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**Capitol View
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**Nebraska Press Association**

**Lots of “What Ifs” in Nebraska’s Tax Future**

Back in 1966, the last time Nebraska voters took the state’s tax system in their own hands, I was an eager college sophomore journalism major.

I was astonished at how voters went to the polls and repealed the state property tax system, essentially leaving state government with no real means of support while reserving property taxes for local government. Thankfully they elected Wausa banker Norbert Tiemann as the first governor to serve a four-year term.

Little did we know how pivotal and self-destructive his one term would be, but while it cost him his political career, it created a tax system that has served Nebraska well for more than 50 years. Plans to disassemble that tax system now are troubling.

Case in point, Sen. Steve Erdman’s LR11CA – the “consumption tax.” It failed to advance from first-round consideration on a 23-19-5 vote. Erdman hinted that it could reappear as a voter-driven initiative through a petition for the 2022 ballot. Let the red flags wave.

As introduced by the senator from Bayard who said it was revolutionary, the measure would create a new section in the Nebraska Constitution prohibiting all political subdivisions from imposing a tax on personal income, corporate income, personal and real property, inheritance tax, and sales tax. Bottom line, not unlike 1966, the state’s tax system would be wiped out.

Erdman’s plan – introduced decades ago as the “transaction tax” – would require the Legislature to enact a consumption tax. It would apply to the purchases of services and new goods, except for fuel. The consumption tax would begin no later than January 1, 2024. The transaction tax failed to advance from committee all those years ago. The consumption tax should have seen the same fate, but this year’s version of the Revenue Committee obviously wanted to test the waters.

**For Release Wednesday, May 26, 2021 – Page 2**

That eager young reporter is now a seasoned observer of the Legislature and I’m here to suggest what could possibly go wrong with a single source of revenue. Nebraska’s current tax system, which I have said numerous times needs an overhaul, works because it is a three-legged stool. Sales tax, personal and corporate income tax and miscellaneous taxes. What happens if you cut one of the legs shorter than the others? You get a wobbly stool. What happens if you cut all three legs off? You no longer have a stool.

Consider how a 10 percent consumption tax would work. Given that it operates on services and the purchase of new goods, think about buying used cars and equipment. What about food? Think about crossing the border into surrounding states for those services and purchases. The sponsor of the measure and the 17 proponents who spoke at the Revenue Committee hearing said the new tax would have people flocking to Nebraska to live and work.

If that’s the case, why hasn’t it been adopted in other states? Perhaps because they have seen the value of a multi-level tax system where the revenue streams balance each other over time. Perhaps they have seen the consequences.

Nebraskans want property tax relief. They also want the amenities that make life comfortable. They want good schools, safe streets, opportunity. That’s an awful lot to come from one pot.

Tiemann, a Republican, had to be creative. It didn’t take long for him to realize that doing the right thing would cost him his political career. But he persevered. He knew that a sales tax only, despite its essentially regressive nature, not only had the political appeal of avoiding a state income tax, but it also was attractive to conservative elements because it would sharply limit the state's revenue stream and thereby apply reins to state government. He also knew it would be unfair to lower-income people.

Creation of a sales and income tax system provided a substantial and steady revenue stream that was reasonably fair in terms of balance and impact. The new tax system "had the effect of removing glaring inequities and redistributing the tax burden among all areas and classes of the state," said historian Frederick Luebke.

**For Release Wednesday, May 26, 2021 – Page 3**

The state income tax was the sticking point because it represented a huge change for Nebraska, and it was politically toxic. Most of the conservative Republican base in Nebraska, along with some influential corporate voices, strenuously argued for a sales tax only.

Tiemann took the risk and paid the price. His political career lasted one term. Years later he admitted he knew it would cost him his re-election, but added that he wouldn’t do anything differently.

The transaction/consumption tax is not the answer. We can do better.

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