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**All Things Nebraska**

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**State lawmakers head back to Lincoln for long-shot bid to cut property taxes**

By the time you read this, state senators are expected to be trudging back to Lincoln for a special session on property tax relief.

The word “trudging” reflects the general distaste senators have for special sessions, which disrupts the lives of these part-time, underpaid ($12,000 a year plus all you can eat and drink) lawmakers.

Generally, special sessions are called to address emergencies, such as a court ruling that renders laws or taxes untenable, or an economic downturn that requires additional cuts in state spending.

In those cases, there’s a clear goal – fix the legal problem; adjust the budget.

There’s a goal for the latest special session – reduce local property taxes – but the path to that goal has many directions. Taxation is one complex issue.

Finally, Gov. Jim Pillen has come out with his plan to accomplish his goal of reducing local property taxes by 40%.

Pillen’s plan calls for eliminating 120 or so sales tax exemptions on things ranging from home and vehicle repairs to services provided by lawyers. Bills from Realtors and engineers would be taxes, as well as work by pet groomers and the local meat locker plant.

There’s a couple of biggies: equipment used in agricultural and manufacturing and energy used in those two sectors, would be taxed, but at a much lower rate (and possibly more politically palatable), 2%. That’s compared to the state’s 5.5% rate on other taxable purchases.

There would also be new “sin taxes” on things like cigarettes and vaping – an idea that spawned a tsunami of lobbying during the regular session this spring. It forced Pillen to back off and water down his proposed increases back then.

All this new state tax revenue would be used for a monumental tax shift of more than $1 billion.

The responsibility of funding local, K-12 schools would be lifted off of local property taxes, and placed onto state sales and income taxes. So a shift, not lower taxes, just different taxes.

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Left untouched in the Pillen plan is the highly popular tax exemption on groceries, along with exemptions on medicine and for religious groups.

You have to give Pillen credit for coming up with a concrete plan. But having a plan is one thing. Getting it across the finish line — and navigating the fierce opposition to new taxes by lobbying groups and some senators — is quite another thing.

The old line about Nebraska’s tax system is that we’re a state with a lot of land and not a lot of people. Thus, property takes a big load in our state taxation system — a load that a lot of people, including the state’s farmers, say has grown way too high and doesn’t reflect today’s economy.

Today’s economy, they argue, involves much more spending on services, like carpet cleaning and hiring a carpenter to build a deck, so the state is missing out on revenue by not taxing them.  Only about one-third of what we purchase is taxed, they point out, and spending on services keeps growing and growing.

Some background – Nebraska was among the last states to enact a state sales tax. In 1967, reacting to a voter-approved constitutional amendment that eliminated a state property tax, lawmakers enacted a 2.5% state sales tax.

That rate, as we all know, has crept up over the years. Since 2002, the state sales tax rate has been 5.5%, and of course, now dozens of cities and Dakota County enact local sales taxes of up to 2%. On top of that, there’s an additional 2.5% tax on restaurant bills in Omaha. Lincoln and Grand Island also have similar taxes.

Best of luck with this plan, but I see tough sledding ahead.

First off, this is a massive change in the way local schools are funded and are run, and would be a dramatic erosion of local control over the operation of local schools.

Such monumental changes take time to digest, and time to sell. Pillen would enter the political salesman Hall of Fame if he can sell his plan in a matter of weeks.

I can remember back in the 1980s when lawmakers were pitching increased state aid to local schools as a way to reduce property taxes. A group of influential state senators crisscrossed the state pitching the plan, a process that took months and months of explaining.

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That change also had the support of the state’s two more influential lobbying groups – the State Chamber and Farm Bureau.

You get the farmers and the business sector on board together, and that dog will hunt.

For certain, the state’s list of sales tax exemptions (as well as tax credits) seems to grow every year, as senators seek to attract new businesses, prevent a company from moving away, or give people a break on their bills. There are winners and losers galore. Trimming that list would be a good thing.

But sales taxes are regressive by nature — low-income folks pay a higher percentage of their bucks on purchases than the well heeled — so that makes it more difficult to expand taxes onto more purchases and services.

 Jim Pillen is a heck of a pig farmer. We’ll soon find out how good a salesman he is.

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*Paul Hammel has covered the Nebraska state government and the state for decades. He retired in April as senior contributor with the Nebraska Examiner. He was previously with the Omaha World-Herald, Lincoln Journal Star and Omaha Sun.  A native of Ralston, Nebraska, he loves traveling and writing about the state.*