Why people should oppose LB 461:

1. The result of this bill will be to reduce Nebraska tax rates in the future starting in 2020 when automatic reductions in personal-income tax rates and corporate tax rates will be adjusted downward (but never upward) according to the state economic conditions. These future tax-rate changes will not be debated and decided by the Unicameral in each of the years prior to the possible tax-rate changes. Instead, the changes will be automatic and depend on a “trigger”. The “trigger” to decrease tax rates will be based upon the revenue PROJECTS made by the Nebraska Forecasting Board. If the Board PROJECTS that the a rate of growth in tax revenues IS TO EXCEED 3.5% for individual tax revenues, then all future individual tax rates will be reduced on a year-by-year basis. BUT the actual effect of these rates decreases will be much larger on the tax rates of the highest-income tax payers. (See Figure 1). The “trigger” process will have a similar effect relative to corporate tax rates.
2. This “trigger” process will be the same whether the state economy is booming, thus tax revenues are large, or when the economy is in a recession (or agricultural depression) and state tax revenues are small. Assume that the Nebraska economy is in recession and as a result tax revenues from individual tax payers and corporations are down and then the economy improves. If, as a result of the economic improvement, the tax revenues from individuals increase by 3.5 percent and/or tax revenues from corporations increase by 4.0 percent, then the “trigger” will automatically decrease individual and corporate tax RATES (remember that the decrease in tax rates is larger for the highest income tax payers and corporations). (The “trigger” only reduces tax rates when the economy improves. There is no rate change when the economic “tanks”.)
3. Based upon the analysis of the Open Sky Institute, The changes proposed for reducing the reliance on property taxes to fund K-12 education will not occur.

Policy brief: Amid budget woes, plan calls for tax cuts for the wealthy

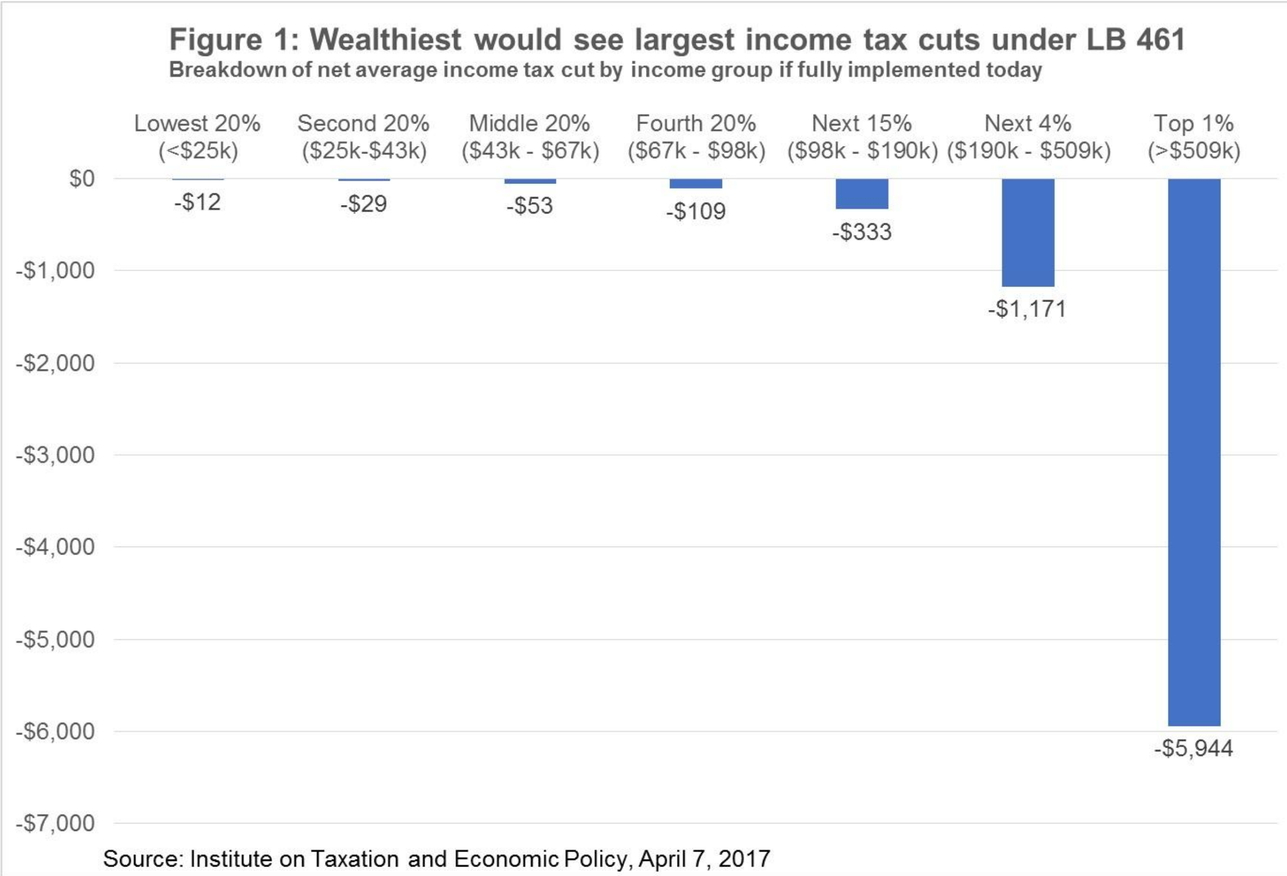
LB 461, the tax-cut package put forth by the Revenue Committee, is first and foremost an income tax cut for wealthy Nebraskans and the proposal does little to truly address property tax relief. In fact, LB 461 is fundamentally flawed in a way that makes it more likely to exacerbate, not help, Nebraska's reliance on property taxes to fund K-12 education. Furthermore, some Nebraskans would actually pay more in overall taxes under LB 461.

LB 461's tax changes

Starting in 2018, LB 461 would replace the assessment method of agricultural land from market value to income-capacity, cap the annual aggregate growth of agricultural land valuation and dictate that agricultural use value must fall between 55 percent and 65 percent of actual value. Starting in 2019, LB 461 would cut the top corporate income tax rate and collapse the first two personal income tax brackets. At this time, the bill also would phase out the personal exemption credit for high income earners, introduce a new credit for some low-income earners, slightly increase the earned income tax credit, and eliminate the Nebraska Job Creation and Mainstreet Revitalization tax credit and the New Markets Job Growth tax credit. Starting in 2020, LB 461 would phase in cuts to the top personal and corporate income tax rates when projected revenue growth exceeds 3.5 percent and 4 percent respectively. The personal and corporate income tax rate cuts would occur incrementally until the top income tax rates are reduced to 5.99 percent. Data provided to the Department of Revenue show that when fully implemented, LB 461 would reduce state revenue by $458 million annually.

Wealthiest get largest income tax cuts, some would see income tax increases

Institute on Taxation and Economic Policy (ITEP) data (Figure 1) show that if LB 461 were fully implemented today, a Nebraskan in the top 1 percent of incomes would receive an average income tax cut of about $5,944 a year; a middle-income earner would receive about $53 annually on average; and the lowest-earning taxpayer would, on average, receive a $12 income tax cut. About 79 percent of LB 461's income tax cut would go to the highest-earning 20 percent of Nebraskans with annual incomes greater than $98,000. About 30 percent of LB 461's income tax cut would go the wealthiest 1 percent of Nebraskans, who on average earn about $1.6 million annually.[1] Also, because of the collapsing of some tax brackets and changes to tax credits, some Nebraskans would actually see income tax increases under LB 461.



Large chunk of tax cut would leave state

About 37 percent of LB 461's income tax cuts would leave the state each year as the federal government would collect 13 percent more from Nebraskans who would have less to write off on their federal tax returns, and about 24 percent of the income tax cut would go to non-residents who own stock in multi-state companies that do business in Nebraska.

Revenue triggers are not sound tax policy

LB 461 uses income-tax cut triggers based on projected revenue growth – not actual revenue growth. As a result, income tax cuts will be triggered as revenues increase following an economic downturn or when revenue projections are too optimistic. LB 461's triggers, had they been in place since the early 2000s, would have caused tax cuts amid the recession of the early 2000's, during "The Great Recession" and another last year following overly optimistic revenue forecasts. Tax cuts following recessions would have depleted the state of revenue needed to replenish reserves used during the downturn. Tax cuts based on overly optimistic projections can intensify unexpected shortfalls and necessitate larger cuts to schools and other services or steeper increases in other taxes. Revenue triggers also set tax cuts on autopilot based on arbitrary levels and don't allow lawmakers to respond to state needs. In 2016, a tax cut trigger in Oklahoma caused an income tax cut just as oil prices plummeted. This contributed to an ongoing budget crisis that just saw the state's bond rating decreased due to "revenue failure."[2]

Property-tax changes would cause some to pay more in overall taxes

While the intent of LB 461's property tax measures is to help the agricultural community, the largest benefits would not go to the most rural parts of Nebraska, but rather to farmers and ranchers near urban areas. This is because the property taxes in urban areas can be shifted and shared with relatively large numbers of nearby business and residential property owners. Such tax shifts cannot occur to the same extent in more rural areas where there are not as many businesses and residential property owners. This means those communities with agricultural land must make up the lost revenue either by levy increases – which would wipe out much of the tax cut from lowering valuations – or by cuts to education, roads and other local services. Furthermore, property tax increases caused by levy increases and tax shifts would more than offset income tax reductions in some cases, leading some Nebraskans to pay more in overall taxes under LB 461.