LINEHAN: Good afternoon. Welcome to the Revenue Committee public interim hearing. My name is Lou Ann Linehan. I'm from Elkhorn, Nebraska, and I represent Legislative District 39. I serve as Chair of this committee. The committee will take up the LRs that are posted outside the hearing room. The list will be updated after each hearing to identify which LR is currently being heard. Our hearing today is your public part of the legislative process. This is your opportunity to express your position to the proposed LR. We do ask that you-- no, we don't. We actually don't. Hearing is invited testimony only and I will call up testifiers, testifiers for, testifiers in the proper order. My understanding that is Senator McDonnell, Bryan Slone, Stacy Watson and Jim Greisch. To better facilitate today's proceedings, 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 and then-- I just read the order of testimony. If you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. If you have written materials that you'd 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. When you begin to testify, please state and spell your name for the record. I will now introduce committee staff: to my immediate right is legal counsel, Mary Jane Egr Edson; to my immediate left is research analyst, Grant Latimer; to my left at the end of the table is our new committee clerk, Tomas Weekly. And now I would like committee members to introduce themselves starting at my far right.

KAUTH: Senator Kathleen Kauth, LD 31, Millard, southwest Omaha.

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

BRIESE: Tom Briese, District 41.

DOVER: Robert Dover, District 19, Madison County, south half of Pierce County.

LINEHAN: And Morgan has been-- oh, do we have senators on the phone?

ALBRECHT: Yes.

LINEHAN: Senator Albrecht, would you introduce yourself, please?

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

LINEHAN: Thank you, Senator Albrecht. Please remember, senators may come and go during our hearing, though I don't think they will. I forgot to introduce our page, Morgan. She's been very busy. Do you want to stand up so they can see you? Morgan is our page today. She is a senior at UNL studying political science. So with that, we will start. Senator McDonnell, welcome. You've had a busy day.

McDONNELL: Yes, thank you, Senator Linehan and members of the Revenue Committee and my name is Mike McDonnell, M-i-k-e M-c-D-o-n-n-e-l-l. I represent Legislative District 5, south Omaha. I'd like to start off by thanking Senator Friesen, who-- this be the last time I appear in front of this Revenue Committee of the One Hundred Seventh Legislature. And I just wanted to tell you that Senator Friesen has always been helpful to me over the last six years. I think he's done a great job representing the people of Nebraska and I just wanted to say thank you and good luck, Senator Friesen. Earlier this year, I introduced LR333 to propose an interim study to examine modernization of Nebraska's tax system, and as an add-on to LB1264, which I also introduced. As you recall, LB1264 proposed to modernize Nebraska's income, sales and inheritance tax provisions to be more competitive with our peers and to recruit and retain additional residents and workers to our state. LR333 was introduced to further examine the merits of tax modernization for the purpose of stimulating economic growth. However, it is my understanding that today's hearing will focus instead on a single component of our tax code, the termination of exceptions for business inputs from taxation. I've got subject matter experts here. We're going to-- I mentioned when I do [INAUDIBLE] testify earlier in front of you during the session that I would continue to work on this and bring hopefully the right, the right people together and I think we're doing that. So that's what this hearing is for today and to have that discussion.

LINEHAN: Thank you, Senator McDonnell.

McDONNELL: Thank you.

LINEHAN: Are there questions from the committee? Seeing none, thank you very much. Are you staying or are you--

McDONNELL: I'll stay. Yes, I'll be here.

LINEHAN: Thank you very much. Next, we'll have Bryan Slone, Nebraska Chamber of Commerce. Good afternoon, Mr. Slone.

BRYAN SLONE: Chair Linehan and members of the committee, thank you for this opportunity to testify before the committee on this matter. Regarding business input exemptions in the context of potential tax modernization efforts in Nebraska that may involve changes to the sales tax base and the broadening of that base. Before I jump into the question of, of trying to define business inputs, I thought it might be helpful in my testimony to outline a few key principles related to taxes in general and sales taxes more specifically.

LINEHAN: Bryan, name.

BRYAN SLONE: Oh, sorry.

LINEHAN: I know you know how this works.

BRYAN SLONE: My name is-- sorry. My name is Bryan Slone, B-r-y-a-n S-l-o-n-e, and I'm the president of the Nebraska Chamber of Commerce and Industry. Thank you. I knew, I knew I was in trouble when I didn't bring my readers.

LINEHAN: You want to borrow mine? You'd look funny in red, though.[LAUGHTER]

BRYAN SLONE: So the first principle, as you will see in the testimony, is basically speaking taxes, any kind of taxes, property taxes, income taxes, sales taxes create at some point, some friction, a burden on economic efficiency with, within any state. And generally speaking, one of the more difficult parts in terms of tax economic effects is that taxes can skew where capital is allocated, where human resources are, resources are allocated and where technology is allocated. And so, generally speaking, in an academic context, best tax policy is generally broad basis of, of taxable items applied against the lowest rates possible from an academic standpoint. And as you proceed down the tax modernization discussions, that clearly will be part and parcel of a part of that discussion. What I, what I do note in my testimony, is in this context that unlike the federal government, which can pass non-tax neutral legislation because of its borrowing authority in states, it's really important to note that the relationship between lowering taxes is inevitably connected to the ability of the state to apply fiscal responsibility to its spending. And so that ultimately rate reductions, whether where they occur in property taxes, income taxes or sales taxes, also have an underlying assumption that there will be accountability on the spending side of the equation. Two, in terms of state taxation versus federal taxation, states have to be much more aware of the competitive environment that they live in compared to the other 49 states. It's much easier for an individual, a business, to move from one state to another than from one country to another. And so the truth of the matter is that the state of Nebraska and the businesses that are in the state of Nebraska are in competition with the other 49 states. And so as we seek to retain those businesses and increasingly in a workforce-short environment, retain the 18 and 34 year olds, and attract the 18-34 year olds that are the key to our, to our workforce sustainability. We need to be very, very mindful of how our taxes affect the flow of not only businesses, but the flow of workforce. And so therefore, well, traditionally, economic assumptions around tax policy have been built around capital models, and I think that is still particularly relevant. We do believe at the Chamber that workforce models and the effect of taxes on workforce have to be considered as we consider tax modernization. Secondly, as we move forward to a technology and service-based economy and we talk about broadening the tax base within that area, we just need to recognize that that part of the economy is particularly mobile. And in Nebraska, about a little over 40 percent of our population, our businesses, are within a very short driving distance of neighboring states. And so as we consider the service and technology areas, we have to consider it in terms of the high mobility of, of, of those industries. Third, the question of tax pyramiding, which is the usual question when states try to broaden their taxes and I'll talk about this in a bit. The tax pyramiding occurs on sales tax environment when business inputs are taxed. And this is the fundamental issue for the discussion today, is that if as businesses, let's say, you're just simply building a piece of equipment, pay sales taxes on the component inputs in that process, and then it's taxed again when they, when they sell the final product. You're essentially applying the sales tax on the sales tax. And you can see in the supply chain they may have 20 different transactions to get to the final product. You may have tax on a tax on a tax on a tax on a tax and this pyramiding ultimately makes your goods and services uncompetitive from a cost standpoint in the market and that's the fundamental reason why states exempt business inputs. The fourth item I note, which is very important for Nebraskans, typically consumption taxes of any kind exempt exports, and we do in Nebraska. It's very substantial. Our GDP, whether it be ag or manufacturing, particularly relate to exported products. And so sales taxes on exported products are very difficult on those parts of our economy. So let me, let me move to the question of, of so what are, how do we begin to define business inputs? I've testified before this committee before on behalf of the Chamber, related to some guardrails on tax modernization. While the state Chamber certainly supports both this LR and supports tax modernization discussions and they're absolutely essential to our state's future, we've talked about specific guardrails too in particular for sales taxes. One, they-- we should have exemptions for business input to avoid pyramiding and we shouldn't tax the same transaction twice, which means we shouldn't tax trade-ins of equipment. An example would be farm equipment. We currently tax only the net value of the new purchase over the trade-in because the trade-in has already been taxed once from a sales tax standpoint. And that, that's really important. Those exemptions remain important. And then secondly, that the sales tax system should contain exemptions that are generally common in neighboring states to avoid a dislocation of both people and industry to those other states. So If our surrounding states have an exemption and we were to tax it, we'd be the only state to tax that item, it's pretty clear that a lot of our businesses in that sector would move to adjacent states where that was potentially possible. In terms of the actual definition of business inputs, you'll see in my testimony that I talk about there's been a number of states that have successfully, successfully broadened the sales tax base to try to lower income and property tax rates, particularly. Two states probably are prime examples. North Carolina in 2017, which was one of the most earliest successes, and Kentucky in 2022. While there have been successful efforts, there's been a large number of very unsuccessful efforts, including some in Nebraska. And generally those unsuccessful efforts have been because of the failure to address the very issue in, in today's hearing, which is the question of business inputs. Failure to address appropriate definition of business inputs has led in many states to broad business disapproval of tax modernization attempts. So this, this is the issue, and I commend the committee for having this hearing. Unfortunately, there is sor-- no, no sort of model rule or model definition of business inputs in any state. If you go from state law to state law, it's generally defined by ad hoc exemptions, an exemption for this, an exemption for that, an exemption for this, and those exemptions tend to, and I gave some examples, even in, in North Carolina and Kentucky. Example, let's say a manufacturing context of all the equipment related to manufacturing, solvents, lubricants, components, everything that is used for or consumed in the process of that manufacturing process. You could say the same thing about agriculture in terms of producing commodities. And generally speaking, even in states that have broadened their sales tax base successfully, they've continued to provide exemptions for these business inputs of things used or consumed in the context of either producing the good or producing the service. Now, there's, there's all sorts of definitions to go-- definitional issues in what's used or consumed. For instance, a solvent that, that evaporates during the process is no longer part of the final product. And this is an issue we've had in Nebraska, previously, the committee will remember. It's clearly consumed in the course of, of, of that production. At a minimum then as Nebraska considers broadening of the tax, it needs to, it needs to go through our list of exemptions currently. And as we think about the future industries, be able to apply this use and consume definition in ways that make sure we're not creating pyramiding. I then in the, in the written testimony of the section of what is becoming the next difficult issue in this and that is as we move to service industries and particularly technology industries, probably the most discussed issue right now in terms of sales tax basis is software as a service. So most of our sales tax rules across the country were written when software came on a floppy disk, for those of us old enough to remember, and we plugged it into the machine. And so here was something that was tangible. I plugged it in my machine and it existed on my machine. Not shockingly, most states then applied tangible property rules to the question of do we tax the software or we don't? OK, because it looks like tangible software. It's on a disk, it's on your computer. Very few of us get our software anymore in that world. Software exists in the cloud somewhere. That cloud may be in Nebraska, that cloud may be anywhere, and it's downloaded and it's not even identifiable software many times. It's a combination of applications or apps that exist somewhere. And so the, the disenfranchisement from anything that looks like tangible property is very different. Moreover, the software is a service and other similar digital products, whether they be apps or, or anything else, are increasingly being incorporated in physical, tangible goods. So I'll take farming as an example. We are not too far from farmers and ranchers with combines and tractors and planters and, and every other piece of equipment without a driver. With sensors and software built into the equipment, built into a network that exists on that farm or ranch that captures every possible piece of data, and as my good friend would say, that data becomes at some point more valuable than, than the software and certainly more valuable than the equipment, and maybe someday even more valuable than the land. In this world, it's becoming much more difficult to separate what is the software and what is the equipment and one app from another and what you paid for and why. And then you add cybersecurity issues on top of that, and it's going to lead to an administrative quagmire for most states in terms of how to deal with the software as a service issue. Two points I want to make on this. One, this question of software as a service and digital products needs to be a legislative and not an administrative issue. This is not something for tax administrators to create definitional items based on what a legislative code said 20 years ago. But this is something that I do believe needs to be the-- it's something that's addressed specifically by the legislative committees. And two, important in this area is the state of Iowa has just as recently incorporated what is the product, but probably the broadest exemption on software as a service and digital products. Essentially, Iowa has adopted an exemption for all commercial enterprises on software as a service and digital products that are used directly in the production of the good or service. And so again, I'll use the agriculture example. So if it's used directly in the production of the commodity, it would be exempted under Iowa law. I'm going to go back to my earlier comment. I think it would be very difficult for Nebraska at this point to adopt something that wasn't competitive with that, that Iowa statute. So I point you to the Iowa, the Iowa statute regulations as something very important as we talk about software. So I finished with a list of recommendations. I won't go through all of them because I've, I've mentioned most of those in terms of the need to both define business inputs of unused and consumed basis. Also to consider the Iowa exemption with respect to software and digital services. And then the last point is just something for your consideration. One of the problems here is because each state defines business inputs by very specific transactions, and 20 years from now, those transactions will be very different. Technology will be different, platforms will be different. It's very hard to write these into a code successfully without creating years and years of administrative rulings and interpretations and, and controversy that goes with this. So I suggested just for consideration, and I think it just needs to be vetted, is whether taxpayers should have a safe harbor in this case. That if the cost of the goods is included in their cost of goods sold for either the production of a good or a service for gap purposes, for accounting purposes, and it meets accounting standards, it's just cost of goods sold rather than just a general or administrative expense that perhaps that should be a safe harbor to be considered a business input under these definitions. And it's just something for your consideration. So with that, I would be happy to answer any questions.

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

BRIESE: Thank you, Chair Linehan, and thanks for your testimony here today. If we embark on this road of sales tax base expansion, you know, obviously, the key issue, like you say, is the definition of business input. And we have two choices or somewhere in-between, a fairly expansive definition or a fairly restrictive definition. And I think, you know, personally, I think if you're talking about business inputs, I have a trouble distinguishing between services purchased by a business, professional service purchased by a business, repair services purchased for business purpose versus the seed corn fertilizer that Curt buys. I have trouble distinguishing between those two in this context. Why should we distinguish between those two, if we should at all?

BRYAN SLONE: I think that's a, it's a question for the committee of how expansive you ought to be. Clearly, states have taxed, to some degree, businesses in the products side while exempting business inputs. Whether that's, you know, the most efficient system is one that doesn't tax businesses at all because generally business taxes are passed through to consumers in the end and create higher-priced products. But, but in this-- in the general statutes right now, have a fairly expansive view of, of used or consumed, but not complete. But once you get into software and services, the fact is that the sales price generally isn't specific to one particular service or technology, it's usually bundled in packages anymore. It's very difficult to sort this out. So the administrative issues around services and technology are much more difficult and complex than, than even the product side. So to the extent that Iowa did what it did, I would suspect that was around acknowledging that technology is part of everything that we do now.

BRIESE: I think you've defined the rationale for not taxing business inputs and it seems to me the same rational, rationale applies equally to services, as it does to Senator Friesen's fertilizer.

BRYAN SLONE: Yes, it does. It does. Yeah, to that point. Again, pyramiding of taxes, whether it be services or products, makes your industries less competitive. And, and that's-- we don't have an industry in Nebraska hardly anymore that isn't both goods and, and services in some context.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Kauth and then Senator Friesen.

KAUTH: Hi. We seem to be very behind other states and constantly trying to play catchup, so are any of these recommendations ones that would give us a leg up on some of our competing states?

BRYAN SLONE: So what I would, what I would say is that the exemption business is a, is a very unartful way to be competitive. I think we don't-- we want to avoid being noncompetitive. So to the extent our surrounding states have exemptions, we would be noncompetitive by not having that exemption. And I think it is the point for, for those advocates of tax modernization, and it goes to my very first point today. The most effective economic advantage is, is lowering your rates, whether it be lowering your property tax burdens, lowering your income tax burdens, and lowering your sales tax burdens. And that's why I also was careful to mention that controlling your spending is, is absolutely essential to this. There is no, there's no easy button in this process, as this committee well-knows.

LINEHAN: Thank you, Senator Kauth. Senator Friesen.

FRIESEN: So when you talk about software now, I mean, if a business, I agree with you, a lot of software now is turned into you're not purchasing the software, you're basically doing a lease, or an annual lease and they're upgrading it and you just continually-- so does a business now if they, and there's so many different avenues and businesses that this involves, do they have to pay sales tax on that now if they're doing an annual lease of software for bookkeeping?

BRYAN SLONE: In, in some cases, yes, and in some cases, no. Generally it's been viewed in the, in the old rubrics that if it was something that was precoded, commercially-coded software it was taxable, but if it was something that you created on your own, it wasn't. That rubric really doesn't work very well anymore for what you're getting off the, off the Internet or even in the piece of equipment. So I'll give you an example. I bought a pickup in Beatrice a few weeks ago. There's loads of software on that pickup, so is my purchase price for the pickup or is it for the software?

FRIESEN: So if you-- again, the Department of Revenue recently has been randomly deciding that a product or something out there and either sales taxed or not, and then we have legislation clarifying it. And that's not a good way to go because it's reactive instead of being proactive. And so you would say we should look more at being proactive and laying out those guidelines. And as times change, I mean, obviously, we never foresaw the future where you wouldn't really buy software, you'd constantly be leasing it, but I know there's some versions already you almost can't purchase. They are for lease and you couldn't purchase them and put them on your computer anymore if you tried. And so, I mean, and getting this definition right or the process of deciding it is going to be really important because it's-- again, business inputs are, it's hard to define sometimes. So is there, is there a, is there a way of actually writing it so that we can accomplish this? I mean, I've been here six years and, you know, sometimes what you think is easy is not and it gets difficult coming up with that right description. So is it, is it even possible with the changing world that we're in to do something legislatively?

BRYAN SLONE: Senator, you said it better than I did, so I should have had you write the testimony. I think as a, as a former tax administrator myself, I, I'm not a fan of arbitrary administration. And so I do think you'll never be able to draft it perfectly because you don't know what technology is going to look like and services are going to look like five or ten years from now. But I think you can express concepts in the legislation. You can express concepts of business inputs and potentially consider safe harbors, as I mentioned at the end, or other categories. At least give administrative advice to the administrators as to what the intent was as you went about this, because that intent gets lost 10 or 15 years later, and we get some, we get some, sometimes some difficult interpretations.

FRIESEN: Recently, we, we talked about like the sales tax for servers and, and in our data farm, servers would be an essential input to their business and yet they're required to pay sales tax on it. So, I mean, it's, it is arbitrary what we're doing.

BRYAN SLONE: And what I would, I would, I think the point of my testimony is from an accounting standpoint, you know, I'm very comfortable with the used and consumed on, certainly on goods from a, from a software and digital area. It's, it's a lot more complex and I think what you saw Iowa do was just say, we're going to write a broad definition. Now it has to be software as a service and digital products that are directly related to production of the good or the service. There's still that directly-related concept. So if it's just a, you know, if it's my email system, that's probably not directly related, so that software Iowa would still tax.

FRIESEN: OK. Thank you.

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

KAUTH: One, one more.

LINEHAN: Yes.

KAUTH: What would, so if we reduced the taxes on the inputs, what does that do to tax incentives for businesses? Does that reduce the amount that they would be getting through tax incentives? Because it seems like it gets very complicated and kind of washes itself out, so then we would reduce what we're offering as far as incentives for businesses to come here?

BRYAN SLONE: This wouldn't have any particular effect on the incentives. What it would have, generally with incentives, we're trying to incent certain, certain kinds of investments in this state. And they've been, been successful in doing so with this. I think the goals of tax modernization ultimately are going to be something slightly different, which is how do we more broadly create a competitive state from property tax, income tax and sales tax standpoint? At the end you have to walk away from this process and say we're creating a playing field that's attractive when we compare it to Iowa and Kansas and Missouri and South Dakota and maybe even the Utahs and Idahos of the world.

LINEHAN: Thank you, Senator Kauth. Senator Friesen.

FRIESEN: So if you’re going to prioritize-- on your personal property tax, we've talked about that previously or other years, it always seemed to me like it was a disincentive for businesses to add equipment. If they invest and buy new equipment right away, you're-- first of all, sometimes even had to pay sales tax, and on top of that, you paid personal property tax for years. And so, again, if we're going to talk about trying to get businesses to expand and grow, wouldn't we want to get rid of the personal property tax on equipment first, is that a-- would it be a priority or?

BRYAN SLONE: Yeah. So what you will-- and you'll see that even reflected in these sales tax rules. So even the Kentucky's and North Carolina's, the equipment is the, the business equipment is generally exempt. But you're correct, our property taxes in Nebraska, personal property taxes are generally not competitive. We tend to tax things, including my pickup, at extraordinary rates.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Back to Senator Kauth's question. I think maybe, because we, you wouldn't know this, but one morning we were in a tax rate review hearing and we heard about several millions, tens of billions of dollars going back to companies who purchased equipment they paid sales tax on. And now we're hearing the whole rigmarole of giving them once they qualify. So, I mean, reframe her question. If we, if we didn't tax business inputs, we wouldn't have to have an incentive package to give their sales tax back.

BRYAN SLONE: So then we would look at, so I would argue very respectful of that incentives are the result of our high income tax rates primarily.

LINEHAN: Yes.

BRYAN SLONE: Incentives, if we had, if we had a 2.9 percent or 3 percent income tax rate for businesses, you would see me less often gracing your doorstep talking about incentives. And so incentives are really a function of we have not had competitive income tax rates for, for some time. And so, and that's what the proponents of tax modernization who will come after me, will be talking about. So it's not really related to our sales tax, which is, which is about middle of the road in terms of rate and in where we are. It's really a function of, of our own competitive income taxes.

LINEHAN: Another question. Middle of the road on our sales tax, but our exemptions and our exceptions broader than many states?

BRYAN SLONE: That's a hard one. Certainly broader than so, for instance, the Kentucky's and the North Carolina's have undergone this process. But I would say not horribly different than a lot of states, different in that lots of states, so South Dakota probably is broader than South Dakota. But if I were to compare Kansas and Missouri and others, I'm not sure I could say broader.

LINEHAN: OK. All right. Any other questions? Seeing none, thank you very much for being here, Thursday.

BRYAN SLONE: Thank you very much.

LINEHAN: Next, we're going to have Stacy Watson from Watson Associates. Good afternoon.

STACY WATSON: Good afternoon. Thank you, Chairwoman Linehan and the rest of the committee. I am Stacy Watson, S-t-a-c-y W-a-t-s-o-n, and I am here representing the Nebraska Chamber. I'm the Chair of the Tax Policy Committee for the Nebraska Chamber. So I'm just following up on some of the things that, you know, Mr. Slone had said. Again, I'm not here to tell you how you can write the exact definition, because I can't find one that I love. But I want to reiterate strongly that if we don't write a good definition, starting with the words used and consumed. And Senator Linehan, I know you asked, do we have a broader, you know, exemption based than other states? It may sound like you do, but when you work in the position I work at in the state local tax department and you work with our Department of Revenue, for them there is no such thing as a broad definition. And so you get into the insanity of, if I put yeast in my bread-- to Senator, to Mr. Slone's point earlier, and the yeast has now been consumed during the process. And at the end, we don't need the yeast anymore, it's already done its job. They considered that, that it's went away during the process and so it's not really part of making that product anymore. And so that's the level of detail that you get down to when you're audited by the Department of Revenue. So when we're asking the committee to consider a definition for business inputs, we need to ensure that within that we go broad enough and our words are used well enough that everybody understands the plain words of used and consumed. And where you start and end that process, that's, in my mind, your policy decision. So it's usually easy to think about that in the manufacturing world. Do I start it way at the beginning when someone goes and picks up a product in their truck, right? And they bring it all the way to the plant and they may have stuff outside the plant that stores that product until I use it, or do I begin at the door when the actual change happens? So nothing happens to that product from the time it leaves where it needs to be and it gets to where it is. But then do I start exempting this stuff inside the plant because that's the stuff that's actually making the process change, right? I mean, that's, that's used and consumed directly in the process. Then when it ends the process, right, am I going to exempt the storage? What if it's something that has to be stored at a temperature, otherwise it goes bad, right? So how far past that middle process am I going to make that exemption? And I think that from a committee perspective, that is definitely something should be legislatively determined by the policies that you want to put in place. But does it go, you know, all the way to then that product meets the next person's door? So when you think of it kind of in that context, that's as broad as you can get, right? As far as all that stuff touches the products directly. It's not your office equipment, right? My chairs and my desk, they don't touch the product directly, but every point from the time they picked it up to the time I've delivered it to my customer, that has directly influenced that product. And so I think that, you know, that's, that's kind of, you know, used and consumed directly in the process. It's how wide is that process for you, right? And I think that's part of the things that you need to think about as you go through this. But you don't want to tax something-- I mean, so if you're the guy-- I'm sure you guys have a lawn guy. We have a lawn guy and my husband doesn't want to spray the chemicals because one year he destroyed the lawn, so we've decided against that on a go forward basis. But if the, if the guy who's coming to spray your lawn is putting a chemical down for pest, that's taxable. And so he's also had to pay tax on the chemical because there's no exemption for him. So now he's paid tax on what he's bought. Now he's coming out and he may actually be, you know, putting fertilizer to make my grass grow. But if they're any way touching or combined, now he has to charge tax on his whole service and he's paid tax on all of his inputs to the service. When you go to the car wash, all the soap and stuff that washes your car, they have to pay tax on that. It's clearly used in the taxable service of washing your car. But because of the way our system works and because of how things have been defined, you know, starting in 1967, things have changed since then. They probably didn't have a car wash. Probably nobody had a lawn guy. These things get-- they get left out and then the department makes their own interpretation on, you know, what inputs are not subject to tax. And I think if we go down the path of taxing services, it does get a little bit more difficult, right? I mean, I have to take off my [INAUDIBLE] hat because as an accountant, taxing our services is kind of an easy one. We know how to administer it. It's not going to cause us a whole lot of problems. We could do it. And so but what business inputs of mine would not be subject to tax? Clearly, software is a service, that's probably the biggest input other than employee wages into what we do for a living, right? If, if we didn't have-- I mean, we don't use green bark paper anymore. No one's typing out on their ten-key. I hate math and I love being an accountant because the computer does all the math for me, right? I just have to understand the rules. But if I didn't have that software, it, my system wouldn't work. But does that mean that, you know, my desk? No, probably not my desk. But if I'm printing off paper, right? All of our clients' tax returns sit in a portal. That's after the end of my service, right? Is that software that supports that portal taxable or not taxable? Because that's how I'm delivering my tax returns. So I understand that, I mean, there's difficulty surrounding these definitions, and it's up to you how broad you want to make them from very beginning to very end. But I think that we have to start with at least a used and consumed. I'm completely on board with using a gap definition of-- as a safe harbor, as if it's in your cost of goods sold, it should be at minimum exempt. And then at least giving taxpayers when the Department of Revenue comes in and you're like, look, on my financial statements, someone's audited this and they've agreed it's in my cost of goods sold. I get that one, right? It's just if we leave it up to the Department of Revenue, I think it muddies the waters and it's only the people that get audited that then pay that tax, by the way, because it's not a broad definition. So you put our own taxpayers on an uneven playing field because our, our taxpayers will disagree with what the law says if we don't write it well. And so only the person who gets audited is going to pay that tax. So the cost of their prices now went up when someone else's didn't. And at the end of the day, if we keep taxing things that are inputs into our services, I can take my service as an accountant and it's, it's so much easier post-COVID to go sit in another state to perform my service. Just is. I don't have to even go into work anymore if I didn't want to. I can do whatever I do from any place in the world right now. And so if we want to encourage services to come into the state, first of all, our tax policy has to be clear. Businesses hate unclear tax policy. They honestly will pay the tax. If it's in there, they'll collect the tax if you tell them to do it. But if it is unclear in the playing field is not equal among all, they won't do it. And then it-- then they don't want to be here. They don't, they don't want the Department of Revenue knocking on their door, deciding what is and isn't taxable when they're in there. They want someone to do that ahead of time so they know they're doing it right. And the other thing is is I think we need to be aware of how our, our statutes are currently written that could discourage, you know, the future businesses that-- we have no idea what's going to come up, right? I mean, I had three channels on my television. Now, I don't. I mean, I don't even have a regular TV channel, right? I have subscriptions to, I think we have them all. So what are there, 20 services? So, I mean, you can't envision everything that is going to come, but I think you can envision where the beginning and the end of a direct input goes into something and write a statute surrounding that. So I don't know if you have any questions for me.

LINEHAN: Let me see. Do we have any questions from the committee? I do. Let's just go down the list, you said chairs in your office. They should be taxable?

STACY WATSON: No, they should be. They're not an input. They should be not in that direct process.

LINEHAN: They should be taxed.

STACY WATSON: They should be taxable. Absolutely. Just because I sit or stand or whatever, doesn't matter to the tax return. Actually, I have to sit when I work on harder tax returns. I don't know why I can't use my standing desk when they're really hard, but no, that should be taxable because that's not directly touching my product at all. I don't even need that chair to get my product done, right, so.

LINEHAN: Okay. So, but then I thought-- I heard you say two things on accounting services. One, they should be taxed because they're not part of the product, but then they shouldn't be taxed because you'll move to Iowa.

STACY WATSON: I'm, if you want to tax accounting services I'm all in. But the inputs to it, right.

LINEHAN: This is what we don't know. We don't-- this here is directed at you.

STACY WATSON: Oh, I get it. Yeah. Here's the thing. Broadening the base at somewhere along the line has to be on the table. And I think for good tax policy, not everybody can come in and say, OK, well, you can broaden what you're going to tax, just not me, because so and so doesn't tax it either. If you broaden the base and you lower the rate, that feels a lot different versus I'm broadening the base and my rate is still over 7 percent, right? Or if you brought in the sales tax base and I mean, I was-- personal income tax rates just went down to 3.99. Right. I mean-- and they were at nine, right, and they just dropped that stuff. That feels a lot different. If you broaden the base and I'm no longer paying personal property tax and sales tax on all my business inputs, that feels a lot different, right? So I think you can't pick one thing in the income tax. You can't pick one thing and decide, okay, we need more money, right? So we're just going to go and broaden the sales tax base without doing anything with property taxes or income taxes, because that is when someone's going to leave. But if you look at it as a big picture and you broaden the base, but you lower the rates, I don't think people are going to pick up their, you know, their, their toy and leave the sandbox. But if you're just doing one piece of that, I think you would have someone pick up their toy and leave their sandbox.

LINEHAN: Senator Friesen.

FRIESEN: We went too long, I have to ask a question. [LAUGHTER] Okay, in the, in the bigger picture, when you talk about being competitive with other states, because when we've looked into that at times, I mean, a state may have an exemption on this here, but they do some other-- each state has to have so much revenue to operate and to make their state run, same as the municipality. So in the end, I mean, the revenue is going to come from someone. So in the great big picture, if we as a state kept our spending down and yet offered the services we need, we would be more competitive than any other state. It's just the amount of revenue and who pays into it. But the whole concept is we have to hold down spending because in the big picture, if we're more competitive, we're more efficient as a state with our tax policy, our tax code, our spending, if we can do a better job of maintaining our roads and infrastructure without wasting money, we lower the taxes that we all talk about. But when we-- our problem is always, we always pick winners and losers, so to speak. And that's what we're, we say we don't want to do that, but we always do that. And so, I mean, again, it's going to go down to say in my business, you know, I, my inputs are this and everyone will say, well, I can't operate my business without the accounting department and all that they do, even though they don't touch the product, I've got to, this all works together. But it gets extremely complicated. But somebody has to pay the tax. And how do you, I mean, I know where you 're headed, and I know our services are changing. We keep talking here. We want to tax services now more than, you know, because our, our businesses have changed. And yet we keep leaving exemptions and Department of Revenue is making those decisions for us, and then we come in and fix it. But if we would, I get where we're headed. Trying to define how close they touch the final product is the key, I guess, if we can measure something. Is that, is that doable?

STACY WATSON: It's not going to be doable in every single circumstance. I mean, that's just not a possibility. But no different than in federal tax law, sometimes we do create these safe harbors that just said, OK, you can be trying really, really hard, but you're probably going to get something wrong. But if you stick to this general definition, you know, saying cost of goods sold on a gap financial statement, that's a safe harbor for a taxpayer, like we're never going to pick that up, right? And then you are, and then I think within the statute, there is still a way to define where we began and where we end the process, right? So that's another way to kind of encompass, to encompass what you-- because uncertain tax policy is the worst. It's the worst. I'm going to a conference in Tampa next week, and every time I go to a conference, someone hunts me down and they yell at me about the Department of Revenue because it says where I'm from. Like, I don't work for the Department of Revenue, but I still get yelled at every time I go to a national conference because someone is mad at some specific person in the Department of Revenue. So I think within the statute, you can find a beginning and the end to the process. The part that you're not going to be able to close the gap on is direct, like what directly touches it. I'm sorry if anybody thinks the accounting department is somehow directly touching them, they're not. They, they're not going to be able to operate a machine down there or even the software to run it. So, yeah, that one seems easy enough, right? But I think if you decide where it begins and where it ends in your exemption process, if you choose used and consumed so it can go away in the product, but it still helps make the product. I mean, it makes no sense if it helped, you couldn't make the bread without yeast, you just can't. It's not bread, it's something else. And so if it's used and consumed in making the product and you can't make the product without it, you can make the product without an accounting team, you might not get paid, might not be able to pay your bills, but you can clearly make a widget or sell software without an accounting team. So the only, it's just how directly does it touch it, right? So is it, you know, is the machine before it comes inside that door conveying [INAUDIBLE] in it? Does that count, right? I mean, is the guy who's spraying the chemicals when he buys the chemicals to spray on your lawn, I think that clearly counts in the little container he has to carry it in. But his truck that he's going to carry the stuff to your house in, I don't know, right? Where are we beginning and ending the process? So I think there's a way to get a lot closer than what we are. And yes, we need to keep our spending down. But I will tell you, people look at rates. There's not a lot of, I mean, they look at the number. People understand the number, and they understand what they're paying in their state and they understand what they could possibly pay to the state that they're moving to. So the, the rate matters, right? Whether it's a sales tax rate, an income tax rate or property taxes, that matters. The rate matters and obviously spending is the key to lowering the rates and being able to do what you want to do, but competitive rate matters.

FRIESEN: Thank you.

LINEHAN: Other questions? You used an accounting term.

STACY WATSON: Cost of goods sold in the financial statements, the gap.

LINEHAN: Yes, say it slower.

STACY WATSON: Cost of goods sold. So it is a gap. The general accepted accounting principles. It's a definition because when someone looks at their financial statements, you either get to put something basically above the line, which means it's an indirect expense to what you're doing, or you have to put it below the line because it's overhead. It's an indirect expense. It doesn't effectively, basically you need to know your margin on that product before anything else comes into, you know, play. So could I make the product if I got rid of 10 accountants? Probably. Could I make the product if I got rid of my labor force standing out there? No. So the labor force is a cost of goods sold. Your accounting departments are below the line.

And raw materials.

STACY WATSON: Raw materials.

LINEHAN: So go back to your widgets.

STACY WATSON: Yep.

I can't make widgets without wood.

LINEHAN: So that's cost of goods sold.

STACY WATSON: That's the cost of goods sold.

LINEHAN: I can't cut widgets without equipment. Cost of goods sold. I can't do without employees, cost of goods sold.

STACY WATSON: Correct. But I can do it without my accounting department. I can do it without my salespeople, right? I mean, I can do it without the chair in my office. OK.

LINEHAN: That's helpful. Any other questions? Thank you very much for being here. Appreciate it.

STACY WATSON: Have a fabulous day.

LINEHAN: Thank you. Stay warm. Jim Greisch. Good afternoon, Jim, with CPA with Blueprint.

JIM GREISCH: That's me. Good afternoon, Chair Linehan. I'm Jim Greisch, J-i-m G-r-e-i-s-c-h, and I'm here today in my capacity as Chair of the Blueprint Tax Modernization Committee. I want to thank you all for the opportunity to be here. and for learned legal counsel, I understand this may be your last hearing. We want to thank you for your decades of service. And to the senators who will be leaving us at the end of the year, thank you to you for having given us your time, talent and the treasure that you brought to the table over the last eight years. So today you're going to hear a lot of themes that are similar. My learned colleagues have talked to you about business inputs and as I, I'm going to do the same thing. But I want to do something that's a little different for you. I want to really kind of take a, take the conversation up a level or two. You know, we talk about being reactive. That's, that's very easy to react to something. It's a little bit more difficult to be proactive. Today, I'd like you to think about being preemptive. I don't think it's any, it's good enough any longer to be proactive in addressing a matter like business inputs. We have to be preemptive in the manner in which we think about what is happening in the economy in which we're operating. So I'm going to offer a couple of things that are theoretical in nature because they define the problem for us. So as you know, sales taxes are, in theory, intended to be paid as a tax on the final consumption of a product, good or service by the end-user consumer. You're going to hear me say end-user consumer a lot. OK. Business inputs by definition, then, are not items purchased by an end-user consumer, because these business inputs are either transformed in some manner by the business or resold by the business to an end-user consumer. Therefore, there is a difference. The business and its intermediate activity cannot be by definition, the end-user consumer of most items used in their, or consumed in their operation. Taxation of business inputs would then be inconsistent with these theories because a tax paid by the intermediary would by definition not be paid by the end-user consumer. Again, end-user consumer. The most, the most effective sales tax regime would be as broad as possible, meaning requiring sales taxes on items purchased by end users while exempting things purchased by businesses. So in a perfect world, if we were starting over and this was the first time we were ever going to debate business inputs, there is a, there is a line of inquiry that would say nothing purchased by a business would be taxable. Well, that would make it pretty simple, wouldn't it? Unfortunately, not everything is as black and white as I've just made it. And as you heard my learned colleagues talk about the gap concepts of cost of goods sold, I'm going to add to that conversation a little bit, a little bit by encouraging you to research the concepts of product costs, those things that are in cost of goods sold and period costs, essentially everything else. OK. Product costs are those that are absorbed into the, into the product, good or service. Period costs are those that are not. Well-defined and well-codified definitions used by all the CPAs on the planet. I'm an auditor by training, not a tax person by training, so these concepts are very familiar to me, but I recognize for many others they are not. However, there's a codified body of knowledge associated with them that I think would be valuable for us. So now that we've, we've talked about, you know, the theory, obviously, we have to talk about our current system. Unfortunately, our Nebraska system is exactly the opposite of what you might desire in a preferred model. That is to say, we have a very narrow base and relatively high rates. They're not out of line with many of our competitive states, but the narrow base makes it very difficult for us to operate. In other words, it's an opposite of a preferred system. Many of our surrounding states have broader-based programs and different rates, lower rates. These provide for systems that are, that have improved competitiveness, are easier to understand and administer, but also generates sufficient revenue for them to operate their state. Very important that we recognize the constitutionally mandated services of government have to be paid for by someone. OK. There's no free lunch. But to put a finer point on this conversation for us here in Nebraska, broadening the sales tax base gives us the best opportunity to deal with the issue that many Nebraskans feel is number one for them, and that is property tax. A broader base of revenue production would give us an opportunity to have a different conversation about property taxes. Of course the key to broadening the definition is what is a business input. Now, you will recall when I testified earlier, Blueprint Nebraska chose not to alter the state's current definition of business inputs. And that's because, very simply, there is no one definition of a business input that is commonly employed across the states. Gosh, I wish there were, because then it'd be much easier for us to talk about this. But since there is no single definition of what a business input is, we must need to be theoretically consistent with the premise that sales taxes should only be levied on the final consumption of the good or service or product by an end-user consumer. There we go again. End-user consumer. I recognize you're getting tired of hearing that. So anything that constitutes a purchase by the intermediary should in theory then be exempt from taxation. The basis, of course, is that these transformative activities result in the resale of goods or services and they are not then, end-user consumption. You'll also recall that I did say earlier that all the exemptions we currently offer should be reevaluated to determine whether they have an appropriate economic return to justify the exemption that's been granted. You've heard my colleagues talk about this, you know, this afternoon. Won't repeat, you know, the concept here. Generally, the challenge that we've had is the Legislature has granted exemptions and then has had a tax that's applied, granted it some exemptions or incentives or worse incentives and has a patchwork quilt of these that are, that are present in our current policy. Generally speaking, we think that it's necessary for us to reevaluate those, because if the definitions were codified statutorily, we would not be faced with the, with the issues that we've had to deal with in terms of granting one-off exemptions to fix a bad policy decision that was made up in another place. As you know, Blueprint offered an example of what this might be. But I would caution you here, when you go back and you look at that again, that was just one example, not the example, may not have even been the preferred example. It was simply an effort to quantify econometrically how it could be done in the manner in which we're describing today. So the unintentional process that the Legislature has, has created an intentional outcome, you know, that has been created really has, has unfortunately created the group of incentives which need to be reevaluated as well. Lots of conversation about incentives today. Blueprint says, said, recommended that incentives should be in place to encourage someone to do something they would not have otherwise done. That's a very different definition of incentive than perhaps we're using today, although I recognize over the course of many, many years, the manner in which we've tried to define the incentive has been, of course, to influence decision making. But in most cases, the influence decision making was to overcome a bad rate or a bad policy choice that was made in another part of the conversation. As you've heard my colleagues say, and I will endorse today, the ideal tax policy is one that is transparent, fair and equitable and one that reduces uncertainty facing a seller and a buyer at any point, any level and any point in the process, and make certain that when disputes are occurred, you know, there is no confusion about what should be subject to taxation. Taxation should be a legislative matter, not an administrative one. It should be clear, should be concise rather than one that is settled on a case-by-case basis in the courts. Love to talk with you more about business inputs. I'm certain that there are yet more questions. I'm happy to answer them. I thank you for the opportunity to be with you today.

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

BRIESE: Sure. And thanks for being here today. We've talked about pyramiding several times today. We talked about transparency and embedding unseen taxes Into the cost of a product and hiding the true cost of government, things of that sort. If we're truly concerned about pyramiding, shouldn't we have an extremely broad definition of what constitutes a business input?

JIM GREISCH: Senator, yes, in a perfect world, it'd be as broad as possible.

BRIESE: And that broad definition, that probably would include that office chair, that probably would include those business accounting services, wouldn't it?

JIM GREISCH: You know, you get the chairs, obviously that's something that a business purchased and you know, under the broadest possible definition, sure, which, it's possibly exempt. But I think practicality has to enter into the conversation itself. The definition can be too broad, sweeping unintentionally things into, into the mix. Now, the distinction that was drawn earlier was, you know, a desk or a chair used by an administrative person, you know, anything used on the production floor, a stool, a chair, a lift, a forklift, anything. You know, obviously it's part of the production process and would, would be a business input and exempt from sales tax at the inception.

BRIESE: Wouldn't anything you could write off on your federal tax return be a business input?

JIM GREISCH: Yeah, that's an interesting question. I was kind of hoping we'd get to that. So what that, in the process of debating what we thought a business input would be, you know, the, the idea that a depreciable asset, you know, would have some unique characterization as a business input has been debated. You remember, I asked, I asked you to think about period cost and product costs. So the depreciation on a fixed asset would be absorbed into the cost of the product and is part of cost of goods sold. So using your example, yes, it would be a business input and might be exempt from taxation. Now, again, you know, the complicating factor associated with this in Nebraska is we have tangible personal property taxes levied on a lot of things. We think they should go away. But, you know, the pathway you're on, Senator, is one that we have studied, and there are others who use that definition.

BRIESE: It sounds like what I'm hearing today is maybe don't worry about business inputs, let's just draw a bright line as to what we're going to classify as business input to go with it.

JIM GREISCH: I'd be in favor of a broader definition that would make it, make it very clear what's a business input. I'd also be in favor of expanding the base so that businesses don't bear the disproportionate burden of tax they, today, bear. Our businesses pay about 45 percent of all sales tax levied in the state of Nebraska. Although that is similar to many other states, it's, you know, far from the lowest and far from the highest, but, you know, 45 percent is a fair number. What that suggests is the end-user consumers are not paying enough sales tax on their consumption of goods and services and products. And we should have a look at that again.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So one way I've-- over and over we keep hearing that Nebraska has to be competitive with other states. But when you got a state like South Dakota or Wyoming, South Dakota has a lot of tourism. They have a very broad definition of who pays the sales tax. Wyoming has coal. They can offer, you know, no state income tax, no property tax, whatever. They can do things that we can't. How do we reconcile those differences because we don't have some of those natural resources or whatever you want to call it, whether it's tourism or coal or oil. They are-- have the ability to tax some of that and we don't. And so they can offer different tax fields, so to speak, than we possibly could. How do you, how do we get competitive with states like that?

JIM GREISCH: Well, you know, I would suggest that, you know, you're using [INAUDIBLE] ideas at the margin. And I would offer another group of states similar in nature to what Bryan Slone offered. I'd say Arizona, Michigan, and Iowa have very interesting definitions of business inputs that might well be a better model than South Dakota, you know, whose definition of business input I wouldn't want us to go to. It's far, it's far too inclusive. So many things are taxed and they shouldn't be. I certainly concede that those that have extractive industries and have severance taxes that they can render on the things that leave their borders present a unique opportunity. For the record, we've looked at whether ethanol, by way of example only, you know, might be one of those extractive industries, because the majority of ethanol produced in the state of Nebraska leaves our borders and goes to another state. Now, you know, it's a commodity. So I'm going to quickly acknowledge that price for the commodity is set on the open market. I don't know exactly how a tax might be, you know, included in that process, but, you know, hey, coal is, you know, is also a commodity. I'm just simply giving you--

FRIESEN: Depletion tax on the coal is--

JIM GREISCH: Say again.

FRIESEN: Depletion tax on coal, you're equating that.

JIM GREISCH: Severance tax is a broad category. Yeah, depletion taxes, any of, any of the above, you know.

FRIESEN: So in the end, I mean, a lot of times ethanol and any of my corn products are exported. You can say, you could put a depletion tax on them, but they're-- it's never in the final form yet. I mean, even ethanol gets blended off into gasoline and so it's not an end use, so to speak, when it leaves, but it gets problematic when we try to define things.

JIM GREISCH: Sure. I mean, I certainly, I'm not trying to suggest to you that exports should be taxed [LAUGHTER].

FRIESEN: Well, I mean, we have been--

JIM GREISCH: I've given you, I'm just giving you, you know, ideas.

FRIESEN: We've had that discussion before. I mean, if you take corn and basically you're saying you want a tax on food because most of it gets turned into food. I mean, let's get to the end product and me and Senator Harr, I think went into that one time.

JIM GREISCH: Well, but that-- leaving aside the socioeconomic arguments for the moment, that's why there are a lot of people who think food should be taxed at the consumer level.

FRIESEN: Yeah.

JIM GREISCH: And I, neither, I'm not advocating for or against one way. Simply saying economically the end-user consumption, the end-user's consumption of a corn product turned into whatever it is, is the end-user's final purchase and taxation of it economically makes sense under the theories that I have espoused.

FRIESEN: Product that is consumed.

JIM GREISCH: Correct.

FRIESEN: Okay. Thank you.

LINEHAN: Other questions from the committee? You said you agreed with Arizona and Iowa or we should look at [INAUDIBLE] Arizona, Iowa and Michigan?

JIM GREISCH: Um-hum.

LINEHAN: Are they more, are they more products, whatever the first thing, just the inputs?

JIM GREISCH: Practicality is where I put you in the conversation with those three. So, South Dakota is one that, you know, people talk about all the time. Their definition is inclusive of a lot of things. So lots of things are taxed in South Dakota.

LINEHAN: But they have no income tax.

JIM GREISCH: But, that's the trade-off, OK? And, you know, recognizing that, you know, we're not starting on the first day of time and, you know, we have to live within the systems that have been created because we have citizens who are expecting thing-- functions of government to be provided. We're not going to be able to get the broadest definitions that sweep lots in, but we can get to a definition that, that is more readily understood by business and, you know, excludes things that aren't end-user consumed. But that would also put things that are end-user consumed back into play. Arizona, Michigan, Iowa, do that. There are other states that, you know, we should always look at because our surrounding states are those with whom we compete directly and they're, as you well know, seven or eight others that, you know, fit in there. North, North Carolina is certainly one. You know, Texas chooses completely different philosophy than the one we've espoused here. They have a gross receipts tax. You know, that's an interesting idea. You know, is that something that solves a lot of these problems? No, I would argue it creates some, but it also addresses some and it gives us another tool in the-- on our tool belt to have conversation about.

LINEHAN: I think it was Senator Briese asked about federal, if you can deduct it on your federal tax return. That to me would seem overly broad. Like if you wanted to take your salesforce out for a week's vacation in Hawaii, that's probably deductible on your federal.

JIM GREISCH: It may be deductible, but the question is not whether it was deductible, but whether or not it's included in the cost of goods sold. So an item of that character, a sales contest winning, for instance, wouldn't be included directly in the cost of the product. That might be a sale in general and administrative expense.

LINEHAN: OK. OK. Thank you for giving us some examples. Are there other questions? I just keep thinking about nightmares with pop and candy [LAUGHTER]. OK. Thank you to Mary Jane. This is her last hearing. That means our last hearings of the year. All right. And welcome, Kathleen and Robert, new members, and Thomas. So we'll all be back in June. Thank you.