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Revenue Committee
February 06, 2014

[LB761 LB850 LB912 LB1087]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 6, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB761, LB850, LB912, and LB1087. Senators present: Paul Schumacher, Vice Chairperson; Tom Hansen; Charlie Janssen; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: Galen Hadley and Burke Harr.

SENATOR SCHUMACHER: Welcome to the Revenue Committee. We're going to start today's hearings. We promised Senator Hadley we'd be done before he got here. (Laughter) I'm Senator Paul Schumacher from Columbus; to my left is Senator Pete Pirsch from Omaha; Senator Kate Sullivan from Cedar Rapids; our committee clerk today is Krissa Delka; our page is Drew Schendt; to my right is Senator McCoy from Omaha; Senator Hansen from North Platte; and our committee counsel with all the answers is Mary Jane Egr Edson. And we're ready to open the hearing after this bit of introductory things. Please turn off your cell phones or put them on vibrate while you're 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 do come up to testify, then hand your testifier sheet to the committee clerk. We'll follow the agenda posted at the door. The introducer or representative will present the bill. That will be followed by the proponents, then the opponents, then the neutral folks. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it for the record. If you have handouts, please bring ten copies for the committee and staff. If you only have one original, then we will make copies, give the handouts to the page to circulate to the committee and they also want us to say, please speak into the microphones as the folks that have to listen to the tape recording and type it up would like to have a clear tape. You also do not bend the microphones because you might break them. That wouldn't be good. And we are now ready to go with LB761. Senator Mello.

SENATOR MELLO: (Exhibits 1 and 2) Good afternoon, Vice Chairman Schumacher, members of the Revenue Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o and I represent the 5th Legislative District in south Omaha. During my research as a member of the Tax Modernization Committee last fall, one of the aspect of our state's tax policy which I felt warranted further study was our enforcement capabilities. According to the federation of tax administrators since 1982, 46 states have implemented some kind of program targeted at the collection of unpaid taxes. Some of these efforts have taken the form of a tax amnesty program, but increasing number of states are employing inventive strategies to bring tax cheats out of the shadows and into compliance. For example, many states, including Nebraska, publish a list of taxpayers with tax delinquencies that exceed a certain amount. More recently a handful of states have threatened to withhold

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

or evoke driver's license from taxpayers with longstanding, large tax delinquencies. And a growing number of states are taking steps to crack down on motor home sales tax avoidance utilizing shell corporations in Montana, which is something that Senator Hadley's LB851 would address. In 2004, the state of Nebraska conducted a successful tax amnesty program which collected nearly \$8.5 million in delinquent tax revenue and ultimately led to more than \$53 million being collected through targeted investment and enforcement capabilities within the Department of Revenue. Under LB761 a similar program would be conducted this fall of 2014 with the bulk of the revenue collected through the program directed to the Property Tax Credit Fund to provide property tax relief. As with the 2004 tax amnesty program, taxpayers with unreported or delinquent taxes could apply to the Nebraska Department of Revenue for an amnesty between August 1 and October 31. Taxpayers applying for amnesty would be required to pay all unreported taxes that were due on or before April 1 of this year, and applicants who were accepted by the department would have any penalties and interest on those taxes waived. In addition the state would be prohibited from seeking civil or criminal prosecution against the taxpayer for any taxable period for which amnesty has been granted. Similar to the 2004 program, 20 percent of the revenue received to the tax amnesty period not to exceed \$1 million would be credited to the Department of Revenue Enforcement Fund. These funds would then be used by the Department of Revenue to employ investigators, agents, auditors, and other staff to improve enforcement of our tax laws. All remaining revenue would be credited to the Property Tax Credit Cash Fund. In addition, LB761 would mandate that the Department of Revenue utilize its existing statutory authority to contract with private vendors to identify nonfilers, underreporters, and nonpayers of taxes requiring that a conclusion of the tax amnesty period, the department shall enter into such a contract to identify persons who have an outstanding tax liability of at least \$25,000. While the department has had this authority since the passage of LB642 in 2011, no effort to exercise this authority has been made despite numerous requests by my office regarding the implementation of these statutory provisions. Committee members should have just received a copy of a letter my office received last week from the Tax Commissioner stating that the department is currently developing two separate requests for proposal to exercise the authority given to them under LB642. While I'm pleased that the department plans to finally move forward on this issue, I still believe that changing the current "may" to a "shall" is needed to ensure that the department carries out efforts to utilize these important enforcement tools and not provide window dressing. The concept of a tax amnesty program has been successful both in Nebraska and in other states. The department's 2004 tax amnesty program ultimately brought in nearly \$53 million in delinquent tax revenue, which is similar tax amnesty program that just concluded in the state of Connecticut brought in more than \$175 million, including a single delinquent payment of \$20 million by one taxpayer. In the letter from Commissioner Conroy, the department identifies approximately \$96 million in delinquent taxes that are currently owed to the state. It is important to note, however, that this figure is just delinquencies known to the department and does not include delinquent or underreported taxes that

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

could be uncovered through data mining or other efforts. As testifiers behind me will note, it's entirely likely that there are significant delinquencies currently unknown to the department. At the end of the day when tax cheats get away with breaking Nebraska tax law, the result is that everyone else winds up paying higher taxes. As the committee considers the appropriate steps to take as we work to modernize our tax system in Nebraska, I hope that the enforcement of our existing tax laws will play an important role. Thank you for your time and I'd be happy to answer any questions you may have. [LB761]

SENATOR SCHUMACHER: Should note that we have been joined now by Senator Janssen of Fremont. And any questions for Senator Mello? Seeing none, will you be staying? [LB761]

SENATOR MELLO: I'm going to waive closing, if that's okay. [LB761]

SENATOR SCHUMACHER: That's okay. [LB761]

SENATOR MELLO: Thank you. [LB761]

SENATOR SCHUMACHER: Proponents for LB761. Welcome to Revenue. [LB761]

ALEX LUNSFORD: Chairman Hadley and members of the Revenue Committee, my name is Alex Lunsford, L-u-n-s-f-o-r-d. I'm an employee of Teradata Government Systems. Our parent's Teradata, Incorporated is a \$3 billion U.S. company which employs over 10,000 people. Teradata is a leading provider of data analytics and warehousing solutions to many premier Nebraska organizations, including BNSF, Union Pacific, and Cabelas, as well as to governments around the world. More pertinent to this hearing, we are one of the first companies to develop a public-private partnership to help states enhance tax compliance to reduce their tax gaps, which is the difference between what a state is owed and what they actually collect. To date we have helped eight states collect \$2.2 billion which they wouldn't have otherwise. These states include your neighbors, Missouri, where we've helped them collect \$375 million; Iowa, where we've helped them collect \$250 million, as well as several other central U.S. states; Texas, a large state with \$1.2 billion and Oklahoma with \$100 million. We've also installed tax solutions in Arizona, New Jersey, Ohio, and Maryland. Our solutions bring in real dollars to a state and all (inaudible) for our states have been extremely positive with examples including New Jersey at over 8-1; every dollar invested generated \$8 back to the state. Iowa at 11-1, which was independently verified by nucleus research, and Missouri at over 25-1. Our experience demonstrates Nebraska would benefit from contracting for services from a vendor such as Teradata. Our involvement in Nebraska regarding tax compliance solutions dates back eight years. As the state budget became tight between 2009 and '11, we recommended Nebraska seek more revenue without raising taxes by using a benefit-based procurement approach where Nebraska pays

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

nothing until after new revenues are collected by DOR. We appreciate that LB642 passed in 2011 authorizing the department to enter into contracts for a system like ours under benefits basis, and again, at no cost to taxpayers. Three years later, Teradata remains committed to enhancing Nebraska's tax compliance for one main reason. We know how much it's worth to Nebraska, an expected \$160 million in new revenue over ten years, again without raising taxes. Moreover, Nebraska could even reduce taxes by \$160 million so long as it reduced its tax gap commensurately without any impact to a citizen's services. How do we know? In 2011 we completed the detailed revenue opportunity assessment for the Department of Revenue showing the potential new tax revenue by tax type, individual, corporate, by...with detail by working with us. We projected in 2011 that implementing a Teradata solution would enable Nebraska to collect the following revenues without changing any tax laws, with no up-front costs, with only small changes to Department of Revenue process. And that revenue would accrue ten to twenty-five million in the first 12, 18 months; \$76 million within five years; and the longer term revenue stream of \$15 million approximately with program and updates and refreshes from thereon after. In some over ten years, the program should generate \$160 million in new revenues just by better enforcing the tax laws already on the Nebraska books. Based on our experience and per our recommendations, this revenue should start flowing quickly. One state customer of ours started receiving new tax payment checks 70 days after we installed the solution, so a little over two months. Our understanding is that the Department of Revenue is to release two requests for proposals for tax compliance solutions in 2014. We appreciate the Department of Revenue's intentions to move towards RFP. Given this, we offer the following recommendations. So as to ensure Nebraskans can benefit as quickly as possible, we encourage the committee to make the award of a vendor-based tax compliance solution required by October 31, 2014. We recommend that the Department of Revenue not issue two RFPs, but rather a single holistic RFP with both requirements so that they can be solved together. Decoupling identity fraud and tax compliance may yield unnecessary delays in valid refunds being issued. With respect to the current proposed legislation, LB761, we recommend that the committee consider expanding the Department of Revenue's tax compliance scope to include corporate as well as persons, as the current bill states, so you focus on taxpaying entities rather than identifying people or businesses. Second, we recommend they consider expanding a benefits-based procurement compliance model to other Nebraska departments, such as for Medicaid fraud. Third, scope limitations based on tax minimums. We recommend you eliminate the \$25,000 limit and let the department's processors determine those. We thank you for this opportunity to speak on behalf of LB761 and how it could help the department. My colleague, Les Arnold, who helps create our solution, is here and we are available for any questions. Thank you. [LB761]

SENATOR SCHUMACHER: Any questions? Senator Sullivan. [LB761]

SENATOR SULLIVAN: Thank you, Senator Schumacher. How do...how does your fee

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

work? You mentioned something about it being assessed after success, but is it on a percentage basis, or how is it? [LB761]

ALEX LUNSFORD: In other states we typically will...first, we would only get paid if the revenue was collected, so it's not based on, you know, whatever we identify. We will help the department better identify the entity, determine the case, and the department has to go make the phone calls and the letters to receive the check. Then of those, we agree that a percentage of the revenues collected in the first year, typically the majority goes to us because again we have put in all the people, software, hardware, and data to bring about the system. And the second year tends to be more neutral, and then in the third year and thereafter, there is a smaller amount to the vendor and there's a cap. So essentially, once our costs are covered, all revenue stays with the state. [LB761]

SENATOR SULLIVAN: And in terms of collections, so you provide the names, but it's the department that actually has to send the letter to the one in arrears? [LB761]

ALEX LUNSFORD: We have recommendations. I mean, from an industry perspective, we're at tremendous risk here because we could identify many cases, but if they don't actually call them and send them letters, then no money shows up and we don't get paid. So we have recommendations and processes and essentially we help apprentice Departments of Revenue around the country on what the...what kind of letter, what should the letter say, what's most effective, what should the call be like, what's most effective. That also can be tuned culturally for the environment for the state. [LB761]

SENATOR SULLIVAN: What exactly do you mean by that? [LB761]

ALEX LUNSFORD: Some states are more aggressive in their tax collection. Some states are more laissez-faire and that's a decision by you all and, you know, the administration. Does that answer your question, Senator? [LB761]

SENATOR SULLIVAN: Yes, thank you. [LB761]

SENATOR SCHUMACHER: Any other questions? I just have a couple. Where are you guys located? [LB761]

ALEX LUNSFORD: Well, the company's headquarters is near Dayton, Ohio. Our unit, Teradata Government Systems, which is a wholly owned subsidiary because of the kind of data we work with, federal, state, local, we're separated and have our own structure. We're headquartered in Annapolis Junction, Maryland. Our employees are global. I live near D.C. Wes lives in Austin. We have employees probably in every state. [LB761]

SENATOR SCHUMACHER: Do you have any employees in Nebraska? [LB761]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

ALEX LUNSFORD: I don't know that, sir. [LB761]

SENATOR SCHUMACHER: Basically if I was understanding right, you're talking over a ten-year period bringing in about \$160 million. Is that correct? [LB761]

ALEX LUNSFORD: That's what the projections in 2011 said, yes, sir. [LB761]

SENATOR SCHUMACHER: If that happened, your commission would roughly be... [LB761]

ALEX LUNSFORD: It would be a percentage and that's a discussion...typically that's a contract discussion between the department and us at that time. [LB761]

SENATOR SCHUMACHER: Well, is it in the range of 5 percent, 30 percent? [LB761]

ALEX LUNSFORD: I mean, the ROIs may be indicative of ten to one. You can see what the cost would be then... [LB761]

SENATOR SCHUMACHER: Fifteen, twenty million dollars. [LB761]

ALEX LUNSFORD: Over a ten-year period. [LB761]

SENATOR SCHUMACHER: Okay. [LB761]

ALEX LUNSFORD: And again, sir, the revenues of that would be nine dollars for every dollar. [LB761]

SENATOR SCHUMACHER: You indicated that it's worth that much money because you have the people, hardware, and data to import. Isn't this sort of a cookie-cutter operation once you've done one, you just simply import data? [LB761]

ALEX LUNSFORD: No, sir. Every state in the Union has different tax laws so I mean the...and different makeups, the culture, the economy, the...I mean, the structure business rules. They're all very specific. Yes, the data fields of the IRS, you know, of the IRS admissions are, you know, that's identical. But in terms of tailoring it to the instance, that takes a lot of skill and, you know, part of what we're real proud of and have won awards recently for is our partnership with states to leverage their subject matter expertise in the laws and the culture of Nebraska, tailoring, data mining in analytics to that appropriately. [LB761]

SENATOR SCHUMACHER: Now the...what's the...let's say the individual income tax, what's the median amount that is collected? How much do people usually get...have to kick in if they were targeted? [LB761]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

ALEX LUNSFORD: Targeted? [LB761]

SENATOR SCHUMACHER: Well, if they come up on your computer says, go after this guy. [LB761]

ALEX LUNSFORD: Again, that would be a determination by the administration, by the department would say, how would we want to tune this? [LB761]

SENATOR SCHUMACHER: What's a hundred sixty million figure based on? What kind of a median result would you be looking for in order to come up with that number? [LB761]

ALEX LUNSFORD: Yeah, and I'll just refer to the study. I mean the discovery programs and...correct me if I'm wrong on this, but we're both at the corporate and individual level. We're...by year five, and I don't have them totaled by year so I'd have to add them all up, but roughly 30, 60, roughly \$50 million. [LB761]

SENATOR SCHUMACHER: Maybe I didn't phrase my question right. Your computer spits out Joe's name, and Joe is the median type of person that's spit out by your computer. What does Joe owe? [LB761]

ALEX LUNSFORD: Well, again, what we're doing is targeting...or where the case is selected, the entity is selected as being anomalous relative to other Joe's around it. So it's not Joe and you're not looking at it by a dollar figure nor by a profession nor by any of that. [LB761]

SENATOR SCHUMACHER: Right, but I...and I think it's recognized in the language of this bill by setting the figure at \$25,000. If your computer spits out a name of a business and it turns out the department sends out an assessment letter for \$3,000. Okay. Right or wrong, the taxpayer is going to cough up the \$3,000 because he doesn't want to go through the purgatory of the audit. And that's, I think, why the bill talks in terms of \$25,000 because the little guy who maybe doesn't owe the bill can't afford to fight city hall. What do you have to sort out, that innocent little guy? [LB761]

ALEX LUNSFORD: Understood. Thank you, sir. Again the mass is just going to target anomalies that cost-effectively make sense for the department to go after. So let's say that the tax obligation of the little guy is \$100. We can show the costs being \$200 to go after that little guy, so it's a bad bet for the department to go after them anyway. Now if there's a particular requirement that, you know, you would not like for folks of a certain income level and so forth to, you know, to be monitored in a compliance program like this, that's a decision you can make. We don't advocate it because behavior shows that, you know, folks that don't pay their taxes well come from all income levels. And it should

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

be a business decision as to whether the department should go after it or not. If it costs you a dollar to go after something that you only get fifty cents back from, that doesn't make sense. [LB761]

SENATOR SCHUMACHER: Thank you. Any other questions? Thank you for your testimony. [LB761]

ALEX LUNSFORD: Thank you, sir. [LB761]

SENATOR SCHUMACHER: Next proponent, LB761. [LB761]

MONTE BROWN: Good afternoon. My name is Monte Brown, M-o-n-t-e B-r-o-w-n. I'm here to testify in support of the bill. If I may give you a quick brief background. I own a company in Omaha. It's called MLB Logistics. If you would read the paper in the last two years, you've probably read my name, my company and what was involved with a large embezzlement. And we are currently in the legal system. Not the best way I want to become famous, but I've been famous in the World-Herald. But the reason I'm here today is, going through the pain of the embezzlement and what we have, we have been able to develop and purify a system that has a remarkable way of catching nonpaying filers. And also has the ability to bring in contraband and black market products into our system that right now are currently not being taxed. We've developed the software while we worked with the state of Nebraska Department of Revenue for other reporting requirements. In 2012, the Nebraska Department of Revenue required that wholesalers submit all their data electronically. And so what that did, it's forced us to bring in a system and our software developer to develop a program to work with our state. And once we were done with that, we developed a software to another level and what it's done, being in the business 19 years, what it's done is we've developed it to the point that it can recognize nonfilers and it brings in contraband products that's coming into our state whether it's through Internet sales or black market, we do have the ability to monitor and gather that information. Now I do agree with the bill because, one thing, I think our Department of Revenue has the ability to collect this tax with some help if we work with them. I don't know that forcing a mandatory on them is the way to go, but I do believe our Department of Revenue does not need to spend multimillion dollars trying to bring in nonpayers. I think we have the ability to bring in a nonpayer...nonfilers. Very simple. It's right in front of us. It's a program and a system that if we could work together with the Department of Revenue, we believe...and I'm sorry, I haven't had a lot of time to work with our new Commissioner, Mrs. Conroy, but I have worked with the previous Commissioner, Mr. Ewald. And we do believe that the numbers are quite large out there, twenty to thirty million per year that we can recoup in unpaid taxes, and taxes on contraband products coming into our state. So I'm here to ask that we really look at this bill and maybe even consider prioritizing it with what's going on in our Legislature because as the demographics of our state change, and the business owners change, there's a new way of doing business out there. And our current system has not been

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

able to keep up with the changes in society. And I'm not saying it's right or wrong, but we do recognize there is a new way of doing business and a lot of that is not filing the proper taxes. And so we think we have a way to level the playing field between good paying businesses and the ones that just don't want to pay. And I think if we really look at the program and the simplicity of it and work it into our current system, we can recoup a lot of those taxes. [LB761]

SENATOR SCHUMACHER: Senator Janssen. [LB761]

SENATOR JANSSEN: Thank you, Vice Chair. Mr. Brown, thank you for coming today. For the record, you were...somebody embezzled against you, you weren't the embezzler, just to be certain. (Laughter) [LB761]

MONTE BROWN: Yes, I guess, I should state that. My CFO embezzled from me, our company, yes. [LB761]

SENATOR JANSSEN: Wanted to make sure that was on the record... [LB761]

MONTE BROWN: Thank you. Very important. [LB761]

SENATOR JANSSEN: ...how you became famous or infamous. What type of...and I actually wish you would have went first so I could have asked the questions of the other group, which I know how to get ahold of them, so I can do that. But what type of products would you see that we're missing out, we being the state of Nebraska on revenue? You mentioned contraband that we could perhaps target or many or a few or whatnot. [LB761]

MONTE BROWN: If I would pick...in my industry we're considered a candy and tobacco wholesale company. There's 42 that sell into our state and there's 24 that are locally-based in Nebraska. In our industry we see on a daily basis, a product coming into our state with no tax on it, being sold to our retailers at cash, and then being turned around and sold to the customer without being taxed. And the problem with that, Mr. Janssen, is that we not only lose on the tobacco tax when it comes into our state, we turn around and then we lose money on not collecting the sales tax. And then the third part of that is, Nebraska is participating in the Master Settlement Agreement so every product that gets sold in our state, we get paid from the vendors whether it be Philip Morris or R.J. Reynolds. We lose out on that payment also because that product is not run through our system. And so there's three levels on one product that we're not collecting our tax on. And we're seeing a large amount of product coming into our state from nontaxing states. [LB761]

SENATOR JANSSEN: Maybe even a fifth part on that of lost unintended...well, intended, I suppose, would be upping against your business or whatnot at all as far as

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

tobacco sales go. There's Medicaid expense which has been proven and we're not at some extent recouping any...but it ties back to the settlement and whatnot, so I think that's another part. Thank you. Thank you for being down here. [LB761]

MONTE BROWN: There's a part of your question if I may. We also right now are fighting a large amount of Internet sales that are coming into our state that we don't collect sales tax on. We believe this allows us to have the ability to collect the tax on Internet sales, and then the last caveat of that is, these vendors that are nonregistered in our state, we have the ability to bring them into the system too, and at least recognize them and identify them. [LB761]

SENATOR JANSSEN: Okay. I think you should probably talk to the gentleman that testified right before you after this hearing. Thank you. [LB761]

SENATOR SCHUMACHER: Any other questions? Are you a local Omaha, Lincoln company? [LB761]

MONTE BROWN: Yes, I have an Omaha business. We employ 53 Nebraskans and one person from Iowa. We've been here for 32 years. [LB761]

SENATOR SCHUMACHER: Then you have people on staff, computer programmers, analysts, statisticians that came up with this program? [LB761]

MONTE BROWN: We outsource our programming and we've now partnered with a local company, a software provider that provides software worldwide that has agreed to partner with us to develop with the states. What we see is, each state has different requirements and the program is developed completely with the small percentage depending on the requirements of the state of Nebraska that would indeed be added on there. But we do believe we can work with our current system where our software will work with the state of Nebraska. And we don't see the state of Nebraska bringing on staff expenses, you know, that all have benefits. We think we can partner and actually work with them and save money and collect additional taxes. [LB761]

SENATOR SCHUMACHER: Do you...would you foresee any great difficulty in importing the data the state has got in its databases regarding taxpayers and what they pay, the way it's organized, it's full of some records and everything, into your system, would that be a complicated process? [LB761]

MONTE BROWN: It would not and that's why we feel it's a simple file download. Most of our tax sales certificate holders are currently doing what they need to do and it's just an add-on to what they're doing. We're not putting an additional burden on small business. Our business owners aren't going to have to go out and buy software, computers. They're going to have to...it requires them to change the way they do business to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

comply with the state, but it does not put additional expenses on the business. [LB761]

SENATOR SCHUMACHER: If you require them to change how they do business, who eats that expense then? [LB761]

MONTE BROWN: There's no expense to that. It's just a different reporting requirement along with the state of Nebraska. [LB761]

SENATOR SCHUMACHER: Is that electronic form or paper form? [LB761]

MONTE BROWN: Yes, it is, it is. [LB761]

SENATOR SCHUMACHER: Okay. Any other questions? Thank you for your testimony. [LB761]

MONTE BROWN: Yes, thank you. [LB761]

SENATOR SCHUMACHER: More proponents, LB761. Proponents, going once. Welcome, Commissioner. [LB761]

KIM CONROY: (Exhibit 3) Welcome. Nice to see you all again. Co-Chair, Senator Schumacher, members of the committee, my name is Kim Conroy, C-o-n-r-o-y, and I appear before you today in opposition to the tax amnesty provisions of LB761. LB761... [LB761]

SENATOR SCHUMACHER: Excuse me. You're not a proponent today, you're an opponent? [LB761]

KIM CONROY: I'm in opposition to the amnesty provisions. [LB761]

SENATOR SCHUMACHER: Okay. Just to clarify on...any proponents out there, just to keep us kind of in order here. All right. Then we'll now shift to opponents. I think you... [LB761]

KIM CONROY: LB761 authorizes a tax amnesty from August 1, 2014, until October 31, 2014, for all taxes that are due and owing before April 1, 2014, which has not been reported to the Department of Revenue. From a policy perspective, tax amnesty, we believe, is just simply bad policy. It makes little sense to give a pass to taxpayers that don't pay their taxes on time while the vast majority of Nebraska taxpayers, just like you and me, and hopefully most of the people here today, they file their returns and they pay their taxes on time. From an administrator's standpoint, it runs counter to my goals as Tax Commissioner and the mission of the Nebraska Department of Revenue to serve the public by administering the state revenue laws with integrity, efficiency, and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

consistency among taxpayers. As you know, the state of Nebraska offered what was intended to be a one-time tax amnesty in 2004. While the state collected revenue as the result of that amnesty program, the amounts were below expectations at the time of only the \$8 million that was collected. It also seems likely that we will see a reduction in tax collections deposited to the General Fund during the next biennium due to the tax amnesty program. The fiscal note indicates as much. Tax amnesty simply shifts when the department collects the revenue rather than resulting in additional collections beyond what we would have otherwise expected. It's also worth noting that states that have offered more than one amnesty program, most have seen reductions in revenue collected in their subsequent amnesty periods. In other words, while that first amnesty--and we had ours back in 2004--may meet a policy goal of bringing a small group forward to get them back on track, subsequent amnesty simply serves as a planning tool for a small group of taxpayers that are going to take their chances on getting audited before the next amnesty period. The enforcement fund. The department has an enforcement fund and LB761 also continues to fund personnel for enforcement of the Nebraska Revenue Act at existing levels. However, I would note as introduced, LB761 increases funds for hiring additional staff by \$250,000 for fiscal year '15 and '16, but then it reduces the ongoing amount available back to our current levels. Right now our current levels, we do have an enforcement fund, we have individuals employed for that. It's at \$750,000. So it's unlikely this additional \$250,000 for the one year, we would lack the funds then the next year, so we would probably not hire additional staff if we have to let them go the year after because we don't have the \$250,000 to pay them. On the contract authority. While the department has not taken a position on that piece of the bill, on the contract authority, we would like to provide you with an update on what we are doing to identify nonfilers, underreporters, or nonpayers of taxes. In 2011, as has been mentioned here previously, LB642 authorized the Department of Revenue to contract for services or software on the contingency fee basis, or through our existing budget authority for purposes of identifying those nonfilers, nonpayers, or underreporters of tax or fraudulent payments that are made to the department. Over the last year, the Department of Revenue has met with numerous vendors regarding potential products and services that will be available to identify those nonfilers, underreporters or nonpayers of taxes administered by the department or to identify improper or fraudulent payments made through programs that are administered by the department. The process has been invaluable to the department for evaluating the different options that are available and the potential benefits to be derived in purchasing products and services such as these. The department is currently developing two requests for proposals as a result of our extensive research. Number one is the proposal to identify and prevent the issuance of income tax refunds that would be improper or fraudulent. The second one is a proposal to identify nonfilers, underreporters, and nonpayers of taxes. The department anticipates issuing a request for proposal regarding the issuance of refunds claimed improperly or by fraud, so the first one, within the next three to nine months. In addition, the department anticipates issuing another request for proposal for a product to identify nonfilers of returns,

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Transcriber's Office

Revenue Committee
February 06, 2014

underreporters, or nonpayers within the next six to nine months. That concludes my formal remarks and I'd be happy to answer any questions you have. [LB761]

SENATOR SCHUMACHER: Senator Janssen. [LB761]

SENATOR JANSSEN: Thank you, Vice Chair Schumacher. Thank you, Director, for being here. It's nice to see you again. Now you talked about our fees, which I understand are our fees that you have right now, is there anything that would address what Mr. Brown brought up dealing with, I guess, he used specifically tobacco or black market type...is there any...do we have any...no transparency on that or do we have any knowledge of that happening or how that's happening and is the department tracking that down right now? [LB761]

KIM CONROY: Thank you for the question. A couple of years ago, LB590 was passed by the Legislature and that was the system that Mr. Brown mentioned in terms of reporting cigarettes. We are reporting cigarettes by the stick now and have pretty extensive reporting that's coming in to us that we are examining and constantly looking at. We're not seeing any...our tobacco tax isn't as high as a lot of states so because of that we're not one of the typical black market states where we see a lot of that just because our cigarette tax itself isn't an outlier. You know, we're not extremely high compared to surrounding states. Any proposal that he would have, he's certainly welcome to submit an RFP when we go to look at those. In terms of identifying, I guess that would be a nonfiler to a certain extent. But we do have a pretty active program. We have to show due diligence, the department does, in enforcing the tobacco acts for the Master Settlement Agreement. And we...there's been ongoing litigation with that and Nebraska has come out...fared well in that for the Master Settlement Agreement. So we do do due diligence in making sure that tobacco taxes are properly collected and we have an ongoing inspection system where we are out doing ongoing inspections with inspectors to make sure that cigarette stamps are properly affixed at the time of sale. [LB761]

SENATOR JANSSEN: Thank you and I by no means saying that you're not doing a good job there, by no means, but by the stick, cigarettes...speaking of cigarettes, you're talking about ensuring that the stamps are on there but what stops the person...and I think this is almost impossible, so I'm giving you a question that I think would be tough to answer because I don't think you have the enforcement capabilities to do this as somebody...a truckload of cigarettes comes up, even from out of the country, and they're sold locally and I've seen that happen. I don't smoke, but I've seen it happen in my community, which is Fremont. So again, I don't smoke, but I know what a tax stamp looks like and I've seen them not on there. So there's really no way and you don't have enough probably employees in your division to probably track that down unless the State Patrol or local law enforcement catches them. Am I accurate in that assessment? [LB761]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

KIM CONROY: If you have any tips, let us know and we can get people to Fremont very quickly to look at that truck for you. (Laughter) We always take tips. We won't identify people that give us tips. We'll go take a look at it. We have participated in some investigations in the past and we've had some successful prosecutions in the federal district court on unstamped cigarettes that were coming in from other countries. So to answer your question, I think we have very capable people that are on the ground that know what's happening, and we did find what was happening at least with these cigarettes that were being imported from out of the country that did not have tax stamps on. These people were prosecuted for the most part. [LB761]

SENATOR JANSSEN: Good. [LB761]

KIM CONROY: But to answer your other question, of course, we see people, I mean, you do, seeing, selling those carpets out of the back of the vans on street corners too. We know we can't be everywhere. That's why we're trying to use technology to the extent we can matching up all the cigarettes that are either coming into the state and/or leaving the state. [LB761]

SENATOR JANSSEN: I appreciate that and by no means am I saying that your staff isn't doing a great job. I understand that's a very difficult job to track down. I recently...well, not recently, but I took a trip to New York and they're selling umbrellas and knockoff bags on the side of the road and I'm sure they're not collecting the taxes there as well. So it can be extremely difficult in the opportunity that the two previous testifiers brought forward. I think it's very interesting, so thank you. [LB761]

KIM CONROY: No, thank you. [LB761]

SENATOR SCHUMACHER: Any other questions? Senator Sullivan. [LB761]

SENATOR SULLIVAN: Thank you, Senator Schumacher. Thank you, Ms. Conroy. Your RFPs that you're beginning to issue, how wide an area are you going to be sending them out, nationwide, or just in Nebraska? [LB761]

KIM CONROY: They typically will go out nationwide. I think the people that are interested in this probably know about this right now. [LB761]

SENATOR SULLIVAN: Okay. Including the ones that we heard from...of course, I guess they would be available as well. [LB761]

KIM CONROY: Yes. [LB761]

SENATOR SULLIVAN: Thank you. [LB761]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Senator Pirsch. [LB761]

SENATOR PIRSCH: Thank you for your testimony here today and this may be a subissue, just kind of carrying on with the facts of the previous testifier as a proponent. But the department has a broad discretion in reaching settlements, is that correct with respect to taxes that are owed? [LB761]

KIM CONROY: You mean in terms of settling, yes. [LB761]

SENATOR PIRSCH: Okay. Are there policies or guidelines that kind of guide you in any...with respect to instances where good pay factors or companies, but experience in a bad actor, employee, is that a factor in what you could be considered? Is that something that would...? [LB761]

KIM CONROY: Well, Senator, each situation is unique and I would prefer not to discuss specific situations as were mentioned here. [LB761]

SENATOR PIRSCH: Sure. [LB761]

KIM CONROY: I can give you a kind of a general overview of what our approach is. If a company has been under an audit, and we issue a proposed notice of deficiency determination, they have 60 days to file a written protest with us disputing the fact that they don't owe those taxes. So let's say they do that, they file a protest with us. Through that protest process, they'll work with an attorney. Typically what happens is, they haven't provided all of the information to us while they're being audited so they'll use this as an opportunity to gather that information to show that they did collect tax or they did pay use tax, if we're talking about sales or use taxes. If we reach a point where we can't come to agreement on a legal issue, on is this taxable or not, many times we'll go to protest. Many times we'll try to settle the issue, and they'll agree on a go-forward basis to collect tax. But while you're saying we have wide-ranging authority to issue settlements, we typically try to arrive on what the right amount of tax is for that taxpayer. Typically, you know, if they bring in additional information or have a good legal argument that we hadn't considered before, we'll take those into account as we look at coming up with a settlement. And if we can't come to a settlement that each party agrees to, then that's when it will go to a hearing officer in the department. Does that answer the general questions in terms of...? [LB761]

SENATOR PIRSCH: I see. It's helpful. Thank you. [LB761]

SENATOR SCHUMACHER: Senator Hansen. [LB761]

SENATOR HANSEN: Thank you. Commissioner Conroy. You said that in 2004 we had

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

a tax amnesty program and received less than expected. But we fast forward ten years, is there a...I didn't like the comment you said that some people are going to use this as a planning tool. And is ten years long enough to not to use it as a planning tool? You see any advantage of having another short amnesty period and collecting some back taxes? [LB761]

KIM CONROY: The reason we're saying that, Senator, and thank you for the question on, has that been enough time is, I think, a lot of the research that there's been since every...since not every state, but almost every state has done this and some have now done amnesties repeatedly. A lot of the economic research is showing that in later years they actually collect less and that's why we just don't see it as a good idea because when is the next one going to be, Senator? Is it going to be four years from now, or is it going to be ten years, or is it only going to be two years? We've seen states such as...I know, I think Louisiana, Connecticut, are some of the ones most recently doing them where they have done them repeatedly, year after year. And we just don't think that that...the vast majority of Nebraskans pay their taxes, pay the right amount of taxes, and pay them on time. And we just don't see that we're being very consistent is, if you wait and don't pay your taxes that not only will you not have to pay penalty, but you get a 100 percent interest abatement at the same time with this. Just don't think that's fair. [LB761]

SENATOR HANSEN: Yeah. Thank you. [LB761]

SENATOR SCHUMACHER: Any other questions? I just have a couple. When we talk about amnesty we're not talking about them not having to pay the tax, at least if I'm reading the bill right, but not having to pay interest and penalties on the tax. How long as a matter of practice now does a taxpayer who doesn't pay enough tax have to be at risk before they kind of...statute of limitations or administrative policy kind of makes it so they don't have to pay the taxes in history. [LB761]

KIM CONROY: Senator Scumacher, each tax...and I was testifying on the department bill when we were looking at changes, we wanted to make in the sales and use tax area at least to extend that statute of limitations out. In the individual income tax area, if you don't file a return with us, we don't have a statute of limitations on you. [LB761]

SENATOR SCHUMACHER: For a...and I think the Revenue Committee has another bill before it from last year where people who buy gold and silver bouillon perhaps don't realize that there's a sales tax or use tax on that. Would that count there too, there's never a limitation on that? [LB761]

KIM CONROY: Senator, that would be that they owe a sales or use tax on that? [LB761]

SENATOR SCHUMACHER: Right. Some investing operations they say, you know, buy

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

an ounce of gold and that's a way to save. And people don't realize that when they pay \$1,500 for an ounce of gold that there's supposed to be a sales or use tax imposed. And so that there might be quite a bit of that happen. [LB761]

KIM CONROY: Well, and I'll go back to what we had said on the department's...when I was here to testify before at least on the sales and use tax area, there's...there are statute of limitations for that. Depending on if a return isn't filed at all, then there's a five year statute of limitations. [LB761]

SENATOR SCHUMACHER: If someone does file a return but understates their income on income tax, what's the status on the...? [LB761]

KIM CONROY: That's the three-year statute of limitations that we talked about. [LB761]

SENATOR SCHUMACHER: That's three. So really if this goes back beyond three years, you don't expect that an amnesty program would flesh out very much from beyond the three years. [LB761]

KIM CONROY: Not if the statute of limitations has already covered that period. Thank you. [LB761]

SENATOR SCHUMACHER: What if the...to address the tax planning aspect, what if the rule was that you couldn't apply for a second amnesty? You had one bite at the apple. Would that help or hinder or wouldn't make any difference? [LB761]

KIM CONROY: It would be harder for the department to track, number one. Number two, businesses change ownership and entities and names, so I don't know. It would be difficult for us to, to a certain extent to see if this is the same company that took amnesty last time, or has it changed enough that it's a new company at this point in time? [LB761]

SENATOR SCHUMACHER: Any other questions? Thank you, Commissioner, for your testimony. [LB761]

KIM CONROY: Thank you. [LB761]

SENATOR SCHUMACHER: We are on opponents to LB761. Any more opponents? Seeing none, neutral testimony to LB761. Seeing none. Senator Mello has waived closing and that will close the hearing on LB761. And we move on now to the second item on the agenda, LB850. Senator Watermeier, welcome to Revenue. (See also Exhibits 1 and 2.) [LB761]

SENATOR WATERMEIER: Nice to be here. Thank you, Vice Chairman Schumacher

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

and members of the Revenue Committee. I'm Senator Dan Watermeier, spelled W-a-t-e-r-m-e-i-e-r, representing the 1st District covering the southeast corner of the state. I'm here today to introduce LB850. LB850 proposes to allow individuals who have a developmental disability as defined in Section 83-1205 to qualify for the homestead exemption. The definition of developmental disability is the same as used in the Developmental Disability Service Act. The application for exemption must include certification from the Department of Health and Human Services. Currently, only persons over the age 65, qualified disabled individuals, and qualified totally disabled veterans and their widow are eligible for the Nebraska homestead exemption. The category for qualified disabled individuals is limited to persons with a permanent physical disability and loss of the ability to walk without the regular use of a mechanical aid or prosthesis, persons with amputation of both arms above the elbow, or permanent partial disability of both arms in excess of 75 percent. The current definition of disabled applies only to specified physical disabilities and does not include intellectual disabilities. As I understand, a constituent involved with a local chapter of People First of Nebraska inquired about expanding this program three years ago. However, at that time, Senator Cornett had just introduced LR221 which proposed to look at ways to control the costs of the homestead exemption program such as increasing the minimum wage, changing the income limitation brackets, or capping the amount of appropriated for the program. Late last year as I read the Tax Modernization Committee's LR155 report, I noticed that one of the recommendations was to raise the homestead exemption program income guidelines to increase the number of low-income households who would qualify. The report also stated that Nebraska policies to shield low income, elderly, and disabled households from high property tax rates and burdens on income are effective and useful. Furthermore, I did notice that the Revenue Committee introduced LB986 which proposes to change the income limits for applicants and beneficiaries of the homestead exemption program. I believe that persons with developmental disabilities who meet the income and valuation guidelines are also deserving of and should qualify for property tax relief. Furthermore, by living in their own home rather than a group home, not only does it allow them more independence, it also may reduce the expenditures for the state. In speaking with the director of the Division on Developmental Disabilities for HHS, she informed me in my office that they have a process to determine eligibility for persons with developmental disabilities seeking services through their agency. The Department of HHS does not keep statistics on the number of persons with developmental disabilities who own their own home. Dave Merrill, the Executive Director of Region V Services, obtained an informal number of approximately 45 people from talking with providers across the state. The fiscal note from the Department of Revenue uses data from the University of Colorado research study which cites the number of persons in Nebraska with developmental disabilities who live alone or with a roommate, but does not appear to further define how many own their own home. Mr. Merrill will also address the estimated number of qualified persons in his testimony following me. I urge you to look favorably on LB850 which seeks to expand the current homestead exemption program to include persons who have

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

developmental disabilities. I hope I can answer some questions. I may not be as qualified as some, but I'm glad to introduce the bill, so I'd be happy to stay for questions. [LB850]

SENATOR SCHUMACHER: Any questions for Senator Watermeier? Senator Hansen. [LB850]

SENATOR HANSEN: Thank you. Senator Watermeier, I read through this briefly. It's not in the underlying part. What about blindness as a developmental disability? [LB850]

SENATOR WATERMEIER: You know I didn't look at that as far as...I'd have to just go back to the definition because it's defined in there. [LB850]

SENATOR HANSEN: I don't think it's in there. [LB850]

SENATOR WATERMEIER: It isn't? Okay. That's a good question. I'll have to look and think about it a little bit and see what the favor of the committee would be. [LB850]

SENATOR HANSEN: Okay. Thank you. [LB850]

SENATOR SCHUMACHER: Any other questions from the committee? Seeing none, Senator, will you be staying for closing? [LB850]

SENATOR WATERMEIER: I think I'll stick around. I need to hear this testimony. Thank you. [LB850]

SENATOR SCHUMACHER: Thank you. We're now on to proponents for LB850. Welcome. [LB850]

DAVE MERRILL: (Exhibit 4) Senator Schumacher and members of the Revenue Committee, my name is Dave Merrill, D-a-v-e M-e-r-r-i-l-l, and I'm the executive director of Region V Services, a public agency providing supports to people who experience developmental disabilities for over 40 years. My testimony today is on behalf of Region V Services and the Nebraska Association of Service Providers, an association representing most of the providers of developmental disability services in the state of Nebraska. For people who experience developmental disabilities, homeownership is a role valued by our communities and shows that people with disabilities have the same hopes and dreams that other people share. Region V Services supports 22 people who own their own homes. We support just over 900 folks and 22 of those own their own homes, most of whom also have jobs in the community in order to make house payments, pay utilities and take on the other expenses of life. You'll be hearing from two individuals, but there were eight other potential testifiers that just couldn't get out of their work to come here today, so. I did a telephone poll of providers in Nebraska last year and identified 46

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

people who might qualify for this exemption. The Division of Developmental Disabilities, as Senator Watermeier indicated, does not collect the information. The estimate used to prepare the fiscal note for LB850 is problematic. It was not a category addressed by the Colorado study. It's so new for people with developmental disabilities to own their own home that people aren't collecting...haven't collected data on it nationally or...so the Department of Revenue had to extrapolate from some service areas that they didn't quite understand to come up with a fiscal note. We believe the impact is going to be significantly less. The data in the study does not reflect people across the state who would be eligible for this exemption if LB850 is adopted. While we know of 46 people, I would estimate 60 people to be a high estimate, and the homes are likely to be valued below any statewide average valuation. Our working poor don't live in mansions, so the homestead exemption would not be a great loss in terms of property taxes. The homestead exemption is a provision that would help people maintain their homes and enhance their quality of life. For some individuals, it can provide the difference between being able to own their own home or having to continue renting for the rest of their lives. Following me, you will hear some stories by people who would benefit from the homestead exemption. I hope you will be as inspired as I have been with what they have accomplished through working and saving and actually, being able to become a homeowner. Please advance LB850 and thank you for your consideration on this issue. But I do have to answer Senator Hansen's question about blindness. Blind vision is one of the areas. There's seven areas to be considered a developmental disability, but blindness alone would not fall in that category. And developmental disabilities also must occur before age 22. These definitions are federally defined and set out, and so.
[LB850]

SENATOR HANSEN: Okay. Thank you. [LB850]

SENATOR SCHUMACHER: Any questions from the committee of Mr. Merrill? [LB850]

DAVE MERRILL: I actually know David Braddock, the guy who did this study that they were talking about in Colorado. And one of the issues is, they just don't have this category and so in order to come up with something, it was extrapolated from numbers that didn't work. [LB850]

SENATOR SCHUMACHER: Thank you for your testimony today. More proponents for LB850. Welcome to the Revenue Committee. [LB850]

DANA SHAW: Thank you. Hi. My name is Dana Shaw, D-a-n-a S-h-a-w. I currently rent my home and have been living there for ten years. With assistance in taxes and I would be able to purchase a home on my own. And I also work at the public schools in Auburn, Nebraska, in a grade school, one that I clean and I'm part-time. And thank you.
[LB850]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Thank you. Any members of the committee have questions? Well, thank you very much for coming to us today. We appreciate it. [LB850]

DANA SHAW: Thank you. [LB850]

SENATOR SCHUMACHER: More proponents to LB850. [LB850]

JOHN STEELE: Hi, my name is John Steele, and I own my own home. If I was able to receive help with taxes, I would update my home in certain areas. Thank you. [LB850]

SENATOR SCHUMACHER: John, could you spell your last name for the tape... [LB850]

JOHN STEELE: S-t-e-e-l-e. [LB850]

SENATOR SCHUMACHER: Any questions for John? Seeing none, thank you very much for coming to talk to us today, John. [LB850]

JOHN STEELE: You're welcome. [LB850]

SENATOR SCHUMACHER: More proponents of LB850. [LB850]

MICK MINES: Senator Schumacher, 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...or excuse me, the National Association of Insurance and Financial Advisors, or NAIFA. As in all homestead exemption issues, we have agents throughout the state, more than 1,100, that represent some of the folks that would be effected by these. We believe that Senator Watermeier should be commended for bringing the bill. We support it and I would be glad to answer any questions. [LB850]

SENATOR SCHUMACHER: I just have one, Mr. Mines. These people who would be affected by this, they keep their homes insured just like everyone else and have that expense also? [LB850]

MICK MINES: Yes, absolutely. And family members participate as well and it runs the whole realm of financial planning through family members to these folks with developmental disabilities. So while a very small number are included, we wholeheartedly support the effort of Senator Watermeier. [LB850]

SENATOR SCHUMACHER: Are there any state programs or anything to help them with their insurance costs? [LB850]

MICK MINES: That's a good question. I can't answer that off the top of my head. Be glad to get the information. I'll find out, thank you. [LB850]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Any other questions from the committee? Seeing none, thank you for your testimony today. More proponents for LB850. Seeing none, opponents for LB850. Seeing none of those, neutral testimony on LB850. Seeing none, Senator Watermeier. Senator Watermeier closes and...or waives, and that closes the hearing on LB850. We are now on the agenda, LB912. We'll give Senator Kolowski a minute to get here. I assume someone from his staff is fetching him from his committee. We could move on to Senator Pirsch, but Senator Pirsch is likewise gone momentarily. Welcome, Senator Kolowski. [LB850]

SENATOR KOLOWSKI: (Exhibits 5 and 6) Thank you, Senator. Good afternoon, Chairman Schumacher and members of the Revenue Committee. My name is Rick Kolowski, R-i-c-k K-o-l-o-w-s-k-i, and I represent District 31. Every month since I've been in office, I have been sending surveys to my constituents to learn about their views on issues of importance to them. Overwhelmingly, property tax relief is one of the top issues my constituents want me, and my colleagues here, to address. When compared to other states, Nebraska's property taxes are very high. According to the Tax Foundation, when the mean property taxes on older occupied housing are valued as a percentage of the mean home value, Nebraska's property tax rate is approximately 1.72 percent, which makes it the sixth highest in the nation and higher than all of our neighboring states. When it valued as property tax collections per capita, Nebraska collected approximately \$1,487 in property tax for every single person in the state. The sixteenth highest per capital collection in the nation and higher than all of our neighboring states. LB912 is one way we can bring about property tax relief to homeowners who are struggling with Nebraska's high property taxes. This bill adopts a property tax relief act and the property tax relief fund which provides property tax relief for property taxes levied against homesteaders. For the tax year 2015 and each following tax year, all homesteads in Nebraska shall be assessed for taxation the same as other property except that there shall be exempt from taxation the homesteads an amount equal to \$8,000. That equates to approximately \$150 annual property tax relief on a house of \$115,000. To receive this property tax relief, a homeowner shall file an application for the homestead exemption with their county assessor and no reapplication need be filed for succeeding years. The Association of County Officials have a concern with not requiring homeowners to reapply for this exemption because we may end up giving money to people whose situation has changed in such that they do not qualify. We have addressed these concerns with AM1816 which would require homeowners to apply for this exemption annually. Reimbursement to counties for this homestead exemption shall be made from the Property Tax Relief Fund. The county treasurer shall certify to the tax commissioner the total tax revenue that will be lost to all taxing agencies within his or her county from taxes levied and assessed in that year because of the homestead exemption. Reimbursements of the funds shall...funds lost shall be made to each county according to the certification and shall be distributed in six equal monthly payments. I have also amended AM18...I have the amendment, AM1832,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

which removes the Property Tax Relief Fund and replaces it with reimbursements being made from the General Fund. This is how the general homestead is funded, so it makes sense to do the same with this particular bill. Currently, Nebraska provides direct property tax relief to taxpayers through the homestead exemption program and the Property Tax Credit Act. I believe LB912 can serve as an addition to our current homestead exemption program and an addition or alternate to the Property Tax Credit Relief Act, which is currently spread thin because it includes big box stores such as Walmart and Target and out-of-state landowners who have a great deal invested in our particular state. I want our dollars to stay in the state and to go to residents who really need some of the relief. Many of you served on the Tax Modernization Commission and I commend you for the work you've done on this commission. A recent article in the Midland's Voice wrote that if your commission towards the state, you're met with an avalanche of support for lowering property taxes in Nebraska. LB912 is one way we can bring direct relief to the homeowners who are struggling with Nebraska's high property taxes. Thank you for your time today and I'm happy to answer any questions as I can. [LB912]

SENATOR SCHUMACHER: Any questions for Senator Kolowski? Senator Sullivan. [LB912]

SENATOR SULLIVAN: Thank you, Senator Schumacher. Thank you, Senator Kolowski. [LB912]

SENATOR KOLOWSKI: Yes, ma'am. [LB912]

SENATOR SULLIVAN: In addition to wanting to achieve property tax, I know you share my concern in...for supporting education so the question has to...the obvious question has to be asked in terms of concerns over the impact this might have on the General Fund in terms of supporting such things as education, how you might account for that? [LB912]

SENATOR KOLOWSKI: The fiscal note as you've seen it, is not small. It does have impact over time but it does get money back to the taxpayers through the homestead situation that we've described. We would have to look at this within the realm of what we've talked about for the last year and that is, what moves will the tax group make in the next year as they continue with their observations and decision making over the next calendar year. The water people are next door talking about a water issue right now. Just left that meeting and that has a great impact on again where tax dollars will go and what will be done with that process over the next year. And, of course, an education, the TEEOSA formula or state aid for education in anyway, shape or form is also part of that triad. So I think, Senator Sullivan, the answer lies in the progress all three will be making over the next year. This is not, I understand...the impact of this suggested bill, I understand the dollars that are involved in that, and that's not a small

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

amount of money. And it does have that impact. To balance that out with the education needs and our desire for the quality education we want to have, it will have to be one of those balancing points that all three of those major forces will work out over time. I don't want to diminish any of those, but we have limited resources and we have to understand how those are shared and where we're going as a state as a whole and then make the tough decision. [LB912]

SENATOR SULLIVAN: Thank you. [LB912]

SENATOR KOLOWSKI: Thank you. [LB912]

SENATOR SCHUMACHER: Any other questions? I just have one question, Senator Kolowski. We're looking at roughly \$75 million a year and this on top of our present property tax programs. And if we're not going to look at cutting back some local government activity, whether it's education or something else, this is \$75 million we're going to have to squeeze out of something. At the same time there's been discussions that we should actually cut our revenue inflows from the income tax in the tune of probably \$100 million or considerably more. Given those choices, why the property tax over the income tax cuts? [LB912]

SENATOR KOLOWSKI: I have no particular standout reason, being a nonagricultural district as I come from and only hearing from my own constituents on this, not that we haven't heard all the other testimony that you received last summer on your tours around the state, but I was reacting to suburban and urban environment reactions that I've had from my constituents. And the commonality they all have is a piece of property called a home and the homestead exemption is available to them to take, and income tax, of course, could be looked at as the Tax Commission makes it's work known and completed in the next year, we'll have decisions to make as to how much we balance out of the multiple pockets of taxation in our state for the services that we desire. So I think it has to come back to decision making as to quality of life that we want and how much we'll be willing to pay. [LB912]

SENATOR SCHUMACHER: So from what you're hearing from your part of the world is that property taxes, more complaints about those than income taxes? [LB912]

SENATOR KOLOWSKI: At this point in time for the surveys we received back and the categories they have marked, property taxes is the highest at this time, yes, sir. [LB912]

SENATOR SCHUMACHER: Thank you, Senator Kolowski. Any other questions? Are you going to be staying for closing? [LB912]

SENATOR KOLOWSKI: Yes, I will. Thank you. [LB912]

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Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Now proceed to proponents of LB912. Proponents. Seeing none, opponents of LB912. Welcome. [LB912]

LARRY DIX: Good afternoon, Senators. For the record, my name is Larry Dix, L-a-r-r-y D-i-x, appearing today in opposition to LB912, specifically as the way...the green copy of the bill as it's written. And I think Senator Kolowski had actually identified the two things that, of course, we were going to have some concern with. Our assessors certainly were concerned with the one-time...you make the application one-time, you keep it. It's a little bit of a rock in a hard spot when you start to talk about that because the one-time makes for, okay, we processed this one-time, but you change it to an annual basis and then you've got these volumes of paper that you're analyzing year after year after year. But I think at the end of the day, we want to make sure that the homestead exemption back to the people that it really, really belongs to. Certainly, the other component that we had the initial concern with was where there was really no definitive way for that money to come back to the local governments. And as is historically, NACO doesn't typically get involved in the homestead exemption-type bills as long as the counties are made whole. And I think we've had other exemption bills up here and that's typically always our concern. This one we saw and we knew that we could get it corrected. We knew that it was never, ever the intent of the Senator to put that burden on the local taxpayers, but for that reason, that would be why we would oppose. And I think with the amendments that probably has answered some of our concerns. [LB912]

SENATOR SCHUMACHER: Any question from the committee? Thank you, Mr. Dix, for your testimony today. Any other opponents to LB912? Anybody wanting to testify in the neutral capacity? Seeing none, Senator Kolowski, you wish to close? [LB912]

SENATOR KOLOWSKI: Thank you, Senator. I appreciate the comments a second ago and that was why we moved on our amendments to anticipate that and hopefully try to make a difference on that. One of the questions I think that has also come up is, what is wrong with the Property Tax Credit Act? I think it's again the problems that it includes the big box stores and out-of-state landowners while these different groups may be getting thousands of dollars annually in property tax relief from this fund, the average homeowner is getting \$83 annually for every \$100,000 of taxable property. I, again, want our dollars to stay within our state and to go to the people that really need it. That's what this discussion is all about as far as the changes that we're trying to make. So I hope that might serve as a purpose in the future as we move ahead on that, so thank you. [LB912]

SENATOR SCHUMACHER: Senator, have you done any research on whether or not this way of applying a homestead exemption runs into any problems with our constitution as being a disproportionate property tax? [LB912]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR KOLOWSKI: I have not. We can do that. We can look into that aspect and examine more of what that might be in the future, but no, sir, I have not. [LB912]

SENATOR SCHUMACHER: Any other questions? Thank you. [LB912]

SENATOR KOLOWSKI: Thank you for very much for the time. [LB912]

SENATOR SCHUMACHER: This concludes the hearing on LB912. We're down to the last item on the agenda and we may surprise Senator Hadley after all. (Laughter) LB1087, Senator Pirsch, welcome to the Revenue Committee. (See also Exhibit 5) [LB912]

SENATOR PIRSCH: Thank you, Vice Chairman Schumacher and members of the Revenue Committee. I am, for the record, State Senator Pete Pirsch, Pirsch spelled P-i-r-s-c-h. I am also the sponsor of LB1087. LB1087 creates a new class of homestead recipients, the traditional homestead program limitations on the value of the homestead and on household income would not apply to these recipients. The new section for applicants would involve...this would apply to 100 percent service-connected disabled military veterans. And then the unremarried widow, widower of these individuals, third, unremarried widow, widower of any veteran whose death was service-connected, and fourth, unremarried widow, widower of active duty personnel whose death was service-connected. And so this would take effect starting January of next year. And if you can tell from the fiscal note, it's rather modest. I believe somewhere in the neighborhood of about \$400,000 per year. This particular bill is geared to help a group of Nebraskans who have given so much in service to their country that it seems altogether fitting and appropriate. So with that, I'll keep this short and brief and if you have any questions, I'd be happy to answer them. [LB1087]

SENATOR SCHUMACHER: Any questions from the committee of Senator Pirsch? Seeing none. [LB1087]

SENATOR PIRSCH: Okay. [LB1087]

SENATOR SCHUMACHER: We're on to proponents of LB1087. Welcome to the Revenue Committee. [LB1087]

GREG HOLLOWAY: Good afternoon, Senator Schumacher and committee. Back again from yesterday. Greg Holloway, G-r-e-g, last name H-o-l-l-o-w-a-y, and I am 100 percent service-connected, disabled veteran. Matter of fact, I'm 100 percent with what is called a S-award so I have 100 percent plus a little. Don't look like it, but I do. I was 100 percent service-connected directly out of the military as a result of shrapnel wounds received in combat in 1969, but I actually dropped that 100 percent rating and went to work. And most 100 percent service-connected disabled veterans actually would rather

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

work for a living than sit on their behinds and collect that check from the government. And so this...the impact is pretty small. Finally when things did catch up with me, I went back on my 100 percent service-connected disability. There's just a small amount of us here in Nebraska actually, probably less than 2,400 veterans that are service-connected, and this probably includes the spouses and the unremarried widows, and widowers of the service-connected disabled veterans and those who had lost their life in combat or as a result of war. We ask you to get this at least out of committee so you can debate it on the floor and discuss the opportunities to serve our service-connected disabled veterans and for our service-connected disabled veterans to be able to serve the state of Nebraska and stay in the state of Nebraska. There's so many states around us that give a lot more. My sister lives in Arkansas. Her husband is a service-connected disabled veteran. My other sister lives in Missouri. Of course, Missouri has got a lot of lottery money...I mean, a lot of casino money that they have to pay their taxes. I just heard recently that Detroit, Michigan, is giving their 100 percent service-connected disabled veterans full benefit, don't have to pay the taxes on their home, and I think if Detroit can do it, anybody can do it because they're in trouble. A lot of states around us with less veterans and less tax revenue can do it. We can find the money somewhere. I was talking to my wife about this last night and the fact that we do spend a lot of money on our grandkids and everything, and my grandson is 15 years old smiled at me and he had a nice shiny smile because he's got a set of braces that I'm paying for, and my wife did remind me that we did make the last payment on those this February and it's a good thing because I got a ticket for parking in the snow zone yesterday here. (Laughter) I'll talk my way out of that, trust me. But I think this is a good bill and I think we could...it will benefit the veterans in this state and then again, like I said, the veterans will give back all they can. And maybe we can keep some of those retired military personnel from Offutt Air Force Base that want to go back to other states where their roots are from, actually, but Nebraska is the good life. I like it here. I live in Bee, Nebraska, 208 people, and that's a good place for me. So I appreciate your effort. We'll find the money somewhere. I found the money to pay for braces. We'll figure it out somewhere and the veterans will help you. If you've got any questions, I do understand 100 percent service-connected disabled veterans, trust me. [LB1087]

SENATOR SCHUMACHER: Senator Sullivan. [LB1087]

SENATOR SULLIVAN: Thank you, Senator Schumacher. Thank you, Mr. Holloway, for your testimony. Probably just a point for education for me more than anything. Who determines and gives the designation of 100 percent disabled veteran? [LB1087]

GREG HOLLOWAY: You make an application for your service-connected disabilities through the U.S. Department of Veterans Affairs. They assign you...you can assign yourself service officers to help you process that claim. Every veteran's organization has it, but the U.S. Department of Veterans Affairs makes the determination whether or not you're 100 percent service-connected. And you might...the numbers don't add up.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

Veterans numbers don't add up. To be 100 percent service-connected, actually I draw what they call 100 percent with an S-award which is one service-connected disability that rates 100 percent service-connected, and I have combined ratings of 60 or more. I actually probably add up...all my ratings add up to over 200 percent, but they pay me for 160. The U.S. Department of Veterans Affairs makes that determination. In order to qualify for homestead exemption under this, you need to get a letter from the U.S. Department of Veterans Affairs stating that you are 100 percent service-connected disabled veteran, or the spouse of a person that died as a result of their service-connected disabilities or died while on active duty. [LB1087]

SENATOR SULLIVAN: Now you said that you went back to work and left that status and then went back on. So that's something that is often done? [LB1087]

GREG HOLLOWAY: Often done. It's...there's two different kinds of service-connected disabilities of 100 percent. One is called individual unemployability. And that is a person that as a result of his service-connected disability is unable to have substantial gainful employment. And then there's the other one, it's called permanent and total, or they call it scheduled. Scheduled service-connected disability at 100 percent is there's no more physicals or examinations scheduled for you. When you're on 100 percent individual unemployability, if you are considered gainfully employed, substantial gainful employment, they could drop you off that. If you're 100 percent scheduled, you can earn extra money on income, you know, but very seldom rarely do. [LB1087]

SENATOR SULLIVAN: Okay. Thank you. [LB1087]

SENATOR SCHUMACHER: Senator Hansen. [LB1087]

SENATOR HANSEN: Thank you. Following up with what Senator Sullivan was asking, Mr. Holloway, when you went to work and then came back 100 percent disabled, did you have a problem with the Veterans Affairs on doing that? [LB1087]

GREG HOLLOWAY: No, I did not. I've never really had a problem with the U.S. Department of Veterans Affairs. Just like I say, I was a county veterans service officer for a couple of years, so I know how to...what the rules are and that makes a lot of difference when you know what the rules are. But my service-connected disabilities, I was blown up by a grenade, July 3rd of 1968. It blew the whole back of my head out, shredded my whole right side, with a hole completely through my left foot, so I have bone loss of the skull. Still have shrapnel lodged behind my brain. So it's pretty easy to get your service-connected disabilities when that happens to you. A lot of other ones are harder to claim, okay. Yeah. [LB1087]

SENATOR HANSEN: Thank you for...again, thank you for your service and thank you for testifying. [LB1087]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Any other questions from the committee? Seeing none, thank you, Mr. Holloway, and thank you for your service. [LB1087]

GREG HOLLOWAY: Thank you, sir. [LB1087]

MICK MINES: Senator Schumacher, 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 NAIFA Nebraska. As with the other homestead exemption bills, NAIFA Nebraska supports Senator Pete Pirsch's effort in this particular bill. We have many of these veterans are our clients and whether it's property casualty or annuities or health insurance, they are our clients. We recognize the need. We appreciate their service and would appreciate your advancing this bill to General File. Thank you. [LB1087]

SENATOR SCHUMACHER: Any questions for Mr. Mines? Thank you for your testimony. [LB1087]

MICK MINES: Thank you. [LB1087]

SENATOR SCHUMACHER: Still on proponents to LB1087. Welcome to the Revenue Committee. [LB1087]

TIMOTHY ANSON: Ladies and gentlemen, I am Timothy Anson, last name, A-n-s-o-n. I am the Post 3 Adjutant for American Legion Post 3. Basically, if you've seen the show Mash, you've seen Radar. That's my job. Basically, I handle it all. And I am also a 100 percent disabled veteran, mostly due to being young and dumb in my younger years, but I was put out of the Army after 16 years. Anyhow, I'd like to kind of throw some numbers at you since I've been the Adjutant of the Post for the last year. Our membership consists of 2,297 members. Out of those 2,297 members, we only have a little over 1,000 that live in the state of Nebraska but the rest have moved to other states that have better tax relief and better property taxes anyhow. Like I was informed by Rex Wamsley who started this whole thing, he...the state of Texas, you could own two homes tax free and that's where about 600 of our members basically live are either in Texas, New Mexico, Florida, and there was another state that a majority of them live in, but almost half our membership lives outside the state of Nebraska and I recommend that we get this bill passed to where we keep the revenue from our veterans in the state of Nebraska to have better quality of life because I'm hoping for my next move in life to own my own home but considering property taxes and everything, I can't afford it. And I have a deep desire that...I was at one point of almost living on the streets of the city of Lincoln anyhow. If it was not for my sister pulling me in at the last second, I would have been deep in trouble. And I do thank you for listening and, hopefully, I haven't said anything to hurt this bill or anything. (Laughter) So please help and help me own my own home. I'd love to own my own home one day. Any questions? [LB1087]

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Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Any questions for Mr. Anson? Seeing none, thank you for your service and thank you for your testimony. Still on proponents of LB1087. Welcome to the Revenue Committee. [LB1087]

RICHARD ESQUIVEL: Thank you. Good afternoon. My name is Richard Esquivel. That's E-s-q-u-i-v-e-l. I am a third generation veteran of the United States. My grandfather served in World War I, my father in World War II, and my brother and I in Vietnam. My son is a fourth generation and he is living in Missouri. I am a 100 percent disabled veteran also. I'm like Greg Holloway, if you add up all mine, I'm about 230 percent. I became 100 percent in 2004 because I got prostate cancer due to Agent Orange, and I was gainfully employed, full-time employed, and the mental pressure that this fighting the cancer did I couldn't handle working and trying to survive from cancer. So I retired early so I get a full retirement and in 2011 they finally rated me 100 percent permanent disabled. Now I believe that, like everybody else, that if veterans are given some type of property relief there will be more veterans staying in Nebraska because Nebraska has a lot to offer for people of our age, great fishing, great hunting, great outdoors, great biking, and any relief or help for property tax for veterans would be greatly appreciated. [LB1087]

SENATOR SCHUMACHER: Any questions from the committee? [LB1087]

SENATOR SULLIVAN: Senator Schumacher, thank you. And thank you for your testimony and for your service. Did you mention where you live? [LB1087]

RICHARD ESQUIVEL: Lincoln, Nebraska. [LB1087]

SENATOR SULLIVAN: Thank you. [LB1087]

SENATOR SCHUMACHER: I have a couple questions. You're Vietnam era? [LB1087]

RICHARD ESQUIVEL: Vietnam veteran. [LB1087]

SENATOR SCHUMACHER: Veteran, right. Were you drafted? [LB1087]

RICHARD ESQUIVEL: I was...volunteered for the draft in 1969, came home in...I came home in 1971. [LB1087]

SENATOR SCHUMACHER: So it was during the era of the draft. [LB1087]

RICHARD ESQUIVEL: Yes. In fact I got my draft notice in April, 1970, and I was already over there. [LB1087]

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Transcriber's Office

Revenue Committee
February 06, 2014

SENATOR SCHUMACHER: Okay. What percentage of the disabled veterans in the state would you estimate, if you know, are from that era when we drafted people? [LB1087]

RICHARD ESQUIVEL: Well, World War II veterans are dying at 1,000 a day right now. There are over 300 names of Vietnam veterans on our memorial wall out there that lost their lives in Vietnam. How many are 100 percent? I know that there are a lot more now than there were ten years ago because they're finding out that Agent Orange is affecting more people after the age of 50. A lot more prostate cancer, a lot more other cancers, so what the population is for veterans, I couldn't tell you. [LB1087]

SENATOR SCHUMACHER: Okay. Any other questions? Thank you for your service and thank you for your testimony. More proponents, LB1087. [LB1087]

GERALD KRAUS: Ladies and gentleman of the committee, I'm from Denton, Nebraska. My name is Gerald Kraus, K-r-a-u-s. I'm a Vietnam veteran. I'm 100 percent disabled from PTSD, bilateral hearing loss and tinnitus, which is ringing in the ear. I was on an aircraft carrier off the coast of Vietnam when it blew up. We lost 137 people. I was on there with John McCain, Senator John McCain. And I got out, my father passed away. I've got 140 acres out by Denton, Nebraska, and I'm having a hard time, more and more every year, to pay my taxes. They're building a new school in Crete, Nebraska, and \$33 million school and my taxes are going to go up again. I'm going to have to borrow money to pay my taxes. And so I've never asked...I went in the service because it was the draft age and I volunteered. I went in there because I love this country and I love the people here in this state and in this country and I just...I don't know. It's a tough thing. So anyway, I'm here to ask you to please pass this bill and that's it. If you have any questions, I'll be glad to try and answer them. [LB1087]

SENATOR SCHUMACHER: Any questions from the committee for Gerald? Seeing none, thank you, Gerald, for your service and thank you for your testimony. [LB1087]

GERALD KRAUS: Thank you, sir. [LB1087]

SENATOR SCHUMACHER: Any more proponents, LB1087? Seeing none, any opponents to LB1087? Any neutral testimony to LB1087? Seeing none, Senator Pirsch. [LB1087]

SENATOR PIRSCH: Thank you, Vice Chairman Schumacher, and I'll be brief. I think it's a fairly representative showing here today of veterans who would...who we're trying to target and who would benefit from this bill. Our veterans are one of the greatest resources that our state have and you've heard the nature and extent of their injuries and I think that's fairly reflective from shrapnel in the skull to cancer as a result of being exposed to Agent Orange to PTSD. They experienced all this to serve us. So I do think

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 06, 2014

that we owe them a debt of gratitude and that we have to be fair with these group of individuals who have given so much to protect our country and our state and I think that this is a small way towards that. And so with that, I will close. [LB1087]

SENATOR SCHUMACHER: Any questions of Senator Pirsch? If not, that closes the hearing on LB1087. Thank you, Senator Pirsch. And that closes our...we did it. We did it. Senator Hadley will be surprised. [LB1087]