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TOP STORY

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Nebraska Gov. Jim Pillen's plan would tax lower-income people more, property owners less

Martha Stoddard

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LINCOLN — Gov. Jim Pillen’s property tax plan would leave the lowest income Nebraskans to shoulder more of the state’s tax burden while giving the most relief to the state’s people who own the most property.

But he asserts the plan would create a net tax decrease and is critical to the state’s future, including by attracting and retaining people and encouraging economic growth.

“If you believe that property tax is killing growth in our state, killing opportunities for our kids, I would start thinking about how we make this work, instead of immediately saying this doesn’t work,” Pillen chided one questioner at a June town hall meeting. “Attitude on this, we all got to change.”

One critic, however, called his idea a “reverse Robin Hood” plan, meaning it would take from the poor and give to the rich.

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“By its very nature, sales taxes are the most regressive tax,” said State Sen. Danielle Conrad of Lincoln. Regressive taxes are the same, regardless of income, meaning people with lower incomes have to pay a larger share of their income than people with higher incomes.



Conrad

Pillen has been stumping the state since May, arguing for slashing property tax bills. In recent town halls, he has been pitching a plan in which the state would take over paying for K-12 school operations, eliminating about 50% of the average property tax bill.

To pay for the takeover, he has proposed broadening the sales tax to cover more goods and services and increasing some miscellaneous taxes, such as those on cigarettes.

The governor has refused to make details of his plan public and has only shared a framework of it with the select group of state senators who have been meeting with him since the regular legislative session ended in April. Without those details, it is impossible to verify his assertion that the plan would result in a net tax decrease.

Changing who pays for state and local government costs

But his plan would rebalance the state's proverbial three-legged tax stool, which means shifting who pays the taxes that support state and local governments.

Currently, property taxes are the longest leg of the stool. In 2023, the amount levied for property taxes reached \$5.3 billion, while income taxes brought in \$3.6 billion and state sales taxes totaled \$2.3 billion. Local sales taxes would be in addition to the state total.

"They're out of whack," Pillen said, arguing that "it's supposed to be the exact opposite if you want to have a growing, thriving economy."

His plan would make property taxes the shortest leg of the stool, while lengthening the state sales and income tax legs.

Based on his descriptions, the plan would cut the amount levied for property taxes to about \$2.7 billion, while sales tax revenues could climb to as much as \$4 billion. That would be the case if the state relied on sales taxes alone to pay the cost of the plan.

Raising excise and other taxes could mean a smaller sales tax increase. If those taxes covered half the cost of the new plan, state sales tax revenues would only have to grow to \$3.1 billion.

Meanwhile, income tax revenues could approach \$4.2 billion, because his plan would no longer provide income tax credits to offset part of the school property taxes paid. Instead, the amount allocated for that credit would be redirected toward paying for the new school support.

The income tax leg would shrink in future years as legislation lowering the top state income tax rate continues taking effect. The top rates for both individual and corporate income taxes are slated to drop to 3.99% by 2027.

The result would be the largest property tax cut in Nebraska's history. It would address widespread concerns that property taxes are forcing people out of their homes, making it hard for young people to buy homes and taking more money from Nebraska households.

Rising property taxes also are blamed for putting Nebraska farmers and ranchers at a competitive disadvantage, driving people to leave the state and discouraging others from moving here.

Who is getting stuck with the bill?

Sen. Wendy DeBoer of Bennington acknowledged the problem. But she said it's not clear whether Nebraskans support Pillen's proposed solution.

"Would Nebraskans want this if it means paying substantially more in sales taxes?" she asked, adding: "I want to know who is getting stuck with the bill if someone is paying less."

In broad terms, almost any expansion of the sales tax would increase costs for low-income Nebraskans. Meanwhile, Nebraska's largest property owners would see a net benefit from lower property taxes.





DeBoer

An analysis by the OpenSky Policy Institute, a Lincoln-based think tank, showed that a previous version of Pillen's plan would have raised taxes for middle- and lower-income Nebraskans with the biggest hit borne by the 20% of people with incomes under \$30,000 a year. That would have been the case even though the plan would have increased the Earned Income Tax Credit that benefits lower-income families.

Many lower-income and young families would get no direct benefit from the drop in property taxes because they do not own property. Farmers who lease land instead of owning it would be in the same boat. Although property taxes can drive up rental costs, there is no guarantee that landlords would pass on any property tax savings by reducing rent.

But those families could end up paying sales tax on such currently tax-free items as haircuts, car repairs, home maintenance, zoo visits, veterinary care for pets, pop and candy, cemetery plots, lottery tickets and residential water service. Those are among the more than 120 types of goods and services now exempt from sales taxes in Nebraska.

If Nebraska eliminated all exemptions, the state could collect another \$6.5 billion in sales taxes, based on estimates by the State Department of Revenue. The biggest ticket exemptions are those for manufacturing components and ingredients — \$1.67 billion — and for livestock — \$1.17 billion.

Pillen has said he wants to eliminate a host of those exemptions, arguing that they were put in place at the behest of special interests. He has not said which exemptions are targeted in his plan, calling that a "living, breathing" document, but he has promised that food, medicines and other types of health care would remain free of sales tax.

At town halls, he has talked about ending the exemptions for at least some types of agricultural, business and manufacturing inputs. He suggested that those could be taxed at a lower rate of about 2 cents per dollar.

But Jim Vokal, CEO of the Platte Institute, an Omaha-based think tank, said taxing those types of inputs would be bad policy, no matter the level of tax. Sen. Teresa Ibach of Sumner was skeptical about the idea as well.

“We have to be really, really thoughtful not to jeopardize our number one industry — agriculture,” she said.



lback

During the regular legislative session, groups that would have been affected by Pillen's previous plan for broadening sales taxes **lobbied heavily against parts of the plan**. Broadcasters and business organizations fought a proposed tax on digital advertising, while grocers and convenience stores opposed the proposed tax on pop and candy.

Their efforts helped sink the plan on the last day of the session. Sen. Lou Ann Linehan of Elkhorn, the Revenue Committee chairwoman and the bill's introducer, opted against taking a final vote on the bill after it became apparent it lacked support from the 33 senators needed to end an opposing filibuster.

Sen. John Fredrickson of Omaha predicted similar responses to the plan Pillen is working on now.

"People dig in with their own interests," he said.

If the governor's plan includes some "sin" taxes, as expected, those could increase costs for Nebraskans as well. He has talked repeatedly about raising cigarette taxes by \$2 a pack, up from 64 cents currently.

During the regular session, he also backed increases in taxes on vaping products, games of skills and CBD and hemp products. More recently, he floated the idea of allowing sports betting across the state instead of limiting it to certain areas within casinos. However, he has drawn the line at legalizing — and taxing — marijuana to help with property tax relief.



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Martha Stoddard

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Fireworks follow the Omaha Storm Chasers game at Werner Park in Papillion on Wednesday, July 3, 2024.

CHRIS MACHIAN, THE WORLD-HERALD



People play with glowsticks as they watch fireworks after the Omaha Storm Chasers game at Werner Park in Papillion on Wednesday, July 3, 2024.

CHRIS MACHIAN, THE WORLD-HERALD



The two buildings at the bottom of the photo at the Southside Terrace apartments in Omaha will soon be demolished as part of phase I of the Southside Terrace Redevelopment project on Tuesday, July 9, 2024.

CHRIS MACHIAN, THE WORLD-HERALD



Milton Kitchen, of Omaha, right, hands out water balloons to a group at a hydrant party on 28th and Harrison Street in Omaha, on Wednesday, July 3, 2024.

LIZ RYMAREV, THE WORLD-HERALD



Tethloach Ranley, of Omaha, grates cured egg yolk onto tartare with pickled shallots paired with nettle tortillas chips and local corn crackers for the first course from V. Metz at the Battle of the Chefs at Long Walk Farm in Council Bluffs, on Sunday, July 7, 2024.

LIZ RYMAREV, THE WORLD-HERALD



Vicki Nordskog, of Atlantic, Iowa, left, Denise O'Brien, of Atlanta, Iowa, and Marcus Josephson, of Griswold, Iowa, grab plates from V. Metz's second course at the Battle of the Chefs at Long Walk Farm in Council Bluffs, on Sunday, July 7, 2024.

LIZ RYMAREV, THE WORLD-HERALD



Milk Ruiz, left, Jade Monroe, Nevaeh Parker and Grace Johnson, all of Omaha, cool off and rest before the Fourth of July parade in Ralston, on Thursday, July 4, 2024.

LIZ RYMAREV, THE WORLD-HERALD



The Corvette Club drives down Main Street at the Fourth of July parade in Ralston, on Thursday, July 4, 2024.
LIZ RYMAREV, THE WORLD-HERALD

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By Martha Stoddard

