eliminating estate and generation-skipping taxes. You've heard this today already so I won't belabor the point. And you will hear it from Senator Stuthman next. So you'll have a number of vehicles to operate on as you work through your process. I won't go through any of the process. You've heard it today already. What might, perhaps, be different in LB10 than either other version is this one would become effective January 1, 2007, rather upon signature of the Governor from that date...following that date. So this would be beginning for the whole year of 2007. With that I will answer any questions you'd like answered. [LB436]

SENATOR JANSSEN: Questions? Seeing none, thank you, Mick. [LB10]

SENATOR MINES: Thank you. [LB10]

SENATOR JANSSEN: Proponents? [LB10]

TERRY HEADLEY: (Exhibit 20) Chairman Janssen and members of the Revenue Committee, you've had a long afternoon so I will be brief, I promise. My name is Terry Headley, that's T-e-r-r-y, last name Headley, H-e-a-d-l-e-y, president of Headley Financial Services in Omaha, Nebraska, and a national trustee on the board of trustees for the National Association of Insurance and Financial Advisors. I am here today on behalf of our 1,200 members of the NAIFA-Nebraska organization which is comprised of professional insurance agents and financial advisors who help to plan the financial security goals for Nebraska citizens, providing solutions in the event of death, disability, illness, or retirement. Our group wholeheartedly supports LB10 to repeal the estate tax here in Nebraska and would urge the committee's unanimous vote to move the bill forward as soon as reasonably possible. I just have one statistical fact I want to reiterate and that is that Nebraska is one of only three states that has both an estate tax and also a state inheritance tax. New Jersey and Maryland, as you heard previously, are the other two states. There are 27 states that have neither an estate tax or an inheritance tax, and the only neighboring state that has an estate tax besides Nebraska is Kansas. In my practice, the primary concern that I have is the relocation, particularly some of our senior citizens who retire to sunbelt states where there is no state income tax and of course, no estate tax. Not only do they move out of the state, but they take their investable assets with them. It takes those assets out of our Nebraska economy, and of course that translates into reduced state income taxes on dividends, interest, capital gains, and of course qualified plan distribution such as IRA's and the like. So in addition, the estate tax here in Nebraska disproportionately impacts those individuals who do not have movable assets that are primarily invested in real assets such as farmers, ranchers, and small business owners. At this time I would be happy to address any questions or concerns and I thank you for the opportunity to be here this afternoon. [LB10]

SENATOR JANSSEN: Senator White. [LB10]

SENATOR WHITE: Yes, sir, and thank you for coming. Given the lovely weather outside and the fact that they're going for sun and warmth, and they don't have an estate tax, do you really think they're going to stay here as residents and continue to pay income taxes when they have a house there anyway? I mean, is that realistic that the estate tax is actually causing people to change the place of their residence? [LB10]

TERRY HEADLEY: Well, I think you heard some different analyses on how this estate tax is calculated. But I would submit to you the inclusion of life insurance proceeds due to incidence of owner of a life insurance policy puts many people over that threshold in a hurry. So I do see that as one component. At a minimum, I think the committee should consider at least matching the current exemption level to that of the federal exemption which is $2 million per estate currently, going to $3.5 million in 2009, totally repealed in 2010, and God only knows what happens in 2011, but it reverts back to the $1 million exemption under the federal system. [LB10]

SENATOR JANSSEN: Any other questions? I don't see any, thank you for being here, Terry. [LB10]

TERRY K. HEADLEY: Thank you, Mr. Chairman. [LB10]

SENATOR JANSSEN: Any other proponents? I would like to read into the record on, let's see, Robert Hallstrom from the National Federation of Independent Businesses in support of this proposition, and the Grocer's Association are in support of LB10 also, their director Kathy Siefkin. Opponents? Neutral? Seeing none, Senator Mines waives closing. Okay. Is Senator Stuthman here? That ends the hearing on LB10. Senator Stuthman to tell us the same story on LB282 (laughter). Senator Stuthman. [LB282]

SENATOR STUTHMAN: Thank you, Senator Janssen and members of the Revenue Committee. Yes, my bill is identical to the bill of Senator Mines. The only difference in my bill is the fact that it has the effective date on it. So that is realistically the differences in the two bills. You know, I'm very concerned with...also the comment made by one of the members of the committee here about, you know, are people going to leave the state of Nebraska just because of the estate tax. I was visiting with an attorney friend of mine and he stated that he's working with a client that has some ranch land west of where I live, west of my district, and you know, with an estate of $20 million possibly. And you know, he is working with that individual and advising them to establish residence, you know, in another state. You know, just because there will be, you know, a large amount of estate tax due. So, but the only difference in these two bills--Senator Mines and mine--is the effective date and I would be willing to work with the committee to change that date, because I think there is some advantage to moving the effective date to January 1, 2007. I would attempt to answer any questions. [LB282]

SENATOR JANSSEN: Okay. Senator White. [LB282]

SENATOR WHITE: With regard to the estate advice that he should relocate his residence, with a $20 million estate isn't he getting the exact same advice just because of the income tax here at the rate it is versus zero in Florida or Arizona? [LB282]

SENATOR STUTHMAN: Yes, that is a possibility, but I think this is just the example that the attorney gave me. That he is working with the client and, you know, advising them to move. Not to move, to establish a residence... [LB282]

SENATOR JANSSEN: I see. [LB282]

SENATOR STUTHMAN: ...in another state. [LB282]

SENATOR JANSSEN: All right. Any other questions? Seeing none, thank you, Senator Stuthman. [LB282]

SENATOR STUTHMAN: Thank you. [LB282]

SENATOR JANSSEN: Proponents of the bill? [LB282]

TERRY HEADLEY: Chairman Janssen, members of the committee, Terry Headley, last name H-e-a-d-l-e-y. Our NAIFA-Nebraska organization is also in support of LB282 and to address the question of Senator White, my own parents moved to Florida because of this issue on the estate tax. In addition, I think if you look at the progressive nature of our state estate tax versus the income tax, it is a motivating factor. So with that I'll address any further questions that you may have. [LB282]

SENATOR JANSSEN: Senator White. [LB282]

SENATOR WHITE: Can you assure members of the committee that if we do eliminate the estate tax we'll eliminate the problem of leaving this state because of the tax situation? [LB282]

TERRY HEADLEY: Can't guarantee that. [LB282]

SENATOR WHITE: Thank you. [LB282]

TERRY K. HEADLEY: But I can assure you that many of them look at it because of the estate tax. Again, I think at a minimum the exemption should be raised to the federal level to match that, but thank you. [LB282]

SENATOR JANSSEN: Any other questions? Seeing none, thank you for being here on this bill, Terry. [LB282]

TERRY K. HEADLEY: Thank you. [LB282]

SENATOR JANSSEN: Any other proponents? Any opponents? Anyone in a neutral capacity? I have a letter from the Nebraska Grocery Association testifying in favor of this bill also. Let's see, I think are we down to the bottom of the list here? Okay, that ends the hearing for today. Thank you all for being here. [LB282]

SENATOR STUTHMAN: I would like to close, Mr. Chairman. [LB282]

SENATOR JANSSEN: Pardon? [LB282]

SENATOR STUTHMAN: May I close? [LB282]

SENATOR JANSSEN: Oh, do you want to close? [LB282]

SENATOR STUTHMAN: Yes. [LB282]

SENATOR RAIKES: You're kidding me. You are closed, that's (inaudible). [LB282]

SENATOR STUTHMAN: Well, in the committee that I'm serving on we have two bills to listen to yet, to hear, and we've got ten testifiers on the bill that we're discussing. So it could get late. [LB282]

SENATOR JANSSEN: Gee whiz, you know, you're not moving that along very fast then, Arnie. [LB282]

SENATOR STUTHMAN: No, no, but this might be more of an effective committee. [LB282]

SENATOR JANSSEN: Okay. [LB282]

SENATOR STUTHMAN: The thing that I want to close with is the fact that I didn't mention in my opening comments is, you know, because of the value of land, you know, increasing drastically, dramatically in the last couple of years. Just in my own area, you know, if you had 500 acres, which is a real small operation, and owned 500 acres then seven miles from me, just the other day it bring $4,440, the ground did. That was dry land and irrigated both. [LB282]

SENATOR JANSSEN: $44.40? [LB282]

SENATOR STUTHMAN: No. $4,440. [LB282]

SENATOR JANSSEN: (Laughter) Oh, excuse me. [LB282]

SENATOR STUTHMAN: So at 500 acres you're speaking $2 million. [LB282]

SENATOR JANSSEN: Yeah. [LB282]

SENATOR RAIKES: Well, Senator, you have lots of farmland, don't you? [LB282]

SENATOR STUTHMAN: No, very little at the present time. [LB282]

SENATOR RAIKES: If we left this estate tax in place is there a chance you'd move to Florida? (Laughter) [LB282]

SENATOR STUTHMAN: No. [LB282]

SENATOR WHITE: Been a long day, Senator. I apologize for my colleague here. [LB282]

SENATOR STUTHMAN: Those are things that, you know, it realistically doesn't take a lot of ground, you know, for a million dollars or a couple million dollars, and we have a lot of my neighbors that have several thousand acres. You know, have accumulated for a long number of years. You know, my own mother, you know, is 89 years old with 700 acres of ground and, you know, if it was sold today it's not for sale, but... [LB282]

SENATOR JANSSEN: We don't have those problems in the grocery business. (Laughter) [LB282]

SENATOR STUTHMAN: Oh, you don't? [LB282]

SENATOR JANSSEN: No, we don't. [LB282]

SENATOR STUTHMAN: But I think this is something, you know, that we need to look at... [LB282]

SENATOR JANSSEN: Right. [LB282]

SENATOR STUTHMAN: ...and need to consider so... [LB282]

SENATOR JANSSEN: Thank you. Any questions? Thank you, Arnie. [LB282]

SENATOR STUTHMAN: Have a nice evening. [LB282]

SENATOR JANSSEN: You bet. That ends the hearings for the day. [LB282]

Disposition of Bills:

LB331 - Indefinitely postponed.
LB325 - Indefinitely postponed.
LB338 - Advanced to General File, as amended.
LB436 - Indefinitely postponed.
LB10 - Indefinitely postponed.
LB282 - Indefinitely postponed.

Chairperson

Committee Clerk