LINEHAN: Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn, Nebraska and represent the 39th Legislative District. I serve as Chair of this committee. The committee will take up bills in the order posted. 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. If you are unable to attend the public hearing and would like your position stated for the record, you must submit your written testimony by 5:00 p.m. the day prior to the hearing. To better facilitate today's proceeding, I would ask that you abide by the following procedures. Please turn off your cell phones and other electronic devices. And this is-- well, it doesn't look like we're going to be real crowded today. But if you're wanting to testify, please move to the front. The order of testimony is introducer, proponents, opponents, and neutral and closing remarks. You will be-- if you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. I think green forms are in the back, right? OK. If you have written materials that you would like to distribute to the committee, please them hand-- hand them to the page to distribute. You will need 11 copies for all the committee members and staff. If you need additional copies, please ask the page to make copies for you as soon as I introduce them. You don't have to wait until right before you get up. They can make them as soon as they have them. 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, and we will use the light system. So I think most of you know the deal. It's green for four minutes, yellow for a minute, and then red. And when it's red, you need to wrap up. Well, actually, try to wrap up when it's yellow. If your remarks were reflected in previous testimony or if you would like your position to be known but not-- 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 transcribers are able to hear your testimony clearly. To my immediate right is legal counsel, Mary Jane Egr Edson. And to my immediate left is research a net-- net-- analyst, Kay Bergquist. At the end of the table to the left is committee clerk, Grant Latimer. And I would like to have the senators start introducing-- introduce themselves starting with my far right.

KOLTERMAN: Mark Kolterman, District 24, Seward, York and Polk Counties.

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

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

CRAWFORD: Good afternoon. Senator Sue Crawford, District 45 which is eastern Sarpy County.

BRIESE: Tom Briese, District 41.

LINEHAN: Our pages for today, can you stand up please, are Brigita from Hudson, South Dakota, a sophomore at UNL majoring in agricultural education, and-- say your name for me. I'm sorry.

KYLIE: I'm Kylie.

LINEHAN: Kylie. OK, Kylie. We're switching up again. Kylie who-- I assume you're at UNL as well.

KYLIE: Yeah.

LINEHAN: OK. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. Refrain from applause or other indications of support or opposition. I'd also like to remind our committee members to speak directly into the microphones and also for the audience because we're recording. And lastly, I think you all know this. Members may come and go to introduce bills in other committees or they may be using their phones or their computers to look up information. So with that, we will start with LB615, Senator Hilgers.

HILGERS: Thank you, Chairwoman Linehan and members of the Revenue Committee. My name is Mike Hilgers, M-i-k-e H-i-l-g-e-r-s. I represent District 21, citizens of northwest Lincoln and Lancaster County, and I'm here to open on LB615 which is a bill that's intended to be a part of the tax conversation that this body is going to be having. And before I-- I probably won't spend very much time on my opening at all, and I probably will spend even a little bit less on the mechanics of the bill because I think it's fairly straightforward. But I do want to speak a little bit about some first principles for me and why I brought the bill and why I think it matters, at least the conversation matters, for the state. There are a number of things, in my view, that are very important to the state of Nebraska. I'm going to focus on two, I think, that are critical. One is our agricultural community and the small towns and communities of greater Nebraska. And the second is the-- the ability of our state to attract people to this state and keep our young people here. I think that our ag community is not just an economic engine of the state of Nebraska, but I also think that it is the community that helps model many of the values that I find to be priceless here in this state. You know, I grew up in Nebraska. I moved away to go out of state and the reason, the biggest reason, besides my parents still being here when we come back, was because I felt that the most priceless gift that I was given growing up here were being around people who shared the values that I found had made the biggest difference in my life. It's not just being in a faith community but having-- being around people who show integrity every day, of character, hard work, humility, modesty, all of the great things that I think that separate our state. And I thought those were priceless for me. And I wanted my kids to grow up in that environment. I certainly think that those habits and traits are exhibited throughout our state. I grew up in Omaha after all. But I certainly think that they are modeled in our agricultural community. And so I think for the success, future success-- success of our state, our ag community in small town Nebraska has to be supported, and they have to thrive. The other part of this sort of principle that I want to discuss or this idea that I think is important for the future of our state, is the idea that we need to grow. We need to grow. We need to have our young people stay in the state. We need to have people actually come-- move to Nebraska. We need people to start businesses. As a business owner, I know how-- who employs almost ten in Lincoln, I know how important it is and how hard it is to start businesses. And we need to encourage that growth. And I think the states that are able to grow are the ones that are going to thrive. And the ones that don't will really struggle. And I think for the future of our state, those two things need to occur. A lot of other things I think need to occur, but in my view, two of the most important are making sure that our-- our ag communities thrive and making sure that our people stay in Nebraska and that we grow. What does that have to do with tax policy? Well, I think it has a lot to do with tax policy in the short and long run. On the ag side, in the short run-- and I see this in my district, in District 21, I have ag producers as well as residential area. I'm one of the few, I think, districts in the state that have a significant concentration of both. Certainly in the short term, property taxes are impacting people significantly. There's no doubt about it. We certainly have heard a lot about it out-- for producers around the state of Nebraska. No less so, in some degree, for the residential people in my district who are hurting with property taxes. For the long term-- from the short term, if we can't-- if we can't address the property tax crisis in our state, we're going to have-- we're going to have a real big economic impact, a cultural impact in our state. And for the long term, we're not going to be able to-- be able to do the things that I talked about at the beginning unless our ag community is strong. At the same time, the economic growth side of the equation also should be addressed in my view. And that doesn't exclude tackling property taxes. If-- you can't grow if your agricultural sector is not growing. But it also involves other parts of our tax code. And so one of the things that I think in Nebraska that is a deterrent to growth, that harms our growth, is our income tax and corporate tax structure as well in addition to our property tax structure. We have-- as you all know, we have a 6.84 percent rate that hits just north of-- just around $30,000 a year. $30,000 a year for a single individual or a little bit north of $50,000 for a family of four is incredibly low. It's incredibly burdensome. And I think-- anecdotally, I think it's intuitive to people to know that people are going to go and live, more likely than not, on the margins. Maybe a lot of people stay in Nebraska, but people are going to look for where there's opportunity for themselves and their family. They're going to go, again, everything else being equal, they're going to look for places where they can make more money and keep more of their money to build, save, and help their family. But it's not just anecdotal or common sense in my view. I think this bears out around the country. The states that have high tax burdens, not just property tax but income, corporate, and others are losing people. Illinois, Connecticut, New York, New Jersey, they are losing people. They're losing them to places that are different in a lot of ways. Some are climate differences, right? Florida is getting a lot of folks, but that's not the only place. Places like Colorado, places like Utah, places like Tennessee, and all, what those states have in common is that they have-- they have a tax code that's more conducive to economic growth and allowing families to keep more of what they earn. I think both of those pieces should be addressed. So as we have this conversation, the reason I brought LB615 is to have-- to include in the conversation some of the economic growth piece. I know there's a number of members on this committee and some great friends of mine, Senator Groene, Senator Friesen, Senator Briese who have worked very hard and put forward a number of proposals with some overlap-- overlap and some-- some pieces that don't overlap. And I think this committee is going to have a difficult, challenging, but I hope, productive conversation about how to put those pieces together. And I think there's a lot to like for a lot of those different pieces. I think as part of that conversation, I'd like to at least have LB615 or elements of LB615 at the table. What LB615 does, it's intended to sort of cash flow economic-- I'm sorry, tax-- tax reform, tax cuts. Rather than introducing new revenue in the system, it does it through current projects-- further economic growth. And so the mechanism is fairly straightforward. It basically says, look, we're going to make sure, one, kind of like a family or business where we want a certain level of cash reserved before we-- before we ratchet down our rates. And then, if we have a certain level of economic growth, right now it's 3.5 percent that's in the bill, the rates will slowly stairstep down on the income and corporate tax side with I think the final-- the final rate being just under 6 percent. So it's at 6.84 right now for the individual side, it's a little under a 1 percentage point, while at the same time providing property tax relief to the Property Tax Credit Fund. That's basically, more or less, what the bill does. There's-- this bill is intended to be part of a conversation. It's not-- if I were to have a-- if I would be king for a day, this isn't the bill that I'd bring. If I were to have a whiteboard with a brand new tax system, this isn't a bill that I'd bring. But this is-- there are elements of this bill and it's been drafted in a way to hopefully either fit in where it can, with a broader package that the committee might-- might bring forward or, at least, have this other part of the conversation which I think is important-- important to have. So again, the-- the-- the ultimate mechanics of the bill, 3.5 percent, $500 million, all of it, I'm all-- I'm open to discussion, to have a conversation about all of it. I'm not-- it's not all or nothing from, at least, my perspective. And I hope to, I look forward to having that conversation which could start now. I'm happy to take any questions that the committee might have.

LINEHAN: Thank you. Thank you, Senator Hilgers. Are there questions from the committee? Senator Groene.

GROENE: On the fiscal note, they're assuming we're going to have $500 million. But first, they're assuming they're going to have property tax relief, $500 million in the reserve, and 3.5 percent growth. So the fiscal note is kind of misleading, isn't it? I mean--

HILGERS: I think so, yeah. I think so, Senator Groene.

GROENE: --somebody's very op-- somebody woke up very optimistic [INAUDIBLE] writing this fiscal note, that we're going to have all this growth the first year.

HILGERS: Well, you're exactly right. And by the way, Senator Groene, if I might say, circumstance may dictate that this is-- this has sort of a wait and see. Hey, we need to have the growth first. We're obviously, as you point out, in pretty not good budgetary times at the moment. And so the timing might not allow for something like this.

GROENE: Your bill waits in the background.

HILGERS: That's right.

GROENE: You're going to have property tax relief that's going to have to be paid for before we're putting $500 million in the reserves. And you're assuming 5.5-- well, that $500 million for reserves and 3.5 percent, and then we start doing this, right?

HILGERS: Well, when we do the-- I think when we get to $500 million is the key point. Whether that happens right away through, as you say, it's some injection in having property tax relief get revenue up. And then this occurs. Absolutely could happen that way. Could happen some other different ways as well.

GROENE: So paying for government would come before we-- our reserves to 500 percent-- $500 million. It would have to.

HILGERS: Right. Right.

GROENE: All right.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Senator Linehan, and thank you, Senator Hilgers. I just want to clarify my sense from just reading the memo/overview that this-- this would be based on a projection of 3.5 percent. So in November, we project that there's 3.5 percent that this kicks in, right? It's not necessarily that we make that. That's always one of those issues is whether or not we can actually make that 3.5 percent.

HILGERS: That's exactly right. And that was-- there's some elements similar to our discussion from LB416 of last year and the idea of whether a forecast is sufficient. There would-- the body would have the ability the next year if revenues didn't come in, to-- to modify what-- what would happen. But yes, you're-- you're correct. It's based on a forecast. That's right.

CRAWFORD: That's right. And there's no ratcheting down when revenues go down--

HILGERS: Not inher--

CRAWFORD: --or ratcheting up when revenues go down?

HILGERS: That's right. There's not-- well, there's nothing in the bill at the moment with the caveat that the Legislature could always modify statute at that time. Correct.

CRAWFORD: Right. Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee? Seeing none, thank you very much.

HILGERS: Thank you.

LINEHAN: You'll be here to close?

HILGERS: Yes, I will. Thank you, Senator Linehan.

LINEHAN: Proponents?

JOSEPH YOUNG: Good afternoon, Chairwoman Linehan and member of the Revenue Committee. For the record, my name is Joseph Young, spelled J-o-s-e-p-h Y-o-u-n-g, and I'm here testifying today in support of LB615 on behalf the Nebraska Chamber of Commerce, the National Federation of Independent Businesses in Nebraska, the Nebraska Bankers Association, and the Lincoln Chamber of Commerce. And I know that it might be a little weird that I'm sitting here today, but I am doing so. I'm-- I'm the chairman of the state chamber's tax council, so that's why I'm here. The state chamber represents all businesses, of course, agribusiness, rural businesses, urban businesses, big and small businesses. And we have always said that we support property tax relief and income tax relief. Our perspective, on behalf of all the businesses, is that we need balanced tax reform. We support property tax reform, I said-- or like I said, but merely doing so on the backs of other taxpayers who are already paying high income taxes and high sales taxes is not sustainable. And it has proven, time and again, that it will not work. This bill, LB615, is intended to be kind of a pressure relief valve to set some fiscal expectations and to obtain some amount of tax relief each year. It is not what you'd call a grand-slam proposal. I think we can all see that. But those types of large pacts-- large-scale packages have proven elusive, at least for the past seven or eight years. So here are the things we know. We know that we're putting about roughly $1 billion into a subsidy every four years from state coffers that has made little to no difference in the property taxpayer's mind. That's through the Property Tax Credit Fund. We know that income tax and property taxes are too high in the state in Nebraska. We have the 15th-highest income taxes in the country and the 12th- or 13th-highest property taxes. Sales taxes are high enough, we think right in the middle of the pack nationally. On the flip side, however, we have to pay for the government services in a large geographical state with only 1.9 million people. That's the main reason why getting to 33 votes has been so difficult over the last several years. LB615 is a bill that cuts taxes for everyone who pays them, but also covers the cost of the government services Nebraskans are accustomed to. Ultimately it comes down to us. About-- It's about competitiveness, the state's tax structure, and quality of life. The root of our growth problem is that our tax structure is not attractive enough to attract both-- or not competitive enough to attract both jobs and work force in the numbers to make this state competitive moving forward. We are in a fierce battle, obviously, for people and jobs in the state of Nebraska. The more we can do to make Nebraska competitive, the better off we will be in the years to come even if it's at a slower rate than all of us would like. And with that, I'd be happy to take any questions.

LINEHAN: Thank you, Mr. Young. Are there questions from the committee? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here, Mr. Young.

JOSEPH YOUNG: No problem.

BRIESE: Would-- would you agree that we rely far too heavily on property taxes to fund local government?

JOSEPH YOUNG: Not necessarily.

BRIESE: K-12, our reliance on property taxes to fund K-12, you think it's a reasonable percentage?

JOSEPH YOUNG: Well, on average, it's about 60 percent statewide. I would say that, traditionally, this bill has some elements in it that would move some general funds-- or actually some Cash Reserve funds to the Property Tax Credit Fund which traditionally we have basically opposed in the past after it was implemented in 2007. I would say that to me, it would make more sense. This isn't necessarily the chamber's view, so I'm going to take my chamber hat off for a second. But it doesn't necessarily make sense to have a Property Tax Credit Fund that really just-- there is no accountability behind it, and it goes directly to the taxpayer. But that's not doing anything for property tax rates. So from a good public policy standpoint, I would say that using that-- is it 224, $224 million a year plus? I think you could probably better utilize that money.

BRIESE: OK. When you open-- in your testimony, I think you kind of suggested that, you know, some of the other proposals out there to reduce property taxes are certainly not the way to go. So what would-- what would be your suggestion? How should we address the property tax crisis? When you look at K-12 funding and we rely far more heavily than other states on property taxes to fund K-12 education, what should we do about that?

JOSEPH YOUNG: If I had the question to that, Senator, I'd be a rich man today. I don't-- I don't know. I don't know. It's-- I will-- I will tell you this, and this-- this has been the state chamber's opinion for a long time. It's very hard to do anything about the property tax from a state level because it's a-- it's a locally assessed and collected. So when you have 244 school districts and I don't know how many cities and counties-- well, how many counties are out there, 93, plus you add cities into there, it's very difficult to go lobby all of those entities to try to lower property tax rates and collections. So honestly, if you wanted to long term really do something about the property tax issues in this state, I know this is going to sound radical but, you make it a state property tax. So that the citizens of Nebraska would only have to come to one place to do that.

BRIESE: OK. OK. Thank you for now.

LINEHAN: Thank you, Senator Briese. Other questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So I-- you know, we've talked a lot about economic development this past summer. My thoughts have always been I mean if-- we haven't been able to put enough money towards attracting businesses here through our incentive program. We can't outbid other states. We don't have the revenue or the-- or the, you know, the assets to do it with. And so my-- my view was always, well, you want it to be a business friendly state with a low tax, low regulatory climate. So if-- if we-- how important are the tax rates versus incentive programs we have? I mean you look at some, and we have a lot of different incentive programs. I'm just going to say that put them all together on this side and the income tax rates on this side. Couldn't you get rid of some of these also to help buy down the rate? Which is more important?

JOSEPH YOUNG: So this is a great question that we've struggled with for a long time. And I will tell you that if you-- if you ask the Department of Revenue, every year there's about a $150 million spent on tax incentives, spent. The corporate income tax alone in this state is I think-- collects around $350 million. So even if you-- let's say we just did away completely with incentives and then cut the corporate tax rate down to, you know, something-- that collects something about, you know, $175 million. That's ignoring completely-- so that's-- so corporations are still paying taxes which is fine. That ignores completely over 90 percent of the businesses in this-- in this state paying at the individual rate. So that's a tough question. I don't think that you can, or that anyone can, really say, well, let's get rid of or even reduce incentives, and it'll fix our problem on the tax rate side because it just-- the math doesn't-- doesn't work.

FRIESEN: Couldn't-- couldn't even say you can use a portion of it to help?

JOSEPH YOUNG: We could but--

FRIESEN: We're looking for every dime we can find.

JOSEPH YOUNG: I understand, but--

FRIESEN: It seems like, you know, we're-- we're-- we're-- we're scratching at everything right now trying to, you know, property tax lien trying to come up with money. You're-- you're trying to take revenue off the table to do that with. We've got our incentive programs out there that do all sorts of things. And they've not shown very effective at bringing in business. We've grown business and in some cases, it's done well. But in a lot of cases, the Advantage Act didn't perform the way we wanted it to, and I think we'll all admit that. So I mean is there-- is there a balance now having a targeted fund, for instance, for targeted economic development versus anyone who applies gets it? We pick and choose then who we want? And it's very focused. We know what it costs. We can budget for it, and the rest of the money we can use to buy down our rates to make it more competitive in-- amongst the states.

JOSEPH YOUNG: So there's a lot in that question. But I would say that ten years ago, if you'd-- if you'd have asked me if the Legislature would even consider funds like a $50 million fund or $100 million, I would've told you that there's no chance we can get that passed because it's very difficult politically to pick those people that you're just going to give cash to. The citizens of the state of Nebraska might not like that because now it just looks like we're cutting checks, whereas right now, you have to cut-- you know, you have to make the investment, create the jobs, and then get taxes back. So there's a certain accountability in our current system that does work very, very well. I think now the Legislature has an appetite to create a fund like that. And I don't think it's necessarily bad policy, but you have to be very careful with how it's implemented.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Thank you, Chairman. LB615 doesn't change the brackets. It just changes the top rate.

JOSEPH YOUNG: That's right.

GROENE: So the new rate still starts way low at $58,000-- or $29,000?

JOSEPH YOUNG: Right.

GROENE: Correct?

JOSEPH YOUNG: That is correct. Which is--

GROENE: So it doesn't adjust the--

JOSEPH YOUNG: --which is challenging but of course when you start doing rates and brackets, then the cost goes way up.

GROENE: So you're-- you're just doing the top bracket?

JOSEPH YOUNG: Right.

GROENE: And you're leaving the inflationary factor in there where--

JOSEPH YOUNG: This bill does not--

GROENE: --the cost, the bracket's creep that-- we're trying to break up bracket creep in a good way, where the numbers go up, not the-- to match the income increase.

JOSEPH YOUNG: That's correct.

GROENE: But it looks to me like you're trying to make a little bit of a concession to get along. Last year, the bill was corporate income taxes first and 20 years' wait for property tax relief. But you're saying here you want to look at us getting some property tax relief. And after we've paid for that, this comes in second.

JOSEPH YOUNG: Right. Yeah. This would be a lot further than we've come in the last ten years.

GROENE: You're waiting-- you're waiting on the come instead of making the--

JOSEPH YOUNG: Right.

GROENE: --property taxpayers do it like the bill last year.

JOSEPH YOUNG: Right.

GROENE: I can go along with that. But anyway so-- thank you.

JOSEPH YOUNG: No problem.

LINEHAN: Thank you, Senator Friesen. Senator Crawford.

CRAWFORD: Thank you, Chairman Linehan. And thank you. I wonder if you have a sense of-- a ballpark figure of 3.5 percent of the budget.

JOSEPH YOUNG: What number that would be revenuewise?

CRAWFORD: Yes. Right.

JOSEPH YOUNG: Well, 3.5 of 8-- $9.2 billion. I can't do the math off the top of my head actually, but I would say it's probably $300 and--

it's probably $450 million, $450 maybe somewhere around there ballpark.

CRAWFORD: 415. Eventually we get to the point where it's over $300 million that gets taken out of revenue. So we're just trying to see what bite of that is taken by the revenue draw. So over half of it, at least.

JOSEPH YOUNG: Depending on what the growth is.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you, again. Any projections as to when we might hit that $500 million mark with the Cash Reserve? Anybody handicapping the odds of that happening anytime soon?

JOSEPH YOUNG: I have not. I don't know that staff has. It's probably going to be a couple years.

BRIESE: OK. OK. And then the mechanism here, when it hits, it's a one-time infusion of $75 million into the Property Tax Credit Fund, correct?

JOSEPH YOUNG: That's correct, although I think there is a amendment floating around that-- I'm not sure if Senator Hill-- Hilgers has it or not. But I think the amendment basically compounds that, so it keeps it at that level moving forward. So yes, it's $75 million out of the Cash Reserve Fund. But then, someone correct me behind me if I'm wrong, but I think what it does, the amendment, what it does is it keeps it, the Property Tax Credit Fund, at that level. So it would be 224 plus 75.

BRIESE: OK. OK.

GROENE: One thing.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: That's one time, that 75, right?

JOSEPH YOUNG: Yes, but it increases the-- no? It's one time.

GROENE: But that isn't necessary if we come up with a property tax fix. That's $75 million, you're not married to that? That's your--

JOSEPH YOUNG: No. If there's another way to fix the property tax issue then this probably wouldn't be necessary.

GROENE: Yeah, You weren't doing this in a box--

JOSEPH YOUNG: Right.

GROENE: --trying to appease a little property tax but it's not necessary to your main function of your bill.

JOSEPH YOUNG: I'd say that's fair. Yeah. We did it in a vacuum. Understand, there's nothing in this--

GROENE: Yeah. You did it in a vacuum trying to appease the property tax people a little bit--

JOSEPH YOUNG: Right.

GROENE: --but if we come up with our own, that $75 million isn't necessary.

JOSEPH YOUNG: I think that's fair.

GROENE: All right. Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? OK.

JOSEPH YOUNG: Thank you.

LINEHAN: Thank you very much, Mr. Young. Next proponent? Hi.

BRIAN HARR: Senator Linehan, members of the committee, I'm Brian Harr, B-r-i-a-n H-a-r-r. I'm here today representing the Greater Omaha Chamber of Commerce in support of LB615. We appreciate Senator Hilgers bringing this proposal to the committee. As the Revenue Committee and the Legislature-- legislation-- Legislature considers taxation policy, we believe that individual and corporate income taxes must not be taxed-- not be-- must not be part of the discussion but with equal footing with property and sales and use tax. Income tax are a real and subsidy-- substantial burden on Nebraskans, and reducing the rate will be a real and substantial benefit. LB615 would provide modest but measurable progress in addressing this. First, it would reduce the top rates. Nebraska has a top individual rate among its neighbors, excluding Iowa. And Iowa is scheduled over the next few years to reduce its rates. In fact, two of our neighboring states have no income tax at all. Similarly, some of our neighbors have-- among our neighbors, only Iowa has a higher corporate tax rate. Top individual rates and-- top individual rates and corporate rates should match each other. Many businesses in the state of Nebraska file individual tax returns and pay a tax rate of 6.84 percent. Yet C corps pays 7.81 percent. This difference in tax rates is simply unjustifiable. This is long and overdue. The rate reduction will have multiple benefits. First, it will allow businesses to direct more of their resources towards rewarding the many thousands of Nebraskans they employ by hiring, promoting, and investing in such employees. That, in turn, will foster more economic growth. This goes directly to the growth strategy that is vital for Nebraskans to prosper. Second, this would be the first reduction in the corporate tax rate since 1986. Nebraska is currently almost 250 basis points above the 7-state region average for tax rates. This is a matter of competition. It's about attraction and retention of employees and employers. This would marry the top corporate rate and the individual tax rates. The rates differential is outdated if it ever made sense. And so many entities today are pass-through entities. This is an issue of equal footing among mid-- business models in the state of Nebraska. Finally, there is a lot of legislation and discussion about Nebraska's work force needs. Our work force-- force dilemma is about more than just a skill gap. It's about population. Nebraska needs more people. And one of the best ways to attract more people is to make our state more family friendly. Nebraska competes nationally for its work force. It must compete nat--nationally to attract new families recalled-- relocating to Nebraska or other states. Despite what some may say, income tax does matter when people are making a decision of where to live and work. It matters when people are also making the decision of whether to stay in Nebraska. We hear a lot about property tax sticker shock and car tax sticker shock, but there's also income tax sticker shock. As a sole proprietor who instead of waiting for a tax refund each April, writes a check to the Department of Revenue four times a year, I can tell you that-- that the high rates are unacceptable. As a prospective resident, I would ask you to think what a prospective resident would think about the income tax where the highest rate kicks in at 300-- or $31,060 for a single individual and $62,230 for a married couple. Approving any changes to our tax policy has to focus on growing Nebraska, one that grows the economy, grows our population, provides more opportunities for employees and employers. This is-- this entails many elements but certainly that includes tax policy that does not differentiate between business model, one that imposes a reasonable tax rate, and one that provides a competitive business environment in every-- in an ever more competitive world. LB615 is a good step in that direction. Thank you, and I would be happy to take any questions you might have.

LINEHAN: Thank you, Mr. Harr. Are there questions from the committee? Senator Groene.

GROENE: Are you representing yourself or-- or [INAUDIBLE]

BRIAN HARR: I'm representing the Omaha Chamber.

GROENE: Omaha Chamber. Well, the guy that looks like you wouldn't have brought one of those testifiers.

BRIAN HARR: I can't represent him.

LINEHAN: Thank you, Senator Groene. Are there other questions from the committee? Seeing none, thank you very much for being here.

BRIAN HARR: Thank you.

LINEHAN: Other proponents?

NICOLE FOX: Good afternoon, Chairwoman Linehan, members of the Revenue Committee. I'm Nicole Fox, N-i-c-o-l-e F-o-x, and I'm here today to testify in support of this bill. It is no secret that Nebraska is a high-tax state. Property taxes are the seventh highest in the nation. Income taxes are the 15th highest, and the average state and local sales tax rate is the 25th highest. It is also no secret that the Platte Institute supports comprehensive tax reform. While we agree that many of our tax rates put Nebraska at a competitive disadvantage, reform should only be done in a responsible and sustainable manner. This bill proposes a minimum balance of $500 million to the state's Cash Reserve Fund before tax relief can begin. We think this is a worthy, fiscally responsible condition to establish prior to tax reform efforts. Requiring a minimum balance in the Cash Reserve Fund is a good precondition to include before making any reductions to the state's income tax rates. This sets up a good, long-term goal because good tax policy should be to collect needed revenues for supporting essential services that maximize Nebraska's economic growth, not merely maximizing tax revenues. It is also no secret that the Platte Institute supports property tax reform. We are happy to see property taxes a focus in LB615, however, we think structurally reforming the property tax and setting more limitations on local taxing subdivisions by lowering the levy or adjusting valuations is a better way to lower the tax burden than simply adding more to the Property Tax Credit Relief Fund. In the past, we've supported the use of revenue triggers for tax reform. Triggers do not guarantee a tax cut but are a responsible method that only enables incremental reductions when the state revenue growth shows the tax reduction can be afforded through that growth. We would, however, caution the committee from using triggers based on expected growth and would rather see triggers based on actual receipts to ensure a safeguard against an overly optimistic forecast. Overall, we see LB615 as a responsible solution to Nebraska's detrimentally high tax rates with long-term goals to make Nebraska a more competitive and fiscally stable state. Thank you for the opportunity to testify, and I'm happy to take questions.

LINEHAN: Thank you. Are there questions from the committee? Senator Groene.

GROENE: Thank you, Chairman. So something like prior year was 3.5 percent actual, forecast at 3.5 percent for the next year would be a better trigger combination?

NICOLE FOX: I think we would rather just the-- I mean, just the actual just to know exactly--

GROENE: Well.

NICOLE FOX: --what the numbers are because what if the forecast is off?

GROENE: Like your 3.5 percent actual last year--

NICOLE FOX: But are-- I mean, are you talking about [INAUDIBLE] the same?

GROENE: -- and corn goes $2 and if the forecast is minus $2, you're not going to give a tax cut. Would the two numbers together be a trend?

NICOLE FOX: Potentially.

GROENE: Thank you.

NICOLE FOX: Um-hum.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you very much for being here.

NICOLE FOX: All right.

LINEHAN: Other proponents?

DUSTIN ANTONELLO: Good afternoon, Chairwoman Linehan and members of the Revenue Committee. My name is Dustin Antonello, D-u-s-t-i-n A-n-t-o-n-e-l-l-o. I'm here on behalf of the Lincoln Independent-- Independent Business Association. LIBA supports LB615. This bill lowers the top individual and corporate income tax rates when a 3.5 percent growth in General Fund receipts is forecasted and the balance of the Cash Reserve Fund is at-- is at least $500 million. This approach will return more hard earned money to small businesses and farmers during times when the state of Nebraska is in strong fiscal shape. Many small businesses would benefit greatly from lower income taxes because they file and pay their taxes under the individual-- individual income tax plan. If you support LB615, any-- every individual business and farmer that makes over $29,000 will get some income tax relief. LB615 will also improve the outlook for businesses and the economy and make Nebraska more competitive with surrounding states. Nebraska ranked 24th in the Tax Foundation's 2019 State Business Tax Climate Index and ranked even lower, 26th, on income taxes. Nebraska has one of the highest income taxes compared to its neighboring states. Both Wyoming and South Dakota do not impose any taxes on income. And Iowa recently lowered its top individual income tax rate to 6.5 percent. High income tax rates have a detrimental impact on our economy. They reduce the amount of money our businesses have to pay workers and the amount of money individuals and families have to spend locally. Small businesses and farmers need income tax relief. LB615 will provoke-- will provide that relief during times when state revenues are strong. Please support LB615. With that, I'd be happy to take any questions.

LINEHAN: Thank you very much. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Farmers have already fixed the problem of the income tax being too high. We have a high enough deduction on property tax that we don't pay income tax. So that's not a problem.

DUSTIN ANTONELLO: OK. Fair enough. Fair enough.

FRIESEN: What is-- what is the average small business-- you represent a lot of small businesses, right? What would be an-- if you take an average small business, what is their income per year? Is there-- does anybody have a number of that?

DUSTIN ANTONELLO: I'm not sure. I can try to get that information to you.

FRIESEN: I'm curious. You know, the average small businessman, what would this do to his taxes? What does it amount to, $75, $100?

DUSTIN ANTONELLO: Well, I'd assume it would-- it has the potential to be pretty significant. I mean, with the threshold being $29,000 being taxed at 6.84 percent, you know, if it eventually gets down to below 6 percent, you could see pretty substantial reduction.

FRIESEN: Right. I kind of need to know what is the average-- what is an average small business, what is their-- their profit margin, I guess, what do they pay taxes on?

DUSTIN ANTONELLO: Sure.

FRIESEN: You know, it varies a lot and so.

DUSTIN ANTONELLO: Um-hum.

FRIESEN: I mean, you guys do represent kind of small business. I'm not talking about the large corporation and stuff. I was thinking the small businesses, the pass-throughs, what would be the average income, so to speak?

DUSTIN ANTONELLO: I don't have that data in front of me, but I'd be happy to get that to you.

FRIESEN: OK. Thank you.

DUSTIN ANTONELLO: You're welcome.

LINEHAN: Thank you, Senator Groene-- Thank you, Senator Friesen. I'm sorry. Senator Groene.

GROENE: A previous testifier said that-- caught-- I noticed, said that we're one of the few states that has a differentiation between corporate and personal. Are we the only state or how many states do that? Or do most states, their top rate match corporate rate, or the corporate rate matches, do you know?

DUSTIN ANTONELLO: No, unfortunately, I do not. Now, I know that in Iowa it's different, you know? They just lowered their individual income tax rate to 6.5 percent, but they still have a higher--

GROENE: Higher corporate?

DUSTIN ANTONELLO: Yes.

GROENE: Higher than that?

DUSTIN ANTONELLO: Um-hum.

GROENE: Thank you.

DUSTIN ANTONELLO: You're welcome.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you very much for coming.

DUSTIN ANTONELLO: Thank you.

LINEHAN: Other proponents? Seeing none, opponents?

RENEE FRY: Good afternoon, Senator Linehan, members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We're testifying today in opposition of LB615, a bill that will, over time, require significant cuts to our schools and other vital services and would deplete our Cash Reserve rather than build it up. We're greatly concerned about the automatic nature of this proposal and believe that Oklahoma serves as a cautionary tale of what happens when states use triggers and put tax cuts on autopilot. In 2016, a revenue trigger similar to the trigger in LB615 sparked an income tax cut in Oklahoma just as oil prices plummeted. The resulting revenue losses contributed to a state budget crisis that caused nearly one-third of Oklahoma's school districts to move to four-day school weeks to save money. A similar scenario would have played out here if triggers proposed in LB615 had been in place since 2001. In that span, three tax cuts would have been implemented, including one during the Great Recession, then again in

2016, and again in 2018, each of which would have significantly exacerbated Nebraska's current budgetary issues. In each of those instances, the tax cut would have been triggered based on projected revenue growth even though actual revenues came in below projections. In fact, a tax cut would have been triggered in 2008 even though actual revenue growth was negative in both 2008 and 2009. In 2016, a tax cut would have been triggered even though actual growth was negative 1 percent. These tax cuts would have compounded cuts to education, public safety, and other vital services and wouldn't have been sustainable. LB615 also provides for a transfer of $75 million from the Cash Reserve to the Property Tax Credit Fund when the triggers are met. While we share the goal of property tax relief, this measure endangers the fiscal health of our state. $500 million is equal to 11 percent of FY18 General Fund receipts, well short of the 16 percent recommended by LFO. Having at least the recommended amount in reserve will help prevent major cuts in economic downturns. This is particularly important now as many economists are predicting a recession or slowdown to occur in 2020. We're also concerned that these income tax cuts would offer large tax savings for the wealthiest Nebraskans but provide little to no tax cuts for middle-income residents. According to an analysis by the Institute on Taxation and Economic Policy, once fully implemented, a Nebraskan in the top 1 percent of incomes would receive an average cut of about $7,500-- $7,800 a year, a middle-income earner would receive about $94 annually, and the lowest-earning taxpayer would, on average, receive about $11. About 79 percent of LB615's tax cut would go to the highest-earning 20 percent of Nebraskans with annual incomes greater than $109,000, and about 27 percent of the tax cut would go to the wealthiest 1 percent of Nebraskans who on average earn about $1.3 million annually. In addition to a chart showing this distributional analysis, I've also handed out a chart showing our real Nebraska taxpayers. You'll note that our highest income earners by far get the greatest benefit. And I would also point out that while "Bill" gets a considerable tax cut, the property tax reduction would only be in those years in which a tax cut is triggered. So to, Senator Groene, your point, the only time that $75 million would be transferred is a year in which it is triggered, but the income tax cuts would reduce income taxes every year once we meet that initial trigger. Furthermore, about 30 percent of the total tax cuts would go to nonresidents with income from Nebraska sources. Some suggest LB615 would improve economic growth. And it's worth mentioning that Nebraska, economically, has had the second-highest GDP growth between 2008 and 2017 and that there's no clear correlation between a state's economic growth and their level of income taxation. Putting tax cuts on autopilot without regard for current or future realities isn't good tax policy. It ignores the budget challenges we face and the need to build up the cash reserve. It does little to address concerns about property taxes or that revenue bills passed since 2006 have already reduced individual income taxes by 209-- excuse me, $292 million in FY18 alone. It won't help the middle class or lead to long-term economic growth. For these reasons, we would urge you to reject LB615. In response to a couple of questions, Senator Crawford, this would be triggered based on General Fund receipts which are about $4.5 billion if you look at the General Fund budget. Senator Friesen, you asked the question about taxes versus incentives versus other, and I would just suggest that when we do cap cuts of this nature, you put a lot of other things in jeopardy. Young people want-- they want amenities. They value a culture. Good culture, cost-- low cost of living, cost of doing business is very important when you look at site selection surveys, all of these things that are in jeopardy when you start cutting funding for K-12 and roads and other services. And, Senator Friesen, you also had a question about an average small business owner. If you look at the bottom of page 2 and the top of page 3 in our brief, you can see that the median income for individuals employed at their own incorporated business was $43,900. So that would be about a $57 tax cut for an average small business. With that, I'd be happy to answer questions.

LINEHAN: $43,000--

RENEE FRY: Um-hum.

LINEHAN: --if you get 6-- or 1 percent-- oh, I see what you're saying, 1 percent reduction. OK. But they're paying-- how much of $43,000 are they paying in income taxes right now?

RENEE FRY: I would-- I don't know that off the top of my head.

LINEHAN: It would be 6 percent of $43,000?

RENEE FRY: No, actually.

LINEHAN: So then that's $2,500?

RENEE FRY: But they're not paying 6 percent of that whole amount. So it's only at the point-- if-- if you're assuming someone's in--

LINEHAN: Oh, yes--

RENEE FRY: Right.

LINEHAN: --you go back to your effective rate stuff. Yes. You mentioned cuts in education?

RENEE FRY: Um-hum.

LINEHAN: What do you-- when you say that-- give me an example.

RENEE FRY: So if you look at the fiscal note, by-- what was it?

LINEHAN: No. You-- you were talking I think retrospectively about cuts.

RENEE FRY: In Oklahoma?

LINEHAN: No, in Nebraska.

RENEE FRY: What my point is about-- you're going to have to make cuts to-- if you're cutting $300 million out of the budget and almost half of the budget is going to education, right? Between higher ed and K-12--

LINEHAN: Half of the current General Fund budget is going to education. That's right.

RENEE FRY: Forty-five percent. Right. And so if you're cutting $300 million dollars out of a 4.5 million budget and if you look historically where we make those cuts like, it sounds like what we will probably do this year by reducing TEEOSA.

LINEHAN: See there you go again.

RENEE FRY: What?

LINEHAN: "Historically."

RENEE FRY: Yes.

LINEHAN: What cuts are you talking about to education historically?

RENEE FRY: So, yeah. So every year we reduce-- not every year but a lot of years, we reduce the projected spend to TEEOSA, right, as we likely do this year because of budget.

LINEHAN: Reduce the projected spend, meaning?

RENEE FRY: Yeah.

LINEHAN: I don't know what that means.

RENEE FRY: So if TEEOSA's supposed to-- TEEOSA would go back to pre409, right-- preLB409, right? So projected growth in TEEOSA is supposed to go to 7 percent this year, and Senator Groene has a bill that-- has a placeholder bill to adjust because our budget looks like we're going to be short. And probably the forecast will be revised downward in February and so. So changing TEEOSA and reducing how much we're spending on TEEOSA is--

LINEHAN: But reducing the increase, not a cut.

RENEE FRY: If you look at spending as a share of the economy, it is a decline, right? And so we're pushing more reliance on property taxes.

LINEHAN: But we have not made a cut to TEEOSA--

RENEE FRY: Yeah. As a share of the economy though-- so every year, it costs more--

LINEHAN: --a cut in real dollars.

RENEE FRY: No, but it costs more to do the same thing year over year.

LINEHAN: Other questions from the committee?

RENEE FRY: And if you're reducing your budget by $300 million, you are going to have to make pretty significant adjustments.

LINEHAN: Do we have other questions? Senator Groene.

GROENE: But you're making a big assumption that everything's stagnant, that that $300 million or whatever you're talking about $75 million-- $75 million. That's assuming we're already up 3.5 percent. So we're already up 3.5 percent. So we haven't cut that and then it's above that.

RENEE FRY: So we're using the fiscal-- yeah, if you look at the fiscal note--

GROENE: So you're saying you're cutting $75 million from the past year which isn't exactly true.

RENEE FRY: No, $75 million would come from the Cash Reserve. So that's not part of the budget. That's separate. So if the Cash Reserve-- for these triggers to take effect, you have to have over $500 million in the Cash Reserve--

GROENE: But that year, we'll have more revenues--

RENEE FRY: --and then over 3.5 percent projected-- projected--

GROENE: -- more revenues than the previous year even with the tax cuts.

RENEE FRY: Not necessarily. Not necessarily. It's projected revenue growth.

GROENE: Yes.

RENEE FRY: So when you look at--

GROENE: Which I disagree with. I think what-- I mean it shouldn't be.

RENEE FRY: So the--

GROENE: It's a two-year deal where it's actual plus projections through 2.5 percent--

RENEE FRY: So then the-- the only caution there, which would absolutely make more sense than projected growth, but the only caution there is that oftentimes where you see our greatest growth is when we're coming out of a recession. So what happens then is we're coming out of a recession. And then your actual growth is actually positive for a couple of consecutive years, and it becomes difficult to then make up for-- make up for those cuts to services that you make during a recession.

GROENE: This is a cut on expected growth, not--

RENEE FRY: Correct.

GROENE: --on previous year. I mean we're not less than the previous year. Yeah.

RENEE FRY: This is projected, yeah, projected growth for the next year. And that's what happened-- that's what got Oklahoma in trouble was that they had projected positive revenue growth that exceeded the threshold, and that didn't come to fruition. Which-- we see the analysis--

GROENE: To correct you, you were fine until you said "roads." Income taxes don't go to roads, sales tax .25 percent plus gas tax.

RENEE FRY: But if you're cutting the budget, right, and you're having to make decisions about where those cuts come into play, I assume that roads at some point is on the table.

GROENE: They haven't so far because it's a different tax source.

RENEE FRY: Sure. And there are-- although there is money for roads in the General Fund budget.

GROENE: A quarter percent sales tax.

RENEE FRY: Right. But there is the administration that's funded by General Fund as well. So there is money going to the department from the General Fund.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Chairman Linehan. So just so we have on our notes, the-- the-- the expected-- or the recommended level of the cash fund would be closer to what-- you said $500 million is too low. What is the closer?

RENEE FRY: So it's going to be upper $700s to get us to those-- to get us to the 16 percent that LFO recommends. Government Finance Officers Association recommends 16.7 percent. So you're going to be to the point of upper $700, $800 where we want to be when we're going into a recession. So right now, we're at about a little over $300 million with a 2020 recession or downturn around the corner.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions? Thank you.

RENEE FRY: Thank you.

LINEHAN: Other opponents?

JOHN HANSEN: Madam Chairman, members of the committee, good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of the Nebraska Farmers Union, and we would oppose LB615 this year for the same reason we have opposed similar bills in past years. And it's because at the end of the day, when you look at our state tax system, we have three primary sources of revenue. We have income. We have sales. And we have property. And when you go back to all of the studies that we have done down through the years about our state tax system and the characteristics of the different revenue sources, we know that the source of revenue that is the most regressive and that we have the most overuse of are property taxes because they least well reflect the ability to pay. The fact that you own property does not necessarily mean that you have the corresponding earned income in order to be able to pay the additional tax load. So we know that sales taxes are more or less regressive based on how high the rate is and what it is that you tax. So sales taxes can be more or less fair. They could be more or less regressive. And one of the-- the guidelines is to not tax inputs because that is not a good taxing principle. So we try to avoid that. Agriculture has made the case for a very long time that agriculture depends on land, and it is an input. And so when you tax land, you're taxing a business input. You cannot farm without land. That is pretty clear. And that-- we know that of all the different sources of revenue, the-- the characteristics of income is that if you are making money, at the end of the day when you get your tax bill, if you have made money, very few people have to borrow money to pay their income taxes because it is the most accurate indicator of ability to pay. So as you look at the characteristics of our state tax system and our efforts to try to deal with the-- the very clear elephant in the room which is the need to come up with a more fair way to finance K-12 education, I reject the notion that when we finance schools, that it is a subsidy. It is a constitutional obligation, and it is-- it is an incurred cost that comes with that constitutional obligation. How it is that we choose to pay for the cost of education is the question on the table. And so this approach in LB615 puts on autopilot, which we also have problems with, a-- a system which will go down the road and, at the end of the day, reduce the use of the tax which is the most fair based on ability to pay. And it will undermine our state's ability to be able to deal with the costs, the real-- real costs of financing K-12 education. And so as has been the state Chambers of Commerce position down through the years, we'll short the kitty for the total cost of K-12 education, and then we'll let property pick up the slack. And so when the property values for ag went up, then all of a sudden things skyrocketed and blew up. And so the shift from income and sales to property has been incremental because we have not been fully funding the costs of K-12. So this situation, in our view, makes an already unfair and regressive state tax system worse. And as our farmers say as you go across the state, if you're making money, you can afford to pay your income taxes. With that, I would end my testimony and answer any questions if you have any.

LINEHAN: Thank you. Are there any questions from the committee? Seeing none, thank you for being here.

JOHN HANSEN: Thank you very much.

LINEHAN: Other opponents? Anyone wanting to testify in a neutral position?

MICK MINES: Senator Linehan, members of the committee, my name is Mick Mines, M-i-c-k M-i-n-e-s. I'm a registered lobbyist for the Nebraska Corn Growers Association, and I'm here testifying on behalf of the Nebraska Agri-- Agricultural Leaders Working Group comprised of the Nebraska Corn Growers Association, the Nebraska Cattlemen, Nebraska Farm Bureau, Nebraska Pork Producers Association, Nebraska Soybean Association, Nebraska State Dairy Association, and the Nebraska Wheat Growers Association. And we are testifying neutral. We'd like to thank Senator Hilgers for bringing this bill because we understand your-- your position is just beginning. You have many bills to consider. You have a lot of input from different thoughts and ideas, and we believe that this bill should be part of that dialogue. I'd also like to correct-- someone mentioned that Nebraska's-- Nebraska's ag section pays-- we're the 12th highest property tax in the-- in the country. Someone else said we're among the highest. Let that record reflect Nebraska agriculture is the highest taxed in the country. We're number one. And-- and property taxpayers are the seventh highest in the country. So clearly property taxes are critical to what we believe is good public policy. This neutral testimony is based on a proposed amendment that we understand LB615 will be coming to equalize the amounts of income and property tax relief. As drafted, the bill would provide income tax relief at a rate that far outpaces property tax relief. To which end we are opposed. We'd like to thank Senator Hilgers and this committee for seeking the cop-- a compromise. Our organizations are committed to making our tax system simpler and fairer for all, but we would ask that relief be proportionate, both-- both income and property. Along with my testimony, I handed a piece from Jay Rempe. He's the senior economist at the Nebraska Farm Bureau. The article outlines what the Legislature has done to provide income and property tax relief over the last decade. You'll see by the graph, and let me quote Jay. He says, "Whether past Legislatures' intended to or not, they did a remarkable job of equalizing the amounts of income and property tax provided since 2007." In the graph, you'll see that in 2016, the amount of accumulated income tax relief started outpacing property tax relief. And that's the trajectory we're at right now. However, since 2007, total property taxes collected in Nebraska increased 55 percent, 150 percent or more on ag land, while net income taxes collected was 32 percent. The ag leaders are not opposed to income tax relief, however, we believe the overwhelming number of Nebraska individuals and businesses are seeking property taxes-- tax relief. You saw that on campaign trail. We also believe addressing our state's overreliance on property taxes as a funding source for K-12 schools should be a priority. If income tax relief is a priority to this committee, we ask that tax relief be proportionate given property taxes as a whole have increased almost twice as much as income taxes and ag land property taxes have increased five or six times as much as income taxes. We would support property tax to income tax relief on a comparative rate-- on a comparative ratio-- ratio. Also, while we appreciate the Property Tax Relief Fund has provided to property-- has provided relief to property taxpayers over the last decade, we don't believe this is the most sustainable path to providing meaningful relief. I want to thank the committee. Thanks, Senator Hilgers, for introducing the bill, and I'd be happy to answer any questions.

LINEHAN: Thank you, Mr. Mines. Are there questions from the committee? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here, Mr. Mines. But in view of the discrepancy in Nebraskans' tax burdens relative to property taxes versus income and sales taxes, you still support a one-to-one type of tax relief package?

MICK MINES: Yes.

BRIESE: OK.

MICK MINES: Yes. As long as it's proportionate, absolutely. And thank you for introducing your legislation. Again, it's part of that dialogue that you all are going to have to come to some kind of conclusion.

BRIESE: Does a one-to-one package like this help to reduce that discrepancy in the tax burden long term?

MICK MINES: I believe--

BRIESE: Or does it--

MICK MINES: --Yeah. I believe it outweighs it. Yes.

BRIESE: OK. OK. Thank you.

MICK MINES: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: This property tax relief, the way it's written in this bill, is four times--

MICK MINES: Right.

GROENE: --and then it's over. And it's one time. It's not $75 million. We go from 204 plus $75 million, and it stays there and then $75 million. It's $75 million each time. So one year we might get $75-- it's a yo-yo. The next year you might not get any.

MICK MINES: That's right.

GROENE: And the following year, you might get $75, or three years later you might get $75. There's no consistency here.

MICK MINES: And that's why we're testifying neutral, Senator. We believe that this-- this ought to be part of your discussion internally when you just-- when you come out with legislation that addresses both property tax and income tax. And I believe that they-- they do belong together as opposed to separate paths, one-- one property, one income. I think you have to combine all aspects.

GROENE: So is--

MICK MINES: This certainly doesn't solve anything.

GROENE: Well, then we better-- if we want one to one, we better cut income taxes more.

MICK MINES: Yeah.

GROENE: Because I want more than what this gives in property tax relief. I want more.

MICK MINES: Right.

GROENE: But anyway, no. That's a joke. But anyway, no. Yeah. Thank you.

MICK MINES: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. When you say-- obviously, agriculture has had a huge shift of property tax burden onto it over the last ten years.

MICK MINES: Yes.

FRIESEN: And yet you're saying you want one-to-one income and property tax relief? Is that what you just said?

MICK MINES: I did, and not necessarily-- I'm sorry, Senator Briese, I probably misunderstood. I thought if we're talking tax relief, we just want a proportionate reduction in property tax from what we might see in income tax. That was my intention.

FRIESEN: OK. I think I follow you.

MICK MINES: Yeah.

GROENE: One more question.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Your source, again, of number one, ags, number seven, overall, property taxes, that's?

MICK MINES: Farm Bureau.

GROENE: Farm Bureau. But, you don't know-- I'll have to get his source.

MICK MINES: I'll get that to you.

GROENE: Again, thank you.

LINEHAN: Thank you, Senator Groene. Other questions? You served in the Legislature.

MICK MINES: I did.

LINEHAN: What years were you here?

MICK MINES: 2003, 2008.

LINEHAN: OK. The quandary here, I think-- I'm going to ask you this so it's on the record. We put $1 billion into school funding and $224 million in the Property Tax Credit Fund.

MICK MINES: Right.

LINEHAN: And property tax credits are higher than they've ever been. I mean, property taxes--

MICK MINES: Property taxes.

LINEHAN: --are higher than they've ever been. So it's got to be more than just fixing the taxes, right?

MICK MINES: Yeah. Well, the Property Tax Credit Fund isn't working, and you-- you know that. You've heard it. And it's not working.

LINEHAN: Why-- why do you say it's not working?

MICK MINES: Well, it doesn't provide meaningful tax relief even with an additional $51 million added to the-- to that fund, it's not-- it's not meaningful, particularly to our members in the ag-- ag industry. It's just not significant. When-- when our property taxes are at the rate that they are, high as they are, it discourages expansion. And-- and frankly the Property Tax Credit Fund doesn't impact property taxes at our level.

LINEHAN: So would your members agree that along with property tax relief, we need to have some-- control some of the spending because if we've got $1 billion going on skills-- school aid and 224-- or $222 million going out in Property Tax Credit Fund, but yet property-- how-- how do we get-- how-- it doesn't seem to be working, everything that's been tried for the last 30 years--

MICK MINES: Yeah.

LINEHAN: --because we don't have any controls on our local spending, right?

MICK MINES: Yeah. Well I'm not-- that's part of--

LINEHAN: I mean, what-- does your group have an opinion on local controls on spending?

MICK MINES: Well, there was discussion and-- and putting local-- control on local spending was accomplished before I got into the Legislature. That's why they're capped at 50 cents for cities and counties and [INAUDIBLE].

LINEHAN: But if valuations go up, that doesn't matter.

MICK MINES: You see, that's it. And that's what needs to be-- there's a bill that you're considering that would cap that. But 60 percent of property taxes, local property taxes, go to K-12 education. Now, I'm not saying cap K-12 education, but we need to fund it differently. And-- and you've got to find additional revenue. Do-- you know this too. It's going to take revenue from different sources if we're going to lower property taxes. And that's the number one thing that we all hear once we leave this building is property tax relief.

LINEHAN: OK. Any other questions? Thank you very much.

MICK MINES: Thank you.

LINEHAN: Other neutral testimony? Would you like to close, Senator Hilgers?

HILGERS: Thank you, Chair. Thank you, members of the committee. I appreciate the conversation. Just a couple of brief points. First, it is not intended to be either-or. It's not intended to be either income or property. It's not intended to be my bill or another bill. The idea is to put forward some concepts that can maybe be incorporated into other efforts that we're trying-- where we're trying to solve some other issues. And so, you know, when it comes to the one-to-one versus one other ratio, my view is it's not about one-to-one or four-to-one or five-to-one, it's about what do we need to do to keep-- to get to our goals. And when it comes to rural Nebraska, we have a property tax crisis that's squeezing our producers and squeezing our communities. And long term we have an income tax problem, I think in some, a crisis that is going to impact our ability to grow over time and grow the state and meet our needs in the future. And so whatever the ratio is, I don't care. I just want to make sure those two problems get solved. Second, I do want to respond briefly to the cuts discussion. Senator Linehan touched on this. This is not a-- it's not a cut. It's a-- it's based on growth in the short term, but I would say even beyond that. Look-- look, if we don't-- if we don't grow, we're going to have to actually have cuts in 10 years, or 15 years, or 20 years. If we have a aging population or if we have population decline, if we don't have economic growth in this state whether it's in the urban areas or the rural areas, as costs go up on our-- on our government, we are going to have-- we are going to be in a very bad place. We don't have to cut right now, and I don't want us to be forced to where we have to cut in 10 or 20 years. So I think-- I think that is a little bit of a red herring. I would say the autopilot question that Senator Crawford-- I agree with the concern that Senator Groene and Senator Crawford touched on. Look, I think you've got three options in general, as policymakers, not you specifically. But you can either just cut the rate and not put it on autopilot and just say, we're going to cut it, or you could do something that has some forecasting on it of some kind whether it's this mechanism or one that Senator Groene proposed, or you don't cut at all. I would be fine just cutting, but I think if we could make this forecasting mechanism a little bit better so that people have more comfort that we're doing it in a way that doesn't put us in a position where we-- we are in a deficit. I would be-- certainly be comfortable with that. The last thing I-- you know, it comes up a lot, this idea of, well, the benefits don't flow to people who are-- they only flow to people who are wealthy when you cut income tax. Conceptually, I think, as a matter-- as a matter of numbers, I think that's probably true. But I really reject this idea that $57-- or $40-- or $57 isn't important to people making $30,000 a year. I'll tell you, the-- the majority-- I haven't seen the latest statistics, but, you know, people in my district don't make probably much more than $50,000 or $60,000 a year, if they're lucky, as a family. Fifty dollars matters a lot. You know, it matters a lot to them. A lot of them don't have savings-- they don't have savings built up. They're trying to-- they're trying to deal with economic shocks in their own family, $50 here, $100 there, and the car breaks down. The idea that it doesn't matter to people I think is a false one. And I think it's--

I reject it. And I-- I-- I think this will matter for people. And I would say, from a small business owner's perspective, you know, small businesses that make it, you know, yeah, they can afford $50, $100, but the ones that are struggling. I've started-- when I started my law practice for four years basically out of my basement, you know, you know, you-- you struggle every month just making sure. Can I make payroll? Can I make it happen? Can I make it work? Fifty dollars, is that the thing that's going to sink you? Who knows? Maybe in some cases. But the reality is, it's hard. It's hard to be-- it's hard to, you know, be a middle-class family. It's hard to start a business. And having that kind of additional money in your pocket, which you've earned, can go a long way. And I think the states that have been able to kind of show that they can grow, it does matter. So with that, I-- again, I appreciate the conversation. But from my perspective, it's the start of, hopefully, my involvement to some small degree. And I appreciate all the work the Revenue Committee is doing on this bill and others. And I'd be happy to take any last questions.

LINEHAN: Thank you, Senator Hilgers. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So Senator Hilgers, small business, those are the ones that kind of drive the state.

HILGERS: Um-hum.

FRIESEN: Tremendous amount of small businesses across the state that-- they hire one to two, three, ten people. They're the engine that kind of makes this thing work.

HILGERS: Um-hum.

FRIESEN: And I do look at the average. I was a little surprised the average income of a small business was that low. It surprised me a little bit. And so all of the things we've tried to do with property tax cuts gave them a bigger tax cut than that. And yet we've been opposed on every turn. And those tax cuts helped those small businesses too. I mean if you can cut their property tax bill by 30 percent, you're talking of several hundred dollars versus $57. I think too, we need to-- we need to work together. I'm looking forward to the discussion, but I think there is opportunity here to make something happen. But I think tax cuts, we need to measure where we're going and where the biggest benefit, where the biggest bang for the buck might be.

HILGERS: Well, if I might-- or sorry, Senator Friesen.

FRIESEN: Go ahead.

HILGERS: I apologize. There's no doubt if the small business owner owns property, right, if they-- if their home or for their business and they get a property tax cut, it helps. And there's no-- and this is why, at the beginning, I said for me, this isn't either-or. It's also true that farmers and producers are small businesses. And I absolutely agree with Mr. Hansen and his point to say that it is-- it is-- I don't think it's fair or right to have-- to say, for your business, we're not-- I'm not going to look at how much money you can make-- you have made or are going to make. And I'm going to tax you on your biggest input. One of your biggest cost input, if not the biggest, is property taxes. If you put a-- if you put some sort of tax on my business that said, OK, you've got to pay 20 or 30 percent and it doesn't matter how much money you make, that would be-- that would be very, very difficult. So I think those-- those two things are-- are both true which is-- but at least, right now, I don't think we have to be either-or. And I'd like not to be either-or. So I would agree with you, I think is what my point is.

LINEHAN: Thank you, Senator Friesen. Senator Groene. Oh, Senator Crawford.

CRAWFORD: Go ahead.

GROENE: Senator Crawford was first.

CRAWFORD: OK. Thank you. Thank you, Chairwoman Linehan and thank you, Senator Hilgers. I wondered-- I thought it was interesting, one of the testimonies indicated that-- that we have the second-highest GDP growth between 2008 and 2017. So we've been having growth with current tax structures. Although they're problematic in some ways, we've still been having growth. I wonder if you know of any state that's put in this kind of a trigger mechanism that has seen growth as a result. I mean, the states that I know most about are Kansas and Oklahoma. I don't know if there's any other state where you can point to, this is a great example of a state where they put in one of these mechanisms and it actually led to economic growth.

HILGERS: So I would-- I would question the premise of-- not the-- it's a long time period for growth and I think, and I haven't looked at those numbers, but I think that's awfully skewed for the '09, 2000--

the early 2010s based on a lot of the growth we had in our farm economy. I think the least the last year, it's a lot less. So but then I would say, on a trigger mechanism particular, I'm not aware of any state in particular, but I am aware of a number of states that have grown by cutting their tax rates. There are ones, of course, that have no tax rates--

CRAWFORD: Right.

HILGERS: --Florida, Texas and the like. Colorado is a great example of one that incrementally put their-- shifted their income tax rate down, and they've had-- seen tremendous economic growth. Utah would be another one. Tennessee would be another one. So I think-- I think there are states that have shown, maybe not on a trigger per se, but frankly without a trigger and just saying we're just going to cut taxes, have shown growth. And if there are other states, I'd be happy to pull them and find them and give them your way.

LINEHAN: Thank you, Senator Crawford. Senator Groene.

GROENE: The young professional, the professional-- young professional with a DR in front of their name are the ones that are making the higher incomes as small business people. So this affects them. And every doctor, every lawyer is a small businessman if he's working somewhere. But in your profession, do you hear, I mean I don't know where you're hiring from, but some young professional says, I'm not living in Nebraska. The income taxes are too high. Have you ever heard that?

HILGERS: Yeah, absolutely. So most-- half of the team that I've hired in Lincoln are not from Nebraska at all. So I've recruited around the country to bring people here. And what they look at is, and this is anecdotal but-- but it rings true to me, all of the ones I've hired have young families. And what they look at is-- they sort of look at the whole-- they don't look-- they look at income tax but it's not the-- they look at what is my-- what does my economic future look like? So they'll look at what's the cost of living? What are my property taxes? What a-- what are some-- they might look at some of these other taxes, but what can I make? And a lot of the states that were competing in to draw talent, they pay a lot more. The markets are a lot bigger. So we're drawing from states that have lower-- lower tax rates, and they pay more. Now the quality-- the-- the cost of living tends to be higher. And where we won, Senator Groene, on those battles is pitching the quality of life. We've been able to go to people in

Denver and Chicago say, look, you can make more money, but you can also-- you can also have a ten-hour weekly commute-- you can have an hour each way commute where you're not seeing your little kids. But you come to Lincoln, Nebraska, and be five minutes away, and you see your kids a lot more.

GROENE: So when you lose a recruit, it's over taxes.

HILGERS: I think when we get to that-- when we get to that point, Senator Groene, I think we're not losing-- we're winning most of those battles. I think we are not even getting considered in most cases because we can't pay what. And so it's-- it's pay and it's taxes combined.

GROENE: It's net pay--

HILGERS: It's take home pay. Yeah, it's net, yeah.

GROENE: --the average taxes and property taxes.

HILGERS: I wouldn't say it's-- I don't know if it would be the number-- the tax rate itself is number one, but what they're taking home is probably at the top or near the top.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen, did you have a question? I think--did you get one of these? It'll show-- it does-- Senator Crawford's question, it does start in 2008. And then, obviously, when the recession hit, Nebraska was in a better position than most states so I think that's probably reflected.

HILGERS: Thank you for the clarification.

LINEHAN: Yeah.

HILGERS: And I think-- I think the number is probably right. I think it's just a misleading time frame. I do want to clarify, since the question came up. I do have an amendment, and I apologize for not circulating it before, which is intended to clarify that, the property tax credit one-for-one nature of the transfer. So it's not a yo-yo the way that you describe, Senator Groene. So I do have that amendment which I will give to the committee.

LINEHAN: Do you want to speak to it? I mean--

HILGERS: Well, my intent with the-- with-- with the bill was to ensure that the 75 occurred every year. And I think this is meant to just clarify that-- that-- that intent because that's your question. Was that your question, Senator Groene?

GROENE: Seventy-five on top of seventy-five.

HILGERS: Right.

GROENE: Seventy-five, and next year, we don't go 3.5 percent so then all of a sudden you don't get to 75.

HILGERS: You lose the-- Right. Exactly.

LINEHAN: OK. Thank you, Senator Groene. Any other questions for Senator Hilgers? Thank you very much for bringing this.

HILGERS: Thank you very much. Thank you.

LINEHAN: So now we will move to-- Oh, I'm sorry. The letters to the record-- for the record-- to the record? There you are. Proponents, none. Opponents: Jordan Rasmussen, Center for Rural Affairs; Joey Alder, Holland Children's Movement; Hannah Young, Nonprofit Association of the Midlands; Susan Martin, Nebraska State AFL-CIO. Neutral, none. So that closes the hearing on LB615. And we'll now open the hearing on LB661. It's our own Senator Friesen.

FRIESEN: Thank you, Chairman Linehan and members of the Revenue Committee. My name's Curt Friesen, C-u-r-t F-r-i-e-s-e-n. I represent District 34, and here to present LB661. LB661 eliminates the adjustment for inflation to individual income tax brackets for tax years on or after January 1, 2020, but keeps the inflation adjustment for Social Security income reduction thresholds. This removal of adjustments will revert the brackets back to the brackets as stated in 77-2715 for January 1, 2020 and after. LB661 also provides a reduction of the personal exemption amount by 2 percent for each $2,500 or a fraction thereof. That would be $1,250 for married, filing separately, and that's the taxpayer's federal adjusted gross income exceeds applicable amounts listed in the federal law limiting itemized deductions as they existed prior to December 22, 2017. The Department of Revenue must index the applicable amounts under the federal law as they existed prior to December 22, 2017. The amount of revenue from state income tax received as a result of this bill will be credited to the Property Tax Credit Cash Fund, and the department must annually certify the amount to be transferred to the Property Tax Credit Cash Fund. The fiscal note estimates that the General Fund revenues would increase by over $29 million in the fiscal year '19 and '20, and increase by $80 million by fiscal year 2021. When looking at the projections for the fiscal year beyond 2021, you can see how current law really impacts the state's revenue base. According to the Department of Revenue, General Fund revenues are estimated to increase to over $102 million in fiscal year '21-'22, with a transfer to the Property Tax Credit Cash Fund of over $71 million. Fiscal year '22-'23 shows General Fund revenues $126 million with a Property Tax Credit Cash Fund transfer of $92 million. And so, you know, you can look at how the current tax law impacts state revenues. And if we go back to the-- you know, I think everybody calls it the Hadley tax cuts that we had, and you saw the graph that showed property taxes. And, you know, some of those things that we did-- if you-- if you talk back to some senators that were here, they all will say that probably one of the worst things we ever did was infect-- index our rates for inflation because what was happening back then is that every four or five, six years they could implement a fairly large tax cut. And yet, in the between time, they could account for revenue surges or-- or lack of. And it kind of smoothed off our revenue flow. Whereas now, we don't have that cushion anymore. We have cut it down to where our-- our revenue has been pretty well determined all the time, and we don't get that growth that we used to have, that we could kind of manage our revenue with that growth. So that-- that's basically kind of what this bill does is just, you know. And I'd be open to any suggestions on whether or not to just sunset this for three or four years to help build up. We could also put it towards the, you know, the Cash Reserve if we get some property taxes done with other revenues. I mean this might-- this might build up our Cash Reserve to a level to where some of the tax cuts-- maybe we could be triggered sooner. And we could lower the rates, basically, using some of this revenue, and then have a lower effective rate, advertised rate, you might say-- be. Again, it's just an option that puts on the table for-- you know, we've-- I've never been bashful about looking for revenue for property tax relief. And so this is just another tool in the toolbox, I guess, that we can look at that brings in some revenue and may put us down the-- down the path of maybe even cutting down our tax rates down the road. So with that, I'd be glad to answer any questions if I can, but I think there-- hopefully, there's people behind me that can do a lot better explaining maybe than I did of what the bill does.

LINEHAN: Thank you, Senator Friesen. Are there questions from the committee? Oh, Senator Crawford.

CRAWFORD: Thank you. Thank you, Chairwoman Linehan, and thank you, Senator Friesen. So you were talking about you could put a sunset on this. Like how many years does it take for us to undo the indexing entirely?

FRIESEN: Well, my thought is we could either do it permanently or if you didn't want to do it permanently, I mean if we just wanted to do it, for instance, to build up the Cash Reserve, if that was our goal, in four years we could have our Cash Reserve built up, I think, rather quickly. And then we can take it off if we wanted to, and go back to where we were. It depends on, I guess, the focus of what we're using it for and why we're doing it. You know, it could either be permanent or a set number of years. I'm open to any of those suggestions.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee? Senator Groene.

GROENE: The way the bill's written, you're taking some of the money to the Property Tax Credit Fund, right?

FRIESEN: Yes. Yes.

GROENE: Not the Cash Reserves.

FRIESEN: Right. Well, like I said, it could go-- we could go either way. It depends on our purpose. I put it towards the Property Tax Credit Relief Fund, but if it's not needed there, if we'd rather go to the Cash Reserve, it depends on what other bills we get done with and whether the revenue sources are available. But this was a-- I guess, a safe place to park it.

GROENE: Yes. Thank you, Curt.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, you'll be here to close because you'll be here. Proponents?

TIFFANY FRIESEN MILONE: Hi, Senator Linehan, members of the Revenue Committee. My name is Tiffany Friesen Milone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e. I'm the policy director of OpenSky

Policies-- Policy Institute, and I'm here today to testify in support of LB661 as a means of providing property tax relief with little to no negative impact on low- and middle-income families. LB661 raises revenue to reduce property taxes by reducing the benefit of the lower-income tax brackets and the personal exemption credit for high-income earners, namely those making more than $313,008-- $800,000-- $313,800, married finally-- married, filing jointly and $261,500 for single filers. These earners are also the most likely to own property and are, therefore, also the most likely to benefit from a property tax reduction. These income earners were also the biggest beneficiaries of federal tax cuts passed last year through the federal TCJA. One of the provisions of LB1090-- LB1090, Nebraska's response to the federal statute, was the termination of Nebraska's additional tax which had been in place to minimize the benefit of lower-income tax brackets for those with higher incomes. The end of the additional tax resulted in a maximum tax cut of $1,712 for high earners who are married, filing jointly, and $866 for single filers. LB661 would also reinstate the phaseout of the personal exemption credit. The phaseout was eliminated in 2006. And when the TCJA effectively eliminated the personal exemption credit, LB1090 created a new state credit for Nebraskans at a rate of $134 a person to be indexed for inflation annual base-- annually based on the Consumer Price Index. For 2019, it would be $137 a person. As you can see from that chart I've handed out, low- and middle-income families are able to reduce their income tax liability substantially through this credit, but it represents only a small percentage of liability for wealthier families, again, those who are more likely to own property and thus benefit from an increase in the Property Tax Credit Fund. Overall, high-income earners are likely to still come out ahead in the overall state and local tax structure even with LB661 given projections showing about 27 percent of the TCJA will benefit the wealthiest 1 percent on the whole. Unlike other approaches to property tax relief that raise sales taxes on all Nebraskans to provide targeted relief to property owners, we appreciate that this reproach-- approach raises revenue by targeting those with the greatest ability to pay such a tax. With that, I'm happy to answer any questions.

LINEHAN: Thank you. Are there questions from the committee? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here. It looks like there's two components to the bill essentially, indexing-- or removing the indexing for inflation, and the phaseout of the personal exemption credits. Reading the fiscal note, they seem to be lumped together unless I'm missing something here. Do you know how it breaks out?

TIFFANY FRIESEN MILONE: It does. It does seem to be together in the--

BRIESE: Do you have any est-- any estimate as to how those breakout percentagewise?

TIFFANY FRIESEN MILONE: Yeah I think my numbers might be a little bit like-- cumulatively, it might be a little different from the fiscal note. But we estimate that the phaseout of the personal exemption credit would raise about 3-- $3 million. And--

BRIESE: Did you say three?

TIFFANY FRIESEN MILONE: Yes. The additional tax reinstatement would be about 10 or 11, and then take-- doing-- taking the indexing off, we have that raising about $62 million.

BRIESE: OK. Thank you.

LINEHAN: Thank you. Wait. I'm sorry. Did you have another question?

BRIESE: No. Thank you.

LINEHAN: OK. Thank you, Senator Briese. Other questions from the committee? Seeing none, thank you much.

TIFFANY FRIESEN MILONE: Thank you.

LINEHAN: Other proponents? Thank you. Other proponents? Are there opponents? Any opponents? Anyone in neutral position? Would you like to close?

FRIESEN: Actually, this was just a sneaky way of getting somebody from OpenSky to finally testify in favor [INAUDIBLE][LAUGHTER].

LINEHAN: I was wondering what was going on. [INAUDIBLE]

FRIESEN: So again, like I said, it's a tool we can have. It raises some funds. It gives us something to work with down the road if that's what we need. We've-- we've looked at sales tax exemptions. We've looked at all sorts of other types of revenue. And I think there are some other bills dealing with brackets and things like that. So I mean, again, as we-- as we as a committee look forward to building a property tax relief income tax proposal out there, this will just be another-- another piece that might fit in to that puzzle so.

LINEHAN: Thank you. Are there other question for Senator Friesen? Letters for the record: we have proponents, none; opponents, Robert Hallstrom, Nebraska Federation of Independent Business and Nebraska Bankers Association; Kristen Hassebrook, Nebraska Chamber and Omaha Chamber; and, nobody in neutral. Thank you, Senator Friesen. OK. That closes LB661. And we will go to LB664. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Again, my name is Curt Friesen, C-u-r-t F-r-i-e-s-e-n. I represent District 34, and I am here today to present LB664. So last year, I think all of you remember when we did some of the tax changes to our tax codes in relation to the federal changes. I think you'll all remember Senator Smith saying that there can be more changes coming that we don't catch that deals with LB1090. And so this is-- this is one of those things that was found afterwards that we feel, I guess, needed-- needed a correction in order to bring Nebraska into kind of in the-- in the same tone as what we had with the federal tax cuts. And so LB664 is basically introduced to make that correction in state statutes that's the result of passage of those 2018 Federal Tax Cuts and Jobs Act. Effective January 1, 2018, the act actually repealed the Section 199 in the domestic production activities deduction which I will refer to as DPAD. It was replaced with a 20 percent 199A qualified business income deduction for flow-through businesses. Nebraska did not adopt the 20 percent 199A deduction. Prior to the enactment of 2018 federal Tax Cuts and Jobs Act, Internal Revenue Service Code Section 189 provided a DPAD relating to income derived from manufacturing, mining, construction, and certain other production businesses. The deduction equaled 9 percent of the qualified production income subject to certain limitations. The deduction was an above-the-line deduction that was included in the computation of adjusted gross income. The new 199A qualified business income deduction is a below-the-line deduction from adjusted gross income. For Nebraska state income tax purposes, the state calculations of taxable income generally begins with the federal adjusted gross income so that the portion of the Section 199 DPAD related to Nebraska-based production income potentially also provided a state income tax benefit. With its repeal, these production businesses will see their Nebraska state income tax liability increase purely because Nebraska starts its calculations at the federal adjusted gross income and did not adopt the new 20 percent 199A deduction. So LB664 amends the Nebraska tax statutes to merely put the manufacturing and other production businesses in the same relative tax position as they would have been prior to the enactment of the 2018 federal Tax Cuts and Jobs Act. This would correct the situation whereby otherwise certain industries within Nebraska would pay additional state taxes solely because of the federal Tax Reform Act. The Nebraska Legislature passed similar legislation in 2017, and that was LB1090, to correct these types of situations for individual-- individual taxpayers. With that bill, a pledge was made to return in 2018 to make corrections on behalf of business taxpayers. Specifically, the legislation created state DPAD adjustment to adjusted gross income patterned off of prior Section 199 of Internal Revenue Code. The state's tax code then would provide a similar potential 9 percent deduction of qualified production income subject to the same limitations that applied under the Section 199. This deduction, as under prior law, would be limited only to that production income derived in Nebraska for tax purposes. Now, there will be people behind me today that could explain further this tax change, but I'll answer any questions. Thank you.

LINEHAN: OK. Thank you, Senator Friesen. Does the committee have questions for Senator Friesen? Seeing none, proponents?

BRYAN SLONE: Senator Linehan and members of the Revenue Committee, thank you for letting me testify today. My name is Bryan Slone, B-r-y-a-n S-l-o-n-e. I'm the president of the state chamber. I'm testifying today on behalf of the state chamber, also the Omaha Chamber, also the-- the NFIB Nebraska, and the Nebraska Bankers Association. Senator Friesen, thank you for-- for bringing this to the committee's attention and-- and for the very cogent tax discussion about adjusted gross income and all the technicalities of taxes. It looks like a technical bill but the-- the simplicity of what's going on is pretty simple. In 2004, the federal tax code included this DPAD deduction, a 9 percent deduction for manufacturers, construction companies, people who made stuff. And it was really in response to foreign subsidies to manufacturers and construction companies and that sort of thing, to keep the United States competitive. This 9 percent deduction continued until last year's federal tax bill. And when it was eliminated, the-- the offset for federal purposes was deemed to be the lower corporate rate, and also the lower pass-through rate because of the potential 20 percent deduction. And in fact, they use the same code section. It went from 199. The new federal section is now 199A. When you translate that to the Nebraska code that we did not have, we did not reduce our corporate rate. We did not provide a 20 percent reduction. And so the bottom line was in 2018, although many of them haven't filed their tax returns yet, Nebraska's manufacturers and construction companies are going to find that they lost a 9 percent deduction that they previously had in Nebraska. And actually they're going to pay more taxes in 2018 so Nebraska got a windfall from these companies. It's not massive in terms of its effect because when you take a 9 percent deduction, let's take-- take a flow-through times a 6.84 percent state rate, the value of that is about .5 percent on your tax rate. But it's a .5 percent on your tax rate that, particularly for our larger construction and our larger engineering and our larger manufacturing entities, is significant. There is a fiscal note attached to this largely because the windfall got credited to Nebraska last year. It was just an oversight. It wasn't included in last year's bill. Last year bills-- last year's bill was focused on individuals with Senator Smith saying that we would get to the business side. This is just one of-- one of those items on the business side. In terms of manufacturers and their importance to our economy, clearly agriculture is the biggest part of our economy. But manufacturing's our close second. Manufacturing-- direct input from manufacturing is about 12 percent of the Nebraska economy. It hires about 10 percent of our employees in the state. They're one of our very largest exporters. And as we look to economic growth, both in the urban and rural counties, manufacturing tends to be a big part of that-- that common goal to diversify and broaden the base of our economy as we look forward. So this is-- this is simply a conformity bill to put them on the same level that they were before the federal tax act. This should be considered along with any other business issues that come up in terms of technical corrections from-- from last year's federal tax act. And again, thank you, Senator Friesen, for-- for bringing this to the committee's attention, and I'd be happy to answer any questions.

LINEHAN: Thank you, Mr. Slone. And there-- are there other questions from the committee? Seeing none, thank you very much.

BRYAN SLONE: Thank you.

LINEHAN: Are there proponents? Seeing no other proponents, any opponents?

RENEE FRY: Hello again, Senator Linehan, members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e- F-r-y. I'm the executive director of OpenSky Policy Institute. As you heard, in 2004, Congress enacted the domestic production deduction, and it automatically became a state tax deduction without the Nebraska Legislature taking any action as far as we can tell. However, states were never required to adopt this deduction. In fact, only 19 states conformed to the federal domestic production deduction, and I am not aware of any other states that are trying to preserve their own deduction in the absence of the federal one. Initially, the cost of the deduction was relatively modest to the state because the deduction was limited to 3 percent of qualifying income. The percentage rate rose to 6 percent in 20-- 2007 and 9 percent in 2010. So in 2004, businesses taking this deduction got a state tax cut without the Legislature taking any action. There was no discussion about whether the revenue lost to the state was justifiable on some metric. In 2017, Congress determined that the deduction was no longer necessary given the other changes made by the TCJA. Now, you have the opportunity to determine whether there is a policy reason for Nebraska to provide a domestic production deduction. Congress's rationale for adopting the Section 199A 20 percent pass-through break in the TCJA was that C corporations were getting a huge rate cut and the pass-throughs needed this break to preserve roughly comparable tax rates. It had nothing to do with the partial replacement for the domestic production deduction going away. The problem with that argument is that Section 199 and 199A just aren't tied in this way. The repeal of Section 199 was a base-broadening provision and a part of other structural changes to the tax code that made Congress think it was no longer necessary to directly incentivize domestic production with the deduction. With a lower corporate rate and a different international tax rules, Congress felt it didn't need the tax incentive that Section 199 provided. Now, of course, some people who lost the 199 benefit also gained the 199A benefit. But there are also many who didn't. There are also people who never got the 199 benefit who now get the 199A benefit. Those two provisions just aren't tied together in a way that would seem to justify retaining the deduction if for no other reason. Ultimately, then, the question seems to be whether Nebraska wants to provide a tax incentive for the type of activities that benefit from this provision. Congress decided that it was no longer necessary post-TCJA. Should Nebraska take a different approach? Here's why we don't believe we should have our own state domestic production deduction. First, it would be a terrible burden on the Nebraska Department of Revenue to audit this provision in the absence of the federal one, since the IRS will no longer be monitoring for this provision. The IRS has identified the domestic production deduction as an issue with high compliance risk and therefore would be an invitation to abuse. Also the deduction is unlikely to protect or create jobs within the state because multi-state corporations can claim the deduction for out-of-state production activity just as they can for in-state activity. I know that this committee is concerned about helping small businesses, however, the deduction is heavily slanted toward large corporations. In 2009, 93 percent of the deduction under the corporate income tax was claimed by the .5 percent of firms with over $100 million apiece in assets. Many of these large firms are multi-state corporations and may invest little or nothing in Nebraska, but they can claim the domestic production deduction for profits from all qualifying domestic activities meaning activities that occur anywhere in the United States. As a result, a multi-state firm can claim the deduction in Nebraska for production activities in any state, not just those production activities taking place in Nebraska. So in essence, with this deduction, we are subsidizing out-of-state activity. As you consider LB664, I would urge you to consider whether Nebraska should have a domestic production deduction on its own merits, as there was never a conscious determination that we should have such a deduction in the first place. Furthermore, having a state deduction would be rather unique, would be difficult to audit, and would reduce state taxes for production outside of our borders. For these reasons, we oppose LB664. Thanks for your time, and I would be happy to answer questions.

LINEHAN: Any questions from the committee? Seeing none, thank you.

RENEE FRY: Thank you.

LINEHAN: Other opponents? Anyone wanting to testify in the neutral position? Senator Friesen, would you like to close? We do have record. I have letters for the record I'll read first: proponents, Steve Nelson, Nebraska Farm Bureau; Mike-- Mike Drinnin, Nebraska Cattlemen; Dan Nerud, Nebraska Corn Growers Association; Mike Guenther, Nebraska State Dairy Association; Robert Johnston, Nebraska Soybean Association; Darin Uhlir, Nebraska Pork Producers Association; Mark Spurgin, Nebraska Wheat Growers Association; Sarah Curry, Platte Institute; Rocky Weber, Nebraska Cooperative Council; opponents, none; neutral, none. Does anybody else have questions for? Are you? You close and then we'll ask you questions. I'm sorry.

FRIESEN: I mean basically I go back to the fact that is, it is a fix for what happened on the federal level. It brings the same tax credits, and you can look after whether or not we need to do that today or not. That's arguable, but I think it does correct something we missed that we would have done if we would have known it was happening in the tax code a year ago when we fixed it. So we can-- we can look at this again. You know, I'm-- on one hand, I'm trying to raise money. On the other hand, I give it away.

LINEHAN: Listening to the chamber, I would have thought, why are there so many ag guys supporting this?

FRIESEN: Well, it probably had to do with exports of goods like distillers, grains, and corn-- food products.

LINEHAN: So it's-- that's not the big, rich, fat cats.

FRIESEN: It's a export production tax credit. So I'd have to look to see which companies take advantage of this. But I think it is based on-- it's called a domestic production. So I think it's-- it's meant to offset some unfair tax advantages in other countries, and we export a lot of products on the national level. So I have a feeling some of those companies export food products.

LINEHAN: I see. OK. So that's why the ag guys. Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. Senator Friesen, were you surprised about the size of the fiscal note?

FRIESEN: Not really. No. I mean I had no idea-- I was not familiar with this at all because it's not something I, as a-- as a farmer, use or am familiar with. And so when I-- when I saw it, I, no, I was not surprised, but I had no idea.

McCOLLISTER: So when you looked at the tax code changes that occurred with the federal tax code last year, was this-- this amount or this factor involved in your discussions?

FRIESEN: Well, we didn't-- we didn't realize even it happened until they started catching it now, or I think they would have tried to fix it last year. And there's-- there's another fix coming that I'm going to be bringing up, 1031 exchange. So it probably won't have a fiscal note because of the way we did things. But-- but again, this is since we are such a-- we export a lot of product out of Nebraska, different things. We're the number one manufacturer of pivots. Maybe they're a company that takes advantage of it. Without knowing the companies and looking at that, I don't know who all qualifies for this. But we export a lot of things whether it's food products or manufacturing. And so I think it was, and as they explained, it was to offset some unfair trade practices. And whether or not they're still in play today, I don't know. Obviously we still have the tariff thing going on, and I think international trade right now is kind of a mess.

McCOLLISTER: Given some of the hearings we've had here lately, I'm surprised if they were affected now, why they didn't appear.

FRIESEN: We took care of it.

McCOLLISTER: OK. All right. OK. Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Seeing none, thank you very much. And that brings the hearing on LB664 [SIC] to a close. OK. So Senator Friesen, can you take over?

FRIESEN: OK. We will now open the hearing on AM268. Senator Linehan.

LINEHAN: Good afternoon. My name is Lou Ann Linehan, L-o-u capital A-n-n capital L-i-n-e-h-a-n. I'm the senator from District 39, western Douglas County. Today, I'm-- well, I should start back in February. I introduced LB288, and I said it was intended to be a placeholder bill for income tax purposes in case we need it. Well, we need it. I don't know if any of you heard from your constituents. I've heard from probably half a dozen. AM268 introduces a new subject matter, so we need to have another hearing which we're doing right now. The amendment addresses an issue created by the federal Tax Cut and Jobs Act, TCJA, of 2017. Most of the big problems created by the TCJA were addressed last year, as you all know, in ten-- in LB1090. But there was one issue of which I'm not sure we, meaning all of us-- at least, I don't think-- I don't think any of us actually realize this, in the body and those in the Revenue Committee at the time, really understood the practical effects. So Nebraska allows taxpayers to itemize their deductions on the federal return to claim the same item-- Nebraska, excuse me-- Nebraska-- I'm just going to try to instead of reading this. So we all are aware that now, for federal tax purposes, you can't deduct more than $10,000 of state income taxes or property taxes. Your state taxes can't be above $10,000. Well, nor can your state. So we have people filing their state income taxes, and you take a couple in Elkhorn. Let's say their property taxes are $8,000. They paid in $4,000 in other taxes whether it be car taxes or their income taxes. They can only deduct $10,000. So we have a situation where we have people paying taxes on their taxes. So now I will read what you wrote and see if it's clear. Nebraska allows a taxpayer who itemizes their deductions on the federal return to claim the same itemized deductions on their Nebraska return. But under the TCJA, the state and local taxes, which were previously fully deductible, are now capped at the total amount of $10,000. For many Nebraska taxpayers, this means they cannot deduct the full amount of their property taxes paid on either their federal or their Nebraska return. The amendment would allow these taxpayers by-- which, by the estimate of the Department of Revenue, is between 35,000 and 40,000 returns. So quite a few Nebraskans that's filers. So probably two-thirds of those are married. So you're talking about $60,000 Nebraskans to fully deduct the property taxes paid on next year's Nebraska return. In addition, next year, taxpayers could deduct the difference between their property taxes paid and the capped amount on this year's return. We did have discussions to see if we could fix this somehow administratively. This year, it's too late because the forms are already out, and some people are already doing their taxes. But hopefully if we could get this amendment worked into all the packages that we're working on, we'd fix it for next year and make up for next-- this year and next year's taxes. So I don't know if any of you have gotten e-mails, but I'm getting them. And I assume all of you will be hearing from your constituents because they're shocked, right? They know, they've heard about the federal limitation, but the first time they're going to hear about the state limitation is when their accountant explains it to them. So with that, I'd take any questions.

FRIESEN: Thank you, Senator Linehan. Any questions from the committee? Seeing none, anyone-- any proponents? Are there any opponents? Seeing none, are there anyone who wish to testify in a neutral capacity? Seeing none, Senator Linehan, would you like to come back and close?

LINEHAN: I'm just so excited. We're done.

FRIESEN: I do have a question for you--

LINEHAN: OK.

FRIESEN: --or kind of a-- kind of a comment. I mean you asked if-- if we'd been hearing from constituents. And I think, you know, from-- from the ag community, our property taxes are fully deductible.

LINEHAN: Business expense.

FRIESEN: Business expense. On ag land the taxes--

LINEHAN: The same with commercial.

FRIESEN: --so the-- yeah, commercial. And so I think right now, and if you-- if you look at rural Nebraska's, our income levels, when you add together the state and local taxes right now, is that there's no income tax due, so to speak. We get by pretty cheap out there. And I think that's why we haven't heard yet.

LINEHAN: Right. I'll bet, the senator sitting to your right-- right, if he hasn't heard, is going to hear because this is going to be a problem in Bennington and Elkhorn and Millard where we have-- because it's not-- there's quite a few people-- you have two-income-- two-income families. They live in a $350,000 to $600,000 house. This is going to hit them.

FRIESEN: I do think it's--

LINEHAN: So you just go west of 156th in Omaha and now it will depend-- and then you have some people in Lincoln too. And then you're going to have people-- you're going to have people across the state. But it will be more where they don't get to deduct their-- their property taxes, or not a business deduction.

FRIESEN: Right. Any questions from the committee? Seeing none, thank you. With that, we'll close the hearing on AM268, and we will close the hearings for the day.