LINEHAN: Good morning, my name is Lou Ann Linehan, I'm from Elkhorn, Nebraska, and I represent the 39th Legislative District. I serve as Chair of this committee. The committee will take up the bills in the order posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being heard. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. We do ask that you limit handouts. It is important to note if you are unable to attend a public hearing and would like your position stated for the record, you must submit your position and any comments using the Legislature's online database by 12 p.m. the day prior to the hearing. Letters emailed to your senator or staff members will not be part of the permanent record. You must use the online database in order to become part of the permanent record. To better facilitate today's proceeding, I ask that you abide by the following procedures. Please turn off your cell phones and other electronic devices. The order of testimony is introducer, proponents, opponents, neutral and closing remarks. If you will be testifying, please complete the green form and hand it to the committee clerk when you come to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute. We need 11 copies for all committee members and staff. If you need additional copies, please ask the page to make copies for you now and I will introduce the page in a second. 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 if necessary, but we will use the light system. So when you're on yellow, you should be wrapping up. If there are a lot of people wishing to testify-- I don't think we're going to have that many today, so if your remarks were reflected in previous testimony, or if you would like your position to be known but do not wish to testify, please sign the white form at the back of the room and will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. I would like to introduce committee staff. To my immediate right is Mary Jane Egr Edson, to my immediate left is research analyst Kay Berquist. I forgot to say legal counsel, Mary Jane Egr Edson, research analyst, Kay Bergquist, and at the end of table, far end left of the table is committee clerk, Grant Latimer. Now I would ask the committee members to introduce themselves beginning at my far right with Senator Pahls.

PAHLS: Thank you, Chair. Rich Pahls, District 31, southwest Omaha.

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

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

FLOOD: Mike Flood, District 19, all of Madison and southern Pierce County.

BRIESE: Tom Briese, District 41.

ALBRECHT: Joni Albrecht, District 17, Wayne, Thurston, Dakota and a portion of Dixon County.

LINEHAN: Today our pages-- we only have one today, so we're going to have to be very nice. Can you stand up, please? Is Kennedy, so she's our only page today. Please remember that the senators may come-- I'm sorry, Kennedy, is at UNL studying political science. Please remember that senators may come and go during our hearing as they have bills to introduce in other committees. Please refrain from applause or other indications of support or opposition. For our audience, the microphones in the room are not for amplification but for recording purposes only. Lastly, we use electronic devices to distribute information. Therefore, you may see committee members referencing information on their electronic devices. Please be assured that your presence here today and your testimony are important to us and critical to state government. So that we will start with LB926, Senator Pahls.

PAHLS: Thank you, Chairwoman Linehan, and members of the committee. My name is Rich Pahls, R-i-c-h P-a-h-l-s. Today, I bring forth LB926. LB926 is about equity. Property taxes are the number one issue for many people in Nebraska, and rightly so because we know they're very high. So what do we do? We try to fix it all. There's all kinds of credits and valuation schemes. That is good, I say. We probably should not even begin taking the money from them-- from the taxpayers in the first place. But it's good that we are addressing property taxes for some-- I'm using the word "some" Nebraskans. Again, I say some Nebraskans, but not all Nebraskans. We're leaving out a full third of the population, 33.9 percent of Nebraskans rent. That's 286,210 rental units and 664,945 renters and they do get the honor of paying the property taxes as a portion of their rent. Those figures I get from the 2020 census. So they are up-to-date. LB926 is mainly, for me, a discussion bill. I'm thinking that Senator DeBoer would take the lead on this issue. To me, it's an important issue that we need to have. Ever-- everyone is looking out for a property taxpayer. Who's looking out for the renter that is having that tax pass on to them and does not receive the benefit of a tax credit? And I do understand the concept of supply and demand because of the rent and the amount of money that the investor has to do to their properties. LB926 would take care of renters by creating an income tax credit of 2 percent of the total amount paid in rent. The credit would be at least $50, but would be capped at $500 and like say, I'm using this as a-- as a starting point to get some discussion because if you say a third of the people in the state of Nebraska, we always talk about us being fair, and you know, my thing down here is for balance of things out. So I truly believe a third of the people are not receiving what they could be receiving in property tax credits. Would answer any questions.

LINEHAN: OK. Are there questions from the committee? Senator Flood.

FLOOD: Senator Pahls, are you telling us that you want this bill be IPP'd so that we can consider Senator DeBoer's bill?

PAHLS: Well, that's a possibility. I think you ought to talk-- if that's-- that's OK with me. If you pick up the senator who is following me because it's the same concept looking out for renters. That would not-- that would not bother me because we're beginning the discussion.

FLOOD: OK, thank you.

LINEHAN: Thank you, Senator Flood. Are there other questions from the committee? Seeing none. You'll be here to close?

PAHLS: Thank you. Yes.

LINEHAN: OK, excellent. First proponent. Oh, yes-- well, let's see how many witnesses we have-- or testimony witness, I'm sorry. Are there any proponents? Are there any opponents? Is there anyone here wishing to testify in a neutral position? Good afternoon.

LYNN FISHER: Good afternoon, senators, and thank you very much. My name is Lynn Fisher. L-y-n-n F-i-s-h-e-r. Do you need my address as well?

LINEHAN: Nope.

LYNN FISHER: OK. And I'm here representing the Statewide Property Owners Association here in a neutral capacity. We're actually going to be supporting LB740 for Senator DeBoer, but this particular bill, as it's written, we're neutral on because it does not exclude from the property or the income tax credit those properties who are property tax exempt. And so here, for example, in Lincoln, the Lincoln Housing Authority has millions of dollars worth of property. They don't pay property taxes, yet they rent to fully market nonsubsidized tenants. And we don't believe that if this was to pass that that would be a fair allocation of credits for people whose properties are taxed to begin with. Be happy to answer any questions.

LINEHAN: Thank you. I'm very glad you're here because I wondered about that. So a lot of-- I don't know. So what if you're a student at the University of Nebraska paying rent for a-- I don't know. Would that include dorms? I mean, where does it-- where-- how do we break this down?

LYNN FISHER: Well, there are lots of property tax exempt properties, and the Lincoln Housing Authority is the one-- major one that we're concerned about because it offers unfair competition to our industry because they rent to anybody in several-- many of them, more than half of their properties that are not-- they don't pay property taxes or sales taxes, yet their-- their tenants are fully capable of renting anywhere, they're not subsidized at all.

LINEHAN: OK, so you're you're saying if they don't, if the landlord doesn't pay property taxes then they shouldn't get a break on their rent.

LYNN FISHER: Exactly.

LINEHAN: Any other questions? OK, thank you very much. Are there any other people wanting to testify in the neutral position? Do we have letters for the record on this? OK, we have one proponent, one opponent and none in the neutral. Senator Pahls, would you like to close?

PAHLS: Yes, I understand the concern. I was thinking that a nonprofit, but it was not in the bill. It would not-- not paying money into the tax, so they should not receive the taxes. But you do have-- you brought up some very good-- good point about the people on campus. I mean, they are renting, but I think--

LINEHAN: We just, tighten it up somehow.

PAHLS: No, I understand, so.

LINEHAN: Any other questions for Senator Pahls? Seeing none, thank you very much.

PAHLS: Thank you. Appreciate it.

LINEHAN: You bet. So with that, we close the hearing on LB926 and open the hearing on LB740, Senator DeBoer. Good afternoon.

DeBOER: Good afternoon, Chair Linehan, and members of the Revenue Committee, my name is Wendy DeBoer. W-e-n-d-y D-e-B-o-e-r, and I represent Legislative District 10 in northwest Omaha. I'm here this afternoon to introduce LB740, a bill that creates an income tax deduction for rent paid up to a maximum of $3,000 on an individual's principal place of residence. My purpose in introducing LB740 is to help address one aspect of our housing issues in Nebraska. In recent years, the cost of housing has been increased-- increasing at a higher rate than wages. We know that we don't have enough workers in the state and one-- without enough housing that workers can afford, we can't grow our economy. This bill will help one swath of Nebraskans, even if just a little bit. The data shows, as you heard from the previous bill, that over a third of Nebraska's populations are renters, and the Department of Revenue estimates that 257,000 households, 257,000 households will be eligible for this tax credit. Sorry, tax deduction. This isn't a large amount of money, but it is a start and we have to be serious about housing to get serious about our workforce. LB740 is modeled after a similar law in Indiana. I passed out a handout for you that shows how the law has been working in Indiana. That's from the Fiscal Office of the Indiana Legislature. I will grant you the data is a little bit older from them, but it gives you an idea of how it works. Indiana's had this law in place since 1979, and it continues today. LB740 allows the taxpayer to deduct from their adjusted gross income rent paid on their residence up to a maximum of $3,000. The tax saving to an individual equals the deduction amount multiplied by their tax rate. As such, the maximum $3,000 deduction in this bill will reduce the state income tax liability by $205.20 if you are in the highest tax bracket. I have a chart that I've also handed out to you that shows how much tax liability would be reduced under each income tax bracket. This is a separate deduction that an individual can take even if they do not itemize on their tax returns. If you do not have any income tax liability in the state of Nebraska, however, you will not be eligible to benefit from this deduction. LB740 will help make housing more affordable for our taxpayers who do not own their own homes. We have programs to help reducing housing costs for property owners such as the mortgage interest deduction for those who itemize and property tax credit funds. LB740 will help renters. My district has a large number of renters and I care about the affordability of their housing. This bill addresses a population that is currently missed in our efforts to address our housing crisis. I urge you to advance LB740 to General File. I'm happy to work with this committee to make any changes that you think would be necessary to make it a better bill. I'm considering this bill for my personal priority, and at this time I would be happy to answer any questions that you might have.

LINEHAN: Are there questions from the committee? Senator Pahls.

PAHLS: Thank you, Chair. I just wanted to make-- as my intent was to start out, but you-- did I hear correctly, want to make this a priority if it gets out of committee?

DeBOER: If it gets out of committee, it's one of the ones I'm considering, yes.

PAHLS: OK. Thank you.

LINEHAN: Other questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. You know, in the past we've-- people who ran it like Senator Pahls and said that our property tax credit doesn't necessarily trickle down to help the tenant. But what would stop the landlord here from raising the rent a little bit, knowing that there's a little relief from you? Is there any, you know, it's so easy somebody to take advantage of this. I've seen it in other tax things we've done. If the landlord could raise rent $10 a month and recoup some of this, and.

DeBOER: Yeah, I mean, I-- I admit there's probably a possibility that that could happen. I would hope that the market would take care of that issue. We know that rents are very susceptible to market forces, so I would hope that that would take care of it.

FRIESEN: Recently too, like in Hall County, we had a case where, you know, apartment buildings were undervalued by 200 percent. They increased their valuations suddenly. So I mean, those apartment dwellers were getting quite a break, it's the tenants. Landlords, the one indicated is raising rent $45 a month now the valuations where they belong. And I think that's more widespread than we think. I know this kind of compensates because it's got a cap on it, but at some point it doesn't come close to covering a $45 a month increase if those apartments were valued where they should be. I'm kind of torn between trying to do something like this, but again, it seems like people can take advantage of it. And I don't-- I don't know that it gets,in the end, gets to where it belongs.

DeBOER: Yeah. Well, I don't have information on how many apartment buildings in the state are undervalued and sort of where that would change and all that. I just-- I don't have that information. But if you had it, I would be happy to look at it.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? Seeing none. Will you stay to close?

DeBOER: I will.

LINEHAN: OK. First proponents for LB740.

LYNN FISHER: Lynn Fisher, L-y-n-n F-i-s-h-e-r, representing the Statewide Property Owners Association, and we're here to support this bill and this effort. We want to see that all of our customers or tenants are able to get some relief, if possible, through this type of a bill. We try our best to keep the rents as low as possible. To answer your question, Senator Friesen, the market dictates what we're able to charge for rent. Those rents are constrained by the marketplace. It's not always possible for us to raise rents as much as we would like in order to keep our places relatively full. So, you know, if we keep raising the rents, obviously we'll have vacant units and then-- then our revenues actually decrease. So the market forces certainly do come into play in terms of controlling what can be charged for rent. And it varies a lot depending on location and real estate. You know, location and condition and-- and market conditions fluctuate all the time. Right now, fortunately, you know, vacancy rates are in the last several years quite low because there's a shortage of good properties for folks that are interested in trying to find a good quality property. But we want to give any opportunity to our tenants and our customers to get some relief and this just helps them because we've had to raise rents. We've had to because of property tax increases, inflationary pressures on all of our expenses and overhead. In order for us to maintain a small profit we need to be able to raise those rents whenever we can for those reasons. But we-- I can't imagine a situation where we or any of our members of our association would see this as an opportunity, if it passed, to be able to raise the rent for this sole purpose only. That just wouldn't-- certainly wouldn't be fair or ethical. And the market would certainly have something to say about that, too in terms of how much rents are raised anyway. But I'd be happy to answer any questions.

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

FRIESEN: Thank you, Chairwoman Linehan. So like this next year, when you file your income taxes, you're going to be able to get back and being in Lincoln here, your $1.5 tax levy, you get back 25 percent of what you pay your school in taxes.

LYNN FISHER: Right.

FRIESEN: Does anyone pass that on to the tenant? Is anybody ever lowered rents a little bit?

LYNN FISHER: Well, our property tax-- taxes have increased far more than that credit limit. So we--

FRIESEN: I get that, but this is going to increase four times more from what we were, and there's going to be a pretty large refund that's going to go to the homeowners.

LYNN FISHER: Well, the net effect, though, is our property taxes are going up even with the credit, so.

FRIESEN: They won't be going up as much as this refund.

LYNN FISHER: Well. I would love to show you our tax bills compared to the last couple of years. Our members are just screaming because of the amount of tax increases that we've seen on our properties, and that's the reason why we've had to raise rents.

FRIESEN: OK. Do you feel your apartment buildings are fairly assessed in value?

LYNN FISHER: Yes.

FRIESEN: Very well market value.

LYNN FISHER: Yes. Yeah, and they have been going up quite a bit.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Senator Pahls.

PAHLS: Thank you. I lease so I understand. I'd be honest with you. I live in a nice place, not that unbelievable. But my rates have gone up I know, it’s compensated for any tax increase. I can tell you that personally.

LYNN FISHER: Sure.

PAHLS: Another question I have is my-- I have to have fire-- fire protection for my belongings, my stuff. But now I'm finding out that I'm paying the-- those of us in my complex, we're paying the fire-- the insurance for the building. Is that typical?

LYNN FISHER: Well, I don't know if you're paying it directly or if it’s just part of the rent covering the overhead of the-- of the owner. But that's what we do. We have property insurance and that's part of our-- our structure for overhead that we have to decide how much above that do we need for rent to cover for those expenses. We do, however, require renter's insurance if that's what you're referring to, which is-- which is very important.

PAHLS: Well, I was just surprised a couple of years ago. I started seeing my lease and then this is what it costs, plus additional rent, which-- or insurance.

LYNN FISHER: So they're charging you a fee for renters insurance, separate?

PAHLS: For the building.

LYNN FISHER: Right.

PAHLS: I pay my own.

LYNN FISHER: Well, I guess I don't know what your situation is or what your-- what your--

PAHLS: I just-- I just curious, I didn't know if that's common practice and I'm not--

LYNN FISHER: I'm not-- I'm not familiar with a separate charge for rent or for insurance.

PAHLS: OK.

LINEHAN: Other questions from committee? Following up on Senator Pahls, if you owned a building, you're going to make sure you have the insured-- the building is insured.

LYNN FISHER: Of course, of course.

LINEHAN: Yeah. But what you're saying is sometimes you require them to have-- fire insurance for their belongings in the apartment,

LYNN FISHER: Well, we require renter's insurance--

LINEHAN: Renters.

LYNN FISHER: --which covers their own personal belongings. But it offers an-- also a liability coverage for them in case they negligently cause a fire or flood. And that will give us some protection. We can make a claim against the renters insurance so that we don't have to have that claim against our policy other than the deductible sometimes.

LINEHAN: I see. OK, other questions? Thank you very much for being here. Appreciate it.

LYNN FISHER: Thank you. Appreciate it.

LINEHAN: Other proponents? Good afternoon.

JOEY LITWINOWICZ: Good afternoon, Madam Chairwoman Linehan, and committee members. I just-- I just support this bill and it's just, you know, I-- well first of all, I think that market forces will--

LINEHAN: Could you say your name and spell your name?

JOEY LITWINOWICZ: Oh, heck yeah. My name is Joey Litwinowicz, J-o-e-y L-i-t-w-i-n-o-w-i-c-z, and my phone number-- no, just kidding, but.

LINEHAN: We just need your name.

JOEY LITWINOWICZ: Huh?

LINEHAN: We just need your name.

JOEY LITWINOWICZ: I was kidding.

LINEHAN: Oh, OK. (LAUGHTER)

JOEY LITWINOWICZ: And anyway, oh, I don't mean-- I don't mean to waste time. I believe that market forces, first of all, we'll take care of it. In Lincoln, I read the-- the city report. I live in Lincoln and there's so little housing. There's so much competition that on that case, I can't imagine that being a problem because I'm familiar with it. I read the book. I mean, paper-- it is like a book and it's huge. And just for this location of Lincoln, and you know, I think I just for me, it seemed like if we can't do-- OK, let me finish. It just seems that there's got to be a way to help the little guy out. And it's interesting just the body language and, you know, I don't mean to be, but when you mention, you know what-- what about-- well, don't do this or don't do that, but we're losing sight of the focus that we should instead of like, well, coming up with easy ways to shoot it down is to figure it out. And that's just the feeling I got. So using the rules of a happy marriage, I feel that there was an atmosphere like that here. And as far as the housing authority goes, you know, they do so much in ranking that, you know, we're so short on housing in this-- in this town for people like me. Well, I'm on disability, I get subsidized. But I mean, there's so little housing that, you know, let's let them build wherever, you know. And so, you know, that's all I have to say, and I just want people to think about that. And I know it's easy to say to find another way to pay schools, but we shouldn't, you know-- yeah, you know, I don't know what to say about that. But you know, just do-- I'm going to leave it at that, thank you, guys.

LINEHAN: Thank you very much for being here. Are there any questions from the committee? Thank you very much for being here. Appreciate it. Other proponents? Good afternoon.

ALAN DUGGER: Good afternoon. My name is Alan Dugger, A-l-a-n D-u-g-g-e-r. I'm a student attorney for the Civil Clinic at Nebraska Law. I'm testifying and speaking in support of LB740 in my capacity as a student of the law and a lifelong tenant. In Nebraska, there's a considerable disparity in how-- in how homeowners or owners are treated under the law, including under the tax code. Unlike homeowners, there are no real economic incentives for renters in general. Renters will build equity and even the highest tax brackets can't claim any deductions for mortgage interest, for example. There's a need for parity here. I echo Mr Fisher's comments really rather a need for relief for his tenants. The fair market price for a two-bedroom rental in Nebraska is just under $900 per month. According to the National Low Income-- Low Income Housing Coalition, the minimum hourly wage needed here in Nebraska to afford a two-bedroom rental for a family is $17 per hour. That's $3 below the average minimum wage for a renter-- the average wage renter in Nebraska. Many of Nebraskans for hanging on by their margins and LB740 could really make a difference there. As a Nebraska citizen, a renter, I support LB740 and it's time to correct that imbalance. I want to go off script for a little bit. I can tell you-- so part of what I do is I volunteer in eviction defense and we see tenants all the time in court who are just one-month behind in rent and always able to help them, but I wonder how much-- how much of an impact might any kind of money in their pockets and most-- and most Americans don't even have $500 saved up. One-month of rent stands to an even eviction. Even a small amount of money, $200, even less, can prevent that, hold it off,allow a family to buy groceries. LB740 makes good economic sense. It directly benefits all renters, a filter to Nebraskans, as Senator Pahls mentioned earlier, a predominantly low-income a third. It puts money back in their pockets. A third of Nebraskans who need it most. Our tax system is regressive. Nebraskans are in the lowest 20 percent of income, wind up paying the highest amount of taxes "apportionate" to that income. I think any measure that eases that burden on low-income families and one that rewards economic activity rather than simply shifting the burden to a higher tax bracket, should find support our Legislature. As a final point, Senator DeBoer's legislation could not be more timely. The average Nebraskan renter already struggling to provide a home for a family and rent prices are only going up. The federal-- the Federal Reserve Bank of Dallas has projected that rent inflation will rise up to 6.9 percent by December 2023, right when LB740 would take effect. Even outside of our urban centers, rents are on the rise. Renters and their families need help and this Legislature is the place to step in. I respectfully urge you to do so.

LINEHAN: Thank you. Are there any questions for Mr. Dugger? Seeing none, thank you very much for being here.

ALAN DUGGER: Thank you.

LINEHAN: Are there other proponents? Are there any opponents? Anyone wanting to testify in the neutral position? We did have four proponents submit testimony and one opponent and no one in the neutral position. Senator DeBoer, would you like to close?

DeBOER: Thanks, Senator Linehan, and thank you to members of the committee. I don't really have a lot to add at this time because it was a relatively short hearing, but I will reiterate that I am willing to make adjustments and work with the committee if they have concerns and would like to make changes or modifications in order to make the bill better. So with that, I'll take any last questions.

LINEHAN: Did you ask the Fiscal Office at all about the revenue of the fiscal note?

DeBOER: No, I--

LINEHAN: I know, sometimes we don't have time. I get that. I'm having a hard time-- OK, so we're-- I agree with the assumption from the young man from law school that he is probably the lowest-- lower-income people that are renters. Not always, obviously.

DeBOER: Not always.

LINEHAN: Senator Pahls rents, it's not always. I think about renting whenever it snows, I get that people rent. But the majority, I would think, aren't paying a great deal of income taxes if they're-- I just-- the fiscal note seems pretty high to me.

DeBOER: Yeah, I mean, I think it's 257,000 families and if you're filing jointly, then it would be, you know, one, not both incomes, but one. So 257,000 families, I mean, I can ask about it.

LINEHAN: Well, I would just ask for the breakdown what-- what they use as a breakdown on income levels because all 257,000 aren't paying income taxes, but some of them are getting-- and I'm not saying it's not right, but they get earning from tax credits. They file and get money back. So it's just-- I'd like to find it--

DeBOER: I mean, if the fiscal note is smaller, better. Yay.

LINEHAN: That's what I was thinking. (LAUGHTER) So any other questions from committee? Senator Bostar.

BOSTAR: Thank you, Chairwoman Linehan. Thank you, Senator DeBoer. I actually agree with Senator Linehan that it strikes me as a very high fiscal note and so I think it would be helpful to the committee if we could look into that and figure out how they arrived at the number they did. The other question I had was related to the fiscal note, which is you have two fiscal notes. Is the only difference just their characterization in the language in Revision 00 that they referred to as a tax credit, and then they edited that. Is that the only change? I see your-- your--

DeBOER: Yes, it looks like the answer is yes to that question.

BOSTAR: OK, I just wanted to check--

DeBOER: Yeah.

BOSTAR: --if there was anything else that was missing.

DeBOER: Yeah, I didn't see any difference. In fact, I thought it was just printed out twice.

BOSTAR: Thank you very much.

LINEHAN: This is a deduction not a credit.

DeBOER: Correct.

LINEHAN: So it's not refundable.

DeBOER: Correct.

LINEHAN: You have to pay income.

DeBOER: Yeah.

LINEHAN: You need to talk to me.

DeBOER: It may be too high.

LINEHAN: Any other questions? Thank you. I read the letters, so close the hearing on LB740. OK, then who's taking over? Senator Briese.

BRIESE: Now we'll open the hearing on LB938. Chairwoman Linehan, welcome.

LINEHAN: Can you-- I'm sorry, Kennedy. Good afternoon, Vice Chairman Lindstrom and members of the Revenue Committee. My name is Lou Ann Linehan, L-o-u A-n-n L-i-n-e-h-a-n, and I'm here to introduce LB938. This bill continues the reduction in corporate income taxes that was started last session with LB432. As you may recall, LB432 was amended on the floor to slow down the reduction in the rate and wait to see if the state was fiscally sound enough to continue the reduction. Well, here we are one year later and we all know that we're in great fiscal shape. The state is fiscally sound, so it's time to continue the reduction at the top corporate rate. This bill would reduce the top corporate rate from 7.81 to 5.84 by year-- tax year 2026. The rate for the first $100,000 of taxable income remains at 5.58 percent. This is a companion bill to LB939, which will be up next. The overarching goal of this bill is to reduce our top marginal tax rate for both corporate and individual income taxes to 5.84 percent. Achieving this goal will do several things for the state of Nebraska. It creates parities between corporations and flow-through entities. It's more competitive. We'd have better rankings, like the map I just handed out shows. We'd do better. It makes us more attractive. It helps attract more businesses and more talented people to fill our open jobs. Allows taxpayers keep more of their money. It has a multiplier effect when residents spend extra money in the state. If corporations have less income tax to pay, some tax incentives may go unused, we could hope. If you have any questions, please ask me. Thank you. And I do want to comment on the fiscal note because I talked to the Fiscal Office at noon today, so they go with the Revenue Department's average annual growth. So when they do a fiscal note for tax cuts, they assume our annual growth in revenue is going to be 5 percent a year. And over the last three or four years, it's been above 5 percent. Way above, in a couple of cases. But so when we look at these, when we look at the cost on this, I just think because, you know, when we're on the floor, we're talking about the out years maybe being-- I don't know, I think there's this discussion going on what the out years should be. I think right now, the Fiscal Office has them at 0.7 percent, 0.7, so 0.7 in our growth. But when they do the fiscal notes to cut taxes, they're using a 5 percent growth. So with that, I'll take any questions.

BRIESE: OK, thank you for your opening. Any questions of Senator Linehan? Seeing none, thank you. First proponent testifier. Good afternoon and welcome.

BRYAN SLONE: Good afternoon. Chair Briese and members of the committee, my name is Bryan Slone, B-r-y-a-n S-l-o-n-e, I'm the president of the Nebraska Chamber. I'm here on behalf of the Nebraska Chamber, the Greater Omaha Chamber and the Lincoln Chamber today in support of this legislation. Let me just hit a few high points. One, it's been a long two years. It's been a long two years for all of you, it's been a long two years in the business community. Unfortunately, if I were to bring my employers in the room today, they would tell you that the hardest work is in front of us, not behind us. As we come out of the pandemic, the, the issue of dealing with a brand new economy with a different workfo-- workforce structure, different cost structure and the need for technology and innovation in all of our core industries, including ag, manufacturing, construction, engineering, transportation and finance is significant. The challenges are significant. And whether it's workforce or technology companies and implementations, sorry, we're going to be competing with each of the 50 states. And that level of competition is, is genuinely different than it was before the pandemic. This bill is one of what I would say is a handful of game-changing differences that this body could, could take on this year to truly make Nebraska competitive coming out of the pandemic, and help our communities and, and our, our state thrive and compete coming out of this. To give you a flavor of what this corporate tax rate means competitively, it would finally put us in the top 20, although it would be 20th. Assuming no other state lowers their corporate rate, it would make us the 20th from, from the lowest rate. We're not in the top 20 right now. We are not a competitive rate of-- rate at all. If I were to list states that have lower rates than, than we do at this point, it would be Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Hawaii, Idaho, Indiana, Kentucky, Michigan, Mississippi, Missouri, Montana, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia, all with lower corporate tax rates than we have. This continuation, and I want to, I want to thank Senator Linehan for bringing his legislation, is critical to the competitiveness of our state and also solves another problem which we've talked about before, which is parity with the individual rate. Just to remind everyone, income on corporations is taxed twice, not once. It's taxed once at the corporate tax rate and then again for, for ultimately the shareholders to receive that income, it's taxed again at the individual rate. So this is just the beginning of how corporate income tax is taxed. In a sensible tax policy, you would always never have the corporate rate above the individual rate. Many times you would have a below the individual rate as a consequence to stay competitive. I'm very confident in the, in the game-changing capability of this to, to bring something that's really important to the state. If I look at ag, the future of ag is technology. When I look at manufacturing, the future of manufacturing is technology. We need technology companies here in Nebraska and we need to attract them. Unfortunately, we rank in the bottom 10 in attracting those kinds of companies to the state. It's key to our core industries. It's key as we go forward. So I see this as a very positive bill, and our chamber members are very, very supportive of this bill. This is one of the key things we can do this year to truly make a difference going forward. So with that, I'd be happy to take any questions.

BRIESE: Thank you for your testimony. Any questions? Senator Bostar.

BOSTAR: Thank you, Senator Briese. Thank you, Mr. Slone. We had spoken over the interim sort of about taxes in general, and I had the question of what share of our corporate income taxes originate outside of Nebraska? And I just, I was just wanted to follow up and see if you had any other information about that.

BRYAN SLONE: So I'd better be careful, your legal counsel is a much greater expert on these subjects than I am. But, but generally speaking, in terms of what originates outside of Nebraska, the way that the tax code is set up is that all of the corporate tax income, with one exception, one very notable exception, is related to activities or things that have nexus to Nebraska that we collect. We don't collect for activities generally, it's-- there are a couple of notable, and one particular exception for which there's other legislation, but is beyond the scope of this hearing.

BOSTAR: Sure, right. I mean, it's you know, and these have a business presence here, but, but fundamentally originating from corporations and individuals associated with corporations that aren't here.

BRYAN SLONE: So, so the activity that generates the income is related here. And you're correct, there are lots of companies. I will use Kawasaki in Lincoln as an example. That's clearly a Japanese company, but it's one of our largest manufacturers in the state. It's one of our largest employers in the state. And the corporate tax that Kawasaki pays in Nebraska relates to the activities that are here in Nebraska.

BOSTAR: But so, and thank you for having this conversation. The taxes that Kawasaki pays is related directly to the apportionment of their sales within Nebraska. So if their sales stay flat, we lower our corporate rate. That isn't necessarily an incentive for them to come and invest more in building up manufacturing-- another manufacturing plant in Nebraska, because fundamentally, if they're, if they're selling at the same national landscape they are today, it won't make a difference. Is that correct?

BRYAN SLONE: It depends in terms of the where the sales take place.

BOSTAR: Let's just say that their sales picture doesn't change.

BRYAN SLONE: Like I say, it depends upon where the sales take place and the mix of what they produce. Generally speaking, beyond, beyond the sales of any of these companies, they also have other headquarters activities associated with it. And but, but you're correct that, to the extent that they're, they're making sales in other places, it will, it will be allocated to those other places.

BOSTAR: Thank you very much.

BRIESE: Thank you, Senator Bostar.

BRYAN SLONE: I-- and I, I should add, Senator Bostar, we also have a number, a very large percentage of our corporations that just sell in Nebraska.

BOSTAR: Of course.

BRYAN SLONE: OK.

BRIESE: Thank you, Senator Bostar. Anyone else? Senator Pahls.

PAHLS: Thank you. Just recently, we had a bill in front of us that the chamber was-- had a conditional acceptance of it, and explain to me why that was conditional. I'm just curious.

BRYAN SLONE: Which bill, were, were you referring to, Senator? I can't--

PAHLS: The one on property tax.

BRYAN SLONE: Yeah, so we will-- you will hear me testify, and I probably will testify yet again this session, did a hearing with a conditional support. It will mean that we support the, the general approach and, and, and goals of the bill, but there are certain pieces of the bill that would be problematic that we think need additional work and drafting. In this case, this is not one of those bills. It's-- this is one of those situations where there's a very simple, small bill that will have a mega impact for the state and our ability to compete against the other 49 states, and build jobs not only in our metropolitan areas, but in our smaller communities.

BRIESE: Thank you, Senator Pahls. Anyone else? Senator Friesen.

FRIESEN: Thank you, Senator Briese. I want to go back and talk about the corporate that Senator Bostar started a little bit with. So, well, I mean, let's use Kawasaki. You know, let's assume they just made streetcars, and that's all they did. So their sales were all in some other state because we don't have streetcars. Do they have to pay any Nebraska state income tax on those sales?

BRYAN SLONE: To the extent the sales are made in Nebraska, yes. To the extent they aren't. So, for instance, and let me use an ag example, and then let me use like a John Deere, which is the opposite.

FRIESEN: Yes.

BRYAN SLONE: Which is not a Nebraska company with very substantial operations and sales in Nebraska. And as you know, a lot of those sales are repair parts as well. And the question is, where are those repair parts sourced? And generally in that case, they're going to be sourced with the local dealer.

FRIESEN: That's kind of where I was going, you've got two different corporate situations. One is--

BRYAN SLONE: Right.

FRIESEN: --out of state earning money here. And so what they earn here off of selling the parts they pay in Nebraska taxes

BRYAN SLONE: Yeah, they could put that understand-- and that's a good example of the competitive issue. Forty-five percent of our population and 45 percent of our, our businesses are within a 40-mile range of a border. And so they could just as well put that dealer in South Dakota for a lot of, a lot of the areas in the state, or in Council Bluffs or, or somewhere else.

FRIESEN: I'm almost driving that far already so.

BRYAN SLONE: I understand. I understand. But this is, this is the issue. We are in competition against all of our neighboring states for activity and having sales occur in this state. And when you have higher rates than, than most of our competitors, it causes this question of where you locate your sales to be not in Nebraska, if there's a practical alternative.

FRIESEN: Thank you.

BRIESE: Thank you, Senator Friesen. Senator Albrecht.

ALBRECHT: Thank you very much. With the map that Senator Linehan put out, and we have competition all around us, you mentioned that when you started to talk. When we have these incentive packages, obviously we have those because we have to do some heavy negotiating to get them to come to our state. So in reducing this, if we should be able to do so, how would that affect our bargaining power? Would we have to have--

BRYAN SLONE: Yeah.

ALBRECHT: --have all these major incentives as we continue to--

BRYAN SLONE: Very fair, fair question, Senator. And I don't mean to give you a lawyerly answer, but the answer is yes and no. In this case, which is the yes answer, is we're forced to have significant incentive packages in the state because both our individual and our corporate tax rate are, are some of the higher in the country. And that is just what it is. So presumably, if you had a lower rate, you would be in a different competitive standard and you would be able to change your incentive packages appropriately. I will say, though, that even in states like Texas, which has no income tax whatsoever, they have incentive packages for certain things they're trying to create. And I'll give you an example. I do believe this technology issue is core to the development of our core industries. And you can correct me if I'm wrong, whether it's ag or manufacturing or banking and finance or even construction or transportation. This ability to attract technology entrepreneurs, which our state has not been particularly good at, but is sort of core to our growth going forward and our ability to attract and keep 18 to 34-year-olds in the state, really means the ability to, to bring in companies that bring in game-changing ag tech, manufacturing tech, fintech, whatever. And I could conceive in that case, you might come up with a different kind of incentive program for those kinds of things or even, even other expansions of existing core businesses here. But it would be on a case-by-case basis rather than having to do a, a broad, big tax incentives program.

ALBRECHT: And just one more question. So since we are bordering to two states that have no income tax or corporate income tax, when they come into our state, are they doing business with us and then later go to one of the neighboring states they have a headquarters so they can avoid our corporate income tax? And if they were to do that--

BRYAN SLONE: Yeah.

ALBRECHT: --after you've already negotiated a package deal with them, what would you do?

BRYAN SLONE: Well, those deals are dependent upon, as you know, those, those incentive deals are dependent upon maintaining a certain employee base and investment base in the state. There are recapture provisions around that. I will say that the key to headquarters has been my experiences will be the next bill, which is the individual tax bill, which is historically Nebraska has been blessed with, with corporate headquarters. We've seen some leave. Our biggest competitor for corporate headquarters right now seems to be Texas, which has zero income tax. But that will be the next bill, and I will address that issue--

ALBRECHT: Thank you.

BRYAN SLONE: --in the next bill.

BRIESE: Thank you, Senator Albrecht. Senator Bostar.

BRIESE: Thank you, Senator Briese. I promise I'll be done soon, Mr. Slone. So you talked about the idea of, you know, a large national corporation setting up a dealership, for example, John Deere, in a, in a border-- you know, right across the border in order to avoid those sales being apportioned to within Nebraska at a higher rate. So, you know, the vast majority of our population is on the eastern side of the state. Right across the border of Iowa is a significantly higher rate, and right across the border toward Missouri, a significantly lower rate. So I guess what I'm interested in knowing is, are we seeing-- and I don't, I have no idea what the answer is. Are we seeing large corporations set up branch offices, dealers, things like that right across the border on our side when you're talking about proximity to Iowa? And are we-- is there a large development of these kinds of businesses in that northwestern corner of Missouri where they can, they can apportion sales at the 4 percent rate and avoid our 7.5, I think it's going to be 7.25, and Iowa's 9.8? Is that-- if I went to that area of Missouri, am I going to find a lot of locations for large national corporations?

BRYAN SLONE: So I'll give you an example that I would recommend. I'm not a, a, as familiar with northwest Missouri as I probably should be.

BOSTAR: Nor am I.

BRYAN SLONE: A couple of motorcycle rides. But beyond that, I don't-- can't tell you much. I am very familiar with Sioux Falls. Sioux Falls is one of the fastest-growing communities in the country, and that is largely because of that-- two things, really, a zero percent tax rate, both on business and individuals; and two, some very significant community leadership in that community. That's a, that's a perfect mix. And you see it in health care, you see it in fintech, you see it in technology, you can see it in agribusiness. It's growing much faster than any of our Nebraska communities at this point. And so it is-- it absolutely does happen. And we have two states that border us, to the earlier comment, that have zero percent income tax. And we have

Kansas and Colorado to deal with as well. And I'm a western Nebraska kid, and so our competition out there is Denver.

BRIESE: Thank you, Senator Bostar.

BOSTAR: Thank you.

BRIESE: Anyone else? We have a fiscal note here, and it shows us the price tag of doing that. But we're talking about enhancing our business climate, correct? There's going to be some positive impacts to the state coffers from enhancing that climate, correct, that aren't reflected here?

BRYAN SLONE: They're not reflected. So we don't use any dynamic scoring at all in our revenue forecasts. And so they're not really geared to demonstrate that. And this goes, this goes back as far as Blueprint, but, but truly, and you've heard me on this theme today, but I truly do believe the ability to attract technology companies is key to the ability to attract 18 to 34-year-olds, which is key to our ability to continue to to fund economic growth. And not only the functions of government, but the ability to provide tax relief, whether that's income tax relief or property tax relief. I see this as a necessary component in that process.

BRIESE: OK, thank you. Thank you. Anyone else? Seeing no other questions, thank you for your testimony, Mr. Slone.

BRYAN SLONE: Thank you very much.

BRIESE: Next proponent testifier. Good afternoon and welcome.

JERRY STILMOCK: Acting Chair, members of the committee, my name is Jerry Stilmock, J-e-r-r-y S-t-i-l-m-o-c-k, testifying on behalf of the National Federation of Independent Business, as well as Nebraska Bankers Association in support of the legislation. I've listened intently to what Senator Linehan has shared with you, what Mr. Slone has shared with you. I'm not going to read from my remarks because they're somewhat compet-- repetitive. And the first paragraph simply restates what the legislation would do. So I'm not going to waste your time in that regard, other than to say my closing paragraph is it creates parity among the businesses, no matter what the entity choice is by the business. And I think the biggest thing that, that, that Senator Linehan said that I would repeat with your indulgence is to, to keep and maintain taxpayers in Nebraska and bring more here. The resounding cry is workforce. And if, if the belief by you is it doesn't have to be by-- I'm not a salesperson, I'm supporting the position of my two clients. But if the belief is that reducing the corporate tax rate will bring more business, will bring-- therefore bring more people, that's, that's a goal that, that we've heard, no matter what retail area you go to, no matter, no matter if you're going out to eat or shopping or whatever-- whatever the retail is, its workforce. And if this is to attract more businesses to come to Nebraska, I guess you all as the policymakers which go-- which comes first? And it's our belief that this would assist. And for the reasons that, that I've tried to outline for you, we'd ask you to consider moving this bill along to the General File. Thank you, Senators.

BRIESE: Thank you for your testimony. Any questions? Senator Bostar.

BOSTAR: Thank you, Senator Briese. Mr. Stilmock, good to see you.

JERRY STILMOCK: Sir, you as well.

BOSTAR: So first of all, I think that you're absolutely right. It's, I think it's a top priority for certainly everyone here to attract a workforce, attract businesses, grow the state. And I think that, you know, all these conversations are ultimately about trying to with confidence identify the absolute best way to do that. So that being said, you talked about parity and that, that comes up a lot. And you know, we can make the rates look the same as far as the number, but depending on your, your business, financial positioning, trying to get a passthrough in a C Corp to pay the same amount of taxes is really-- you can, you can you can peg a target depending on their revenue, but as soon as the revenue of that changes, you're going to be out of balance again, right? Because at the federal level, the way that your, your deduction structure works is, is fundamentally different. So if we could make the rates the same, but a company with the same revenue that's a passthrough in a C Corp won't necessarily have the same state corporate tax or even in individual tax liability. Is that-- am I understanding that correctly?

JERRY STILMOCK: You know, I understand your comment, sir. And, and this is one time where I get to say, I'm no accountant. Right? I'm an attorney so I'm going to flip it just a hair. I don't know that I could even, even comment to the, to the breadth of, of your policy statement, sir. I respect your policy statement. But if I understood, if I may, different factors go into the C Corp taxation, than go, than would go into the personal property tax-- or personal income tax. Excuse me. And there are going to be differences in the computation of those two taxes. So you're recognizing that there are different factors that, that should be considered as, as your side of the table and policy considerations. I'm acknowledging your point, but I don't know if I can take it any further than that, sir.

BOSTAR: Thank you very much.

JERRY STILMOCK: I appreciate your question, or your comment, and my offer to try to answer it.

BRIESE: Thank you, Senator Bostar. Any other questions from the committee? Seeing none, thank you for your testimony, Mr. Stilmock.

JERRY STILMOCK: Very well, thank you, Senators.

BRIESE: Next proponent testifier. Anyone wanting to testify, feel free to move up to the front. Good afternoon and welcome.

BUD SYNHORST: A rush to the front, right? Good afternoon, members of the Revenue Committee. My name is Bud Synhorst, B-u-d S-y-n-h-o-r-s-t, I'm president and CEO of the Lincoln Independent Business Association. We represent over a thousand businesses here in the Lincoln, Lancaster County community. We're here today to support LB938 and also could share these sentiments on the next bill, LB939. Several of our, our points have been reiterated by previous testifiers. I just want to reiterate that high corporate income-- corporate and income tax rates are detrimental to the impact on our economy, reduce the amount of money in our businesses' hands to pay their workers and grow their businesses. The workforce issues are very real that Mr. Slone spoke about earlier. And currently we rate the 35th on the Tax Foundation's State Business Tax Climate Index. We can do better as a state, and I hope we can do better. These measures presented today will assist in a larger mission of attracting and retaining businesses and talent to our state. By becoming more competitive in the tax arena, we send the right message that we are open for business. As business owners attempt to navigate out of the uncertainty brought up brought on by the past two years and having dealt with things like closures, restrictions, et cetera, it's time that we have to be imperative that our policies produce an environment of opportunity and reflect a growth mindset. This bill, we believe, reflects that mindset. And for these reasons, we urge the advancement of both LB938 and LB939 on to General File, and I'd be happy to take any questions.

BRIESE: Thank you, Mr. Synhorst. Any questions?

BUD SYNHORST: Thank you very much.

BRIESE: Seeing none, thank you for your testimony. Next proponent testifier. Good afternoon and welcome.

JESSICA SHELBURN: Good afternoon. My name is Jessica Shelburn, J-e-s-s-i-c-a S-h-e-l-b-u-r-n, I'm the state director of Americans for Prosperity Nebraska. Thank you for giving us the opportunity to speak on this today. As you know, we have always been in support of lowering our tax rates. This committee has heard a lot of proposals over the years, and this is one proposal that we fully stand behind. We would like to see it go a little bit lower, maybe. But we really appreciate Senator Linehan bringing this bill and hope that you guys will move it forward. I'm not going to repeat everything that folks have said, there's no need. But with that, if you have any questions, I'm happy to answer them.

BRIESE: Thank you for your testimony. Any questions? Seeing none, thank you again.

JESSICA SHELBURN: Thank you.

BRIESE: Next proponent testifier. Any testifiers in the opposition? Good afternoon and welcome.

CRAIG BECK: Good afternoon. Chairman Briese and members of the Revenue Committee, my name is Craig Beck, that's C-r-a-i-g B-e-c-k, and I'm the senior fiscal analyst at OpenSky Policy Institute. We're here today in opposition to LB938 because the corporate income tax cuts proposed in the bill would mostly flow to wealthy non-Nebraskans, and this would be on top of the generous tax breaks we already provide for corporations. Further, the bill also would cut General Fund revenues for services that actually benefit Nebraskans and our economy. First, the vast majority of benefits from the proposed corporate income tax reduction, when fully implemented, would flow to non-Nebraskans. LB938 would cut more than $53 million from the state's base in fiscal year '26, yet an insignificant amount of that would end up in the pockets of Nebraska taxpayers. Estimates of how much the cut will flow out of state range from 83 percent to over 90 percent, with the more conservative estimate coming from the Institute on Taxation and Economic Policy or ITEP. Under their conservative estimate, Nebraska's corporations would be left splitting at most about $9 million of this tax cut, with the other $44 million benefiting residents of other states. That means the wealthiest 1 percent of Nebraskans would see an average tax cut of just $436, which is such a small percentage of that group's income that it actually rounds to zero in our modeling. It's still far greater than the $5 average tax cut that's seen by the 80 percent of taxpayers making less than $125,000. Second, Nebraska's corporations are already afforded generous state subsidies through tax incentives. Nebraska's two largest tax incentives, LB775 and Nebraska Advantage, have provided corporate tax relief to the tune-- corporate tax relief to the tune of nearly $1.2 billion through corporate income tax reductions alone, which doesn't include any benefits that might have been paid out due to ImagiNE Nebraska. In fact, those two programs have abated more than $4.2 billion in total state taxes, and that doesn't include the property taxes that have been abated under these programs. Furthermore, LB938 would do little to help small businesses. The median income of self-employed individuals at their own incorporated business was $43,040 in 2018. Such a business would not receive a tax cut under LB938. The revenue losses created by the proposal, however, would impede Nebraska's ability to invest in the real economy builders like schools, public safety and infrastructure, and also would prevent Nebraska from taking real steps to address our high reliance on property taxes to fund schools and other vital services. Finally, I'd like to note that we're in an economic period of significant uncertainty. There is a risk that we are in the middle of a financial bubble and we'll see revenues drop if it bursts. We also don't know the extent to which federal funds are supporting our economy and face the prospect of the federal government clawing back some of the ARPA money if it's improperly spent. We therefore recommend caution when considering proposals that would cause ongoing revenue losses. Before I end here, I do just want to make one quick comment about the suggestion that corporate income taxes amount to double taxation. You know, from our perspective, corporations are afforded a litany of exemptions. They also are subject to a significant amount of tax incentives, as you all well know. And again, a considerable amount of corporate income goes to tax-exempt entities such as retirement funds, educational institutions and religious organizations. And so with that, for those reasons we oppose LB938 and I'd be happy to answer any questions.

BRIESE: Thank you for your testimony. Any questions? Senator Pahls.

PAHLS: Thank you, Senator Briese. I'm looking at the chart.

CRAIG BECK: Yes.

PAHLS: I see 83 percent out of state. What is the exact number other than percentage? How many, how many-- you said a number of non-Nebraskans. I like to know what, like I say, 500, 1,000?

CRAIG BECK: OK, so--

PAHLS: Oh, is this dollars? Am I misinterpreting that?

CRAIG BECK: Yes, this is the benefits of the corporate tax cut proposed under LB938 that would flow out of state to out-of-state taxpayers. Correct, yes. And, and again, that's a conservative estimate, on the low end. We have estimates up to upwards of 90 percent so.

BRIESE: Thank you, Senator Pahls. Any other questions? Seeing none, thank you for your testimony. Next opponent testifier. Good afternoon and welcome.

JOEY LITWINOWICZ: Good afternoon, Vice Chairman Briese and committee. I just wanted to mention, I know-- oh, my name. That's what I wanted to mention. My name is Joey Litwinowicz, J-o-e-y L-i-t-w-i-n-o-w-i-c-z m-o-u-s-e. [LAUGHTER] Anyway, good afternoon again. I just, the problems of getting companies to come to Nebraska are difficult, and it started by a nationwide trend of every-- of corporate, of corporate America, you know, just absolutely-- I know there's competition everywhere. And it's interesting. Economics is fascinating to me. But the problem is is that this is starting and it's going everywhere. So that's the problem. That's the focus, is to stop that. I know-- I don't know how we can, but, but to decrease, I mean, you know, it's irritating when they talk about federal tax rates. You know, they pay between 7 and 11 percent, you know, come on. They're not taxed any higher than that. And some of them get money back. Those are the bigger ones. And we have different sized companies in Nebraska, of course. My suggestion is that we use the-- that we raise or send that money, let's, let's give that money so that we can-- last bill, we can give the renters a little bit money back so they can help their kids go to school better, feed them and then become a more educated workforce and contribute to that. I know that's the long game. And so you can event-- you know, you can buy that car made on Friday. And so you have to help the people out. And I don't know what to do about, you know, attracting companies. I wish Ricketts wouldn't sell his and then send them away. I just, I just know that there's a problem. And to speak to the taxes in Texas, I read a lot, but I forget because of my memory. And so that's why I have problems speaking too, just to let you know, I have trouble finding words. Sometimes I get agitated. But I read an article, something around the Houston area of corporate tax incentives that were affecting local school districts. I tried to find it while I was, while I was writing stuff down for this. So I don't know that Texas, that's a Malthusian, you know, state. It's just-- anyway. So we could use that money to help renters. Maybe we could pay the foster kids their back-- the money that they, they're owed. It's not like you don't take money away from them because you can, because it's been done. I mean, they got some things going on wrong. I just felt like speaking at this one. This is why I came. It's just the-- and the principle is how we think about this and how in relation to the previous bill that we can help-- the emphasis, I think, is helping educate our workforce. That will attract business. Because, you know, it's funny because China lost some of our, you know, industry that we sent over there because they didn't have skilled workers. So we couldn't actually-- that's the only reason why these companies came back. I don't know, I got a lot-- I haven't had time to form a cogent paper or anything. But I just, you have to think about this and, and the people involved. And that's it. Any questions?

BRIESE: OK, thank you for your testimony. Any questions?

JOEY LITWINOWICZ: I just hope it gets listened to, you know, at one point. And to, and to go, you know, when I, when I worked and paid taxes, you know, I didn't, I didn't moan about how much I paid, but I did moan about how it was spent. And I just didn't, I just came from that kind of household. And so, and I'm making, you know, I am educated and I'm making money. And I don't know, we just do it. Thank you. I hope you--

BRIESE: OK.

JOEY LITWINOWICZ: --consider these words.

BRIESE: Thank you for that.

JOEY LITWINOWICZ: All right.

BRIESE: Next opponent testifier. Seeing none, how about any neutral testimony? Good afternoon and welcome.

NICOLE FOX: Good afternoon. Nicole Fox, N-i-c-o-l-e F-o-x, testifying on LB938 in a neutral capacity on behalf of the Platte Institute. I don't think anyone is going to be surprised to hear me say that reducing the corporate income tax rate is a good economic policy choice for Nebraska. As Senator Friesen has mentioned in the past, because corporations are entities and not people, the cost of the tax is passed through to customers, workers and shareholders. There are simpler, more transparent and less economically harmful ways to raise the same revenue. Our high corporate income tax is also part of the reason Nebraska became heavily dependent on tax incentives to offset the disadvantage of doing business here. However, there are at least a couple of reasons that corporate income tax changes would be better accomplished as part of a larger effort for tax reform in Nebraska. The first is how much impact we can make with the change in the tax rate. We're increasingly surrounded by states that are pursuing lower, flatter corporate taxes. Missouri is now at 4 percent, Colorado may soon drop to 4.4 percent, and Iowa's governor is seeking a lower corporate tax rate than this bill proposes. And of course, Wyoming and South Dakota do not have corporate income taxes. The Legislature should also want to consider what other states might do in the future and whether this bill will set the state up for success. Because corporate income taxes usually represent a smaller share of revenues in most states, the tax can be significantly phased down over time. As one example, North Carolina passed legislation this year to repeal its corporate income tax by the end of the decade. This is noteworthy since North Carolina's corporate income tax was almost as high as Nebraska's before their legislature began with tax reform about 10 years ago. To have this kind of impact, Nebraska likely can't rely on using current revenues alone. There are too many other demands facing the Legislature, both on the spending and revenue side. And that brings me to my second point, which is how to prioritize which taxes need the Revenue Committee's attention the most right now. Many of our peers are also working on their personal income taxes at the very same time that attracting workforce and population is a statewide and nationwide economic problem. This suggests a significant effort on personal income tax would be important if Nebraska wants to vie for the growth that will increase Nebraska's tax base well into the future. If the Legislature pursued tax modernization or tax reform, rather than piecemeal tax relief, that would create the financial flexibility for the state to look more comprehensively at the state's entire tax structure. Thank you for the opportunity to testify. With that, I'm happy to answer any questions.

BRIESE: Thank you for your testimony. Any questions? Senator Pahls.

PAHLS: Thank you, Senator. You said to prioritize. What would be the first tax we should prioritize?

NICOLE FOX: Well, I-- basically what we're saying is that corporate income tax, you know, if you look at the potential to use revenues for comprehensive tax reform, corporate income tax is not as a significant share of our state's revenue stream of, say, personal income tax.

PAHLS: What would you suggest instead of corporate? I'm asking to try and find out.

NICOLE FOX: Well, I mean, definitely a comprehensive-- we, we prefer a comprehensive approach, something that is an aggressive, comprehensive approach. So we would say, you know, looking at, I mean, we want to look at both corporate and personal. We'd like to see both be lower and at a, at a much lower rate.

PAHLS: So you're saying personal above corporate?

NICOLE FOX: Personal, though, is definitely a priority. Yes.

PAHLS: That's what I'm trying--

NICOLE FOX: Yeah.

PAHLS: --to figure out. Thank you.

BRIESE: Thank you, Senator Pahls. Anyone else? Senator Friesen.

FRIESEN: Thank you, Senator Briese. So I mean, obviously, the Platte Institute has worked a lot on what you talked about as comprehensive tax policy, and that's looking at corporate, personal, property taxes, all of the above, sales tax and trying to develop more modern tax policies is what--

NICOLE FOX: Correct.

FRIESEN: And so I know there's been Blueprint Nebraska was supposed to be our guide. So again, we're, we are trying to piecemeal, you might say, because of the revenue situation we're in now. And so if I heard correctly, the individual rates would impact the most Nebraskans, and that would be a priority?

NICOLE FOX: Well, I think, you know, again, we want something very comprehensive because our entire tax code is outdated. And so if we can look at ways to increase the amount of revenue that we can use for tax reform, you know, we can be much more competitive. Because if you look at our surrounding states--

FRIESEN: So a priority would be to hold down spending?

NICOLE FOX: A priority, of course, would be to watch spending too.

FRIESEN: So we'd have more revenue to-- OK.

BRIESE: Thank you, Senator Friesen. Any other questions? Seeing none, thanks for your testimony. Any other neutral testifiers? Good afternoon and welcome.

ADAM THIMMESCH: Good afternoon, Senator Briese, members of the committee. Thank you for having me today. My name is Adam Thimmesch, A-d-a-m T-h-i-m-m-e-s-c-h, I'm a professor of law over at the UNL College of Law, where I focus on state and local tax matters. Although I should state at the outset that the views that I express today are my own and do not necessarily represent the views of the College of Law or of the University of Nebraska. I am here testifying neutral today because I understand that tax rates are obviously a matter of legislative judgment that take into consideration a number of factors. And you might be familiar with my prior testimony. I like to stay in my lane a little bit, and my lane is tax policy, not rates. With that said, as somebody who does study state tax systems, I thought that it might be useful to come over today and talk about a few features of state corporate income taxes that can be counterintuitive and that have risen the number of questions that I've heard today. In general, the way that the modern state corporate income tax is set up, it makes it a relatively poor avenue to provide direct relief to in-state taxpayers in states like Nebraska relative to other types of programs. And it makes it a relatively poor way of providing economic incentives for businesses to relocate again as compared to other types of opportunities that you might pursue, whether cuts or spending. The first feature to note in this regard is that corporate income taxes remain completely federally tax deductible, and so immediately 21 percent of any state tax cut would go to the federal treasury. And that kind of immediately destroys this sort of parity with tax rates. Only about 10 percent of individuals will itemize and deduct state and local taxes from personal income tax returns. So if you look at the actual effective tax rate here just on its base, you only-- a corporation gets 21 percent back from the federal government when it pays Nebraska state tax. The flip side of that is 21 cents of any tax relief that you provide to a corporation gets paid to the federal government. The rest depends on an allocation of in-state versus out-of-state corporations, as you've heard. It's a reality that the vast majority of corporate income taxes in America are paid by very large national and international companies. Took a look at the most recent IRS data that was available, it was something like 80 percent of all corporate income taxes were paid by companies with over a billion dollars of receipts in a year. And so this is a tax that is overwhelmingly paid by very large corporations, few of which are headquartered here. They make sales here, but wouldn't be headquartered here. And so when you start thinking about the amount of tax reductions that would stay in Nebraska, the corporate income tax is pretty low on the list as compared to something like personal income tax reform, property tax reform. Another rationale that you've heard and some discussion has been about competitive, and whether a corporate income tax would allow more competitive-- Nebraska to be more competitive, incentivize businesses to expand or relocate here. Unfortunately or fortunately, I suppose, depending on your take, in the early 90s, Nebraska went to a single factor sales factor method of corporate income tax apportionment, which kind of gave away that. Nationwide, states move to that to not tax corporations based upon where the property is located or their payroll is located. And that was the maximum incentive through the normal corporate income tax system that states could provide to locate personnel or property in state. That's why states, including Nebraska, did it. What that does, though, is it means that a corporate income tax rate reduction doesn't really do much other than incentive, you know, maybe General Mills wants to sell more boxes of cereal here. But locating the property here, locating payroll here, it doesn't provide any sort of incentive because of that single factor sales factor method of apportionment. So it's just fundamentally a different type of equation. Corporations have to look at things like the personal income tax, property tax, access to energy, technology, transportation, things of that nature. As a final point, I just want to note you've heard conversation or discussion about this. Obviously, it's a choice at any given level of spending. You've got to raise it from somewhere. And any corporate tax rate reduction removes your ability to reduce other types of taxes that might more directly impact Nebraskans, given these structural aspects that I talked about. So with that, I'm happy to take questions or go away. Thank you.

BRIESE: Thank you for your testimony. Any questions? Go ahead, Senator Pahls.

PAHLS: Thank you, Senator. What would, what would you suggest prioritizing, personal or corporate?

ADAM THIMMESCH: So I will completely dodge that question. In my capacity as a tax scholar, which is how I am testifying, I don't look at-- I'm not an economist, I don't look at issues like that. I can tell you that if you want to reduce the taxes paid by Nebraskans most effectively, I would have you look at the Department of Revenue and see what data you have available to see what percentage of taxpayers are Nebraskans. In the corporate context, it's likely a fairly low context percentage of taxes paid by corporations headquartered here. Vast majority of business entities in Nebraska, like nationwide, are not C corporations that would pay this tax. And those that are are those very large multinational national organizations. So I can't give you, I can give you my personal priority, but I don't have a professional opinion on that.

PAHLS: Thank you.

BRIESE: Thank you, Senator Pahls. Senator Friesen.

FRIESEN: Thank you, Senator Briese. So over the years, I've enjoyed visiting with you and learning more about tax policy. And I know we've talked at length about corporate taxes and whether corporations would locate here or locate in another state. And so could you describe situations, I guess, where a corporation would choose to locate in Nebraska but their sales were probably either national or international? And the tax ramifications for them versus a company that's located in Texas and they're doing business in Nebraska, and most of their sales are in Nebraska. So how do those two corporations get treated by Nebraska when they're doing business?

ADAM THIMMESCH: I'll try to answer that. I did kind of blackout after somebody complimented me and saying that a discussion about tax policy was an enjoyable experience. That's the first time I've heard that. So thank you. As far as how we tax, given the single factor sales factor method of apportionment, we only tax based upon where your sales are made. So if you are a tech company, for example, making sales across the country, your Nebraska tax burden doesn't depend on anything other than the sales that you make in Nebraska. So whether you locate here or elsewhere, your tax burden doesn't change in Nebraska based upon our tax rate, based on that-- based upon your, your physical location, your expansion here. If you're an out-of-state company selling into Nebraska, right? Your taxes would go down based on the sales in the state, based upon that tax rate change. But your decision of where to locate wouldn't have an effect on that.

FRIESEN: So would, would you're doing business in Nebraska-- if you're located in Texas, that means you're doing business here. Do you think it would, our high-tax policy would hurt their sales in the state. Or would they continue to do business here because we're buying their products?

ADAM THIMMESCH: Well, and you know, internal economics of firms are different, but assuming you're still making a profit, whether you pay a 7 percent tax and retain 93 percent or if you retain 94 percent, it's still economically advantageous for you to make the sale.

FRIESEN: Because--

ADAM THIMMESCH: Right? So the way that we tax is, if you make a sale, we tax the allocated share of that, right, on the-- your taxable income, that percentage. And so for you to exit the market, we would have to be taxing you more than your return from activity here. And so your decision of whether to make sales into the state or not, depending on a 7 percent tax, 6, 5, whatever it is, presumably you're going to make the sale because you want to keep the 93 cents.

FRIESEN: But typically, a corporation would pass those taxes on along the price of their product here.

ADAM THIMMESCH: You know, so the incidence of the corporate tax is hotly debated. It's split between the capital owners, labor and the pricing, customers. And so the split of that would, would depend. Depends on the unique aspects of the market, the elasticities of demand and supply and things that, again, are not in my field. What you probably do not see is that Apple has a different price in Nebraska now on the MacBook Pro, price sensitivity to a state corporate income tax. I don't know that we see the firm's price differentially across the country based upon a 6 percent or a 5 percent state corporate income tax. Pricing for products is going to depend on so many other factors. Certainly, it could come into play, but capital is a, is usually where a lot of these tax rate reductions would go, or corporate income taxes, where those would flow. And so there you're looking at how much of the capital owners would be in Nebraska. If you assume equal distribution across the country, we have less than 1 percent of the country's population. So maybe our equity holders, there's that percentage. Roughly, I think 30 to 40 percent of corporate equity holders in America are foreign investors, so some of that burden would be borne there and some of the benefits. So there are a lot of factors at play, and I don't want to get too boring. I've exhausted your, your willingness to say that this was enjoyable. The answer that I would give is it's, it's incredibly complicated. What we do know, though, is that given the single factor sales factor method of apportionment, a firm making sales into this state makes the sale into the state and is taxed effectively on that sale. And the location from which they engage in that activity, it doesn't-- it doesn't change that. So relocating here because of a reduction, that's not part of the incentive, except to the effect that it requires increases in other taxes. Right, if it prevents a property tax reduction, then they've got an increased property tax or something along those nature. So all of these things are really intertwined.

FRIESEN: So as far as attracting companies to the state, really, I mean, an incentive program overall, a low-tax policy in general, whether it's personal, property, sales tax would do more to attract those companies than a corporate tax rate?

ADAM THIMMESCH: It may. I mean, it depends on what you do with the reduced revenue. I mean, corporations also need infrastructure and workers and access to energy and transportation, things of that nature. So it depends on what you do and what you do with revenue. But as a comparison, what you can track is what a corporate tax rate reduction would do by looking at who is paying the current corporate income tax. You would see where those dollars would flow as compared to the benefits you could provide other people in other ways, whether through other tax reductions or direct spending.

FRIESEN: So if 83 percent of the tax revenue is leaving the state, there's not going to be much help for Nebraska.

ADAM THIMMESCH: And I can't speak to those numbers, I'm not an economist. But to the-- those sound perfectly reasonable based on what I know about the distribution of corporate formation and corporate income. The vast majority would go to corporations and labor and, you know, tax directors who I used to represent, who might get a little boost because of their lower effective state tax rate. That's, that would go a little bit to labor. Probably not in Nebraska. So those are the types of effects at play. For the reasons that I discussed, though, the corporate income tax kind of results in more of those reductions leaving the state than you might see in other areas.

FRIESEN: OK, thank you.

BRIESE: Thank you, Senator Friesen. Any other questions? But, but it sounds like the bottom line is that you don't think this should be the priority of ours. But there are a lot of benefits to doing this, though, to Nebraska shareholders, Nebraska consumers, in our rankings, nationwide rankings. So there are, there are considerable benefits also, correct?

ADAM THIMMESCH: You know, I mean, there are benefits to everything.

BRIESE: Sure. OK.

ADAM THIMMESCH: You know, I'm not a huge fan of rankings, as somebody who knows how rankings are done, seeing how the sausage is made on some of those things. The question, I think, is the type of impact you can have--

BRIESE: OK.

ADAM THIMMESCH: --and what your ultimate goals are.

BRIESE: Sure. OK, thanks. Thank you very much. Any other questions? Thank you. Seeing none, thank you very much for--

ADAM THIMMESCH: Thank you.

BRIESE: --your testimony. Any other neutral testifiers? Seeing none, Senator Linehan.

LINEHAN: Oh, sorry. Thank you all very much, and I want to thank the chambers for coming in and support, the bankers, NFIB and LIBA. I appreciate them being here. I understand the Platte Institute's frustrated that we're not doing bigger, bigger, bigger. But it's not in the cards this year. I appreciate Mr. Timmesch being here. But he said several times he's not a economist, he's a lawyer. And I haven't talked to an economist that doesn't say we have a tax problem in Nebraska. Senator Bostar, one thing you asked, and I don't know if it was clear, every conversation I've had, rates matter when companies look where they might move, corporate headquarters, personal. People do look at rates, and it's so easy now because it's all on computers. And there's all kinds of studies and we don't do well in any of them. As far as incentives, I think I've made this clear since I've been here, I, I dislike incentives intensely. I would be much, much happier doing what Platte would like us to do, is move away from incentives and have a lower rate. And I-- we-- maybe before I leave will have a chance to do big, big. But this year, this is how much money we have. It's a big deal and we need to start showing our taxpayers that we can move away from incentives and they can trust us that we're going to cut the tax rates. So with that.

BRIESE: OK, thank you for that. Any questions? Seeing none, thank you for presenting that to us. And we have no letters or position statements for the record. And that will close the hearing on LB938. And at this point, we will open the hearing on LB939, Senator Linehan.

LINEHAN: So this morning I got up, you know, many of you know, I'm an early riser. So I get up and I just went to my computer and said, where do I want to live if I care about taxes? So Kiplinger popped up, and I think this-- I don't know if the State Chamber's-- I've seen this before, so I think maybe the State Chamber had already sent this out. The bottom line for middle income family, we are very unfriendly state. Just read what it says: While the cost of housing is comparatively low in the Cornhusker State, the average property tax rate in the state is quite high. In fact, the statewide average tax on homes is the ninth largest in our U.S. rankings. Since sales and income taxes are very close to average, property tax is the primary reason why Nebraska is on the list of least-friendly states. So I get that we still have more work to do on property taxes. But then I went to the other thing that popped up, and it is a study from PrintFriendly-- it was a whole bunch of them, and right now we have 14 states out of all 50 that have a higher top individual rate than we do, 14. And most of those are New York, Connecticut, where we know their rates are crazy. So what does the bill do? Oh, I'm sorry, I'm Lou Ann Linehan, L-o-u A-n-n L-i-n-e-h-a-n, I'm here to introduce LB939. The bill begins the reduction of the top individual rate, which is currently at 6.84 percent. That top rate kicks in at $33,184 for taxable income for single files-- filers and at $64,340 for married joint filers. The top rate hasn't changed since 2002, when it was increased from 6.68 percent. In 2012, the legislation was-- legislation was introduced to reduce all four brackets, or all four rates, I'm sorry. But it passed-- but it didn't pass before an amendment was adopted to keep the top bracket at 6.84 percent. So we all know how that happens. You have an agreement, you get to the floor and then you lose votes. And the top rate stayed where it was. It's time to reduce the top individual rate. LB939 would do this over a fairly quick period of only three years. In tax year 2023, we would move it down to 6.34 percent; tax year 2024, 6.14 percent; tax year 2025, 5.84 percent. Under LB938, the top corporate rate would catch up in tax year 2026. This is a companion bill to LB938. Again, the overarching goal of the two bills is to reduce our top marginal tax rates for both corporate and individual income taxes. We're simply not competitive with surrounding states when it comes to our tax rates. South Dakota and Wyoming have no income taxes. Colorado, Kansas and Missouri have lower rates than we do. And Iowa, our only neighboring state with an individual rate higher than ours, is working to lower there. I think the governor's goal there is 4 percent, to get down to 4 percent. So even if we did this, we're still going to be the highest in our neighborhood. Many of the same benefits from reducing the corporate rate apply to reducing the individual rate: creates parity between corporations and flow-through entities. It's more competitive, gets us better rankings and makes us more attractive. It helps attract more businesses and more talent to our state. Allows tax-- excuse me. Allows taxpayers keep more of the money they make, has a multiplier effect when residents spend this extra money in the state. If business-- if business structures, flow-through entities have qualified for incentives, which, you know, many of them do, individual partners or members may have less income tax to pay, and therefore some tax incentives may go unused. So I'm happy to answer any questions.

BRIESE: Thank you for your opening. Any questions? Senator Friesen.

FRIESEN: Thank you, Senator Briese. So if I'm understanding this correctly, you're not changing any brackets or anything, you're just taking that top rate and moving it down? OK.

LINEHAN: Because I love the idea of a flat rate. I do. But again, I'm trying to match what we see in the-- all the tax things that we're doing as the Revenue Committee match pretty closely what the Governor said was available. So kind of like we did last year, let's get what we can, what we've got money to do.

FRIESEN: OK. Thank you.

BRIESE: Thank you, Senator Friesen. Anyone else? Seeing no other questions, thank you. First proponent testifier. Wel-- welcome again.

BRYAN SLONE: Mr. Chairman, members of the committee, my name is Bryan Slone, B-r-y-a-n S-l-o-n-e. I'm the president of the Nebraska Chamber of Commerce and Industry. I'm here on behalf of not only the Nebraska Chamber, but also the Greater Omaha Chamber and the Lincoln Chamber of Commerce. These two are very much companion bills and necessary companion bills, and I'll try to illuminate to prior discussion with a little, little deeper conversation on this workforce issue. What has transpired in the last three years is a fundamental change in our economy. It's different than anything I've ever seen in the last 30, 40 years. I guess I've been practicing for 40 years now, and it's here to stay. Workforce will be the determinant in all of our industries of how successful we are, how successful our communities are going forward. The cost structure of our businesses has changed overnight. Immediately before coming to this hearing, I, I taped a show with a, with a university economist and, and we talked about the issue of what the cost structure of doing business is going forward. Labor just went up. And it didn't go up temporarily, it went up permanently, which is probably a good thing. But for business organizations, their business model in any industry changed overnight. Secondly, this technology issue there is, there's not going to be enough workforce. We have 80,000 jobs open in this state on any given day now. We only graduate 25,000 from high school every year. Even if we retained every single high school student, we could never fill our jobs. There will be a big technology investment in every single industry, some very substantial technology investment. The cost of doing business is going to be very different coming out of this pandemic, and it's going to be here to stay. Nebraska has an incredible ability to be a top 10 growth state in the country if we get this workforce thing right, because we have all sorts of natural advantages from our natural resources to our-- the strength of our core industries, to our quality of life, which suddenly is now very, very valuable. But getting this right is, is critical. What does lowering the income tax rate do in that context? And I would say everything. From the standpoint of business, it's clearly, when we were talking corporations, I was talking about some of the larger businesses we have in this state. We represent a lot of the larger businesses, but we also represent hundreds and hundreds of small and midsize businesses around the state. And they're generally formed as LLCs or, or other flow-through organizations and they pay their business tax through, through the Nebraska tax system. To be competitive as a state for them is exactly the same issue. Also to attract workforce, and I know people will say, well, do young people really look at income taxes? All is-- all I know is when my son joined the Navy, he suddenly became a resident of Florida. I wasn't quite sure how that worked. Yes, they do pay attention to taxes, nearly 7 percent, currently, of your pay is a lot when you're making low and middle income. This matters. To some of the earlier comments, they're as true in the individual side as corporate side when we look at businesses that are flow-throughs. If we were just selling product, and I think I now understand your question a little better. If we were just selling product, I understand where you're coming from. The value in our businesses anymore, the value in your farm and the value in the businesses anymore that we have is increasingly not going to be in the commodity. It's going to be the technology. And the companies that we create and the businesses we create are going to be creating valuable technology. And the number one reason when I was in practice that I didn't put people in corporations is when you, when you have technology in a corporation and now you try to sell that technology, it's where your corporation is, is the place of sale. And generally, if you're not leasing it. And the gains that you pay on your sale of your subsidiary or whatever you created are taxable there. It's no secret why Austin is the technology capital right now. It's no secret why all the California technology companies are moving to Salt Lake. They decreased their individual rates to 4.0 and their corporate rate to 4.0. That's what we're competing with. So I just want to put this conversation in context. These two bills need to go hand in hand. These are game-changers for Nebraska in a very necessary way, and they will affect our workforce issue pretty dramatically. So with that, I'd be happy to take any questions.

BRIESE: Thank you for your testimony. Any questions? Seeing none, thank you for your testimony today.

BRYAN SLONE: Thank you very much.

BRIESE: Appreciate it. Next proponent testifier.

JERRY STILMOCK: Thank you, ma'am.

BRIESE: Good afternoon, again.

JERRY STILMOCK: Acting Chair Briese, members of the committee, my name is Jerry Stilmock, J-e-r-r-y S-t-i-l-m-o-c-k, testifying on behalf of my clients in the National Federation of Independent Business and the Nebraska Bankers Association in support of LB938 [SIC]. Thank you to Senator Linehan for bringing the measure and, you know, the items of parity, the items of more competition, the-- the items of earning money and putting it lower back in the hands of the taxpayers. Those are all items that we talk about at NFIB and the Nebraska Bankers Association. And those are the reasons why I'm here this afternoon, throwing our support to the measure brought by the senator. Thank you.

BRIESE: Thank you, Mr. Stilmock. Any questions?

JERRY STILMOCK: Thank you.

BRIESE: Seeing none, thank you again for your testimony.

JERRY STILMOCK: Very well. Thank you, Senators. Good afternoon.

BRIESE: Next proponent testifier. Good afternoon, again.

JESSICA SHELBURN: Thank you. Good afternoon, my name is Jessica Shelburn, J-e-s-s-i-c-a S-h-e-l-b-u-r-n, I'm the state director of Americans for Prosperity Nebraska. I'm often here in opposition to bills, so this feels really weird testifying-- testifying on two bills as a proponent right away. I don't need to say it again, but I'm going to. We have a tax problem in this state. We all know that, we've talked about it for several years. We are no different than Senator Linehan, the Platte Institute and Senator Briese, Senator Friesen, you've been on this committee for a long time. You've heard us a couple of years ago testifying for a more comprehensive approach with a bill that Senator Ben Hansen had brought. We would love nothing more than to go to flat rates, to get rid of incentives, to adjust property taxes. But we understand that taking steps in the right direction is sometimes the best way to get there. And we couldn't agree more with

Mr. Slone when he said these are companion bills, 98-- LB938 and LB939 need to go together, and that could be huge for Nebraska. We hear a lot of senators and folks talking about how much Nebraskans are hurting right now. They've been hurting for the last couple of years. It's been a tough couple of years. We know that. This bill will help those that are struggling. Let's put this in perspective. You have a first-year teacher who's making $33,000 and they're paying the same rate as a CEO of a large company. Now, I'll be very frank with you, didn't pay attention to taxes when I first got out of college. It probably wasn't until I was listening to debate in the Legislature when I was a staffer here, when I was a struggling single parent living paycheck to paycheck and discovered that I was one of those that was barely in that top bracket but paying the same rate as a large CEO. So if you want to do something for Nebraskans, lower this rate, take steps in the right direction. Help Nebraskans put more money in their pockets so that they can pay for their rent, so that maybe they can save for a house. They can get clothes for their kids, they can put food on their table. Maybe this will allow them to go out and do something fun, take a vacation with their kids. These are steps that you can take right now. I never thought I'd be saying this at this point in time, but I was wrong. Our economy has not taken the hit like I honestly thought it would. I've sat in this committee and said at some point we're going to take a hit. We have not seen that. Our revenues are strong. This is the time for this committee to take action. Send this to the floor of the Legislature and let's help Nebraskans.

BRIESE: Thank, thanks for your testimony. Any questions?

JESSICA SHELBURN: Thank you.

BRIESE: Senator Friesen.

FRIESEN: Thank you, Senator Briese. What, what is the average income in Nebraska?

JESSICA SHELBURN: I couldn't tell you that right offhand.

FRIESEN: OK.

JESSICA SHELBURN: I want to say it's in the 56 range, but I can check and get back to you on that.

FRIESEN: OK. Yeah. I mean, I'd like to know what the average is and what the tax savings would be. Nobody has really talked about the numbers there yet of what the average person would get in the tax breaks. I think that's important when people are hearing you talk about what this is going to do for the average working person. And you hit it right on the head, I think is, is our top bracket too low to where the top bracket is hitting the average person, versus a bracket that's set up differently?

JESSICA SHELBURN: I think that's a fair question. I'm more than happy to look into that and get you the numbers.

FRIESEN: OK, thank you.

BRIESE: Thank you, Senator Friesen. Senator Bostar.

BOSTAR: Thank you, Senator Briese. Thank you for coming in today. You talked about how ultimately what you are in favor of is a flat rate tax. I guess I'm not under-- so at the same time, the complaint was made that a CEO was paying the same tax rate as a teacher. But isn't, isn't that ultimately exactly what you're looking for?

JESSICA SHELBURN: The one thing that I did not state in that is if we went to a flat rate, increasing those deductions for those that are in that lower income. And that's, I mean, we've looked at economic modeling, and I would be more than happy to sit down with you and share some of that with you.

BOSTAR: I'd appreciate that.

JESSICA SHELBURN: OK, I will--

BOSTAR: And I guess sort-- and sort of-- and thank you for the context add there, that was throwing me off. And I-- this should be a further conversation that we should have, but a flat rate with further deductions, wouldn't that essentially just simulate a progressive tiered taxation system? Or am I misunderstanding?

JESSICA SHELBURN: I'm not 100 percent sure how to answer you on that one.

BOSTAR: OK.

JESSICA SHELBURN: So let's, let's schedule a time. I'm more than happy to sit down and talk with you and, and iron some of this out. But what I will say is we want to grow the state. You mentioned that earlier.

BOSTAR: Absolutely.

JESSICA SHELBURN: In, in order to grow our state, to keep our, our youth here, we need to become more competitive and we have to do something about that. And when all the states around us have lower rates for income tax, for the corporate rate, so businesses aren't wanting to necessarily come here, we have to have the incentive programs, it doesn't create a climate that allows us to grow. And like Mr. Slone said, we have a great state. We need to create a climate that will entice people to come here. And if we do that, I think that we solve a lot of the problems. You have more people, there's more folks paying taxes, there's more money in our economy and it's a win-win for everyone.

BOSTAR: I would say that I think we want the same thing.

JESSICA SHELBURN: Yes, it's just a matter of how we get there.

BOSTAR: And I appreciate you answering these questions.

BRIESE: Thank you, Senator Bostar. Senator Albrecht.

ALBRECHT: I thought it would just help you out so you don't have to look this up. I think Senator Friesen had asked what the average was of a 2019 number, is that what you had--

JESSICA SHELBURN: Yeah.

ALBRECHT: --of $31,933 and a couple at $61,439. So close.

JESSICA SHELBURN: So we're pretty close.

BRIESE: Anyone else? Seeing no other questions, thank you for your testimony.

JESSICA SHELBURN: Thank you.

BRIESE: Next proponent testifier. Any other proponents? Any opponent testifiers? Wel-- welcome again.

CRAIG BECK: Thank you, Senator Briese. Members of the Revenue Committee, my name is Craig Beck, that's C-r-a-i-g B-e-c-k, and I'm the senior fiscal analyst at OpenSky Policy Institute. We're here today testifying in opposition to LB939 because it would disproportionately benefit the highest paid Nebraskans without any guaranteed economic growth. I think some of the dialogue so far, I'll hopefully be able to provide a little bit of context for that. So as you can see from the handout that's making its way around, this measure would cut taxes for the wealthiest Nebraskans without offering much help for lower and middle-income families. The average tax cut across the 80 percent of Nebraskans paid less than $125,000 per year would be $62.75. I'm going to say that again. So the average tax cut across the 80 percent of Nebraskans paid less than $125,000 per year would be $62.75. For the highest one percent of Nebraskans, the cut is 142 times greater at $8,904 annually. The more than $360 million, this will cost the state by fiscal year '27 is very unlikely to come back to the people in this state via economic growth. For one, changing the tax code is not going to draw thousands of people to Nebraska. Research has not found a conclusive link between taxes and migration. And furthermore, the idea that cutting taxes can drive growth in general is undermined by the experiences of Wisconsin and Minnesota, two remarkably similar states in terms of populations, demographics, culture and industry composition. Yet in 2010, they headed down divergent paths, with Wisconsin cutting taxes and shrinking government; and Minnesota raising the minimum wage, strengthening its safety net and increasing investments in infrastructure and education paid for by tax increases largely falling on the wealthy. As of 2017, on virtually every metric, Minnesota workers and families were better off than their counterparts in Wisconsin, according to an Economic Policy Institute report. Minnesota saw stronger growth in jobs, wages, median house-- household income, overall economic growth, growth per worker and population growth. And despite raising taxes on the wealthy, Minnesota saw no erosion of its income tax base or the taxable income of its wealthy residents, both of which actually grew in the three years following the increase. Wisconsin, on the other hand, lagged the national average across most of these metrics and experienced a net population loss. And as we've said, we understand that we are in a unique revenue circumstance right now, but would nonetheless urge extreme caution in implementing measures like this that cut such significant amounts of future revenues. Thank you for your time, and I'm happy to answer any questions.

BRIESE: Thanks for your testimony. Any questions? Senator Bostar.

BOSTAR: Thank you, Senator Briese. Thank you, sir, for your testimony. How much income do you need to make in order to start paying taxes into our top bracketed tier?

CRAIG BECK: Sure. So for a married filing jointly taxpayer, it would be somewhere around $78,000. I can get you that exact number. It's lower for single filers. But to that top bracket, the top mark-- or, excuse me, the top bracket that is in statute, you have to add the standard deduction. That's where you get the standard deduction for married filing jointly taxpayers is roughly $13,000, so $13,000 plus the top income level that that, that 6.84 percent bracket kicks in that is where--

BOSTAR: And for an individual?

CRAIG BECK: It would be-- the standard deduction is $6,750, I think, so roughly $38,000, $39,000, somewhere in there. I can get those specific numbers to you, Senator.

BOSTAR: Thank you. I think, you know, I, you know, obviously with a very strict interpretation of the word, you know, highest income earners, this tax definitely does impact them disproportionate to the others, because we're not doing it for-- with the other brackets' rates.

CRAIG BECK: Correct.

BOSTAR: But you know, someone making in the 30-whatever-thousand dollars a year as an individual, I'm just not sure about the characterization of saying, you know, of saying that this is this would be specifically a tax deduction targeted to the wealthiest Nebraskans when we're talking about people who fundamentally aren't making very much money. Now, and, you know, as we go through and we evaluate all these things, my intention is to put the limited resources of the state into what will have the largest impact. But I don't know, that's just sort of my feedback on where this is targeted. Now, my position is that the-- that where our brackets are don't make any sense whatsoever and that earning 30-something-thousand dollars a year doesn't. seem to make-- there's no logical reason for that to equate to the highest tax bracket we have. Do you have-- is that normal to have your top bracket start so low?

CRAIG BECK: You know, Senator, I cannot answer that question right now. I can definitely look into that and get back to you. I think from our perspective, first off, those, those income rates that are advertised that the top income kicks in at are higher than, than they are in fact in statute. So that's one. And then two, just the fact that this tax cut only touches the top bracket means, by definition, that it will only flow to the people who pay at that high rate. As we've shown in our modeling, the, the impact on particularly the wealthiest one percent of Nebraska taxpayers vastly outpaces what would be afforded to the individuals or families that you are talking about at those lower income levels.

BOSTAR: Thank you.

BRIESE: Thank you, Senator Bostar. Any other questions? Seeing none, thanks for your testimony here today.

CRAIG BECK: Thank you.

BRIESE: Any other opponent testifiers? Seeing none, anyone wishing to testify in the neutral capacity? Good afternoon, again.

NICOLE FOX: Good afternoon. Nicole Fox, N-i-c-o-l-e F-o-x, representing the Platte Institute and testifying on LB939 in a neutral capacity. While we applaud efforts to reduce income taxes, we are concerned that this bill does not provide the best means to reduce tax burden on our workforce and improve Nebraska's economic competitiveness. In 2021, the Platte Institute became an alliance partner with Blueprint Nebraska, and has worked in concert with Blueprint's leadership to develop and promote a comprehensive framework for bold and sustainable tax modernization. This plan was developed through gathering insights from Nebraskans and by conducting independent economic analysis on the impact the plan would have on our workforce and economic growth. Particularly, tax modernization should be deliberate in focusing on reforms that significantly increase our competitiveness with peer states, incentivize our recent graduates to remain in Nebraska, and encourage more people to migrate to our state and join our workforce. Tax modernization, as opposed to piecemeal tax relief, is necessary to achieve these objectives. Changes to our tax system must be bold and sizable enough to generate economic growth and to sustain Nebraska's other financial commitments, which includes property tax relief. For example, by strategically broadening our sales tax base and removing preferences from our tax code, we can produce new revenues to support significant and sustainable tax reform. We believe these features of tax modernization are essential to the prosperity of our state and are best provided for in LB1264, the Blueprint Nebraska plan that will be heard in this committee in the coming weeks. And just as an example, the teacher example that was discussed earlier, a teacher making $33,000. Under the Blueprint plan, that teacher would pay no taxes under LB1264. With the state's strong financial position, now is the time to boldly reform the state's tax code and to rethink the underlying incentives of Nebraska's tax structure. Tax modernization would make Nebraska a better place to earn a paycheck at any level, to own property or a business, and to retire. And with that, I'm happy to address any questions.

BRIESE: Thank you for your testimony. Any questions? Seeing none, thank you again. Anyone else wishing to testify in the neutral capacity? Seeing none, Senator Linehan, would you like to close?

LINEHAN: Do this without falling down. Thank you all. Again, I want to thank the Omaha, Lincoln and State Chambers for being here and the Nebraska Bankers, NFIB and Americans for Prosperity. I appreciate them being here very much. On the OpenSky thing, Senator Bostar, I think you were making the point, but I just want you-- you can't cut taxes for people that don't pay taxes, income taxes. And I-- some of these, the lowest 20 or the second 20, they're not-- hopefully, they're actually getting refundable tax credits back. So I agree. As far as now I'm going to go to-- I get OpenSky and blueprint mixed up. Blueprint, I know that their plan and I like this, but there is not enough money to do it right now. If we have to keep-- because I think we've discovered in this committee, you got to do something for everybody. You can't just do income taxes or just do property, you need to do-- so their plan would have, and we'll hear this from Senator McDonnell, they would-- anybody making $50,000 wouldn't pay income taxes. Family would-- under $100,000, $100,000 or less wouldn't pay income taxes. But to pay for that, they put taxes on food and medicine. So it, it's kind of a wash. I don't know. I'm not saying I'm against it, but it's-- we don't have, we don't have the people in the right places right now to do big reform. So I think this is and maybe we do the brackets too, Senator Friesen. I have to look what that costs. This is simple. It seems like simple, when we get to the floor, simple is always easy. And as we also all know, what we send to the floor is not usually what we get at the end. So I'm trying to make it simple and then we can talk about it when we exec. But thank you all very much, I'm open for questions. I'm sorry.

BRIESE: I think we have a question over here. Senator Bostar.

BOSTAR: Thank you, Senator Briese. And just, just to put on the record, because I asked the question, and thank you for the information you handed me. There are nine states that have a, that have income taxes that have an income tax top bracket that is lower than ours. So every other state either doesn't have an income tax or their top brackets go higher, which makes sense to me.

LINEHAN: Right. So one of the things I didn't pass out, but if you're-- I think if you're a family at $80,000, you're better off living in California than you are in Nebraska. But then if you're making a million, you don't want to live in California.

BOSTAR: Right.

LINEHAN: So there and again, we'll exec, we'll go through it. But right now we, we are not competitive in all our-- and you know, you have young friends, family, young people look at taxes when they decide where they're going to live.

BOSTAR: Thank you.

BRIESE: Thank you, Senator Bostar. Questions? Seeing none, thank you for that, Senator Linehan.

LINEHAN: Thank you.

BRIESE: And we have no letters or submitted, submitted position papers on LB939, and that will close the hearing on LB939.

LINEHAN: Good afternoon.

M. CAVANAUGH: Good afternoon. Are you ready for me?

LINEHAN: Yeah, we're ready.

M. CAVANAUGH: OK. Good afternoon, Chairwoman Linehan, and members of the Revenue Committee. For the record, I am Machaela Cavanaugh, M-a-c-h-a-e-l-a C-a-v-a-n-a-u-g-h, representing District 6, west central Omaha, Douglas County. Last year, I had a conversation with Chairwoman Linehan about the need to address income tax in our state. At that time, I said I was committed to cutting income taxes for the middle class. I've introduced LB832 as a means to achieving this goal. LB832 begins by cutting the current lowest tax bracket, merging the next two tax brackets at the lower rate and adding two one-half percent increase-- sorry, still out of breath a little bit-- increases in newer, higher tax brackets. This would become effective in 2023. The largest benefit would flow to the low- and middle-income folks. In looking at the economic impact of how our current tax income tax structure is working, the lowest wage earners are proportionally paying significantly more in income taxes, while also struggle to provide for themselves and their families. This bill will keep more money in their pockets and hopefully more food on the table. And that's pretty much it, so I'm happy to take any questions you have.

LINEHAN: OK. I'm sorry. Are there any questions from the committee? Seeing none.

M. CAVANAUGH: OK.

LINEHAN: Do we have proponents?

M. CAVANAUGH: I don't think we do.

LINEHAN: Do we have any proponents? Do we have any opponents? OK, we have one opponent.

M. CAVANAUGH: I'm going-- I have to go close in another hearing--

LINEHAN: OK.

M. CAVANAUGH: --so I am waiving closing.

LINEHAN: OK. Can I ask her some questions then? Is that OK? So I don't understand. So you draft-- I'm looking at the fiscal note and trying to figure out--

M. CAVANAUGH: Yes.

LINEHAN: --you're saying, so up to--

M. CAVANAUGH: Do you want me to walk through it quickly? I can.

LINEHAN: Yes.

M. CAVANAUGH: OK. So I'm eliminating the lowest tax bracket. So if you are an individual, that would be anybody who makes under $3,339, filing jointly $6,659. And then if you make over the $3,339, then you're to first-- the first tax bracket would start at 3.51 percent, up to an income of $33,000 for single, $64,000 for filing jointly. The next tax bracket, 6.84 percent, would be $32,000 to $99,000 for single and $64,000 to $199,000 for joint. Then we start a new tax bracket at one hundred-- or at $200,000 for joint and $100,000 for single. And then we have another tax bracket at $1 million and over for single, $2 million for joint.

LINEHAN: OK. I'm looking at the fiscal and I don't quite-- you studied the fiscal note?

M. CAVANAUGH: I did, but it was-- let's see here.

LINEHAN: So I don't know how you lose revenue.

M. CAVANAUGH: Oh, yes, you do. You definitely do. Back to my opening statement. You lose revenue because when you stop taxing poor people, that's where we get most of our money.

LINEHAN: Actually Machaela, that's not right. I mean, I'm sorry. I'm sorry.

M. CAVANAUGH: I'm--

LINEHAN: I'm sorry.

M. CAVANAUGH: That's OK. So that's like-- so we-- when we-- shift the tax, even though we raise the tax on the highest level, a million above or two million above, we still are losing a significant amount by the tax change for the lowest income.

LINEHAN: OK. All right. I'm not going to keep you from closing--

M. CAVANAUGH: No.

LINEHAN: --in judiciary, but--

M. CAVANAUGH: And I can send you the numbers of what we lose at each tax bracket or gain at each tax bracket, and I apologize.

LINEHAN: OpenSky just handed us something.

M. CAVANAUGH: Yes, they have it in there and I apologize. I didn't--

LINEHAN: That's OK.

M. CAVANAUGH: --have that with me.

LINEHAN: Go close your other one, this is fine.

M. CAVANAUGH: I'm sorry.

LINEHAN: And you have to get to Omaha too don't you, right?

M. CAVANAUGH: I do. Yes, I have--

LINEHAN: OK, OK.

M. CAVANAUGH: I have a musical performance from first grade. It's a very busy day today.

LINEHAN: Yes.

M. CAVANAUGH: I apologize. But yes--

LINEHAN: You're fine.

M. CAVANAUGH: It does eliminate a significant amount of income at the lower levels and it does not make up enough income at the higher levels. But I chose not to increase the higher levels to balance it out because I didn't think that that was appropriate either.

LINEHAN: OK.

M. CAVANAUGH: But it's a starting point for a conversation, and we can always discuss further what other changes we can make.

LINEHAN: OK.

M. CAVANAUGH: I'd be happy to partner with you on that.

LINEHAN: OK, thank you, Senator. I appreciate it very much.

M. CAVANAUGH: Thank you.

LINEHAN: OK, there's no proponents? Opponents?

BRYAN SLONE: Chair Linehan, and members of the committee, my name is Bryan Slone, B-r-y-a-n S-l-o-n-e. I'm the president of the Nebraska Chamber of Commerce. I'm here on behalf of Nebraska Chamber of Commerce and Industry, the Greater Omaha Chamber and the Lincoln Chamber today to testify in opposition to this bill. And I'll-- I'll try to keep this relatively brief. Very much-- I'll use an analogy that I probably shouldn't use, but I will. When I joined the Chamber three years ago, we had an office that was built in 1964 and I wanted-- it wasn't the landlord's fault, it was our fault. We never updated it for those who were in my old office. The entry was up a pair of steps right into the restrooms with carpet that hadn't been changed since 1964, and my desk and table and conference room which has been changed, and that was the front door to Nebraska for companies from all over the country and all over the world who would come in and were thinking about investing in Nebraska. For those of you have been to our new offices, that became a necessary item because very much the Chamber is the front door for a lot of-- a lot of companies and a lot of people from other countries when they considered-- what they think about Nebraska. The fact of the matter is our top tax rates are the front door to Nebraska when-- when businesses and workers consider Nebraska. Say what you will. They don't look at the brackets. They don't look at anything else. And particularly when our brackets started at 30-some thousand dollars for an individual, our top tax rates are our front door. This legislation would-- would basically close the front door and say at the point that any individual makes $100,000, you would be deemed rich and therefore your taxes would not only be the rate that we now charge, which is one of the most highest in the country, but we're going to add an additional percent almost to that rate for making $100,000. That's not a front door that that's going to be attractive. I-- we do like the consideration and I think long-term for this committee in years as we go forward. We need to think about the brackets of people, particularly under the current system. Some of the heavier tax individuals in our state are $75,000 to $250,000. And those are, those are some of the very types of young professionals that we're looking to bring into the state. And so Senator Cavanaugh has tried to address some of that, but the-- the rates in her bracket four and five beginning at $100,000 would-- would again close the front door to the state and so we are in opposition to this legislation. I would be happy to take any questions.

LINEHAN: Yes, thank you. Are there any questions from committee? Thank you for being here.

BRYAN SLONE: Thank you.

LINEHAN: Next, opponent.

NICOLE FOX: Good afternoon, Nicole Fox, N-i-c-o-l-e F-o-x, director of government relations for the Platte Institute, and I'm testifying in opposition to LB832. We oppose this bill because it's bad policy. LB832 adds two tax brackets above our current highest 6.84 percent personal income tax bracket. LB832 would impose a 7.75 percent tax on incomes of greater than $100,000 per year and oppose an 8.25 percent tax on those with incomes greater than $1 million. Currently, the only states that levy a higher tax rate on incomes of $1 million or more are California and New York, along with the District of Columbia. States levying higher taxes on income greater than $100,000 include those same states in addition to Hawaii, Minnesota, Oregon and Vermont. New Jersey levies 8.9 percent on incomes over $500,000. Two of our border states, South Dakota and Wyoming, have no income tax. And this November, Colorado voters may potentially adopt a flat 4.4 percent personal income tax rate. Governor Kim Reynolds in Iowa is proposing to lower the state's personal income tax rate to a flat 4 percent. The Platte Institute's policy director, Sarah Curry, participates in monthly calls with a network of state tax policy experts. This working group includes state think tank policy researchers from across the country and the Tax Foundation. During her December 2021 monthly call, 20 states reported that their Governors or Legislatures would be introducing legislation to reduce income taxes, either personal, corporate or both. Some of these states had already passed legislation to cut income tax in 2021, and some are looking to completely phase out income tax, most notably Missouri. If the goal is to grow Nebraska's economy by attracting and retaining more residents, imposing the proposed income tax rates and LB832 will not get us there. While this spells-- the bill's intent is to target-- target the wealthiest in our state, the unintended consequences is that it will also put additional pressure on small businesses in Nebraska that file through the individual income tax. Most businesses today are passed through entities where the owner passes on profits through their individual income tax returns. We would be imposing a significantly higher tax rate on our small local businesses who are the backbone of our state's economy and many of our communities. Many Nebraska businesses have already been negatively affected by the pandemic and also by current high inflation rates. So why would we burden them further? We need to instead foster the growth of small businesses who are our job creators. Furthermore, a high tax rate on higher income earners is an economically and fiscally harmful policy because it is a tax on a highly mobile group of people who earn less in bad economic times. Enacting such a tax-- such a tax makes tax-- state tax revenue more volatile and unpredictable. When high income earners flee to lower tax states, this puts more pressure on middle-class families to pay for even more of state government. Earlier this month, the Platte Institute published an article discussing how Nebraska lost more residents than it gained due to migration in 2021. The pandemic has prompted a lot of people to take a hard look at where they want to live and work. People living in high tax states who can work remotely are choosing to move to low tax states. Research by the Tax Foundation confirms this. There are ways to raise revenue and lower taxes for middle-class Nebraskans that don't require making Nebraska's tax code less competitive with other states. Platte Institute would like to see tax modernization that makes Nebraska's tax code simpler and more attractive for businesses to promote economic growth. LB832 does neither, and I ask that you hold the bill in committee. Thank you.

LINEHAN: Thank you very much. Questions from the committee? Thank you very much for being here. Are there opponents?

BUD SYNHORST: Good afternoon again, Bud Synhorst, B-u-d S-y-n-h-o-r-s-t, president and CEO of the Lincoln Independent Business Association. Appreciate your time today to deliver this testimony in opposition of LB832. I concur with the previous testifiers on their opposition. Passage of LB832 would be a detriment to the progress this Legislature is trying to make with regard to our tax structures. It's important the senators push for more reasonable income tax rates and not to punish those who earn more. This bill will limit investment in our communities, decrease the size of our economy and stifle the creation of jobs. In light of this detrimental effect, in light of the detrimental effects of COVID on our economy that crippled and even closed many of our local small businesses who are just now starting to recover, the timing of this proposal could not be worse on our business community. The income tax is already among the most progressive taxes we pay as citizens. Raising the income tax rate will have a negative effect and impact on individuals and our economy. LB832 will reduce the amount of money business owners have to grow their operations and create jobs, reduce the number of individuals seeking to become entrepreneurs, and decreasing the amount of capital consumers have to spend at local establishments. As I stated earlier, we rate 35th on the Tax Foundation's 22 state-- 2022 state business tax climate. An unfortunate marker for our state. Nebraska needs to identify creative ways to cut spending and ease tax burdens, not just raise taxes on the citizens. LB832 as presented will make a less competitive state. Attracting and retaining businesses and talent in our state is a major priority. By raising taxes, we send the wrong message to those who want to come to our state, start a business and raise a family. Business owners have had an incredibly tumultuous few years, and LIBA feels it is the duly-- the duty of our elected officials to do what they can to create an environment of opportunity and demonstrate a growth mindset. For these reasons, we encourage opposition in leaving LB832 in committee. I appreciate your time today and would be happy to answer any questions.

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

BUD SYNHORST: Thank you very much.

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

CRAIG BECK: Good afternoon, Chairwoman Linehan, and members of the Revenue Committee. My name is Craig Beck. That's C-r-a-i-g B-e-c-k, and I'm the senior fiscal analyst at OpenSky Policy Institute. We're here in a neutral capacity on LB832 because while we appreciate the progressivity of many of the changes, we have concerns about the overall revenue loss that would result. I will deviate a bit here. So Senator Linehan, to your question earlier about why there was such significant revenue loss, I think you figured it out, but our modeling indicates that the elimination of that first bracket, as well as the combining of the second and third brackets, would result in a $240 million revenue loss. And then the-- the amount of money that is raised from the additional two brackets just doesn't pay for the amount of revenue that-- that is lost as a result--

LINEHAN: How much does it raise?

CRAIG BECK: The additional bracket above $100,000 and at the seven-- for single, $200,000 MFJ at the 7.75 rates, $101 million annually. And this is again from the Institute on Taxation and Economic Policy. And then the high earner bracket would raise $8 million annually. So by eliminating the lowest, as I just went through that, we expand-- we support expanding the brackets to higher income since the top taxpayers in Nebraska have very high adjusted gross income and pay a relatively low effective rate on such income. According to the most recent Neb-- excuse me, Nebraska tax burden study published by the Department of Revenue, the 500 tax returns reporting the highest incomes in the state paid an effective tax rate of just 3.82 percent in 2018 and had an average adjusted gross income of nearly $6.4 million. However, as can be seen from the fiscal note, the increased revenue that comes from the new brackets isn't enough for the proposal to reach revenue neutrality, and so we cannot support the bill as written. I do also want to take a second, just to clarify some of the comments that Senator Bostar and I had on that last exchange as they apply to this bill as well, I will follow up with him as he is obviously not here. The top income rate that we apply to in the state of Nebraska under our personal income tax code, only kicks in above the top income in that rate. So we always look to the Tax Burden study, which is published by the Department of Revenue. In 2018, the first seven deciles of the state of Nebraska, so the first seven-- below seven deciles in Nebraska, taxpayers paid an effective tax rate of 1.91 percent. So nowhere near close to that 6.84 percent top marginal rate. The-- similarly, I think it's interesting to point out that the top 500 returns, so the 500 wealthiest returns paid 3.82 percent. And again, this comes from the Department of Revenue. I'd be happy to send it to the committee. That also, interestingly, is the top 500 to have a lower effective tax rate than the top-- the top tenth decile, which is 4.95, largely due to tax incentives, is the assumption there. So thank you, Senator Linehan, and with that, I'm happy to answer any questions.

LINEHAN: I'm not fond of-- fond of that study, by the way. Are there any questions? Thank you for breaking this down. I'm going to ask the Department of Revenue breaks this down for us too, to see how this works. I think I was confused. So you-- this is the-- this is after their deductions, their--

MARY JANE EGR EDSON: Yeah, that's taxable.

LINEHAN: Right. So you get-- what did you say? What-- never mind. Wrong place to have this conversation. Any other questions? Thank you.

CRAIG BECK: Thank you, Senator Linehan.

LINEHAN: Anyone else wanting to testify in the neutral position? OK, we had one letter-- or one, I guess letter for the record, proponent Robert Hallstrom. And with that, we'll close the hearing on LB832. Thank you all very much for being here. Appreciate it.