AMERICANS for TAX REFORM

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July 30, 2024

To: Members of the Nebraska Senate
From: Americans for Tax Reform
Re: Oppose LB 1

Dear Senator,

On behalf of Americans for Tax Reform and our supporters across the Cornhusker State, I strongly urge you to oppose LB 1 and all other proposals that would raise taxes on Nebraskans. **While billed as property tax relief, nothing in LB 1 constitutes a tax cut. In reality, it raises the cost of doing business and supporting a family in Nebraska by imposing new or higher taxes upon more than one hundred goods and services, including key agriculture inputs.**

Nebraska is not the only place where residents face skyrocketing property valuations and corresponding tax burdens. Virtually every state government is grappling with this issue thanks to rampant money-printing and debt accumulation at the federal level – an unprecedented influx of new dollars that caused the highest inflation in forty years, including in the housing market. Rather than cut millage rates accordingly, however, many leaders of municipalities across the country have succumbed to the temptation to simply keep the new revenue streams from higher assessments and waste more money on government programs.

It is these city leaders – not state lawmakers – who bear responsibility for higher property taxes. And these city leaders – not state lawmakers – have a duty to their constituents to take action to remedy the situation by reining in local spending. Raising taxes on all Nebraskan businesses, consumers, and farmers cannot solve a problem caused by out-of-control spending at the local level.

While many of the sales tax hikes are aimed at businesses, especially those that provide professional services to other businesses, there is no "Mr. General Motors" who foots the bill. **It is the consumer who pays business taxes, in the form of higher prices. It is the employee who pays business taxes, in the form of lower wages.** And if the tax proves substantial enough to damage the company's bottom line, it is the investors who pay business taxes in the form of lower dividends, lower stock prices and lower return on their capital. Ultimately, such circumstances discourage investors and capital out of state to friendlier business climates.

Furthermore, the most damaging element of LB 1 is the rampant double taxation that would spread like wildfire across industries that are critical to Nebraska's economic success. The bill introduces a novel and sweeping tax pyramiding scheme, in which various components and services are subjected to the sales tax at multiple stages of production, well before the final product reaches the consumer. **Much like Europe's value-added tax, scattering new taxes throughout the production process is sure to drive up prices, drive down wages, and drive businesses out of state.**

In spite of the central role that farming plays in the livelihoods of countless Nebraskan families, LB 1 heedlessly targets agriculture machinery and equipment with a new 4% tax. The fact that the proposed tax is levied at 4%, rather than the full 5.5% state sales tax, is implicit proof that such a tax will cause some level of economic damage; slightly lowering the rate doesn't mitigate that impact.

A proposed 150% increase in cigarette taxes also raises significant concerns. **This tobacco tax hike would disproportionately affect lower-income Nebraskans., among whom smoking rates are notably higher.** Approximately 28% of Nebraskans earning less than $25,000 per year smoke cigarettes, compared to only 8.9% of those earning $75,000 or more. Moreover, a cigarette tax hike

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could drive more consumers across the border to Iowa, other neighboring states, or even the black market, as research clearly indicates that higher taxes on cigarettes often lead to a surge in the illicit tobacco trade.

LB 1 would also punish those who choose to drink soda – another regressive, brand-new tax on those who can least afford it. According to a Tax Foundation report, 47% of the tax collections from soda excise taxes would come from households with income under $50,000. The state has no business forcing the poor to live their lives as Big Brother sees fit.

In a similar vein, LB 1 increases taxes on distilled spirits by more than 280%, even though nearly half of the price of liquor on the shelf goes toward taxes. That is a direct attack on restaurants and bars, both of which rely heavily on cocktails and other alcohol sales to maintain their bottom line. Moreover, the new rate would leave Nebraska with the 2nd highest spirits tax rate in the country. Once again, LB 1 would drive cash-strapped consumers across the border just to eat out with their family and friends.

The bill goes further still with a brand-new digital advertising tax, joining the few blue states that have even thought to consider it. California is considering a bill this month that would slap a large new tax on the advertising profits of technology companies in order to fund a new state welfare program for newspapers and journalists. **Conservative lawmakers in Nebraska ought to avoid emulating their counterparts in Sacramento**, who are doubling down on their status as the highest-tax state in the nation. Digital advertising taxes may be the camel's nose under the tent in state regulation and taxation of the Internet, undermining its historic role as a free and open source of information.

Although most other state governments are also grappling with property tax concerns, the real competition around the country is on lowering and flattening their income taxes, and eventually bringing that rate to zero. Leadership in more than 10 states have endorsed a full phase out of their income tax, and the last few years have seen nothing short of a revolution in enacting permanent reductions to the income tax. Nebraska is among those states, but can and should do more, particularly as neighboring South Dakota has no income tax and Iowa slashed their 8.9% top rate to 3.9% in just two years. Doing nothing on the income tax front risks allowing Nebraska to fall behind.

Rather than needlessly shoulder the burden of local government officials who refuse to get their spending under control, I urge you to focus on reducing taxes at the state level and embrace tax reform that creates a friendlier environment to work, live, and raise a family.

Meaningful tax reform need not harm the profit margins of Nebraska farmers, nor the pocketbooks of consumers who will pay higher prices, nor the aspirations of budding entrepreneurs who would otherwise move to Nebraska and create a life for themselves if not for the crippling economic environment that LB 1 would bring to your state. Cutting taxes means doing just that – not substituting one tax for another in the name of relief.

For these reasons, I urge you to vote against higher taxes and higher prices for Nebraskan businesses and families and vote against LB 1.

Sincerely,

Grover G. Norquist
President

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