A Nuts & Bolts User's Guide to the Nebraska Consumption Tax

Introduction: LR 300 CA proposes a single-rate consumption tax which eliminates all income taxes, sales taxes, property taxes, and inheritance taxes. Only the excise tax on fuel remains. The consumption tax imposes a tax on all services and new goods.

What Gets Taxed: All services and new goods for consumption are subject to taxation.

- By definition, a service means labor performed for another person.
- By definition, new goods means any item purchased for first-time consumption.
- Used goods do not get taxed.
- By definition, company purchases do not classify as new goods because they are items being used to create new goods. So, business-to-business transactions are not taxable.
- Fuel is taxed by the excise tax on fuel.

The Consumption Tax is Progressive: The single-rate of the consumption tax has been pre-calculated by the Beacon-Hill Institute to be set at 10.64%; however, the Legislature may adjust the rate. The single-rate is offset by a monthly pre-bate, making the consumption tax a progressive tax on spending.

- The consumption tax is harmless to those living at or below the poverty line. For example, the federal poverty line for a single adult in 2020 is $12,490. So, $12,490 X .1064 ÷ 12 = $110.74 per month. Therefore, every single adult living in Nebraska receives a monthly pre-bate worth $110.74 deposited directly into his or her bank account. So, the pre-bate covers 100% of the consumption tax for those living at or below the federal poverty level. For those spending below the poverty line, the balance of the pre-bate can be used for additional purchases.
- Middle income families pay a moderate consumption tax rate. For instance, a middle income family who spends $64,000 per year on services and new goods has an effective tax rate of 5.32%, instead of 10.64%, after factoring in the pre-bate.
- Those who spend $100,000,000 or more per year pay the full rate of 10.64% after the pre-bate.

The Consumption Tax is Revenue Neutral: The consumption tax is designed to be revenue neutral.

- The first year that the consumption tax is enacted the revenue generated from the tax must be the same as the previous year.
- Baseline budgets are the previous year's budgets + whatever increases are necessary.
- Budgets are adjusted for inflation and checked against the Consumer Price Index.

How Local Budgets Get Approved: The Nebraska Consumption Tax changes the way local units of government receive their funding. Because the property tax goes away, local units of government are required to get their funding from the State.

- Each local unit of government (LUG) submits their budget to the county.
- Budgets are adjusted for inflation and checked against the Consumer Price Index.
- Once the budgets get approved by the county, the county submits their county-wide budget to the State.
- The State must approve the county-wide budget.
- Each county would distribute its money to their own LUGs.

How Bonding Works: Counties, cities, towns and villages retain authority to impose their own separate consumption tax in place of bonding.

- A city's own consumption tax replaces any usage taxes.
- A city's consumption tax cannot be used to replace the property tax.
- The Legislature will set a limit on how much consumption tax counties, cities, towns and villages could impose.
- Consumption taxes imposed by counties, cities, towns or villages require a vote of the people.

The Consumption Tax Has No Exemptions: Everyone gets treated the same.

- Non-profit organizations pay the consumption tax on services and new goods.
- Government agencies pay the consumption tax on services and new goods as well as on wages and salaries.

How Medical Expenses Get Taxed: Medical services and products, such as surgery and prescription drugs, constitute a service or a new good, so they are subject to the consumption tax

- A consumer with a medical insurance policy pays the consumption tax on his or her premiums, not on the actual service, such as surgery.
- Because the medical service constitutes a business-to-business transaction between the insurance company and the hospital, the insurance company would not pay the consumption tax on the service.
- Any part of the medical service not covered by the medical insurance policy is subject to the consumption tax and is paid by the consumer. For instance, elective surgeries, such as plastic surgery, may not be covered by the medical insurance policy.
- A consumer with a medical insurance policy pays consumption tax on the co-pay for his or her prescription drugs, but not on the retail price of the drug.
- Because the purchase of prescription drugs constitutes a business-to-business transaction between the insurance company and the pharmacy, the insurance company would not pay the consumption tax on the prescription drugs.
- Dental expenses are handled the same way as medical expenses.

How the State Distributes the Pre-bate: Qualifying adults & families receive pre-bates.

- All eligible adults and families must register with the Nebraska Department of Revenue.
- Eligible adults and families supply the Nebraska Department of Revenue with a bank account number and a routing number for electronic transfer of funds for the monthly pre-bate.
- Registration includes: Names & ages of all family members, Social Security Numbers, proofs of citizenship or legal residency.

Government Agencies to be Dissolved: Tax Equalization & Review Commission, Property Assessment Division, County Assessors, Income Tax Division, Economic Development.

Government Programs to be Dissolved: The Property Tax Cash/Credit Fund, TIF, all business tax incentive programs, such as the Nebraska Advantage Act & the ImagiNE Nebraska Act.

- Tax incentives that have been earned but not collected total $780 million.