[BRIEFING]

The Committee on Appropriations and the Committee on Revenue met at 9:00 a.m. on Monday, November 10, 2014, for the purpose of a briefing on the Tax Expenditure Report with the Nebraska Department of Revenue. Appropriations Committee senators present: Heath Mello, Chairperson; John Harms, Vice Chairperson; Kate Bolz; Danielle Conrad; Jeremy Nordquist; John Wightman; and Bill Kintner. Senators absent: Tyson Larson. Revenue Committee senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Burke Harr; and Kate Sullivan. Senators absent: Charlie Janssen; Tom Hansen; Beau McCoy; and Pete Pirsch.

SENATOR MELLO: Good morning and welcome to today's joint hearing of the Appropriations Committee and Revenue Committees on the Tax Expenditure Report with the Department of Revenue. My name is Heath Mello. I'm the senator from the 5th Legislative District, serving south Omaha, and I chair the Appropriations Committee. I'd like to start off today by having members of both committees do self-introductions starting with the Chairman of the Revenue Committee, Senator Galen Hadley.

SENATOR HADLEY: Yes, my name is Galen Hadley and I represent the 37th District, which is Kearney and part of Buffalo County.

SENATOR KINTNER: Bill Kintner, and I represent Legislative District 2, which is about half of Sarpy, Cass, and little bit of Otoe County.

SENATOR SCHUMACHER: Paul Schumacher. I represent District 22, which is Platte and parts of Colfax and Stanton County.

SENATOR WIGHTMAN: John Wightman. I represent District 36, which is all of Dawson County and all of Custer County and a small little piece of Buffalo County.

SENATOR NORDQUIST: Senator Jeremy Nordquist from District 7, downtown in south Omaha.

SENATOR BOLZ: Good morning. Senator Kate Bolz. I represent south central Lincoln, District 29.

SENATOR HARMS: John Harms. I represent the 48th District, Scotts Bluff County.

SENATOR MELLO: Assisting the committee today is Rachel Meier, the new committee clerk for the Appropriations Committee, and Ryan, as our page, will be assisting us this morning. Just as a side note, I'd like to wish Senator Nordquist a Happy Birthday today. Today's public hearing is invited testimony only and will consist of a briefing from the Tax Commissioner, Kim Conroy, on the 2014 Tax Expenditure Report. As a matter of general committee policy, I'd like to remind senators that the use of cell phones and other electronic devices is not allowed during a public hearing. At this time, I'd ask for all of us, including senators and others in the room, to look at our cell phones and please make sure that they are on the silent or on the vibrate mode. With that at this time, we will begin today's public hearing with Commissioner Conroy. And if you could please start off the testimony by giving your first and last name and spelling it for the record.

KIM CONROY: Good morning. My name is Kim Conroy, C-o-n-r-o-y. I'm the Tax Commissioner for the Nebraska Department of Revenue. Chairman Mello, Chairman Hadley, members of the committee.

SENATOR HARR: I'm Lee Terry. (Laughter)

KIM CONROY: And congratulations to those of you that were reelected and Happy Birthday to Senator Nordquist. I'm here today to talk about our recent Nebraska tax exemption study. A brief agenda what we want to talk about today...I'm going to go over briefly just what the...some say are good foundations of good tax policy before we start looking at exemptions and why there are exemptions. Show you some charts on how state revenues have historically been growing. We'll go through a few items in the actual Tax Expenditure Report and then go through some specific items on sales tax, income tax, not much on property tax, and then we'll end it with that. Just wanted to let you know up-front, too, I did not include the tax incentives. They are a part attached with this because we do that report to you last...in the summer and I'm not going to go back through that report again today. Just wanted to let you know that up-front. Tax policy. We looked at...there's a lot of different information out there on what good tax policy is. And we picked just three looks. One...the first one is from David Brunori. He has written books about state taxation and he's a frequent commentator on a publication called State Tax Today or Tax Analysts. And he goes around the country and talks about taxation. And here's what he has as his principles of sound tax policy. And as we go through the next two, you're going to see that there's a lot of similarities between these, whichever commentator it is. There might just be a few differences. The other two that I'm going to have you look at after this is the one that was part of the Tax Modernization Committee's sound principles, the tax policy that guided the Tax Modernization Committee. And then we have a list from the Tax Foundation. On raising adequate revenue, I see two of them have that as a goal as we...with whatever our tax system is, we want to raise adequate revenue in a neutral way. Most of the times, you're going to see that word "neutrality." You're going to see the word "fairness." Is it easy to administer and comply with both? Is it something that causes you a lot of extra work, or is it fairly easy to comply with? And then "accountability." This is the LR155 reports what they believed should be a principle sound tax policy in Nebraska in particular. Again, you're going to see the term "fairness." Now, "competitiveness" is not used in the other two. That was unique to the Nebraska, but it's important from a state perspective as you look at your surrounding neighbors and what they are doing to remain competitive. Simplicity and compliance are the terms used. Stability, adequacy, and then looking at how the tax systems complement each other. Now the Tax Foundation has a list also. Because they have theirs spelled out in some specificity, I'm going to go through each of these in more detail. But again, you see some of the very, very same wording that you've seen with the other two. Now, what is simplicity? As I said before, it's ease of administration by both taxpayers and the Department of Revenue to try to avoid high administrative costs. We always want to encourage voluntary compliance. We know that voluntary compliance is the pillar of any tax system. That what we audit, that what we find after the fact is catching that small percent that do not voluntary comply, but simplicity leads to better voluntary compliance. Again, if you have complicated tax structures, and I think we see at the federal level where this happens, is you have more opportunity for tax avoidance or tax shelters. The transparency. Now, they're not using the word transparency, the Tax Foundation, like we might use in terms of, is the information from the Department transparent, or do we report on specific taxpayers in terms of transparency. But they're looking more at your perspective. Does it start with sound legislative procedures and analysis? Are there open hearings, which we are famous for here in Nebraska? And I think we do a very good job, the Department of Revenue and the Legislative Fiscal Office, on those revenue estimates and explaining them. So that allows the taxpayers up-front to know what's going to be taxed, how it's going to be collected, and how compliance works. We've seen the word "neutrality" again. I think it ties in with adequacy. Maybe they're both saying, raise needed revenue. I don't really know what the distinction is. The Tax Foundation also says minimize the decisions that are based on tax by the taxpayer. And that there shouldn't be favoritism among industries or taxpayers. Again, these are philosophical things, maybe don't necessarily follow through into the actual reality of our tax systems at the state level. Stability is an important one too. I think you've heard that from many testifiers that when they look at Nebraska, they want to know that the tax system is going to remain stable. That if there is an exemption in place, it doesn't go away the next year and come back in the next year. I think Louisiana is famous for when they've had budget shortfalls, is they will temporarily suspend tax exemptions for two years, and then they reinstate them two years after that. And it might not be all tax exemptions. They might just take a handful now and do that, and from a taxpayer perspective, it's very, very complicated to keep going back and forth. Are we going to have an exemption, are we not going to have an exemption? And that's what leads to allowing a taxpayer to do that long-range planning knowing that there's going to be consistency in the state. Tax Foundation is famous for also saying that those temporary fixes, tax holidays and tax amnesties, should also be avoided. And I know I testified to the Revenue Committee this past year on tax amnesty bills about some of the dangers inherent on doing those on a frequent basis. This is an important one and it doesn't show up in the other two studies of what's a sound tax policy? And it's no retroactivity. It again ensures confidence in taxpayers knowing that if they've done a business plan or come to Nebraska, that they won't be hammered by having a retroactive law change. It also allows them to enter into contracts with their customers knowing whether something is going to be tax exempt or not. This is another item that isn't really in the other two from what we've seen, is you want to have a broad base and a low rate. I think you hear that all the time. That's in the perfect world what a tax system would be. In reality, probably not, but that...that for some tax policy experts is a sound goal to have a broad base and a low rate that produces those stable tax revenues. Again, you're going to adequacy and stability both there. How has Nebraska done in the past few years in the different taxes that we have? You'll see net General Fund revenues have been on an upward tract. I mean, probably over the past 30 years at a 5 percent annual growth rate. A few little dips you could see that we've had in '09 and '10. But it's been a pretty, pretty smooth upward wind for the state. That goes into whether you have a stable or an adequate both type of tax system in a state. Individual income tax revenues. Again, you saw the slight dip--not quite the same trajectory, but even, upward growth. Now, net corporate income taxes are always...and you'll see when we do our press releases every month, they're very volatile all the time. But overall, it has smoothed out with some nice growth there, at least on the corporate income tax revenues. Sales and use tax revenues. A little flatter grid line, but again pretty steady growth since '09 and '10 has been happening. And I'm putting in property taxes. It's not a state, as you know, it's for the school districts, cities and counties, just to show you that it has a very dramatic, pretty nice growth rate, at least a 5.25 percent average annual increase since 2005.

SENATOR HARR: What is the 30-year growth on that?

KIM CONROY: We can get back to you. I do not know that. And I would not want to even try to hazard to guess an answer to the question, Senator.

SENATOR HARR: I couldn't hear you.

KIM CONROY: I do not know.

SENATOR HARR: Okay. I saw it on General Funds, I didn't know why. One was 30 and one...is there one reason one is 30 and the other is 25? General Funds is over a 30 year?

KIM CONROY: I did this one going back here to net General Fund revenues, it's just the charts from '08, '09, and then we just put in just for the state taxes what the average annual growth rate is.

SENATOR HARR: So what is the 25-year growth rate for General Fund revenues?

KIM CONROY: I don't know.

SENATOR HARR: Okay. Okay. Thank you.

KIM CONROY: I would assume it's probably about the same percentage, but I'm not going to make guesses on what that number is.

SENATOR HARR: Not asking you to, not asking you to. I just don't know the answer.

KIM CONROY: Okay. Yeah, I don't either. (Laugh) I'm sure Mike Calvert could give you a very good answer on that one.

SENATOR HARR: Okay. Thank you.

KIM CONROY: Okay, on the...can everybody hear me? I'm sorry, I've got a cold so I know my voice might be...okay. The 2014 Tax Expenditure Report. This is just a short little outline of what I'm going to be talking about. What the purpose of this is, this is the first year that the Department of Revenue has presented this report. And we're going to go through what the basic provisions of the reporting requirements are. And then I'll just show you how we kind of set up the Tax Expenditure Report. This is the purpose in the statute for the Tax Expenditure Report. You can read that. I don't think I need to read that to you. We will also be providing the Governor's Office with a summary of this for his biennial budget. Here's some of the reporting requirements. We finalized our Tax Expenditure Report on October 15 of this year. It's every two years the report comes out. But in the odd year, the years in between, we will do specific reporting. In 2014, since it's already a part of the annual report, you'll see we already have the agriculture, business across state lines, common carriers. I will go into that in more detail as we get into the actual report. But then in 2015, we will be providing you with an update to this year's report for consumer goods, energy, and food. And then again in 2016, we'll do another annual report that will include these specific items. The Tax Expenditure Report doesn't just have sales tax, income tax, property tax. There's a lot of taxes in here. We have to work with some of our other agencies to come up with what some of these are, such as the alcoholic beverage taxes, the corporate occupation tax. We go to the Secretary of State for that information. It's all in the full report. Insurance premium tax, we go to the Department of Insurance. I'm not going to spend a lot of time on any of these specific ones, just because there are so many of them out there. What is a tax expenditure? Maybe I should have started the whole conversation off with, what is a tax expenditure? And I think you can probably see different definitions of tax expenditures between every state and even the federal government, but it's a revenue reduction that occurs in the tax base of the state or a political subdivision, due to exemptions, deductions, exclusions from tax. Now these deductions, exclusions, you're going to see more in the income tax area, in the sales and use tax area. It's more of an exemption base. If you have credits, we see in the income tax area. Or preferential rates. We'll talk about that in income tax area a little bit since we just have one rate at the state level for sales tax. Now if you want to go to your...if you have a...I don't know if you have a copy of the report in front of you, but I'll go through just one of the items that are on the report. And I'll just start with number one under agriculture. We list what the exemption is. It's agricultural machinery and equipment. We give a statutory citation so you can just click on in the report and go right to what that exemption is. We have the date of enactment, which would be 1992. And then we give an estimate--keep in mind, these are estimates--and then we list our data sources. We try to use outside data sources to the extent possible. Keep in mind the Census Bureau does not update that often, so you might see growth in some of the exemptions from 2012 to 2014 and that's because the census information had been updated from the 2007 information that we had had previously. And then we'll include a note if we think there needs to be a little bit of an explanation to explain that tax expenditure. So that's in the report. These are the items that go with each of those exemptions. For sales and use tax, just the basics. Forty-six states impose a sales tax. These are common sales tax exemptions that most states have, and I think that most experts would say need to be included to make it an effective sales tax. Many of these were enacted in 1967 as a part of Nebraska's foray into starting a sales and use tax. Sales for resale has been there for the beginning and is a key component of any sales and use tax. Ingredient and component parts and agriculture inputs, all have been there since 1967. Food for human consumption hasn't always been an exemption. It started...the exemption started in 1983. Prior to that time food had been taxed in Nebraska, but there was a credit given--I think it was through 1983--there was a credit given to each individual on the income tax return. And I think when it finally ended we were up to maybe $21 per person for that income tax credit. We also have exemptions for entities which most states do, for government entities, for some nonprofit entities, and for religious organizations. Motor fuels is an exemption in most states, but not all, and that has been there since 1967 also. There are states that have both a motor fuels tax and a sales tax on fuel. Some of the bigger ones that do are California and Illinois. The exemption for common carriers was a two-part process.

Repair parts was exempt from the beginning and then rolling stock was added in in 1980. And here recently, it doesn't seem like recently, probably eight years ago, the manufacturing, machinery, and equipment exemption came into place. There had been parts of it before, but the full exemption came in place in 2006. Not every state has it, but most probably do.

SENATOR MELLO: Commissioner, if I could just ask you to pause real quick. I want to welcome to the committee today Senator Burke Harr from District 8 and Senator Kate Sullivan from District 41. Please continue.

KIM CONROY: What is a sales tax? The reason I have this up here is there's a difference between what we have as a sales tax and what some states have as a gross receipts tax. And that's why you see some of the exemptions we have versus what maybe a state that has a gross receipts tax would not have. It's a transactional tax. It's a tax on the transaction, imposed on the retail sale of tangible personal property in some services. When the tax system started, you go with the assumption that all tangible personal property is taxed, unless there is an exemption. With services, the assumption is it is not taxed unless you specifically impose a tax on the service. Most states have some sales tax exemptions for businesses. In a gross receipts tax state you typically do not have exemptions for business inputs. Most states are going to not tax out-of-state sales or credit...or they will have a credit for taxes paid in another state so that the taxpayer doesn't get double taxed on the same transaction. Just different from a gross receipts tax which is broad-based. They go with the limited number of exemptions and a broad-base, but it does lead to tax pyramiding.

SENATOR HADLEY: Commissioner.

KIM CONROY: Senator.

SENATOR HADLEY: Could you go back...sales tax exemptions for business inputs.

When we were doing the Tax Modernization Committee, if I remember right, we threw around 70 to 80 percent of our exemptions fit into that category. Have you ever heard that?

KIM CONROY: I don't know what an exact percentage would be and I don't know if you're counting it on the number of exemptions or the dollar amount associated with each.

SENATOR HADLEY: I think it was the dollar amount.

KIM CONROY: That wouldn't surprise me. I mean, we do have a lot of the bigger...when I go to...you'll see on some of the charts that I get to, and you can see where the biggest exemptions are, and I think that will probably show you, that probably is correct.

SENATOR HADLEY: And...and let's assume that it is correct, that it's 70 and 80 percent. The primary reason for that is the pyramiding of tax on tax from a tax policy standpoint, which is something that you do not...a good tax system does not have pyramiding, is that...?

KIM CONROY: Right. A sales tax does not have pyramiding, and it also leads into what I think the Tax Modernization Committee had, and I think it's important, was that word "competitiveness." Because if you have those taxes on your business inputs in your state, it's probably going to make your products higher priced than your neighboring states that do not do that. So it also ties in, I think, with the competitiveness. And a sales tax at its heart, or the pure, I guess, professor look at it, would say it needs to be on the final consumer where that product has sold. You don't have tax all built in to each piece of it and it's imposed on the person making the final purchase.

SENATOR HADLEY: And this particularly is important in our agricultural industry because our ag industries generally do not have the ability to set the price, they're price takers. So if we add cost to the ag, our agricultural industry, and they don't have the ability to pass it on in a way of higher prices, in essence, it's very detrimental.

KIM CONROY: I think you're right.

SENATOR HADLEY: Thank you.

KIM CONROY: Uh-huh.

SENATOR WIGHTMAN: Question.

SENATOR MELLO: Senator Wightman.

SENATOR WIGHTMAN: No, I was pointing.

SENATOR MELLO: Senator Harr.

SENATOR HARR: Thank you. Could you define who are price takers and who are price makers?

KIM CONROY: Who are price takers, in an economic sense or a tax sense?

SENATOR HARR: Well, within our economy. You know we talk about farmers being price takers and I agree with that completely. I guess my question is, who...how do we define who is a price maker and who is a price taker and where does that fit in the spectrum? When we're trying to make tax policy, yeah.

KIM CONROY: I don't really know. I know...I know that whoever has the power in the market is going to be the price maker, so if you're selling scarce resources, you will be a price maker, which then makes, if I have to buy scarce resources from you, makes me a price taker.

SENATOR HARR: Yeah. So is a...can you give me another example of price makers across the board then? I guess my issue is, is a doctor a price maker or a price taker?

KIM CONROY: I don't know. Maybe they're both depending on what insurance they're accepting at the time.

SENATOR HARR: Okay. So if I raise a rare fruit, am I price maker or a price taker then?

KIM CONROY: I couldn't hear you.

SENATOR HARR: Let's say I grow a rare type of apple. Am I a price maker or a price taker?

KIM CONROY: It depends on whether there's a market for your rare apple or not or whether if your apple is so rare that there is no one that can sell it.

SENATOR HARR: So it's the same with doctors then, right? I could be a specialist of something and no one likes it, I'm worthless too. So you could use the same example across the board, correct?

KIM CONROY: I...it just depends.

SENATOR HARR: It depends. Thank you.

SENATOR MELLO: Senator Schumaker.

SENATOR SCHUMACHER: Commissioner, to your knowledge, is there any philosophical basis for not imposing a sales tax on the sale of real estate?

KIM CONROY: Of the states that have sales taxes, that just does not seem to happen. And I think it's because there are other taxes that occur such as a documentary tax.

SENATOR SCHUMACHER: But that's a tiny, tiny tax.

KIM CONROY: Yeah. I don't for a sales tax, it's based on tangible personal property, almost all of them.

SENATOR SCHUMACHER: Any reason for that?

KIM CONROY: You would have...I don't know what the early discussions were, but I think the price shock of someone purchasing a home and then knowing they have to pay sales tax on that would probably lead to some very unhappy taxpayers. So at the bottom of it, I would say it's probably taxpayers and voters that would have said, no, we don't want this.

SENATOR SCHUMACHER: One of the problems we've seen with the property tax in the agricultural sector is this rapid inflation in land prices. And that's not...and it has caused problems with our property tax system. Now, if someone has got the money to pay huge increases in land prices and inflate the price of land, philosophically the reason for not...that's what it is, what you just talked about, the reason for not imposing a sales tax goes away.

KIM CONROY: But not everybody is buying rapidly appreciating farmland, either, Senator.

SENATOR SCHUMACHER: But a lot of people...I mean, that's the cause of our problem in...our property tax problem. Land is becoming very, very expensive, and at the same time the production, the income it produces, is sometimes marginal.

KIM CONROY: And I'm not here to go over philosophical reasons as to why Nebraska would or wouldn't tax. I'm just giving you an answer. I don't think there's tax...states that do that. I think Arizona, they have a different type of tax. They might tax some rental business type of rentals, but I cannot think of other states that do it in any big way because there are those other taxes such as a documentary tax or a real estate transfer tax or the income tax when you pay on the gain when you do sell that real property.

SENATOR SCHUMACHER: Okay. But you don't pay on the gain if it comes through an estate. You get a stepped-up basis and it's tax free again, right?

KIM CONROY: I'm not here to...(Laugh)

SENATOR SCHUMACHER: Okay. Thank you.

KIM CONROY: That's been the foundation of our federal income tax system of which we are a party to.

SENATOR SCHUMACHER: Thank you.

SENATOR MELLO: Senator Wightman.

SENATOR WIGHTMAN: Thank you. Doesn't Nebraska have one of the highest property tax rates? They pay support to schools more through property tax than most states, almost all of the states, I think.

KIM CONROY: I think that is correct.

SENATOR WIGHTMAN: What's your thought as to whether we would be better off at least reducing property tax somewhat to cover that and cover more of it through either income tax or some other type of tax? And I realize that one of them is at the local level and one is at the state, but the state still pretty much determines that in the State Legislature.

KIM CONROY: And I think I will let you have that discussion next session on what you want to do for the state. (Laughter) I was going to add there was some language taken out of the requirements for this report and one of those was for the Tax Commissioner for the Department of Revenue to make recommendations on the tax expenditures and we administer these.

SENATOR WIGHTMAN: Yeah, we've had...we've basically had two consecutive years where property tax...I'm again talking farm property tax, has gone up approximately 30 and 40 percent, I think, but the three districts...or three counties in my district, I think the average would be at least 35 percent increase. Now, whether the tax will go up quite that, but it will go up almost that.

SENATOR MELLO: Seeing no further questions, please continue, Commissioner.

KIM CONROY: Thank you, Senator. In Nebraska we divide exemptions into different categories. So, again, here I'm starting in, once you have an exemption, you start to take away the simplicity and the ease of compliance. And in Nebraska, we have different exemptions. So with different exemptions, I'm taking another step in making things harder for taxpayers and harder to administer for the Department. Sales can be exempt based on who the seller is. Schools don't have to collect sales tax on many things they do. We have tax exemptions based on the item that is sold. We don't tax food. It doesn't matter who you are, you can buy food without paying sales tax, prescription drugs, motor fuels. We have exemptions based on who you are, who the buyer is. The state of Nebraska as a buyer doesn't have to pay sales tax. Churches as religious organizations don't have to pay sales tax on their purchases. And then, an even harder one, is how is a buyer going to use a product? So it may be exempt depending on who the buyer is, and if you don't fit within that buyer category, you're going to pay sales tax. That's why you see we have an exemption Form 13 for purchasers to fill out saying, I am exempt because of this. I'm exempt because I am involved in commercial agricultural, for ag machinery and equipment. If I just own my acreage and I'm not farming, I can't go buy a tractor tax exempt. I have to pay sales tax on it. So those are buyers. So it's dependent on who you are as a buyer what that exemption is. Here's the list, Senator Hadley, that I was talking about where we're just listing out of the Tax Expenditure Report the largest items that are on there. A couple of years ago the Department of Revenue took out component parts as a part of the tax expenditure study because almost every state that has a sales tax has it as a part of the base. We are now including it due to the statutory language in here. That as a business input, Senator Hadley, is large.

SENATOR HADLEY: Could I...quick question. This leads then to people making incorrect assumptions about our total exemptions. I believe it was The New York Times that did a report on this, and this is such a big part of our exemptions and other states do not report it. They do it, but they don't report it in their exemption report. So it looks like ours is...we have such a huge exemption number and it's because of that $1.4 billion that other states are not including in their report. If you go back and read The New York Times report, that is exactly the reason that we didn't look good in it because of that number.

KIM CONROY: Now I will say the one thing that was not included that we hadn't been including is the sale for resale exemption. If that was in here, we can't even estimate really what that would be. But if you took away the sale for resale exemption, you wouldn't have a sales tax anymore. You would have gross receipts tax. And we have the year that these were enacted. And you can see most of these were part of the very beginning of Nebraska sales tax system. And I know the Tax Modernization Committee went through this. I know you've seen these items in here and it's some of the same ones where I said, here are common exemptions most states that have had a sales tax have. The same as animal life. Can you imagine if you had to pay sales tax when you went to purchase a cattle or a calf or a piglet, if you were paying sales tax on it--another important exemption in Nebraska. Motor fuels, large exemption, but we have another tax. We have a motor fuels tax over there. The same with grain, big purchase, feed. And then your nonprofit purchases. We talked about food, how it had originally been taxed but there was a credit given. Ag chemicals and medical equipment. So many of those, they're not all business input, Senator Hadley, but the good size of them are. Here's some more. Between government or business inputs, the energy used in industry would be a business input, had been there since 1967. Ag machinery was added in 1992. It wasn't a part of the original sales tax system. Motor vehicle trade-ins has been there. I mean you couldn't...you can see the list there, but those are the bigger exemptions we have at least in the sales tax area are these here on the list. We are now including some specific services or costs for some services that were required in the statutory language. The department hadn't considered services to be a tax expenditure due to that basic thing that I told you at the beginning is, we only impose tax on services, they're not exempted up-front.

SENATOR MELLO: Senator Hadley.

SENATOR HADLEY: Commissioner, I...in going through the report, I noticed quite often, not quite often, but a number of times when we were talking about the services area and, for example, number 87 is cleaning and repair of clothing, and our statute--LB989 amended 77-382--requires a listing for cleaning and repair of clothing. However, the repair of clothing is not subject to sales tax. So do you think we have to...we need to go back, there were a number of these that we've got in the Tax Expenditure Report that aren't exempt. So I would suggest, maybe next session, we go in and maybe just look at this to clean it up to get those things that we're already taxing so we don't list them again. Is that a fair...?

KIM CONROY: Oh, yeah, that...when we looked at the list when we started preparing this, we saw that many of these service items we already tax in here. That's why when you look at the notes you're going to see many of them shouldn't even be on this list. The other thing is that the statute wanted us to exclude business purchases of these services. With the data sources we use, that's just not possible. Our data sources don't break it down for the most part. Now, some of them we were able to do, but they don't break it down by who the purchaser is, so we can't pull out the business purchases on many of these. So that's what you'll see the little asterisks there is that we can't pull the business piece of it out, on legal services or real estate services. Motor vehicle cleaning and repair, again, Senator Hadley, motor vehicle cleaning is taxable right now. The repair labor is not. Pet-related services, there's...it's kind of...there's several different things that are taxed and not taxed in there. And then accounting services, there's some business. We were able to pull some of it out if it dealt with accounting services for preparing balance sheets, financial statements, we didn't include that. But we...our data sources just couldn't allow us to pull out business entirely on these.

SENATOR MELLO: Senator Wightman.

SENATOR WIGHTMAN: Thank you, Senator Mello. How is Nebraska affected by the all public power which we don't have much sales tax at all on power. What does that...what does that do to our taxes where most states, that's private industry or a silent portion of it is.

KIM CONROY: They don't have sales tax exemptions.

SENATOR WIGHTMAN: On public power? []

KIM CONROY: Uh-huh.

SENATOR WIGHTMAN: They do on farm...

KIM CONROY: It depends. Are you talking about who the purchaser is or what the energy is used for?

SENATOR WIGHTMAN: I'm talking about who the user is.

KIM CONROY: We tax utilities. We tax electricity, we tax water, we tax natural gas, so Nebraska is probably...more heavily taxes the consumer on utilities than most states do.

SENATOR WIGHTMAN: Thank you.

KIM CONROY: Uh-huh.

SENATOR MELLO: Seeing no further questions, please continue, Commissioner.

KIM CONROY: And then the statute also requires that we list some of the recently enacted exemptions in here. Just here's a list. I don't need to go through and read them. The last few...the report only goes through what was in effect as of July 1 of the reporting year. So the ones at the bottom hadn't taken effect yet on July, but we just wanted to add them so you could kind of see what we passed this past year in terms of sales tax exemptions.

SENATOR MELLO: Senator Harr.

SENATOR HARR: Yes, thank you. I'm sorry, I'm kind of over here so can you go back a screen, please.

KIM CONROY: Sure.

SENATOR HARR: But you have nonprofit health clinics and nonprofit health centers, what is a...where does a nonprofit hospital fit within there?

KIM CONROY: Nonprofit hospitals have been exempt probably since 1967.

SENATOR HARR: Okay. Okay. And they do a payment in lieu of tax, is that right?

KIM CONROY: No.

SENATOR HARR: Okay. Is there a structure put in to do that?

KIM CONROY: Not for sales tax.

SENATOR HARR: Excuse me. Sorry.

KIM CONROY: Not for sales tax.

SENATOR HARR: Okay.

SENATOR MELLO: Seeing no further questions, please continue, Commissioner.

KIM CONROY: Thank you, Senator. This chart is for...remember when I went over with you at the beginning how every year we're going to pick out three of these categories and go through them, and the next three slides are the ones for 2014. I'm going to go through them specifically with you. That was in 2(a) through (c), I think, in the statutory language. You'll go, why is...before you had the order go biggest to largest, this order is just how they appeared in the statute and that's how we had them appear in the tax expenditure study. So for 2014, the first category that we specifically look at is agriculture, and these items were all listed in the statutory language. I think the last one wasn't listed, but it's a pretty sizable one, so we wanted to make sure that we got all of the agricultural exemptions in place on this chart. And the one that you won't see in here, too, is the one that just took effect on October 1 for agricultural repair parts. The next specific category for 2014 was one...business across state lines. And you'll see a lot of not available or not applicable here and, Senator Hadley, this might be something else to look at. Many of these exemptions had been there since 1967, and we just do not have any ability to try to cost what these are. And I guess I'll add some of them are just a part of a basic sales tax structure or they're a basic part of how we source sales to the state. Property shipped out-of-state. We are a destination state. Where do you take delivery of the tangible personal property? Now if you're making sales in Nebraska and you're delivering them to Kansas, they're not subject to tax in Nebraska as a part of our sourcing of how we source sales. Kansas is probably going to impose a tax on that delivered item. So we have no ability to try to determine what the cost of this might be because it's a basic part of sourcing when you're on destination sourcing. Now fabrication labor for items to be shipped out of state was added later on. I think the reasons probably behind that is you didn't want to put your Nebraska companies that were doing fab labor at a disadvantage for having customers from out of state come into Nebraska and have it leave the state. Property to be transported out of state, kind of a basic again on the sourcing. Property purchased in other states to be used in Nebraska. Now, you're thinking, what is that one? The exemption states that if you purchased property...say, I purchased servers and I used them in Illinois and I paid sales tax in Illinois and then later I moved my operations, moved that server to Nebraska, there won't be a sales tax again on that when you move it to Nebraska. You're looking at, have you used that item for its intended purpose in another state? Pretty basic exemption to have in place. Aircraft delivery to an out-of-state resident or business is more commonly known as, I think, by the fly-away rule. I mean, if you're not housing the aircraft here in Nebraska, you're going to be housing it in another state. We don't impose sales tax on that. Yet it helps with the competitiveness side. State reciprocal agreements for industrial machinery, you'll see zero and that's because we have none. We have no agreements for this with any other states. And then property taxed in another state, we don't have any ability to determine what that might be. The third category to look at specifically in 2014 deals with common carrier and logistics, railroad rolling stock and repair parts and services. The repair parts and services started in '67, but I think the actual rolling stock came in at a later date. And then the common or contract carrier service would be trucks, trucking companies. And we just don't have the data sets to be able to come up with the specific costing on these last two items. They're probably up in the subset of the other two. And that's it on sales tax. Any questions before I move to income tax?

SENATOR MELLO: Any questions for Commissioner Conroy? Commissioner, I've got one question and I don't want to sound...I don't want to sound nitpicky and I think the public and the Legislature appreciates, I think, the new work that's been done and this year's Tax Expenditure Report after the passage of LB989. But can you walk us through a little bit, I mean, there's a considerable number of instances where you give no estimates. And I think sometimes as a policymaker it's disappointing to try to get to the bottom of really what is the fiscal impact on a certain tax expenditure and yet a number of them you provide no estimates and simply say, we can't figure it out. I haven't been able to go through this other additional list we've got of all the services and exemptions and everything else that our neighboring states provide, but I assume that you look and see what other states do in regards to trying to find data for some of these exemptions that you don't provide any analysis on. Do you look and see how other states provide analysis, if they do it at all in regards to those exemptions?

KIM CONROY: We're looking at other states. What we don't want to do is give a bad estimate either. The thing with an exemption once it's in place is we lose any reporting on it. When something is taxable, we're getting reports from the retailers that are selling that product. Once something is exempt, any of that goes away for us. And, you know, maybe we could come up with an estimate but I have somewhat, you know, limited amount of time to get it done. I mean, and it would somehow entail doing surveys of every type of company involved in selling that product or that service. And I still don't know if we cover everybody or really get to a good estimate of what it might be. Now, if you have a very specific question, you can ask us and we'll take another stab. But what we try to do, and I think what other states try to do, is give you a valid estimate for that exemption. It's difficult. I mean, it is to try to come up with a valid look at some of these because they might be embedded in another data set from the Census Bureau and it becomes difficult to try to pull some of those apart.

SENATOR MELLO: I...I appreciate that...and I appreciate that response and I can imagine it can be challenging. The one caveat I would pose is that I'd encourage the department to consider evaluating. I know we have two states that neighbor us that don't have an income tax and so they charge a sales tax on a significantly larger number of services, items, products, goods. We heard that from the LR155 report in process where South Dakota and Wyoming I imagine has some data. Now granted, you can't corollate exactly Nebraska with the state of Wyoming and South Dakota, but at least they should be able to provide their Department of Revenues, would in theory be able to provide you more of an analysis from their own state on a number of these exemptions that they may not have that would hopefully be able to provide your department some...a starting point, so to speak, of moving forward because I just get concerned in the sense of it--the report is only as good as the data that we're provided from your department. And I don't want to sound critical because this is a much better report than I think we've seen over a number of years. But there's still...I was just counting through the report a number of, like I say, those areas that even to some extent providing some preliminary estimates and starting a move down that pathway I think would really fulfill, I think, the intended focus of what we want to be able to see of what these exemptions or exclusions, deductions, or whatever may be, what their real potential fiscal impact is on the state.

KIM CONROY: No, thank you, Senator. We can certainly do that. I have to keep in mind it can be a double-edged sword, though, as if you're looking at exemptions that you want to appeal...repeal, based on dollar amounts, and that's why we want to make sure we have numbers that anybody could come in with an economic background be able to substantiate those.

SENATOR MELLO: Absolutely. And I completely respect and would expect that from the department. Senator Schumacher.

SENATOR SCHUMACHER: When you rent a capital item, say a car, you pay sales tax on it, right?

KIM CONROY: Correct. []

SENATOR SCHUMACHER: When you rent different kind of capital item like money, we don't charge sales tax on the interest. Is there any way that we can compute the amount of revenue lost by not putting a sales tax on interest?

KIM CONROY: We may be able to, all the experts are behind me. We can look at it as a question. It is an intangible. Most states do not impose taxes on intangibles.

SENATOR SCHUMACHER: Well, I mean, it's a...it's interest. It's just like rent. I mean, it is...it's money transferred to the owner of the capital item, so be no different. Whether it's intangible or not, just a question of whether or not there's any way to estimate the revenue lost by not taxing interest.

KIM CONROY: I have not seen a state do that. We can take a look. I think if you have requests from three senators, Senator Mello, if you want questions submitted to us after this, we will certainly comply with that.

SENATOR SCHUMACHER: Thank you.

SENATOR MELLO: The Commissioner is absolutely right in regards to the statute so if there are issues that members of the Appropriations or Revenue Committee would like to do follow-up on, she, as she mentioned, we need three members to agree to sign a letter requesting that information and the department will provide that. Any further questions? I see none. Please continue, Commissioner.

KIM CONROY: Thank you. Income tax. Nebraska's income tax, I think you probably all know this, is based off of the federal adjusted gross income. And we have certain adjustments within the state and then we use that to determine what your Nebraska taxable income is. We utilize the federal calculation of taxable income, so the federal base is our base. That is a good part of simplicity for taxpayers to have the same base as the federal government does for the calculation in Nebraska income taxes. I can tell you from prior life, practicing some in California, is they do not, they do not follow the federal base. They have what you would call a scattershot approach. They couple here, here, here, but they don't couple with the federal base here and here and here and here. So they end up with pages and pages for taxpayers to know, do I follow the feds here or not? And Nebraska does very good here. I think it keeps it fairly simple for taxpayers to comply with. We recognize some adjustments that happen under the Internal Revenue Code too in federal...excuse me. It helps to have the two systems linked. When they both link to depreciation the same way, it certainly helps businesses. When the state decouples from something, it adds complexity. It takes away from simplicity. This is the area in income tax where you see things beyond exemptions happening. The first thing are preferential rates. What do you think, what are preferential rates in the income tax area? And those were the brackets that we have. By having the brackets and not having a flat tax rate, that would be the cost, and the corporation tax rates are also at two different levels. Now an exclusion from taxation, this first one is you can exclude as a Nebraska resident income that you have from a non-Nebraska S corporation or an LLC. That's an exclusion from taxation in Nebraska. So you live here in Nebraska, you invest in an LLC or an S corporation that doesn't have nexus in Nebraska, you're able to exclude your income from that. Another exclusion is the extraordinary dividends, special capital gain exclusion, our form we call it 4797, you may know, but that was a part of LB775. If you meet certain tests, you can exclude your gain on the sale of the business in which you were an employee and that's a $26 million cost per year. And deductions. We have deductions in the income tax area. The standard deduction which...the federal governments also have a standard deduction, but that's the cost in Nebraska. If you're able to itemize deductions, you can go over and above what the standard deduction is with your itemized deductions. We exempt interest in dividends on U.S. obligations. I think most states do that. You have net operating losses and capital losses for corporations and for individuals, trusts, and estates. State income tax refund and contributions to the Nebraska Educational Savings Plan Trust.

SENATOR MELLO: Commissioner Conroy, I have a quick question myself on the itemized deductions. On the report, you list the estimate at $80,900,000. I could be mistaken, but I swear I've downloaded some Excel spreadsheets from the Department of Revenue that breaks down a considerable amount of individual filers' information as it's based on different credits, different exemptions that show that itemized deductions, I believe the...I can't remember the last year I looked at it, was considerably higher than $80 million in regards to the number of itemized deductions that Nebraskans take based off the filers...I mean, the filing reports that you guys provide. Could you give a little bit more background on that?

KIM CONROY: Well, every year when we do the report, we try to do it better, Senator. And this was one of the items, I think, that we were trying to do better this year. And I might not explain this very well and if I don't, you certainly...we will certainly get a better answer to you as to why you saw those changes. In 2012, for that Nebraska standard deduction, we did have a value of $187.7 million and we increased that to $442 million this year. In 2012, the estimate was smaller because it assumed people kept their itemized deductions filed in their return. In 2014, we changed to...let's see if I can explain this right. The assumption was changed so that there...if you're not getting a standard deduction, if there's no standard deduction, there would be no itemized deduction. So that increased the dollar amount on it.

SENATOR MELLO: On the standard deduction.

KIM CONROY: On the standard deduction.

SENATOR MELLO: Yes.

KIM CONROY: And then on the itemized deduction we had a 2012 value of $252 million and that went down to this...

SENATOR MELLO: Eighty.

KIM CONROY: Yeah, smaller amount because in 2012 we assumed that if taxpayers itemized, then there were--how to explain it--no standard deductions. Am I saying that right? Yeah, then there were nothing in the standard deductions. In 2014, we're assuming that itemizers will take the standard deduction if no itemized deductions are allowed. So we're just showing you the differential. Instead of showing, I think, the number for 2012 in the itemized, included both...

SENATOR MELLO: Was considerably higher.

KIM CONROY: ...well, included both what you would have had anyway as a standard deduction plus what you had for itemized deductions. This number this year, we took a look and thought...we think we can portray this better by keeping the itemized deductions of just what it is after you have taken off the standard deduction piece. I think I'm explaining that right.

SENATOR MELLO: Okay. So, just so I...I guess so I understand it and I guess I can only speak for myself and not the rest of the members on the panel today, your breakdown analysis you provide on Department of Revenue regards the specific information regarding individual filers based on various segments of AGI that that 2012 number of $250-plus million for itemized deductions also incorporates the standard deduction for those filers?

KIM CONROY: Correct.

SENATOR MELLO: Do you think it would be a bit easier to change that, so to speak, moving forward so that I think not just policymakers but the public at large if they looked at your materials would come to the same conclusion I do which is, we have itemized deductions of $250 million a year, but you're trying...you're informing us that that also incorporates the standard deduction that those filers are incorporating as well out...which are not really true itemized deductions. They're taking the general standard deduction and not itemizing their deductions, you know, traveling that different path, so to speak.

KIM CONROY: Correct. And I think that's a good idea, Senator. We can...I think we can add and we can send to you what the 2012 numbers would be. We can...I mean, we can add like a little bubble on to the 2014 report, too, that has here's an explanation for the change in methodology and here's what the numbers would have been for 2012...

SENATOR MELLO: Okay.

KIM CONROY: ...if we had been doing it under this methodology.

SENATOR MELLO: Okay. I would appreciate that.

KIM CONROY: Okay.

SENATOR MELLO: And I just would encourage you as you produce those Excel spreadsheets in the future to find a way, I know, of just being able to break that down further so I think it provides more clarity in regards to a general...a common lay perspective of how many people are itemizing deductions in comparison to taking that standard deduction, which I would argue is not an itemized deduction, so.

KIM CONROY: Right.

SENATOR MELLO: Senator Schumacher.

SENATOR SCHUMACHER: Thank you, Senator Mello. You started out the presentation on income taxes indicating that we're coupled to the federal system for purposes of AGI. One of the things that being coupled to the federal system does is it allows a stepped-up basis in an estate. So if grandpa's farm appreciated $10,000 an acre, and grandpa were to sell it while he was alive, he'd pay the 6.84 percent income tax. But when grandpa dies and the heirs sell that $10,000 an acre appreciation in land, they get a stepped-up basis which means that they pay no income tax. Is there any way to estimate the loss in revenue from following the federal government on the stepped-up basis rule for appreciated real estate?

KIM CONROY: Well, Senator, we'd have to look to see if the federal government even comes up with a cost first and I don't know if they do on that. And then that would be our starting point.

SENATOR SCHUMACHER: That would have to be a substantial number though, wouldn't it?

KIM CONROY: I would assume so.

SENATOR SCHUMACHER: Thank you.

KIM CONROY: But they...I mean, we repealed the estate tax in Nebraska I think for certain reasons too.

SENATOR SCHUMACHER: But when the fed...on real estate though, when the federal government was talking about repealing the federal estate tax, they also were at the same time talking about imposing an income tax on doing away with the stepped-up basis. So we did half the job. Thank you.

SENATOR MELLO: I'd like to welcome Senator Danielle Conrad from the 46th District joining the committees today. Please continue, Commissioner.

KIM CONROY: Thank you. Now we have credits in the income tax area too. The largest one is the one I think you all see when you go to do your return on the personal exemption credit. You also get a credit for income taxes that you've paid to another state. There's a refundable earned income credit. I'm starting to lose my voice so I'll let you read...I mean, I don't need to read each of these to you. I think you can see those on the chart there.

SENATOR MELLO: Senator Hadley.

SENATOR HADLEY: Just a couple quick questions. These preferential rates deductions and credits mean that the effective tax rate for income taxpayers is higher than the stated rate, right? For example, the top rate is 6.87 percent, but I remember from our Tax Modernization that it's about 4.8 percent after you take into account all of these exemptions and deductions. So people who talk about us having a high rate, that is tied and modified by having all of these things that you just went over. So one of the things you can always look at is if you want to lower the rate, you can get rid of some of these exemptions and you can bring your rate down by looking at it, doing away with some of the exemptions, which goes back to your original thing about broader base, lower rate. And we, you know, the Legislature could reduce our income tax rates by looking at these exemptions and saying, are they truly exemptions that we want to continue?

KIM CONROY: You're correct. (Laugh)

SENATOR HADLEY: First time anybody has said I've ever been correct. (Laughter)

SENATOR MELLO: Senator Schumacher.

SENATOR SCHUMACHER: A question with regards to some of these credits, looking at refundable earned income credit, for example, child and dependent care credit, those are credits that go to basically low-income people. Is that correct?

KIM CONROY: Correct.

SENATOR SCHUMACHER: Okay. Now, in the case of an operation which has a large net operating loss carry forward, say in one year, five years ago or so they lost a half a million dollars and they're carrying that forward against their income. In subsequent years, they may show zero income because of past offset to carry forward, and they would then, even though they may be making $100,000 to $200,000 a year, would they be able to, because of that net operating loss carry forward, claim the child and dependent care credit and refundable earned income credit?

KIM CONROY: They're going to take their deductions first before they look at the credits, but they are refundable. But I can't think of hardly anytime when that would happen where you would have a net operating loss as an individual of that size and you qualify for an earned income credit.

SENATOR SCHUMACHER: But wouldn't your earned income be zero if you were taking the credit...I mean, taking the loss?

KIM CONROY: We're going to look at, I believe, we look at your income before that type of deduction. I don't know right off the top of my head.

SENATOR SCHUMACHER: I've been told by accountants we don't and that there are people making six-figure incomes but that show up as zero because of the net operating loss carry forward that are qualifying for those on the tax returns.

KIM CONROY: And we can certainly get back to you on that question.

SENATOR SCHUMACHER: Okay. Thank you.

SENATOR MELLO: Any other questions? Please continue, Commissioner.

KIM CONROY: On property tax, the reporting requirement says that we're not going to really give dollar amounts on these exemptions for property tax--does not require the valuation or assessment of any property exempt from taxation on the basis of its use exclusively for religious, educational, or charitable purposes. So the tax expenditure study does not try to even estimate what these might be. It would become very difficult for county assessors are busy trying to value the property that is taxable. They don't try to put a value on exempt property. Property owned by a church, there's...the county assessors don't also value that property. So we have no basis on which to make any exemptions and the statute makes clear that you don't want any estimates on these exemption categories. And...

SENATOR MELLO: Senator Harr.

SENATOR HARR: Thank you. Thank you, Commissioner. So it says it doesn't require, but you could require...you could figure that valuation out, couldn't you?

KIM CONROY: I don't know. Without having the value piece from the county, I do not know if we'd have a way of coming up with that in any reasonable way.

SENATOR HARR: Do we...so, I guess my question, do we know how much property has been tax exempt versus 10 years ago versus 20 years versus 30 versus today?

KIM CONROY: I do not know if we have that type of information.

SENATOR HARR: So we don't...we keep track somewhere what the property is exempt, don't we?

KIM CONROY: The county assessors keep track of which property is exempt in their counties.

SENATOR HARR: Okay. And then...but there isn't a lever that requires the state to collect that information?

KIM CONROY: There's nothing that requires the state to collect that information and there's nothing that requires county assessors to try to value exempt property.

SENATOR HARR: Well, yeah, and that's not what I was asking. I was asking just acreage and...okay.

SENATOR MELLO: Just so I get Senator Harr's question clear. For an example, Lancaster County here, they have...the Lancaster County Assessor has a list of...let's just take a number, 300 exempted properties in Lancaster County that they at least know the list of these properties and the number. But you're saying, they don't have a valuation on those properties, or...I mean, any valuation whatsoever?

KIM CONROY: No, why would they need to?

SENATOR MELLO: Does the property owner go through the county to get that exemption or do they go through the Department of Revenue to get that exemption?

KIM CONROY: A property owner that wants an exemption for one of these purposes goes to the county.

SENATOR MELLO: So, I think Senator Harr's point is, to some extent you could at least or the Department of Revenue could compile a number of exempted properties in each county at least so it would give us a...it would give policymakers and the public at large a general perspective of how many parcels or how many parcels are being exempted from property taxes in each respective county. That's something that...

KIM CONROY: Probably number of parcels...

SENATOR MELLO: Yes.

KIM CONROY: ...but nothing to do with value on this.

SENATOR MELLO: No valuation, but at least number of parcels.

KIM CONROY: It would be like putting a value on the Capitol here as an exempt property. (Laugh)

SENATOR MELLO: Okay. Okay. But I was just thinking of more numbers though if anything to start getting us once again providing information in the sense of just publicly available data that it's simply a matter of compiling that from county assessors, just part of this report.

KIM CONROY: Right. We do get information on some expenditures. I just don't think we have a count each year from counties on the number of parcels that are exempt.

SENATOR MELLO: Okay. Senator Harr.

SENATOR HARR: Thank you. And just to follow up, there's something called payment in lieu of taxes. I think public power companies do it, some others. First of all, who does pilots? What entities? Do you know?

KIM CONROY: I don't know. I do know what you said that the public power districts do the payment in lieu of taxes. Those are the primary ones.

SENATOR HARR: Okay. And is that pilot based on the value of the property or is it just based on revenue? How is a payment in lieu of tax determined what that payment is?

KIM CONROY: And, Senator, I'm not prepared to...I just don't have the information on that. The statutory language set it at a certain value many years ago.

SENATOR HARR: Value of the property or value of the...?

KIM CONROY: I do not know exactly, but there's quite a few statutes dealing with that, and I just don't have off the top of my head what that was.

SENATOR HARR: Okay. And that payment goes to the counties, correct, or does it come to the state?

KIM CONROY: Well, it's in lieu of a property tax so it goes to the counties.

SENATOR HARR: Okay.

SENATOR NORDQUIST: I can just tell you, Burke, that on the MUD bill that I had last year on CNG, we exempted...or MUD pays it on gross receipts, a percentage of gross receipts to the county in lieu of property taxes.

KIM CONROY: And I think you're correct, Senator, but I think the public power districts come under a different statute than what MUD does for that payment.

SENATOR MELLO: Any further questions? Senator Hadley.

SENATOR HADLEY: I guess more of a couple comments. One is that I passed out a sheet that I think is important to look at, at some later time, as to how we could...we are competitive with our surrounding states because we have a lot of our population that is close to border states so it gives you some idea of where we stand with other states. Secondly, the one major thing that we don't have in the Tax Expenditure Report is the Marketplace Fairness Act that we're asking Congress to pass that would tax Internet sales. And that has passed the Senate and it is stuck in the House right now. I hand-carried a letter from the Revenue Committee to all three of our Congressmen asking them to vote for that bill because that...the estimates run all the way from $30 million to $100 million of additional revenue that the state of Nebraska could get if Internet sales into the state of Nebraska were correctly reported and tax paid on it. So I think as time goes on, that's something we have to continue to look at.

SENATOR MELLO: Any further questions? Commissioner. And I thought that was your last slide, so. Any questions from the committees? Senator Schumacher.

SENATOR SCHUMACHER: One question. Maybe you could explain it because I've not been able to get a good grasp on the issue. Could you explain how we tax banks? Do they pay income taxes or depository taxes or how are banks taxed?

KIM CONROY: They have their own taxing situation on a...it's based on deposits. It's a financial institutions tax.

SENATOR SCHUMACHER: They do...they're exempt from income tax?

KIM CONROY: Correct.

SENATOR SCHUMACHER: And how does that financial institutions tax compare or relate to the amount of revenue produced were they just not to have that tax but have income tax instead?

KIM CONROY: I do not know.

SENATOR SCHUMACHER: Thank you.

SENATOR MELLO: Any other questions from the committee?

KIM CONROY: And Senator, if I could just add one thing. I just wanted...you don't do any of this without a good staff and we have a really great staff, and HoaPhu, Franz Schwarz over here, and John Stavick, the young man next to him, we call him "Mr. Tax Exemption Study Guy." He's the one that does all the work each year in compiling this information. He doesn't do all the work, but he's...it's his baby. He does a great job on it and Garner Girthhoffer, the policy section too, also has to go through these. We do have the exemptions in other places on our Web site. We have it under our regulations for exemptions. You can see a whole chart there. And we also have for the streamline sales tax Marketplace Fairness Act, we do have a taxability matrix that we have, also that we prepare for that.

SENATOR MELLO: Any other questions from the committee? Senator Schumacher.

SENATOR SCHUMACHER: Just one more question. We began the slides today with our charts showing general revenue growth of about 5 percent over the last several years. How does that revenue growth historically correlate with the growth in state GDP? Is it faster than GDP growth, slower than GDP growth? I mean, we're looking at...

KIM CONROY: I do not know. I don't know the exact...I mean, I don't...I mean, I can't say. I mean, it generally is going to try to...I mean, it tends to try, I would think.

SENATOR SCHUMACHER: So, if we're looking at nationally a GDP growth of 2 or 3 percent, and Nebraska probably now lagging behind or at least equal to, certainly not ahead of, national growth because national growth is bouncing back, but we never had so much to bounce back from, then we logically would be looking at less than a 5 percent growth in revenue.

KIM CONROY: You know, I don't think that's what the Forecasting Board was looking at a couple of weeks ago, no.

SENATOR SCHUMACHER: Yeah, and that's kind of odd because, you know, and that's why the question, whether it was a correlation there.

KIM CONROY: I'm sure the economists behind me could answer the question better than me. (Laugh)

SENATOR SCHUMACHER: Thank you.

SENATOR MELLO: Any other questions from the committees? Seeing none, thank you, Commissioner Conroy, for your testimony today and for providing this information. If there's no further questions, committee, that will end today's public hearing on the Tax Expenditure Report. Thank you for coming.

KIM CONROY: Thank you.