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**Capitol View
Commentary by J.L. Schmidt**

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**The 2022 Legislature Favored the Big Stuff**

 A major tax cut package that could cost the state as much as one-fifth of its budget in the outyears worked its way through the 2022 legislative session as lawmakers focused on the big issues in waning days.

The measure (LB873) is supposed to ratchet down the state’s top corporate and individual income tax rates over five years, expand income tax credits offered to property taxpayers and phase out income taxes on Social Security benefits.

"This package of tax relief truly is transformative, and it benefits all Nebraskans," said proponent Sen. Tom Briese of Albion. He contends that some Nebraskans would benefit indirectly, through increased economic activity in the state.

Opponents raised concerns about the impact of the package on state tax revenue in future years, particularly after the state is no longer getting federal pandemic recovery funds. Revenue Department officials estimate the package would reduce state revenues by $565 million by fiscal year 2024-25. The OpenSky Policy Institute calculated the reduction at about $900 million by fiscal year 2027-28, when all pieces of the package are fully implemented.

Some senators criticized the package for leaving out large numbers of Nebraskans.

The personal income tax cuts would leave out single filers making less than $40,676 or married filers making less than $81,352, unless they get Social Security benefits. The property tax credits would leave out anyone who does not own property. The corporate income tax cuts would leave out businesses making less than $100,000 of taxable income.

Other senators raised concerns about the tax package’s impact on the state’s ability to fund key services as well as the fact that most of the tax cuts would go to wealthy Nebraskans and out-of-state corporations.

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They noted that a full exemption of all Social Security income from taxation would reduce state revenues by more than $74 million a year. Lowering the state’s top personal and corporate income tax rates to 5.84% over the course of several years would annually reduce state revenue by about $415 million. Setting the minimum level of the refundable income tax credit at $561 million would annually increase the credit’s state revenue impact by more than $220 million. Creating a new refundable income tax credit for community college property taxes paid would reduce state revenues by more than $195 million a year.

Do the math. Those are some big numbers. Where, oh where, is the revenue stream that’s going to cover those losses? Is it going to come in a growing economy, which is currently propped up by federal pandemic relief funds? Or is it going to be the oft-promised, never-delivered sleight of hand that term-limited governors and several term-limited key senators are willing to leave behind?

Feeling betrayed yet? Still trying to make the math work? All in the constant eight-year hammering name of property tax relief.

Do the politics. It’s a lot easier to cut taxes than to increase them. No, really. That’s time-tested.

But wait, there’s more. The ever-lovin’ consumption tax that should’ve been killed for good more than a decade ago when it first reared its ugly head as the transaction tax, is still alive.

Sen. Steve Erdman of Bayard wants voters to have a chance to approve a constitutional amendment that requires the state to replace income, sales, property and inheritance taxes with a consumption tax on all new goods and services. Are you following?

While the measure doesn’t call for a specific tax rate, the Institute on Taxation and Economic Policy analysis shows a consumption tax rate would need to be at least 20% to be revenue neutral.
 That means Nebraskans would have to pay at least a 20% tax on all purchases of new goods and services to prevent large revenue shortfalls and cuts to vital state and local services.

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If adopted, Nebraska would be the only state to have ever replaced all other taxes with a consumption tax. Is that soaking in yet?

Would somebody please look at what happened in the 1966 general election? Voters approved Amendment 16 that terminated the state property tax system and effectively left the state without a revenue stream on which to operate.

In 1967, one-term Governor Norbert Tiemann proposed creation of a state sales-income tax system and state aid to local schools. The measures were adopted by the Legislature, but it cost Tiemann re-election and any political future.
 Historians agree that the measures, particularly the sales-income tax system, provided a substantial and steady revenue stream that was reasonably fair in terms of its balance and impact.

Do we need to undo things so we can revisit this? Let’s just don’t go there!

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*J.L. Schmidt has been covering Nebraska government and politics since 1979. He has been a registered Independent for more than 20 years.*