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**Capitol View
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**Caution Please on Cutting Taxes in a Propped-Up Economy**

Discussion has started on several bills that will have an impact on state revenue in what some warn are uncertain times.

Omaha Sen. Brett Lindstrom’s priority measure (LB825) would fully exempt Social Security income from the state income tax and be phased in over the next four years ultimately costing the state $73 million a year by 2025. A 40 percent exemption this year would grow by 20 percent increments until full exemption. Lawmakers have agreed to hold the bill at the second stage of debate awaiting more information about economic and fiscal factors in play.

Lindstrom, one of a handful of candidates for the Nebraska Republican gubernatorial nomination, is Chairman of the Legislature’s Banking Committee and a member of the Revenue Committee. I have no doubt that he has “run the numbers” to determine what will work. As with many of my friends, I would benefit directly from this tax break.

But I also want to respect what the folks at the Open Sky Policy Institute say about it. Spokeswoman Tiffany Friesen Milone recently told the Revenue Committee the Lindstrom bill and one from Sen. Tom Briese of Albion (LB723) to protect the level of the property tax credit fund would obligate the state to revenue reductions without knowing if state government can afford it, especially since the state’s revenue flow is "now propped up by federal funding” aimed at so-called pandemic relief.

She explained that an increasing ratio of older Nebraskans might shift more of the tax load to future working Nebraskans with subsequent pressure on the state budget. That’s backed up by University of Nebraska-Omaha Center for Public Affairs Research, which projects the number of Nebraskans aged 65 and older will increase by more than 90% by 2050. At the same time, the number of Nebraskans aged 18 to 64 will only grow by 12%, leaving fewer workers supporting significantly more retirees.

**For Release Wednesday, February 2, 2022 – Page 2**

 A 2013 Tax Modernization Committee report found many states that exempted Social Security income have been pulling back on these exemptions due to demographic changes. It also found that the growing population of retired taxpayers and their exempt retirement income would put increasing pressure on state budgets to maintain such exemptions into the future.
 Bottom line, future Nebraska lawmakers could be left with the unenviable choice of cutting services retirees rely on, such as health care, public safety and good roads, or raising taxes, including rolling back the bill’s exemption, should state revenues lag.

The Briese bill would prevent the funding level for the property tax credit fund from dropping below its current level of $548 million per year by setting the amount available to the maximum allowable for the prior year increased by the allowable growth percentage. That would amount to an estimated $200 million in additional property tax relief in 2024 by eliminating the $375 million annual floor in the refundable income tax credit created in 2020.

Nebraska Farm Bureau President Mark McHargue says the Legislature has provided substantial property tax relief already, but more work still needs to be done to create balance among property, sales and income taxes.

Aye, there’s the rub. Once again, we entered a legislative session with an expectation – based in part on comments during the interim by Revenue Committee Chairwoman Sen. Lou Ann Linehan of Elkhorn -- that major tax reform was coming. That’s what McHargue and many others say we need.

But all I’m seeing here is Band Aids. Granted, a short session in an election year is no time to tackle tax reform, but if the people who have been paying it lip service for years would buckle down and plan a massive interim study resulting in a viable package of bills to address the balance, it could happen someday.

Linehan and Governor Pete Ricketts recently held a news conference to say they plan to return $400 million in surplus state revenue to taxpayers rather than use it to increase state spending.

**For Release Wednesday, February 2, 2022 – Page 3**

"We will give the money back to the people. It's not our money; it's the people of Nebraska's money, Ricketts said." Linehan said the Legislature should focus on efforts to "control spending so we can cut taxes."

Once again, there’s speculation that the Revenue Committee appears poised to consider a reduction in corporate and personal income taxes, perhaps with an eye toward proposing major tax reform that would shift more of the tax burden to the sales tax by eliminating exemptions for a wide range of services.

I’m waiting.

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