[LB15 LB48 LB52]

The Committee on Revenue met at 1:30 p.m. on Wednesday, January 18, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB15, LB48, and LB52. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Brett Lindstrom; and Paul Schumacher. Senators absent: Tyson Larson.

SENATOR SMITH: Good afternoon and welcome to the Revenue Committee public hearing. My name is Jim Smith and I represent Sarpy County, Legislative District 14, and I serve as the Chair of this committee. The committee will take up the bills in the order that has been posted outside the room. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceeding I ask you to abide by the following procedures: First, please turn off cell phones and other electronic devices. As you testify and prepare to testify, please move to the chairs in the front of the room so we can move through the testimony. The order of testimony is introducer, proponents, opponents, and then neutral and closing remarks. If you will be testifying please complete the green form and hand that to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and you would like those distributed to the committee, please hand them to the page to distribute. We will need 11 copies for all committee members and staff, and if you need additional copies please ask the page and they will be happy to help you make those copies. When you begin to testify please state and spell your name for the record. Please be concise. It's my request that you limit your testimony to five minutes. If necessary we will use the light system. And if we do use the light system, the green light will remain on for four minutes; it will go to yellow for one minute; and then it will go to red and that's when we would like for you to wrap up your comments if you have not done so already. The microphone is for recording for preparation of the record; it does not amplify. If you would like your position to be known but do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. And I would like to introduce committee staff. To my immediate right is legal counsel, Mary Jane Egr Edson. To my immediate left is research analyst, Kay Bergquist. To my left at the end of the table is committee clerk, Krissa Delka. And committee members with us today will introduce themselves, beginning at my far right. And Senator Larson is not here, but Senator Larson represents District 40. Next.

SENATOR GROENE: Oh, I thought you were going to introduce me, you did Larson. Senator Groene, District 42, Lincoln County and North Platte, Nebraska.

SENATOR LINDSTROM: Senator Brett Lindstrom, District 18, northwest Omaha.

SENATOR FRIESEN: Curt Friesen, District 34, Hamilton, Merrick, Nance, and part of Hall County.

SENATOR BRASCH: Senator Lydia Brasch, District 16, Cuming County, Burt County, and Washington Counties.

SENATOR SCHUMACHER: Paul Schumacher, District 22, that's Platte and parts of Stanton and Colfax County.

SENATOR HARR: Burke Harr, Legislative District 8, representing the better parts of Omaha.

SENATOR SMITH: And we have two pages with us today, Alexi, from Milwaukee, Wisconsin, and Sarah from Topeka, Kansas. We appreciate them helping us today. Please remember that senators may come and go during the hearing, as they have bills to introduce in other committees. Also, I'd like to remind our committee members to speak directly into the microphones. Also, for our audience, the microphones again are not for amplification, but are for recording purposes. And finally, we are an electronics equipped committee and information is provided electronically as well as in paper format. Therefore, you may see our committee members referencing information on their electronic devices. Please be assured that your presence here today and your testimony are important to us and it's critical to our state government. So again thank you. I think we have about 85 bills to hear this year in the Revenue Committee, so about an average year. So we'll have...this is our first of many days together. Our first bill in front of our committee today is LB15, introduced by Senator Craighead, so welcome. [LB15]

SENATOR CRAIGHEAD: (Exhibit 1) Thank you. Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Joni Craighhead, J-o-n-i C-r-a-i-g-h-e-a-d, I represent Legislative District 6 in Omaha in Douglas County. I come before you today to introduce LB15, which would establish the First-Time Home Buyer Savings Account Act. This plan would allow an individual to invest post-tax dollars with a financial institution or investment account for the purpose of all contributions and earnings to be used toward the down payment and eligible closing costs relating to the first-time purchase of a single-family residence in the state of Nebraska. Specifically, this bill would allow parents, grandparents, young couples, and other individuals to designate a new or existing account as a first-time home buyer savings plan account up to $50,000 to assist child, grandchild, or other qualifying beneficiary with a down payment and allowed closing costs for the first-time purchase of a single-family residence. All earnings on the deposit would be free from state income tax when used for the purpose of buying a home...a first home. Account limits would be set at $50,000 for principal with an aggregate limit of $150,000 and an annual contribution cap of $14,000 or $28,000 if married...if filing married. The bill states that the funds from such account shall be used for the first-time purchase of homes only in the state of Nebraska. The bill would create not only a tax incentive for becoming a first-time home buyer in our state, but would have extending benefits to the real estate, banking, and financial industries of Nebraska. Additionally, any funds put into a first-time home buyer savings account that are withdrawn for the purpose...for any purpose other than the payment of eligible costs by or on behalf of a qualified beneficiary would have a standard recapture penalty imposed to be paid to the state. Much like the Nebraska Educational Savings Trust, the NEST 529 education plan, passed into law by the Nebraska Legislature in 2000, which creates an opportunity to invest free of state tax in the educational future of college-bound students. The First-Time Home Buyer Savings Plan provides an opportunity and incentive for individuals to become homeowners. This bill has been passed in ten states. I did introduce this two years ago and it had only been passed in three states. This is a bill that Governor Ricketts does like. I am a little bit disappointed in the fiscal note, just so you know. And I know this is the first thing you're reading. This bill has changed. When it was introduced two years ago it was pretax dollars and now it is post-tax dollars, which should have decreased the fiscal note from last time. It shouldn't have been the same, it should have been decreased. Haven't had a chance to talk to the Fiscal Office yet, but that's something that I do hope to do because we did get it within less than 24 hours. I do appreciate your consideration and would like to ask you to support LB15. I welcome any questions you may have. Thank you. [LB15]

SENATOR SMITH: Thank you, Senator Craighead, for your opening remarks. Do we have questions for Senator Craighead? Senator Harr and then Senator Schumacher. [LB15]

SENATOR HARR: Thank you. I guess my first question is, would it have been helpful to have a fiscal note more than 24 hours in advance? [LB15]

SENATOR CRAIGHEAD: Yes, it would have. [LB15]

SENATOR HARR: Thank you. And we'll have further discussion on that in the upcoming week, so I appreciate that. You brought this two years ago. [LB15]

SENATOR CRAIGHEAD: Correct. [LB15]

SENATOR HARR: And near as I can tell, the only change is pretax dollars versus post-tax dollars. Is that correct? [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR HARR: Okay. Do you know, what is the average value of a first-time home? [LB15]

SENATOR CRAIGHEAD: I think it varies through the state of Nebraska. And, obviously, the prices of homes are going up, but I would say probably anywhere between $100,000 and $140,000, maybe $150,000. [LB15]

SENATOR HARR: Okay. And yet, this bill allows for up to $150... [LB15]

SENATOR CRAIGHEAD: Aggregate. [LB15]

SENATOR HARR: Aggregate, but it would pay for the house. Right? I guess my question is, is the purpose of this to outright buy the house for them or is it to help...I call it the GI bill, right, the generous in-law. Is this a GI bill where you generous in-law to help provide some of the down payment to get them over the hump so they can get it or is it to purchase the house for them? [LB15]

SENATOR CRAIGHEAD: No. It is to help them with the down payment on a house. We...this is pretty common for all the bills that there are, like say, $50,000 in principal, total. If you invested...let's say you have a child and you invest $10,000 or more when they're one year old, as it grows it could possibly grow to an aggregate of $150,000. Now you can only put in $14,000 per year into this account. [LB15]

SENATOR HARR: In addition to the $14,000 I give my kids tax free? [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR HARR: Okay. [LB15]

SENATOR CRAIGHEAD: Okay? So you would have that. And no, this is not for somebody who can just whip out their checkbook and write a check for the whole amount of a house. This is to help...and actually, it's a great economic development bill. It's a way to help keep our kids in the state of Nebraska. Many of our kids that are getting out of college are loaded with student loans and can't afford a down payment on a house and can't qualify for a loan. [LB15]

SENATOR HARR: All right. Thank you very much, appreciate it. [LB15]

SENATOR SMITH: Senator Schumacher. [LB15]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for bringing this bill back again and having discussion again. So if we can work through it, explain the distinction and why you made the change from pretax to post-tax dollars. [LB15]

SENATOR CRAIGHEAD: Fiscal note, and that didn't change. [LB15]

SENATOR SCHUMACHER: Well, in the practical world, what impact does it have? [LB15]

SENATOR CRAIGHEAD: Well, with the post-tax dollars the taxes have already been paid, and they've been paid to the state of Nebraska, so the state is not losing anything in that regard. [LB15]

SENATOR SCHUMACHER: Taxes on the principal? Is that what you're saying has been paid? [LB15]

SENATOR CRAIGHEAD: They would have been paid on the amount of money...let's say somebody decides to put in $14,000 per year on this, the taxes would have already been paid on that $14,000. It's post-tax dollars that are applied to the account versus pretax dollars. Two years ago we had it at pretax dollars. [LB15]

SENATOR SCHUMACHER: So this is on the principal that goes in once you open up one of these accounts. [LB15]

SENATOR CRAIGHEAD: Right. [LB15]

SENATOR SCHUMACHER: So let's just kind of work through the bill here a little bit. It opens up by talking in terms of a financial institution. What is a financial institution? Is that just a bank or a savings and loan or credit union? [LB15]

SENATOR CRAIGHEAD: Yes, yes, and yes. [LB15]

SENATOR SCHUMACHER: Is it a stockbroker? [LB15]

SENATOR CRAIGHEAD: It could also be stocks, it could be mutual funds. It has to be allocated. Now if you read on this sheet here, too, it will tell you. It is: What kind of accounts can be First-Time Home Buyer Savings Account? Almost any account you have with a financial institution... [LB15]

SENATOR SCHUMACHER: But this isn't in the bill. [LB15]

SENATOR CRAIGHEAD: No, this is not in the bill. But this is to ask you questions. [LB15]

SENATOR SCHUMACHER: So, I mean, we can't say in the green copy that, oh, gee, see the handout. So one thing that I think we're just going across here, we probably need to define in the bill what you mean by financial institution. [LB15]

SENATOR CRAIGHEAD: Okay. [LB15]

SENATOR SCHUMACHER: And what kind of accounts are contemplated. [LB15]

SENATOR CRAIGHEAD: Okay. [LB15]

SENATOR SCHUMACHER: As we...moving through the bill, what type of things can be put into it? If I have a bunch of stock that I paid $14,000 for, can I put that into this brokerage account? [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR SCHUMACHER: What if the stock is worth $50,000 even though I just paid $14,000 for it? [LB15]

SENATOR CRAIGHEAD: Great question. [LB15]

SENATOR SCHUMACHER: Can I bypass the rule in the account by putting really something worth $50,000 into the account even though my basis is only $14,000? [LB15]

SENATOR CRAIGHEAD: Great question. [LB15]

SENATOR SCHUMACHER: Okay. Now as I understand it, each person, each--what is it--generous in-law can set up one of these accounts or generous grandma and grandpa probably in most cases, then mommy and daddy. So each one of them can put, is it $50,000 however we figure it, into an account? [LB15]

SENATOR CRAIGHEAD: An aggregate of $50,000. It can be... [LB15]

SENATOR SCHUMACHER: Into an account, but each one can have their own account? [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR SCHUMACHER: So we're talking...if we're just talking grandma and grandpa on both sides, mom and dad, we're talking six times $50,000 can be deposited in one of these accounts? [LB15]

SENATOR CRAIGHEAD: It could be, and more than likely that's not going to happen. It could. [LB15]

SENATOR SCHUMACHER: We've got some very wealthy people and some very lucky kids. And so conceivably we're looking at, if they're in that situation, can deposit appreciated property into an account and the lucky child can, just with grandma and grandpa and mom and dad, look at...is it $50,000 or then $150,000? Which is the number? [LB15]

SENATOR CRAIGHEAD: It's $50,000 and it can be an aggregate of $150,000. Let's say when a child is one year old, let's say you put in $14,000. By the time that child is 25 or 30 years old, if the money is left in there it could possibly be an aggregate of $150,000 is someone has done good investing. [LB15]

SENATOR SCHUMACHER: So you're limited to the $50,000 in, but they're limited to the growth up to $150,000. So we have $150,000 times six, we could have a million dollar home almost here. Then let's go a little bit farther. We talk in terms of this is for a purchase of a house in this state. [LB15]

SENATOR CRAIGHEAD: Correct. [LB15]

SENATOR SCHUMACHER: And there's a...now suppose the heir really doesn't want to live in Nebraska but really wants the money out of this thing, okay. And so the heir buys a house in Nebraska, spends whatever it is, accumulated their house. Immediately after that closes either swaps or sells that house and buys another one in another state. Does that work? [LB15]

SENATOR CRAIGHEAD: No. [LB15]

SENATOR SCHUMACHER: Okay. Why not? [LB15]

SENATOR CRAIGHEAD: And that's a great point. [LB15]

SENATOR SCHUMACHER: Okay, so we...but now as long as you're looking at that particular point, then let's go back and look at page 6. And this is the part that talks about when you...if you broke the rules, whether or not the money could be recaptured,... [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR SCHUMACHER: ...sucked back into the system. And one of the exceptions, if I'm reading this right, the penalties provided in this subsection do not apply if the money is used for eligible expenses related to a qualified beneficiary's purchase of his or her residence outside the state. [LB15]

SENATOR CRAIGHEAD: That is if they are in the military. [LB15]

SENATOR SCHUMACHER: No, that's the next line: or the money is for a first-time home builder savings account for which qualified beneficiary dies and the account holder does not designate a new beneficiary in that year. I don't see anything in this (a) about military. [LB15]

MARY JANE EGR EDSON: Page 4. [LB15]

SENATOR SCHUMACHER: Let's see how that reads. Page 4... [LB15]

MARY JANE EGR EDSON: Bottom. [LB15]

SENATOR SCHUMACHER: Bottom. This says the money may be used for expenses--right--used for expenses in this state, but then the recapture provision has...specifically exempts that. That's not...it's something to note here that it looks like that may not be consistent. But let's go on. Now...so basically, also if...another question then. Suppose I just want to get the money out, I don't want to buy a house? Okay? I want to buy a hot car. So I take the money out in the form of a down payment, which is permissible. But then there's no limit on how big the down payment could be. It could be a down payment of 90 percent, correct? [LB15]

SENATOR CRAIGHEAD: Could be. [LB15]

SENATOR SCHUMACHER: Okay, so I take the money out. And then I turn around, and using a straw man, sell the house to buy my $90,000 car. Permissible? [LB15]

SENATOR CRAIGHEAD: No. [LB15]

SENATOR SCHUMACHER: Why not? [LB15]

SENATOR CRAIGHEAD: Because you're not buying a house. [LB15]

SENATOR SCHUMACHER: I bought a house. [LB15]

SENATOR HARR: You could refinance. [LB15]

SENATOR SCHUMACHER: I mean, I bought my house. I can show you the closing papers. But now three days later I sold my house and got my hot car. Okay? All right. Let's do a little bit more. And this would include then presumably if there were capital gains or dividend income in this...what happens when it hits $150,000? Grandma and grandpa made a really good stock buy and it hits $150,000. [LB15]

SENATOR CRAIGHEAD: Stops. [LB15]

SENATOR SCHUMACHER: So the stock is still there and it's still growing. [LB15]

SENATOR CRAIGHEAD: Right. But there's only a $150,000 aggregate that can go in the first-time home buyer account. It would have to come out. Let's say it gets to $170,000, $20,000 would have to come out of that account. [LB15]

SENATOR SCHUMACHER: Okay, and let's think this through. Let's say it's a stock account, okay? And grandma and grandpa put the $50,000 worth of stock that they paid $12,000 for in this--grandma and grandpa are really good investors--and they put it in this account. And now it has grown and the stock is suddenly worth $150,000. And next year the stockbroker sends out the sheet showing it's worth $175,000. Do they have to sell the stock? Do they have to pull some of it out? [LB15]

SENATOR CRAIGHEAD: Twenty-five thousand (dollars) has to be pulled out of there to get it down to $150,000. [LB15]

SENATOR SCHUMACHER: So...now that's not in the bill that it has to be withdrawn, so we probably need to address what happens when it hits $150,000 because...well, what if they take it out one year and then the stock market goes down and it...do they get to put it back in? Okay. In the end, the folks that are really getting the most out of this are the folks who have fairly well to do grandmas and grandpas, moms and dads, because they can put money into these accounts and get out substantial money. And when this gift takes place, when the withdrawal is made for the house and it's above the annual federal gift tax exclusion of $14,000, do grandma and grandpa have to file a gift tax return on it then? [LB15]

SENATOR CRAIGHEAD: They would. I disagree with you on this. I don't think it is for the person who could take out their checkbook and write a check for this whole amount and the ones that are...I think it's for normal people like us who maybe want to say to a child, you know, okay, I'm going to put $1,000...it's like the NEST 529 plan, almost identical, only it's for a down payment on a house versus education. The other difference is, you have to...with the first-time home buyer you have to buy a house in the state of Nebraska. With NEST you don't have to go to college in the state of Nebraska. That money is gone. If they pull that out that's gone. But that is the closest comparison I can give you to this. This bill is for someone who maybe is going to put $1,000 a year into this account. Okay? We've just put the maximums here, but it's not going to be somebody like the Pete Ricketts who can take it out in petty cash and say, okay, here you go, kid, here's a house. It's going to go to the person...a normal person like you and me. [LB15]

SENATOR SCHUMACHER: But there's...and there are a lot of grandma and grandpas that are loaded in this state. If those grandmas and grandpas wanted to use it to transfer large amounts of money and large amounts of income tax free, they could. [LB15]

SENATOR CRAIGHEAD: But it's post-tax dollars. They've already paid the taxes on it. [LB15]

SENATOR SCHUMACHER: Right. But the appreciation, if that stock went...that they bought for $12,500, that was post-tax money. But now this amount of gain and income and dividend accumulation on top of that has taken it up to $150,000 per account, or more, then all that income the state of Nebraska would not get its bite of income tax of. [LB15]

SENATOR CRAIGHEAD: And how many years would it take to do that? [LB15]

SENATOR SMITH: Rather than a back and forth here, let's form a question then go ahead and respond. And we want to move on to hear the others that want to testify on this. [LB15]

SENATOR CRAIGHEAD: Thank you. [LB15]

SENATOR SCHUMACHER: Thank you, Mr. Chairman. I think I made some points there. [LB15]

SENATOR SMITH: Okay. Senator Lindstrom. [LB15]

SENATOR LINDSTROM: Thank you, Chairman. So, basically, just to break it down...I know you talked a lot of different issues here. Really, the tax advantage here would be the tax deferred growth within the account, similar to the 529. [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR LINDSTROM: The $14,000 gifting tax, is that where that came from is why you picked $14,000? Is that... [LB15]

SENATOR CRAIGHEAD: Yes, and that's something also through the other states that have passed this bill, that seems to be kind of a magical number. [LB15]

SENATOR LINDSTROM: Okay. Okay, thank you. [LB15]

SENATOR SMITH: Senator Groene. [LB15]

SENATOR GROENE: So this is not just interest, it's capital gains or anything else that occurs, and it's only state taxes? [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR GROENE: Well, wouldn't your original bill for the average person...I have no GIs in my family and I'm not one for my kids either. But anyway, when I started out and people where I come from started out the idea of putting $1,000 or $2,000 away a year and pretax makes sense. For the average person that would make more sense than doing this $14,000. And I can see every individual that has a lot of money doing this. I don't see many average, working people, young couples...an advantage to this. The pretax thing would be a big thing to them, because they're usually going to stick it in a savings account and make half a percent and they might find some stockbroker who might invest it for them. But I really don't see this helping the small, average, working-class guy. [LB15]

SENATOR CRAIGHEAD: We did try that two years ago with the pretax dollars. [LB15]

SENATOR GROENE: It would be a fiscal...6.8 percent and all that, plus the... [LB15]

SENATOR CRAIGHEAD: Right. [LB15]

SENATOR GROENE: Well, anyway, that's...I just wondered why you didn't tailor it more toward the middle class...lower middle class. [LB15]

SENATOR CRAIGHEAD: Well, okay. Well, we do see that is that it is for the normal person who wants to put some money aside. It's just like the 529 NEST plan, where you start putting some money aside for a child or a grandchild for a down payment on a house. [LB15]

SENATOR GROENE: I'm talking about the average person that don't have a grandfather or mom and dad to do it that's out there working, paying off college loans and wants to buy a house. I'm looking after those folks. [LB15]

SENATOR CRAIGHEAD: Okay. Yes. [LB15]

SENATOR GROENE: How does it help them to buy their own home like I did, not daddy or granddaddy. [LB15]

SENATOR SMITH: Senator Brasch and then Senator Harr. [LB15]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Senator Craighead. The question I have--and I think I raised it a couple of years ago--is, must it be a family member that will contribute to this? Could a young couple put it on a gift registry to donate to write a check to this account towards a home or high school graduation? Is it...and I'm trying to look through the bill. Must it be someone that is legally related to the family member? [LB15]

SENATOR CRAIGHEAD: Family member, a child or a family member. Now, closing costs, it could be...if it was closing costs it could be a close friend or something like that. But down payment, it needs to be a family member. [LB15]

SENATOR BRASCH: Okay, very good. I have no other questions. [LB15]

SENATOR SMITH: Senator Harr. [LB15]

SENATOR HARR: Thank you. Thank you again for coming. And I'm trying to figure this out a little bit. Is this meant to be the equivalent of a Roth IRA where you use post-tax dollars, but the amount that it grows is not taxed? Is that what you're looking to do? [LB15]

SENATOR CRAIGHEAD: No, it's post-tax dollars. You've already paid the taxes on it. [LB15]

SENATOR HARR: And that's how it is on a Roth. [LB15]

SENATOR CRAIGHEAD: I understand Roth, yeah. [LB15]

SENATOR HARR: So this is...how is this different from a Roth? [LB15]

SENATOR CRAIGHEAD: It really isn't. [LB15]

SENATOR HARR: Okay. Okay. So...and that's good. It helps me clarify. And I guess my next question then is...well, there are two questions, follow-up questions I have. First of all, one was triggered by something Senator Schumacher said. Let's say it grew to $90,000 and...heck, let's say it grew to $150,000. For simplicity, it's $150,000. My first home cost, lo and behold, with closing costs, $150,000. [LB15]

SENATOR CRAIGHEAD: Okay. [LB15]

SENATOR HARR: Is there anything that would prevent me from using the whole amount and then two days, a week later, refinancing the house and taking some of those funds out to use to buy a car or something else that is not a home? [LB15]

SENATOR CRAIGHEAD: That hasn't been addressed. [LB15]

SENATOR HARR: Okay. Okay. And my other...and this, again...I think you answered but I'm not sure. So this...you mentioned the NEST program. We a couple of years ago in here did the ABLE program. And then there is the IRA programs out there, Roth and non-Roth, and they're each run a little differently. And I'm trying to conceptualize how you're doing this here. So I can go to my stockbroker on an IRA or a Roth IRA and they can invest it anywhere they want on the open market, and that's fine. Now you mentioned the NEST program. The NEST program is all...the Treasurer's Office determines where that money goes and how it's invested. [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR HARR: And I think it's the same way with ABLE and I think it's both at the same bank. Are you seeing this...as I read it, it seems like it's more like an IRA than it is an ABLE or a NEST program. Is that correct? [LB15]

SENATOR CRAIGHEAD: Yes, because it would be post-tax dollars. [LB15]

SENATOR HARR: Okay. So that raises the red flag because of the limit...the statutory limit on the top, $150,000, which I think is a good idea. Who has...if the account goes above $150,000, who has the fiduciary duty to transfer the funds? Is it me, the account holder, or is it my stockbroker? [LB15]

SENATOR CRAIGHEAD: You, the account holder. [LB15]

SENATOR HARR: Okay. And if I go over that, where is the enforcement? How is that enforced? How does the state become aware that's gone over the $150,000? [LB15]

SENATOR CRAIGHEAD: It hasn't been addressed. [LB15]

SENATOR HARR: What's that? [LB15]

SENATOR CRAIGHEAD: That hasn't been addressed. [LB15]

SENATOR HARR: Okay. How would you like to see that addressed? [LB15]

SENATOR CRAIGHEAD: Probably some kind of a fine on there. See, again, I think...I...and where this has been done, I think everyone here is looking at this as people with a lot of money. And yes, you're right, there are people with a lot of money here. But I don't see it at that. I see this as people who are going to invest like $1,000 or $2,000 a year. [LB15]

SENATOR HARR: Right. And that may be and that probably will be. But we always have to...that's the beauty of what we do is, we have to hope for the best, plan for the worst. And so that's what I'm trying to figure out some of what we do here. And it's limited to $14,000 a year and that is because that's the gift tax max, is that right? So if I gave $14,000, this wouldn't give me an additional $14,000. I'd have to pay...if I'm the donor I would have to pay a gift tax on it if I gave an additional $14,000, is that correct? Okay. I think you've answered a lot of my questions. I appreciate it. Thank you. [LB15]

SENATOR CRAIGHEAD: You're welcome. [LB15]

SENATOR SMITH: Senator Lindstrom. [LB15]

SENATOR LINDSTROM: Sorry, one more question. Basically, I just want to give you a scenario and tell me if this is how this is meant to be and how this might not meant to be. As a young dad, I have a six-month-old daughter. I decide that, you know what, I'm going to give my daughter $500 next year towards this. I can't do it in a Roth because she doesn't have earned income, all right? So I put $500 in there. Let's say it grows over the next 25 years into, for easy math, $20,000. She's able to then use that towards a down payment if it qualifies from say from $500 to $20,000. The growth inside of there is now tax deferred, and as long as that money is being used for a down payment on a home--say, in this case, $20,000 to purchase a $100,000 home--is that what you're telling me that is why maybe this actually makes sense for a middle-class family? [LB15]

SENATOR CRAIGHEAD: Absolutely. Thank you. [LB15]

SENATOR LINDSTROM: Thank you. [LB15]

SENATOR SMITH: Nice summary. No further questions for Senator Craighead? Thank you. Are you going to remain for closing? [LB15]

SENATOR CRAIGHEAD: Yes. [LB15]

SENATOR SMITH: Okay. We now open it to proponents of LB15, those wishing to testify in support of LB15. Welcome. [LB15]

GENE BRAKE: Thank you, Senator Smith. I'm Gene Brake, G-e-n-e B-r-a-k-e, and I'm here representing the Nebraska Realtors Association. I'm president in 2017. That was interesting discussion, great questions, it definitely got my mind rolling. Appreciate all of that. I'm here to talk a little bit about ownership, home ownership, the advantages it does have for communities, the state of Nebraska. Home ownership has been on the slide since the great recession. We've gone from a high of probably 70 percent down to a low of about 60 percent. I think this is a great opportunity to help young folks get involved in real estate. We know that people that own things usually will fight to keep them, maintain them. Things that you rent or borrow, probably not as much. So we look at this, it has stickiness for a community; it has stickiness for our kids, our grandkids. I happen to be a person that has kids and grandkids. I've used the 529. I have not put a huge amount of money in it, but it gave me an opportunity to put some money in, start an account, and start getting them going. And it's the same thing with the real estate. It gets a parent, a grandparent an opportunity at a birthday when they first get going, instead of buying something that they probably wouldn't know or use to start a good foundation for their life ahead, an opportunity to learn. It gives me something as a grandparent as they get older to get them excited about, to think about to utilize that way. Will it ever have $150,000 in the account? Probably not, unless I was smart enough to buy Berkshire at $4,000 and put it in and it's now $240,000. But I do think it's an opportunity to have...obviously, it helps the state with every transaction, every real estate sale. A good amount of money that is used in that transaction is taxed in sales tax, in services. It is a great opportunity from that to pay off for the state. If somebody buys something and moves in in the state of Nebraska, we have a lot better opportunity to keep them here than leaving. With that, I'll ask if you have any questions or comments. [LB15]

SENATOR SMITH: Questions for Mr. Brake? I see none. Thank you for your testimony today. [LB15]

GENE BRAKE: Thank you. [LB15]

SENATOR SMITH: Next proponent of LB15. Welcome. [LB15]

ARLA MEYER: Thank you, Senators. Appreciate the opportunity to be here. My name is Arla Meyer, it's A-r-l-a M-e-y-e-r. I said I wasn't going to quaver this time, but obviously that was wrong. Okay. One of the...couple things I'd like to bring to light pertaining to this. Obviously, I'm in favor of it. The biggest thing we need to keep in mind is right now Nebraska is at an all-time low...we are at a 50-year low for home ownership. We want to do different things to create more home ownership. It's not geared or meant to be just for the people that are able to get it from the grandparents or such like that. What we're looking for are different avenues or options. Somebody like me, I'm fortunate, I've got a one-year-old grandson. If I can take $1,000 a year and start that fund for him, that's a blessing, that's a treatment. Unfortunately, there are other people that have not had those opportunities. But we do have other financial options out there for them to be able to utilize if it's a NIFA program or different first-time home buyer programs. One of the other things, we've talked a lot about this NEST. The NEST currently has $9 billion in it. If we can even try to keep a third of that amount of money in Nebraska, it's worth it. We're just trying to keep that home ownership and to keep those millennials here. We have to have something that's going to keep them here and want to stay here in Nebraska instead of going other places that may offer or have these incentives. They've got them in other states. We've got the choice to either be proactive and look into doing something or to lag behind and see what ends up coming our way. When we talk about...we need to offer the tax breaks. I mean, honestly, we've seen enough of the millennials leaving us. Like it or not, they're here. We like their thinking or not, we have to change some of our thinking to wrap around it and to be able to be conducive for them. We want them to stay. What else did I have here? When you talk about a typical real estate transaction, one of the things that it does is it generates $13,320 from the industry. So you're talking agents, brokers, appraisers, inspectors, repairmen, anybody such as that. Typically, on the average, once somebody does buy a house they spend another $4,494; furniture, appliances, carpet, things such as that. It's just another way to keep the money here and to keep our economy moving forward. That's really what we're trying to do with this and that's what we want to do. The other thing that we found out is that if we can help someone become a homeowner earlier in life, it builds that confidence, that morale, they want to. It shows stability. They're going to be stronger in our community, they're going to do more for us, and they're going to help us be able to keep things moving forward. And that's really what we want for everybody coming forward. When...hang on. I think I've got one more note I wanted to mention. Those are the biggest things. I think everybody else has pretty much covered everything. From the bill part that I could see in Section 3, (subsection) (4), it does kind of spell out some of the financial institutions, from what I could see. Other than that, I would open it up for any questions. [LB15]

SENATOR SMITH: Questions for Ms. Meyer? Senator Harr. [LB15]

SENATOR HARR: Thank you, Chairman. So with Senator Craighead I talked about the specifics of the bill. With you I'm going to ask more philosophical questioning, the need for this bill. So I have here a study done by Gallup, and it's called "No Recovery - Analysis of Long-Term U.S. Productivity Decline". And in here they cite four things that have led to decline in productivity in the United States. Number one, increased cost of healthcare. Number two, increased cost and testing in education. Number three, the increase in housing without a correlative increase in quality of housing. And number four is, we have too many rules and regs. That doesn't fit a cost benefit analysis. But my question is...and their issue here is that the price of homes continues to rise because there is more money to be spent on homes. So 50 percent of the inflation since 1980 can be attributed to those three: health, education, housing. If there's more money out there for down payments...and let me just...where are you from? [LB15]

ARLA MEYER: Lincoln, Nebraska. [LB15]

SENATOR HARR: Lincoln? Okay. I'm from Omaha. You come to Omaha, if your house is for sale for less than $250,000, if it's on the market for more than a week, there's something wrong with that house. It's a white-hot market. And a lot of those are beginner homes. You know, the average home in Nebraska I think is $183,000, so these are even above average. So my question is, if we provide more money into the stream is all we do just raise the cost of a house, because if I have more money to spend for a down payment I'm going to spend more money? [LB15]

ARLA MEYER: Not necessarily, because I think we're still creating the avenue in order to have the funds to be able to buy the houses, but ultimately it's still going to come down to do underwriters and what the guidelines is. We're not looking to completely gift. [LB15]

SENATOR HARR: So one of the things that this report blames is the fact that there's so much financial aid available that there's less accountability and that's what's led to the inflation of the cost of postsecondary education. And I have a little bit of a concern that the same thing might happen here where there's less...and in insurance...in healthcare I think we all agree that because of insurance, I don't care what the cost is. I want my leg fixed. I want my arm fixed. I want my heart fixed. The insurance company can worry about the cost. And my concern is, sometimes it's the unintended consequence of, if we get more money out there people will spend it and it will drive up the cost so that...I've been accused of being a limousine liberal by some. My kiddos are going to have more money than, say, Senator Groene's example, some of those to the working class people. And instead of closing that disparity, you're actually going to increase that disparity. How do we avoid that from happening so that, let's say, certain kids have all this money, $150,000, in that account. Right? They've maxed out. They can afford a house and then they, therefore, don't have to worry about that. Whereas a working class kid, parents can't afford...you know, I got invested with Senator Lindstrom, so I can get $520,000; you got my business. But not everyone is going to have that great a return. Lord knows I haven't. How do we address that, because we seem to be institutionalizing inequality and across and "unacross" generational boundaries? [LB15]

ARLA MEYER: Sure. And that's a very fair statement. I mean, I can't specifically answer that, I don't know all the details of it. But clearly there are some things that we still have got to detail out of this, and I think that could be something that would easily be addressed. And if it's putting a cap on the money, if it's putting a fine on it for going over that amount or whatever it may be, but just adding some more details to it. [LB15]

SENATOR HARR: Okay. All right, I appreciate it. Thank you. [LB15]

SENATOR SMITH: Senator Groene. [LB15]

SENATOR GROENE: Some things said here, just I've got to have an answer. All-time low homeowners in Nebraska. I get told there's a shortage of housing and we got to TIF it. I also get told by Senator Harr that price is escalating on the houses. And I also know our population is not growing that fast in this state. All those factors don't add up. [LB15]

ARLA MEYER: This was a NAR statistic and that they had said that Nebraska is in a 50-year low for home ownership. [LB15]

SENATOR GROENE: Then how can we have a shortage of houses? [LB15]

ARLA MEYER: And part of that comes down to the problems that we had back in 2007-2008 when we had the crash and everything happened. We had all this new construction that was going on, then we had people that had to end up getting full-time jobs in trade, so we had less people being able to build the houses. So we had less new housing coming on the market which ended up reducing the amount of houses that was for sale. Now that the market is starting to turn we just don't have as many tradesmen going back out there to build new construction again to be able to get the supply back up. We've also had a lot of guidelines that have changed to make it harder for homeowners to be able to buy homes. [LB15]

SENATOR GROENE: But that's to Senator Harr's comment, which he didn't mention the federal easy money. No money down, give you a $3,000 kickback if you buy a house with no down because I can use the federal program. I can loan you the $3,000 for your down payment and I'll take it off the top end of the house. That kind of stuff happened big time and we escalated the price of houses. [LB15]

ARLA MEYER: That was part of the problem back in 2007. [LB15]

SENATOR GROENE: So why wouldn't a program like this add to that? [LB15]

ARLA MEYER: Because we're looking to incentivize people to get them to purchase and be homeowners. That is not the purpose of the bill. [LB15]

SENATOR GROENE: I understand. I like the bill if it was addressed towards income and certain classes of people. [LB15]

ARLA MEYER: Duly noted. [LB15]

SENATOR SMITH: Senator Schumacher. [LB15]

SENATOR SCHUMACHER: Thank you, Mr. Chairman. And thank you for your testimony today. You know, the sentiment I basically feel is, it may not be a bad idea for...to help the people that Senator Groene is talking about and on the kind of scale that Senator Lindstrom mentioned, $500 a year and let it grow up to, if you invest it with the right person, to a lot of...$20,000. You know, that kind of scale. And so that it's within the range of everyone and nobody pigs out on it. At the same time, the notion of having six ancestors--four grandma and grandpas and two parents--each somehow being able to put highly appreciated stuff in some account and transfer to a kid $600,000, $900,000 and no bar to doing that tax free on that appreciation is probably not conducive to good policy. In your mind, what are fair limits? Is $1,000 a year enough...of value at that time, not appreciated value? [LB15]

ARLA MEYER: If you were to do...if you go based off of...if you went based off of the way that the NEST fund is set up--just because I have these numbers--if you went based off of that and say that you did $1,200 a year, by the time that individual is 18, they would have $38,949. [LB15]

SENATOR SCHUMACHER: And that's $1,200 of real value, whether...what it's valued when you put it in there, not something that grew. [LB15]

ARLA MEYER: Correct. [LB15]

SENATOR SCHUMACHER: So if we were to look at this--and always remembering the danger that these things tend to get amended upwards later on in years--and saying $1,500 a year max. And that's of the actual value of the stuff put into it, so if grandma and grandpa paid $100 for the stock and it was worth $1,500, that stock would be $1,500. [LB15]

ARLA MEYER: Right. [LB15]

SENATOR SCHUMACHER: And that you were limited in the number of accounts you could be a beneficiary to, to maybe four, grandma and grandpa and whatever. Is that in the realm of reason of who you're trying to target here? [LB15]

ARLA MEYER: I would believe so, yes. [LB15]

SENATOR SCHUMACHER: Thank you very much. [LB15]

SENATOR SMITH: Oh. Senator Brasch. [LB15]

SENATOR BRASCH: Thank you, Chairman Smith. And my question to you...if you do not know the answer, it will help prepare Senator Craighead. I'll ask... [LB15]

ARLA MEYER: Fair enough. [LB15]

SENATOR BRASCH: I'm curious, what are the states that have implemented this program? Where are we sending our kids and grandkids to live? I mean, can I donate to Iowa, for example? Who's our competition? [LB15]

ARLA MEYER: Right. And I am going to let Senator Craighead answer that question for you. [LB15]

SENATOR BRASCH: All right. I have no other questions. Thank you. [LB15]

ARLA MEYER: I would also like to thank Senator Craighead for bringing this bill forward. It is appreciated and I appreciate your time today. [LB15]

SENATOR SMITH: Thank you, Ms. Meyer. Next proponent of LB15. Welcome. [LB15]

ROBERT HALLSTROM: (Exhibit 2) Thank you. Chairman Smith, members of the Revenue Committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m, and I appear before you today on behalf of the Nebraska Bankers Association in support of LB15. I think Senator Craighead and the questions that have been posed by the committee, it probably fleshed out the mechanics of the bill suitably. So I'll just focus my comments on the fact that we support the bill because we believe it creates a vehicle to incentivize savings for first-time home buyer purchases. The NBA early last year created a work force housing task force, and from that task force we have identified a number of things which have resulted in legislation that this committee and others will be taking up some time later this session. And this was also one of the bills that our task force focused on and felt that it could bring positive assistance to first-time home buyers. One of the items that we have identified is the fact, as you may be aware of, there are a number of communities across the state in which there is a shortage of work force housing for the young professionals that they want to bring into those communities and more jobs than they have houses available to fill. So with this bill, we think it will provide some assistance in assisting those young professionals to come back home and take up those jobs. And some of the other bills that we have this session will provide hopefully some assistance to enhance the ability to grow and develop our work force housing across the state. One of the aspects about the bill that we do appreciate, it's crystal clear that the financial institution in which these accounts are set up does not have any responsibility or liability for determining that it is an eligible account for tracking the use of money that's withdrawn or the purposes that it's used for. And we appreciate the fact that we don't have any additional regulatory burden in that regard that accompanies these accounts. And I'd be happy to address any questions of the committee. [LB15]

SENATOR SMITH: Thank you, Mr. Hallstrom. Senator Harr. [LB15]

SENATOR HARR: Thank you. Thank you, Senator (sic) Hallstrom, and thanks for your work on housing across Nebraska. I appreciate it. Is the issue, if you know, a shortage of homes or is it a shortage of affordable homes? [LB15]

ROBERT HALLSTROM: Thank you for the promotion, from your remarks. I would say, Senator, that it's a little bit of both, but probably more so that we've focused on affordable housing. I think we have plenty of programs perhaps in Nebraska that address low-income housing and some tax credits and affordable housing tax credit program that we have. And we have perhaps developers, particularly out in the rural part of the state that are out there because of the margin that you have on the higher dollar homes that are willing and able to build those homes and there are buyers for those homes. But it's that gap probably between maybe $125,000 and $225,000 that we probably need to focus on most significantly. [LB15]

SENATOR HARR: Okay, thank you. [LB15]

SENATOR SMITH: Senator Schumacher. [LB15]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And good to see you again, Mr. Hallstrom. [LB15]

ROBERT HALLSTROM: I'll withhold judgment, but thank you. [LB15]

SENATOR SCHUMACHER: That would be nice. It's hard, but...we're trying to struggle with, at least it's been portrayed, a housing issue...affordable housing for middle-income folks. And it does seem to be an issue across the state. And in struggling for a solution...and you mentioned for basically a target of young professional types, what's gone wrong? [LB15]

ROBERT HALLSTROM: What's gone wrong? [LB15]

SENATOR SCHUMACHER: What's gone wrong? I mean, this bill aside, we've gone on for years without a bill like this. People bought houses. Bankers made loans. And why is this now this housing issue for work force housing and middle-income housing? What's the underlying root from a perspective of the financial industry? [LB15]

ROBERT HALLSTROM: Well, it may predate this, but I think one of the witnesses before me addressed the fact that some of the contractors had left the marketplace with the recession back in 2006, '07, '08, and I think that would contribute to it. And maybe we've turned the corner to where some of that will be taken care of naturally. But we have...because of that, I think we have a disconnect in terms of the ability of contractors, whether it's Omaha and Lincoln contractors' willingness to go outstate...you know, is there a market out there to try and build 6 or 8 or 10 or 20 houses versus are there sufficient local contractors either in number or in terms of those that have the willingness to go out and build spec homes and do things like that? And some of the bills that we're going to be bringing before the Revenue Committee, Urban Affairs Committee are going to be designed to look at how we can provide a better marketplace for those contractors to have that willingness and to make it more attractive for them to build that affordable housing across the state of Nebraska. [LB15]

SENATOR SCHUMACHER: More attractive by having them be able to get paid more for the houses they build? Is that basically how you do that? [LB15]

ROBERT HALLSTROM: It's whether or not there can be some things brought to the table that can somehow reduce the cost of housing. Senator Harr has a bill that he's been gracious enough to introduce on our behalf, for example, Senator, that addresses an issue where if a developer goes out, putting his money on the line, may have a subdivision that he's thinking about developing, those things take time. They don't happen overnight. But there are situations that we've been made aware of, for example, that when property is either subdivided or platted or at least when infrastructure comes in, streets, sewers, etcetera, that the assessment practice is to go ahead and convert the valuation and increase the valuation. That's a financial burden on the contractor or the developer to have to hold those lots that are being developed. It may take a few years to get anybody to buy a lot or to start building a home on, but yet you're paying additional taxes during that period of time that we would like to think maybe that shouldn't be the rule of law, that there should be, if it's agricultural land to start out with and it continues to be used primarily for agricultural purposes notwithstanding the fact that it's been platted and subdivided or that infrastructure--the beginnings of that development--have been placed on the property, that perhaps it should continue to be assessed at agricultural value. [LB15]

SENATOR SCHUMACHER: Apart from the taxing--just take that and not be concerned about that--any other structural problems? I mean, why a young professional can't get a loan from a bank--the cash flow...is it requirements of the banks or something--that the cash flow isn't there to service a loan, that they can get a loan that would entice that contractor? The contractors are just not going to decide to move to an area because we have a bill like this or even different assessment brackets. Is there something structural that's gone wrong? [LB15]

ROBERT HALLSTROM: Well, I don't know that it's from the financial side. I mean, certainly with the recession there may have been a little less availability of funds. There's been some federal regulations imposed on the banking industry regarding the ability to repay things that have maybe taken some folks out of the marketplace in terms of their ability to get financing, but not to a great extent. But there are some things that have emanated from the Dodd-Frank rule that have reduced the amount of lenders that are out there in the home lending business in Nebraska, and that's one aspect that's been a negative from that particular federal legislation. [LB15]

SENATOR SCHUMACHER: Thank you. [LB15]

SENATOR SMITH: Senator Friesen and then Senator Groene. [LB15]

SENATOR FRIESEN: Thank you, Chairman Smith. When we talk about the difficulties of first-time home buyers, could it also be said that if we could lower the property taxes that are required of them that we would also encourage first-time home buyers to own a home? [LB15]

ROBERT HALLSTROM: I would assume that that will have a positive correlation as well. [LB15]

SENATOR FRIESEN: Probably a larger impact than a little bit of a tax credit here? [LB15]

ROBERT HALLSTROM: Depending on the nature of the change on the property tax side. [LB15]

SENATOR FRIESEN: Thank you. [LB15]

SENATOR SMITH: Very nice segue to property taxes. Senator Groene. [LB15]

SENATOR GROENE: I'm confused. The philosophy of this country is built on free markets. You have a shortage, you have a buyer, you have a bank who will loan money to somebody so they can make a profit, who needs a home because they have a job. This Orwellian phrase, work force housing,... [LB15]

ROBERT HALLSTROM: Yes. [LB15]

SENATOR GROENE: ...do you give loans to people that don't have a job? [LB15]

ROBERT HALLSTROM: Depends on whether they're creditworthy. That's probably less likely that they're going to be creditworthy under those circumstances. [LB15]

SENATOR GROENE: So you assume a person who needs a home has a job. [LB15]

ROBERT HALLSTROM: That would generally be true, Senator. [LB15]

SENATOR GROENE: Every time I've moved, I've moved for a job and the house was secondary. I've never heard anybody--unless these millennials--look at a house and then go find a job. This...to me, this gimmicks with TIF and stuff is collateral for the banks to make the loan more feasible. Do banks take risks anymore? [LB15]

ROBERT HALLSTROM: Yes, they do, Senator, every day. [LB15]

SENATOR GROENE: Can they be part of the community and help some young person build a home? [LB15]

ROBERT HALLSTROM: They do that every day, Senator. [LB15]

SENATOR GROENE: Then why do they need these tax breaks? [LB15]

ROBERT HALLSTROM: I think they provide an additional incentive. [LB15]

SENATOR GROENE: Thank you. [LB15]

ROBERT HALLSTROM: Thank you. [LB15]

SENATOR SMITH: Senator Brasch. [LB15]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Mr. Hallstrom. I listen to all this testimony with great interest and the questions being asked, why, is what I keep hearing. And if anything that I've learned from the natural disasters we've had in our state over the last seven years is that when individuals had to flee away from their homes along the Missouri River during that flooding, tornadoes in Wisner-Pilger, is that the typical young person--and maybe you would have...or even any age I guess, maybe you'd have the demographics better--is that for them to obtain a different residence, whether it's through purchasing or rent, it is quite financially cumbersome because they may already be paying a car payment, day care payment, it's payment upon payment. So to take on a new payment of some sort, again philosophically, that that may be a hindrance and not so much the availability, where if a person had part of that expense behind them, say through this program, then it would help them purchase a home because their ongoing day care of their ongoing two months of utilities and all that, and that would be not a worry. Just getting started is a problem. [LB15]

ROBERT HALLSTROM: Yeah, and I would agree, Senator. And I think some of the statistics probably show that the younger generation likes to have really nice, expensive cars. And If Mr. Todd is still in the room, I'm glad...certainly he's happy about that particular issue. You know, my daughter, when I was looking for a car, wanted a Lexus about the time she was going into school. And I said, we can buy the Lexus or you can go to college. So those are expensive items. They do make it difficult. Those are decisions that are made personally, obviously. But if those decisions are made it makes it tougher to make the books balance. [LB15]

SENATOR BRASCH: And that's what I was just curious. From the banking industry, you are seeing a trend where people are pretty cash strapped with current items that they consider a priority? [LB15]

ROBERT HALLSTROM: Yeah, I think all the statistics that you read show that many people don't have near enough savings to take care of a catastrophe and even something much shorter than a catastrophe. [LB15]

SENATOR BRASCH: I have no other questions, thank you. [LB15]

ROBERT HALLSTROM: Thank you, Senator. [LB15]

SENATOR SMITH: Thank you, Senator Brasch. Further questions for Mr. Hallstrom? I see none. [LB15]

ROBERT HALLSTROM: Thank you. [LB15]

SENATOR SMITH: Thank you. Next proponent of LB15. Welcome. [LB15]

BRANDON LUETKENHAUS: Good afternoon. Mr. Chairman, members of the Revenue Committee, my name is Brandon Luetkenhaus, B-r-a-n-d-o-n, last name L-u-e-t-k-e-n-h-a-u-s, and I appear before you today on behalf of the Nebraska Credit Union League. Our association represents the 61 credit unions across the state. Credit unions are not-for-profit financial institutions owned by their members. And many of our credit unions do offer mortgage loans, but they all offer savings accounts. And so credit unions encourage savings amongst their members, and we feel like this would be a way in which to help members save for their first home. And so we thank Senator Craighead for introducing the bill. We also thank her for Section 7, which Mr. Hallstrom described previously. I'd be happy to answer and questions the committee might have. [LB15]

SENATOR SMITH: Thank you for your testimony. Questions? I see none. [LB15]

BRANDON LUETKENHAUS: Thank you. [LB15]

SENATOR SMITH: Thank you for your testimony. Next proponent of LB15. Seeing no further proponents of LB15 we now move to opponents of LB15, opponents. Seeing none, those wishing to testify in a neutral capacity on LB15. Senator Craighead, you're welcome to close. [LB15]

SENATOR CRAIGHEAD: Thank you. Thank you all for a great discussion and some very, very good questions today. To answer Senator Brasch's question, the other states--and I think I've got most of them--are West Virginia, California, Virginia, Colorado, Hawaii, Wyoming, New Hampshire, Rhode Island, and Washington, D.C., have passed this. Okay? As we're sitting here talking, I'm thinking, all right, it seems like people feel like maybe everyone can't do this. Well, everyone can't do everything. However, what we could do is consider putting in something like a limit of $100 or $120 gross income or an AGI or something like that that would make it more fair for everyone. And another thing that's very interesting in this as we're talking, do you know what the average dollar amount in an American savings account is? Four thousand four hundred thirty-six dollars. That is the amount of savings that the average American has. So I honestly don't think we're going to be worrying about too many $150,000 houses here. But again, I want to tell you all, thank you very much. This was a great discussion, great questions, some that I couldn't answer that I probably should have been able to, but I do hope you will consider this. I think this is great economic development for the state of Nebraska, and it is a way to keep our kids here in the state. Thank you so much. [LB15]

SENATOR SMITH: Any remaining questions for Senator Craighead? Senator Groene. [LB15]

SENATOR GROENE: I like the program, I'm not...I just like to pick it apart. But I would like to see them limit it to...the big thing I hear with young people, they can't make the down payment.

Just limit it to the down payment. After they make their payments, they got depreciation, they've got interest deductions. [LB15]

SENATOR CRAIGHEAD: Okay. Thank you. [LB15]

SENATOR GROENE: That would keep it less. [LB15]

SENATOR SMITH: Senator Schumacher. [LB15]

SENATOR SCHUMACHER: Thank you, Senator Smith. Following up on that question, what is a reasonable down payment? What kind of money we're talking about? [LB15]

SENATOR CRAIGHEAD: Oh, that varies, 3 percent, 5 percent, 10 percent, 20 percent. What's the going rate now? [LB15]

GENE BRAKE: Well, 3 percent to 5 percent is the most entry level down payment of the... [LB15]

SENATOR SCHUMACHER: So... [LB15]

SENATOR SMITH: And...we're going to have Senator Craighead respond to that so we can record the response there. [LB15]

SENATOR CRAIGHEAD: Thank you, 3 percent to 5 percent. And this would be a NIFA loan or something like that or an FHA loan. And like I say, the average, first-time home buyer will probably spend between $100,000 and $150,000 on a house. [LB15]

SENATOR SCHUMACHER: So 3 percent to 5 percent, if we were to use Senator Groene's suggestion of a down payment and Senator Harr's figure of quarter of a million dollars, then we're talking about $7,500 or so? Okay. Thank you. [LB15]

SENATOR CRAIGHEAD: Okay. Thank you. [LB15]

SENATOR SMITH: Senator Craighead, thank you for your willingness, it sounds like, for you to work with the committee on addressing some of the issues. [LB15]

SENATOR CRAIGHEAD: Thank you. [LB15]

SENATOR SMITH: Appreciate you bringing LB15. [LB15]

SENATOR CRAIGHEAD: Thank you. [LB15]

SENATOR SMITH: And that concludes the hearing on LB15. We now move to LB48, introduced by Senator Schumacher. And it is a bill that is to provide an income tax adjustment relating to certain gains on the sale of real estate. Welcome, Senator Schumacher. [LB15]

SENATOR SCHUMACHER: Thank you, Senator Smith and members of the committee. My name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, represent District 22 in the Legislature, and today a couple of bills I'm bringing to you. First is LB48 dealing with stepped-up basis on real estate. And for those who may not be familiar yet with tax law, we can maybe go into that just a little bit. What added impetus to this was a speech by Donald Trump indicating that the stepped-up basis is under examination as a possible elimination of it as a possible revenue source for the federal government. And I think the suggestion in that speech was to get rid of the federal estate tax and replace it with the elimination of the stepped-up basis on death. What the situation is, when you buy a piece of stock or a piece of land or property is, what you pay for it is called...generally called your basis. That may be depreciated and it would change somewhat, but for easy figuring in government work, what you pay for it is your basis. And then assuming it is an investment that increases in value, the difference between the basis--what you paid for it--and what you receive for it when you sell it is called a capital gain because it's a capital asset, and you apply tax rates to that. The federal government rate on the federal tax of capital gains is less than what you would pay if you earned the income, called earned income, from wages or whatnot. In Nebraska, we don't honor a difference between capital gains and any other kind of income. You pay whatever the income tax bracket, minus your exemptions and deductions and everything else, as you pay. So it could be as high as 6.84 percent of that capital gain. So let's take a situation with a piece of real estate that grandma or grandpa bought for $100,000 and it's grown up in value to be $1 million. Were grandma or grandpa to sell that property for $1 million, they'd have the difference, $900,000, in capital gains. And folks over at the Revenue Department would come looking for their 6.84 percent of it. Okay? And the feds would also look for probably in the neighborhood of 15 percent or 20 percent of it. So grandma and grandpa being grandma and grandpa probably doesn't want to pay tax, probably hangs onto the property and doesn't sell it. May take out a loan against it or a reverse mortgage or somehow to try to make it liquid and remove it from the market really. Now magic happens under our present law when grandma and grandpa dies. If grandma and grandpa had sold it before they die, $900,000 profit, and tax. Now grandma and grandpa die. Heirs got the property. Sitting around the lawyer's table, three of them probably from out of state. If they're a six-family member, three probably have moved out or somewhere in that neighborhood and three instate. They're sitting around and they're ready to cash out. And they say, well, we can't get along. How are we all going to manage this piece of property and control renters and everything else? Why don't we just sell it. Well, under the stepped-up basis rule, when they sell that property they get to figure the gain using the value at death of grandma and grandpa instead of what grandma and grandpa paid for it. So if they sell it soon after death there's usually no change, thus no tax at all that occurs for capital gains. Now that used to make a little bit of difference because we had what was called an estate tax which said, whatever you pass on to your heirs was subject to another tax. And that was, in Nebraska after you got back some...past some exemptions, a pretty hefty animal. And the federal government still has that tax but the exemption has grown up and up and up till it's right now functionally between two people, right at $10 million bucks. Nebraska, in response to the race to the bottom of states and other states getting rid of their estate tax, got rid of its estate tax, too, a few years ago. Pretty much had to, because to avoid the tax all you needed to do was change residencies and die in another state. And that limited what the amount could be collected. So now we have no estate tax and we have this exemption, do a stepped-up in basis, like I guess you could call them exemptions--that's probably not technically not the correct word--but the stepped-up basis allows this tremendous increment in value in the wealth of the state--because our real estate is like Wyoming's gold mines--to escape tax. That income escapes tax. And to add insult to injury, when half of that goes out of state, that wealth of the state is transferred out of state to those heirs, assuming that half of them moved out of state, that's a huge revenue outflow that occurs and that we're letting occur. And I think the fiscal note indicates that the amount of taxes are somewhere around $60 million or so that could be collected if we treated the heirs like we would treat grandma and grandpa, no stepped-up in basis. And so part of the effort of this bill and other bills that I've introduced are to lay out a foundation of the different policies that we have, which picked apart one at a time may not make a whole, good looking picture, but put together and integrated may help us if we have enough tools introduced and having had hearings on them, to begin to form some type of tax policy which will enable the committee to address those issues which we have struggled with for years. And those who have been on the committee understand the frustrations that we had because we have...you can shift back and forth, but you can't win. And every idea that happens to try to change things, you run into a brick wall or good reasons why it can't be changed. So this is a proposition and it deals with real estate only, again for good reason, because liquid assets you can move to another state and avoid the game if you head off to a no-income-tax state and you beat the system. You can't do that with land. And so that's what it...and it applies to both commercial land, residential land, agricultural land, land. And I put this tool on the table for the committee to consider should we ever be so lucky as to begin to emerge with a revenue policy rather than a revenue reaction. And we haven't been able to do that. And because we have not had a policy...think about it. We passed a budget and the budget had in it all the things that the Legislature as of last May thought were worthwhile things to spend on and agencies and causes had made very good cases for. We passed it. We spent the money or committed ourselves to spending the money. And where did we fall short? All of a sudden we were going from talking to $700 million-plus to now figures tossed around a $1 billion shortfall over the next couple of years. Who dropped the ball? The other side of the equation: the revenue raisers, us, because we probably didn't have a good policy. We should have seen $1 billion drop coming. We didn't. Why didn't we? And that will be part of our task I think, I hope that Senator Smith and the rest of you agree with me, this year to find out what went wrong and whether or not just simply telling that we're going to renege on our spending our spending commitments is the answer to the problem or are there other alternatives? Together with this bill and some of the other bills I'm bringing to the table for discussion and maybe integrating into some type of engine, probably nearly $1 billion, if not more than $1 billion. And then if you really look at those kind of numbers you begin to say, well, maybe we can do something about income taxes or property taxes. Maybe we can't just argue with each other about why it's impossible and we've got to defer doing something out into the future and see if we can lock down a future Legislature to make them do what we couldn't do. So that's the proposition on this one, and I'm open for any questions. I doubt if there will be any supporters. [LB48]

SENATOR SMITH: Let's see, Senator Friesen, you're recognized. [LB48]

SENATOR FRIESEN: I knew I'd enjoy this committee. I guess I'll just have you clarify things. I know on your opening kind of, you stated that you had...grandma and grandpa owned maybe some stocks and bonds, so I'm assuming there's some Warren Buffett and Berkshire shares in there that they purchased for a couple hundred bucks also. And so it troubles me a little bit that you target only one form of asset, one form of investment. And you even state it to say it's because they can't move. So the guys that can shift their assets to something else. You're basically discouraging investment in land or real estate in Nebraska by saying if you want to invest in stocks and bonds I can hold those. I can have a $250 share investment there and it's now who knows how much and that I can transfer tax free, not a problem. But you're targeting real estate. Your thought? [LB48]

SENATOR SCHUMACHER: Okay. And very good point. And a lot of it has to do with whether something is moveable or not, and there are some other reasons. But for the most part, wealth is in real estate. There's a bulk of the people who have the luck to have a retirement fund have got it in some type of tax-deferred thing. Okay? And they put it in an IRA or a 401(k) or one of those things where the employer or they put it in tax free with the anticipation of paying the tax when they pull it back out. Okay? And that's...I mean, there's some people that maybe went out and bought a share of Berkshire outside of a plan and are sitting on it. And I don't know how we adjust for that. But the bulk of the people are in these tax-deferred plans. Now, when an heir sits around that lawyer's table and what's in grandma's estate is one of those tax-deferred plans and the money comes out and is divvied up among the heirs at the table--correct me if I'm wrong, if the legal counseling is wrong on this--those heirs pay tax at their ordinary income rate, which if they are making in a 30 percent bracket plus they will pay 30 percent to the fed, they will pay the 6.84 percent to the state. They don't get by scot-free. [LB48]

SENATOR FRIESEN: That's on cash only. I'm talking about stocks and bonds that get passed out, correct? [LB48]

SENATOR SCHUMACHER: No, if they're held in an IRA they aren't. Whatever the value of that IRA is, they pay tax when they take it out. [LB48]

SENATOR FRIESEN: Okay. [LB48]

SENATOR SCHUMACHER: So this isn't so terribly unfair. It may be, may be you could say, okay, what about somebody who never set up one of those accounts and they just went out and bought their share of Berkshire in the old age and now they get a stepped-up basis because they died with a share of Berkshire. I don't think you're talking about a whole lot. Maybe we can struggle to find a correction for that. But the concept of stepped-up basis being a possible source of revenue, particularly in the context of out-of-state heirs and an absolute flushing of that asset out of state, never to be seen again, is something I wanted to bring to the table. [LB48]

SENATOR FRIESEN: Well, you know, I guess coming from agriculture I also see it that we have farmers out there who in their life investment, their 401(k) is that land. And that's all they have, they don't have a 401(k), and we tax that every year. The income off of it gets taxed with property and property tax, income off of it, so I mean we're taxing them to death on their 401(k) so to speak. It's not a legal form of 401(k), but nonetheless. So when you talk, too, again about we collect nothing, I mean, I think we still have an estate tax. The counties collect 1 percent. If I don't give it to my next of kin the tax goes up to 13 percent, 14 percent? [LB48]

SENATOR LINDSTROM: Thirteen. [LB48]

SENATOR SCHUMACHER: Eighteen. [LB48]

SENATOR FRIESEN: So I mean it's going to be pretty substantial, depending on where I want to leave that. [LB48]

SENATOR SCHUMACHER: Right. And in the general case you're going to leave to a linear heir or brother or sister or parent. Okay? And that's a 1 percent tax. The attorney fee is more than that. And that goes to roads, usually bridges, offsetting county property taxes and that would have to be made up with property tax dollars. [LB48]

SENATOR FRIESEN: But here in the case if you wanted to leave it to someone else, though, the tax would be the stepped-up basis plus 18 percent, 15 percent, whatever the... [LB48]

SENATOR SCHUMACHER: We have a really high girlfriend tax. [LB48]

SENATOR FRIESEN: That's it. Thank you. [LB48]

SENATOR SMITH: Senator Groene. [LB48]

SENATOR GROENE: I just went through that with an uncle that I helped raise his corn, shelled corn, castrated hogs. It's 13 percent for nieces and nephews and it's 18 percent for the girlfriend, and 1 percent. But you always forget, Paul, that through the life of that property you paid property taxes. So if it's a 2 percent property mil levy, in 50 years lifetime of that farmer, he paid for that farm again. Fifty times two is 100 percent, he paid for it when he bought it, he paid for it with the interest, and he paid for it again with property taxes. Your stocks and bonds you don't do that. Then he also paid income taxes on the fruits of that labor of that land, where Mr. Buffett don't. His income just keeps rolling with the stocks and bonds. If he gets a dividend, yes, or an interest payment, yes, he pays on that. But the growth of it, the capital gains, he doesn't pay on that either; just once. The farmer pays income taxes every year off the fruits of that land. He pays property taxes every year off the fruits of that land. And his heirs pay inheritance tax. And now you want to hit him again, the family, with another tax? [LB48]

SENATOR SCHUMACHER: The farmer also enjoyed a great deal of appreciation in that land. [LB48]

SENATOR GROENE: He doesn't get anything out of it when he's in the coffin. [LB48]

SENATOR SCHUMACHER: But the heirs...we wouldn't treat the farmer any different if he sold it. If he sold it, he'd have to pay this tax. But his heirs suddenly cash in on a bonanza. Basically, what the argument you made I think is, look, because he pays property taxes, he's really prepaying this capital gain tax. So... [LB48]

SENATOR GROENE: On stocks and bonds there's no property tax. [LB48]

SENATOR SCHUMACHER: Right. And the reason for that failing is because they are too easy to move. And you should calculate in the value of land the fact that you have to pay according to that tax structure. Every other business does it. [LB48]

SENATOR GROENE: Tell me if I'm wrong, also. If you have a business, a corporation, a corporation never dies so there's never any inheritance tax, there's no capital gains. And one of the heirs who is in that corporation moves to Wyoming, he dies. The inheritance is just on his part of the stocks in that corporation. [LB48]

SENATOR SCHUMACHER: If the heir was given the stock by grandpa, the heir will pay...well, currently gets a stepped-up basis just like the landowner does. But the heir will pay income taxes on anything above that appreciation. [LB48]

SENATOR GROENE: Just on those stocks. The whole farm isn't sold. The whole business is the farm because a corporation never dies unless you dissolve it. So there's never any inheritance tax on it based on the whole value of it. It just keeps rolling. [LB48]

SENATOR SCHUMACHER: Well, there is an inheritance tax. That 1 percent inheritance tax, if you've got six heirs and each of them get a sixth of the stock in the company, okay, each of them a sixth, inheritance tax is the 1 percent times the six. [LB48]

SENATOR GROENE: What if they live in Wyoming but the property is in Omaha? [LB48]

SENATOR SCHUMACHER: If the property is in Omaha, it is reported on Nebraska inheritance tax, even if the heir is in California. [LB48]

SENATOR GROENE: Even if it's stock, not the actual property? [LB48]

SENATOR SCHUMACHER: It's the value of the estate as calculated for county inheritance tax purposes, which is generally equal to the (inaudible). [LB48]

SENATOR GROENE: Not the stepped-up capital gains? [LB48]

SENATOR SCHUMACHER: It's the value at date of death. [LB48]

SENATOR GROENE: On the inheritance, but not on the capital gains? [LB48]

SENATOR SCHUMACHER: On the capital gains, when they sell it for income tax purposes, currently they get the stepped-up basis. [LB48]

SENATOR SMITH: Further questions for Senator Schumacher on LB48? Seeing none, we're going to go to proponents now, Senator. Do we have proponents of LB48? Seeing none, do we have opponents of LB48? Welcome. [LB48]

TERRY JESSEN: (Exhibit 1) Thank you. Good afternoon. My name is Terry Jessen, J-e-s-s-e-n. I've been spending my days at the Capitol since January 4, and what I've learned, among other things, is the taxpayers of this state are paying too much money to heat this room. [LB48]

SENATOR SMITH: It is a bit warm; we're wasting money. [LB48]

TERRY JESSEN: I'm an accountant, I live in Scottsbluff. I'm opposed to LB48. My opinion is this a wrong approach to increasing taxes in Nebraska. The solution to Nebraska's tax gap is to reduce spending, not look for ways to tax the citizens of the state of Nebraska more. In 2007 when I typed this up I made a mistake. Nebraska eliminated the Nebraska estate tax. I wasn't even aware of it. It didn't apply in very many cases. And we've already talked about the 1 percent tax; it can be 13 percent or 18 percent if transfers are to other relatives or girlfriends. Talking about what the Trump administration or what the federal change might do in eliminating stepped-up basis is way too premature. If that does happen, Nebraska income tax would automatically do the same as the federal, because it starts with the Nebraska taxable incomes is the same as the federal taxable income. So if there is that change in the federal, it would be very easy for Nebraska senators to say, we didn't change things. Those guys in Washington changed it. We're getting some extra dollars, but we're not the culprits here. We didn't change it. So you just tagged along at that point. If the heirs in your example were to sell, for those heirs living in Nebraska you would anticipate that some of those dollars that they would receive from that sale are going to be spent on items that are going to generate sales tax for the state of Nebraska or they might buy an income property in Nebraska and then they would be paying real estate taxes and income taxes or they might buy a better home and pay more real estate taxes than they were paying before. So Nebraska is still getting a substantial potential slice of that money in the event that they sell. If they don't sell, that property will continue to pay real estate taxes and the income generated from it would be subject to income taxes. If you want to encourage heirs to stay in Nebraska then we need to reduce taxes in Nebraska. Nebraska, if you look at any chart of the tax hells and the tax heavens in the 50 states, Nebraska is on the wrong end of the list. We are a tax hell. Let's make it better, not worse. So I strongly request that this committee kill this bill. I recognize that maybe you were thinking outside the box in presenting it. And that's just fine, but I do think that it is poorly thought out and would...should receive a serious backlash from taxpayers if this moved into law. Thank you. That's all I have. If you have any questions, I'm happy to try to answer them. [LB48]

SENATOR SMITH: Thank you, Mr. Jessen, for your testimony. Do we have any questions for Mr. Jessen? I see none. And thank you for choosing that fine profession of accounting. [LB48]

TERRY JESSEN: Thank you. [LB48]

SENATOR SMITH: (Exhibits 2, 3) Other opponents of LB48. I do have two letters to read into the record opposing LB48. We have a letter from Mr. Mick Mines, representing the Nebraska Corn Growers; and we have a letter of opposition from the Nebraska Farm Bureau. Do we have anyone wishing to testify in a neutral capacity on LB48? Seeing none, Senator Schumacher, would you like to close on LB48? And I do know that LB48 was just a warmup act here. [LB48]

SENATOR SCHUMACHER: That's correct, Senator Smith. It was a warmup act to many more, one of which addresses an issue that the last witness just brought up, and that is preparing us in the...we don't know what's going to happen in Washington. Lots of different things have been said, but we don't know what is reality and what is dreams and what will be...face demise in the partisan situation back there. And along those lines, we one day will be hearing another bill that I introduced that gives us the option to decouple in case they do something that would really, really impact our revenues in a bad, bad way, that we wouldn't have to follow them down or follow them up and we would have that option. Quite frankly, I'm pleased. I thought I was going to face a lot more criticism than that. This is an idea that should be on the table. And the biggest thing that aggravates it is that this transfer of Nebraska income, that unrealized capital gain, to those out-of-state heirs to go build and develop things in other states. And maybe if we get creative in our discussions down the road, we find a way that the tax paid by the Nebraska heirs gets them some kind of credit--or not by Nebraska, by the heirs--gets them a credit against other Nebraska taxes so that if they invested in Nebraska or have other income and leave their money here to grow, they aren't clipped as bad by our tax system. And that I think if we...the purpose of this bill is to give us some options like that now that we've had a hearing. Now that would be my end of that one. [LB48]

SENATOR SMITH: All right. Any follow-up questions for Senator Schumacher? Senator Brasch. [LB48]

SENATOR BRASCH: Thank you, Chairman Smith. Just one note, I was corrected by Senator Krist today when I called a testifier a witness. And you did the same thing, so please go speak to Senator Krist. [LB48]

SENATOR SCHUMACHER: Must I? [LB48]

SENATOR BRASCH: Please do. The second is that I did not say anything, but this...the testifier, I do thank him, but I believe that to grow the state you give people a reason to stay that...not a reason to leave. And I think it's not a secret, we're heavily taxed in many areas. We built a system around a state that was going to have growth and we had little growth, but I really do have a great concern when we are talking about any additional tax. I don't think that's being proactive in giving our young people or anyone--our retirees want to leave--but a reason to stay in Nebraska. So when I do look at this, I have refrained from my comments. But it's good to think out of the box, but I think the opposite direction. I'd love to see you come testify on ways to reduce taxes and not add more taxes. Thank you. [LB48]

SENATOR SCHUMACHER: Thank you, Senator Brasch. Just in brief response--and we'll have many, many more discussions on this--there are other reasons to stay, and that's fully-funded schools, healthcare, dah dah dah dah dah, all those things we approved on the budget last year which we are now cutting back on because we don't have the money. So it should be an interesting session. Thank you, Senator. [LB48]

SENATOR BRASCH: Thank you. [LB48]

SENATOR SMITH: Okay. Well, thank you, Senator Schumacher, on your closing on LB48. And that concludes the hearing on LB48. We now move to LB52, introduced by Senator Schumacher, a bill that is to adopt the Modern Tax Act. Welcome, Senator Schumacher. [LB48 LB52]

SENATOR SCHUMACHER: Thank you, Senator Smith. My name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, representing District 22 in the Legislature, and here today to introduce another brainchild, LB52, a Modern Tax Act. We had a modern tax study, it was a few years ago, in which we heard people complain about our present tax system being primitive, being outdated, not being modern, needing modern...I think it was tax modernization study is what they called it. In fact I think I introduced it, but then Senator Chambers squirreled it away from me with a resolution or some maneuver that he had, and he was the introducer. But the whole deal was, do we have a modern tax system? And people, they all agreed that what we have now is just terrible. There were complaints on income taxes and complaints on sales taxes, complaints on property taxes, and it wasn't very modern. And as the committee over the last few years struggled with those issues we didn't make a whole lot of progress. And the best we could do was come up with the deal, well, let's throw some money in the property tax credit fund because we can't really think of something that works very well. After that every idea that was brought when it hashed back and forth, it was like a mirage that evaporated the closer you got and the closer you examined it. And it's been difficult, as those of you who've been on the committee realized. It's just plain been difficult. And the closest thing to a definition of a modern tax that probably emerged was, one the other guy pays. And you know, the people might have been kind of right.

Our tax system is primitive. Think about it. Property taxes; well, that echoes back to I suppose the king in England giving somebody a parcel of land and then sending his henchmen out to see if they made any extra beer that he could take back to the castle as a tax or assessment on the land. It's been around forever. When you buy a piece of land you don't buy the land, you buy the estate in the land. And the estate in the land is a legal thing the parameters of which are defined by the state. That's what you're buying. You're buying the dirt. You're buying the estate in the land. And so that thing has been around forever. And the arguments, very good arguments. You know that estate in the land might be worth a lot of money but you can't eat estates, you got to eat food, and you got to pay for that. And you've got to have operating expenses. And in all the paper-rich, cash-poor arguments, valid. I don't think anybody would say they're not. Then...but it was modern for that age. It fit the economy of that time. It worked. King got his beer or his grain or whatever he was extracting, probably the first-born son to go be cannon fodder. Next, we had an age of income where people were paid a wage, worked for somebody else. And some genius thought of the withholding tax so that people actually think they get back money on April 15. It's their money anyway and they paid it in, but they get it back so the government gives you money on April 15. Probably, some people actually believe that. But it fit the time. Downside of the income tax is that in the case of earned income it punishes productivity. The harder you work the more you pay. It doesn't sound like a terribly great idea. And another downside of it is the competition that states have gotten themselves into as to who can be lower. And the debate which goes on and on whether or not a quarter percent or half a percent or a percent in income taxes makes a hill of beans of difference in a business decision. And probably are not going to resolve that debate this year. I don't know if that's been resolved anywhere other than just a good debate to have. But again, modern in 1917 may be problematic now. Sales taxes, likewise, adopted to a production of things and the sale of things and you clip a little bit off the sale. It got more functional when you did it with computers and people don't realize they're being clipped at the grocery store or the car dealership or wherever you pay sales tax. And it generates some money. But there was a study that was done by the Tax Commissioner, Doug Ewald, right before he left the Tax Commissioner's Office, that indicates sales tax more than about anything else dissuade economic activity. And plus, it's just a sheer fact of life that proportionate to income and ability to pay and wealth and everything else, sales tax is born by the folks who make between $20,000 to $120,000 roughly; the very people that there seems to be a little sympathy for. So where were we left? What is modern? What has changed in our society in our lifetimes and probably in the last 30, 40 years? And that is the emergence of credit; system doesn't run on a gold standard, system doesn't run on people using their savings to purchase something. You heard that pretty measly amount of money saved. And depending on how you figure that $4,000 figure might have actually been high, certainly the median might be different. But at any rate it...we're not in that world anymore. In fact, all the money printed, paper money out there--if you believe in the paper money system--amounts to about $300 billion, yet there are trillions of dollars of credit moving through the system. The modern economy is controlled by, altered by, throttled up and down by the extension of credit. We all remember in our time interest rates at 13 percent. I think I had a mortgage once at 13 percent. That was a world we had. Ten percent was typical. You could go down and get 6 percent on a CD at the bank. Now in an era of suppressed interest rates--which will stay suppressed for a long time, quite frankly, because if it got very high the federal government couldn't afford its debt so the bankers can only take it up so much--and they have had it suppressed as long...and for a long time at near zero at the federal level and not much more. It's killed savings. And the federal...that result is kind of like cheap gas prices. Time to do a gas tax when you've got cheap gas prices. We got cheap, cheap interest. And if we say that that interest that is paid is a good index of the flow of capital and the flow of credit through the system and that the modern economy is part and parcel of capital then would it be modern to tax that flow and use the index as...interest as a rough index? Now, we're talking big money here. I think the fiscal note--and I'm sure there's a lot of guess work in that--is coming in somewhere around $600 million. We're talking turkey. We're now talking, if we applied that toward income tax or property tax, a real ability to see some...to move the needle, unlike the little pittance here and there that we're able to do otherwise. Now, what's the consequences? That's a challenge for us. But with that big of a number out there it's something that we probably should look at considering all the complaining we've heard about property taxes and income taxes. Now take Senator Harr's $250,000 house. Take a 5 percent loan on it, that's...this tax would result in roughly .25 percent or about $600 a year on that house. I'll bet you that house pays more than that in property taxes. So we've got things we can do and work with and as a result of that I'm bringing this idea to the committee. And, quite frankly, were we having no taxes today and somebody were to propose a property tax, this room would be filled with people saying, don't do it, there are a million reasons why that's a terrible idea. Or an income tax, you'd get the same result. The same result with a sales tax. I see empty chairs. I can't believe it. But this is a tool. It is an idea. It is substantial money. And I think it may be as fair as it apportions through the population. You're old and your house is paid off, you may be paying very little of this tax. You're prudent and don't run up a big credit card bill with 18 percent interest, you're just paying less of this tax. You don't buy the biggest and shiniest thing that you can on money you don't have and haven't earned, and you pay less of this tax. And in context, the Federal Reserve, they're guessing--at least according to Bloomberg this morning--three rate hikes of .25 percent this year; .75 percent. That's going to be absorbed by the system. This is .25 percent. Instead of the bankers getting the money, Wall Street getting the money, Federal Reserve getting the money, the money goes to our tax relief and toward covering our deficit that we're making a choice that we're going to cut what might be needed services or at least that we thought were needed a few months ago. So that's my pitch. I put it on the table. It's here. And if it goes someplace here, that's good. Maybe some other state will pick up on it. Heck, maybe even Washington will pick up on it. We should beat Washington to the punch though. Thank you. [LB52]

SENATOR SMITH: Thank you, Senator Schumacher. Speaking of other states, have we seen anything like this introduced anywhere else? [LB52]

SENATOR SCHUMACHER: I haven't introduced it anyplace else and I don't think anybody's been crazy enough to introduce it anyplace else. [LB52]

SENATOR SMITH: All right. So Nebraska, you would say our tax system is not modern, it's perhaps archaic. Do you know of any surrounding states that you would suggest would be modern compared to us? [LB52]

SENATOR SCHUMACHER: Well, everybody...you know, in all the hearings that we've had and the studies that we've had on this committee, I don't think I've heard one witness come in and say, look, you guys are terribly abnormal. I've heard some say, you're a little high here, a little low here, you should have an adjustment here. The conclusion I have--and the other members of the committee may very well have different conclusions--is that we're kind of in the big blob in the center of the class and we're not standing out, like we're not flunking out, we're not the A students. We're right in the middle of the group, and we're all struggling and every state is. [LB52]

SENATOR SMITH: No state particularly stands out to you as getting it right? [LB52]

SENATOR SCHUMACHER: No. They all got to pay the same bills we have. It's just how you distribute the burden. Now, I will say that on the income tax side something is wrong there when we have a top bracket of 6.84 percent--which is quite honestly high--but the effective rate on that strata is 4.-something percent. Well, who's not paying their fair share, because if you're...that strata should--if you just look at the tax tables--should be paying 6.84 percent? They're not. It's coming out 4 (percent), so somebody is paying a whole lot less than 4 (percent) to make that average out, because the average wage earner who's a doctor, a lawyer, an accountant, a stockbroker who is making decent money is paying 6.5 percent on up, depending on how their exemptions and things fan out. So we've got a lot of tools we can work with, folks. And whether we do or not will be a matter of whether we can get along. [LB52]

SENATOR SMITH: Great. Thank you. Senator Harr. [LB52]

SENATOR HARR: Thank you. Senator Schumacher, thank you. I find him not guilty. Wait, what? That was an eloquent close or synopsis. I think this kind of bill would be better on a federal level than on a state level. I look at it would be pretty easy to avoid paying this tax. And I'm not a tax lawyer, I'm not a tax accountant, and I look at this and I can find ways to hide my capital on this. Unfortunately, some of our bigger companies that are located here would have a difficult time doing that, so that raised a little heartburn for me. But my real question is, isn't this a regressive tax, since probably the person that's borrowing money probably has less income? If I can afford to buy it in cash, I'm already buying it in cash. It's the working slobs like myself who make $12,000 a year who have to use credit and beyond. And now you've just injured me a little bit more. [LB52]

SENATOR SCHUMACHER: Not...in answer to that, not if there's an offset on your property or income taxes, and you may be able to be smart enough to neutralize some of that. And users of credit are not just the person who buys the house. The system runs on credit. We'll have other proposals regarding corporate income taxes and things like that. [LB52]

SENATOR HARR: Right. [LB52]

SENATOR SCHUMACHER: But the system runs on credit. So the theory is, attach to that system. [LB52]

SENATOR HARR: It does. And I know billion-dollar companies with AAA rating that get all their money off commercial paper, and I get that. But I think the overall effect of this would be regressive, even if you setoff against income. Income is progressive. And I just...I haven't seen the numbers, but to me this would strike me as something that's regressive. And I'd love to see the data to see who would actually pay this and how much, as compared to income and/or sales and/or property tax today. [LB52]

SENATOR SCHUMACHER: And I think you raise a good point. But I think you'd be surprised that it's fairer than what one would imagine, and that's just intuitive on my part. But I think that we can structure this...the theory that if you can tax that flow of credit and the credit is used proportionally by all segments of the economy--except probably the very elderly who probably we would strive to do homestead exemptions and stuff like that for, for years--if that assumption is anywhere near accurate, then this may turn out to be a very fair tax across business and across the consuming sector. [LB52]

SENATOR HARR: And you said it's a gut feeling. And I guess my...if we're going to do something that raises $500 million, is there any way you could get some data or analysis of this to see who it affects and how much so we have a better idea of who is really paying this tax? [LB52]

SENATOR SCHUMACHER: I think that has to be done. But I think before I invest in an element of resources as far as how I can get data and information, whether or not there's an open mind toward this or this is just a harebrained idea that is going to go up (inaudible). But if this is realistic and I get signals from the committee that this looks like something that there might be an open mind to integrating into something, then I think it's time to kick into high gear and get the kind of data so we have a projection and we may be able to figure out ways to get that. [LB52]

SENATOR HARR: And so it's chicken and the egg, which came first, right? I'm not willing to kick it into high gear until I know who's affected. [LB52]

SENATOR SCHUMACHER: No. But you know whether or not it may be something you'd entertain provided that it isn't disproportional on the $20,000 to $120,000 folks. [LB52]

SENATOR HARR: Yeah, under...I'd say $110,000 folks, AGI. [LB52]

SENATOR SCHUMACHER: Well, whatever. Somewhere in there. I think we're talking about the same group. [LB52]

SENATOR HARR: Okay. Thank you. [LB52]

SENATOR SMITH: Senator Friesen. [LB52]

SENATOR FRIESEN: You know, I can tell you, this might be one idea that I kind of like, because you always tell me that the only good tax is the tax that you pay and not me. So if I did the calculations right here, me as an older businessman that's well established, I don't borrow as much money, it's not a big deal to me. We'll let the young guy trying to start out...he'll have to pay a little extra, but he's going to have to borrow more money to operate and everything like that, so we'll stick it to the young guy and make him pay a little extra and I won't have to pay that because I don't borrow a lot of money, I'm kind of established. So if we can put this money towards property tax relief yet, I win on both ends. I really like that idea already. Good perspective. [LB52]

SENATOR SCHUMACHER: You've got a little gray here, you need a little bit of homestead exemption there. [LB52]

SENATOR FRIESEN: So, I'm always open to looking at everything, and I know you do think out of the box. But I guess just looking at this and seeing how it would play out and who ends up paying and I think would be an interesting study. Thank you. [LB52]

SENATOR SMITH: Senator Groene. [LB52]

SENATOR GROENE: Looking at the Constitution here about revenue raised by taxation, legislative powers, I don't see anything that the state can tax debt. [LB52]

SENATOR SCHUMACHER: You're not taxing debt. You're taxing the rental fee on money. You have no problem taxing...if you take capital asset in the form of a car, renting it out at Hertz and Avis, no problem paying the sales tax on that capital asset. Why are we functionally exempting the rental of money from sales tax? [LB52]

SENATOR GROENE: So you're taxing the loaning...the loaner on the revenue he receives from the debt? [LB52]

SENATOR SCHUMACHER: Think of it as a sales tax on the rental of money. [LB52]

SENATOR GROENE: Who pays it? [LB52]

SENATOR SCHUMACHER: Ultimately, it comes out of the same person that pays the interest and the... [LB52]

SENATOR GROENE: So it's the debtor. [LB52]

SENATOR SCHUMACHER: It's the debtor. He's the one that controls debt, whether or not rely on savings or debt. Now this is kind...now, I mean, we're in an interesting world here, because I think generally the conservative model is, you operate off of savings. You save so you can sit in Senator Friesen's seat and say, you know, I've saved enough and I've worked and I'm in pretty good shape right now. You don't go borrow against the future and trust that somehow you'll be able to pay it back with cheap money or somebody will...government program will come save you and help you do this, that, or the other thing, and encourage you to borrow more money for things you can't afford. There's some interesting twists that philosophically run in this. An easy way to explain it, it's sales tax on the rental of money. [LB52]

SENATOR GROENE: Should we build debtor prisons, too? You went through the history of what we used to do. [LB52]

SENATOR SCHUMACHER: We've got enough crooks in our prison, we couldn't fit them in. [LB52]

SENATOR SMITH: Senator Brasch has a question for you. [LB52]

SENATOR BRASCH: Thank you. Thank you, Senator Schumacher. I do believe that Senator Friesen, as a farmer, may be one of the rare exceptions on not borrowing money. Many smaller farmers, young farmers...this would be an additional tax on agriculture I think, because not many people can go out and write a check for $300,000-plus for a piece of equipment or land or...so it would be without exception, if you're borrowing money, you're going to pay taxes on it? [LB52]

SENATOR SCHUMACHER: That's where we start with. Now if there are legitimate...you know, we all complain about exceptions. Gee, there's exemptions to sales tax, exemptions to income tax, all these exemptions. Well, you got a new tax, we're already talking about what exemptions we're going to create. Exemptions are possible, but you know, if that younger farmer bought wisely and if this goes to help alleviate some of the income or property taxes that he's got to pay, then you know it may not be so bad. But that's a challenge that would have to be taken up by this committee as to how we apply this. This is a huge revenue source, huge revenue source. And it is a tool. And we have...otherwise, I think we all kind of realize we're going to be batting our heads against the wall of trying to figure out how we can defer something into the future and juggle with valuation rates when the only response from the local government is going to be an increase in levy rates and nobody makes any headway anyway. So, and bring a tool. [LB52]

SENATOR BRASCH: Thank you for introducing it. I just...I have great concerns. [LB52]

SENATOR SCHUMACHER: Good. [LB52]

SENATOR SMITH: Further questions for Senator Schumacher? You know, I think Senator Harr brought up a good point earlier. And wouldn't his point be even more magnified in times of super inflation where you have interest rates at 20 percent? [LB52]

SENATOR SCHUMACHER: If we have interest rates at 20 percent, we got one broke federal government. [LB52]

SENATOR SMITH: Well, it wasn't too long ago that we experienced that. [LB52]

SENATOR SCHUMACHER: Well, with whatever it is, 19 trillion or whatever dollars of federal debt, they...the bankers can't take it up too high. We're going to have to deal with some other mechanism, because we cannot afford it. And we will see that three times fed rate this year, a good chance of it, and we're going to just absorb it. And that farmer is going to pay it. And Wall Street is going to say, thank you, thank you, thank you. And so we're talking a teeny sliver of money. [LB52]

SENATOR SMITH: All right. Thank you, Senator Schumacher. I see no further questions. And we'll move to proponents of your bill. [LB52]

SENATOR SCHUMACHER: Are there any? Thank you. [LB52]

SENATOR SMITH: Anyone wishing to testify in support of LB52? Seeing none, anyone wishing to testify in opposition to LB52? Welcome. [LB52]

COBY MACH: (Exhibit 1) Thank you. And good afternoon. My name is Coby Mach, C-o-b-y M-a-c-h, I am the president of the Lincoln Independent Business Association, and we are opposed to the creation of this new tax on loan interest. The bill would impose a tax on the interest on auto loans, home loans, student loans, business loans, and others. As a small business organization, we can assure you that entrepreneurship is very difficult without adding a tax to the interest that business owners would pay for their business loans or commercial property loans. And, in fact, today I'd like to offer a real business world example that is being passed out to you right now. If a borrower purchases a business property for $800,000, over 20 years at 5 percent interest they would pay over $25,000 in this new tax. The amortization schedule that I've handed out shows $800,000 borrowed at 5 percent interest on January of this year. By January 1 of 2037, in addition to repaying the $800,000, the borrower will have paid $467,416 in interest. A 5.5 percent tax on this interest is $25,708 in new tax. The bill could also create added expenses for those who utilize a revolving line of credit to make inventory purchases. There are many types of businesses that must make large purchases at trade shows, at markets, or at conventions. And if the bill is passed into law businesses would pay a 5.5 percent tax on the interest of their revolving line of credit, it effectively places an additional tax burden on business inventory that will be sold then at retail and taxed again at the point of sale. If there is an attempt to use this loan interest tax to lower property taxes--and the bill does not specifically say that--but if the intent is to lower the property tax, then we still would urge caution. And I can assure you that LIBA is very much in favor of lower property taxes. However, we would point out the property taxes are deductible on federal tax returns. And replacing or supplementing a deductible tax with a loan interest tax may not move everyone forward as you had hoped. We would also point out, as you already know, and that is that nothing would prevent cities, counties, NRDs, or others from going ahead and raising their property tax levy rate as well. I do want to thank Senator Schumacher for thinking creatively and also for causing all of us to think. I appreciate that and his attention to the fact that property taxes are too high. I would attempt to answer any questions. [LB52]

SENATOR SMITH: Thank you, Mr. Mach, for your testimony. Do we have questions from the committee? I see none. Thank you. [LB52]

COBY MACH: Thank you. [LB52]

SENATOR SMITH: Next opponent of LB52. Welcome. [LB52]

ROBERT HALLSTROM: (Exhibits 2, 3) Thank you. Chairman Smith, members of the Revenue Committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m. I appear before you today as registered lobbyist on behalf of the Nebraska Bankers Association in opposition to LB52. LB52 would require individuals and businesses in Nebraska to pay a 5.5 percent tax on the interest portion of bank loans. As the bill is drafted, it would also appear to apply to credit card indebtedness. Under the legislation, the lender would be responsible for collecting and remitting taxes and forms to the Department of Revenue on a regular or monthly basis. I've gone through a number of the specifics in my testimony, including an example similar to Coby Mach's with regard to a residential purchase, so I won't belabor that fact. But I think the bottom line is, there's negative impacts on small business, there's negative impacts on young homebuyers, first-time homebuyers. And particularly in the agricultural sector, as Senator Friesen noted, the young farmers in particular will be hit particularly hard. You have a situation where the young farmers who may not even be at a point of buying agricultural land to where they might be able to benefit from a property tax relief proposal if that's where all this largesse would go, that they are instead spending money and borrowing money to buy equipment and get them set up. They're not going to see any benefit from a property tax relief, but they are going to pay significant taxes on the 5.5 percent tax on interest. As a result of all of the adverse impacts, impacts on the secondary market--we have a particularly competitive marketplace in the secondary market for loans--and 5.5 percent additional on interest will not allow Nebraska lenders to compete in that marketplace as effectively. I think when you look at this--and some of the comments have kind of tilted this way--you're going to see the individuals who don't have to borrow as much money who obviously are not going to pay the tax. But probably more significantly, those who need a loan who would otherwise receive a loan but may be pushed to the wrong side of the Mendoza Line in terms of making that creditworthiness determination that don't get the loan, they won't pay the interest or the tax on the interest on the loan, but they also won't get the loan. And that would be a shame and that would be not in the best interest of driving our economy forward. For those reasons, we would suggest that even though this idea has been described as thinking outside of the box, that perhaps we ought to put the idea back in the box, put a bow on it, put it up on the shelf and look for other solutions. With that, I'd be happy to address any questions that the committee might have. [LB52]

SENATOR SMITH: Questions for Mr. Hallstrom? Senator Groene. [LB52]

SENATOR GROENE: Contacted by a constituent the other day about what he should do about declaring his sales tax on something he had bought out of state. This looks to me about the same.

No credit card company, no...nationally...no loan...sends a statement at the end of the year about how much interest you paid unless it's on a home mortgage. Is that not true? [LB52]

ROBERT HALLSTROM: That would be correct, Senator. [LB52]

SENATOR GROENE: So now this would be voluntary reporting unless we dictated to you and to every car dealer and every bank that they send a statement out on every loan on an interest statement, a 1099, to say what you want. I don't know, a reverse 1099? I don't know what you would call it. Is that not what we would have to do? [LB52]

ROBERT HALLSTROM: You'd either have that situation, Senator, or if I'm tracking correctly the other issue is going to be the borrower is going to have to know that they pay 5.5 percent in addition on the interest as part of their payment. And if they don't pay it, then the borrower is going to be in violation of the law. The lender, whether it's a traditional bank loan on an installment basis or a credit card company getting those monthly payments that are due, is only responsible for remitting if they collect it. So it would be the borrower, I would assume, who will ultimately be at risk or the credit card borrower in that situation. If they don't pay it on the regular monthly installment basis. [LB52]

SENATOR GROENE: If the credit card company is from out of state. [LB52]

ROBERT HALLSTROM: Yeah. There may be collection issues and interstate commerce issues. I haven't looked into that particular situation, but there could be all kinds of collection issues. But again, I think at the end of the day the borrower is responsible for making that payment. If it's not made the lender, whether they're instate or outstate doesn't have the funds to collect and remit to the state, so it's still the borrower who has failed to pay the tax that is due under this proposal. [LB52]

SENATOR GROENE: In my business you can buy down your loan. You can pay more and have zero percent interest. I think they do a lot of that. [LB52]

ROBERT HALLSTROM: Shorter term loans, I think. You know, when you look at a longer-term loan, which a lot of folks need to get into to make the payment system work, means you're going to pay more interest up front, you're going to pay more in this tax, you may look at a move to try and get a shorter term loan so the interest burden isn't quite so great. You may not get all the money that you'd need, just by definition, to do what you want to as a beginning farmer or a small, start-up business. A lot of different changes in business habits that might not necessarily be in the best interest of growing the economy. [LB52]

SENATOR GROENE: Thank you. [LB52]

ROBERT HALLSTROM: Thank you. [LB52]

SENATOR SMITH: Further questions for Mr. Hallstrom? I see none. Thank you. [LB52]

ROBERT HALLSTROM: Thank you. [LB52]

SENATOR SMITH: Next opponent of LB52. Welcome. [LB52]

GENE BRAKE: Thank you, Senator Smith, Revenue Committee. I'm Gene Brake, G-e-n-e B-r-a-k-e, and I'm representing the Nebraska Realtors Association as president. We feel that this is a onerous tax for...hurts first-time homebuyers, young folks. They put down the least amount of money, smallest down payment, and percentagewise they'll be paying the most amount on it. I have to agree with Senator Friesen. Those of us that have been blessed to be able to not have to pay interest and would love to have property tax relief, that sounds good but I think this is the wrong way to go about it. Are there any questions? [LB52]

SENATOR SMITH: Thank you, Mr. Brake. Do we have any questions? I see none. [LB52]

GENE BRAKE: Thank you. [LB52]

SENATOR SMITH: Thank you for your testimony. Welcome. [LB52]

RON SEDLACEK: Thank you. Good afternoon, Chairman Smith and members of the Revenue Committee. For the record, my name is Ron Sedlacek, and that's spelled R-o-n S-e-d-l-a-c-e-k, and I'm here today on behalf of the Nebraska Chamber of Commerce and Industry in opposition, which should come as no surprise as we were here a couple of years ago. And I always recall trying to research this issue with Lexis and so forth and just generally surfing the Internet. And there was not a word to be found on the tax policy or concept of taxing interest paid, taxing the debtor as interest paid. And so I thought, well, after two years, maybe there's been a little excitement. And I still can't find a darned thing that's in research in this regard. So this is not only very modern, it's still not even to the cutting edge at this point. But at any rate, just like to talk a little bit about the concept in general of this policy. And since I would not want to be redundant here today, I've tried to design and construct some remarks and eliminate that which has already been said. What we're having here today is a discussion on essentially what could be a quasi sales tax and possibly an excise tax. Sales tax is generally a tax on goods and services and an excise tax is a tax on some specific commodity. And I guess it's the, in a sense as you mentioned in your words, Senator, the rental of money, where the debtor would owe the tax and the lender would collect and remit such tax. As a general rule, there are sometimes commonalities between sales tax and an excise tax. Both are considered to be regressive taxes, but excise taxes are sometimes associated with a luxury, such as a taxation on yachts; remember that. And then and maybe the mundane, such as an additional tax on cigars, cigarettes, alcohol, etcetera, and...but it still remains a regressive tax. It's just in the eyes of the taxpayer and probably the public as to what is being taxed in this regard. What we're dealing with here though is a situation where if it is an excise tax, then it would not be subject to use tax, so you wouldn't have to worry about that issue. If you were to engage outside of the state of Nebraska as a debtor, it's probably unlikely that that tax could be collected, and that would be a nexus issue. Quill, Supreme Court case in that regard talks about two elements, and there's a due process element. And you could argue this might meet that due process test to a certain extent, but then there's a secondary test and that's equal protection. I don't see that happening here, although I'll defer to those with more expertise as to whether or not you could establish that particular test. So from this angle only, it is a debt...interest paid would probably be only that which is incurred within the state. The bill says you have to be a resident of Nebraska to be a qualified debtor. There's no definition of a qualified lender whatsoever, but it appears that it would not be collectible should you engage with a credit card company that has no presence or bank or any other financial institution, insurance company, and so on. The other aspect though of an excise tax is that they usually distinguish between essentials and nonessentials. And so the issue for discussion is whether or not money is an essential. And we would maintain that it is. Even without money, unless you trade, you can't even buy food. Is the interest on money lent an essential? Well, that's subject to discussion. That depends. We talked about already in previous testimony of whether you can afford to or not, but there are cases such as the entrepreneur, the person who has accounts receivable, the business person who is assessing interest or charging interest on late payments and so forth. Is that essential to their operation? The question also is of the time value or time price differential, I should say. Does this encourage other ways of operation, such as an example would be paying for a commodity, then at a set rate immediately, cash basis, or 30 days down the road at a different price, 60 days down the road at another price, and saying, I'm not collecting interest? This is the time-price differential. Just giving you different alternatives in order to pay for this commodity that you want, that you're borrowing against. So we see this as an issue that is rife with enforcement problems. If you miss a back payment on a credit card and your interest is nominal, that paid let's say four or five bucks and then you miss that payment, you become delinquent, in order to rub salt in the wounds you get an extra penalty of 5 percent on the uncollected debt, according to the bill. Is the state going to enforce a 50 cent tax delinquency and how much is that going to be gauged. And that's the end of my comments and I'd better just be quiet. [LB52]

SENATOR SMITH: Thank you, Mr. Sedlacek. Any questions from the committee? I see none. [LB52]

RON SEDLACEK: Thank you. [LB52]

SENATOR SMITH: Thank you. Next opponent of LB52. Welcome. [LB52]

BRUCE BOHRER: Thank you. Good afternoon. Chairman Smith, members of the Revenue Committee, my name is Bruce Bohrer, last name is spelled B-o-h-r-e-r, registered lobbyist for the Lincoln Chamber of Commerce, here to testify against LB52. Most of my comments have already been covered, so I'll be brief. It really boils down to the uncertainty represented by LB52 and I guess the risk that goes along with that. We talked about favoring establishment and status quo that would happen under this bill, we feel, and also the disadvantage of new ventures and innovation. We want to encourage that. I think the other thing is, the system we've got right now everybody knows and I think probably considers it imperfect, but I think it really boils down to in some instances of the devil you know versus the devil you don't know and just all the questions that are raised, especially by this bill. I think the Chairman asked a question earlier about any other states considering this. And I thought to myself, that's what I'd like to see, somebody else go first on this one. Again, we would like to see an environment that encourages innovation and new thinking and we feel that this would probably be a drag on that and people starting new ventures, as Senator Friesen had talked about earlier. We want notoriety for our state and we want people to understand that we've got a great place to grow a business. I'm not sure if this is the type of notoriety we want if we would pass something like this. With that, I'll close my remarks and be happy to answer any questions you might have. [LB52]

SENATOR SMITH: Thank you, Mr. Bohrer. I see no questions. [LB52]

BRUCE BOHRER: Thank you. [LB52]

SENATOR SMITH: Thank you. Next opponent of LB52. [LB52]

BRANDON LUETKENHAUS: Good evening, Mr. Chairman. Members of the Revenue Committee, my name is Brandon Luetkenhaus, B-r-a-n-d-o-n L-u-e-t-k-e-n-h-a-u-s, and I'm here on behalf of the Nebraska Credit Union League. Our association represents 61 credit unions in the state. I am here to testify in opposition to LB52. I want to thank Senator Schumacher for many ways in which he tries to address the many difficult issues in the state. However, this is one in which we disagree with him on, simply for this reason, is because we serve...our credit unions serve hundreds of thousands of middle-class Nebraskans. And we believe that this bill would negatively impact them by adding just another tax onto the interest of the loans that they get from the credit union. So that's the primary reason. The other reason is that, frankly, this would be a tax that folks who can least afford it would end up paying in most cases, not all cases, but in most cases. And those who maybe could afford it would be able to be sheltered or avoid it. So for those reasons is why the Nebraska Credit Union League is in opposition. But thank you for your time and I'd be happy to answer any questions you might have. [LB52]

SENATOR SMITH: Thank you for your testimony. Do we have any questions from the committee? I see none. [LB52]

BRANDON LUETKENHAUS: Thank you. [LB52]

SENATOR SMITH: Thank you. Welcome. [LB52]

TERRY JESSEN: (Exhibit 4) Good afternoon, again. Terry Jessen, J-e-s-s-e-n. I'll be very brief, but I think this is detrimental to existing businesses in Nebraska and new businesses. Businesses that are currently in Nebraska are here for a reason. Part of that reason is that they have decided to locate in Nebraska, maybe that was their home, they're employing people here, they're in many cases spending money investing in new projects, new buildings. And I think this kind of a tax would encourage those investors to leave the state of Nebraska. I think that would cause an exodus of businesses from Nebraska. It would hurt employment and future investment. I think what this would really do the way that it's written--and I don't think you've written it wrong, I just think that's the only way it should be written--it would be a disadvantage to being a Nebraska resident or a Nebraska-based business. So you would force an entity that wants to continue to do business in the state of Nebraska to move their office out of the state of Nebraska, to maybe terminate that particular entity and start a new entity that is based in another state, even though they may continue to do business in the state of Nebraska, because by doing so they would not be subject to this tax. I think if this was in effect the only borrowers that credit unions, Nebraska banks would have would be out-of-state borrowers. Nebraska borrowers would be driven economically to not be a Nebraska borrower. They would either move out of state...I've known an individual--actually, quite a few over the years, but one specific one I'm thinking of--who moved to the state of Wyoming just because of Nebraska income tax. After two or three years he found that to be uncomfortable, he did move back. I don't see his tax returns, but my belief is that if he didn't file Nebraska returns for other incomes he would have still filed for Nebraska income. And I think that this creates that kind of creative business requirements on a business that is currently borrowing money in the state of Nebraska. That's really all I have. [LB52]

SENATOR SMITH: Thank you, Mr. Jessen, for your testimony. Questions from the committee? I see none. Thank you. [LB52]

TERRY JESSEN: Thank you. [LB52]

SENATOR SMITH: (Exhibits 5-8) Remaining opponents to LB52. We do have letters for the record to read into the record. We have Rocky Weber, representing the Nebraska Cooperative Council, sent in a letter in opposition, as did Matt Litt, representing Americans for Prosperity. Also, Nancy Carr, from Lincoln, Nebraska. I believe Ms. Carr also sent a letter to each of the senators via e-mail. And finally, Mick Mines, representing the Nebraska Corn Growers, sent in a letter in opposition. Do we have anyone wishing to testify in a neutral capacity? Seeing none, Senator Schumacher, you're invited to close. [LB52]

SENATOR SCHUMACHER: Thank you, Senator Smith and members of the committee. I was hoping that I could outdo Governor Heineman and pack this thing and go to 11:00 at night, and I failed. But I'm encouraged. Somewhere in the seed of this is a good idea. Just look at some of this. I highlighted some of the arguments and I assume they were the best that could be mustered. One was, over 20 years this is going to amount of $25,000. If that's a standard for not using a particular method of taxation, how much would this business have paid in property taxes, sales taxes, and income taxes? Probably more than $25,000 over 20 years. On that test, if we do pretend we're an eye doctor, better-worse, better-worse, this probably comes out, well, let me see that again, doc. It's not that clear. The argument that, gee whiz, credit card issuers and car dealers and bankers would have to file sales tax returns and add on sales tax and have an extra line on their statements. We expect the lowliest of business people to do that. The candlestick maker has got to charge and got to put it on the sales tax tab and got to file the monthly report, so I would think that with all these computers and everything all set up that we're being no more onerous with a system like this regarding credit cards and car dealers and bankers than we are in general sales tax that we expect every merchant to collect no matter now small and how unsophisticated. The next one, you know, small business will get clipped, homebuyers will get clipped, farmers will get clipped, but that argument is good for all of those taxes. They all get clipped. The next one, it will only apply to lenders instate because of the Quill decision. I think we've got some bills coming up this year that recognize that Quill is probably on its last leg and actually are proposing to tax interstate or Internet sales; same principle involved. If that's the case...and Amazon must consider it to be a fairly serious case that that tax is going to happen or they wouldn't be paying something they wouldn't have to pay or collect tax they wouldn't have to collect. There goes the Quill argument. Is money an essential thing of life? I had a really great time at Harvard Business School asking the question, what is money? Think about that one for a while. But interest is for sure not an essential thing of life in, at least, the old, conservative definition. And finally, there are loopholes. You could figure out a way to restructure this, to do it differently. Well, if that were the test we'd have no income tax because there are a gazillion loopholes, some of which we will be studying again this year to ask why those loopholes have existed for so long. In brief conclusion, I'm actually optimistic about it. Whether anything will come of this in my time in the Legislature, I don't know. But this is a tax that is going to happen, if not in this state first, some other state or the federal government first, because it begins to fit the bill. A little concerned about Senator Harr's argument of where it's appropriate, you know, who ends up paying it? Is it regressive? I don't think it's going to be as regressive as you think, because particularly if we take...move the funds around and look at our corporate tax structure--which was really a bad one--and look at that and start applying it and applying it to all credit or at least a broad nonexception definition of credit and interest and really look at who pays the interest and in what volume they're paid, you may find a lot of rich people pay a lot more under this tax than they do under an income tax or some of the existing loopholes in the system. I don't want to say this thing is going to win any races, but I think it's got some short legs at least. I'd take any questions. [LB52]

SENATOR SMITH: Further questions for Senator Schumacher? I see none. [LB52]

SENATOR SCHUMACHER: Thank you very much. [LB52]

SENATOR SMITH: Thank you, Senator Schumacher. That concludes the hearing on LB52 and that ends the hearings for today. Thank you. [LB52]