FRIESEN: OK. Everybody, please take their seats. Everyone, please be quiet. Welcome to the Revenue Committee hearing. My name's Curt Friesen, from District 34, from Henderson. I represent Dist--- Hamilton, Merrick, Nance, and part of Hall County. The committee will take up bills in the order that are posted. Our hearing today is public part of the legislative process. This is your opportunity to express your position on proposed legislation before us today. If you're unable to attend the public hearing, would like to position your state-- statement for the record, you must submit your written testimony by 5:00 p.m. the day prior to the hearing. Letters received after the cutoff date will not be read into the record. No exceptions. To better facilitate today's proceedings, I ask you abide by the following procedures. Please turn off all your cell phones and other electronic devices. Move to the chairs up front of the room when you're ready to testify and that way you're there when the current testifier leaves the table. The order of testimonies will be the introducer will start and then we'll have proponents, opponents, neutral testimony, and then closing remarks. If you will be testifying, please complete the green form and hand to the committee clerk when you come up to testify. If you have written materials that you'd like distributed to the committee, please hand them to the page to distribute. We need 11 copies for all committee members and staff, and if you need additional copies, please ask the page to make copies for you now. When you begin to testify, please state and spell your name for the record. Please be concise. It is my request that you limit your testimony to five minutes. We will use a green light for four minutes, an amber light for one minute, and then a red light means that you need to wrap up your testimony. I will stick with the five minutes. If your remarks were reflected in previous testimony and if you'd like your position to be known but do not wish to testify, please sign the white form at the back of the room and you will be included in the official record. Please speak directly into the microphone, so our transcribers are able to hear your testimony clearly. To my left is legal counsel, Mary Jane Egr Edson. To my further left is Kay Bergquist, reacher-- research analyst. And Grant Latimer is the clerk. And we have--

MARY JANE EGR EDSON: Noa.

NOA SNYDER: Noa.

FRIESEN: Noa as our page today and there might be somebody else joining us. But Senator Linehan is introducing a bill in a different committee today, so I will be starting the process here. And I think that's all. And with that, we'll go with introductions, starting to my right.

KOLTERMAN: Senator Mark Kolterman, York, Seward, and Polk Counties.

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

McCOLLISTER: John McCollister, District 20, central Omaha.

BRIESE: Tom Briese, District 41.

FRIESEN: OK. Other senators, Senator Groene and Senator Crawford may be joining us. They may have other places to be, too, today, so people will be coming and going. With that, we'll open the hearing on LB892. Senator Hilgers, welcome.

HILGERS: Thank you, Vice-- Vice Chair Friesen 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, which is northwest Lincoln and Lancaster County and pleased to be opening on LB892. I'll be fairly brief, I think, with my remarks. I just want to make a couple of points. LB892 is a very simple change. It is-- it is to expand the brackets for those-- for the brackets for the highest rates here in Nebraska. As you know, the highest income tax rate in Nebraska is 6.84 percent. And if you're an individual, it's hits about $29,000 and if you're a family, it hits around $50,000, which is only two times the federal poverty rate. I want to make a-- so the change is very simple. I make a couple of points. One is by bringing an income tax bill, and I understand property taxes, there are a whole lot of tax issues and burdens that we're trying to focus on in the Legislature. By bringing this bill, I'm not saying one is more important than the other, but I think it's an option and a tool that this committee ought to consider. It's also not a radical transformation of our current system, or it's-- it's meant to be a change within our current system. I think there's probably a lot of merit to rethinking how we do a lot of our taxation and doing some tax reform. So it is not necessarily an endorsement of our current system, but it is an effort to make a change within our current system. There are lots of arguments I think you can make for why a lower tax rate for a larger number of people would be important. I really just want to focus on one and it touches on the article that I'm passing around, which is called, The Great Affordability Crisis that recently came out in The Atlantic. And it makes a point that I think many of your constituents, certainly many of my constituents feel, which is that life gets more expensive by the day and the rate of increase in that expense seems to be getting faster and faster and faster, from health care costs to living expenses, to anything that you might buy from a consumer perspective. Everything seems to be going up. And although we're in a good-- we live right now in good, relatively good economic times for certain sectors of the economy, in many cases, wages are not keeping up. And I think that in-- that we generally to have-- this is generally true. But we as senators, as legislators, we have a moral responsibility to do what we can to reduce as much as we can the tax burden that we impose on the individual-- the individuals and families who are paying the taxes here in Nebraska. So that is primarily why I brought the bill. I think it's important for us to highlight that and to let people in Nebraska know that we're hearing them when it comes to the burdens that they're facing. We're doing what we can to reduce those burdens. I also think it's important, and I reject sort of the zero-sum formulation of tax and spend policy, which is if you cut my taxes, then you've got to raise someone else's taxes; or if you cut my taxes, that mean our services all have to fall apart. I think there are-- there are governments and businesses around and families around the country who do more with less and do with thoughtful, long-range planning and prioritizing spending and innovative approaches can do more with less, just like companies do all around the country. And we can do the same thing here in Nebraska. So I-- I-- that's why I brought the bill. I hope the committee considers it. I understand there's a very large fiscal note. So I know it's in-- in this-- this bi-- this session it's going to be difficult to get through. But I wanted to make sure that the tool was available to the committee, that the committee had the opportunity to consider it, and let Nebraskans know that we're hearing them. With that, I'm happy to answer any questions that the committee might have.

FRIESEN: Thank you, Senator Hilgers. Any questions from the committee? Do you, in the longer term picture, think we need to look at our whole tax policy as a whole?

HILGERS: Yeah, absolutely. I think-- I think we have a tax structure that's been built on a 1940s, '50s economy. And I think we need to update it and we need to have a comprehensive approach. It's not working for a lot of Nebraskans.

FRIESEN: Do you think we need to do it one giant ball in one bill down the road or should we be piecing it together?

HILGERS: That's a good question. It depends on the extent that we want to change it. Some-- some big changes-- big changes may take, either for political reasons or just implementation reasons, may take a couple of years. But in some cases, maybe it's just good to get it done all in year one.

FRIESEN: OK. Thank you, Senator Hilgers. Seeing no other questions.

HILGERS: I'll stick around for closing. Thank you.

FRIESEN: OK. Proponents.

JOE MURRAY: Revenue Committee, dear Revenue Committee members, my name is Joe Murray. That's spelled J-o-e M-u-r-r-a-y. I'll be brief today. If we are going to continue to have a progressive income tax, then adjustments contained in LB892 to keep it progressive and fair to all taxpayers are needed. The current brackets haven't been changed since 2013. Having the highest rate kick in at $29,000 for an individual means almost everyone pays at least part of their taxes at the highest rate. That is certainly not the intent of a progressive tax and is an extra burden on middle-class tax voters when the highest rates take effect below the current national median income for individuals and families. It also hurts small business and farmers because they usually file as individuals. The new income tax levels and provisions to tie future adjustments to the rate of inflation will limit bracket creep, limit the need to keep having to pass new legislation like this to adjust for changing conditions. I believe property tax reduction should be the committee and Legislature's top priority. But as the old saying goes, I think we are capable of chewing gum and walking at the same time. Even a slight reduction of income taxes will help individuals and the economy of the state. If nothing else, it will slightly offset a little of the excessive burden of high property taxes. LB892 is good legislation. It deserves passing to the floor and passed into law. That's all I have. Any questions or anything?

FRIESEN: Thank you, Mr. Murray. Any questions from the committee? Seeing none, thank you for your testimony.

JOE MURRAY: Thank you.

FRIESEN: Other proponents? Seeing none, opponents who wish to testify. Welcome.

TIFFANY FRIESEN MILONE: Hi. Good afternoon, Vice Chair Friesen, members of the Revenue Committee. My name is Tiffany Friesen Milone, Ti-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e, and I'm the policy director of OpenSky Policy Institute. We are testifying today in opposition to LB892, a bill that will reduce state income tax revenue in order to provide a modest income tax cut at a time when Nebraskans are clamoring for property tax and not income tax relief. Because the bill would expand the top bracket significantly, its benefits would be largely conferred on those Nebraskans with the highest incomes. Not accounting for standard deduction, a single taxpayer would need to be making $50,000 in taxable income before paying any taxes at the top rate, while those married filing jointly would need to be making $100,000. Looking at LB892's effects on OpenSky's real taxpayers in Nebraska, it's also clear the bill provides only modest reductions in taxpayers' effective rates. For example, our analysis showed reductions ranging from .02 percent for lowest income taxpayer; .24 percent for one of our middle income taxpayers. If you'd like me to outline the specific reductions for others, I can do that as well. Finally, there's no evidence that cutting income taxes will grow the state's economy. Large cuts in Kansas and Oklahoma created serious budget problems with no offsetting economic benefits. Even without cutting taxes, Nebraska has had strong GDP growth over time, ranking second nationally from 2008 to 2017, while also maintaining low unemployment and a high labor force participation rate. While we agree providing Nebraskans with tax relief is a laudable goal, we oppose this plan due to its distributional effects and its impact on state revenues. Thanks for your time and I'm happy to answer any questions.

FRIESEN: Thank you, Ms. Milone. Any questions from the committee? Must be no-question Wednesday. Thank you for your testimony. Any other opponents wish to testify? Seeing none, anyone wish to testify in a neutral capacity? Seeing none, do you wish to close?

HILGERS: Very briefly. Thank you for your time this afternoon. I brought-- I wanted to focus primarily on just the impact on families. I think when everything is getting more expensive, I do think we have a moral responsibility to try to reduce taxes on taxpayers, help families. I think this will do it. The idea that-- the two criticisms I heard, at least were, one, that this might have a modest impact for those families. But I'll tell you a lot of families, you know, an extra $20, $30, $40 or $100 a year even does make an impact. And I know oftentimes we talk about tax increases. We talk about just the modest increase it'll have on those taxpayers as a justification for doing it. Well, I think-- I don't think that should be-- when it works the other way, I don't think that should be an objection for us to be able to reduce taxes on those folks. I will say that I also know firsthand in recruiting our tax burden is a deterrent. Our wages and tax burden is a deterrent in many industries to recruit when we're recruiting against other states. A lot of people, especially younger employees, they have student loan debt and they're looking to buy a house, start a family and tax burden is one of the things that they look at when they're deciding where to live. I think it's an important one. I think it sends a good signal that we'd like to have those folks in Nebraska. So with that, I'm happy to take any questions.

FRIESEN: Thank you, Senator Hilgers. Any questions from the committee? Senator Briese.

BRIESE: Thank you, Vice Chair Friesen. Thank you for bringing this, Senator Hilgers. And just one question. How did we arrive at those new brackets? Any-- any method to it ,or--?

HILGERS: There were-- no, not really, Senator Briese. They were nice round numbers.

BRIESE: OK. OK, very good. Thank you.

FRIESEN: Thank you, Senator Briese. So when you say-- when you say you're recruiting, you say our tax burden, is there any one specific? I mean they're coming from all over the country so it's not one specific tax like property taxes or income taxes? They just--

HILGERS: Yeah, I wouldn't say that any one. It's-- I think it's just an affordability issue. I think here in Nebraska I think to some degree in some industries our wages are low so that's part of it. I think when you compare us to some states like California, I think you could pick-- pick the tax or pick the service and we're cheaper. But we're usually recruiting with the Kansases and Iowas and some of our more regional states. And so I wouldn't say any one person has ever said to me, at least, if your income tax was a little lower, I would be here. But I think it plays-- plays a larger role.

FRIESEN: We've heard complaints about licensing automobiles. I mean, it goes down to wheel taxes. Everybody's got their-- it adds up after a while.

HILGERS: Uh-huh.

FRIESEN: And I get that. Seeing no other questions? Senator Groene.

GROENE: Do you remember when was the last time we cut income taxes? There's been a couple of times when we had surpluses.

HILGERS: When we-- when we cut them? I know we adjusted the rates for inflation a few years back I think when Governor Heineman was here. I don't know the last cut that we had.

GROENE: Would you be able to look and see what that fiscal note was?

HILGERS: I don't know it offhand, Senator Groene.

GROENE: All right. Thank you.

FRIESEN: Thank you, Senator Groene. There are-- we have letters from David Brown, Greater Omaha Chamber; Ron Sedlacek, Nebraska Chamber of Commerce and Industry; Dustin Antonello, LIBA; Laura Ebke, Platte Institute and no opponents, no neutral.

HILGERS: Thank you.

FRIESEN: That will close the hearing on LB892, and we'll open the hearing on LR300CA. Senator Erdman.

ERDMAN: Thank you, Senator Friesen, and committee members. I appreciate the opportunity today to open on LR300CA. My name is Steve Erdman. I represent District 47, which is mostly rural and frontier in nature and I heard that yesterday, so I thought I'd use that. Frontier in nature means the cattle outnumber the people. So today I bring to you the solution for Senator Hilgers' comment about fixing the tax system. It also brings to mind the question-- the answer to the question that Senator Friesen had, do you think there's some time we should look at restructuring our whole tax system? This is the answer. And so the question I would ask today, and I know I'm not supposed to ask committee members questions, but I'm going to ask a rhetorical question that I'd like you to think about. And the question is this: Would you like to live in a state that has no property tax, has no income tax, corporate or individual, or inheritance tax? If the answer is yes to that question, then here's my challenge. Help me-- help me introduce this and develop the method to get it funded to do it and put it in place. That is the question. And so let me start by explaining what this is and how it will work and function. And I would assume you'll have several questions. I want to bring your attention to that flyer that I-- that I passed out. This flyer, I have to give credit where credit is due. Senator McDonnell's staff put this flyer together for me yesterday and I appreciate that. It's a-- it's a nut-- thumbs-- thumbnail explanation of what it is. So let me start with this. I have a few prepared remarks and then we'll get into explaining what exactly this is going to do. And then I'll try to answer the questions that you may have. I will admit upfront, I don't have all the answers, but I have some answers to the questions I've already been asked. And so we will try to work through those and make sure that we can understand what it is this concept is all about. The Nebraska FAIRtax plan is a comprehensive proposal that replaces all state income, property, and sales, as well as inheritance tax with-- on an integral approach. The plan includes progressive state retail consumption tax and a prebate to ensure that low-income Nebraskans do not pay the state consumption tax. And I will explain that later. And it's a dollar-for-dollar state revenue replacement. That's very important to understand. We're going to collect every dollar that we collect now in property tax, sales tax, and income tax as we did before. So the nonpartisan contuce-- constitutional amendment will abolish all Nebraska state income taxes, sales tax, and property tax and inheritance tax and replace that with a simple consumption tax where there will be no hidden taxes. The consumption tax will be collected by Nebraska businesses on all services, new goods at the time of sale, and the state will collect the revenue and send it in-- the business will collect the revenue and send it in. The FAIRtax plan will allow Nebraskans to choose where they spend their money and what taxes that they pay. It does not raise any more money or any less revenue than what the state is currently receiving. It is designated to be revenue neutral. The Nebraska FAIRtax plan is fair, it's efficient, it's transparent, and it's an intelligent solution to the state's current tax problems. The Nebraska FAIRtax plan would not remove the state's excise tax on fuel, and it would allow counties, cities, and towns to impose their own consumption tax with a vote of the people. I handed you a copy of the amendment and what I'd like to bring to your attention on the amendment we had the first bill that you've seen it did not include leaving the excise tax in place on gas. And I also found that we had left a chapter in the Constitution that talked about TIF financing, and so we struck that in the amendment. So that's the purpose for the amendment. It's allowing those local units of government to place a consumption tax in place with a vote of the people. So that's what the amendment is about. And so as we move through the explanation of what it is, I would call your attention to the-- to the flyer that I gave you. And a wise person once told me that until you can figure out what the problem is and define it thoroughly, it's hard to solve it. And so the middle part of your brochure that I gave you, at the top it talks about Nebraska income tax. And I highlighted a few things I'd like to bring to your attention. And I think Senator Hilgers talked about that just a moment ago about people leaving the state or not wanting to stay here because their taxes are too high. And so the Nebraska income tax is unfair and it's very complicated. All right? It impedes competitiveness. It reduces savings and investments. It retards economic growth. It hides the true cost of government and hidden taxes; requires rigorous tax planning. There's a lot of loopholes in our tax system and people are taking advantage of those. It is not a fair tax. Then the property tax. In my opinion, this tax is the most aggressive tax that anyone could possibly have to pay. And I will explain what I'm talking about. It's impossible to fully own your land or your house. If you think you own your property, stop paying your property tax for three years, you'll see who owns your property. And you see the other reason we have that we're having such a difficult time is government is a monopoly. And if you don't like this monopoly, you don't get another one. And because it is a monopoly, it's not efficient, it's not effective, and it never will be accountable. Why is that? It's because of functions on taxes and those taxes are involuntarily paid by you and I. And if you don't pay those taxes, what happens? They put you in jail or they take your property. There's not a more regressive tax than property tax. You never own your property. The first year I was here, was on the Education Committee. A gentleman come in and said, I live at so-and-so Dodge City-- Omaha. I rent from Douglas County. And I thought, how can this guy rent from Douglas County? And then he said this: When I bought my house 30 years ago, my mortgage, insurance, and taxes were less than my taxes are today. And so I'll never have my house paid for because I keep renting from the county. This solves it. All right? Homestead exemption. That's available to some people, not all. All right? It discourages home improvement. You don't believe me, do something to your house and see what happens. I have a house in Bridgeport, Nebraska. I put central air in that house two years ago. My value went up 5,000 bucks. So you never want to make improvements, if you don't want to pay more taxes. It discourage home improvement. It reduces savings and investment. It retards economic development. It forces bankruptcies and foreclosures. And if you don't believe me, just come to my area. The way the agricultural sector is today, it forces bankruptcy and foreclosures. And it's a tax that never ends. Never are you ever out of paying property tax. So what does a consumption tax do, the benefits of a consumption tax? It's fair and simple. There's no hidden tax. It honors private property rights. There's no exceptions. We're not excepting anything except the gas tax. Everybody else has got to pay, no exceptions. Because what has happened to us, we have given exceptions away in sales tax that currently we collect sales tax on about $43 billion. If we collected sales tax on everything that should be sales tax, we'd have $89 billion. And so there's no exceptions. It enhances economic growth. Here's a key. It keeps the low-income people harmless. All right? I'll explain how that works. It increases competitiveness, all right, encourages productivity, home improvement. It promotes savings and investments. I presented this to a banker last week and the first comment out of his mouth after he had heard what I said, he said, you know what this does? This will increase us savings. This will increase people's savings. This is a good thing. It promotes savings and investment, multiplies economic development, reduces administrative costs-- and we'll talk about that when I close-- shrinks the state budget, upholds the constitutional rights. It's upfront and transparent. It's family-friendly. It improves social upward mobility. Believe that. That's the way to go, huh? Requires minimal tax planning. And it's a single rate. And there's no ever-- no need to ever protest. If any of you have ever been involved in a protest of your valuation, you understand how that works. Senator McCollister and I were working on a bill with TERC. And so it's a very complicated thing, which we do now. So that's the brochure. On the back it gives you some more information. But let me tell you how it's gonna work. There is no list of exemptions. There's a simple rule. The rule is all new goods and all services will be taxed on the first consumption. Let me explain the difference between a consumption tax and a sales tax. A sales tax happens every time something is sold. A consumption tax is applied to the first purchaser. After that, there's no more tax on that item. It doesn't make any sense at all to me that you buy something new, you sell it to me, and then I have to pay another tax. It's a regressive tax. So a consumption tax is bide-- is applied to services and goods, new goods. All right? So in the information that I handed you, the example is if a business buys-- is a tool maker and they buy a lathe for their tool, no tax. If a farmer buys a plow or tractor for his farm, no tax. All business to business transactions, there's no tax. It's a consumption tax. It's who-- whoever consumes it will pay the tax. All right? And so we move through that. That's what's going to happen in that regard. Now let's talk about the prebate. And on the back, it says zero income, zero taxes for-- in the middle it says zero taxes for low-income families. Right? Here's how it's gonna work. We currently collect $9.5 billion in all the taxes that I mentioned we're going to eliminate, $9.5 billion annually. That number comes from a study done by the Beacon Hill Institute that was at-- they asked him to do that using the sources of revenue from the state of Nebraska Revenue Department. So those are numbers that they got from the Revenue Department's website. Their conclusion is that there is enough base in taxing-- consumption tax on all services and new goods to equal $107 billion worth of base, $107 billion. So the example that I want you to think about is this: We currently collect $9.5 billion annually in all taxes. I told you earlier we were going to give a prebate back to the poverty level. Here's how it works. The poverty level for a single person is about $12,500. So what we will do, because we're going to collect consumption tax on food and we don't want poor people to be disproportionate charge for their food consumptions or their necessities. So we will take-- you take the $12,500 times the 10.6. That will be the percentage at the cash register. That's about $110 a month they're going to receive as a prebate. And the reason we call it a prebate and not a rebate is you're going to get the money at the start of the month, not at the end of the month. All right. So the person who makes $12,500, if they don't spend any more money than that, pays zero because the prebate will offset all the consumption tax collected on $12,500. A family of two, the poverty level is just over $24,000. They will get a check in the mail or a deposit in their account of $200 a month at the beginning of the month to hold them harmless. A family of four, theirs is just about $33,000, the poverty level, they will receive 10.6 percent of that. It's almost $300 a month in advance. So the point is this. So if you are a low-income person in the $12,000 range and you, for example, I wanna use this example because it makes it very plain what we're trying to do. You have SNAP benefits. The federal government will not allow us to collect a consumption tax on SNAP benefits. So you will go to the grocery store, you buy your food with SNAP benefits. There's no tax on the SNAP. No tax on that food. We are going to give you a prebate back as if you had paid consumption tax on that food. So most people that are in that lowest poverty level will receive the best benefit from this program. We're going to hold people harmless for the necessities that they need to buy on an annual basis. The only time they will start paying consumption tax is when you get past the poverty level. Every person in the state is going to receive the prebate, every person. We're not going to collect any income tax, so we won't know how much income you have, but we're going to send a prebate to every person that lives in the state. Alabama is one of the states that is trying to implement this same procedure, same policy. And they have already written their statutes on how they're going to distribute the money and how they're going to keep track of people. So there's no need for us to go through that whole thing and invent the wheel. We'll just look at what they did. So we will give a prebate to all legal residents that live in the state. And remember where I said we-- we're going to have a base of about $107 billion. If you multiply the $107 billion times 10.6, you get about $11.4 billion. If there's 1.9 million people in the state of Nebraska and each person gets about a thousand dollar prebate per year, that's $1.9 billion. So you subtract 11.4, take away the 1.9, gives you 9.5, which is what we currently collect. So the prebate is already figured into the consumption tax. So the average family of four, if they spend $65,000, their annual prebate consumption tax rate would be 5.32. That's very important to understand that. It's not going to be 10.6. So to get to 10.6, you only have to spend $100 million to get to the 10.6 because of the prebate. This holds everybody harmless. The middle-income people, the average-income people hold harmless and the low-income people make out better on this. So that's how it works. So the rule says all goods and service-- all new goods and services, no business-to-business transactions will be taxed and we will collect those taxes and send them to the state. Now, as we move through this and we understand how this is going to work, the opportunity for us to eliminate those taxes that we currently collect and those services that we need to collect, those taxes are going to change and we will talk about that. But one of the things that I have brought today or have come today, is many people have come to testify to describe to you and explain to you the problems that we have and the problem we're facing is the property tax and the income tax problem. We have a problem. We have a 55-year-old tax system, and I think Senator Hilgers alluded to that when his-- in his testimony. It is time for us to look at changing. We have been doing this for a long time. And what we do here is we do the same thing year after year and we don't get different results and we can't figure out why. So what we do is we try to work inside the box. We try to figure out what is it we can afford to do, what kind of tax relief can we afford? That's not the correct way to do it. And so the comment has always been made that we need to think outside the box. If they say that if everybody is thinking alike, is anybody thinking? Well, I can tell you this concept is thinking outside the box on steroids. And it's time for us to make a decision on how we treat people and how we tax people. What has happened and what continues to happen is we have put those people who collect and spend the taxes first. We're always concerned about the people who collect and spend the taxes, and we don't ever put the people who pay the taxes in the rightful position they should be in. Those are the ones we should be concerned about. If we pass this, if we put this in place, we will become the most envious state in the nation. We will have people come here. This is the greatest incentive package ever thought of. We will not need tax incentives. We will not need TIF. We will not need any of those things that we currently do that we give away because our taxes are too high. This is an opportunity for us to be different, to move to the front of the line. And you say, can we afford to be different? Well, let me ask you, how many states have a Unicameral? I would assume we can afford to be different because we are. And there's no reason why we can't be the leader. And so that's a brief def-- definition and explanation. There'll be other people behind me who will explain some of that. And in closing, I will share some more ideas of what I think will happen and what services we can eliminate. I'd be glad to take any questions you may have.

LINEHAN: Thank you. Questions from the committee? Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair. Thank you, Senator Erdman, for introducing this bill. Has the state of Alabama actually adopted this-- this formula?

ERDMAN: Senator, I knew that question was going to come up. And so this morning I asked someone to contact Alabama. I haven't heard whether they have, and there may be somebody testify behind me that has. I don't know that they've adopted it, but what they have done, Senator McCollister, they have their constitutional amendment in place. They have an 83-page document. I have a copy of that if you'd like to see it on their statute on how they're going to implement the distribution of their funds and how they're going to keep track of people. And I've read through that information and it makes a lot of sense. And-- but Alabama is ahead of us in that regard.

McCOLLISTER: No other state has adopted this plan.

ERDMAN: Not yet.

McCOLLISTER: If Nebraska were the sole state to do this, do you see a problem with that issue?

ERDMAN: No, no. Let me-- let me tell you why. So we adopt this, and now we have zero tax: income, property, and inheritance tax. Zero. And I'm Iowa and there's a business looking for a place to locate. And they go to Iowa and they say, what kind of incentives do you have? And they say, well, this is what we got. And then the business will say, can you compete with zero? And they'll say, that's a little hard. We won't have to worry about incentives, Senator. We will have people coming here and we will have, like Senator Halloran said, he said, what's going to happen? We'll have so many people want to move here we're going to need to build a wall around the state and Colorado will pay for it. [LAUGHTER] And if you don't believe me, if you're a state that's our neighbor and you don't have zero taxes, if you don't, guess what? You don't compete.

McCOLLISTER: Did you say build a wall?

ERDMAN: Build a wall. [LAUGHTER]

LINEHAN: Thank you, Senator McCollister.

ERDMAN: Figuratively speaking.

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

ERDMAN: Thank you.

LINEHAN: You'll be here to close?

ERDMAN: Yes, ma'am.

LINEHAN: All right. We will now have proponents, those in support. Good afternoon.

ROB ROHRBOUGH: Good afternoon, Senator Linehan, and the rest of the committee. I see some familiar faces here. My name is Rob Rohrbough. I live at 8515 South 105th Street, La Vista, 68128. I appreciate the opportunity for-- for you to-- your graciousness in listening to our testimony this afternoon. I think Senator Erdman has stolen some of my thunder, but I'd like to present this handout to you so that you can maybe take a look at some of the numbers.

LINEHAN: Oh, I'm sorry. You need to spell your name.

ROB ROHRBOUGH: I knew I forgot something.

LINEHAN: That's OK.

ROB ROHRBOUGH: You didn't need the address. It's R-o-- it's on the back of the first page.

LINEHAN: Yeah, but for the transcribers.

ROB ROHRBOUGH: It is R-o-h-r-b as in boy-o-u-g-h.

LINEHAN: And your first name too.

ROB ROHRBOUGH: Rob, short for Robert.

LINEHAN: OK. Thank you.

ROB ROHRBOUGH: This sheet has a table on it. I'm not going to read the whole thing. I know I don't have time. At the bottom line in bold lists the entire set of revenue that has to be replaced. He has already talked about that and he's talked about our having a very broad base being able to double essentially the sales tax base to an $89 billion consumption tax base. That comes from no exceptions. That cuts what it would take to replace that revenue in half. And we end up with a nominal percent of 8 point-- about 10.6 percent. There are a couple of things I could point out, and I think he already talked about a family of four. But you can see that in the graph on the third page here-- and I would point out that you see both for a single, a couple, and a family of four. He talked about a family of four, and that's what I plan to talk about too. But you can see that you have to spend a lot of money to approach the nominal rate. Basically, the way the consumption tax works, twice the level of poverty of spending that is considered to be at the poverty level and is reimbursed results in a tax rate of half the nominal rate. So for a family of four, the effective rate of 5.3 percent approximately occurs at about $65,000. That's good news for the middle class in this state. If you can define that by the median family income for a family of four, which is about $62,000, it falls within that. And by the way, that is income. This is spending. An average family of four, hopefully at that rate, if they're not in the depths of poverty, will not spend everything they have on new products and services. They will save some, they will buy-- typically, I-- I bought used cars. Almost every time I buy a new car it's used. And if you buy an existing house, that's not taxed either, it's used. So there are lots of ways to save money. And this encourages you to spend your money wisely, encourages you to save for a rainy day, invest for your retirement. That's a good thing. Typically what we do, Senator Erdman mentioned that-- and I-- I do have if I can get my cell phone to work, some feedback from my colleague in Alabama, that we look at states with no income tax; states, some say, not very many, have no property tax. That's usually from their resources like Alaska. But those tate-- states tend to be, have the best economies of all the 48, 50 states. So it's a good thing. We have some experience in watching economics. And we-- we know that when zero is tough to compete with. Alabama introduced their bill on February 4. It's been read twice and assigned to the Fiscal Responsibility Committee. They're currently researching, answering those questions. They're-- they're bicameral. They're going through their House first and then to their Senate. So there might be a little friendly competition between FAIRtax organizations here, I'm not sure, but we believe we have a good basis to stand on. Are there any questions?

LINEHAN: Thank you. Are there any questions from the committee? Seeing none, thank you very much for being here, sir. Oh, wait. I'm sorry. Senator Briese.

BRIESE: Thank you, Chair Linehan. I raised my hand-- or raised my hand too late there, my fault. Thank you for being here today. When we talk about business inputs, are we talking about any business-to-business transaction--

ROB ROHRBOUGH: Yes, we are.

BRIESE: --being excluded?

ROB ROHRBOUGH: Yes.

BRIESE: OK.

ROB ROHRBOUGH: No business pays tax on their purchases.

BRIESE: OK. And do you have an itemized list of what would be included in our sales tax base to a-- or in this consumption tax base to arrive at the 80-some billion dollars?

ROB ROHRBOUGH: I-- I hate-- I do not want to differ from Senator Erdman. There is a list and I believe one of my colleagues-- there is-- let me rephrase that. There is no list. We have a list of examples. But that-- those are not the rules. Those are examples of following the rules.

BRIESE: OK.

ROB ROHRBOUGH: So the answer is there's no list or rules, but we've been asked so many times for a list, we have some examples for you.

BRIESE: OK. Thank you.

LINEHAN: Thank you, Senator Briese. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair. A sole proprietor would be defined as a business.

ROB ROHRBOUGH: I'm sorry.

McCOLLISTER: A sole proprietor form of business organization--

ROB ROHRBOUGH: Yes, of course.

McCOLLISTER: --that would be a business?

ROB ROHRBOUGH: Sure.

McCOLLISTER: How about a person, a sub S?

ROB ROHRBOUGH: Yes.

McCOLLISTER: That would be a business--

ROB ROHRBOUGH: Right.

McCOLLISTER: --even though the income is taxed personally?

ROB ROHRBOUGH: Well, here's the deal. You know, if you're familiar-- I mean, I think you own a business. If you're a business, you have to keep your business expenditures separate from your personal expenditures already. And not everybody does that perfectly. But-- but those are the rules. So you have to-- that would not change. You still have to operate your business and you have to have your personal expenditures.

McCOLLISTER: OK. Thank you very much.

LINEHAN: Thank you, Senator McCollister. Are there other questions from the committee? Seeing none, thank you very much. Other proponents?

JOE MURRAY: I'm back again. Senator Linehan,--

LINEHAN: Thank you. Go ahead.

JOE MURRAY: --members of the Revenue Committee, my name is Joe Murray. That's spelled J-o-e M-u-r-r-a-y. LR300CA is an epic, revolutionary, grand solution to excessive high property taxes. We've been trying to solve the property tax problem without success for more than 50 years with attempted solutions resulting in increasing the tax burden rather than lowering it. Kiplinger rates Nebraska the sixth worst tax burden of any state, primarily because of having the eighth highest property tax burden. Kiplinger rated Nebraska the worst tax burden in the nation for retirees. The USDA reports that last year Nebraska farmers on average paid $16,200 per person in property taxes, which was the third highest in the nation. That was 47 percent of their income, according to USDA. Retirees, veterans, farmers, and business owners are fleeing Nebraska for low tax states. You've heard testimony before from Fritz and Nancy Oltjenbruns who sold their farm near Ceresco, Nebraska, purchased a better farm near Warrensburg, Missouri, and went from $50,000 a year in property taxes to $1,100 per year. It is four or five times less in eastern Colorado for similar property and half as much or more across the Kansas border as you've heard before my friend, Art Neifeld, testify. Ditto for South Dakota and Iowa. You can't get more tax relief than what will be delivered with LR300CA. By getting rid of all taxes on property, income taxes, corporate taxes, sales taxes, excise taxes and the inheritance tax. My wife and I would save at least $10,000 per year in property and income tax. I challenge all of you to add up the taxes you would save. If you do, I think you'll want to vote yes. The static numbers more than work to replace the current revenue demands of state and local government. The thousands of additional dollars in everyone's pockets will be a huge boon for the state economy, creating individual wealth and more revenue to the state. It may sound too good to be true, but if you look what you're trying to do with different bills in this committee, most of those elements are collectively achieved and passed by LR300CA. Senator Briese and McCollister, who just stepped out, but I think, Senator Crawford, you want it. You've been wanting to expand the tax base. It does this. Senator Kolterman, Senator Lindstrom, what better incentive for business than eliminating all property, income, and corporate taxes? Senator Groene, if he's here, those incentives come without special tax breaks and we know Senator Groene doesn't like special tax breaks. Savings will come to the highest-- to the budget, starting with the no longer needed $275 million in the property tax relief fund, less for incentive programs, no more county assessors' office, and all income tax collection expenses. Senator Linehan, if you give a brand new funding source for schools that will allow a new design for allocating funds with the flexibility to be fair and equitable to school districts big and small. Our current marketing theme in Nebraska is "it's not for everyone." Let's change that to "Nebraska, it is for everyone." That is what passage of LR300CA will do for the state by giving us a unique model tax code to improve our lives, example to the rest of the country, making them want to move to Nebraska. Thank you. If there's any questions, I'd be more than happy to answer them.

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

FRIESEN: Thank you, Chairwoman Linehan. So I personally if we would adopt this, looks like I would save quite a bit on taxes. You said you would save $10,000 a year on property and income tax.

JOE MURRAY: Yes.

FRIESEN: Without addressing a spending problem, who's going to pay more?

JOE MURRAY: Well, it's unique. I'm not sure that anybody really does pay more. I might leave that to the experts with the big salaries like Senator Erdman, but there will be some things-- some things you buy. There will be services that now will be taxed. But I think if you offset the savings from the-- your income-- your property tax and your income tax, I think most people will-- will at least be held harmless. And when you add in the prebate for low-income people, I think it's a good deal. So the studies as we've talked with the [INAUDIBLE] Hill Institute certainly appear that it creates enough revenue.

FRIESEN: Thank you.

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

JOE MURRAY: Thank you.

LINEHAN: Good afternoon.

JEFF UHLIR: Hello, Senators. My name is Jeff Uhlir, J-e-f-f U-h-l-i-r. It's always nerve-racking sitting in front of you guys.

LINEHAN: Tell me.

JEFF UHLIR: I've been on the farm 150 years this year, my family, paid-- always a year behind-- we paid 149 years of rent this year. So I am in favor of this bill for a lot of reasons. I know Nebraska in 2019 was tied with another state for number one in farm foreclosures, which isn't a good thing for your state to have. We've been in the running a lot of years. This bill would kind of eliminate, you know, foreclosures. You would actually own your property instead of paying rent. Anyway-- and I wouldn't be taxed based on what somebody builds across the road. You could paint a shed. You could build a building. You could invest money back into your farming operation or your business if you've got a business, not have to worry about tax going up on it. Might have more money to spend in these small towns. Might have more money to spend on your main street, which the small towns kind of need that, you know, they're dying. If you drive across Nebraska, you see most populations in one part of the state. Trying to get young people involved in agriculture. If you've got land payments, you know, the taxes, that's like making two or three land payments a year, you might get some more people involved in agriculture and farming, which we need. Seems like the average age is about 70 years old of farmers and ranchers these days. Let's see, I thought I knew my notes better than that. We'll treat everybody the same. I think this is a great potential. This bill, of course it's not wrote, won't be wrote for a couple years. I support the Revenue Committee's bill. I think that the Revenue Committee's bill will end really in three years or four years. This bill, if everything goes as fast as it could, would kind of pick up where that bill leaves off because it wouldn't really take effect for three years if it went as fast as it could. And I know all of you said that this week with your own bill that this wasn't the end of property tax that you want to do for the state. That's about all I got. If there's any questions, sorry.

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

FRIESEN: Thank you, Chairman Linehan. I'm looking at your total here on your property taxes and basically, you're saying they a little more than doubled per acre over the last--

JEFF UHLIR: Yeah.

FRIESEN: --little over 10 years. Have your-- have your income taxes doubled?

JEFF UHLIR: My income taxes, no, no. I don't have any income. [LAUGHTER] What I passed out, I guess I never addressed that. Well, but I mean, but my taxes have gone up, so I've got to keep paying other people's cost of living raise. I get to help with that. But my-- my production is in there with my federal crop insurance. So you can see my yields. And then, you know, I didn't submit the livestock, you know, cattle. But, I mean, any-- any of, you know, probably pretty good with the computer to see what, you know, farm commodity prices have done. You know, and I know like the schools and the bigger schools, they said that they're against their mill levy and we're not out in the country schools. Well, that's because our valuations go up at 200 to 300 percent every 10 years. If we were against our mill levy with what we produce, we would-- we would have been all in Missouri by now.

FRIESEN: Thank you.

JEFF UHLIR: Thanks.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? So it's actually more than doubled what you're seeing here.

JEFF UHLIR: Yeah.

LINEHAN: I'm on your--

JEFF UHLIR: And I submitted--

LINEHAN: Well, the first-- the first one is double but you go to the second page, it is from six bucks to almost $16.

JEFF UHLIR: And my '19 taxes are in there, Senator. I just didn't add it on to that sheet. That was from last year. I just photocopied my '19 taxes and they're in there. If you-- the highlighted, I marked the acres--

LINEHAN: OK.

JEFF UHLIR: --so you can compare to the handwritten.

LINEHAN: OK.

JEFF UHLIR: And they stayed the same really of '18. But we have two wind farms in Knox County and we've never seen a property tax break. I don't know where the money went. You know, it supposed to go to taxes and schools. And as a taxpayer, you know, we didn't-- and whether the taxes are state, local or federal, you know, they all come out of the same pocket, you know.

LINEHAN: Are the wind farms in your school district?

JEFF UHLIR: They're in the county. And they're not in my school district, no.

LINEHAN: OK.

JEFF UHLIR: But-- but as far as I was, if my understanding is correct, the wind farms are supposed to help your-- your county schools and your county, yeah, county supervisors, you know--

LINEHAN: I've heard--

JEFF UHLIR: --the courthouse. Yeah.

LINEHAN: Other questions from the committee? OK. Thank you very much for being here.

JEFF UHLIR: Thank you, you guys. Have a good day.

LINEHAN: Thank you.

S. WAYNE SMITH: Good afternoon, Senator Linehan, and committee members. My name is S. Wayne Smith. That's S. Wayne, W-a-y-n-e S-m-i-t-h. I'm a Lincoln resident and I'm in support of Senator Erdman's LR300CA. When we moved to Nebraska 15 years ago from Ohio, our real estate taxes doubled. I hear complaints about property taxes all the time. One rancher told me she paid $90,000 in property tax and another one said that he paid much more than that. Personally, like Senator Erdman mentioned, I feel like I'm paying rent to the state to live in my own house. The consumption tax enhances the liberty in that the consumer chooses whether or not he or she will pay the tax. It is not a confiscatory tax like property and income taxes. One big advantage of a consumption tax is it would pick up the taxes not paid today by the tax cheats operating in the underground economy. Please pass this bill out of committee. Thank you very much.

LINEHAN: Thank you very much, Mr. Smith. Are there questions from the committee? Seeing none, thank you very much for being here. Next proponent. Good afternoon.

MARK BONKIEWICZ: Good afternoon, Senator Linehan, and members of the Revenue Committee. My name is Mark Bonkiewicz, M-a-r-k B-o-n-k-i-e-w-i-c-z. I live at 11129 Z Street in Omaha, Nebraska. I'm a former farmer from Sidney, Nebraska, the southern part of the Panhandle, 350 miles from here. My perspective goes clear back to the roots of the Unicameral idea, which was George Norris, as a forward thinker and conceived the idea of a one house Unicameral with senators and the second house being the citizens. Due to the geographic size of our state, the location of this Capitol building near the eastern border, plus the time and cost commitment to drive from western counties to Lincoln, very few citizens from North Platte and farther west have the opportunity for hands-on time in the legislative process. LR300CA is an ideal opportunity for the second house to become involved in the legislative process. I have a brother-in-law, Jim V, who ranches 67 miles west and south of O'Neill in the heart of the Sandhills. He calls his ranch God's country. And when you handpick wild asparagus in the road ditches in May, you understand his perspective. Jim is in his late 60s and started ranching right after high school graduation. In 1970, the ranch paid $6,000 per year in real estate taxes. He's worked hard and expanded his ranch footprint by 50 percent in size. However, his real estate tax bill has grown over 400 percent from $9,000 to include the acres he's purchased to $51,000 per year. In 10 years, that's over a half a million dollars for the privilege of being a rancher and owning farm-- ranchland. Many ranchers like Jim are fed up with paying these high property taxes and are preparing to sell out and move to surrounding states and pay half or less property taxes each year. LR300CA is an ideal opportunity for Nebraska to compete against other Midwestern agricultural states. Eliminating corporate income tax, personal income tax, inheritance tax, and real property taxes and replacing with a consumption tax will work like a magnet attracting pieces of steel. Businesses will move here from other states. Retired people will stay here to continue to live in Nebraska rather than move. Agribusiness will have the money they need to buy expensive equipment rather than pay property tax. I believe LR300CA will also stop the brain drain that we have with our high school and college graduates leaving for other states because the tax burden is so high here. If the majority of senators will vote for this legis-- legislative resolution, the second house will have several months to educate the citizens on the advantages that it brings to all residents. Then the voters can make the final decision in the voter's booth at the 2020 general election. That was George Norris's plan. Thank you.

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

MARK BONKIEWICZ: Thank you very much.

LINEHAN: Next proponent. Thank you.

KEITH KUBE: Good afternoon. Thank you for having me, Senator Linehan, and other members of the committee. My name is Keith Kube, K-e-i-t-h K-u-b-e. I live on the north coast of Nebraska in Crofton. I've been writing commentaries for the local radio stations and this is one that's going to be coming up. I'd like to read it to you. Since we're all going to die, there are few things in left to life to do other than do something about taxes. To solve the tax problem, you must perfectly describe any problem before you have any hope of finding a solution. You don't go to a shooting range with a blindfold on, nor should you try to solve this property tax problem without actually seeing the target first. We need simply about $9 billion to come from someplace in the state. Is the number the problem or do the pax-- taxpayers really feel they're getting their money's worth or a good return on the tax dollars they pay? The government must use our tax dollars properly by doing only that which reduces future expenses and not to buy votes from special interest groups. This problem would be considerably easier to solve if the taxpayers felt they were actually getting their money's worth for the money they spend on taxes. When school administrations are paid more than the Governor and the quality of the product is falling, that does not encourage confidence in the way that our money is being spent. The cost of education is on an average about $16,000 per year per student with no indication it's going down. And that's only one example. To tax property means the owner never owns the land. It's been said several times already today. They only rent it from the government. It's an unfair tax to tax the net worth of the farmer or the rancher. If everyone's net worth is taxed, including stocks, bonds, and pensions, if they are not taxed, that's not fair. Income tax is a tax on success. It carves out exceptions and it makes it unfair by rewarding the low productivity individual. It's un-American for success to be penalized. A tax on business is a shell game and a fraud playing into the social mindset. Any tax in business is simply a cost on business and is always passed through and paid for by the consumer. Taxes are becoming a game of us versus them. We are supposed to be a government of the people, by the people, and for the people. Instead, the taxpayer is looking at the government as an adversary and suspicious of how they spend. The spectrum of a thousand bills going through the Legislature each session seems to be looking for problems that we didn't know we had rather than looking for ways to reduce spending. A tax on consumption is the most fair as it is the foundation of capitalism in a free market economy. The bottom line is we must generate $9 billion a year from 2 million people. With a consumption tax, the regressive nature of the tax is eliminated. The approximate tax rate on a $15 billion purchases-- on $15 billion of purchases would be an easy problem to solve and eliminate the irritating and unfair taxes. It would cause our state's economy to explode literally and would be the envy of all the other states around because we would have no income or state property tax. Do not betray the competence of our voters by failing to manage this relatively simple problem. If the problem-- if this is a not, and if the result is not fair, truthful, sustainable and has no self-serving or special interest agendas, you violated that trust. The only job you have to do is to make the world a better place and not leave a mess for the next generation. I urgently encourage you to pass LR300CA. Thank you.

LINEHAN: Thank you, sir. Are there questions from the committee? Seeing none, thank you very much.

KEITH KUBE: You're welcome.

LINEHAN: Other proponents? I appreciate it when you move up front because it helps move along. So if you're gonna testify--

LEE TODD: You're welcome, Senator. It's good to see you.

LINEHAN: Hi. Thank you.

LEE TODD: Members of the Revenue Committee, thank you for what we're doing here and hoping to accomplish. My name is Lee Todd. If you want to get the spelling, it's the end of the presentation on the handout. For the record, I am in support--

LINEHAN: You have to spell it. It's just the rule.

LEE TODD: It's-- oh, I have to spell it.

LINEHAN: Yes, you do.

LEE TODD: L-e-e T-o-d-d.

LINEHAN: Thank you.

LEE TODD: There you go. I didn't know that so I stand corrected. Thank you. For the record, I am supportive of Senator Erdman's proposed legislation, LR300CA. Also for the record, I'm a real estate investor. Many have been here talking about the farming perspective. I grew up on a farm in northeastern Nebraska and it truly is God's country up there. But today I want to address some of the real estate concerns in the more urban areas. Also, for the record, I'm not a broker. I'm not a flipper that sells and moves on to the next quick deal to make a buck. There's nothing wrong with that. I'm a long-term real estate investor with skin in the game and I have been so for 40 years. As you know, I have spent, for many of you, that I've spent several times and a lot of my time looking for and advocating for meaningful, underlining the word meaningful, property tax relief. Some will tell you that the position of Nebraska, and this is the chart that you'll see on your page 2, is perhaps incorrect, that Nebraska is not a high tax state. They will-- what-- what they say there, I could not disagree with more. This chart is from Wallet Hub. Many of you have seen this. I've circulated around the Legislature many, many times. And I think that it backs itself up insofar as that it uses a typical $179,000 home and it shows what that home would look like across the 51-- 50 states, including the District of Columbia. I can tell you with confidence that chart is almost spot on accurate for Nebraska. In fact, it might be a little bit low. And also, I can tell you that chart is spot on for Arizona and also for Overland Park, Kansas, where I also have real estate property. So I can give you firsthand knowledge that this chart is accurate, at least from my perspective and what I've seen. And again, I say this chart backs up the statistics with actual numbers for a hypothetical $179,000 home, essentially it is an apple-to-apple comparison. I think everybody before me that has preceded me have established the need for property tax relief. Bluntly put, we are higher than every state around us; double the rate of Missouri's; triple the rate of Colorado and Wyoming; higher than New York and California. This is staggering when compared to the relatively high taxes Nebraskans also pay in the other areas, such as income and sales tax. And no wonder both of my accountants that I work with had oftentimes and still do advertise to their-- or advice that they give to their constituents or their clients, move to another state if you're retiring. There's no reason to stay here unless you have family. Really, when you think about that, that is a tragic, tragic statement. And we've let that statement slide year after year after year. And certainly someone also brought this up. Nebraska, the good life has now become our state motto. Surely more apropos is "Nebraska, it certainly is not for everyone." I heartily concur also with the assessment that now we have become as far as property owners and landowners, which were once the foundational rights of this country, we have now moved into we're renting from the government. We never own our property. Depending on the math you want to use, you buy your home every 13, 14,15 years. And speaking of the number 13, I've run the numbers here in the state of-- or, excuse me, in Lancaster County. As a landowner and property owner, I do rent to tenants. I could lower my tax. I could lower my rents on the tenants that I have by 13 percent. What that would mean-- if we had rates similar to Missouri, Missouri's average. What that would mean for my tenants is in paying-- instead of paying $1,000, they could pay $870 in rent and I'd still make the same amount of money. That's how bad the property tax situation is. And if you look at the following graph or the graph on page 3, I don't have time to go into it, read it at your leisure. This clearly shows that property taxes are unsustainable. The column at the right shows how rapidly they have increased. All the columns at the left are the various incomes levels across the state of Nebraska and people cannot pay the property taxes. The statistics are there. The property taxes are high and our citizens more and more as time goes on, we cannot pay the taxes. It is unsustainable. And someone made a very good point. We have a fiduciary responsibility as you, the people of this state who are running and elected officials, to do something about this problem. I couldn't concur more. I think that the prebate that this-- this particular bill offers, I think it's brilliant. I think it's a great opportunity. And in summary, I'd like to say that I want to thank Senator Erdman for proposing this historical legislation. It is now time to move Nebraska out of the Ice Age. We've had high property taxes that have plagued the state since the rhinoceroses roamed the Plains of this-- this great grassland. And furthermore, I'd like to say we need an opportunity--

LINEHAN: Sir, I've got-- you need to wrap up.

LEE TODD: -- here to catapult us out of this predicament that we're in into a new age. I think this does it. Thank you very much.

LINEHAN: Thank you very much. Are there questions from the committee? I appreciate the graphs. Thank you very much.

LEE TODD: You're welcome.

LINEHAN: Next proponent.

DARCY CARPENTER: Hi. My name is Darcy Carpenter, D-a-r-c-y C-a-r-p-e-n-t-e-r. I live at 2648 Steam Wagon Road in Nebraska City, 68410. I'm in District 1. I grew up in St. Joseph, Missouri, and prior to moving to Nebraska 10 years ago, I lived in Overland Park, Kansas, for 20 years. I joked when I first moved here that the only reason I could move was because they'd let-- that Nebraska had left the Big 12. And it was kind of funny 10 years ago or over the years, but as I've tried to get on the Husker bandwagon, I realized that was a really dumb thing, I think, that the state, you know, the Legislature didn't have anything to do with that, but it just wasn't a good thing for our region. So that's one example of a mistake. The other thing I remember when I moved here 10 years ago is that Ben Nelson was the deciding factor on the Obamacare vote. And that was just like a punch in the gut to me. I sold real estate in Overland Park, and so I've been self-employed for 25 years. Right now, I own a business in southeast Nebraska. And the-- the amount of money I spend on medical insurance and healthcare and taxes, there's-- there's hardly anything left. So that's another, you know, thing that the country sees, is that we were the-- the Obamacare thing. So the FAIRtax amendment could and would be a way that Nebraska can lead the nation in reforming taxes. Attached you can see an appropriate cartoon from today's World-Herald. It shows, I'll say-- I'll read it. It shows the sower on the top of the Capitol saying, ironic that some in the Legislature want to be like other states and legalize casinos, but if we always did what other states do, we wouldn't have a Unicameral. So instead, how about promoting more unique innovation? Let's be the trendsetter, not the trend follower. So I think that's a great cartoon and I'd like to think that it's prophetic for today that we could be the trendsetter in our nation. The other thing that I would like to say is that I do support this amendment. But over the next six months, I'll be working tirelessly for the 35 percent property tax petition just in case you guys don't get this together. So that's my two cents. Thank you.

LINEHAN: Thank you very much. Are there questions from the committee? Seeing none, thank you very much for being here. Other proponents. Good afternoon.

JERRY STAHR: Senator Linehan, members of the committee, my name is Jerry Stahr, S-t-a-h-r, 1701 Road 14, York, Nebraska. I am here to speak on behalf of the consumption tax. I'm a-- I'm a bit excited about it. I got out of the-- well, actually, I took that tour of the world and got out about 1975 from the Navy and then got into farming. One of the things that my folks kind of taught me when I was young is to go ahead and buy into the land. And we did that. So it's kind of their retirement now. I found out about five years ago that I bought in the wrong school district. We've got some funding problems in our school system that really messes up our tax base out here. The York School District right now, we're about $100 an acre, and that's pretty expensive. Ten years ago, I was paying around $11,000 to $12,000 in taxes. I'm over $30,000 right now. And that was my retirement or part of it, so I have lost a fair share of that. And my mother, who is 96 years old, pays more in taxes than I do. And we really don't have that big a land base. So this excites me. And I hope that you guys really consider it. As people have said, we have a Unicameral, which is very unique. I'd kind of like a unique tax system too. I think this would work out pretty-- pretty well for us. Not too much else. I'm part of Fair Nebraska. The worst part of-- the worst part of the school tax thing is it's-- it-- it creates friction between urban, between rural, between rural and rural. And like I said, all I have to do is walk across the road and pay $50 an acre less in taxes. And that's not-- and that's what I said. I bought my-- I bought my land in the wrong school district. That's not true. I love York. It's a great county and we have a great school. And I-- go Dukes. That's all I can tell you from that standpoint. But no, I apologize, and I'm probably not more polished than the other folks. This is not real good, but I'm-- I-- like I said, I am very excited about this and I hope the committee considers this. Thank you very much for your time.

LINEHAN: Thank you very much for being here. Questions from the committee? The best to the Dukes. Thank you for being here.

JERRY STAHR: Thank you. Thank you for your time.

LINEHAN: Other proponents.

GEORGE DAVIS: Chairperson Linehan and members of the Revenue Committee, my name is George Davis. I'm the owner of a small business in Omaha.

LINEHAN: I need you to spell your name.

GEORGE DAVIS: Spell my name.

LINEHAN: Yes.

GEORGE DAVIS: Davis, D-a-v-i-s.

LINEHAN: Thank you.

GEORGE DAVIS: Um-hum. My address is 7801 S. 71st Avenue in La Vista. As I was just getting ready to say, I'm the owner of a small business in the city of Omaha. It's called Ollie the Trolley. Have you heard of it? It's a 35-year-old transportation company. My wife and I have owned it and operated for about the last six years. It's a small business that employs approximately 17 people during the year. During 2019, we performed over 800 reservations for our customers, delivering services for corporations, weddings, specialty and historic tours. Our business is a highly capitalized business, and that level of capitalization would normally serve as a barrier for entry into the industry. The capital requirements for operating the business is a burden among many challenges that continue operating in the industry.

Subsequently, a small business you have to have really good integrated systems such as for financial and accounting and human resources operations, safety considerations, marketing and sales equipment and repair, maintenance, and certainly customer service to have a viable chance just to be able to compete and make a profit. I'm here in support of LR300CA. I believe it is a viable alternative that could reduce the burden of taxes on my business. When Ollie generates money, it has to spend a large amount of that money for its operations. We purchase heavy industrial, mechanical parts and materials, used equipment for repairs and maintenance, outside mechanical repair services, fuels, oils, other types of specialized fluids, alternators, pulleys, engines, welding equipment. Oh, God, computers. All those materials are all examples of activity in what we are taxed multiple times. LR300CA could reduce tax burdens and it-- and its charges could be more transparent and more understandable to me in tracking its cost and its impact on my business daily. Our business has been around for 35 years and we would hope that we would like to leave it for the next generation to run and operate it. LR300CA would be a viable instrument that would prepare the path for that to happen. I have four kids. Maybe one of them would like to run this business. We urge you to think outside the box, encourage small business growth, and stop penalizing people and businesses with this nineteenth, twentieth century taxing methodology ill-suited for the challenges that we have in the twenty-first century. I think that's all I have to say.

LINEHAN: Thank you very much, Mr. Davis. Are there questions from the committee? Seeing none, thank you very much.

GEORGE DAVIS: Good.

JOHN KNAPP: My name is John Knapp, J-o-h-n K-n-a-p-p. I live at 19010 South 168th Street, Springfield, Nebraska. Thank you, Senator Linehan, and other senators on the committee, for giving the opportunity to speak today. Most of my comments were-- have been highlighted by other individuals and I support the previous comment. I want to make it-- I am a small farmer in Sarpy County and I fully support LR300CA. And I think-- I was going to add on to the comments about some of the other farmers. I have 240 acres and currently from 2006 I was paying about two-- about $6,000 in property taxes. In 2018-19, I'm around $18,000 and that takes a real bite out of your income. And as a farmer they use-- when price of grain, well, price of grain goes up, farms sell. And-- but the assessor bases values on three years of previous sales. There's only about three or four farm-- they go in spurts. You can go six years in Sarpy County and not have a farm sale to compare it to. And our-- our assessor is very aggressive. He claims to have every farm equalized every year. In Douglas County, I think they average something like once every seven or 10 years. We have taxes go across the metro area. And so I'm getting equalized my property. And in 2000, I think it was '14, '15, and '16, my property taxes went up almost 27 percent a year for three years. And Douglas County, you know, they're very slow at getting caught up. So you can go for seven or eight years and never have an increase in your-- the current taxes. And anyway, if the prices would stay up and I think it was-- when I really made the first big jump is when corn prices and bean prices took a great leap. But they're back down now to where they were in the old days and the taxes haven't come down significantly. And when you don't have much, maybe a larger operation can absorb those price changes, but for the small operator, it's very difficult to make ends meet. And one of the questions was, is who takes the gouge if this, you know, if I get a benefit from this tax proposal, who gains and who loses? And I think it gives the individual more freedom to decide his own taxes. If you're getting-- gonna build a new house or build a house or buy a house or property, you got a choice of buying new proper-- or new material or old material. You can use salvage lumber. There's a place in Omaha that you can go up and get salvage wood and material. The other thing is, I don't know if our-- all the other planning commissions and that they got all these other government things that might limit you, but you have them options to regulate how much taxes you're gonna pay. And-- and right now, this would tax everybody. I mean, we all have equal-- equal opportunity when we are being taxed. You can-- because of what I said, buying new, buying used and so that helps you control your taxes better. And I guess that's about all I have right now. I'd urge you senators to give this serious consideration and to pass it. Any questions?

LINEHAN: Thank you very much. Are there questions from the committee? Seeing none, thank you very much for being here, sir, appreciate it. We all appreciate it. Next proponent.

DUANE A. LIENEMANN: I'm Duane Lienemann. I'm from Blue Hill, Nebraska. If you need the address it's 402 West Saline and I appreciate being here in front of you today.

LINEHAN: I need you to spell your name. Did you spell your name?

DUANE A. LIENEMANN: Pardon? Oh, I'm sorry.

LINEHAN: That's OK.

DUANE A. LIENEMANN: Duane, D-u-a-n-e, Lienemann, L-i-e-n-e-m-a-n-n. Well, good afternoon, Senators and Senator Linehan and the Revenue

Committee. I'm here today to represent many of my family, friends and hardworking taxpayers and citizens from south central Nebraska who are deeply concerned about the issue that is in front of us today. And specifically to ask you to vote for Senator Erdman's LR300CA bill out of committee. It is way beyond time that we take positive and concrete steps to solving what I consider to be the most pressing issue we have faced in Nebraska for far too many years. I've tried to keep up with all the discussion, promises, and failed attempts to rectify this problem, and they use a very familiar phrase: The can has just kept being kicked down the road. Well, it's time to pick that can up and do something with it. Empty promises, tax credit crumbs, compromises, inactivity are not acceptable and certainly not equitable. While I do appreciate the hard work of this committee and I know you put a lot of time and effort in it, I feel that the property tax issue has reached such a level that any more failed promises of significant property tax relief by the State Legislature will further discredit this Unicameral body in the eyes of the public. And big steps are needed. As a longtime ag teacher and extension ag educator, I have seen the effect that the ever increasing property tax burden has had on our farmers, ranchers, and businesses in our towns, both large and small. You know, I spent the bulk of my career trying to tell young people there's a future in agriculture. I don't know if I could sit there and do that today to tell them there is a future for them once they get out of the high school class. That's sad and it makes me sick personally. You know, I also experience it also as a manager of my family's farm in the middle of Franklin County. I distribute the net income from our farm to eight surviving siblings from my parents who worked very hard on that farm. And I have to explain to them why that amount has been significantly less each year. In fact, it is half what I gave them seven years ago when we first formed an LLC. It's half what I send to them. I have to tell them it's because of Nebraska's property tax. I heard from my sister, who lives in Mission Viejo, California, and she said-- she wanted to know what the problem was. And I said it's because of property tax. And she said, I didn't think any state was as bad as California. I was embarrassed and ashamed to tell her that, unfortunately, our state now is. I'm now retired, but I continue to see each new year bring an increasingly unequal and unfair method of funding our state that is not sustainable. The current method is not healthy economically, physically, mentally or fiscally. We cannot keep going down the road of status quo. Being an agriculturalist, I'm going to use an agriculture meme. We milk cows on our farm and we fully understood that you can only milk a cow so long and she starts drying up and runs out of milk. Folks, we're running out of milk. We're drying up. We have relied too heavily on property tax, forcing farmers and ranchers to sell and small businesses to close, some to move to other states, to declare bankruptcy, and sadly, leading to split families and even suicides. Something significant needs to be done immediately or we will not recognize our great state in the very near future. We always hear about the three-legged stool, which has been the standard for funding education and the rest of our state's obligations. It is unfortunate and unacceptable that the stool has become more of a one-legged milking stool. Senator Erdman's bill will bring Nebraska code into the 21st century and help us all. I believe the solution is here. After much study and deliberation, I firmly believe that Senator Erdman's LR300CA bill is the answer. I encourage you to take this bill out of committee to the General File and put it in front of the fully Unicameral and then the people of this great state.

LINEHAN: Thank you very much, sir.

DUANE A. LIENEMANN: Thank you. Any questions?

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

DUANE A. LIENEMANN: Thank you.

LINEHAN: Seeing none, thank you very much. Next proponent. How many more people are going to testify on this bill? OK. I'm going to have to because we got other bills after this, I'm going to-- I'll let you go because I didn't give you a heads up, but I'm going to start limiting you at three minutes. I'm sorry but we-- because we've get two other bills or one other bill?

MARY JANE EGR EDSON: Two more.

LINEHAN: Two more bills after this so we'll be here till 8:00. Go ahead. Thank you.

MALIA SHIRLEY: Good afternoon, Senator Linehan, and members of the Revenue Committee. My name is Malia Shirley, M-a-l-i-a S-h-i-r-l-e-y. I'm 23 years old and like many Nebraskans, I've been lucky enough to call Omaha, Nebraska, home my entire life. I was born and raised in Omaha, attended a Catholic school for my elementary and high school education and graduated from Creighton University in May of 2018. Now you might wonder why a 23-year-old who doesn't own any property would be so concerned about property taxes in our state. As a young professional who plans to attend both medical and law school in a few years, I have to consider where to establish myself, my family, and my career upon graduation. I've always thought I would call Nebraska home forever. But after years of little action, empty promises, and increasing taxes, it may be time to start looking out of state. My parents, who've established their lives, careers and families here, have complained for as long as I can remember. I know how high property taxes are, and it seems no one is able to address that issue head on. Many close friends of mine have even moved across the river to Iowa, where property taxes are a lot more attractive. We all know someone who's left Nebraska and taxes are part of the reason. This is a problem. We as the next generation to contribute to Nebraska's good life don't want to be known as the generation of renters. We want to buy homes, own properties, and establish ourselves in a place we'll be able to thrive and grow. We want to contribute to our communities and the society around us, and we want to continue making our lives here in Nebraska. The current property taxes discourage me and my young professional peers from making Nebraska a permanent home. Many Midwestern cities around us are growing at a higher rate than the coasts, and that is due in large part to Midwest tax policies. However, in Nebraska, we're seeing a brain drain problem. According to a 2018 Omaha World-Herald article, we're losing a net of about 2,000 people annually aged 25 and older with a bachelor's degree. If Nebraska does not catch up to our neighbors, we're going to be left behind in this new boom. I believe that we have an opportunity here to establish greater growth by lowering property taxes in our state so as to encourage and foster economic growth and attract working families, veterans, and my generation to remain here in Nebraska. I implore you to support Senator Erdman's LR300CA. Thank you for your time.

LINEHAN: Thank you very much for being here. Are there questions from the committee? Seeing none, thank you. Next proponent. I'm going to ask Senator Friesen to take over for a little bit.

DAVID WRIGHT: Thank you, Madam Chairman. My name is David-- and members of the committee. My name is David Wright, D-a-v-i-d W-r-i-g-h-t. I am a rancher and I also own or we owned the Neligh newspaper-- Neligh, Creighton, Ewing and Clearwater newspaper. So I have a business and a ranch. I'm fourth generation. My son is fifth. He blessed us with two grandsons, that's six that are still living in the 1900 house-- 1900 house that we have not been able to tear down and rebuild. So while I was doing some research on this and I have been pushing changes in real estate taxes for many, many years. But I ran across this comment from William Jennings Bryan at the Constitutional Convention in 1919 and 1920. And he makes a comment. He says, you take $10 from one man's pocket and you should have took $5. And then you take $5 from another man's pocket who should have paid $10? So essentially, you took $5 from one man's pocket and put it in the other guy's pocket. Now here's the example I will give. On the ranch, 18 percent of my gross income goes to real estate taxes. Of that, 75 percent goes to the school system. And of that, 75 percent goes to the salaries of that school system. I should also mention I used to be the-- I was the school board president for Neligh-Oakdale for four years. The newspaper pays .012 percent of its gross income to real estate taxes, .012 percent. So anyway, back to the-- I have $100 from the ranch; $100 of my gross from the ranch, 10 percent goes to the-- $10 goes to the salaries. For every $100 of gross revenue, $10 goes to the school salaries. For every $100 of gross revenue at the newspaper, three-quarters of a penny goes to the teacher salaries. I had a better deal with William Jennings Bryan. I was only losing 5 bucks, not ninety-nine and a quarter. I'm sorry, but this is-- this is passionate. I also read some studies that-- that the Legislature did in 2014, it was about unfunded mandates and it has became obvious and in that study also talks about unfunded mandates in 2000-- or 1992. It has become obvious when you read that stuff, when this body passes a bill that has a financial obligation to it but they do not provide a financial-- a fiscal note with it, you just basically increase real estate taxes. That's this body's responsibility. I have-- I've been doing this for so long, I've listened to Governor Heineman, I've listened to Governor Ricketts and Mike Johanns tell me that real estate taxes are local, that they are strictly local, and sales tax and income taxes are used for the state. And when you read these two reports which you can find online, it is totally obvious that they're not. So I'd like to close by saying my neighbor sold three quarters in Knox County. He went down in Missouri and bought 800 acres. His taxes were $100 an acre in Knox County. In Missouri, he's paying $3. And he's asked me several times, why don't you come down here? I'll answer any questions.

FRIESEN: Thank you, Mr. Wright. I sympathize with you. Senator Briese.

BRIESE: Thank you, Vice Chair Friesen.

FRIESEN: You have a question. You have a question.

_______________: He's got a question.

DAVID WRIGHT: Yes, Senator Briese.

BRIESE: Thank you for your testimony here today. Would you say that we in this body and the Legislature raise property taxes on Nebraskans all the time?

DAVID WRIGHT: If there's no fiscal note on that bill, yes, you do.

BRIESE: OK. Thank you.

FRIESEN: Thank you, Senator Briese. Any other questions from the committee? Seeing none, thank you for your testimony. Any others wish to testify?

DOUG WITTMANN: Sorry, it caught me off guard. This is interesting. My name is Doug Wittmann, D-o-u-g W-i-t-t-m-a-n-n. Do you need my address and that kind of stuff?

FRIESEN: No.

DOUG WITTMANN: OK. I've really enjoyed listening to the testimony. I suppose you guys get kind of tired of hearing from us guys, you know? Or maybe you don't. That's good. A couple of days ago, I started reading this book, The Forgotten Man. I think it was a New York Times bestseller in 2007 or 2008 or something. It's talking about the Depression and such. And I had a couple of quotes. You don't really care what I think, but it was really heartening to hear two senators that were concerned about the families and the people of Nebraska. You know, the first two-- I don't come down here that often, but I really think that this is an important deal. Senator Friesen asked a good question of somebody: Who's going to pay for-- you know? Everybody seems to be benefiting from-- from this idea. And so who's gonna pick up the slack? A good question. And I'm sure this-- the smart guys will have an answer for that, because I think it seems like that exemptions and stuff, more people will be actually paying their-- their fair share. I mean, taxes are a problem, right? Everybody-- but they're not as much of a problem if it's fair and if it's just. Right? And so I just had a couple of comments. Andrew Mellon, he was a treasury secretary to three presidents way back in the '20s, OK, before the Great Depression. And I-- and I just happened to be in this section last night before I'm going to bed. And it kind of astounded me that the relevancy of-- I've got just three sentences and then I'll leave. The whole idea of overtaxation was to Mellon un-American. And so he quotes says: Any man of energy and initiative in this country can get what he wants out of life. But when initiative is crippled by legislation or by a tax system which denies him the right to receive a reasonable share of his earnings, then he will no longer exert himself and the country will be deprived of the energy on which its continued greatness depends. OK? That's one. Second quote: Mellon warned that for prosperity to continue, taxes must come down. Anyway, he said: High taxation, even if levied upon an economic basis, affects the prosperity of the country because in its ultimate analysis, the burden of all taxes rests only in part upon individually or property taxed, it is largely borne by the ultimate consumer. So taxes are borne by the consumers anyway. So I suggest and I'm-- I'm not going to have time to read Calvin Coolidge's comment, but I'm in support of this bill. I think it's fair and just and I urge you to vote it out of committee. Thanks.

LINEHAN: Thank you very much for being here. Next proponent.

LAWRENCE CONSBRUCK: Thank you, Senator Linehan, members of the committee, I'm Lawrence Consbruck from Hastings, L-a-w-r-e-n-c-e C-o-n-s-b-r-u-c-k, and I come as a private citizen today. And so my brief comment is going to be on the line of how it has affected me. Prior to the runup in land prices, my property tax bill was $18,000 a year. Today it's $60,000 on the same property. Now I ask you, is this fair? And I thoroughly support Senator Erdman's bill, and I hope you get it out of committee and let the folks downstairs all vote on it and so the Second House, the folks of Nebraska can-- can take a look at this. There was a comment made earlier that there will probably be some opposition to it. My guess is that opposition is going to come from folks who live off of our taxes. The problem is the people who pay it. So I would hope and I would pray that you would give this serious consideration and vote it out of committee so that it can be discussed. Thank you very much.

LINEHAN: Thank you very much for being here. I'm sorry. Are there questions? Yes. Senator Groene.

GROENE: So you farm?

LAWRENCE CONSBRUCK: Yeah. I-- we farmed for 50 years and we just moved to Hastings. So my wife and I.

GROENE: So 18 years ago?

LAWRENCE CONSBRUCK: Pardon?

GROENE: Eighteen years ago, your taxes were 10 percent or so?

LAWRENCE CONSBRUCK: Prior to the runup in land values so that's about seven, eight, to ten years ago.

GROENE: So--

LAWRENCE CONSBRUCK: In that period of time, taxes are over 300 percent higher.

GROENE: So, you know, the problem is every single tax dollar collected is spent. All right. In that time period, is your local government better?

LAWRENCE CONSBRUCK: No.

GROENE: Thank you. That's all I got.

LAWRENCE CONSBRUCK: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Go ahead. I'm sorry.

MASON HOFFMAN: Good afternoon, Senators. My name is Mason Hoffman, that's M-a-s-o-n H-o-f-f-m-a-n. I'm a farmer. I farm not too far from Lawrence Consbruck actually, same area, same school district. I would just like share with you my own story. You know, farmers, we're known for being strong. We've named our football team after that. We're supposed to be tough and there's only so much we can take. I do rent farm ground. This last go-around we passed a bond issue. My taxes went up $10,000 just to build an elementary school. Taxes have gone up considerably. I get so frustrated when I go to pick my kids up from school and I see somebody making four or five and ten times more than I do and I know they're paying a tenth of the taxes I am. Why just because I'm a farmer should I have to pay that much to educate my kids plus theirs plus someone else's? This is beyond unfair and I ask you to please pass this bill. Thank you.

LINEHAN: Thank you very much for being here. Are there questions?

MASON HOFFMAN: Yes.

LINEHAN: Senator Groene.

GROENE: You went to that same school?

MASON HOFFMAN: Yes.

GROENE: Does it cost a lot more to fund that school now than when you were there? I mean, your taxes are going somewhere.

MASON HOFFMAN: Yes, they are. Yes, they are.

GROENE: Is the kids's education better?

MASON HOFFMAN: I-- I don't know. I guess it's yet to be determined seeing where they end up in life compared to me. [LAUGHTER] I mean, I'm not trying to be smart. I'm just saying. And if I could also say, I'm on an-- I'm an elected official of a board that is a taxing subdistrict. That is where your opposition is going to come from. You're taking away their blank check and you're making-- you're going to make them come up here and justify spending $50,000 to renovate their NRD office and spending $20,000 on an architect or something else. You're taking away their checkbook. I personally see nothing wrong with it.

LINEHAN: Thank you, Senator Groene. Are there other questions from the committee? Thank you for being here. Good afternoon.

JIM DINKLAGE: Good afternoon, Senators, everyone. Jim Dinklage, J-i-m D-i-n-k-l-a-g-e, Knox County, Nebraska; president of Independent Cattleman of Nebraska; and representing many rural Nebraskans. Senators, if you haven't heard, there are from financial problems in rural Nebraska, not only from low commodity prices, but also from high property taxes. Seventeen percent of my income from my ranch goes to property taxes. For every calf sold in the Sandhills this past year, on the average, $100 went toward the ranch's property taxes. I am petitioning True Nebraskans to have on the ballot this fall an amendment to Nebraska's Constitution to rebate back 35 percent of all property taxes. Those who are signing the petitions always ask how the rebate will be funded. The answer is LR300CA. LR300 is introduced by Senator Steve Erdman is a great step in transforming Nebraska's tax code with a consumption tax that taxes only our discretionary spending. You play, you pay. Urban senators want a business incentive bill to attract new businesses by giving them a tax credit. I've often wondered why senators don't have a bill for potential young agriculture people to help them get started in Nebraska's biggest industry. With LR300, we have a chance to have a tax break for everyone who wants to do business in Nebraska. LR300 would eliminate property, income, and corporate taxes instead of being one of the highest taxing states in the nation. Nebraska could be the lowest taxing state. We're a long way from having Coach Frost build a number one football team. By starting today, Nebraska could begin to have a number one tax code business incentive. LR300 would be considered a consumption tax, but is a very similar to a sales tax where services and other exemptions are eliminated and the tax base is broadened. I hold 20 pages, probably 10 or 30 exemptions each, pages of Nebraska sales tax exemptions, credits, and refunds. Many of those should be eliminated. By doing so would revitalize business, improve the cost of living in Nebraska. I have never understood why having a tattoo or a piercing has gotten so popular. Now I know. There is no tax on getting a skin alteration. These types of personal services alone would bring in $10 million to the state's treasury. If LR300 would become law and the discretionary spending is taxed, Nebraska's revenues would increase and the tax rate would be lowered. Senators have argued years about property tax relief, but never has done-- and nothing has been done. Now is the time for you senators to do something significant for the people of Nebraska.

LINEHAN: OK.

JIM DINKLAGE: If not, the people will demand and force you to do something by passing the 35 percent rebate initiative this fall by ballot. Thank you.

LINEHAN: Thank you very much, sir. Any questions from the committee? Seeing none, thank you, Mr. Dinklage.

JIM DINKLAGE: Thank you.

LINEHAN: You're welcome. Next proponent.

PAUL VON BEHREN: My name is Paul Von Behren. I appreciate your time, Senators, the work that you're doing. My name is P-a-u-l. Last name is two words, V-o-n, second word is B-e-h-r-e-n. And I'm not trying to be acute, that should be cute. I'm not trying to offend you with my testimony, but for those of you who can't see it, that's the basis of the testimony. It's simply an old football. And I know it's an old football because it's not quite as old as I am. It's actually from the last year that I played football. I, like most grandfathers, I like to pull things out and share them with my grandchildren telling the stories. And they've got two objections to me pulling this out-- this football out anymore. Number one is that the older I get, the better I was. And they're getting a little tired of hearing the story. Number two is they recognize that as much as I would like to pass it to them and see them enjoy it, it ain't going to happen. You can see the cover is worn. The lacing is pretty marginal. If you get up to it real close, the stitching is almost gone. And I don't mean to draw any analogies, but the bladder leaks. So it's one of those things where it's going to be totally useless and they recognize that. What I want you to understand is the last year that I played football was 1966. That was about the time that we reformed Nebraska's tax code where it is right now with no property taxes. And there's a very good analogy in this. That football, frankly, is useless. And the point of all of this is that once you-- there-- there comes a time to patch. I'm a veterinarian. I've done a lot of fixing, patching. I've done a lot of leg mending, bone pinning, those kinds of things, but there comes to a point where you just can't go any further. We have, in fact, gotten to that point with Nebraska's tax code. Right now if you look on the back page, you can see the litany of things that Nebraska within the last 30 months has been titled the seventh worst, most heavily property tax state; 2017 worst economy in the United States; third most heavily taxed state in the nation, depending on whose study you're looking at; sixth, the worst tax environment for business. It goes on and on. Corporate tax is 1 percent higher than our surrounding state; net loss out-migration. We're losing about 5,000 highly educated individuals per year. Directly or indirectly, ladies and gentlemen, this reflects the economic condition of our tax code in our state. I understand what you're trying to do with things like LB974. But keep in mind, you asked how-- should we do this all at once or piecemeal? LB974 is the 511th bill that has been introduced regarding property taxes by your own Legislative Research Office count since the year 2000. Add the income tax, the other bills that have been introduced, you're probably close to a thousand. The point of this all is there comes a point, a time to retire the football. And Nebraska has, in fact, reached that point. It's just time and we're asking you to consider and pass for debate Senator Erdman's LR300CA. Thank you.

LINEHAN: Thank you, Mr. Von Behren. Wait, wait. Are there questions? Sir, Mr. Von Behren, you have a question.

GROENE: Well, you know why taxes are so high?

PAUL VON BEHREN: Go ahead.

GROENE: Because it's rare that a citizen is sitting there testifying for us. It's usually a government official telling us why they need more money.

_______________: Right.

PAUL VON BEHREN: Yes.

GROENE: Or this room is full of lobbyists also getting paid.

LINEHAN: Question, question.

GROENE: Did you know that government entities can pay with your taxpayer dollars a lobbyist to sit there and tell us how to spend more money?

PAUL VON BEHREN: I understand.

GROENE: Thank you.

PAUL VON BEHREN: I understand.

LINEHAN: Thank you, Senator Groene. Other questions? Thank you, Mr. Von Behren.

PAUL VON BEHREN: Thank you.

EDWARD TRUEMPER: Hello, everyone. Thank you very much for having me. My name is Edward Truemper, spelled E-d-w-a-r-d T-r-u-e-m-p-e-r. I'm a retired pediatrician living outside of Ashland, Nebraska. And Senator Linehan will appreciate the fact that I will be brief for the first time in history. I am testifying in support of Senator Erdman's LR300CA. It is important his measure is strongly considered. Despite the fact that we have some economic sectors that are growing, our economic and population growth languishes compared to other states. There are three economic forces that can explain this finding. The first is personal adjusted gross income or AGI for short. The second is income tax. There is a negative correlation between rising income tax and spending income. AGI flows from state to state, but some states have consistently negative AGI and others have a positive AGI. There is a direct correlation between AGI and economic opportunity, job creation, and population growth. From 2000 to 2015, there were eight states with no income tax. Seven of the eight experienced positive AGI growth. The only one that didn't was Alaska. As a consequence, a rise in economic activity and population growth occurred. The 10 states with the highest income tax rates showed negative AGI with corresponding loss in population. Where does Nebraska lie? We experienced an AGI loss of $2.3 billion, a total of about $140 million per year. In 2016, Nebraska experienced a negative AGI of over $200 million. The loss was spread over every age class from less than 20-- from less than 26 years of age to past retirement; 75 percent of that figure occurred from 55 years of age onward. Why did this happen? An exodus of our fellow residents to other states taking their AGI with them. Older residents dominated that loss. Total state and local tax burden is the third factor. States with a higher tax burden have a higher loss of AGI in population. The break point seems to be somewhere between 9 and 11 percent. Every state above 11 percent has a negative AGI. Every state below 9 percent has a positive AGI. Between 9 and 11 percent a tossup. Nebraska is about 9.7 percent. In short, many believe that our income tax is curtailing industrial and commercial growth. Replacing the income tax completely would definitely help in that regard. Aggregate tax burden is very high, primarily fueled by property taxes. Broadening sales or consumption tax base by eliminating all exemptions is the fairest way to achieve an equitable aggregate tax burden and keep it as low as possible.

Removing property, corporate, and inheritance taxes simplifies the tax code greatly. Long term, government spending has to be curtailed to maintain a growing economy, increased professional opportunities, net migration into the state, and a positive AGI. Thank you.

LINEHAN: Thank you, Mr. Truemper. Are there questions from the committee? Seeing none, thank you very much.

EDWARD TRUEMPER: Thank you.

LINEHAN: Other proponents? Any other proponents? OK. If you're going to testify, please come up front, guys, because I'm going to miss you. So if there's any of you testifying on this bill, we got all kinds of empty seats up here. Good afternoon.

DOLEN FREEOUF: OK. I'm here-- first of all, I'm Dolen Freeouf, D-o-l-e-n, Freeouf is Free and -o-u-f.

LINEHAN: So F-r-e-e--

DOLEN FREEOUF: F-r-e-e-o-u-f.

LINEHAN: Thank you.

DOLEN FREEOUF: OK. And I'm testifying in favor of Mr. Erdman's bill and it's LR300CA. I'm doing this off the cuff. I've been prodded by spouse to say something at least. I come here representing just a trust that I'm responsible for, small family trust. And the reason the trust is now in my hands because we're no longer farming it, nobody to manage it other than me. History: 1874 ancestors came to this country to get away from aristocracy, basically beginning of communism and control of the people. They wanted freedom. And they settled here. I'm fourth generation of that successful result of hard work on that land. That land supported simple farmhouse after the sod house was removed and the log house was removed and a simple house was built, lots of successful family members from that, some of which stayed to farm. Kind of breaks my heart. We may have to let that trustee farm go here in about the next 10 years. And I'll explain why. I'll try to be brief here. Nearby farms I grew up near had four and five families per section, some only three. And they seemingly all supported their growth. Their families fed them. The families worked. They went to school. Sure, some went off, but many up until about the '60s returned. Now I will say that in the area where I'm trustee for this little farm, nothing farm, 240 acres, nothing today in size. I would say that there's probably one house out of every two sections that is occupied. And many times this house is rented by a family who's working elsewhere and not farming the land. Because the average farmer today, in order to break even, has to have around 1,200 acres. The farmers that are professionals here and they can probably disagree with me, but--

LINEHAN: You're going to--

DOLEN FREEOUF: --roughly 1.200 acres to 2,000 acres.

LINEHAN: Sir, you're going to have to wrap up.

DOLEN FREEOUF: I'm sorry.

LINEHAN: You're going to have to wrap up. You're on your red light. You need to wrap up.

DOLEN FREEOUF: OK. I'm going to wrap up here real quickly. Our taxes since 2000 have tripled. On that little 240 acres, we paid $3,000 in about 1998, eight tax increases, we now pay $9,000. OK. In a nutshell, because it's a trusteeship and I get 20 percent of it, you can do the math. Right now, taxes are 25 percent of the income, OK, of that amount. Our problem is we cannot control the income. We do not control--

LINEHAN: OK, sir.

DOLEN FREEOUF: --the prices of the land.

LINEHAN: Sir, I can't let you go on because I didn't let other people go on.

DOLEN FREEOUF: OK.

LINEHAN: I'm sorry. But I appreciate very much what you're saying.

DOLEN FREEOUF: Yeah, OK, sorry.

LINEHAN: That's OK.

DOLEN FREEOUF: I didn't mean--

LINEHAN: No, I know. It's all right.

DOLEN FREEOUF: I'm a blabby teacher.

LINEHAN: Thank you. Do we have any questions from the committee? Senator Groene.

GROENE: What county are you from?

DOLEN FREEOUF: Between Crete, Wilber, and Pleasant Hill.

GROENE: So from when you were a child till now, just a few years ago, what is the population of your county then?

DOLEN FREEOUF: You know, I don't know that. I-- like I say, I'm coming here unresearched. I really don't know, sir. I'm sorry.

GROENE: Odds are it's a lot less people if you had four families on every quarter.

DAVE WELSCH: Yeah. Yeah. I would say Wilber is probably 1,800 and Crete is probably 7,000 and Pleasant Hill is maybe 20.

GROENE: A lot less kids in the school. l lot less children in the school.

DOLEN FREEOUF: Yeah. A lot less children in the school in the area. And there's some consolidation, sir.

GROENE: Have you ever been able to figure out why if there's less people, government serves the people--

DOLEN FREEOUF: Ah--

GROENE: --why the taxes went up so much? There's less people [INAUDIBLE]

DOLEN FREEOUF: Less people, well, the taxes went up, sir, I think because of supporting the consolidated districts to the side.

GROENE: Thank you.

DOLEN FREEOUF: I would say about of our tax bill, 75 percent is for school district and the rest is for county and local services.

GROENE: Appreciate it.

DOLEN FREEOUF: Yeah, I appreciate the question.

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

DOLEN FREEOUF: Thank you, ma'am.

LINEHAN: Other proponents. Any opponents? And if there are other opponents, could you come up front so.

TIFFANY FRIESEN MILONE: Good afternoon, Chairperson 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 policy director at OpenSky Policy Institute. We're here to testify in opposition to LR300CA for three main reasons. It would require huge hikes to the sales tax that will fall disproportionately on middle-income Nebraskans, apply those hiked rates on transactions that no state has previously taxed or tried to tax, and undermine long-term revenues. First, I'd like to note that the resolution as written is lacking detail on the mechanics of the tax. According to a 2005 report by President George W. Bush's Advisory Panel on Federal Tax Reform, which considered but rejected a national consumption tax, consumption taxes can take several forms, including retail and a VAT, a value-added tax; a flat tax which is collected partially from workers and partially from businesses; and a consumed income tax which is collected directly from households. There's nothing written in the resolution specifying what form this consumption tax should take. For purposes of the hearing, we assumed and Senator Erdman confirmed that it would be applied in line with what's known as a FAIRtax plan, which started as a proposal to replace all federal taxes with a national retail sales tax, and that has recently been promoted at the state level. The presidential Advisory Panel rejected such a proposal in their report, citing the high rate required to achieve revenue neutrality and the overall regressivity of such a plan, among other concerns. The same main concerns arise with regard to LR300CA. In order for the proposal to be revenue neutral, the sales tax rate would need to increase significantly, likely beyond what has been reported so far. Typically, these types of proposals call for increasing the sales tax rate by about 2 to 3 percentage points. But as the Advisory Panel found, the actual rate that would be required for neutrality was significantly higher than proponents had cited. In that case, the difference between the rate promoted and the rate needed for neutrality was 11 percent, from 23 percent to 34 percent. Similar results have been found at the state level. Even with substantial rate increases, independent analyses of proposals in other states have found that the proposed rates weren't enough to replace the revenue lost from the taxes that were repealed. In Missouri, for example, one version of a FAIRtax would have raised the state's general sales tax from 3 percent to an unspecified rate not to exceed 7. However, analysis of that bill showed Missouri would have actually had to raise it to-- its rate to 11 percent or more. Similarly, a proposed FAIRtax in Michigan that would have raised the sales tax from 6 to 9.75 percent on a broadened base would have fallen $2.5 billion short of the amount needed to maintain revenue neutrality. As I mentioned, the Advisory Panel also focused on the regressivity of these plans. While the proposed legislation doesn't set this out, there's been talk of including a new tax credit or prebate to offset this and purportedly protect low- and middle-income families from the effects of the tax. However, even if the prebate were to fully protect the lowest income households, the burden of the tax would then fall heaviest on the middle class. Because the wealthy are unlikely to spend as much as the-- spend so much that they'd pay as much in sales tax as they had been paying in income taxes, only those in the middle would be left to make up the difference. It would also disproportionately affect seniors and retirees who paid income tax throughout their lives, only to then be taxed a high rate on their consumption--

LINEHAN: You're on your red light.

TIFFANY FRIESEN MILONE: --which would include doctors' visits, medical devices and nursing home care. I have more, but I will stop and take any questions.

LINEHAN: Thank you very much. Are there questions from the committee? Yes, Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. If you want to make your final point.

TIFFANY FRIESEN MILONE: I would. So this all assumes that the tax is being applied to a significantly broadened base, which, according to the resolution's language, would include all new goods and services. Presumably this would include groceries, healthcare, as I mentioned, and other goods and services like childcare, babysitting and private school tuition, things that we have not previously taxed. Many of these things are exempt for-- from tax for good policy reasons. The bill-- the resolution's language also doesn't explicitly exempt business inputs and so as written, it would tax business inputs and contribute to pyramiding where sales tax is applied.

LINEHAN: Thank you, Senator McCollister. Are there other questions from the committee? Thank you very much for being here. Other opponents.

ROBERT BELL: Good afternoon, Chairperson Linehan, and members of the Revenue Committee, my name is Robert Bell, last name is spelled B-e-l-l. I am the executive director and registered lobbyist for the Nebraska Insurance Federation. Today, I'm here in opposition to

LR300CA. You're getting my hand-- or my written testimony, which if you want to read--

LINEHAN: Go ahead or we're going to run out of time, sir.

ROBERT BELL: OK. Yep. Go ahead and read it at your leisure. We're here on a very narrow point. So I represent the domestic insurance industry in Nebraska. Premium tax is a matter of great importance to the domestic insurance industry. We have quite a robust domestic insurance industry of about 16,000 jobs in the state of Nebraska. I have 29 members. When premium tax is handled by other states in a retaliatory type of basis, so if the tax-- if the premium tax goes away and is replaced by the consumption tax, as is listed in this legislative resolution, this constitutional amendment, and other states consider that a premium tax, our insurance products that are written by Nebraska insurers will be taxed at a higher rate in other states. So as an example, right now, Iowa's premium tax rate is 1 percent. If-- if this consumption tax goes into place, it places that at a 5 percent rate in Nebraska. Iowa insurers that write in-- in Nebraska are going to pay that 5 percent tax. When the Nebraska insurers go across the river and try to sell their products, they're not going to be taxed at 1 percent. They're gonna be taxed at 5 percent. And so having a low premium tax rate is beneficial to having insurance companies based in Nebraska. And that is our-- our narrow point, not really trying to get into the bigger picture. I mean, companies pay lots of taxes, income tax, property tax, all of those different types of taxes. But I just want to make the committee aware we don't appear here before Revenue Committee very often, but did want to make the committee aware of that one issue. Thank you.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much.

ROBERT BELL: You're welcome.

LINEHAN: Thank you.

JOHN HANSEN: Madam Chairman, members of the committee, for the record, my name is John Hansen J-o-h-n, Hansen, H-a-n-s-e-n. I'm president of Nebraska Farmers Union, also our lobbyist. I have dealt with this issue in some depth, both in the international arena as having done 14 years on the United States Trade Representative's Advisory Committee. We're the only major industrialized nation in the world that does not have a value-added tax, which is a consumption tax. The countries that did it the first and liked it the best and have the highest rates are socialist countries. I find that interesting. But the rates are all over, but the average rate in the world is about 18 percent. Agriculture, how does it get treated in those countries? Depending on which country you talk to, some countries fairly well, some countries not so much. And it really gets down to the business of whether or not you actually really isolate inputs or not. As a state organization, we've had, I think, three iterations of this. We've had the transaction tax. We've had the FAIRtax. We-- I think the last time I remember before this committee was about 25 years ago that there was a form of this tax. So it's been around for a long time. What is amazing to us is, first of all, there's no modeling. This is a radical departure from what it is that we're doing, is that there isn't anybody that's testified here today in favor of this who actually in the bottom of their heart thinks their taxes are going to do anything but go down dramatically. So how is it that everybody's taxes goes down-- and, boy, everybody is for that-- but we generate the same revenue? Well, there has to be some completely new taxes coming in somewhere that we're getting hit on that we don't see coming or we're going to have to tax a bunch of inputs. So the whole idea at this point in the demographics of the state of Nebraska, as someone who represents rural interests, the last thing that I want to do is put us in a position where we're going to collect all the money at the state level and then all local governments are going to send in how much money they think that they need to run their local governmental subdivisions, and then get down on bended knee and look with hopeful eyes to Lincoln and hope that the majority of the Legislature that comes from Omaha and Lincoln feels it in their heart to send in the amount of money that they need. And this-- this approach that we have now takes away anything that remotely looks like a backup plan or a backdoor to be able to make up for shortfalls. So with that, we are opposed. If we thought it worked, we'd be all over it. We don't think that this is going to work and you should never make these kinds of radical tax changes unless you actually really have a lot of modeling and you know what you're going to do. Thank you very much.

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

JOHN HANSEN: Thank you. It is no questions Wednesday.

DAVE WELSCH: Good afternoon, Senators. My name is Dave Welsch, D-a-v-e W-e-l-s-c-h. I serve as president of Milford Public Schools Board of Education. I am also a farmer and ag landowner. I'm here to testify in opposition to LR300. The reason I am opposing this bill is because it can only address one side of the budget, the revenue side. There is nothing in this bill to address how the revenue-- revenue will be distributed across the entire state for all schools, cities, counties, etcetera. It is similar to the proposed ballot initiative, which would provide a 35 percent property tax credit on our state income taxes. This initiative only addresses lowering property taxes, but does not address how to fund those proposed credits. Both of these proposals are poor state policy. Good state policy is created when the Legislature addresses both sides of the budget equation: revenue and expenses. Governor Ricketts was at it again yesterday, spewing his political rhetoric that property taxes are high because public school spending is out of control. Or should I say government school spending? School spending in our state is growing at nearly the same rate as our state budget. The reason property taxes go up is because state support for schools has gone down and you can take a look at the attachment I've provided. Legislation required us to levy at least 95 cents to receive our equalization aid at Milford Public Schools. And I'm trying to edit here to save time. We are requesting-- we were requesting more in taxes than what we needed in our general fund because we had to levy 95 cents to receive our equalization aid. So at that time, we took the fiscally responsible action of paying off a remodeling loan to save on interest rates. A few years ago, this legislative mandate to have a minimum levy to receive equalization aid was removed and I thank you for that. But prior to this, the state was forcing us to levy higher property taxes than what we needed in our general fund. Senator Linehan also made the statement yesterday that schools want more money, but they don't want spending controls. I'm sure you all recognize those controls are already in place. We don't need additional restraints. LB974 is trying to legislate fiscal responsibility by putting even more restraints on school spending and taxing authority. If you pass this legislation with the restraints intact, the only ones you would be hurting will be the young people of Nebraska. Schools across Nebraska are currently doing a great job of educating our children, even without the proper financial support from the state. Please don't try and handcuff us further by redistrict-- by restricting our ability to educate our children. So the moral of the story is this. You can't legislate fiscal responsibility. You can only elect fiscal responsibility. And that is exactly what voters have done all across Nebraska when they have elected their local school boards. Thank you and I'll take any questions.

LINEHAN: Thank you. Are there questions? Seeing none-- yes, Senator Groene.

GROENE: You analyze a lot, Dave.

DAVE WELSCH: Thank you.

GROENE: Forget about the people paying the taxes. What property in this state is paying, or the owners of it, is skyrocketing. Would you agree?

DAVE WELSCH: Absolutely.

GROENE: Where did it go? If the schools aren't using it, who-- where-- where's it gone to?

DAVE WELSCH: Since you're the ones that spend the state budget, I would think you would have a better handle on that than I.

GROENE: I'm talking about property taxes. Property taxes.

DAVE WELSCH: OK. When you look at the attachment, the problem is that for Milford Public Schools, which I can speak directly to, as you can see on the attachment, our state aid went down by $1.6 million. Therefore, we had to raise property taxes, $1.7 million.

GROENE: On your farm, what is-- what percentage is school of your taxes?

DAVE WELSCH: I think that our total levy is around $1.40 and probably 90, 92 cents is school, so you can do the math. You're sharp at that.

GROENE: Thanks.

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

DAVE WELSCH: Thank you.

LINEHAN: --for being here. Other opponents. Anyone wanting to speak in the neutral position? Again, if you guys are-- if you want to testify, please come forward. There's plenty, a whole row of seats up here.

NICOLE FOX: Good afternoon, Madam Chair, members of the Revenue Committee. I'm Nicole Fox, N-i-c-o-l-e- F-o-x, director of government relations at the Platte Institute, and I'm testifying today in the neutral capacity on LR300CA. Thank you to Senator-- Senator Erdman for proposing this constitutional amendment, which is prompting a needed discussion about creating a more complete vision for tax reform in Nebraska. Nebraska's economic competitive-- competitiveness and the simplicity of our tax code would improve substantially if the Legislature and voters chose to forgo state income taxes and local property taxes. Since as far back as 2013, the Platte Institute and the Tax Foundation have recommended that the Legislature remove exemptions from-- in the state and local sales tax and use those revenues to reduce the state's high tax rates. However, the proposal in LR300CA would be new territory as it relates to eliminating property taxes since all other states currently levy them. A key reason is stability. Even in states with low property taxes, local governments know that they can count on them when budgeting because real property can't be moved outside of their jurisdiction. But if the Legislature wanted to replace property taxes altogether or even significantly reduce the local property tax authority, using a broad-based consumption tax is a good alternative. For example, neighboring South Dakota has no income tax and a broad-based sales tax and their state revenues are ranked the most stable. The proposed amendment to LR300CA also properly clarifies that business-to-business transactions should not be subject to consumption or sales tax. Business inputs should not be taxed in order to avoid tax pyramiding. One difficulty of implementing this policy, however, is that even with its very broad base, the consumption tax rate needed to replace all other taxes except for motor fuel excise tax would have to be among the country's highest. Granted, LR300CA would be giving us a tax rate of zero on our income, property, and much more so voters would have the chance to decide if that was worth the tradeoff. And while it's a good thing that the proposed amendment allows counties, cities, townships, and villages to have a consumption tax to make local financial decisions, this means the combined tax rate will be even higher, particularly in communities that don't have a lot of retail sales. Because a relatively high rate would fall on nearly all of our consumption, there will be certainly a border bleed for goods and services that can-- that can be purchased out of state. That's one reason it's worth bearing in mind that as favorably as we would look upon the prospect of ending the income and property tax, even a reduction of sales taxes with a more modest consumption tax would go a long way to improving Nebraska's all over-- overall tax climate. States with income or sales tax do tend to rank well in tax climate competitiveness rankings. But there are also states with all the major taxes like Utah or Indiana that still rank among the best because they employ broad bases and low rates. However, if voters should decide to approve a constitutional amendment for a 35 percent credit of property taxes, the Legislature may need to consider using an approach closer to LR300CA in order to address how this-- how much the state would need to pay in rebates for local property taxes.

LINEHAN: OK. Thank you very much.

NICOLE FOX: With that I see I'm out of time. Any questions?

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

McCOLLISTER: Yeah. Thank you, Chairwoman Linehan. Have you modeled this legislation to-- to know what this-- what the rate might be in Nebraska, Senator Fox?

NICOLE FOX: We have not. I mean, the Platte Institute has not modeled it, but we know that there's the handout that you have. I mean, we have-- we've seen that, but no.

McCOLLISTER: So counties and other jurisdictions would have their own consumption tax as well? Is that correct?

NICOLE FOX: Well, as I understand it, that's what the amendment allows for is if they feel-- I mean, because one thing, there is less consumption in rural areas. I mean, there's less population. But yeah. So that's one thing we-- we do see in here is that, I mean, if locals would have their own consumption tax, that would drive the rate higher, of course.

McCOLLISTER: Do you see a potential problem? Would people be inclined to go to Iowa to buy things because the consumption tax in Nebraska would be much higher than just a sales tax in Iowa?

NICOLE FOX: Well, I mean, that-- and that's something I brought up in my testimony is that, you know, we-- I mean, I don't have a looking glass ball, unfortunately, to know what border bleed might be. So, you know, that is something that we would have to take into consideration. But I mean, I think that for-- I mean, you know, there are other reasons. I mean, I'm trying to think how to say this. You know, there are a lot of things that-- that guide our purchasing decisions. Some people it might be convenience. I mean, there might be people that-- that don't want the hassle of having to leave the state to purchase various goods.

McCOLLISTER: You have testified neutral on this bill.

NICOLE FOX: Yes.

McCOLLISTER: If-- if the difference was 3 percent between Iowa and Nebraska, Nebraska with consum-- consumption tax and Iowa with only a sales tax, would you still be neutral on the bill?

NICOLE FOX: Say that again, Senator. I'm sorry.

McCOLLISTER: Sure. OK, if Nebraska had a consumption tax, as we've seen--

NICOLE FOX: Uh-huh.

McCOLLISTER: --indicated here and Iowa only had a sales tax and the difference in those two rates was 3 percent, how would you feel about the bill then?

NICOLE FOX: Well, I think the key factor here is that we're talking about eliminating two other types of taxes. And, I mean, broadly speaking, we're talking about eliminating property tax and income tax. But looking at this bill, I mean, it definitely simplifies our tax code. It eliminates a lot of other taxes that we know are harmful and detrimental to the state. It also eliminates things like the inheritance tax. And I think a proposal like this, you know, something we have to keep in mind is that, again, it simplifies the tax code. And if we look at our tax code as it stands, we have all kinds of credits. We have all kinds of exemptions. And I think that we have that because our taxes are so high.

McCOLLISTER: Thank you.

NICOLE FOX: Uh-huh.

LINEHAN: Thank you. Senator Briese.

BRIESE: Thank you, Chairwoman Linehan. Thank you for your testimony here today. You mentioned the possibility of border bleed. But a use tax in theory could minimize border bleed, correct?

NICOLE FOX: Potential. I mean--

BRIESE: Yeah.

NICOLE FOX: --yeah. I mean, again, that's where I say we don't have a looking glass ball. I mean, I-- I would say that, you know, this puts consumers in the driver's seat because also, if you think about it, this is about, you know, we're putting people-- we're taxing first purchase. So people have a lot of choice in terms of some of the goods that they buy because they could buy a used car. They can buy, you know, refurbished various household goods. So if they don't want to pay the-- the first use consumption tax, they can-- they have alternatives.

BRIESE: But as far as going out of state and purchasing across the border, a use tax could minimize the temptation to do that, it seems, correct?

NICOLE FOX: Yeah.

BRIESE: OK. Thank you.

LINEHAN: Thank you, Senator Briese. Other questions from the committee? Thank you for being here.

NICOLE FOX: Um-hum.

LINEHAN: Are there any other neutral testimony?

ED GEORGE: Greetings, Senator. My name is Ed George, E-d G-e-o-r-g-e. Agriculture is in my blood. I grew up on York County farm, of which my mother, an 89-year-old lady, is still living on the farm. My dad died going to the mailbox on the farm, and he died in the hospital. He never had the opportunity to go to high school during the Depression. But his one important thing I'll never forget was taxation is inevitable and education is so important, and he knew he was going to die, which he did on the farm. I want-- I wanted to point out some things that I think are important as you think about revenue coming into the farm and then how the taxation system works. And I think about this and I say to myself, Nebraska farmers are gamblers, gamblers. For every year, they hope that they have a successful year. And with that in mind, I try to illustrate that my-- my mother still pays taxes on 320 acres of land, which my dad and my mom worked hard to accumulate. It's become very valuable. Some of that land was bought for $50 an acre. Now it's worth in excess of 11-- $11,000 at least that's the tax base. One of the things that I had to think about was my mom leasing that ground to my brother to farm, which my brother has as an owner/operator. And so what are those things that we gamble with on the farm? We've had hail insurance laws. We've had flood laws. We've had various storms that we take out insurance on as a gambler. And so when you think about what happens in the revenue that comes in, whatever form it may be, it's so costly to all of us in every way that we live. Yet my dad again said because he didn't get an education, he wasn't afraid to pay his taxes to the Gresham Public School System, which he was on the school board and he also was on the Thayer Public School Board. Taxation, he said, was important. Now that he has grandchildren that have graduated from Utica Centennial, which is part of the consolidation process, he said every child is entitled to a good education no matter where they live, no matter where they are in the world. I-- I ask you, beseech you to help us to solve these problems, because we elected you as public officials and we, as private citizens, ask for your help and support. I went to univers-- my career, I left agriculture farm so that my brother could farm. That was his passion. My career involved becoming a university extension educator. I put up 400 irrigation center-pivots in the area. I worked in hybrid seed corn production. My real enthusiasm was working with 4-H youth and FFA youth. As you heard testimony earlier, this is the backbone of our country and our state. If we produce kids that are worthy leaders, thought-provoking, think about things that are important in their lives that will reflect on our values, then I beseech you to also help us to solve these problems. You have a tremendous responsibility on your shoulders. I open up to any questions.

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

ED GEORGE: Thank you very much for the opportunity.

LINEHAN: Are there any other neutral testimony? No one else in neutral. So letters for the record. So we have proponents: Steve Ulett, Papillion; Derek Heckman, Omaha; Linda Von Behren, Fremont; Britt Thedinger, Omaha; Melissa Evans; Marlys Meyer, Scribner; Grace Coleman, O'Neill; Michael Leary, Omaha; Dallas and Marilyn Asher, Omaha; Ken and Sheryl Otten, Omaha; Walter Gall, Omaha; Ivan-- Evan, excuse me, Evan Trofholz, Columbus; Raymond Welker, Columbus; Corn-- Corwin, I'm sorry, Keller, Omaha; Nancy Welker, Columbus; Sharlene Wilson, Clay Center; Doug Wittmann, Dodge; Sheila Walker, Alliance; Cheryl [SIC] Edmundson, Omaha; Dennis Edmundson, Omaha; Laura Sherman, La Vista; David McPhillips, David City; Dolen and Sara Freeouf, Crete. I think he was here. Sharlene Wilson, Clay Center; Paul Von Behren, Fremont; Evonne Rodriguez-Sierra, Omaha; Michael Leary, Omaha; Krista Pondit-- Podany, Verdigre; Amy Ballagh, Burwell; Mary Thompson, Omaha; Jan Plambeck, Kenesaw; Robert and Karen Nielsen, Sterling; Tonya Wilson, Burwell; Karen Johnson, Gering; Matthew Welker, Lincoln; Cindy and Ed Sass, Omaha; John Kaldahl, Hardy; Ron and Lynette Nash, Lincoln; Susan Gumm, Omaha; Rod Goodin, Hastings; Duane Lienemann, Blue Hill; Michael Pickinpough, Minatare; Donald Hagedorn, West Point; Barb Otto, Spencer; Linda Gidley, Omaha; Anne White, Omaha; Rod White, Omaha; Todd Hornung, Wahoo; Edward Janeczko, Papillion; Rob Rohrbough, La Vista; Maureen Rosie, Rossi, excuse me, Omaha; Russ Ochsner, Roseland; Jeff Metz, Bayard; Amy Ballagh, Burwell; LaWayne Nissen, Marquette; Earl Visser, Lincoln; William North, Lincoln; Jake Otte, Otte Electric; Rod Laible, R.D. Industries; Lee Todd; Jim Bennett, Americans for Fair Taxation; Michael Cave, civil Creek-- Silver Creek, excuse me, Insurance Agency; Jason and Linda Post; Gerald Sobotka; Chase Stenger; Joan Classen; Dillon Laurent; Rich Dressman; Andrew Sullivan; Merlyn Nielsen. Opponents: Julia Tse from Voices for Children; Ron Sedlacek, Nebraska Chamber of Commerce and Industry; Jessica Shelburn, Americans for Prosperity; Sara Kay, AIA Nebraska; Barbara Byrd, Nebraska State Homebuilders Association; Joe-- Joey Adler, Holland Children's Movement; Ann Hunter-Pirtle, Stand for Schools; Todd Stubbendieck, AARP, Nebraska. Neutral: None.

ERDMAN: Wow. Thank you. So let me start with this. Senator McCollister, I want to answer your question about the border breed-- bleed over it. There are hidden taxes in what we sell today. And the best example I can use is this. Say you go down to the grocery store to buy a can of beans. Can of beans on the shelf is marked $1. There are hidden taxes in that can of beans. They're the property tax the owner pays. There's the income tax the owner pays, and the taxes he may pay on his inventory. So if his taxes are 10 percent and he had none of those taxes and this removes them, he could sell that can of beans for 90 cents and make the same dollars. Right? So if that retailer says-- and it's not appropriate, your example, but if that retailer says Iowa is going to be 8 percent-- it's what I seen yesterday, it's gonna be 8 percent-- and we're at 10.6. And the retailer says, I'm going to sell my beans for 95. So he marks them down to 95. He makes 5 cents more than he did before we took away the taxes, and he sells them cheaper than the guy can sell them in Iowa. OK? But here's the point you missed is with the prebate, that person is not paying 10.6. If that person spends $100,000, his annual consumption tax rate is 7. And if he makes $100,000, he's currently paying 7 percent in income tax. So it's not a fair comparison. There's not going to be no border bleed over into Iowa, same way with Kansas or Wyoming. These people figure it out. The other question that I keep getting is these greedy landowners and landlords will not lower their rent and these people will not get an advantage. Well, let me tell you something. My wife and I have 10 rentals. When I have a vacancy, I look for a tenant. And when a tenant says, your rent is too high and he looks somewhere else, I lose that opportunity. So if my property tax goes down and our average house taxes in Bridgeport is probably $1,500 a year. Right? And so if I'm renting a house for $650, that's over two months' rent. So I could take off a month's rent. I could lower the rent to get that person to come rent my house. If I do that, you know what those other people who rent houses are going to do? They're going to lower their rent because they're going to have vacancies. So those don't hold water. OK? So those hidden taxes go away. It makes it transparent so everybody can see it. We have focused on the 10.6. The consumption tax rate for individuals will be whatever that chart showed you because they're going to get a prebate. Now the young lady that read faster than I can listen to, and she said more in five minutes than I can listen to in ten, I didn't understand a thing she said, but that's the way it is. OK? So we have all these experts who understand what's constitutional, what isn't. And then we have all these people that say, well, a 35 percent reduction in property tax doesn't have a way to pay for it. Well, this amendment doesn't have a way to pay for it. Here's a newsflash for you. When you put something on the ballot, it's a single issue item only. You can't put on the ballot how you're going to pay for it. I earlier said Alabama has introduced a constitutional amendment. And then I said Alabama has also created the statute on how they implement it. And that's what we will have to do. You can't put it on the ballot how you're going to pay for it. What aggravates me about the 35 percent solution is when we were circulating the petition for Medicaid expansion, nobody ever said, hey, how are we going to pay for it? But we circulate a 35 percent reduction in property tax, first words out their mouth: How are you going to pay for it? Here's the answer. We'll make a decision in the Legislature to make that decision. In 1966, the voters of the state had a petition similar to 35 percent reduction. And they voted on it and it passed. And you know what happened in '67? The state had no funding. None, none. The sky didn't fall. OK? We didn't come to an end. We didn't change the name of our state. All right? There was a gentleman stopped in my yard this summer, was circulating a petition for me. He said I circulated the one in '66. I said, wow. What did they say then? Here's what he said. The sky is going to fall. We're going to end all services of the state because it's the only source of funding the state has. So we are going to lose everything we got. We're going to have no roads and it's all going to come to an end. Guess what? Didn't happen. Same thing now. So here's-- here's what you got to think about. You're going to face a 35 percent solution or you're going to face this one, because I can tell you right now, this Legislature won't make a decision, and I'm not saying this to be disrespectful. You will not make a decision on anything significant unless you're forced to. The last time we made a significant decision was 1966, 55 years ago. And I'm not naive enough to sit here and think that we're gonna make a decision that counts without being pressured. We're scared to death of the second house. We don't want those people's opinion. We want to do it the way we want to do it. And the people that come here, the lobbyists that come here, and one of them I'll visit with him. And I said, so this is gonna be bad for your organization. This was yesterday. It's gonna be bad for your organization. So hypothetically, let's make this-- let's make this a hypothetical thing. Let's say that this consumption tax is better for

98 percent of Nebraska, 98 percent of the people are better off. Would you not want us to pass that to help 98 percent of the people because it's bad for your organization? Without hesitation, without a second's notice, yeah, I don't want you to pass it. Who are they worried about? They're worried about themselves. That's the problem with the people. And someone said it up here today, you will have the people come in and collect the taxes will be whining about it. All right? Unless we step up and make a decision and put the taxpayer first, we're gonna keep getting what we get. And I can tell you right now, some of these people that came here today drove 300 miles to tell their story. If you want to live in a state that has no income tax, no property tax, no inheritance tax, help me implement it because this is the solution. But the 35 percent petition is moving on because we're going to make a decision. So let me leave you with these things. You need to consider these things. What happens? What happens to the state government's need for money if we pass this? All right? Property Tax Credit Fund, where's it going, Senator Briese? It goes away, $275 million. Right? Homestead exemption, guess what? Goes away. How much is that? $100 million. Right? You know what else goes way? Property assessment division goes away. Why is that? We don't have to keep track of values. TERC. Anybody hear of TERC? Million bucks for TERC. That's what we pay the commissioners. But we don't-- we don't add up. Here's what we don't add up. All of that money that those taxpayers have to spend to go to TERC, who pays that? They do. TERC goes away. All right? The Revenue Department changes. They go from collecting taxes to making sure people pay in their consumption tax and finding out who needs the prebate. Right? Here's one for you. Senator Groene, you'll like this one. TIF goes away. TIF, imagine that. It's gone. We don't need it. Why do we do TIF now? It's because our taxes are too high and we give people breaks on their taxes so they'll come here. TIF. Right? How about this one? This is a good one. Seven hundred and eighty million dollars has currently been earned and not collected in our tax incentives, $780 million. That's a liability on the state. At some point in time, these people are going to say, hey, you know what? I need to collect that. And we're short $780 million. That goes away. There's no longer no need for tax incentives. That 780 goes away. The assessor positions in the courthouse, what do you need those for? Not keep track of information. You're not setting values. The Economic Development, what does that group do? I've never understood why Economic Development is part of the state budget anyway. I don't know whether the constitution says it's a jobs-- it's a job of the state to create economic development. But maybe their job changes. Maybe their job changes to say you need to put your business in this county. This county is open for business or this county is open for business. Their job could be different. So we're going to cut $1.5 billion out of the

state's budget by doing it, $1.5 billion. We're going to put the people who pay the taxes to the front of the line. We've been waiting a long time for this. They talk about being Senator Erdman's bill. It's not. There are nine other people who signed onto that bill. This is the people's bill. I just happen to be here. If you have questions, Senator Friesen, your question about who pays? I'll tell you who pays. It's those people who have been finding all the loopholes in our tax system. And we're going to put back on the tax roll over $60 billion worth of-- of services and goods that aren't taxed now. That's who pays. It's fair. Everybody gets a chance to pay. It'll hold the poor people, the low-income people harmless. The average person will be held harmless. We've got to make a difference. And I got-- I got bad news for those insurance people. I don't know if they know it. They maybe think they're like the university. They are not the economic engine that drives the state. It's agriculture that drives the state. And, you heard those people today. All right? If we don't fix agriculture, I got to read something to you. William Jennings Bryan said this. You've heard of that guy, right? They named Billy's after him, right? It's what they told me, anyway. He said-- he said this: Burn down the cities, leave our farms and your cities will spring up again like magic. But destroy the farms and grass will grow on the streets of every city in the country. That's fact. So here's your opportunity as a committee, bring this to the floor. Let's once and for all have a real discussion about changing our tax system. Thank you.

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

GROENE: When you go around with your 35 percent, do a lot of people say they're against it? Do some people tell you they're against it once in a while, they're against 35 percent? Because you can't--

ERDMAN: Seldom. Once in a while.

GROENE: Well, I just wondered if you went around and told them if they voted for LR300CA the 35 percent goes away.

ERDMAN: Senator Groene, my impression is this. When we had that question, how do you pay for it? And I chose not to answer that question because I didn't know what the answer was. The 49 people that sit in that body up there will make that decision. But here's the answer. If the consumption tax passes, the 35 percent goes away. But we're not giving up on the 35 percent because I'm not naive enough to think we're going to do something.

GROENE: Does this include wood, nails, and everything if you remodel a house at 10 percent? If you remodel your house, you pay 10 percent on that, on the supplies?

ERDMAN: Yes. That's if you're-- yeah, it's if you're at $100 million because of the prebate. Depends on what your tax bracket is after you get the prebate back. If you're a $100,000 person, then it would all be 7 percent. There's a sliding scale there on what your percentage will be that you'll pay because of the prebate.

GROENE: So on one of your rental houses, I'm assuming one of them needs repairs, right? But if you repair it, taxes go up, you got to raise your rent. Right?

ERDMAN: Now it does. Yes.

GROENE: With this, that wouldn't happen, would it?

ERDMAN: That's correct. It doesn't.

GROENE: The slumlords would probably fix their houses because their taxes wouldn't go up.

ERDMAN: Right.

GROENE: Is that a benefit?

ERDMAN: Yeah. You may have an old barn like I had and I wanted to leave it there, but the assessor told me if I remodeled or improved it, my taxes would go up significantly and I burned it down. That goes away. Give us an opportunity to fix things up, improve your property, create wealth overnight. You have a young family, family of four, whatever, they've got a mortgage on their home, $1,500, $400 or more of that is property tax. It goes away. This is not a rural agricultural issue only. You heard those people from the urban sector say it's affecting us as well. This is a common thing amongst all people who pay taxes in Nebraska. This is our chance to fix it. I came here to offer solutions when I came in '17 and I've offered several. And here's another one. This is our chance. Now if you have other questions, stop and see me. I'll try to answer them. I don't know all the answers, but I can tell you this, together, we can make this work.

LINEHAN: Thank you very much for being here. Thank you. With that, we bring the hearing on LR300CA to a close. Thank you, Senator Erdman. And now we open the hearing on LB1130, Senator Groene. Let's go, let's go, let's go. OK, we have another hearing. We have another hearing. Senator Groene, welcome to the Revenue Committee hearing.

GROENE: Thank you, Chairman. This-- really to sum LB1130 up, it should have been a committee amendment last year on my LB63. LB1130 is intended to address concerns brought forward after our bill, LB63, passed last year. We discussed the changes made by LB63 with the State Treasurer and with local fire districts and determined some provisions as written created confusion. LB1130 clarifies those provisions. First, LB1130 establishes that all mutual finance organizations-- to refresh your memory, this is on rural fire districts. You-- the individual with insurance mentioned the insurance tax. Ten percent of that goes into a mutual fund for rural fire districts. If they all have the same tax-- agree to-- to help each other in a county, they-- they get-- I think it's $10 a head of the population of the district up to a $300,000 limit. Well, what we did was say, all right, so you're really a fiscally conservative rural district, you don't need new equipment, but you're forced to have a certain levy and you were taxing your members for more than what they needed to pay. This gave them a range that they only had to be at the higher tax rate one year out of-- we left it open to five years and floating and that was too confusing, so what LB1130 does is establishes all mutual finance organizations must have a duration of three years. In the current statute, MFO agreements must last at least three years but may last longer. This was an oversight last year which we intended to correct with this bill. Next, LB1130 provides that the members of an MFO must include an agreed-upon maximum levy within the MFO agreement. In current statute, it is not clear how the agreed-upon maximum levy is identified. We want to ensure this information can easily be determined by a rural fire district or any district. LB1130 also clarifies that the MFO members do not all need to levy the agreed-upon maximum levy during the same year of the agreement as written. The statute implies that all members must levy the maximum rate during the same year that all other members are levying that rate. We want to make sure they understand they can do it any one of the three years cont-- of the-- of the agreement. I want to make clear that no-- so long as each member levy is the maximum rate during one year of the agreement, regardless of whether any other members are levying the maximum rate during that year, they will be in compliance with the law. During the other years, members may reduce their levy if they so choose. The final change made by LB1130 is a modification of dates for application for funds under the Mutual Finance Assistance Act. The current application deadline of July 1 requires MFOs to set their levies prior to property valuations. By shifting the deadline to September 20, we can ensure that the levy rates reflect current valuations. To accommodate this date change, we worked with the State Treasurer's Office to adjust the rest of the funding timeline. Currently, the State Treasurer must approve or deny applications by August 15. LB1130 changes this date to November 4. The dates for disbursement of funds are also changed from the current date of November 1 and May 1 to the dates of January 20 and May 20. Finally, current statute provides that any funds remaining in the Mutual Finance Assistance Fund as of June 1 must be transferred to the General Fund before July 1. LB1130 changes this provision so that funds remaining as of June 20 shall be transferred before July 1. This bill also includes an emergency clause and an operative date of June 15, 2020, so that the new provisions will be effective for the 2020 application year. If you have a cleanup bill, which I asked the Chairman-- I'd like to see this put into it. We could take the emergency clause out if we had to. Otherwise, if we could pass it out, then I could ask the Speaker to prioritize it because it is a necessary cleanup of an existing bill to clarify that the Secretary of-- Treasurer and these little rural districts on how they can take advantage of this. It's local control and it's a little niche where we allow them to take advantage of getting some of that mutual finance money out there in rural Nebraska, but also be able to have the local control, control their taxing authority.

LINEHAN: Thank you, Senator Groene. Are there questions from the committee? Seeing none, are there proponents?

JERRY STILMOCK: Yes, ma'am. Madam Chair, members of the committee, my name is Jerry Stilmock, J-e-r-r-y, Stilmock, S-t-i-l-m-o-c-k, testifying on behalf of my clients, the Nebraska State Volunteer Firefighters Association and the Nebraska Fire Chiefs Association, in support of LB1130. Thanks for Senator Groene for bringing the-- the legislation. It does everything that he said. I-- there is no need in repeating it. He did it very clearly and really, very eloquently. The-- the biggest thing that we're looking at is right now-- let me-- let me take a time-out. The item that I'm sending out to you, I always like to make sure that you have this current information. This is the annual report that the Treasurer is required to do and it sets forth those-- those counties familiar to you when it-- when it hits into your-- your legislative district. But what it's-- what this does is back in 1998, Senator Wickersham introduced legislation, eventually adopted by the Legislature. What it does is it funnels, as Senator Groene said, the insurance premium tax portion of that, 10 percent, into basically any of the fire districts in rural communities; $3.6 million, based upon applications that are submitted, are made available then on a $10-per-person calculation. One of the things that we've been struggling with for a few years is the application deadline date of July 1. All of you on this committee know, and the senators know, that the-- the certification for valuation by counties is not done until August 20. So if you have a date of July 1 that the fire districts are expected to place a levy that they agree not to exceed, it only makes sense that they have the benefit of the certification levy date of August 20. That's why Senator Groene saw fit to include the filing deadline-- to move it to September 20. Then the other days just domino forward to assist the Treasurer's Office in order to review those applications, approve or deny. And this is-- this is a great tool for fire districts, those that care to join. There's upwards of 35 that are participating and have been participating for several years. It's a great bill. We'd ask your support in moving it to General File. Thank you.

LINEHAN: Thank you.

JERRY STILMOCK: Yes, ma'am.

LINEHAN: Are-- are there questions from the committee? Seeing none--

JERRY STILMOCK: Thank you.

LINEHAN: --thank you very much.

JERRY STILMOCK: Yes.

LINEHAN: Are there other proponents? Are there any opponents? Anyone wanting to testify in neutral position? Senator Groene, would you like to close? We have letters for the record, I'm sorry. We have letters for the record? Let me-- this is-- oh, proponent-- Jerry-- excuse me, State Treasurer John Murante, proponent; no opponents; no one in neutral.

GROENE: As I said, I'd like to see it get a chance to apply for a Speaker priority because it fits under one of his mandates that it has to be something that fixes an error in existing statutes that's not controversial. And the other thing is, if you have a Revenue cleanup bill that I think would fit in there, we can take e-clause out and just have to live with-- live with it. All right, thank you.

LINEHAN: All right, thank you very much. And I'm going to introduce LB1203 and Senator Friesen is going to take over. Is that OK, Senator Friesen?

FRIESEN: We will open the hearing on LB1203. Welcome, Chairman Linehan.

LINEHAN: Thank you, Senator Friesen and committee. Good afternoon, fellow committee members. For the record, my name is Lou-- Senator Lou Ann Linehan, spelled L-o-u A-n-n L-i-n-e-h-a-n. I represent Legislative District 39. Today, I am introducing LB1203. This deals with an issue related to the federal Tax Cuts and Jobs Act that passed late in 2017. One of the changes in the federal act was designed to encourage U.S. companies to bring foreign earned income back to the U.S. The act did this by producing-- excuse me-- by providing a reduced rate of tax for income earned by these controlled foreign corporations. This income is sometimes referred to as GILTI. Not my choice, but GILTI; Global Intangible Low-Taxed Income. This income is included in the federal gross income of U.S. corporations and a portion is allowed to be deducted before arriving at federal tax-- taxable income. This income, which is cash, is then taxed at 15.5 percent rather than the 21 percent corporate rate. Foreign-derived intangible income is taxed at 8 percent. Historically, the majority of states, including Nebraska, have not taxed foreign-earned income. To the extent foreign-earned income was brought back to the U.S., it was treated as a foreign dividend by the states and deducted on a state return. However, because of the way the federal changes were enacted and the fact that many states conformed to the federal rules for corporate income taxes, many states have had to decouple from these provisions in order to exclude this income from state corporate taxation. Nebraska has not decoupled from the federal changes. In fact, the Department of Revenue issued a General Information Letter on December 10, 2019, stating that since a portion of this income-- gross income minus the federal deduction allowed-- is included in the taxable income, it must be reported on the Nebraska return. The department's position is that income is not treated as a foreign dividend under the federal act; therefore, no deduction is allowed on the Nebraska return. This issue only gets more complicated for U.S. corporations that file returns in multiple states. Then you get into what's known as the apportionment rules for each state. The Department of Revenue has tried to provide some relief to corporations through Nebraskans-- through Nebraska's apportionment rules, but unfortunately, foreign earned income is still taxed. It is my understanding that we are an outlier in this area and that most states either-- most states either exclude this income completely or only tax a very small portion. LB1203 would clarify that since Nebraska did not tax this type of income before the federal act, and since there's been no change in Nebraska law, this income would be fully deductible for Nebraska purposes. You may have noticed that the fiscal note on this bill is significant. That is partially due to a glitch on the green copy of the bill, and that is why I've brought AM2402 with me. It is my understanding that this should reduce the fiscal note by half. I will try to answer your questions. I will try, but there are plenty of other testifiers coming behind me who will be able to explain this in much more detail and provide answers to your questions. So this, this is not unlike a couple other hiccups we came across last year due to the federal tax code and we're being associated with it. It's like an "oh, oops," and there was a letter that went out in 2018 that the Department of Revenue didn't exactly think it was going to be taxed in 2019. They have-- they do have to tax this, so we need-- if we're going to treat it like we've always treated it, we need to decouple it and that's what this bill does.

FRIESEN: Thank you, Chairman Linehan. Any questions from the committee? Seeing none--

LINEHAN: Thank you very much.

FRIESEN: --proponents?

STACY WATSON: Hello, Senator Friesen, committee. My name is Stacy Watson, S-t-a-c-y W-a-t-s-o-n, and I am here to testify on behalf of the Omaha Chamber and the Nebraska Chamber. First of all, the Nebraska Chamber would like to reiterate their support for the passing of property tax and incentive bills this year to keep Nebraska competitive. And while we are correcting our property tax issues and continuing to grow Nebraska incentives, we cannot lose sight of negative changes to other parts of our policy, hence LB1203. This bill is about remaining competitive and not changing the rules in the middle of the game with just a revenue ruling. A positive and competitive business climate means certainty. The Kellogg case was decided in 1984 and at that point, the Legislature had the opportunity to tax this type of income. They chose not to. The business community has relied on that decision by the Legislature since 1984 and has made business decisions on placing property, people, and other business things here in Nebraska. This law is just a clarification of that 1984 decision. And based on that clarification and the amendment that Senator Linehan has introduced, we actually believe the fiscal note should be zero, as this is just status quo as what we've had before. There should be no fiscal impact to the state. The intent of the Trump act was not to provide states with more revenue by bringing this foreign income back because they knew states weren't taxing it, so that was not the intent of the law change. The intent was actually to lower rates for corporations and by taxing this, that would not be the case in Nebraska. Further, no other states tax 100 percent of the income. And under the current department's policy, that's what would happen in Nebraska. So in conclusion, the Legislature needs to clarify the position from 1984 that's been relied upon by businesses to maintain a positive and competitive business climate. Together, we can get a lot done to move the needle. In addition to our joint top priorities of property tax relief and economic incentives, we also need to maintain our best-- our competitive business environment. If you have any questions, I'm more than happy to take them.

FRIESEN: Thank you, Ms. Watson. Any questions from the committee? Senator Briese.

BRIESE: Thank you, Vice Chairman Friesen. Thanks for your testimony here today. I think I heard you just say that no-- no state taxes 100 percent of this, correct?

STACY WATSON: Correct.

BRIESE: Some states tax a portion of this, correct?

STACY WATSON: Right, a majority of the states actually-- a majority of states that probably hold 82 percent of the population, tax 5 percent or less of this income. And then there's a few other states that would tax more than 5 percent, but no one taxes 100 percent.

BRIESE: OK. States comprising 8 percent of the population--

STACY WATSON: 82 percent of the population.

BRIESE: Eighty-two percent, how many states is that?

STACY WATSON: That's 26.

BRIESE: Twenty-six, and so what do the other 24 do?

STACY WATSON: Some of them tax more than 5 percent. I don't think anybody's over 50 percent, so we would-- I mean, California, Illinois, the big states have chosen not to tax this income, and when California chooses to be more business friendly than Nebraska, I'm a little worried about that, but--

BRIESE: OK. Thank you.

STACY WATSON: Yep.

FRIESEN: Thank you, Senator Briese. Senator Groene.

GROENE: How many states are like us right now, they don't tax it at all?

STACY WATSON: There's 26 states. Well, there's a couple that tax 5 percent, so 26 percent-- percent of this-- or 26 states tax 5 percent or less. It's probably 21 that don't tax it at all.

GROENE: For clarification, you said in 1984 the Legislature decided not-- the Kellogg case?

STACY WATSON: There was a Kellogg case that was decided by the U.S. Supreme Court [SIC] and it basically gave the --

GROENE: But you said the state at that time--

STACY WATSON: --the Nebraska Supreme Court.

GROENE: --which is us, did not decide to tax it.

STACY WATSON: Correct.

GROENE: Then what's changed that all of a sudden the Department of Revenue can tax and not us?

STACY WATSON: I don't actually think they can tax it. I think that would have to be a legislative decision, but--

GROENE: Well, they're-- they're changing the rules and they're going to tax it without any legislative action.

STACY WATSON: Right, I don't-- personally, I mean, I don't think they can do that. There would probably be a legal case in order to decide that because they're making a change to the rule. The federal government basically created new names for the same type of income. So we've always had it to be a federal dividend, right? A foreign dividend is what we've always called it. The federal government has called it a couple new things, but basically it's a deemed dividend. And so in the first revenue ruling provided by the Department of Revenue, they recognized that this is basically the same kind of income. So they gave the businesses an opportunity to provide a legal analysis with their tax return that said, yep, this is no different than the income we previously exempted.

GROENE: So there will no-- any corporation, a foreign corporation, will no longer send out that they paid a dividend?

STACY WATSON: Well, they-- they have. This is just a particular type of income that basically was created by this new federal law to encourage companies to bring income back to the United States. And so it-- just so you-- the fiscal note is weird because the income is really going to happen once. So you wouldn't-- it's weird how it brings it in over four years, but, no, there still will be actual dividends, but this is for all past income. So it's like saying for the last 30 years, we haven't taxed it. The federal government said, hey, we want you to bring that income back in so we can be more competitive in the foreign market. And the states are, like, great, we'd like to tax that income that you had in the past 30 years too.

GROENE: I still-- maybe I'm just-- I'm dumb, but I don't know. What-- what's-- what's the dividend have to do with it then?

STACY WATSON: We've always had a foreign dividend deduction. So basically what happened in 1984 is the Kellogg's-- the Nebraska Supreme Court said, you know, you can tax foreign income if you want. That's actually what they said. And if you do that, you have to go about your apportionment formula a certain way. You have to do certain things, right? And the state said, you know what, that's pretty complicated, we don't want to have to worry whether or not it's going to lower revenue or increase revenue, we don't actually want to have to worry about what happens outside of our country, so we're not going to tax that foreign revenue. Right? And so that's what happened in 1984. It stayed that way. In the 2018 tax law changes, the federal government said, OK, we want to encourage you to bring all that income back because we're lowering the rate-- we'll lower the rates on these two specific incomes that you've earned a long time ago in foreign countries, but we want you to bring back now.

GROENE: So even with the-- not-- there was some income coming back from foreign--

STACY WATSON: Absolutely, it's been coming back for the past 30 years--

GROENE: All right.

STACY WATSON: --just not all of it.

GROENE: Yeah. And that's been taxed?

STACY WATSON: Nope.

GROENE: So what, in the past, has been brought back in foreign income, John Deere Corporation, whoever it is, brings it back--

STACY WATSON: Nebraska did not tax it.

GROENE: They did not tax it.

STACY WATSON: Correct.

GROENE: But now they want to bring more back.

STACY WATSON: Now the federal government told people they had to bring it back, basically.

GROENE: It's the same income some have brought back--

STACY WATSON: Same income, just with a new name, yep.

GROENE: All right. Thank you.

FRIESEN: Thank you, Senator Groene. Any other questions? Senator McCollister.

McCOLLISTER: Yeah. Thank you, Senator. Welcome back.

STACY WATSON: Thanks.

McCOLLISTER: So the state of Nebraska is taking the position that they-- they want to tax a greater-- this-- this income to a greater extent than most states. Is that correct?

STACY WATSON: That's correct.

McCOLLISTER: OK. So some states are taxing that income at 5 percent, right?

STACY WATSON: Well, basically 5 percent of the total income, correct.

McCOLLISTER: OK. This particular bill relieves corporations of the obligation to pay any tax, or would it obligate them to pay 5 percent?

STACY WATSON: No, it relieves them of the obligation to pay any tax, just like we've done for the past 30 years, so we're keeping our tax law status quo.

McCOLLISTER: I understand. Thank you very much.

STACY WATSON: Yep.

FRIESEN: Thank you, Senator McCollister. Senator Briese.

BRIESE: Thank you, Vice Chair Friesen. Thank you again. And so you suggested the fiscal note ought to be essentially one year, two years, something like that, lump these numbers together. Is that--

STACY WATSON: Well, I don't--

BRIESE: --understood?

STACY WATSON: To be honest with you, I'm not-- I don't understand the fiscal note completely. I-- so basically, their-- so the amendment-- I think the department would even agree-- the amendment that we put forth, the department was concerned that we were double-deducting income and that was zero the intention of the bill.

BRIESE: OK.

STACY WATSON: So that amendment technically corrects that part of it. So that automatically brings it down by about 50 percent, from my understanding. The next parts of those are other foreign pieces of income. We don't have a lot of purview into that bill, but there's different buckets, I guess, of foreign income that the federal government has. And so we're not sure if they're trying to include more than they ever had before, if they're just picking up the GILTI provision. So we're not exactly sure where the rest of that is coming from, but if we kept everything status quo, the fiscal note would be zero.

BRIESE: OK. But the-- the dollars we're talking about here with the amendment, what-- what-- what-- what's the total, in your opinion?

STACY WATSON: Well, there's a couple of things that--

BRIESE: Add these up and divide it by two?

STACY WATSON: You divide that by two, but then what the Department of Revenue also isn't considering is in the Kellogg's case-- so I know we talked about apportionment last year, right? Your top-line number, your numerator is your-- Nebraska's gross sales, OK? Your bottom-line number is-- your denominator is total gross receipts, OK? This income from-- that the federal government is bringing in is coming in at a net income number, right? So let's say that's $100. But what you had to basically bill someone to get to that $100 could be $500 million, right, or $50 million. That's your gross receipts off of that $100. That needs to go in your denominator. So our Nebraska sales stay the same. So let's say they're $10 and let's just say now our denominator went from $100 to $500, right? We no longer have a 10 percent Nebraska factor. We now have a 5 percent Nebraska-- Nebraska factor. You're going to get some dilution because you have to include the entire amount of sales that you've sold-- that you're bringing all that income back over. You don't get to just say-- the Kellogg's case said, you can't say we got $100 in that income and that's what goes in our denominator. The Kellogg's case says you have to bring in your gross receipts, right? So you know that's your top-line revenue on your tax return, right? If my gross receipts are $1 million, but I made $100, or sometimes maybe I lost $100, I still get to bring in that $1 million in my denominator. So that's really why the Legislature stayed away from it in 1984 is because that makes that bottom number so much bigger. And that is not calculated in that fiscal note because the Department of Revenue haven't-- hasn't actually acknowledged that they have to abide by the Kellogg's case.

BRIESE: OK. And-- and when did this go into effect here in Nebraska? When did we change it?

STACY WATSON: Well, they wanted to change it for 2018. So the original, the original revenue ruling went out in 2018 that said you can do it the old way if you prove to us that legally you're right-- you have the right to do it, which is-- it's the right answer. There was more work to be done, but the Department of Revenue recognized that that's how it should be done. But then they changed their minds in July of 2019 and said, oh, nope, we don't believe it's that kind of income, you can't give us your legal analysis. So they went to taxpayers and said, I know you filed your return based on the way we told you you could, now we've changed our minds and we want you to amend the return and include this income. So that happened in July of 2019 and then I believe in December of '19 they said, oh, and by the way, we want to tax GILTI, too, so--

BRIESE: So we have collected some amounts pursuant to the new rule?

STACY WATSON: Maybe. I know a lot of my clients have not amended because they would have to do it under protest, right? We'd have to protest and ask for our monies back because they believe legally, if-- if they go to court, they're going to be the winners. Some companies may have filed those amendments in December, but not all of them.

BRIESE: OK. Thank you.

FRIESEN: Thank you, Senator Briese. Senator McCollister.

McCOLLISTER: Yeah, thank you. So if some companies have made payments on the basis that they believed to be true, will this legislation be retroactive and allow those companies to receive refunds?

STACY WATSON: Yes, because basically we're just clarifying that it should have been that way the whole time, that a Revenue ruling is not legislation.

McCOLLISTER: Thank you.

FRIESEN: Thank you, Senator McCollister. Any other questions from the committee? Senator Groene.

GROENE: So if we taxed them, what would happen? Would they leave? Would Walmart pick up and leave all of their stores? Would McDo-- whoever, the corporate of John Deere, move their-- whoever the international companies are, what would happen? How would it affect our economy?

STACY WATSON: I guess you-- they're-- they're probably following me--

GROENE: OK.

STACY WATSON: --so you can ask some of them that question.

GROENE: I'm just curious. I mean--

STACY WATSON: Would they pick up and leave? No, but I don't think we want to be the only state taxing this income. I think that's a negative business climate. I also think if you've relied on something for 30 years-- so if someone said, you know what, you've went and you've killed pheasants for 30 years and now after 30 years we didn't tax the killing of pheasants, but we'd like to, you know, have you count up how many you've killed and pay the tax of $1 per pheasant, I doubt you'd be, like, that sounds great--

GROENE: Well, you know--

STACY WATSON: --I'd love to be here.

GROENE: --a farmer can't pick up and move his ground because taxes are high either. I just wondered if Walmart would pick up and move their store, because their customer base is--

STACY WATSON: Well, no, there's still business to be done here, right? It's just the business environment that we're creating by allowing legislation from a Revenue ruling.

GROENE: So I-- we pick on Walmart because it's a big-guy retail. So they're paying income taxes now--

STACY WATSON: Um-hum.

GROENE: --divided across the country, aren't they, because of the money they make in the United States?

STACY WATSON: Yep.

GROENE: So we do get that--

STACY WATSON: You'd-- you get their property taxes, you get their income taxes, right? They employ people. You get payroll taxes.

GROENE: Maybe I'm too simple, but the money you're talking about is profits they made in Europe or somewhere else.

STACY WATSON: Absolutely.

GROENE: And their headquarters are here?

STACY WATSON: Well, they have business here, so they'd have to file an income tax return for that business that they do here. You don't have--

GROENE: But if their headquarters aren't here, why would they move money-- if their headquarters are in Europe, why would they move-- repatriate the money to United States?

STACY WATSON: Because the federal government told them that they had to do a calculation as if they were. They didn't actually bring the money back. It's just a calculation because the government basically said, we're lowering your rate, but we're going to tax this income so we can basically stop arguing about it; we want you to bring money back to the United States and do good things in the United States with it, but you won't do that because our tax rate is at 35 percent.

GROENE: Excuse me. You-- you use the term "have to." They don't have to; they can. It-- it-- we're enticing them to bring it back is what you're saying.

STACY WATSON: You had to pay the tax on it whether or not you brought it back. It was a calculation--

GROENE: And-- all right.

STACY WATSON: of the monies that you've earned over time, but-- and basically they're saying, by doing that calculation, we're wiping the slate clean-- the slates clean and therefore--

GROENE: How many years-- you say "over time." How many years back do we-- are we going here?

STACY WATSON: Oh, gosh, I don't know.

To 1984?

STACY WATSON: A long time, I don't know.

GROENE: So what do you-- when you--

________________: 1986.

STACY WATSON: Yeah, I was going to say 30-- 30-year-- I mean it's a long way; 1986.

GROENE: So--

STACY WATSON: It's a long time.

GROENE: --it's good-- it's good for your business. You get to calculate all that and ask them to bring it back.

STACY WATSON: I would like to tell you it is, but I feel like it was a big waste of time, effort, and energy but--

GROENE: OK. All right, thank you.

FRIESEN: Thank you, Senator Groene. Any other questions from the committee? You know, in the recent-- past year, we've had our receipts come in higher than forecasted.

STACY WATSON: Yep.

FRIESEN: And so my question is, would any of those receipts have come in higher? I have noticed-- I think corporate receipts have been especially high. Do you feel that any of those numbers would have been due to this?

STACY WATSON: I think possibly some, but I think generally across the United States, there was a report that came out recently that because of Trump's-- the TCJA, that corporate receipts were up at the federal level. And that's-- this is a small portion of that from a federal perspective. So I'm going to assume-- I mean, I know all of the corporate income tax is not an increase of this. I think it's probably an increase of the same thing as the federal government's seeing from this, this new tax cut. It's encouraging companies to be more profitable.

FRIESEN: But you've-- you've said, too, that since they just recently changed this, some corporations could have recently paid it, but that would have been probably, at the earliest, of December?

STACY WATSON: The earliest would have been December, and I'm certain none of my clients have amended their returns yet.

FRIESEN: And so you're-- you were saying basically it should have no fiscal note because it's-- it's like other issues that we've dealt with where the Department of Revenue makes a ruling. If you weren't collecting it before but you stop it in time, there should be no fiscal note because there would have been no tax due.

STACY WATSON: Right, there would've been no tax due, so there should be no fiscal note.

FRIESEN: OK. And then just on Groene's-- Senator Groene's question a little bit, they did give a-- a lot smaller tax rate to bring the money back or to encourage them to bring it back is--

STACY WATSON: They did, so the corporate rate is 21 percent. Some of this is taxed at 18 percent, and I think some of it is taxed at 14 or 15 percent, so they gave a tax break in order to-- I mean, first of all, we went from 35 to 21s. We already got a tax break and then we gave a tax break on these specific types of income.

FRIESEN: Right. OK. All right, thank you. Seeing no other questions, thank you for your time.

STACY WATSON: OK. Have a fabulous afternoon.

DON BROWN: Vice Chair Friesen and committee members, my name is Don Brown, D-o-n B-r-o-w-n. I serve as the managing director of U.S. state and local government relations for Cargill. On behalf of our employees, customers, and suppliers across Nebraska, we at Cargill appreciate the opportunity to test-- to testify today in support of LB1203. Cargill is a global company. We have 160,000 employees in 70 countries around the world, but we are also a local company. Cargill was founded just 370 miles east in Conover, Iowa, 155 years ago. For decades, we have had a-- we've had deep roots and operations here in

Nebraska, where today we employ nearly 4,000 hardworking people. We have nine grain elevators, an animal feed plant in Fremont, a cooked-meats plant in Columbus. Our beef processing plant in Schuyler alone employs 2,200 Nebraskans. And Cargill's single-largest investment anywhere in the world is right here in Nebraska. Our 650-acre wet corn milling complex in Blair grinds 120 million bushels of corn annually and supports several collocated bioindustrial businesses on the campus. And we also invest in the local community. In 2019, Cargill contributed $700,000 to organizations across Nebraska, including providing aid to those impacted by last year's floods. Cargill is proud of our work in Nebraska and we're excited about our future here. That is why I wanted to share why we strongly support clarifying the state's foreign dividend deduction provisions with this legislation that is critical for the state's business climate and Cargill's continued success in Nebraska. I have five points. Number one, this is a competitive issue for Cargill. Like our foreign competitors, we compete for opportunities to serve farmers, customers, and consumers in markets around the world. Wherever we operate, we pay local taxes, export taxes at Cargill, and-- and value-added taxes. But unlike our foreign competitors, Cargill pays U.S. federal and state income taxes on our foreign income and investments. And this was-- Cargill had a comparative disadvantage. This is a competitive issue for Nebraska as well. We've been relying on Nebraska's fair and competitive tax environment and it allows businesses like Cargill to grow. Without clarifying this policy, Nebraska would essentially level a retroactive tax on 30 years of our foreign earnings, and these foreign earnings are what has also created jobs and-- and work here in the U.S. That's not-- neither fair to employers, nor competitive for the state. And without this bill, Cargill faces a major tax increase on these foreign earnings. And most states have not followed the onerous tax increases on deemed repatriated income or GILTI. So we urge you to pass LB1203, which will clarify this Legislature's long-standing policy, avoid unnecessary litigation, and prevent Nebraska from becoming an outlier. Thank you.

FRIESEN: Thank you, Mr. Brown. Questions from the committee? Senator Lindstrom.

LINDSTROM: Thank you, Senator Friesen. Welcome to Nebraska. I'm sure it's 72 and sunny in Minnesota?

DON BROWN: It is, yes.

LINDSTROM: Yes? OK.

Then you come to Nebraska and it's--

LINDSTROM: I can hear the wind whipping behind me here, so you're about to walk into a winter vortex here. I assume that when Cargill is looking at long-term planning, they're looking at tax policy and-- when they're doing their st-- strategic planning. That be fair to say?

DON BROWN: Yeah, that's exactly right. Businesses need a fair and predictable tax policy to make the correct business decisions.

LINDSTROM: And-- and just to follow up on that-- that point, or with that point, when you-- when the TCJA was implemented, were you expecting to see what's going on in Nebraska? Was that-- was that a surprise to [INAUDIBLE]

DON BROWN: It was-- it was a surprise. Because of Nebraska's long-standing policy of not taxing foreign earnings by our foreign subsidiaries, we assumed-- you know, our state tax counsel, who's seated here, went through all the states and had to determine what would be the impact at the state level on these federal changes. And we thought for sure, because of Nebraska's long-standing policy, that this income would not be subject to tax in Nebraska. So, yes, it was a surprise. It wasn't until the-- the-- the department issued its general information letter that we saw that the department was taking the position that this income should be included in the Nebraska tax base and that it was-- as was mentioned earlier, that they were taking a very expansive-- there was no deduction at all for this income coming in-- into the tax base.

LINDSTROM: All right. Thank you, Mr. Brown.

FRIESEN: Thank you, Senator Lindstrom. Senator Briese.

BRIESE: Thank you, Vice Chair Friesen. Thanks for your testimony here today. You suggested this could be a major tax increase. What kind of dollars are you talking about?

DON BROWN: I'd rather not share the exact numbers. I just-- I have to answer back home if I told you about our tax liability, but it-- it is--

BRIESE: You'll have to-- might have to answer back home?

DON BROWN: Yeah, it's-- it's-- yes, it is a-- significant. It's multiples of what we would normally pay.

BRIESE: OK. Do you have a number for total revenue Cargill generates from its Nebraska operations?

DON BROWN: I don't have the number for Nebraska. I can get that to you when I--

BRIESE: Any idea what percent of revenue these dollars we're talking about right here would comprise?

DON BROWN: I-- without that other number, I can't come up with a percentage of what that would be.

BRIESE: OK.

DON BROWN: We can certainly maybe come up with some indication for you.

BRIESE: OK. And what would be, you know, the actual impact, the actual effect of you being out these dollars? What would the effect be?

DON BROWN: Well, I think sometimes people think that you got this federal tax cut and you've got this additional money here available sitting to spend on how you-- how you want. But, you know, the corporate taxes are-- you know, we collect taxes, but essentially, you know, people always bear the burden of these taxes. So as a result, like for the federal tax changes, we had some tax savings at the federal level, but we-- we're operating very tight labor markets and so we're constantly competing for labor. I think right now, we have 1,800 vacancies in the U.S. just on our beef business alone. And so, you know, what we take that money is to go and pay higher salaries or we're competing-- like I said, we compete with other companies around the world. We take those dollars and maybe we lower our prices so that we can-- you know, because we're-- we're constantly trying to compete with-- and we're competing with businesses who were operating very low margins. So it would be hard to trace exactly where that-- that amount-- that additional tax that we're paying, where that would come out of. But it sends a signal that I think-- we never-- Nebraska has always been a very business-friendly state, and I think it continues to be, and I think that's the desire of this Legislature. So this was a surprise that-- that the Revenue would be sending the signal that they want to increase business taxes this-- this high. I mean, I've-- I've worked with other states and that's kind of the message we gave them. I had to work in Minnesota and work with the legislature there, because they were-- you know, they were looking at that income too, some senators and representatives, saying, hey, you know, this is-- this would be great for the state coffers. But it-- it sends a message that Nebraska is not a business-friendly state. Now I think someone asked whether or not we would leave. Of course not. We've got an-- our enormous investment here, but it does impede our ability to compete with other businesses and for us to be successful.

BRIESE: OK.

DON BROWN: That's money we don't have for other--

BRIESE: OK, thank you.

FRIESEN: Thank you, Senator Briese. Senator Groene.

GROENE: Maybe you can clarify. I didn't ask the question of the accountant-- can't think of her name-- but this is one time, right? So your profits you make this year in foreign-- wherever-- that tax rate is 21 percent also?

DON BROWN: Well, there are-- there are two pieces that-- of income that were created by the Tax Cuts and Jobs Act; it was the-- the deemed repatriation and there was also this-- this GILTI income. So for a company like Cargill-- just-- we're referring to the deemed repatriation-- you know, we didn't repatriate our earnings from our foreign companies back to the U.S. because we work in very capital-intensive businesses. So we have to take those earnings and we reinvest them in plant and equipment. And so for Cargill, we pay tax on these earnings as if we repatriated them back to the U.S. [INAUDIBLE] but we-- we didn't. Some of it we did, but most we-- we continued to invest in other companies-- in the operations of our foreign companies. So the one-- there is one-time-- hit would be that-- that deemed repatriation. That was a one-time hit. You had to go back, look at your earnings and profits 30 years back, and figure out what you haven't repatriated already and then you pay tax on that at the lower rates. But this Global Intangible Low-Taxed Income is ongoing and it's-- and it's not just intangible, but it's-- it's measuring that-- it's-- it gets very complicated, but it's-- it's an ongoing--

GROENE: So I guess my question is, from-- since they passed that, the Trump tax, the money just automatically is being repatriated now because the tax rates are low enough that you don't have to leave them in Europe?

DON BROWN: They-- they removed the disincentive to not repatriate the earnings back-- it's a better way of saying it.

GROENE: Because that's a one-time-- if you start stockpiling in Europe or Australia or wherever, there's no incentive to do that now because the tax rates are low enough versus the world--

DON BROWN: That generally was the intent, yeah.

GROENE: All right. Cargill still privately owned?

DON BROWN: It is still privately held, still owned by all the descendants of Mr. Cargill.

GROENE: I mean, that's the same reason you don't ask a farmer how many acres he farmed. It's privately owned. He probably wouldn't tell you either. But has the sun set already in Minnesota?

DON BROWN: Excuse me?

GROENE: Has the sun set today already in Minnesota?

DON BROWN: Probably has.

GROENE: Move-- move south. We've got longer days here.

FRIESEN: Thank you, Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you, Vice Chair. Mr. Brown, thanks for coming today. So you got a huge investment in our state. We appreciate that. As you look at changes like this going forward, you're always looking to expand and grow your business. How does, how does rulings like this affect that for you in the future? Are-- I mean, is that going to deter-- if the ability for you to-- does it affect your decision to continue to invest here, new monies?

DON BROWN: Yeah, it-- it would be something for us to consider. I mean, I can't-- I don't want to communicate that-- that this-- you know, we're going to move and we're not going to invest anymore in Nebraska. We are, but it-- it does send a signal that, you know, Nebraska is not the business-friendly state that it always has been. I'll just give you an example because I do this around the U.S. There's another state we have significant operations in. The governor proposed a very significant tax increase to the point where some companies that were in that state were thinking, we don't want to be in this state anymore. It was that bad. And so nothing-- it was eventually withdrawn, the proposal, but it-- even talking about and seeing something like that makes you think about, is this the state we really want to increase investment? Do we want to expand here? Maybe we don't leave, but maybe we don't expand as much as we would, so--

and I'm not saying that's with-- with Nebraska here, but it's just-- it's-- it-- this is such a significant tax increase and it makes Nebraska such an outlier with other states that it's-- I don't think that's a message that the state wants to send, and it never has been the message that Nebraska has sent. I-- but thank you for acknowledging our investment, but I want to thank this state for creating the business climate that it does, that we did want to invest in the state and have our largest asset here in the world, in-- in Nebraska.

KOLTERMAN: Thank you.

DON BROWN: Sure.

FRIESEN: Thank you, Senator Kolterman. Any other questions from the committee? So describe a little bit-- before the Tax Cuts and Jobs Act, when you made money overseas, you just kept it over there for expansion over there and you were not taxed on it at all or did the--

DON BROWN: Did the Nebraska--

FRIESEN: --or like from the federal level?

DON BROWN: We would-- without getting into the weeds, generally, no, we would not be taxed on that because it-- it would be-- you'd be taxed if you paid a dividend back to the--

FRIESEN: So you-- you kept it over there and kept expanding there instead of here. And so when they passed-- passed the Tax Cuts and Jobs Act, they were encouraging you to bring money back. And so if you would have brought it back previously, it would have been at a 35 percent rate. And now they-- basically, they're saying 15.5 percent rate, but now Nebraska is going to tax that where they weren't previously before either. And we haven't changed our rate. We're kind of back up to the 35 percent rate, you might say, or where the federal government was--

DON BROWN: Sure, the existing tax rate that you have.

FRIESEN: --that would be at. OK. So have you-- have you paid any of this money, this tax that was due in Nebraska? Have you sent a check to the Department of Revenue yet or--

DON BROWN: Yeah.

FRIESEN: --are you still waiting for--

DON BROWN: I think we're still-- I-- I don't know for sure. I-- I don't work in the tax department--

FRIESEN: OK.

DON BROWN: --so-- so the [INAUDIBLE]

FRIESEN: So if-- if you would have, you'd be filing for a refund and [INAUDIBLE]

DON BROWN: Absolutely.

FRIESEN: OK.

DON BROWN: I think most companies-- I can't speak for all of them, but-- because it is-- there's quite a bit of litigation, which Stacy had referred to. There's a pretty high litigation risk with this. And you've got case law here that's pretty close to being on point that if you're going to tax this income, you've got to include the portion of factors that she--

FRIESEN: OK.

DON BROWN: --mentioned.

FRIESEN: Thank you. No other questions? Thank you for your testimony.

DON BROWN: Thank you.

JAMES ANDERSON: Vice Chair Friesen and members of the committee, thank you for the opportunity to testify. My name is James Anderson. I'm a tax partner with--

FRIESEN: Can you spell--

JAMES ANDERSON: J-a-m-e-s A-n-d-e-r-s-o-n. I'm here on behalf of the Lincoln Chamber of Commerce and my firm, BKD, where I'm a tax partner. Our firm has offices in 40 cities around the U.S., including two in Nebraska. And I currently serve as the tax leader for our Nebraska offices and the seven surrounding states that we do business in. And what I have handed out to you is-- even though I live in the tax code, what I've handed out to you is a very plain-English explanation of what I think might be a commonsense resolution to-- to what we're talking about here. There are no tax code sections listed anywhere in those pages. Unfortunately, if I read it all to you, it would take about eight minutes, so I'm going to paraphrase for you. There are really two issues that came about from the federal tax legislation in

2017 that are creating the issue that we're talking about today. One is-- I'm going to refer to-- is called GILTI. The general issue with GILTI is the federal government was going after and trying to obtain additional tax dollars from companies that were moving their operations into countries that had very little to no income tax. And so what the federal government was trying to do by passing the GILTI rules was to tell companies, that's fine if you want to do that, but that means you're going to pay more tax here in the United States. When you look at the countries that this would apply to, it would be places like the Cayman Islands, things you read about in The Wall Street Journal. If you were doing business in most of our trading partners around the globe-- France, Germany, most of the Asian countries, South America, places like that-- the practical implication of these new federal rules would be that you don't pay any new net federal tax as a result of the GILTI. And so the mechanism that that was-- that that provided for companies was to get their money back in the form of a tax credit at the federal level. Unfortunately, the state of Nebraska doesn't have that mechanism. So even though for most of the companies in Nebraska that have global operations, particularly the ones that are headquartered here-- homegrown Nebraska companies that are doing business globally-- they are paying a fair amount of tax on their global earnings in other countries. But because of the provisions of the federal law, they don't have the means to get the credit back like they did at the federal level. So now there's a new tax that applies that never applied before solely because the government was trying to get tax dollars from people that were hiding it in low-tax jurisdictions, not in jurisdictions where they were doing business with trading partners that have reasonable tax rates globally. So that's issue number one. Issue number two is one that we call the-- I'm done--

FRIESEN: Just wrap up really quickly.

JAMES ANDERSON: The deemed dividend issue, the-- the shortest answer to this one is, because companies were given this new tax regime at the federal level with the passage of the federal tax-- with TCJA, they were not going to be paying taxes on their-- on their foreign earnings anymore when they paid dividends back. And so this deemed dividend tax that we've all been talking about accelerated tax for those companies. Again, those earnings are still a dividend, which under old law in Nebraska and current law in Nebraska, for that matter, aren't taxable. It's only the interpretation, we believe, by the Department of Revenue that is creating the notion that those are now taxable under the current law.

FRIESEN: OK. Thank you, Mr. Anderson. Any questions from the committee? Senator Kolterman.

KOLTERMAN: Thank you. Thanks for being here, Mr. Anderson. So did you indicate that you do mostly Nebraska companies in your practice?

JAMES ANDERSON: In my Nebraska practice, we do business mostly with Nebraska companies, yeah.

KOLTERMAN: So do you think that this change disadvantages the Nebraska companies versus a company that's out of state?

JAMES ANDERSON: I do, and if I had the eight minutes, I would have explained that the first time. But where the disadvantage comes in for Nebraska companies that are actually headquartered here, all of this income that we're talking about, most-- it all gets taxed here in Nebraska--

KOLTERMAN: OK.

JAMES ANDERSON: --where if you're a company that's doing business somewhere else and in Nebraska, it's being spread out among those other states. But there are companies that are homegrown Nebraska companies doing global business that now have all of this income being taxed inside the state of Nebraska.

KOLTERMAN: So you're-- you've had-- you've had a year or two now talking to your clients. How do they view what's going on here? They-- I mean, obviously, they're not pleased with it but--

JAMES ANDERSON: Yeah. So I think--

KOLTERMAN: How-- how does it affect their-- their future?

JAMES ANDERSON: I think for the companies that are headquartered here, they feel like the only path that they may have out of this, pending whether or not this bill advances, would be to seek some sort of litigation. And they feel like-- they feel like, in general, that that litigation, as some of the other folks have talked about, because of the Kellogg decision, would be on their side. But for the companies that we do business with that are not located in Nebraska, that do business here but are headquartered in other places, you know, they make decisions based on where the climate is. And if they are making new investment decisions that they think may increase their overall tax liability, they may decide to do those in Nebraska, but they may also move them to other locations in the future, not moving what they have here but making new investment.

KOLTERMAN: Can I keep going?

FRIESEN: Yep.

KOLTERMAN: Does-- in-- in your estimation, does this bill fix what needs to be done to the-- to the extent that it needs to be done?

JAMES ANDERSON: Absolutely, because I believe it's the status quo approach. It puts Nebraska taxpayers, corporate taxpayers back to where they were before the Tax Cuts and Jobs Act.

KOLTERMAN: OK, thank you.

JAMES ANDERSON: Thank you.

FRIESEN: Thank you, Senator Kolterman. Any other questions from the committee? Seeing none, thank you for your testimony.

JAMES ANDERSON: Thank you.

PAT REYNOLDS: Good afternoon, Senator Friesen, members of the committee. My name is Pat Reynolds, P-a-t R-e-y-n-o-l-d-s, and I'm here on behalf of the Council on State Taxation, more commonly known as COST by our acronym. For those of you who are not familiar, we are a nonprofit trade industry group and our members consist of approximately 550 or so of large, multinational, multijurisdictional corporations. And our mission is to preserve and promote the equitable and nondiscriminatory taxation of those businesses. So in other words, we are not one of the organizations that says we want no tax. We are an organization that says we want fair tax and we are here to testify in support of this bill. And you have my written comments, but in the interest of brevity, I want to highlight just a couple of points. The first is this results from a change in the way the federal government taxed foreign-source income. Prior to the Tax Cuts and Jobs Act, they only taxed it when it was repatriated; in other words, a dividend was paid from the foreign corporation to U.S. shareholders and it was taxed at that particular time. To create an in-- to eliminate that incentive to keep that money offshore, one of the goals of the-- of the Tax Cuts and Jobs Act was to say, look, we don't care whether or not you're going to dividend that money back to the U.S. We're going to do two things. Number one, we're going to do a transition tax of the 965. And number two, we're going to tax GILTI income, Global Intangible Low-Taxed income, which, by the way, is a-- is a misnomer;

it's a very nifty name, but-- and it's global, but it's not limited to intangibles and it's not limited to low-tax jurisdictions due to the way the formula works. But there is no dispute that in the old way, if there was a dividend, it would be excluded from the Nebraska tax base. Under the new way of taxing foreign-source income, this dispute has arisen before you today. So the-- the bill would simply keep the status quo of not taxing that exact same foreign-source income that was not taxed before. And the last point that I will make is that I do think that there is a bit of litigation risk in this. And if-- if this-- if you do not pass this bill and you acquiesce in the-- the department's interpretation of this bill, there will certainly be a-- a-- a repeat of history with respect to the Kellogg case that was-- that happened in 1984, which was the impetus for the enactment of 77-2716, subsection (5), which has the subtraction modification for dividends and deemed dividends. With that, I will answer any questions you may have.

FRIESEN: Thank you, Mr. Reynolds. Any questions from the committee? So if-- if-- you're saying if we did nothing, there's potential litigation. We--

PAT REYNOLDS: Correct.

FRIESEN: --kind of heard that already. If a change was made to only tax a small portion of this, like some other states, would that take away the idea of litigation or would it just balance the cost?

PAT REYNOLDS: I-- I think that would be one more factor that companies would evaluate as to whether or not they want to-- to litigate that, yeah.

FRIESEN: OK. Senator Kolterman.

KOLTERMAN: Thank you. Thank you for coming as well, Mr. Reynolds. So you're-- you're a not-for-profit that deals with this all over the country.

PAT REYNOLDS: Correct.

KOLTERMAN: So how-- comparatively, how far out are we? How far away are we from what other states are doing?

PAT REYNOLDS: So the way we look at it is you take the states that have an income tax. So there are five states that don't, right? Take them out of the mix. The remaining states, 26 states decouple either 100 percent or 95 percent from GILTI, and those 26 states represent over 82 percent of the population of those remaining states. So the lion's share of the activity that's out there is decoupling from GILTI. And this is though-- this is in line with the-- the way a lot of states have-- have viewed foreign-source income since 1984, the mid-'80s.

KOLTERMAN: OK. Thank you.

PAT REYNOLDS: You're welcome.

FRIESEN: Thank you, Senator Kolterman. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Senator Friesen. So you would say that the tax receipts that we've taken in, or even the fiscal note that's come out, are illusionary because we should have never taken that income in the first place?

PAT REYNOLDS: Well, I'm going to answer that in the two-- the two sections that you gave it to me. So, first of all, I don't-- I have no visibility into what the-- what amounts have been taken in, what-- what amounts have been paid in-- under protest or paid and there will be subsequent refund claims. I don't have any visibility into that and-- and how much that is. With respect to the fiscal note, I don't profess to be an economist, but there are-- there are a few questions that-- that I would be asking if I was sitting in your shoes. And one of those questions I think was addressed earlier and that is, how much of that had to do with the-- the perceived double dipping, which the amendment will solve. And another question that I would ask is, how much of that was due to the factor dilution that Stacy had-- had mentioned? And then the third part-- the third question that I would ask would be, how much of subpart F income, which was excluded under-- has been excluded traditionally by this state for the last 30-plus years and was viewed synonymously with the words "deemed dividends" up until the recent general information letters by the Department of Revenue, how much of that is included in the fiscal note, which has nothing to do with the two pieces of income that we're talking about?

McCOLLISTER: Well, the Revenue Department will testify shortly. You've given me some good questions.

PAT REYNOLDS: OK.

FRIESEN: Thank you, Senator McCollister. Senator Briese.

BRIESE: Thank you, Vice Chair. Thank you for your testimony. I probably missed it earlier or it's probably somewhere in here, but how many other states are taxing 100 percent of this right now?

PAT REYNOLDS: Are taxing 100 percent of this? None.

BRIESE: Or doing what Nebraska is doing or what we're purporting to do or what we are beginning to do?

PAT REYNOLDS: The-- it's a very, very small number. I don't have the exact number, but it's going to be less than-- less than five.

BRIESE: Less than five.

PAT REYNOLDS: I don't think it-- yeah.

BRIESE: Yeah. OK. Very good, thank you.

FRIESEN: Thank you, Senator Briese. I think the question he was trying to ask is, how many states exempt 100 percent of it? Because you said somewhere-- was it 95 percent somewhere?

PAT REYNOLDS: And-- and again, we have different ways of slicing this up, but--

FRIESEN: OK.

PAT REYNOLDS: And I can get back to you with the exact number of the exemption of 100 versus the exemption of 99, but-- if that's the number you're looking for, but--

FRIESEN: You made a comment about 95 and 100 earlier and I just let it go, but I was-- I think that's where he was headed, too, was that you did mention--

PAT REYNOLDS: OK, got you.

FRIESEN: --some states were not quite 100; they might be 99 but--

PAT REYNOLDS: OK.

FRIESEN: Senator Lindstrom-- Senator Lindstrom.

LINDSTROM: Just to-- just to break down simply, if we don't do anything, is this a tax increase?

PAT REYNOLDS: Absolutely, it's a tax increase. Unless there is litigation and the litigation is successful, if history repeats itself and there is a-- there is a repeat of the Kellogg case and the-- if the result is the same, this could be-- Nebraska could lose money on this because of the factor dilution issue that was raised by Stacy earlier. If the-- if the foreign factors are included in the denominator of that apportionment factor, so you make that denominator bigger, that apportionment factor goes down, and that affects not just the GILTI numbers, not just the 965 numbers, but that affects every other piece of income that the corporation has. This could actually be a decrease in revenue.

LINDSTROM: Thank you.

FRIESEN: Thank you, Senator Lindstrom. Seeing no other questions, thank you for your testimony.

PAT REYNOLDS: You're welcome.

JOE BISHOP-HENCHMEN: Good evening. My name is Joe Bishop-Henchmen, J-o-e B-i-s-h-o-p-H-e-n-c-h-m-e-n, and I'm here on behalf of McDermott Will & Emery law firm in Washington, D.C. Vice Chair Friesen, members of the committee, it's a pleasure to be here. I'm an attorney who spent 14 years surrounded by economists at a think tank and I'm-- worked for 14 years in state tax policy and tax law, so pleased to be here and share some insights on this proposal from a national perspective. The federal Tax Cuts and Jobs Act, as you've heard, created two new fictional categories of income, an extra tax on certain foreign income called GILTI and a one-time tax on deemed repatriation, which is a tax on accumulated foreign earnings. I like maps, so the page 2 of my testimony is all maps which can hopefully help illustrate some of the actions that other states have taken. As has been said already, I'm aware of no state, nor the federal government, that taxes 100 percent of GILTI and repatriation income. And the majority of states, including Missouri, Oklahoma, Iowa, Minnesota, Wisconsin, as well as California, Illinois, Massachusetts, don't do what Nebraska is now embarking on doing due to the DOR ruling. Senator Groene asked how-- how this is happening and that's a very good question. As has been mentioned already, in the 1980s, Nebraska flirted with taxing some foreign-source income and the-- somebody sued-- Kellogg's, I guess-- and they said-- it went to the Nebraska Supreme Court and the Nebraska Supreme Court gave the Legislature a choice. They said, you can tax the foreign-source income if you want, but you have to allow companies to include all of their global receipts in the apportionment formula, and the Legislature didn't want to do that since that would significantly reduce the amount of revenue collected here in Nebraska. And so that was the choice that was made and that's the choice that's been stuck to until the recent DOR ruling. Now maybe you want to revisit that policy choice; that's certainly a fair question. Maybe OpenSky wants to tax this, somebody here wants to tax this, but it should be done at the legislative level, not because of an accidental interaction between the federal government and a Nebraska GIL. With that, I'm happy to take any questions that you might have.

FRIESEN: Thank you. Are there any questions? Senator Kolterman.

KOLTERMAN: Thank you. Thank you for coming. You came from Washington?

JOE BISHOP-HENCHMEN: Yes.

KOLTERMAN: Welcome to--

JOE BISHOP-HENCHMEN: Always a pleasure to come back to Nebraska.

KOLTERMAN: Welcome to God's country. So we've heard a lot from some of the previous testifiers about the litigation risk.

JOE BISHOP-HENCHMEN: Yes.

KOLTERMAN: How-- how real is that?

JOE BISHOP-HENCHMEN: It's a very strong risk. Unlike other states-- and, you know, you've heard the majority of states have chosen not to tax this income-- Nebraska is one of the few that has what I would say is an on-point state Supreme Court ruling saying you need to have factor representation if you do this. And I think-- you know, I don't know if the Department of Revenue took the Kellogg's case or factor representation into account when they came up with their revenue note. I mean, it-- there's potential that it could be a revenue note in the other direction because it would dilute the apportionment factors that much. But I think it's a pretty strong position, so I'd say a high litigation risk.

KOLTERMAN: So is this-- is this-- is this fix needed because we legislated incorrectly or because of an interpretation at the Department of Revenue?

JOE BISHOP-HENCHMEN: I would say it's the interpretation. Now I-- obviously, I think DOR is going to disagree with that conclusion. To me, the statute, which says that dividends received or deemed to receive are excluded from Nebraska income, I think that's pretty clear. And indeed, the DOR on first glance said, well, that includes these new categories of federal income, GILTI and repatriation. They've come to a different conclusion and they say, well, this is new, so maybe it wasn't contemplated when the Legislature wrote that language many years ago. Be that as it may, I think the-- the fix being proposed clarifies it for everybody that, yes, this is not included.

KOLTERMAN: Thank you.

FRIESEN: Thank you, Senator Kolterman. Any other questions from the committee? Seeing none, thank you for your testimony.

JOE BISHOP-HENCHMEN: Thank you for your time.

FRIESEN: Any other proponents?

JON EDWARDS: Good afternoon, Vice Chair. Members of the committee, my name is Jon Edwards, J-o-n E-d-w-a-r-d-s. I appear before you today as a registered lobbyist on behalf of my client, Union Pacific Railroad. Union Pacific is here today in support of LB1203. There's a letter coming around to all of you that will detail our support for this bill. Certainly, Union Pacific supports this bill for all-- for-- for all the reasons you have heard here today already, so-- well, the expert testimony. I certainly have nothing to add to that so I won't belabor that point. I would just merely ask that the committee look favorably upon this bill, that we work to find some kind of a priority for it, and move it out to the Legislature for debate yet this session. And with that, I will conclude my comments.

FRIESEN: Thank you, Mr. Edwards. Any questions from the committee? Does Union Pacific have any foreign income?

JON EDWARDS: They do.

FRIESEN: OK. Seeing no other questions, thank you for your testimony.

JON EDWARDS: Thank you.

FRIESEN: Any other proponents? Seeing none, anyone wish to testify in opposition to LB1203? Seeing none, anyone wish to testify in a neutral capacity? Welcome, Mr. Fulton.

TONY FULTON: Thank you, Mr. Vice Chairman. Members of the Revenue Committee, my name is Tony Fulton, T-o-n-y F-u-l-t-o-n, and I'm the Tax Commissioner for Nebraska testifying here before you today in a neutral capacity on LB1203. The Tax Cuts and Jobs Act, enacted in 2017, amended several provisions of corporate income tax. These changes were intended to encourage businesses to invest in the U.S., rather than in foreign lands. One aspect of the TCJA-- TCJA requires

U..S corporations to include, in their 2017 income, the accumulated deferred income of controlled foreign corporations earned since 1986. This amount dramatically increased the 2017 federal-- federal taxable income of these domestic corporations, some of which do business in Nebraska. The Nebraska corporate income tax begins with federal taxable income, so this change increased the starting point for corporations paying income tax in Nebraska. Nebraska law has an exclusion for dividends paid by controlled foreign corporations, but the Tax Cuts and Jobs Act did not deem this repatriated income to be foreign dividends, so this de-- deduction does not function to eliminate this income. The Department of Revenue issued a report on February 7 of 2018, that discussed this issue and estimated that the additional revenue attributed to repatriation alone, while speculative and uncertain, could be as high as $152 million over three years. That was provided in a memo to the Revenue Committee, and I think it was-- Smith was the Chairman at that time. Regardless, that was in 2018. However, the Tax Cuts and Jobs Act also enacted other changes designed to encourage U.S. business. These changes both raised and lowered federal taxable income. Some of these items may have gotten less attention until recently but are also implicated by LB1203. I'm going to move forward on my testimony because the question and answer part is going to be--

FRIESEN: I'll just--

TONY FULTON: --better.

FRIESEN: I'll just let you go.

TONY FULTON: Yeah, OK. I don't have much more here. The department issued guidance-- has issued guidance twice with regard to the repatriation issue that reduced the impact of this federal change on corporations paying taxes in Nebraska. The first general information letter, and this was December of 2018, clarified that under Nebraska law, the repatriated income could be reduced by the IR-965(c) exclusion. The second general information letter, that was on Sept-- in September of 2019, determined that the one-year repatriation of 31 years of foreign income was unique and nonrecurring, justifying a special apportionment. That special apportionment was, in turn, deeming this income to be non-Nebraska income, even if the-- even if the company is headquartered in Nebraska. Both of these lowered the impact of this federal act on corporations paying income taxes in Nebraska. Yeah, I'll just-- I'll cut it off there. There's one-- one item that-- I'm testifying in a neutral capacity. I hope you recognize that. I do want to clarify the record though. It was stated a number of times that the department has changed its mind. That's not the case. The general information letter that was put out in 2018, I'm going to read it to you, at least the pertinent part. This whole question-- so I had to make a decision. Tax Commissioner, informed by the Department of Revenue, had to make a decision on this. And the decision turns on whether or not this repatriated income is a dividend. If it's a dividend, then we have a deduction in Nebraska law. And it appears in the-- the bill, actually, that Senator Linehan introduced for a foreign dividend deduction. It's not a dividend; that's what we have concluded. In our GIL from 20-- 2018, Nebraska law allows a deduction from federal taxable income and federal AGI, to the extent so included, for any dividends treated as foreign dividends under the IRC and related Treasury regulations. It is the department's position that the net 965 inclusion is not a foreign dividend. A taxpayer deducting any part of the net section 965 income as a foreign dividend must support the deduction with a legal analysis supporting its contention that the net section 965 income is treated as a foreign dividend under the IRC and Treasury regulations. So this was-- I'll just tell you the backstory on this. This was the department trying to find argumentation as to why this could be deemed a dividend. I mean, you know my background; you know what-- what the administration's position is with respect to taxes. We're looking for a way that this repatriated income is a dividend because then, then companies could utilize the Nebraska deduction for foreign dividend. And that's what that is; that is that we-- we're asking for companies to justify themselves if indeed they're going to claim this as a-- as a foreign dividend. We didn't-- we have-- we have not received any-- we've not received that analysis, OK? So in September of 2019, we-- you know, basically, we concluded and that is the-- the operative general information letter that you have before you now. And there was no change in the department's position. If anything could be said, we could-- it could be said that we finalized the position, but it's the precise, same language that occurred in-- in 2018. So it's important to point that out. You know, this isn't-- I-- I-- I don't take satisfaction in the position that we have to take, but I do have the responsibility to uphold the law and I take that very seriously. This is the interpretation that's required by law, so--

FRIESEN: Thank you, Commissioner Fulton. Senator McCollister.

McCOLLISTER: Yes, thank you, Vice Chair. How much money has been paid in-- could be considered in dispute right now?

TONY FULTON: There has been money paid in. I-- we probably-- I don't know off the top of my head.

McCOLLISTER: OK.

TONY FULTON: We will get that number for you.

McCOLLISTER: Thanks, Tony.

TONY FULTON: Yeah.

FRIESEN: Thank you, Senator McCollister. Any other questions from the committee? Senator Groene.

GROENE: Personally compliment you-- you're a very good public servant because you-- you do what you got to do, follow the rules, instead of looking the other way. But earlier, I had asked-- so this is-- took effect in 2018, the lower corporate tax rates?

TONY FULTON: Seventeen.

GROENE: Seventeen. I mean, we've seen an uptick in corporate-- international/national corporations paying income taxes to us? Is--

TONY FULTON: Yeah, that-- that's accurate. There has been an uptick in corporate income. I-- I don't-- I'm not going to-- I'm not commenting on the federal-- what's happening at the federal level. In Nebraska, corporate receipts have been higher.

GROENE: Can you differentiate what income was-- was earned here in the state of Nebraska by the corporation and what is-- I guess-- it-- it-- it's proportional, isn't it? So we really don't-- it's by dollar amount, gross receipts or something? That how they-- it's the national-- how much they made nationally and then it's proportionately how much of the sales were here? Is that how it's done?

TONY FULTON: Not-- not precisely. It'd be pretty-- it'd be pretty difficult for us to be able to tell. So I stated in my-- in the opening testimony that-- I say it-- the Nebraska corporate income tax begins-- so Nebraska's corporate income tax begins with federal-- federal taxable income. So how one-- how a company-- how we get from corporation arrives at their federal taxable income--

GROENE: So you have no idea how much of that increase is coming because of--

TONY FULTON: We might-- we might have an idea. It wouldn't be something we could share.

GROENE: How much is coming from international repatriation on a yearly basis now, not the old money but the--

TONY FULTON: We-- we have an idea, and that's expressed in our fiscal notes.

GROENE: All right.

TONY FULTON: So you'll see this in the fiscal note. You also would have seen it back in 27-- 2018, early part of 2018. Back then, we said that this repatriated income is going to mean about $152 million over the next three years, I think it was, to the state of Nebraska.

GROENE: No, not repatriated, just now with-- taxes are lower and we can't indicate how much money now, the last two years, with the lower tax rate that they are bringing just every year back in, instead of-- because the tax rates are lower here, we-- we can't--

TONY FULTON: We-- we can, so, yes.

GROENE: Because that's money now that they're paying tax on, not what they repatriate.

TONY FULTON: Yeah. Yeah, repatriated income, the-- how do we say it? The effect on corporate receipts, we can provide a number, which I'm going to do for Senator McCollister.

GROENE: All right, so forget I asked.

TONY FULTON: And just to be clear, too, there was a question. Is the increase in corporate receipts directly a result of this action, or-- or lack of action, I guess, if you look at it that way, on the part of Nebraska? I think the-- well, I'm positive the logical answer is, yes, some of the corporate overages we have seen have to be due to this because we have had taxpayers paying that obligation to the state. But I am also familiar enough with corporate receipts to say that it's not a significant number. Corporate receipts are probably up because-- I think Ms. Wat-- Ms. Watson said it earlier-- probably up because of larger economic forces. And then you throw into this fact that corporate receipts are historically difficult for the state to predict. They're just-- it's just-- it's an enormously volatile number. You can go back and look at General Fund receipts over the course of the past several years and you can see we-- we always miss it. So there's a lot that goes into corporate receipts that I think a smidge of this has to do with our lack of action as a state with respect to the Tax Cuts and Jobs Act.

GROENE: Thank you.

FRIESEN: Thank you, Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you. Mr. Fulton, again, thanks for coming as well. You're in a tough position. So the changes that were made in 2017, right, on the federal level, did-- did we, as a Legislature, direct you to make the changes that you made or is that an interpretation that you made? And the second part to the question is, do we-- do we really-- do we put in statute tax policies that exist today or do you-- how does that all work?

TONY FULTON: Well, it's the Tax Cuts and Jobs Act, OK--

KOLTERMAN: Federal?

TONY FULTON: --that-- yeah, a federal law that creates the opportunity for repatriated income. It's not an action by the-- on the part of the state. That being said, that which affects federal taxable income is going to affect the corporate income paid in Nebraska. So we're-- that's another way-- we're downstream of what happened in the Tax Cuts and Jobs Act. When the Legislature was considering what to do at that time, back in 2018, you know, obviously, Department of Revenue was consulted and we provided a couple of one-pagers on-- being about one page, no more. We provided a couple of them. One was for individual income tax; one was for corporate income tax. And in that description, we did describe this is what's-- this is what conceivably could happen to receipts in Nebraska as a result of the Tax Cuts and Jobs Act at the federal level. And that's what I'm referencing here, $152 million over three years. That's what we said back in the day, so 2018. So, I mean, it was seen. I don't know how much attention it got in the Legislature, probably not a whole lot because at the time, you-- you know, we were thinking about other things, we as a state. It was at least contemplated by the Legislature. I don't know-- I'm not going to tell you why decisions are made or why they're not made. But where this comes from, it comes from repatriated income that was made possible by federal action.

KOLTERMAN: Can I keep going? So let's say we adopted, as a state, in the Legislature, the idea that we would follow those guidelines that have been coming down from the federal government. Why would it be, why would it be so different in Nebraska? Why would we be so far out-of-sync as compared to all the other states that have their own interpretation? Are-- are we that-- are we taking a harder line approach to this or are we not sure or are we overreacting?

TONY FULTON: Yeah.

KOLTERMAN: Just--

TONY FULTON: I wish I could--

KOLTERMAN: --quiet the thoughts. I appreciate the thoughts.

TONY FULTON: Yeah, I could-- I wish we could provide an off-ramp here for everyone. We are certain in our position, the Department of Revenue. Again, you've got-- you know me. I was looking for a way to be able to utilize that foreign dividend deduction. We went so far as to put it in our general information letter communicated to the world.

KOLTERMAN: So if we change this, like we're proposing here, does that-- does that take care of your dilemma?

TONY FULTON: Well, I-- I-- I-- I'm neutral.

KOLTERMAN: I know--

TONY FULTON: You guys make those decisions--

KOLTERMAN: I know where you're at. I'm just asking. [LAUGHTER]

TONY FULTON: I-- I took that hat off many years ago. Other states-- so we're not an outlier on this, OK? There are other states that have taken, I'll say, similar positions. But you have to bear in mind, every state has its own tax-- they have their own tax laws. So the foreign dividend deduction, I couldn't say. Maybe the COST folks could probably tell us how many states have that, but I don't know. I know that's what we have in Nebraska. That foreign dividend deduction is what has been utilized by corporations in the past. I-- this isn't a dividend. So, yeah, we're not an outlier in that regard. And Senator Groene kind of touched on it. I'm doing my job here, and Department of Revenue is doing its job also. That's our belief.

KOLTERMAN: Thank you.

FRIESEN: Thank you, Senator Kolterman. So is it fair to say, when you first sent out the first letter that you sent out, if corporations would have responded back to you and showed you that they-- the label on this money was dividends, you'd have no problem--

TONY FULTON: If, if--

FRIESEN: --that one could not show that it was a dividends.

TONY FULTON: It's in the-- I'll just say it this way: the language is there. General information letter, you-- you've got it. The testimony, we can get you copies of it if you need that. I read the language to you. If there is an argument-- if there was an argument put forward as to why, legally, this is a dividend, then, hey, you can use the foreign dividend deduction. I was looking for that, so was the department.

FRIESEN: So it's a label on the money, didn't allow you to use it because it was not labeled as a dividend?

TONY FULTON: That's-- that's a simple way to say it.

FRIESEN: I'm being simple, but-- Senator Briese.

BRIESE: Thank you, Vice Chairman Friesen. Thanks for your testimony here this evening. We all work with revenue projections, including the executive branch. Are these numbers we see in the fiscal note, are they reflected in the executive branch's revenue projections going forward?

TONY FULTON: Yes. That's why you see the fiscal note. And it's not-- and it's-- it's more accurate to say it's not just the executive branch. The executive and the legislative branch put forward projections and I-- I'm not going to speak for the legislative branch. Our projection, it was baked in. Again, we-- we spelled this out back in 2018. We knew, and so it's baked into the projection.

BRIESE: So we pass LB1203, turns those revenue projections on their head?

TONY FULTON: The-- what's reflected in the fiscal note is how I'll answer that. And there is-- there is amendatory language that we're not-- that's not implemented into our fiscal note. You know, I don't think we actually have a fiscal note done for what's being proposed as amendatory language, but it-- it's going to be less. I'm not going to sit here and say it's going to be 50 percent less. I don't know, but ballpark, somewhere in that neighborhood, it will be less. That double dip is something I think that we-- we had to spell out because that's what's in-- was-- that's what was in the bill.

FRIESEN: Thank you, Senator Briese. Senator McCollister.

McCOLLISTER: Yeah. So what you're saying, I think, is LB1203 is really unnecessary. All one needs to do is send you a-- a smart lawyer needs to send you an email saying this was, in fact, a dividend, right?

TONY FULTON: [LAUGHTER] I'd love to answer that question from my gut. We did not make-- we did not take this decision-- the department did not make this decision rashly. It was a long time. And I was-- again, you know my position, you know the Governor's position. We looked for a way that this is a dividend and ultimately, it's not a dividend. Had the feds deemed it a dividend, that would make-- we wouldn't be here today. They did not do that. Maybe there's another argument out there as to why it should be, and we solicited that as well.

McCOLLISTER: Thank you.

FRIESEN: Thank you, Senator McCollister. So would you say that the amendment, as currently written, gets us back to where we were previously before the Tax Cuts and Jobs Act, as far as our tax policy?

TONY FULTON: Well, in a simplified-- to give a simplified answer, yes. I mean, it's just-- this-- this is a-- the-- how do I say this? The-- the way that-- the reason why the Tax Commissioner can utilize discretion when it comes to the apportionment factor is because, and I'll utilize the exact language because I'm not a lawyer-- yeah, well, I'm not going to find the exact language. That's how it works. This was a one-time, unique-- I think it's unrepeatable--

________________: Nonrecurring.

TONY FULTON: --nonrecurring event. And so when those types of things happen, it's hard to answer that-- you know, going back to normal, I don't know. This type of thing doesn't happen very often.

McCOLLISTER: OK.

FRIESEN: Thank you. Senator Groene.

GROENE: To clarify, this is just a one-time thing. It's not an ongoing-- that we're going to lose income that you would expect it to be $70 million a year or $150 million year from here on out?

TONY FULTON: Well, it's-- the-- the majority of this fiscal note impact, anyway, is a one-time event. But there was a kind gentleman here earlier who talked about two acronyms with which you should become familiar, GILTI and FDII. Again, that's from the feds. We didn't come up with those acronyms. But those are ongoing. Those are on-- those will present ongoing obligations for companies. So we broke out-- when we did our fiscal note, we broke-- we broke out the effects of the one-time and then GILTI and FDII. And I think LFO included it in their fiscal note too.

GROENE: Thank you.

FRIESEN: Thank you, Senator Groene. Seeing no other questions, thank you, Commissioner Fulton. Any other neutral testifiers that wish to take a--

TIFFANY FRIESEN MILONE: I've stayed this long. I may as well.

FRIESEN: --three minutes.

TIFFANY FRIESEN MILONE: Good afternoon, Vice-Chair Friesen. 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, and we're here to testify neutral to LB1203. There is a part of me that enjoys that this would be a base-broadening element to our corporate income tax, but we also understand that it would be a unique deviation from historic state tax policy. Our concerns with LB1203 involve issues that have come up through your questions. So we share concerns that if some companies did include this-- these types of incomes in their 2018 returns and we now change the law, we would be facing potential refunds that we have not budgeted for. Again, it's also clear-- well, Tax Commissioner Fulton said that this is included in the forecast for the coming biennium. And so if the forecast was based on the assumption that these types of incomes were taxable, decoupling could force a downward revision of an unknown magnitude, putting pressure on the budget, possibly resulting in cuts to vital services. It also raises questions regarding the current projections and how much of the recent increase in corporate income tax receipts is due to the policy. To the extent the policy is in large part responsible for some of the corporate income tax surplus, decoupling could erase much of the surplus that the Legislature is depending on to pass property tax relief and an incentives package. With that, I'm happy to answer any questions. I did some counting. So a lot of states are very confused about this. There are, like, 17 states that have issued no guidance and so it's unclear, in most states, what they'll be doing. And then I think 21 exempt, like don't tax this at all. There are-- in the teens are at 50 percent and then just a couple at, like, 20 and under.

FRIESEN: OK. Thank you, Ms. Milone. Any questions--

TIFFANY FRIESEN MILONE: Yeah. Those are rough numbers based on me just sitting there, so if you want exact ones, I can get them to you.

FRIESEN: Any other questions from the committee? Seeing none, thank you for your testimony. Any others wish to testify in a neutral capacity? Seeing none, Senator Linehan, you want to come up and close?

Proponents: Nebraska Chamber of Commerce and Industry; Greater Omaha Chamber of Commerce; Lincoln Chamber of Commerce; Nebraska Retail Federation; Nebraska Restaurant Association; Nebraska Beverage Association; Coca-Cola Company; Cargill, Anheuser-Busch; Corteva Agriscience; Smithfield; Costco; Council on State Taxation; Jared Walczak, Tax Foundation; Craig Ihle, Walmart; Nicole Fox; Doug Lindholm, Council on State Taxation. No opponents, no neutral.

LINEHAN: I'm a bit frustrated. We've all dealt with this for three years-- well, I guess this is only my second year as Chairman, but we've heard several times we can't increase taxes. So I would like this defined, and I know Revenue Committee staff has this-- the one-pagers from LB1090, if this was actually talked about, and how much money they said, because this would be about the third time that we have stumbled over things that were not fixed. And I re-- I wasn't-- I think only two of you were on the committee, so the rest of us are kind of blind to that whole process because it came to the floor. I was told that we're fixing everything, but it was said-- maybe we haven't caught everything and we might have to come back. So we need to look at those one-pagers. The-- the talk about whether it's actually-- so if you go to the fiscal note, because I've been-- I've had the advantage of being back here with other testifiers, if you go to the second page of the fiscal note-- or the first page, it doesn't matter, but I worked on the back side-- the one-time money is the big money, so it's the $74 million. And-- and we've all agreed, I think even the Department of Revenue has agreed, these numbers are about 50 percent higher than they should be. I think actually they said 55 percent higher. So that's the one-time money; that's the big money. The other money is in the middle and that would be the ongoing money, so-- and the other thing I'm confused about, and I will ask Chairman Stinner-- well, first of all, let me go back here. We need to get, from the Department of Revenue, what the numbers actually are. It is very unfair to come in and tell the Revenue Committee, in the middle of everything else we've got going on, well, maybe you'd be off $250 million on your projections. I mean, that's ridiculous because what I've been told-- and I've double-checked with Stinner and double-checked-- so we don't do that when we project revenues. We don't jump around and see which one's going to be higher and which ones will be lower. We go, on an average, 4.5 percent increase in revenues every year. Sometimes we're above it, like we were this last year at 8.7. Sometimes-- our first couple years here, my first couple, we were at 0.3, but we go on an average revenue increase. We don't-- unless somebody is hiding something behind the curtain, we don't go through each tax policy and decide how much that's going to generate for the state to figure out what we're going to have for revenues.

So-- but I will ask Chairman Stinner. What-- what I think is most-- and-- and I have empathy for the Revenue Department, I do. But if we're going to change taxes on Nebraskans to the tune of $250 million, the Legislature should have something to say about it. I mean, it's-- it's like, things like this can't just happen. The Revenue Department could have brought it to us and said, we've got a problem, we need to fix it. I don't remember them coming and say we have a problem, we need to fix it. So we got to get some more information.

FRIESEN: Chairman Linehan, thank you. Any questions from the committee? I-- I mean, I-- I think, too, that one of the big questions is-- you know, I know the forecasting board always uses current law to do their forecasts. But again, revenue growth is what it is no matter what the forecast. That's irrelevant, but I-- I do feel that the forecasting board could have used this data. But that's not really relevant to what our revenue historical growth has been so I'm not concerned about that. But I-- I do feel that we need to find out if there's refunds due, how much they may be. That is-- would be some impact.

LINEHAN: And we could go back. I assume all the forecasting board's records and what was said by whom is all public information. There is a record, right? I went to the last forecasting board meeting, the last two, and I don't remember anybody saying something about we're going to have this big bucket of money that is going to come in. It was quite the opposite. I mean, if you look at their forecasts, they say we're only going to grow 2 percent for the next two years, which every other number says that's low, so there's something that's skelter here.

FRIESEN: I thought it was a dart board.

LINEHAN: It kind of is. And they--

FRIESEN: Sorry.

LINEHAN: --admit that too. OK. Thank you all for working so hard.

FRIESEN: Seeing no more questions, we'll close the hearing on LB1203.

LINEHAN: Yay.

FRIESEN: And we'll close the hearings for the day.