LR 300 CA Testimony
Rob Rohrbough
President, Nebraskans Supporting the FAIRtax
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On January 23, 2020, State Sen. Steve Erdman and nine co-sponsors introduced LR 300 CA, a proposal for a Nebraska constitutional amendment to discontinue both the property and state income tax in Nebraska and raise all state and local revenue through a broad-based, single-rate consumption tax. Please note that the state sales tax is replaced also as a consumption tax and a sales tax are not the same — a sales tax is imposed on every sale; a consumption tax is imposed only on services and new goods. Thus, the consumption tax that LR 300 CA calls for is not a tweak to the current system or a tax shift; it is a fundamental restructuring of the entire tax system in Nebraska. Furthermore, the tax proposed by this Resolution is effective only for those services and new products purchased after a monthly stipend is exhausted that reimburses all Nebraska residents for purchases made below the poverty level as defined by the US Department of Health and Human Services.

Before declaring this an impossible task, we need to consider the significance of the existing problem benefits. We are in a longstanding tax crisis in Nebraska, especially property taxation, but income taxes as well. Furthermore, our state sales tax is narrow and taxes the same goods more than once — double taxation. The property tax burden has come to a head for both urban centers and farmers/ranchers who have trouble maintaining a farm or ranch. Lastly, seniors who have trouble staying in their own homes. The threshold for the homestead exemption is very low and ends abruptly with an increase in income, driving seniors who have bought and paid for their homes to leave our state, depriving Nebraska of their contribution to the economy. The high state income tax does the same thing.

The crisis can be eliminated by replacing all three taxes with a single-rate, broad-based consumption tax on services and new goods only. Nebraska residents will be taxed on purchases only above the level at which their basic needs have been met, as defined by the U.S. Government's level of poverty spending.

The following table, developed from a Beacon Hill Institute study, displays the computation used to replace all revenue raised by all existing Nebraska taxes with the new consumption tax:

(A) Tax or Taxes	(B) Revenue to be replaced	(C) Current Sales Tax Base	(D) Rate under Current Base	(E) Adjusted Tax Base	(F) Exclusive Adjusted Rate	(G) Inclusive Adjusted Rate
(1) Income Tax	$2,807,634,246	$43,227,000,000	6.50%	$89,390,000,000	3.14%	**3.05%**
(2) Local Property Taxes	$4,264,010,219	$43,227,000,000	9.86%	$89,390,000,000	4.77%	**4.55%**
(3) State and Local Sales and Use Tax	$2,435,386,155	$43,227,000,000	5.63%	$89,390,000,000	2.72%	**2.65%**
(4) Tax to replace all existing taxes	**$9,507,030,621**	**$43,227,000,000**	**21.99%**	**$89,390,000,000**	**10.64%**	**9.61%**

The sum total of taxes projected to be collected in 2020 is $9.5 billion (B). It is shown in tax categories in Rows (1)-(4) and revenue columns (A) and (B) in the above table.

It is clear from those two columns that the property tax carries the bulk of the load for the $9.5 B projected to be collected and spent in Nebraska in 2020. By law Nebraska is required to balance its budget, i.e., take in enough to cover expenditures.

Column (B) lists the revenue that needs to be replaced from each of the three revenue sources and the Grand Total, equal to the amount each of those sources would raise in 2020, projecting from actual revenues raised in 2018. All numbers in the table have been adjusted similarly to project the 2020 scenarios. Column (C) lists the existing sales tax base, which is relatively small due to the many exclusions established by law for the current state sales tax.

Column (D) lists the percent sales tax that would be required to raise funds for that component. For instance, if we were to estimate the rate of sales tax needed to replace property taxes, we would add 9.86% to the projected sales tax rate needed of 5.63% for a total sales tax rate of 15.39%. Add state income taxes to that and you arrive at the grand total of 21.99% as listed in the table. Please note that some of the numbers in this summary may not add due to rounded inputs.

We compute the higher base in Column (E), by eliminating current sales tax exemptions. The gross base from which to draw is $107.1B. That gross base comes from projecting the 2018 total consumption in Nebraska in 2018, as explained in the full study, which includes government agencies that consume rather than producing products or services that are paid for by consumers, who also pay the consumption tax with those purchases. The total consumption by retail consumers and governmental agencies amounts to $107.1B. Even after excluding necessities ($17.5B) from the tax and paying merchants a .25% fee to collect it ($0.2B), the net base increases from $43.2B to $89.4B.

Column (F) breaks down the rate needed to cover each component with the broader tax base, stated as a "tax exclusive" rate to compare to the existing sales tax rate and the comparable rates needed to cover each component. Column (G), the last column, states the "tax inclusive" rate. That means that the tax already is included in the price of the product.

No farm or business inputs are taxed. For farmers, this means no imposed taxes on items such as farm tools, seed, fertilizer, chemicals applications, and equipment like combines. For business owners, this means items such as raw materials for manufacturing, stock for inventory, business equipment, and professional services.

At the consumer level, the effective tax rate you pay is determined by where you are in relation of the amount of spending you need to rise above the poverty level referenced in the first paragraph. For a family of four, poverty level spending is $32,480 annually. At that level of spending (not income) the family pays zero tax after the monthly stipend. At twice poverty, $64,960, their effective rate is half the nominal rate charged at the cash register. 5.32%, less than the 5.5% currently charged by the state of Nebraska, albeit for a broader range of new products and services. However, none for used products. Furthermore, that family will have more to pay for those products and services in savings from the property and income taxes they no longer have to pay. Also, the property and income taxes saved by the businesses in the supply chain of the product will produce lower prices via competition.

The median household income for a family of four in Nebraska we project for 2020 is $62,205. If that family spent every dime of that income for new products and services, highly unlikely, their effective rate would be even less. Only for big spenders, at levels over $100,000, does the effective rate exceed even exceed 7.5%. Even bigger spending, well into six figures, would be required to come close to ten percent, let alone the nominal rate of 10.64%. To reach that rate, seven figure consumption is required. Thus, a broad range of middle class is protected. The fact that all taxes are levied on consumption, both recycling and saving/investing are encouraged.

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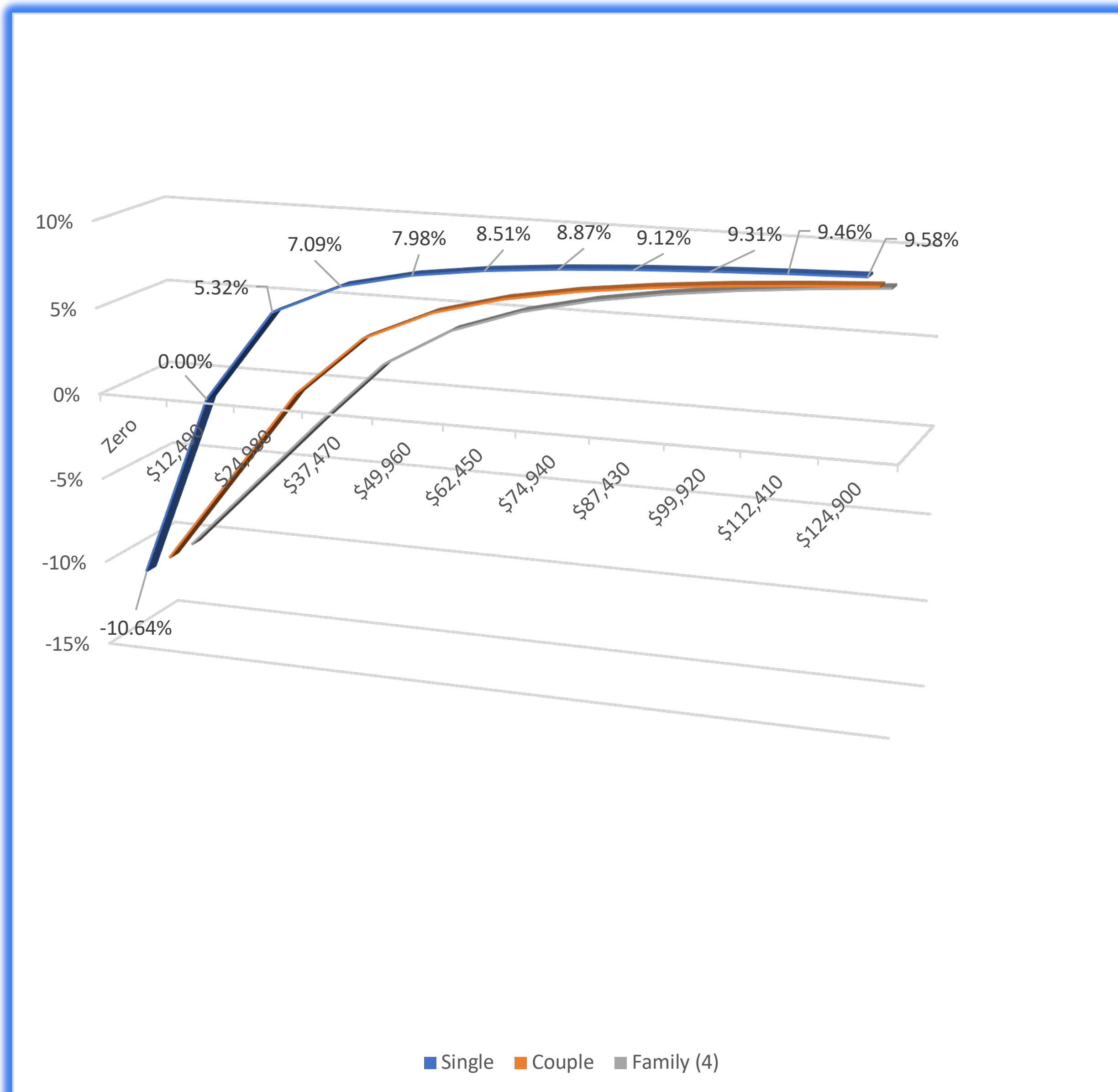
Progressivity of the Nebraska Proposal

Effective Consumption Tax Rate Based on Annual Poverty Spending of

Single: $12,490 Couple: $24,980 Family (4): $32,480

And a Tax-Exclusive Rate of 10.64% at the Register



Level	Spending	Poverty	"Rate-Exclusive" Tax Rate	Effective Rate: Rate Multiplied by (Spending-Poverty)/ Spending
0 times poverty	$0	$32,480	10.64%	-10.64%
Poverty	$32,480	$32,480	10.64%	0.00%
Twice Poverty	**$64,960**	$32,480	**10.64%**	**5.32%**
3 x Poverty	$97,240	$32,480	10.64%	7.09%
10 x Poverty	$324,800	$32,480	10.64%	9.58%
20 x Poverty	**$649,600**	$32,480	**10.64%**	**10.11%**
	$1,000,000	$32,480	10.64%	10.29%
	$5,000,000	$32,480	10.64%	10.57%
	$10,000,000	$32,480	10.64%	10.61%
	$50,000,000	$32,480	10.64%	10.63%
	$100,000,000	$32,480	**10.64%**	**10.64%**

Median family income in Nebraska in 2017 was $59,970*, less than the $64960, which still has an effective tax rate (5.32%) less than the current sales tax rate of 5.5%!

A family of four would have to spend more than $649,600 to exceed an effective rate of 10%

That family would have to spend in excess of $100,000,000 to approach the nominal rate of 10.64%.

* According to the Department of Numbers website:
https://www.deptofnumbers.com/income/nebraska/

What is taxed under the FAIRtax?
How does this apply to the consumption tax proposal for Nebraska?
December 18, 2019

- There is no list, only a rule:
    - *The FAIRtax applies to new goods and services purchased for personal consumption except for necessities.*

- At the retail cash register, everything is taxed.

- The “untaxing” of necessities is done by sending a payment to every citizen and legal resident with an address.
  It is totally up to the consumer to decides where that payment goes, perhaps:
    - Beans
    - Hamburger
    - Toilet paper

- If that consumer has money left over, they could use it for a purchase that isn’t taxed, perhaps:
    - A used car
    - A home that has been lived in
    - Clothes from a thrift shop

- Summary: New gets taxed. Used does not.

- When a business makes purchases, the goods are not taxed, for example:
    - Shears for a barber
    - Shelves to display goods
    - Milk, butter, eggs purchased by a grocery store to resell.

- A manufacturer might purchase, without tax:
    - A lathe,
    - Tool and die equipment

- To raise crops, a farmer might purchase, without tax:
    - A tractor
    - Plow
    - Combine
    - Other farm implements

- Simpler business summary: No purchases are taxed.

Projected EPIC Tax Marginal Rate Including Replacing Gas Tax
Based on 2019 Data from Beacon Hill Institute

(A) Tax or Taxes	(B) Revenue to be replaced	(C) Current Sales Tax Base	(D) Rate under Current Base	(E) Adjusted Tax Base	(F) Exclusive Adjusted Rate	(G) Inclusive Adjusted Rate
(1) Individual Income Tax	$2,454,946,030	$43,227,000,000	5.68%	$89,390,000,000	2.75%	**2.67%**
(2) Corporate Income Tax	$352,688,216	$43,227,000,000	0.82%	$89,390,000,000	0.39%	**0.39%**
(3) Local Property Taxe	$4,264,010,219	$43,227,000,000	9.86%	$89,390,000,000	4.77%	**4.55%**
Nebraska Gas Tax	$401,300,672	$43,227,000,000	0.93%	$89,390,000,000	0.45%	**0.45%**
(4) State and Local Sales and Use Tax	$2,435,386,155	$43,227,000,000	5.63%	$89,390,000,000	2.72%	**2.65%**
(5) Tax to repla all existing tax	**$9,908,331,293**	**$43,227,000,000**	**22.92%**	**$89,390,000,000**	**11.08%**	**9.98%**
(6) 35% of Local Property Taxe	$1,492,403,577	$43,227,000,000	3.45%	$89,390,000,000	1.67%	1.64%

BHI fuel tax revenues, Wm. Burke, 12/22/20.	$393,609,743	FY 2019 actual
	$401,300,672	FY 2020 projected