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Revenue Committee
February 05, 2014

[LB986 LB987 LB995]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 5, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB986, LB987, and LB995. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Tom Hansen; Burke Harr; Charlie Janssen; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: None.

SENATOR HADLEY: Welcome to the Revenue Committee. We have often been referred to as the world's best Revenue Committee, but that person is not around anymore, so we can't quote him. My name is Galen Hadley; I'm the senator from Kearney. Welcome here. To my left is Senator Schumacher from Columbus. To his left is Senator Pirsch from Omaha, and then Senator Sullivan from Cedar Rapids. On my far right will be Burke Harr from Omaha, and next to him will be Senator Janssen, and next to him will be Senator McCoy from Omaha. To his left is Senator Hansen from North Platte. Our committee counsel is Mary Jane Egr Edson. To my right, Bill Lock is our research analyst; and to my far left is our committee clerk Krissa Delta...Delka. Not Delta; Delka. Just to note, we've been kind of...the microphones. The microphones are basically not for amplification. We record everything and we put out a transcript, and we try to get every word that people say. So if you would speak directly into the microphone. And if you get up and if you move it, especially when you're talking, the transcriber just gets static. So it can pick up things pretty good, so you don't have to speak real loudly. Our page is Drew Schendt from Broken Bow. We appreciate his help. We have a great page system here and they work real hard for the hours' credits they get and the pay they get. If you look at a senator's pay stub, it's \$5.76 an hour, and a page makes \$9.86 an hour. So I would like that to be on the record at this point in time. If you'd please turn off cell phones or put it on vibrate while in the hearing room. The sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you come up to testify, hand your testifier sheet to the committee clerk. Again that is really for the fact that we're transcribing and we want to get who's testifying correct. We will follow the agenda posted on the door. The introducer or representative will present the bill, followed by proponents, opponents, and neutral. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it for the record. It's very important again for the transcript. State your name and spell it. If you have handouts, please bring ten copies for the committee and staff. If you only have the original, we will make copies. Give the handouts to the page to circulate to the committee. With that, we will start with LB986. And since I am introducing all three bills today, we'll turn the committee over to the Vice Chair Senator Schumacher.

SENATOR SCHUMACHER: Thank you, Senator Hadley. We'll open the hearing on

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LB986 with Senator Hadley. [LB986]

SENATOR HADLEY: (Exhibit 1) Senator Schumacher and members of the committee, my name is Galen Hadley, G-a-l-e-n H-a-d-l-e-y. I represent the 37th District. A number of the bills that I'm going to talk about today and concepts were items that were brought up before the Tax Modernization Committee this summer. And I think it's important we get these on the table to talk about them in a more formal sense, and also to see the fiscal consequences. Any time you change an \$8 billion some odd hundred million tax system, if you make significant changes it costs significant dollars. And I think it's important that we have an understanding of what that is. And as we go through bills the next couple of weeks, we need an understanding of what impact this can have both from the standpoint of a revenue standpoint and also then from an appropriations standpoint if we lose revenue. So I think to do our duty and do due diligence, we have to be sure that we understand the consequences. These are important bills. They're what people have talked to us about. But we have to weigh that against the consequences of enacting the bills. And the first one is LB986, and this has to do with the homestead exemption. As I think it would be fair to state that the Legislature and the state of Nebraska feel strongly that we don't want to have to push elderly out of their homes because of the fact that they cannot pay their property taxes; that their income level is not sufficient to pay the property taxes that are on their home. And there are a lot of reasons for that, but one is a cost savings for the state because if they're pushed out of their home they could end up where the state is paying the tab for them to live someplace, whether it's a nursing home through Medicaid or some other things. I thank the committee members who signed on to make this a committee bill. There's an amendment that has been filed. It makes technical corrections only to the threshold from the original bill. It's one of the recommendations of the Tax Modernization Committee. It increases thresholds for the homestead exemption. It will allow more taxpayers to qualify for at least a partial exemption. It will allow more low-income taxpayers to qualify for total exemption. And lastly, it indexes the thresholds for inflation each year thereafter. It adjusts the percentage of exemption by 10 percent rather than 15 percent increments. To get rid of the cliff effect. In a lot of tax policies you have a cliff effect, which means that, you make \$1 more, it changes your bracket or it disallows you for taking...being able to take into effect some tax advantage. A prime example of that can be in the Social Security items that we'll talk about later. You make \$1 more than the upper threshold, you can lose some benefits. We did have a new fiscal note, and I would ask the page if you would hand this out to the clerk and the committee. I want to thank the Revenue Department and our Fiscal Office that were willing to look at the amendment we had which made some technical changes that changed the fiscal note. And I think this is important because you look at the fiscal note on this, this is not a huge fiscal note when you're talking about a \$4 billion a year General Fund. It basically is from \$4.6 million to \$4.8 million with a little cost to do some of the printing and such as that. So in summary, I think this is a good bill for us to examine. I'm a believer that the Tax Modernization Committee came up with a lot of good ideas. They're not ideas that

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you can implement all in one year. I thought it was a unique concept that we...the bill that Senator Hansen was involved in, the sales tax and sales and use tax on farm implement. That was recommended by the Syracuse study in 1987, '88? What, 26 years ago? And we got it done. Or at least we've got it to the finish line at this point in time. So trying to do everything that the Tax Modernization study came up with, at once, it does take some time to do it. But I think this is one we can throw on the table that is worthy of discussion. I would be happy to answer any questions. [LB986]

SENATOR SCHUMACHER: Any questions for Senator Hadley? Senator Harr. [LB986]

SENATOR HARR: Thank you, Chairman Schumacher. I'll still call you Chairman Hadley. [LB986]

SENATOR HADLEY: Okay. [LB986]

SENATOR HARR: The fiscal note was nearly halved between the original version and the second, based on the amendment. It went from, the first year, 9.9 to 4.6; and 10.2 to 4.7. Can you explain how that savings comes about? [LB986]

SENATOR HADLEY: I believe that when we were doing the first one, we made an error in setting up some of the brackets, Senator Harr. And so if you check the two, the amendment versus the original green copy, it's a change in the way we set up the brackets. Just an error in doing the original. And it was my fault in doing the error on the green copy; so the amendment is the corrected copy. [LB986]

SENATOR HARR: Okay. Thank you. I'll look at it. Thank you. [LB986]

SENATOR SCHUMACHER: Senator Sullivan. [LB986]

SENATOR SULLIVAN: Thank you, Senator Schumacher. Thank you, Chairman Hadley. Do you have any idea how many more individuals or married couples will be favorably impacted by this? [LB986]

SENATOR HADLEY: You know, I do not, Senator Sullivan, but we can certainly find out that number,... [LB986]

SENATOR SULLIVAN: Okay. [LB986]

SENATOR HADLEY: ...because that's a number that the Fiscal Office and Revenue would have gotten for doing that. [LB986]

SENATOR SULLIVAN: Okay. [LB986]

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SENATOR HADLEY: I think that would be an important number because that would help. [LB986]

SENATOR SCHUMACHER: Any other questions for Senator Hadley? [LB986]

SENATOR HARR: Just one more. [LB986]

SENATOR SCHUMACHER: Senator Harr. [LB986]

SENATOR HARR: Do you know the last time the numbers were adjusted? Homestead exemption? A few years? [LB986]

SENATOR HADLEY: Two years ago? Two years ago. [LB986]

SENATOR HARR: Okay. Thank you. [LB986]

SENATOR HADLEY: I will be happy...since I have nothing better to do, I'll be happy to stick around for closing. [LB986]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Any proponents to LB986? [LB986]

MARK INTERMILL: (Exhibit 2) Thank you, Senator Schumacher and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP in support of LB986. I think Senator Hadley did a great job in summarizing the purpose of this bill, and I agree completely with some of his preface comments. I'm going to be appearing before you several times in the next few weeks about some of the different tax reform bills that are up, and I want to just mention two principles that AARP will try to reiterate when we do that. First of all, a tax system must produce sufficient revenue to pay for state priorities and maintain fiscal stability. That's something that we are going to be reiterating. But also tax revenue sources should distribute tax burden according to people's ability to pay, and that's something that we have seen in Nebraska that we are a little bit upside down. We do better than a lot of states but we do have a slightly regressive system. With regard to LB986, what this does is it broadens the band of incomes that receive a partial exemption for the homestead exemption. Right now we do have a fairly narrow band; so you can go from a full exemption to no exemption at all in a matter of a few thousand dollars. This broadens that out. So as Senator Hadley said, there will be more people who will qualify for a partial exemption and also increase the number of individuals who would be able to receive an exemption of any type. We do think that there are a lot of factors related to the homestead exemption that are...I think make it a very elegant program. It really does attempt to target the benefits of the program to the people who need it the most. It uses something called household income, which includes all of a person's income but also

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includes a medical deduction that a person...that accounts for some of the medical costs an individual may have. The medical deduction is any medical cost that's in excess of 4 percent of a person's income. So that helps us to target the program, the benefits of the program, to those who need it the most. I was also interested to hear that the fiscal note went down, and I think probably the reason for that was the original fiscal note compared 2000 brackets to the proposed brackets instead of 2012 brackets to the proposed brackets. So that's what made the difference in reducing the cost. I would also note that the deficit reduction bill...or, I'm sorry, the deficit appropriation bill includes a reduction in the appropriation for the homestead exemption as requested by the Department of Revenue of \$3.5 million for this year and \$6 million for next year. The program has not been increasing in cost. In fact, it's decreased in each of the last two years. We reached our highest point in 2011 which was also the year that the oldest baby boomer turned 65. It's gone down in the years since that occurred. So this is one of the tax relief proposals that we think needs to go on the table, and I think that's...as we talk about different proposals, that will be the way that we will approach it, is that this is something I think you need to consider further as you look at what sort of tax relief can be provided within the limits of the funding that's available. And with that I'd be happy to try to answer any questions. [LB986]

SENATOR SCHUMACHER: Any questions from the committee for Mr. Intermill? Seeing none, thank you for your testimony. [LB986]

MARK INTERMILL: Thank you. [LB986]

SENATOR SCHUMACHER: Next proponent, LB986. [LB986]

ROGER MORRISSEY: Chairman Schumacher, members of the greatest committee in the Unicameral, my name is Roger Morrissey, M-o-r-r-i-s-s-e-y. I'm the Douglas County Assessor, Omaha, Nebraska. I too am here as a proponent of LB986. Succinctly, this program enables and makes a difference for a lot of people, a lot of seniors; enables them to stay in their home. My first year in office, 1999, this time of year when the homestead applicants started coming in, they would come in with their shoeboxes and drop their receipts or medical receipts on the desk of the staff. And now, understand, that we have 10,000 or more applicants. And I said, we can't do this, fill out everybody's application. And there was a gentleman that came forward with a group of volunteers, and now we have off-government sites that the volunteers help fill that out. We still have people who come in because they want Donna to fill out their homestead application because it was accepted last year and Donna is going to get it through for them again this year. But there's also sad parts of the story of somebody that calls and maybe cashed in a CD and went over the limit. And, you know, I hear the tears, "Well, what am I going to do? I don't have any relatives, I don't have any help." So anybody that we can help on this is surely appreciated. I appreciate past support from the Legislature during my tenure of moving the period up to you can start applying in February, because there

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were some people that used whoever did their bookkeeping and their tax return could also do this. Another big help that you've done, and I'm giving kudos here, is that window you gave if somebody was incapacitated and for medical reasons or whatever, they have until April 1 to file a delay if they get a doctor's note. That saves a lot of people and it makes it easier for us who administer the homestead program. I don't think this is a big increase. You know, I would support definitely something higher with the higher fuel costs, utility costs, and other expenses that seniors incur. Anything can help. I would also go on to say that, you know, the assessor in the 93 counties are not the most popular positions that we hold, but the seniors do like us because of the homestead program, and I support it 100 percent. I would also add that last year was the lowest number of applicants that were approved in the last six years. That's telling me something serious about that top line. When I guarantee you there are more people 65 and above in Douglas County than there were six years ago. So when that number is down to close to 10,000, and we've been as high as 12,000, this will help. I also would like to go on record, I'm not coming back down tomorrow but the two bills that are being heard tomorrow, I support. And being a Vietnam veteran, and Greg is going to, I think, speak to this bill too. As a matter of fact, I took Greg's place in Vietnam. Well, really, I was in the same outfit right he was. But as far as I'm concerned, if you're a 100 percent disabled vet, I don't care where you live, how much you make, what your house is worth, the service that you did to this country and what you sacrificed, it ought to be automatic. And I'm sorry I got off point there, but that's my feeling. Any questions? [LB986]

SENATOR SCHUMACHER: Any questions for Mr. Morrissey? Senator Sullivan. [LB986]

SENATOR SULLIVAN: Thank you, Senator Schumacher. And thank you for your testimony, Mr. Morrissey. Can you just, mostly for my own benefit, give me an idea of how this application works? You said that some people might come in with a completed application, your staff might fill it out, or there are volunteers to help people fill it out, is that right? [LB986]

ROGER MORRISSEY: Right. [LB986]

SENATOR SULLIVAN: And then what happens after that? [LB986]

ROGER MORRISSEY: And then they submit it. [LB986]

SENATOR SULLIVAN: Okay. To your office. [LB986]

ROGER MORRISSEY: The individual submits the homestead application. We will then forward it to the state. Department of Revenue has the final say because they match the form against the income tax return for income qualification. [LB986]

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SENATOR SULLIVAN: Gotcha. Okay, thank you. [LB986]

ROGER MORRISSEY: Yes, ma'am. [LB986]

SENATOR SCHUMACHER: Any other questions from the committee? [LB986]

ROGER MORRISSEY: Appreciate your time. Thank you. [LB986]

SENATOR SCHUMACHER: Thank you for your testimony today. Next testifier, proponents, LB986. [LB986]

GREG HOLLOWAY: Senator Schumacher. My name is Greg Holloway, G-r-e-g H-o-l-l-o-w-a-y. I'm the past department commander for the Disabled American Veterans, Department of Nebraska; past state council president for Vietnam Veterans, State Council of Nebraska, and I represent them on their legislative matters. I'm also...was a county veterans service officer for Lancaster County from '90-95, so I've filled out a lot of homestead exemption applications for Lancaster County for veterans back in those years. I am here to support this bill. Any income that a 100 percent service-connected disabled veteran, or a service-connected disabled veteran as far as that goes, is cherished quite a bit because we are on static incomes. And anything that would relieve the stress on our paychecks would be of assistance. Although this bill doesn't reach as far as I want it to go, and we'll talk about that tomorrow, but this is a start. And for many, many years the homestead exemption has been picked at and income guidelines have been looked at and reduced, and now if we can get them back up to the point where more service-connected disabled veterans will qualify, because, you know, if you're a service-connected disabled veteran at 100 percent, your income is stagnant, but if you have a spouse that has an income, that income counts against your eligibility for homestead exemption. So just the fact that you are 100 percent service-connected disabled veteran, does not mean that you will qualify for a homestead exemption. So this might help that a little bit, get the numbers back to where more 100 percent service-connected disabled veterans could take advantage of this, and that would help them spend a little bit better money on groceries and clothing and back into the communities where they live. And any questions, I sure would like to answer them for you. [LB986]

SENATOR SCHUMACHER: Senator Hansen. [LB986]

SENATOR HANSEN: I only have a comment. Thank you for your service. [LB986]

GREG HOLLOWAY: Thank you. [LB986]

SENATOR HANSEN: And thank you for your services as the county...what was the

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county service called? [LB986]

GREG HOLLOWAY: I was the county veterans service officer for... [LB986]

SENATOR HANSEN: Douglas. [LB986]

GREG HOLLOWAY: ...Lancaster County. [LB986]

SENATOR HANSEN: Lancaster County. Okay. [LB986]

GREG HOLLOWAY: Back from '90-95. [LB986]

SENATOR HANSEN: Thank you for that service too. Our disabled vets are really important. [LB986]

GREG HOLLOWAY: I think we are. [LB986]

SENATOR HANSEN: Yeah, you are. You are. [LB986]

GREG HOLLOWAY: But when you help a service-connected disabled veteran, you're helping every single solitary person and their family. And with educational benefits that you'd be surprised how many of us old grandpas are looking after our grandkids these years and making sure that they're fed and clothed and educated. And that cuts into our expenses a lot, because it's just...that's the way life is right now. And we're taking a big burden. So if you can help us with that burden a little bit (click-click), we go. I'll see you tomorrow though and we can talk a little bit about the senator's bill tomorrow. Thank you very much. [LB986]

SENATOR HANSEN: We'll look forward to tomorrow, and thank you again. [LB986]

SENATOR SCHUMACHER: Any other questions from the committee? Thank you for your service and thank you for your testimony. Next proponent. [LB986]

MICK MINES: Good afternoon, Senator Schumacher and members of the committee. My name is Mick Mines, M-i-c-k M-i-n-e-s. I'm a registered lobbyist today representing the Nebraska Association of Independent Insurance and Financial Advisors. We're here in support obviously of LB986, and we are in support because our 1,100 members, or more than 1,100 members, they focus their practices on life insurance, annuities, health insurance, employee benefits, multiline, and financial advising of investment instruments. We have long advocated for this type of legislation. We think it's time to proceed with it. We thank you all for your sponsorship and just want to let you know that Insurance and Financial Advisors support your piece of legislation. Thank you. [LB986]

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SENATOR SCHUMACHER: Any questions for Mr. Mines? Thanks for your testimony. [LB986]

MICK MINES: Thanks. [LB986]

SENATOR SCHUMACHER: Next proponent, LB986. Seeing none, opponents to LB986. Seeing none, neutral testimony on LB986. [LB986]

DYLAN GRUNDMAN: (Exhibits 3 and 4) Good afternoon, Chairman Schumacher and members of the Revenue Committee. My name is Dylan Grundman, D-y-l-a-n G-r-u-n-d-m-a-n, and I'm the fiscal policy analyst with OpenSky Policy Institute. We are here to testify in a neutral capacity on LB986 as amended. We modeled the bill on some sample families and are here to share those results to illustrate who would benefit from this proposal. The expansion of the homestead exemption in LB986 as amended by AM1750 would revise the income brackets that determine the amount of the exemption, stretching those brackets upward. Under this measure, families currently receiving a partial exemption may receive an increased exemption, and some families currently not eligible for the exemption could become eligible. As you can see in the handout that's coming around, this means that a married couple over 65 with an average home for their county and a \$30,000 income would not see a change, as they are already eligible for a full exemption. A similar couple with a \$35,000 income, currently eligible for a 55 percent exemption, would see that exemption increased to 80 percent, which would lower the couple's property taxes by more than \$800 if, for example, they live Douglas County. A couple with a \$45,000 income is currently ineligible for the exemption but would receive a 20 percent exemption under the expansion, lowering that couple's property taxes by about \$647 if they live in Douglas County. Couples with incomes above \$46,900 would still receive no exemption. Similarly, for a single person over 65 with an average home and a \$25,000 income, nothing changes, as they would already qualify for a full exemption. A similar person with a \$30,000 income would see an increase from a 55 percent exemption to 70 percent, which if this person lived in Buffalo County it would lower his or her property taxes by about \$313. A person with a \$35,000 income would go from not being eligible to receiving a 40 percent exemption, which would lower his or her property taxes by about \$836 in Buffalo County. Individuals with incomes higher than \$39,500 would not receive any exemption. Please view the handout for more details about how the expansion affects these particular families. And thank you for your time, and I would be happy to answer any questions. [LB986]

SENATOR SCHUMACHER: Any questions from the committee for Mr. Grundman? Seeing none, thank you for your testimony. [LB986]

DYLAN GRUNDMAN: Thank you. [LB986]

SENATOR SCHUMACHER: Any other neutral testifiers on LB986? Senator Hadley.

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[LB986]

SENATOR HADLEY: As you can realize, this may be quite a chore getting up and down from that seat three or four times this session. I just want to say I think this is a good bill. It has a reasonable price tag. I think it helps the kind of people that we need to help, keep them to be in their homes. And, to me, the savings from forcing these people out of their homes and into some other type of public housing could possibly offset the cost of it. Happy to answer any questions. [LB986]

SENATOR SCHUMACHER: I just have one, Senator Hadley. And obviously we're going to be collecting less property taxes and this is a hard question that we're going to face on all these bills. With less taxes collected we either have to make up those taxes from other sources or we have to cut some type of service. How do you see the cash flow moving around if we decide not to cut services and just find another source? [LB986]

SENATOR HADLEY: Thank you, Senator Schumacher. That's a good question. It's my understanding that the local taxation units are made whole on this; that the state reimburses the counties, school districts, etcetera, etcetera, so they are not on the losing end of this. You're absolutely right, we have to find the \$6 million someplace in the budget, and that is always the offset when you bring these. You weigh the good that can be done by this versus what is the cost to the state and where do you find the funding for this. Senator Schumacher, that's going to be the question on everything we hear probably for the next two or three weeks, is where do we find the funding to do this? [LB986]

SENATOR SCHUMACHER: I don't have any other questions. Anything else from members of the committee? Thank you for your introducing this bill and for your testimony. Now we move on...and that closes the hearing on LB986. We now move on to LB987. Welcome to the greatest committee in the galaxy, Senator Hadley. [LB986]

SENATOR HADLEY: (Exhibit 5) Oh, he stole my line from me. This bill, again I thank the committee members who signed on. Again this is a bill that we heard about this summer. We heard about indexing of the brackets, and we certainly heard a lot about retirement income. So I want to separate those two things and talk about them separately as we go through them. The federal government indexes their brackets. And let me give you...and I'm sure all of you understand it but just so it's on the record, what we mean by this is if you're making \$100 and you get a 5 percent raise, you make \$105. If inflation is 5 percent, you've not changed your purchasing power. If this pushes you up to a higher marginal tax bracket, part of that increase you're going to have to pay in taxes. So effectively you've reduced your purchasing power because the state has not indexed its tax brackets. It's a pretty simple concept. It's called bracket creep. The state of Nebraska I would say has benefited greatly, not the citizens but the state of Nebraska, in paying bills by not allowing bracket creep, especially if you go back into

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the '80s where we had 17, 18, 19 percent inflation at that point in time. What I've done is, with the help of the committee staff, we asked and tried to get a breakdown. The original fiscal note just had a dollar figure. So we wanted to know how much of the fiscal note dealt with indexing and how much dealt with the second part, which is Social Security. So I gave you a handout that shows the breakdown between the indexing cost and the cost of the Social Security exemption that I'm going to talk about in a minute. The cost of indexing will go up every year assuming that there is inflation. This is truly a tax cut for the people of Nebraska. If you look at your sheet, in the fourth year the people of Nebraska are going to be paying \$35 million less in taxes to equate to any loss in purchasing power that they may have had. If we don't index, in essence, they will have lost \$35 million in purchasing power, dollars that they could have spent on their goods and services. This truly...it is a tax cut to the working people of Nebraska, and it goes across all the brackets. It doesn't just go low, medium, high; it goes across all brackets. I think it's a...you know, the example I gave you I think shows that this really is an important concept. Otherwise, it's really an erosion of capital for the working people of Nebraska. They're having to use capital to maintain their lifestyle if we don't do this. The second part of the bill is we heard a great deal about retirement income: Social Security, teachers' retirement, military retirement, federal government retirement, state of Nebraska retirement. Everybody is interested in exempting part of their retirement, and I can understand that, especially when you get to Social Security where you've paid taxes on that income before you put it in. But there's a ratio called the dependency ratio, and basically the dependency ratio just basically says you take the people who are earning money, 22 to 65, and you divide it by the people who are basically retired or under age 22. In essence, which people are working and which people are dependent on the people working to pay things like retirement, Social Security, and those kinds of things. It's called the dependency ratio, and it's an important ratio because as our population ages in Nebraska that ratio goes from about 43 to 85, by 2030. To put this in other terms, right now, we have, give or take, 260,000 people over age 65. I know it's going to shock you, but I'm one of those. Over age 65. By the year 2030, that will be about 475,000. So we have to be careful when we're working with exempting retirement income that we don't exempt so much that we are going to put a tax burden on those people who are still working in 2030. We heard the two experts from Georgia talk about the problems that they had in Georgia because they were basically upside down; in essence, not having enough people working to cover...they exempted all retirements. And what we heard from them is an important point, and I think it's brought home in Washington, D.C., right now. Once you give these kinds of benefits, it is exceedingly difficult to take them away. So I think we have to be very prudent on how we go about exempting retirement income. If I could wave a magic wand, I would like to exempt all. But I just don't think that's feasibly possible in Nebraska. So I, with a lot of your signatures, brought a bill that at least starts. And again, my thoughts are we want to help people who are in that lower income bracket where it really does make a difference in their lifestyle. We often kid, should Warren Buffett have his Social Security exempted? And I think he would say no; right? Because his lifestyle is not going to

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change whether he pays tax on Social Security or doesn't. But someone right now, who is a single person and makes under \$25,000, all of it is exempted. Between \$25,000 and \$35,000, 50 percent is taxable. Above \$35,000, all of their Social Security income is taxable at the maximum federal rate, which is 85 percent of it is taxable. So I guess the point I'm trying to get at is that \$35,000 isn't a lot of money to live on. For a married filing jointly, anything under \$32,000 now is completely exempted; from \$32,000 to \$42,000, it's taxed at 50 percent; above \$42,000, 85 percent of it is taxed. Those aren't large numbers. I think the median income for households in Nebraska is...depends on what you look at, \$55,000, \$60,000, somewhere in that area. So this is below the median income and we're taxing their Social Security. I would love to have military retirement and the other ones worked in, but when you see the fiscal note on this you see that it is significant dollars. What this bill does, it moves the married filing jointly up to adjusted gross income of \$58,000. So basically anything above \$58,000, if you make that your Social Security is taxed at the 85 percent level, what the federal government taxes it at. For all other filers, it goes up to \$43,000. Again it's to help the lower income have more money in their pocket to live. I've given you the split of the costs. And the Social Security, I was really kind of surprised that it wasn't more than that. It's about \$28 million, which certainly is not a small amount. But again I think this is going to impact a relatively significant number of households in the state of Nebraska that will put more income into their pockets. And to, what, meet head-on Senator Schumacher's question, the question is, is how do you find the 35...you know, in four years, the \$35 million for indexing and the \$28 million for cost of Social Security? That is an absolute question: How do we find that? Because remember, there's only two ways we can find it. We can either...three ways, I guess. One is that we can grow the state's economy and hopefully get more money into the system, of which we would use part of it for this; raise taxes, which is not a common theme in Nebraska I don't believe; or thirdly, we would have to cut somewhere else, whether it's K-12, whether it's health and human services, or wherever it is, if we want to do these. These are tough questions that we have to come up with. And I don't think there's a tax bill that we're going to hear that that question can't be asked: How do you see us finding the money to do this? And I hope people out in Nebraska understand that none of us are heartless here...well, a couple, but you know. The rest of us, you know, we understand what people are going through and we want to try and help. But it is a balancing act between what we have, what we'd like to spend, and what we can spend. So with that I would answer any questions on this. Again these are points that were brought up by the Tax Modernization Committee. I wanted to bring them to the committee, to put them on the table so people will know what costs are we going to...if we want to do something, this is what we have to incur. [LB987]

SENATOR SCHUMACHER: Senator Hansen. [LB987]

SENATOR HANSEN: Thank you. Senator Hadley, it's big numbers that we're talking about, but the expenditures, \$55,000 the first year, \$44,000 and \$44,000, it looks like

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that's ongoing. Why are the expenditures so high? [LB987]

SENATOR HADLEY: Are you talking about the costs? [LB987]

SENATOR HANSEN: The fiscal note. Yeah. [LB987]

SENATOR HADLEY: The fiscal note. [LB987]

SENATOR HANSEN: On the back page. It looks like once they get that system going. No, that's the original. [LB987]

SENATOR HADLEY: Oh, the original fiscal note. [LB987]

SENATOR HANSEN: Yeah, the \$44,338 a year, it looks like maybe forever. [LB987]

SENATOR HADLEY: Was that to hire an extra person to...? [LB987]

SENATOR HANSEN: Just one more FTE? [LB987]

SENATOR HADLEY: Yeah, one more FTE. I have to admit, one of the things I've thought of, and not for this year but sometime in the next few years, we don't have a system to go back to the governmental agencies when they say, I need two more people to implement this change; that in a couple years we go back and say, do you have...did you hire two people and are they being used for this purpose? You know, we do some other checking but we don't...and I doubt if they're trying to scam the system, but it would just be interesting to know how the fiscal notes actually play out. Does that answer your questions? [LB987]

SENATOR HANSEN: Yes. Thank you. Due to your excellent staff, we've got the question answered. [LB987]

SENATOR HADLEY: They're excellent. Everything I am today I owe to those two. [LB987]

SENATOR HANSEN: Excellent. [LB987]

SENATOR SCHUMACHER: Any other questions? Senator Sullivan. [LB987]

SENATOR SULLIVAN: Thank you, Senator Schumacher. Senator Hadley, you mentioned the dependency ratio. [LB987]

SENATOR HADLEY: Yes. [LB987]

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SENATOR SULLIVAN: Is there an ideal one per state, and what is ours? [LB987]

SENATOR HADLEY: The research I did on it said there was not...did not come up with an ideal one. I think the point of the research I found, and this...I think the point to get across is that we recognize that we have an aging population that is going to have...we're going to have less people in the work force working, contributing into the pot of money that the people who are not...who are retired, are taking. And I think that's a little bit of the problem right now with the Social Security system, isn't it, that the number of takers is growing and the number of people paying into the system is less. So I don't think there's an ideal ratio. But if you see, like ours basically doubling by 2030, I think is only a concern. And Senator Sullivan, you're so correct, because it's a concern in a lot of areas, just not the area I'm talking about. It's the Medicaid concern for nursing homes. It's DHHS other services. It's all those services that we give for the older generation, those are going to go up. And as well they should--for me. [LB987]

SENATOR SCHUMACHER: I just have a couple questions, Senator Hadley. The nature of the income that is helped out under joint taxpayers of \$58,000, does it matter at all whether that income is from a pension fund or farm rent or rental of a building, or is it all income based? [LB987]

SENATOR HADLEY: It's based on AGI. [LB987]

SENATOR SCHUMACHER: Just all income is income no matter where it comes from. [LB987]

SENATOR HADLEY: That's right. All income is income. We use the federal. And Senator Schumacher, if you don't mind, I believe it was in the late '80s that the Social Security, the exemption started. And the federal government has never changed theirs. Consequently, Nebraska has never changed theirs. So the current dollars that we have of \$25,000 and \$32,000 have not been changed since the late '80s when the taxation of Social Security came in. [LB987]

SENATOR SCHUMACHER: And the second question, I noticed on the fiscal note, for example, 2015-16 the bill is \$40 million; the next year it's \$54 million; the next year it's \$62 million. Is that rapid increase in the bill for this or the cost of this, is that due to more and more baby boomers? [LB987]

SENATOR HADLEY: I believe that is the reason that this is...that aging population is kicking in. [LB987]

SENATOR SCHUMACHER: Any other questions from the committee? Thank you, Senator Hadley. [LB987]

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SENATOR HADLEY: Thank you, Senator Schumacher. [LB987]

SENATOR SCHUMACHER: (Exhibit 14) We're all ready now for proponents on LB987. And while that's happening, I'll note that we have a letter of support from Nebraska Appleseed in support of LB987. We'll put that in the record. [LB987]

ROGER REA: (Exhibit 6) Good afternoon, Senator Schumacher and members of the committee. For the record I'm Roger Rea, R-o-g-e-r R-e-a, and I'm president of NSEA-Retired. I've got some handouts that are coming around. There's a colored one and there's a black and white one. I found out this morning that the colored one, the color, when it made me that print, it shifted a lot of the axes, so there is little that isn't very readable on that one. So if you want to read, follow on the black and white one. If you want to see the pretty colors, look at the colored one. LB987 offers some very interesting and important changes in the taxation of Social Security benefits, and that's what I'm going to talk about the most. We support the concept of indexing the taxing brackets to inflation, and we support the concept of expanding exemptions to Social Security. We have three suggestions we would like to see added to the bill to make it a little bit better. As you might imagine, I think that the thresholds for taxing Social Security income are a little bit too low. I'd like to see those raised, and I'd like to see them raised to \$60,000 for a single individual or \$75,000 for married filing jointly. We think that the floors of those tax levels ought to be indexed to inflation also. Just as you're indexing the tax brackets to inflation, let's index this floor for taxing Social Security benefits to inflation. And finally, we'd like to avoid the cliff effect by having this phased in over a period of time. On the left-hand top of the handout I've given you, at the bottom I'm showing the way I think the phasing in of this thing might work. Basically every \$5,000 that you make over the threshold floor you would drop by 20 percent of the tax exemption. The interesting thing about the Nebraska tax system is that although the threshold for taxing Social Security benefits is supposed to be \$25,000, the table on the right, the graph on the right shows that--this is actually from the Department of Revenue Web site--people who make between \$15,000 and \$20,000 adjusted gross income, roughly 3,000 of them pay taxes on their Social Security benefits and roughly 11,000 of them do not. So although the thresholds are somewhat higher, the actual effect is that the taxation of Social Security benefits starts earlier than you might imagine. The third graphic on this illustration, the one on the middle on the left, shows the tax burden for the various income groups. And you'll notice that the very highest percentage of the...highest income earners in Nebraska had the lowest effective tax burden, whereas the middle third, or middle quintile and the top, the fourth quintile, have among the highest tax burdens of all. The incomes by quintile are also shown in the next graphic. The middle income bracket is basically \$45,000 and the fourth quintile is basically \$70,000, and those are the income brackets that we're trying to target with our suggestions. In the lower left-hand corner you'll see roughly how many people would be getting a tax break on their Social Security benefits under the current system. Roughly 56,000 Social Security recipients do not pay taxes on their Social Security; 107,000 do

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pay taxes. Under LB987 it appears that about 98,000 would be getting a benefit, and 65,000 would not. Under our proposal, roughly 134,000 would be getting a benefit, and roughly 30,000 would not. What would it cost? I didn't have the fiscal note at the time that I prepared this, so these are estimates based on the Department of Revenue's Web site. We estimate that roughly \$15 million to implement LB987 for the Social Security portion of it as it was written. And under our proposal we estimate that to be around \$30 million, about twice as expensive. Again we support the concepts here. We think these are extremely important first steps, and I would encourage you to incorporate the amendments not only to index the brackets but also to index the threshold limits and to phase the taxation of Social Security in over a period of income. I'd be glad to respond to any questions. [LB987]

SENATOR SCHUMACHER: Any questions from the committee for Roger? Seeing none, thank you for your testimony. [LB987]

ROGER REA: Thank you. [LB987]

SENATOR SCHUMACHER: Next proponent for LB987. [LB987]

AL MUMM: Good afternoon, Senator Schumacher and members of the committee. My name is Al Mumm, A-I M-u-m-m. I'm resident of the Nebraska Alliance for Retired Americans and also part of the Coalition to Make Nebraska More Retiree Friendly. I echo the sentiments of Mr. Rea who was just before me regarding the threshold of the brackets and the indexing of the threshold and also the gradually phasing in...instead of having the cliff effect, phasing in the tax. I'd like to point out how some other states treat their income. Iowa and Missouri provide full exemptions for Social Security benefits. Wyoming and South Dakota do not have a state income tax. Colorado exempts the first \$20,000 of retirement income and \$24,000 of over 65 from state income tax. Kansas does not tax retirement benefits for military, civil service, or state and local government. It does not tax Social Security for incomes lower than \$75,000. And getting back to the question of fairness, as you all know, railroad retirement for individuals who have a career in the railroad industry, railroad retirement is their version of Social Security. Railroad retirement in Nebraska is not taxed at all. So we feel that it's only a question of fairness that Social Security be treated somewhat in the...we would love to see it in the same manner as Senator Hadley has said. But all in all we support the concept of LB987. We would love to see some of those changes that we've talked about made, and I'd be glad to answer any questions. [LB987]

SENATOR SCHUMACHER: Any questions for Mr. Mumm? I just have one. To the extent...and these bills that we're considering today seek to give some relief to the elderly people on Social Security. But to the extent we do that or maybe increase that, with this big bubble of baby boomers coming through, we lessen the burden there; who do we shift the burden to, assuming we can't cut expenses, and in fact may even have

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more expenses? [LB987]

AL MUMM: Well, I don't...partly, as I understand it, in what's referred to as the rainy day fund in the state's budget or the state's coffers, has a certain number of million dollars that the Legislature will consider in various ways how they're going to maybe have to tap that to do certain things. That might be one place to look at it. I think the...if there is a raise, or if there are less people, like you're saying that will support the older people as time goes on, we would hope that the increase would be not too severe that they could handle it. But at some point we also have to take care of our people who are retiring. And not to ramble on too much about it, but there's a retirement crisis looming in this country. Many companies have done away with defined benefit pension plan and switching over to 401(k)s, which puts your...and especially in the case of public sector workers, puts their entire retirement at the mercy of the stock market. We have...at the national level we have a tax...people wanting to cut Social Security and Medicare even though they are not even allowed by law to add to the deficit. So I think we have an obligation to take care of the people that once they retire they've paid into this all their lives, and it's a question of fairness; but I also understand your concerns about the monetary part of it. [LB987]

SENATOR SCHUMACHER: Any other questions? Senator Janssen. [LB987]

SENATOR JANSSEN: Thank you, Vice Chair. Have you looked at other plans that deal with this same issue? Legislative bills? [LB987]

AL MUMM: No. As far as this year? [LB987]

SENATOR JANSSEN: That have been put forward this year. [LB987]

AL MUMM: No, not this...we've looked at some in previous years that have been advanced by...but most of them never came out of committee, so. We basically looked at this one mostly because it was a Revenue Committee bill that was supported by the majority of the Revenue Committee, so. [LB987]

SENATOR JANSSEN: Well, and the Chairman introduced it. That helps too, but...but. I appreciate it. Thanks for coming down. [LB987]

SENATOR SCHUMACHER: Any other questions? Thank you for your testimony today. More proponents, LB987. [LB987]

MIKE MARVIN: (Exhibits 7 and 8) Good afternoon, Senator Schumacher, members of the committee, Senator Hadley. My name is Mike Marvin, M-i-k-e M-a-r-v-i-n. I am the executive director of the Nebraska Association of Public Employees AFSCME Local 61. We are the union representing the vast majority of executive branch employees in the

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state of Nebraska. I have been the executive director here since the middle of December of last year till now--about two months. Previously I was the executive director of NAPE/AFSCME from 2006 to 2009, so I'm very familiar with what goes on in the state. I'm not going to read my testimony and you have it, but I do want to make some other points. From the last two legislative sessions I was the executive director of the Kansas State Employees Union. We saw some disasters in Kansas. It was not a measured approach to tax cuts. We think that what the Tax Modernization Committee has done is very, very good work, and it takes a measured approach to tax cuts. We know that there is a movement out there to do tax cuts, and we know that's going to happen. I find myself in a unique position of testifying in favor of tax cuts. I've not done that before. But we believe that the work that your committee did during the interim was a very measured approach that was thought out, discussed, had citizen input, had input from many other areas; and with that, we find ourselves in support of this bill. And we would urge you to move this bill out of committee and onto the floor. And with that I'd be happy to answer any questions anyone has. [LB987]

SENATOR SCHUMACHER: Any questions from members of the committee? [LB987]

MIKE MARVIN: Thank you for your time. [LB987]

SENATOR SCHUMACHER: Seeing none, thank you for your testimony, Mr. Marvin. More proponents for LB987. [LB987]

MARK INTERMILL: (Exhibit 9) Good afternoon, Senator Schumacher and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP. We too support LB987. I want to briefly...well, just the concept of indexing I think is something. And both parts of this bill address indexing, either the brackets for the income tax or to a degree the Social Security income that's subject to state income tax. In 1983 was when Congress took action to tax Social Security benefits, and they set the threshold for countable income at \$25,000 for a single and \$32,000 for a couple. Indexing that amount for inflation would put it in 2013 at \$58,473 for a single instead of \$25,000; and \$74,845 instead of \$32,000. The effect of this for retirees is that if you look at how many people there are over 65 in Nebraska and how many returns had taxable Social Security income, we went from one-fourth in 2000 to one-third in 2010. So there was an increase in terms of the numbers of people over 65 who had taxable Social Security. But the main thing I wanted to do is talk about income, and there are a lot of definitions of income, and in all three of the bills that we'll talk about today there are different definitions of income. Adjusted gross income is what I'm going to try to figure out what my adjusted gross income was last year sometime before April 15. I think we're all familiar with that. Household income I mentioned with the homestead exemption, it is every income...all the income that you have less a medical deduction. Combined income is what Social Security uses to determine whether or not benefits are taxable. And in combined income you look at all of your

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income and back out half of your Social Security benefits, and that's what that \$25,000 and \$32,000 standard are applied to. On the second page of the handout I just put together a hypothetical situation of a couple that has \$45,000 in income: \$22,000 is from Social Security; \$8,000 from a taxable pension; \$6,000 a taxable IRA distribution; \$9,000 tax exempt interest. They have a total income of \$45,000 from those four sources. They also have \$8,000 in medical expenses and \$2,500 in property taxes. You'll see that their combined income, their adjusted gross income, and their household income are three different numbers ranging from \$25,000 for adjusted gross income to \$38,800 for household income, which is household would be what the homestead exemption would be based on; and the combined income of \$34,000 is what their...the determination of whether they have taxable Social Security benefits. I looked at, for each of these, in the case of LB987 in this particular circumstance, given the information and assuming there aren't any extraordinary types of deductions, LB987 would reduce this couple's income by about \$63 a year. The homestead exemption would provide the greatest amount of tax relief for them. They would move into the bracket where they would receive a homestead exemption and it would save about \$250 a year in property taxes. And then the next bill we'll hear also would provide a benefit for them as well. But all of these things, the interplay between the different levels of income create a lot of difficulties in trying to determine how each of these...the net effect of each of these. But I would reiterate that this is one of the proposals I think should be on the table when the discussion takes place about what sort of tax relief Nebraska might be able to do this year, assuming that there is room to do that. And I think that's probably the first thing that we would recommend is make sure that there is room for tax relief; and if there is, this should be one of the proposals on the table. I would be happy to answer any questions. [LB987]

SENATOR SCHUMACHER: Any questions from the committee? Seeing none, thank you for your testimony. [LB987]

MARK INTERMILL: Thank you. [LB987]

SENATOR SCHUMACHER: Next proponent. [LB987]

JAMES CAVANAUGH: Senator Schumacher, members of the Revenue Committee, my name is James Cavanaugh, an attorney and senior partner with The Cavanaugh Law Firm, and a sustaining member of the National Organization of Social Security Claimants' Representatives. I appear today in support of LB987. Cavanaugh is C-a-v-a-n-a-u-g-h. I commend the committee for LB987. This is good work. I was here last year testifying in favor of a similar proposal, and I think it's an idea whose time has certainly come. I have a couple of suggestions relative to the idea that motivates this bill. The people that we're talking about are pretty clearly on fixed incomes. These are not people who save income month to month. These are people who spend pretty much their entire incomes month to month. Consequently, if we allow them some tax relief,

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whether under this bill or in another proposal I'll talk about in a minute, you're not entirely forgoing 100 percent of what the fiscal note tells you would be a loss in revenue to the state because they spend that saved amount every month. And depending on where you live, that's subject to sales tax. So an accurate representation of the fiscal cost to the state would have to factor in that, and it's difficult to do because you'd have to factor in all the people who fall into that class, what that income would be, what their particular locality sales tax level is, and their average spending per month. But having represented very many of these people over a long period of time, I can assure you that the vast majority--95 plus percent--spend 100 percent of their fixed income each month on pretty much necessities. That said, this is a good idea. There was some mention earlier about flexibility involved in this, and one avenue that would allow you some flexibility would be to entertain this idea on the homestead exemption. If you get Social Security after a reasonable working career, for retirement, you're probably individually, on average, going to exceed the threshold on homestead exemption. You're not going to be eligible just on your Social Security alone. So, you know, we can give them something back on their income tax and then turn around and take it back from them on property tax, and feel good about the fact that we gave them something over here. But you're not really doing the job. What I would suggest that you entertain is, you know, look at the complete tax on these fixed income individuals and households, and then determine what you do in this bill and maybe something on taking the same consideration of an exemption for Social Security income or part of Social Security income into account on property taxes for purposes of homestead exemption, and try to determine what the practical impact of that is going to be on that individual or household in reality. Then try to determine, if you can, and I have great respect for the Fiscal Office here, and for the Department of Revenue, the take-back that that's going to generate in terms of sales tax. And we see this blips on the sales tax revenues from time to time, and it's awful difficult to ascertain, well, that was because there was an uptick in the economy or that was because there was some tax adjustment. But if there were a way to determine that, you can pretty much operate on whatever you give, 95 plus percent of these people, is going to be spent mostly in the state of Nebraska each and every month, and that should be over time a discernible number or an approximate number. So we would recommend that you take into consideration that if you're going to give them this tax exemption on state income tax, that you should entertain a similar exemption idea or a partial exemption idea on the homestead exemption front, because they're not going to be eligible for that on pretty much the average Social Security income at all. I'd be happy to answer any questions that you might have. [LB987]

SENATOR SCHUMACHER: Senator Janssen. [LB987]

SENATOR JANSSEN: In the spirit of Chairman Hadley, I've got one quick question. Thank you, Mr. Cunningham (sic--Cavanaugh), by the way. [LB987]

JAMES CAVANAUGH: Cavanaugh, but... [LB987]

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SENATOR JANSSEN: I'm sorry. I've known you for six years. It's coming around. I'll figure it out eventually, but...and what you're talking about is, you know, people will spend their money here, I mean, and I agree wholeheartedly with your testimony on that. What about the thresholds being higher, and is there any consideration to the people that leave the state for six months and one day, which we see quite a bit; the, I guess, the wealthiest or people that have the means that would leave the state due our taxing policy? And I know it happens. I know people personally that do that and they're not here spending their money here now. And shouldn't we include that in a comprehensive package in hopes that of what you're saying, money makes money, I think I'm...whether you're Cunningham or Cavanaugh, I think I'm saying that correctly. [LB987]

JAMES CAVANAUGH: That's correct. [LB987]

SENATOR JANSSEN: So why shouldn't it go further? [LB987]

JAMES CAVANAUGH: Well, I'm not averse to going further along the lines that I talked about. But to take into consideration what you're saying, here's what happens now and it goes right to what you're saying. When you're paying into Social Security, okay, if you make over, you know, not a lot of money, \$100,000, low \$100,000's, you make over that amount you pay zero Social Security tax over that amount. So an individual making \$120,000 pays to the penny, pretty much, the same Social Security tax that Bill Gates pays, because there's a ceiling on your tax liability on income for paying... [LB987]

SENATOR JANSSEN: At a hundred...I'm sorry, at a hundred and...? [LB987]

JAMES CAVANAUGH: It's about \$108,000 I think now. It goes up, you know, almost annually. But over \$108,000 it's zero. So on the one hand we say, well, you know, if you're really successful and you make a lot of money, we just won't tax you. It would be like saying over \$108,000 of adjusted gross income, we're just not going to tax that at all. So that's not taxed for Social Security purposes at all. And to take your idea, well, why don't we apply that in reverse and say, well, you know, if you make under a certain amount, say your Social Security income, we're not going to tax you on that at all, because we do it for the top bracket. You know, we do no Social Security tax for the top bracket and everybody seems to be fine with that. Why don't we take that in for people who are truly on fixed incomes? It would seem to me more equitable and more fair. And, you know, if you're going to do it for the one, well, you certainly got precedent for, you know, exemptions from Social Security tax that could be applied to exemptions from Social Security tax considered as income. [LB987]

SENATOR JANSSEN: That is probably the best answer I've heard to a question in my time down here. [LB987]

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JAMES CAVANAUGH: Well, thank you. [LB987]

SENATOR JANSSEN: Thank you for the education on that. As I look at this, I'm looking for the most equitable way to put forward...put this forward. And there is a perception out there and it does happen that the wealthiest, if you will, Nebraskans are leaving; and they do. And I don't think they know what you just said. I don't think they do, but. [LB987]

JAMES CAVANAUGH: Well, I welcome the opportunity to come here year after year and testify in favor of these amendments. I hope that one of these years I won't have to because we'll actually get something passed. But I'm heartened by the fact that, you know, a majority of this committee has signed on to this, which is a good first step. I would just ask you to take into consideration that there are other things that you can do that would have a similar impact for these people on fixed incomes. [LB987]

SENATOR JANSSEN: I appreciate it. Thank you very much. [LB987]

JAMES CAVANAUGH: Thank you, Senator. [LB987]

SENATOR JANSSEN: Thank you, Mr. Chairman. [LB987]

SENATOR SCHUMACHER: Any other questions? I just have one for kind of general reference. Our median income in the state is roughly \$50,000, \$55,000 a year for a family household income. What would a family that is in that range, what would they usually pull down in Social Security? Forget about other income, just in Social Security. [LB987]

JAMES CAVANAUGH: You know, with a decent career and decent earnings, you'd be making, say, around \$30,000. And if you look in the previous bill on the homestead exemption table, at \$26,900 you're SOL. So, you know, that's going to knock a lot of people out. You don't have to be making the top of the scale to get into the mid-20s. If you've had a 35-year career of making those kind of wages, you know, you're going to be in that ball park and you're not going to be eligible. [LB987]

SENATOR SCHUMACHER: And that's what your checks from the federal government on Social Security are roughly going to ring you up to almost \$30,000. [LB987]

JAMES CAVANAUGH: Right. And those are retirement benefits. I mean, the bill doesn't differentiate between retirement and disability benefits. So, you know, Social Security disability benefits, you know, cover a lot of people under the age of eligibility for retirement benefits. And those people not only are on fixed income; they have no capacity whatsoever to make any money and usually have significant medical problems

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that, you know, are out-of-pocket costs for a lot things attendant upon those things.
[LB987]

SENATOR SCHUMACHER: Any other questions for Mr. Cavanaugh? Thank you for your testimony today. [LB987]

JAMES CAVANAUGH: Thank you. [LB987]

SENATOR SCHUMACHER: More proponents, LB987. [LB987]

LARRY SCHERER: (Exhibit 10) Good afternoon, Senator Schumacher and members of the Revenue Committee, Senator Hadley. For the record my name is Larry Scherer, L-a-r-r-y S-c-h-e-r-e-r, and I'm here representing NSEA today. We are testifying in support of that portion of the bill that exempts Social Security benefits from state income taxation. Our governing body has taken a position in support of legislation reducing the tax burden on retired teachers, and this does that. The rationale I think you've heard before. Our interest is in keeping our retired teachers out of poverty, that situation, and we don't think that's a good form of taxation to use for the state. It's already been mentioned about the railroad retirement. I'm not going to talk about that. We have teachers that move to other states. Obviously the weather is one reason but taxes is probably another. So we encourage the state to try to do what they can to keep our retirees here. The portions of the bill that deal with indexing of income tax, you know, I think from a general standpoint we don't have a position on this but we are in favor of reasonable tax reforms that are affordable within projections of revenues that are coming in and those that are progressive, maintain their progressivity of the tax, income tax that we have now. So that is the testimony and I just wanted to add one thing. We have a lot of existing members of our organization who pay taxes and they are concerned that if more tax forgiveness is given, that it could hurt the state aid to education. And that's why we believe this has to be within the context of sustainable tax revenue so that does not happen. Thank you. I'll try to answer questions if there are any. [LB987]

SENATOR SCHUMACHER: Any questions? I just have one. You mentioned that some teachers move out of state; some, of course, move because it isn't cold enough here. (Laugh) But the ones that consider taxes as a factor, is it an income tax burden or a property tax burden, can you tell? [LB987]

LARRY SCHERER: Well, you know, I think with the homestead exemption it's probably more income tax than property tax. You know, most of our teachers would fall within those guidelines that Senator Hadley and this committee would meet with their bill. So it's probably primarily the income tax. [LB987]

SENATOR SCHUMACHER: Any other questions? [LB987]

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LARRY SCHERER: Thank you. [LB987]

SENATOR SCHUMACHER: Thank you for testimony. More proponents for LB987. Welcome to the greatest committee in the galaxy. [LB987]

GEORGE SEDLACEK: Good day, Senator Schumacher and Chairman Hadley and the Revenue Committee. My name is George Sedlacek, G-e-o-r-g-e, Sedlacek, S-e-d-l-a-c-e-k. And in all honesty I had no intention to testify, but as I sat here I wanted to just bring a point to your mind that retirees or that older citizens are not necessarily only a liability; that they are an asset in many ways. And I think if we consider the idea that we do spend our retirement money here, we spend it on entertainment, we spend it on necessities, we spend it on our families, that we should consider the out-migration of retirees as a loss of resources. And I've recently retired. I was born in Nebraska, raised in Nebraska, educated here, worked here all of my life, and when I retired in the spring I did a little research and looked around, and it doesn't take long to find out that Nebraska is one of the five least tax friendly states. I mean, Kiplinger's, a number of publications say that. And whether that's absolutely true by doing all the numbers or not, that's the perception. And then when you realize that we are, as a state, surrounded by states that appear to be more tax friendly, whether that's South Dakota or Wyoming, whether it's Colorado or Kansas or Iowa, it's not very far to go. And in this day and age we're far more mobile than we used to be. I think at a certain time people were attached to family; it was harder to leave; you wanted to stay close. But now with all of the communications advances that we've made, it's not hard to get some face time, to make sure you're in contact. It's easy to travel back and forth. So for me if I'm trying to save some of my income in other ways, it's not going to be hard for me to go to Colorado or just down to Kansas and find a lake or a mountain or some part of the state that I can resettle in and just come back and forth to visit. And when I go I'll take my income with me. I'll take all of the money that I would have spent here. Now I don't want you to think that people leave the state just because Nebraska is not a good place to be, because it really is. It's a great state and it's got a lot of things going for it. But I think if people feel that they can save at least a portion of their income by moving, it's something that they consider, unless they absolutely can't leave; and then those are the people that probably need your help even more. So thank you for allowing me to testify and it was a pleasure. [LB987]

SENATOR SCHUMACHER: Any questions? I just have one. What would be your solution then? How would we neutralize this out-migration of people to the extent it exists? [LB987]

GEORGE SEDLACEK: Well, I think we need to do something to change that perception that it's not a tax friendly state. This proposal in front of you would I think began to change some of that. I don't know necessarily the answers. I certainly am not saying

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that I'm going to move out of state. But as I study those kinds of things, I think that's definitely something that a lot of teachers--I was a teacher--refer to or talk about. It's a consideration that they take. And having a negative reputation, I guess, in the tax area is not a good thing for Nebraska. [LB987]

SENATOR SCHUMACHER: Any other questions? Seeing none, thank you for your testimony. More proponents. Any opponents to LB987? Seeing none, any neutral testimony on LB987? [LB987]

RENEE FRY: (Exhibit 11) Good afternoon, Senator Schumacher and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. We are testifying on LB987 in a neutral capacity. We would like to begin by thanking all of you and the other members of the Tax Modernization Committee for dedicating so much time last interim to looking at the tax code and listening to Nebraskans about our concerns. And we know you and your staff worked exceedingly hard and we greatly appreciate your efforts. We support indexing Nebraska's income tax brackets to prevent the situation where a family's income increases because of inflation, pushing them into a higher income tax bracket. The problem is that while the family's income has grown at the rate of inflation, its purchasing power has not increased. Without indexed income tax brackets this family will move into higher tax brackets, and the taxes the family pays as a share of its income will become higher. Indexing the brackets as proposed in LB987 will help ensure this family pays income taxes that are proportional to its real income which we support. However, we did decide to testify in a neutral capacity due to the size of the fiscal note. We remain skeptical that we have the revenue to be doing much in the way of tax cuts at this time, although we do believe that this is one of the better policy changes currently on the table. As you know, we do not support the idea of exempting more Social Security income as a mechanism to attract and retain seniors. As research indicates, tax rates have little to do with the migration patterns of this population. However, we do prefer the more measured approach to exempting Social Security income in this bill than others that have been considered in recent years, although we do, of course, have concerns about the fiscal note. We also want to take this opportunity to correct the misperception that all Social Security income is taxed in Nebraska. To the contrary, more than 59 percent of Social Security benefits in Nebraska are currently exempt. Nebraskans with incomes under \$75,000 pay tax on about one-fourth of Social Security income, on average; and those earning less than \$30,000 pays tax on less than 4 percent of their benefits. The majority of Nebraskans receiving Social Security income pay tax on less than one-third of that income. This is because Nebraska follows the federal system for exempting Social Security benefits. Furthermore, under the current system for exempting Social Security benefits, no more than 85 percent of benefits are ever taxable. According to the Social Security Web site, about 15 percent of benefits are attributable to the beneficiary's own contributions which were taxed at the time they were earned; so by exempting at least 15 percent of the benefits, double

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taxation is avoided. Thank you for your time and I'd be happy to answer any questions. [LB987]

SENATOR SCHUMACHER: Any questions for Ms. Fry? I just have one. To the extent that this legislation allows for an exemption of income in excess of Social Security, does that in the cases of a tax exempt pension mean that they didn't pay any tax on that money going in and won't pay tax on that money coming out of the pension? [LB987]

RENEE FRY: I would have to look at that. I don't know that I can answer that right off the top of my head. So what you're asking is if it exempts dollars, pension dollars that aren't Social Security dollars. [LB987]

SENATOR SCHUMACHER: Exactly. [LB987]

RENEE FRY: It would depend on whether they paid going in. It would depend on the type of pension. [LB987]

SENATOR SCHUMACHER: And if it was like a 401(k) where they did not pay tax on the employer's deposit or... [LB987]

RENEE FRY: Right. [LB987]

SENATOR SCHUMACHER: ...on their IRA account, the money goes in without tax,... [LB987]

RENEE FRY: If they defer it, and then...right. [LB987]

SENATOR SCHUMACHER: ...comes back out without tax. [LB987]

RENEE FRY: Right. [LB987]

SENATOR SCHUMACHER: So there's income that is never taxed. [LB987]

RENEE FRY: Correct, yes. [LB987]

SENATOR SCHUMACHER: Any other questions? Thank you for your testimony today. [LB987]

RENEE FRY: Thank you. [LB987]

SENATOR SCHUMACHER: Any other neutral testimony? Seeing none, Senator Hadley. You used up all the proponents. [LB987]

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SENATOR HADLEY: Thank you, Senator Schumacher. I just wanted to, again the sheet that I handed out that had the adjusted, broke out the two different fiscal notes. The Social Security does basically stop at \$28,000 because that's when it's fully implemented, and we have not put any indexing in there, the \$28 million cost. The indexing is a \$10 million a year, basically, that we would be putting in the pockets of citizens of Nebraska. Again I think these are...this is an important concept because we want to get things on the table and we want to know how much they cost, what things we can look at, what we can, you know, afford and not afford, and as we go forward. I would be happy to answer any questions. [LB987]

SENATOR SCHUMACHER: Senator Hansen. [LB987]

SENATOR HANSEN: Thank you. Senator Hadley, how do you...where do you find the rate of inflation? Is that a Nebraska number? Is it a Midwest number? Is it a...? [LB987]

SENATOR HADLEY: I would use probably the federal government rate of inflation. I don't know, Senator Hansen. There's a... [LB987]

SENATOR HANSEN: So it's going to be a year behind. [LB987]

SENATOR HADLEY: Yeah, it could be a year behind into... [LB987]

SENATOR HANSEN: It has to be a year behind no matter when you get it, but. [LB987]

SENATOR HADLEY: Yeah. I would...especially if we were looking at income tax, I would look at what the federal government...because the federal government indexes the tax brackets, and maybe tie it to whatever the federal government uses as a method of indexing. [LB987]

SENATOR HANSEN: Okay. Thank you. [LB987]

SENATOR SCHUMACHER: Any other questions for Senator Hadley? Seeing none, that closes the hearing on LB987, and we move on now to LB995. Senator Hadley. [LB987]

SENATOR HADLEY: Well, thank you. That's Galen Hadley, G-a-l-e-n H-a-d-l-e-y. I think this is...I'm going to be the first to admit this is probably a bill that isn't going to make it very far, but I think there's some policy concepts in this bill that are important to the state of Nebraska. One of the things that we...and I want to thank again the Revenue Committee and members of the Tax Mod Committee that signed onto this bill. The fiscal note I think, to me, was a surprise. I'm not saying that it's wrong. It was just a surprise by its size. We heard in our Tax Modernization Committee a lot about our overall tax system being slightly regressive. That's primarily due to the sales tax part of it. We have a progressive income tax. And property taxes, I've heard arguments that it's neutral,

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progressive, regressive. It depends a lot on situations in that area. This bill was to look at what happens to the lower income people where the regressivity is the one that impacts the lower people the most. I believe, and these numbers aren't 100 percent correct, but basically the higher income pay about 9.5 percent of their income in Nebraska taxes, when you take in sales tax, income tax, property tax. Low-income people, it's around 11 point some percent. And again, it's because of the regressivity of the sales tax that causes them to spend more of their income on items that are sales taxed than the higher income. Well, this bill tried to say, how can we maybe even that out a little bit? So that was one purpose. The second purpose is we discovered that most of our neighboring states do not tax residential utilities. And that...for a low income when you're starting to have \$200 and \$300 heat bills, and you're paying \$20 a month in sales tax on the heat bill, it starts adding up. So this was just a way of taking people to residents with under adjusted gross income of \$25,500 and basically giving them anywhere from \$10 to \$340, depending on the number of exemptions claimed on the tax return, as a refundable credit; meaning they got the credit whether they had taxable income or not. To me it was kind of shocking to see the number, because that number is directly related to the people that meet that criteria in Nebraska that have under adjusted gross income of \$25,500 and this is the credit they would get, from \$10 to \$340. So I was just surprised. I think it's an example for us to see that we have maybe a little more than just a slightly regressive tax system in Nebraska. And the perspective I bring is that we're going to hear other bills that are going to have high fiscal notes, and if we're not willing to blink on those, are we willing to blink on this one? That's just a...I just throw that out there. I would be happy to answer any questions on it. As I said, I doubt the bill would go anyplace with this kind of fiscal note. But I think it's important that this is impacting those people with \$25,500 or less of adjusted gross income--\$2,000 a month. Happy to answer any questions you might have. [LB995]

SENATOR SCHUMACHER: Senator Hansen. [LB995]

SENATOR HANSEN: Thank you. Senator Hadley, how do you identify these people? Are they going to be required to fill out an income tax form? [LB995]

SENATOR HADLEY: It would be a refundable credit, Senator Hansen. So they would have to actually fill out a form, send it in, get the refundable credit. And I can't give you the exact numbers because they were told to me, but the Revenue Department and our Fiscal Office actually went through and determined how many what they call nonfilers there are in the state of Nebraska, and then used some reasonable percentage of those that would take advantage of this. So this is not assuming that 100 percent of the nonfilers would put in for the refundable credit. [LB995]

SENATOR HANSEN: Okay. Thank you. [LB995]

SENATOR SCHUMACHER: Any other questions in regard to LB995? Any proponents

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for LB995? [LB995]

MARK INTERMILL: (Exhibit 12) Good afternoon, Senator Schumacher and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP. I too was surprised by the fiscal note. When we look at bills that we think make some sense, we try to do an estimate of the cost; and I'll have to say my estimate didn't come close and I think I know the reason. I was using income, total income, as the standard of the \$25,500 instead of adjusted gross income. Adjusted gross income, I just looked up. There were 334,000 returns in Nebraska in 2011 that had incomes below \$25,000. I'm sending around a sheet that has information about the incomes of Nebraskans, and what we see there is 166,000 have incomes below \$25,000; so total income is different than adjusted gross income. And that 334,000 figure would not include nonfilers. So that would just be people who filed income tax. I like the concept of this bill because it does address the mild regressivity of our current system. And I've also included a chart that shows...that depicts that, as Senator Hadley just said, about 11 percent of income goes towards state and local taxes for the lowest 20 percent compared to 5.8 for the top 1 percent. This would provide...this would direct tax relief to those individuals at the lowest levels of income. So I am going to suggest that you put this proposal on the table with a slight...well, a significant change, of looking at \$25,500 in income rather than the adjusted gross income. I think that will bring down the cost significantly. The other thing that could be done to reduce the cost would be to lower the top. I think \$340 was the highest refund that was available; there could be some adjustments made there. But I think targeting tax relief to the degree that we can provide tax relief towards those with the lowest incomes makes a lot of sense. And I'd be happy to try to answer questions. [LB995]

SENATOR SCHUMACHER: Any questions for Mark? I just have one. In summary then, you think maybe the discrepancy between your guesstimate and the fiscal note was the fiscal note reflects AGI instead of absolute income, and that brings a whole lot more people into the eligibility for this. [LB995]

MARK INTERMILL: Yeah. I didn't read the language carefully and just was basing it on income. And adjusted gross income does increase the numbers of people who would be eligible for an exemption. [LB995]

SENATOR SCHUMACHER: Okay. Any other questions? Thank you for your testimony today. [LB995]

MARK INTERMILL: Thank you. [LB995]

SENATOR SCHUMACHER: (Exhibits 15 and 16) Any other proponents? While we're waiting for that, we'll put in the record we do have letters of support from the Nonprofit Association of the Midlands, and from the Center for People in Need. We will put those

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in the record. Welcome. [LB995]

JENNIFER CARTER: (Exhibit 13) Hi. Good afternoon. My name is Jennifer Carter, J-e-n-n-i-f-e-r C-a-r-t-e-r, and I'm the director of public policy for Nebraska Appleseed, and I'm testifying today on behalf of our economic justice program. And I also wanted to thank Senator Hadley and this committee and the Tax Modernization Committee for their really careful and thoughtful and deliberative work over the interim. The structure of our tax system has a critical and foundational impact on all that makes Nebraska the good life; so we think these are really critical conversations. We agree. I mean, I have similar comments to Mark. We think this is a really helpful policy proposal to be considering and to have on the table to make our tax structure a little more progressive. Low-income families already pay a higher percentage of their income in state and local taxes compared to wealthier Nebraskans, and this would...having a new refundable tax credit can make a really big difference, as we've seen with things like earned income tax credit, to these lower income families. So we think this is a great thing to be talking about and to be helping a lot of families in the state. Having said that, we do believe that our tax system should ensure that we can continue to invest in things that boost our economy and on which our families can rely, like safe neighborhoods, good schools, a strong healthcare system, functioning safety net and infrastructure. And so we were also a little surprised and concerned about the size of the fiscal note. So while we believe this is good policy, focusing on working and middle-class Nebraskans, we hope that it would be implemented in the future. We realize that with the possibility of it eroding some of our revenue base, that may be difficult at this time. But we do hope, as Senator Hadley said, that this is on the table if we're considering any of these types of proposals. And I would actually also just want to comment. I thought it was a good point that it is concerning that there are this many people in Nebraska who are at that level, and that's...we work extremely hard in this state. We have a very high level of per capita of people working, and working more than one job, and both parents working. And it is concerning that sometimes that's not paying in a way that can really help those families or what you would hope. So we really appreciate the proposal and we hope it can be a part of the broader dialogue. I'm happy to answer any questions. [LB995]

SENATOR SCHUMACHER: Any questions from the committee for Jennifer? Seeing none, thank you for your testimony today. [LB995]

JENNIFER CARTER: Thank you. [LB995]

SENATOR SCHUMACHER: Further proponents for LB995. Seeing none, opponents of LB995, now is your chance. Seeing none, anyone in the neutral capacity on LB995? Seeing none, Senator Hadley. [LB995]

SENATOR HADLEY: If you think I'm crazy enough to give you another chance at me. [LB995]

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SENATOR SCHUMACHER: That concludes the hearing on LB995. [LB995]