

PROPERTY TAXES

LB 829, Erdman – Adopt the Property Tax Relief Act (Revenue Committee)

Would provide a refundable income tax credit equal to 50 percent of property taxes paid to K-12 schools.

FB Position: Support. *Property taxes have increased, in part, because of the State's decreased role in funding K-12 education. This bill forces the state to pay for its mandates by paying for the tax credit, or K-12 schools, or eliminating unfunded mandates; as opposed to continuing to rely on property taxpayers to foot the bill. This bill mirrors the "Yes to Property Tax Relief" ballot initiative. In Revenue Committee; Sen. Erdman priority bill.*

LB 947, Smith (Ricketts) – Adopt the Nebraska Property Tax Cuts and Opportunities Act, change income tax rates, and eliminate certain exemptions and credits (Revenue Committee)

The bill has three key components:

1. Property Tax Relief – Dollars in the property tax credit fund (\$221 million) would be repurposed as a refundable income tax credit (RITC) for Nebraska property owners (out-of-state landowners are excluded). The current fund is split primarily between agricultural and residential property tax payers. The proposed amendment would provide a 12% RITC for property taxes paid to ag and residential property owners, and would increase by 2% yearly. The goal is to realize a 30% RITC by 2030, though this is still up for negotiation. There is cap of the RITC for residential owners at \$230 which increases by \$50 per year, not to exceed \$730. There is no annual cap on the amount of the RITC for agriculture property. These changes would begin for the 2018 tax year.
2. Income Tax Relief - The bill lowers the top individual income tax rate from 6.84% down to 6.69% over two years beginning in tax year 2019. The corporate income tax rate would also be lowered to 6.69% over two years. The cost would be covered by the commercial and industrial portion of the current property tax credit fund.
3. Workforce Development - The bill commits \$10 million over two years to workforce development. It is not entirely clear how this will be paid for, but likely the state's cash reserve.

FB Position: Support. *Farm Bureau testified in support of the bill as proposed by the Governor and Senator Smith in their opening statements in the Revenue Committee hearing, not the introduced copy, along with Corn, Soy, Pork, and Dairy growers. Testimony outlined we are generally supportive of statutorily increasing refundable income tax credits for agricultural land and farm and livestock buildings, vs. relying on "triggers." And our support is contingent upon such refundable income tax credits reaching a tax credit equal to 30% of the total property tax burden over a reasonable amount of time. In Revenue Committee; Sen. Smith priority bill.*

LB 1000, Briese – Require a bond election under the Public Facilities Construction and Finance Act (Government Committee)

The bill would provide that bonds issued under the Public Facilities Construction and Finance Act must be subject to a vote of the people.

FB Position: Support. *Last year, it came to our attention that two public entities were entering into an agreement to issue a \$5 million bond under the Public Facilities Construction and Finance Act,*

which is not subject to a vote of taxpayers. Under this Act, two local units of government may join to issue bonds to finance joint projects which may be serviced by property taxes. In this particular instance, however, each entity was using a portion of the bond on construction and maintenance in separate locations. Advanced by the Government Committee for floor debate.

LB 1084, Briese – Adopt the Property Tax Request Limitation Act, provide sunset dates for certain tax exemptions and incentives, and change other revenue and taxation provisions (NE United proposal, Revenue Committee)

1. Raises approximately \$435 million in revenue
2. Uses this new revenue to reinstate the 20% Allocated Income Tax component of TEEOSA
3. Restores K-12 funding cuts from LB 409 (2017)
4. Injects more than \$300 million into the property tax credit fund
5. Includes a “soft” property tax asking cap on local K-12 schools
6. Requires the Nebraska Department of Education to undertake a study on education funding

FB Position: Support. *This bill was developed collaboratively by Nebraskans United which included more than a dozen organizations representing Nebraska education and agriculture communities, as well as other local units of government, working off two principles: 1) Adequate and sustainable funding of high quality K-12 education is imperative for the future of Nebraska and 2) Tax reform which reduces the over-reliance on local property taxes is necessary to ensure our tax system is fair to all Nebraska taxpayers. Nebraska's K-12 schools are more reliant on property taxes than nearly every other state in the nation, receiving only 33 percent of their funding from state sources while the national average is 47 percent. Due in part to erosion of our state aid formula, and the way we value agricultural property, 178 of the 244 school districts in Nebraska receive no equalization aid from the state. LB 1084 is by far the most comprehensive property tax relief and reform proposal and should garner a great deal of support, and opposition, at its hearing. In Revenue Committee; Sen. Briese priority bill.*

LB 1103, Friesen – Provide a minimum amount of state aid for each school district (Education Committee)

Provides 25% in state aid of each student's basic funding calculated under TEEOSA for each school district per fiscal year. Foundation aid would benefit unequalized districts; the goal is to hold equalized schools harmless.

FB Position: Support. *Though there is no revenue attached currently, Sen. Friesen and others have introduced legislation to generate funds which could be attached as a “pay-fors” if LB 1103 advances. It would cost about \$193 million to implement LB 1103, and Senator Friesen would like to use new revenue (suspension of sales tax exemptions, etc.) but not the Property Tax Credit Cash Fund. In Education Committee; Sen. Friesen priority bill.*

RURAL BROADBAND

LB 994, Friesen – Create the Rural Broadband Study Task Force (Transportation & Telecom Committee)

The bill would ensure rural Nebraskans have comparable broadband service to citizens in urban areas by creating a Rural Broadband Study Task Force. The bill also changes the contributions methodology to the Nebraska Universal Service Fund, which is just the statutory authority for the

flat fee the Public Service Commission (PSC) has already indicated it will implement. Finally, the bill would allow the PSC to consider a reverse auction program if current providers were not providing appropriate service to customer and maintain a registry of locations where there was a lack of coverage for wireless communications; then the PSC would use that information to determine where to award grants for the building of wireless towers. There is a push by the private sector to roll the last two points into the role of the task force, as opposed to implementing them outright.

FB Position: Support. *One of the focuses of the task force is to look at additional opportunities for public private partnerships, specifically how the private sector can partner with PPDs, which Farm Bureau supports. FB also supports additional accountability when it comes to usage of dollars from the universal service fund. In Transportation and Telecommunications Committee; Committee priority bill.*

AG/REGULATORY ISSUES

LB 907, Baker – Change provisions relating to a sales and use tax exemption for agricultural machinery and equipment (Revenue Committee)

Clarifies the definition of agricultural machinery, specifically as it relates to livestock equipment, for purposes of sales tax exemption. Draws language from the Department of Revenue regulations verbatim, with the addition of one phrase that emphasizes that machinery used to care for animal life includes that which supports animal health and welfare.

- (a) Agricultural machinery and equipment means tangible personal property that is used directly in cultivating or harvesting a crop, raising or caring for animal life, protecting the health and welfare of animal life, or collecting or processing an agricultural product on a farm or ranch, regardless of the degree of attachment to any real property...

FB Position: Support. *The Department of Revenue is beginning to look at potentially taxing ag equipment which is attached to real property, primarily in livestock barns, which is not currently taxed. We believe this would be inconsistent with the intent of the law. In Revenue Committee.*

LB 921, Lowe – Create a licensing exception under the State Electrical Act for certain farm building construction (General Affairs Committee)

Clarifies agriculture building construction should not be subject to a restrictive labor requirement which dramatically increases cost without enhancing the safety or structural integrity of livestock buildings. Currently Nebraska requires 1 certified electrician on site for every 3 apprentice electricians (something which is, by all accounts, very specific to Nebraska). This bill would allow contractors to engage less qualified labor at a more reasonable ratio, which is going to be important for large scale rural projects such as the barns being built on behalf of Lincoln Premium Poultry/Costco. This is not an effort to exempt agriculture from safety-related requirements, clearly stating any contracted project must continue to be supervised by a certified electrician and the structures will be subject to the same inspections and safety standards they are today.

FB Position: Support. *The Electrical Workers Union opposed this bill. There is a compromise amendment being circulated which includes an exception to the 3:1 ratio for construction of farm installations when apprentices are engaged in 1) installing conduit runs, 2) installing light fixtures, or 3) pulling wire. Those apprentices can be supervised at an 8:1 ratio. It also clarifies that an individual is not required to register as an apprentice or be a licensee to engage in general labor incidental to electrical installation. Advanced by General Affairs Committee for floor debate; Committee Priority Bill.*

LB 980, Watermeier – Would allow for hauling divisible loads (bales) of livestock forage on the interstate.

FB Position: Support. *Advanced by Transportation and Telecommunications Committee for floor debate.*

LB 1133, Wayne – Adopt the Industrial Hemp Act

Would provide Nebraska the opportunity to become a leader in the development and commercialization of industrial hemp by allowing the Nebraska Department of Agriculture to license industrial hemp growers in conjunction with the University of Nebraska College of Agricultural Sciences and Natural Resources.

FB Position: Support. *Farm Bureau supports the commercialization of Industrial hemp, which is a variety of cannabis with very low levels of THC intended to be used for industrial purposes. The 2014 Farm Bill distinguishes industrial hemp as a unique product and authorizes institutions of higher education or State Departments of Agriculture to regulate and conduct hemp research and pilot programs, in states which have legalized hemp cultivation. Farm Bureau continues to work to amend the Controlled Substance Act to exclude industrial hemp, eliminating uncertainty for states and growers. In Agriculture Committee.*

NATURAL RESOURCES

LB 758, Hughes – Provide for voluntary payments in lieu of taxes on water augmentation project lands (Natural Resources Committee)

This bill provides for payment in lieu of taxes to mitigate tax concerns in Lincoln County related to the NCORPE project. The amendment also provides for greater transparency and public input for augmentation projects. The provisions which require annual reporting on pumping, estimates for future pumping needs, and potential impacts to groundwater levels are especially helpful.

FB Position: Support. *NCORPE is a project by four NRDs in the Republican & Platte Basins, consisting of 19,000 acres in Lincoln County, roughly 15,000 of which was irrigated. The project operates as an augmentation project to assist Nebraska in meeting water obligations in both the Platte and Republican basins. Due to constitutional concerns, NRDs involved in the NCORPE project stopped remitting property taxes. Payments in lieu of taxes will help restore some of the approximately \$700,000 in property taxes lost when the NRDs stopped remitting property taxes. Passed by the Legislature, Governor signed into law.*

LB 1022, Schumacher – Adopt the Irrigation Tax Act and change the valuation of agricultural land for property tax purposes (Revenue Committee)

Imposes a 1 cent per 10-gallon use water tax on irrigated agriculture acres.

FB Position: Oppose. *On a 1,000 gal/min well, running 24 hours, this tax would equal \$1,440 per day. In Revenue Committee.*

LB 1123, Groene – Provide for streamflow augmentation projects and retention of water rights as prescribed (Natural Resources Committee)

The bill allows NRDs to sell land connected with augmentation projects, and retain the groundwater rights attached to the land.

FB Position: Oppose. *This bill was brought forward on behalf of constituents in Lincoln County with a primary goal of returning the NCORPE land to private ownership and would fundamentally change Nebraska groundwater law. Present groundwater law is based on the underlying*

principle that the groundwater belongs to the public and the use of the water is attached to ownership of the overlying land. In effect, LB 1123 as written would undo this basic principle of law and allow the creation of a separate right for groundwater, much like a mineral right. Sen. Groene introduced legislation attempting to address some concerns with the underlying bill. Farm Bureau and others still testified in opposition, thanking Senator Groene for his efforts, but cautioning against moving too quickly given the risk of unintended consequences. Indefinitely postponed by Natural Resources Committee.

ADDITIONAL ISSUES

Federal tax law changes impacting the state:

The federal tax law (the Tax Cuts and Jobs Act) enacted last year, repealed 1031 exchanges for any property that is not real property. Previously, 1031 exchanges allowed personal property taxes to be based on the difference between the trade-in value of the piece and cost of the new piece. Now personal property taxes will be based on full cost of the new equipment.

In a real-world example: if a new combine is \$400,000, and the trade-in is \$300,000, under the old law (assuming the old combine was fully depreciated), the new combine would have a tax basis of \$100,000. Under new law, that combine has a tax basis of \$400,000 and goes on the personal property tax return at \$400,000. Over the life of the combine, personal property tax will be \$8,076, vs. \$2,876 under the old law – a \$5,200 increase.

There are a couple bills in the Revenue Committee which seek to restore things like the personal exemption credit which was effectively repealed by the federal Tax Cuts and Jobs Act, increase the Nebraska standard deduction, and adjust individual income tax brackets, the person exemption credit, and the standard deduction, for inflation – basically “saving” taxpayers from increases in the federal tax law. If those bills have broad support, it is our hope this issue could be addressed in one of those packages.



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