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Property Taxes in Nebraska*

This is one of a series of NebGuides on financing state and local government. This publication describes how property taxes support local government functions.

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The property tax is the primary source of revenue for more than 3,000 units of local government in Nebraska, including school districts, counties and municipalities. In 1991, statewide property tax levies totalled $1.257 billion, a sum that approximated the combined revenues from state income and sales taxes.

Prior to 1967, both tangible (physical) and intangible (paper) assets were taxed. In the period since then, only tangible property has been taxed.

The range of tangible property subject to taxation narrowed considerably during the 1970s and 1980s, partly in response to legislative decisions and partly because of successful litigation by certain taxpayers. By 1990, the property tax base was limited to real estate; registered motor vehicles, boats and airplanes; and certain types of business equipment. In response to continued litigation, the Legislature removed business equipment from the tax rolls for a single year, 1991.

Further refinement of the property tax base, particularly the personal property tax base, occurred as a result of a 1992 constitutional amendment and subsequent implementing legislation. Categories of property currently subject to taxation include real estate, registered motor vehicles, and income-producing depreciable personal property. The latter includes business equipment, agricultural equipment and certain breeding livestock.

Tax liability is a function of both property valuation and a tax levy.

With respect to valuation, most real estate is valued at its actual value. The exception is agricultural and horticultural land which, as a result of 1991 legislation, is valued by a combination of factors.

Motor vehicle valuations, although standardized by make and model of the vehicle, also approximate actual values. Income-producing depreciable personal property is valued according to its net book value after depreciation. Regardless of the valuation method, the designated valuation for all taxable property is referred to as its taxable value.

For many years the tax levy was expressed as a mill levy, with each mill amounting to one-tenth of a cent (one-thousandth of a dollar). More recently, however, the levy has been expressed in dollars and cents per hundred dollars of taxable value. Thus, if the levy is 2.10, property owners pay $2.10 per hundred dollars of taxable value. The levy is the same for all taxable property within a taxing district, e.g., a school district or county.

Historical Perspective

The property tax is one of the oldest taxes in the United States. In Nebraska, the territorial legislature adopted it as the first state tax in 1857. It remained the major source of state government revenues until its repeal more than a century later.

As late as 1900, property taxes accounted for over half of all revenue collected by all levels of government in the United States. Originally, taxes on property were considered fair because they were thought to be a good proxy for wealth. The reasoning was that those who had wealth should assume most of the cost of running government. In the twentieth century, however, more wealth began to be held as intangible assets. Such assets were easier to hide, thereby avoiding taxation. Simultaneously, the growing need for public services put upward pressure on property tax levies.

These factors ultimately contributed to a movement away from property taxes. Income and sales taxes were substituted for property taxes, at least in part, in many states.

In Nebraska the property tax remained the prime source of state and local government revenue until 1966. In November of that year a constitutional amendment was approved by the voters of Nebraska that abolished the property tax as a source of **state** revenue. Since that time, property taxes have been levied exclusively by local units of government.

Despite state government's abandonment of property taxes, total property tax levies increased by 565 percent between 1960 and 1991. During the same period, the general price level (as measured by the gross domestic product deflator) increased 312 percent. Growth in spending by local units of government spurred the real (inflation-adjusted) increase in property tax levies.

Current Overview

Most property taxes go to support education, including school districts, community colleges and educational service units (*Table I*). In 1990 property tax levies for education in Nebraska amounted to $793 million, or 65 percent of all property taxes levied. Of the education total, $738 million went to local school districts, $42 million to community colleges and $13 million to educational service units.

Table I. State and local property tax levied in Nebraska, selected years, by local governmental unit.

Government Unit	1960		1975		1990	
	($ mil.)	%[a]	($ mil.)	%[a]	($ mil.)	%[a]
State	28.8	15	--	--	--	--
Counties	29.2	15	89.5	17	183.3	15
Cities and Villages	29.1	15	77.6	15	160.0	13
Townships	2.4	1	3.9	1	8.0	1
Rural Fire Districts	.7	--	3.6	1	9.9	1
Miscellaneous (Includes Natural Resources)	1.4	1	16.6	3	63.5	5
Education (Total)	97.4	52	335.4	64	793.0	65
-----**TOTAL**	189.0	100	526.6	100	1,217.7	100

[a]Sum of individual percentages do not equal 100 because of rounding errors.
Source: Nebraska Department of Revenue, *Annual Report*, various years.

Counties were the next largest user of property tax dollars (15 percent of the total) followed by cities and villages (13 percent).

Other subdivisions--natural resource districts, rural fire districts, townships and miscellaneous districts--together accounted for only seven percent of the total.

Compared to other states, property taxes are high in Nebraska (*Table II*). Wyoming is the only adjacent state where property taxes may appear to be higher than in Nebraska. However, much of Wyoming's property tax revenue comes from mineral (oil, gas and coal) companies. Taxes per capita and per $1,000 personal income may not be a good indicator of the taxes actually paid by individual taxpayers in Wyoming.

Table II. State-local property tax collections per capita, per $1,000 of personal income and per $1,000 market value of agricultural land, FY 1990.

	Per Capita	Per $1,000 Personal Income	Per $1,000 of Ag. Land Value
Nebraska	$749.05	$45.92	$13.50
Colorado	682.84	38.66	6.60
Iowa	659.48	40.87	9.90
Kansas	657.85	38.92	5.50
Missouri	341.10	20.54	3.70
South Dakota	582.91	40.48	8.70
Wyoming	910.61	60.14	4.70
Regional Average	$654.83	$40.79	7.51
U.S. Average	$607.35	$35.27	7.80

Source: U.S. Department of Commerce, Bureau of the Census, *Government Finances*, 1989-90, and U.S. Department of Agriculture, Economics Research Service, *Agricultural Resources*, June, 1991.

State Aid and Property Tax Relief

State and local government in Nebraska share the responsibility for providing a range of public services not provided by the federal government. Among the most important categories of shared responsibility are elementary and secondary education; social services programs; and roads, streets and highways. Significantly, state government has steadily increased the amount of "state aid" for local governments. In fiscal year 1992-93 (hereafter FY 1993), state aid appropriations to local governments amounted to $616.6 million, or 39 percent of the state General Fund budget. Without state aid, local property taxes presumably would have been increased to cover much, if not all, of the shortfall.

One of the first initiatives to provide property tax relief occurred in 1969 when the Legislature enacted a limited homestead exemption law. Its purpose was to reduce or eliminate property taxes for certain residential property owners.

Although the original homestead exemption law has been amended over the years, it still provides property tax relief on up to $35,000 of home value to qualified claimants. Those who qualify have incomes below specified levels and also are at least 65 years of age, have a physical disability, or are veterans (or spouses of deceased veterans). Generally the maximum household income is $10,400 for qualified claimants, although veterans disabled or killed in war (in which case the surviving spouse would then be the claimant) may qualify with somewhat higher income levels. In FY 1993, state government appropriated $33.3 million to cover the cost of providing full or partial homestead exemptions to those who qualify.

In 1972, the Legislature enacted a law that was to have a subsequent major impact on personal property taxes. It provided for partial, and later full, tax exemptions for certain categories of personal property, including agricultural machinery, agricultural inventory, business inventory and livestock. Meanwhile, state government appropriated funds to make up for the lost local property tax base. By FY 1981, $70 million was being appropriated for this purpose, with predetermined allocations going to school districts, municipalities, counties and natural resource districts.

In 1982, the Legislature officially eliminated the personal property tax relief program. However, the categories of personal property listed above were not returned to the tax rolls (which some years later provided a basis for legal challenges by the rail transportation companies, pipelines and others). Meanwhile, state government continued to provide $70 million annually to local governments. The $17.5 million appropriated to municipalities and the $700,000 appropriated to natural resource districts in FY 1993 were direct legacies of the personal property tax relief program.

School districts and counties also have benefitted from the personal property tax relief program. However, in FY 1993, appropriated state aid to these subdivisions differed from that which would have been distributed by the personal property tax relief program alone.

In the case of school districts, state aid appropriated for general and special education totalled $466 million, including $237 million from the Tax Equity and Educational Opportunities Support Act of 1990, sometimes simply referred to as LB1059.

Meanwhile, counties received state aid appropriations of $13.5 million dollars in FY 1993, not the traditional $17 million under the personal property tax relief program. With business equipment, agricultural equipment and breeding livestock being returned to the property tax rolls after passage of both a constitutional amendment and implementing legislation (LB1063), the Legislature reasoned that the larger property tax base for counties justified cutting their state aid.

Two other programs deserve brief mention in conjunction with property tax relief.

In FY 1993 state Medicaid appropriations totalled $159 million. Until FY 1987, counties shared directly in Medicaid costs. Without full state assumption of Medicaid, the counties' share would have been about $90 million, all of which presumably would have come from property taxes.

Property taxes also have been reduced by local sales taxes. Under the Local Option Revenue Act of 1969, municipalities were given authority to levy a local sales and use tax if approved by voters within the municipality. By Jan. 1, 1992, 44 municipalities had such a tax, with collections amounting to more than $100 million annually.

Assessment and Collection

Local government officials, in particular the county assessor, county clerk, county treasurer and the county board of commissioners (or supervisors), have primary responsibility for the assessment and collection of property taxes in Nebraska.

The first step is for the county assessor to assign values for all locally assessed taxable property in the county. Values are established as of Jan. 1 for the tax year being considered. For real estate the Nebraska Department of Revenue provides assessment manuals to guide the assessor in establishing values.

Personal property is valued differently. Under Nebraska law, only income-producing depreciable property is subject to the tax. Owners of such property are required to report the net book (depreciated) value to the assessor, using a specific depreciation method detailed in a 1992 statute. Registered motor vehicles also are locally assessed but with standardized values applicable to the entire state.

Property owners may appeal valuations and frequently do so, especially when real estate values are adjusted upward. Appeals must be made within 30 days of receiving an updated property assessment. When all appeals have been considered and any adjustments made, the county board, sitting as the county board of equalization, submits property values to the state board of equalization and assessment for review and adjustment. Members of the state board include the Governor, Treasurer, Tax Commissioner, Secretary of State, and Auditor of Public Accounts. The state board may require that certain property be revalued to bring uniformity, either within counties or between counties. Locally assessed property values then are certified.

The county assessor also obtains a certified listing of centrally assessed property values from the Department of Revenue. Central assessment applies to railroads, pipeline companies, telephone companies and other businesses that have operations that extend over a wide geographic area. The Department of Revenue assumes responsibility for central assessment and reports values to county assessors for the relevant political subdivisions within the county, i.e., the county, school districts, cities, natural resource districts, etc. Together, locally assessed and centrally assessed property determine the property tax base for each subdivision.

Preliminary property tax revenue needed to meet the proposed annual budget is determined for each local unit of government by the respective governing boards. Public hearings are held. After any adjustments are made in projected revenue needs, the county clerk calculates the tax levy required for each subdivision, taking into account both revenue needs and assessed valuation.

The county board, sitting as the county board of equalization, certifies tax levies that will apply to taxable property. The total levy for a property owner is determined by summing tax levies for all relevant subdivisions. Typically each property owner's taxes go to six to 10 subdivisions. The county treasurer collects the taxes.

For example, in Keith County, property taxes are used to support county government, the city of Ogallala, the villages of Paxton and Brule, 13 school districts, five rural fire districts, two Educational Service Units, the Twin Platte Natural Resources District, the Mid-Plains Technical Community College and the Keith County Ag Society (fair board).

However, taxes would be levied by only one of the 13 school districts on each item of taxable property. Similarly, rural residents of the county would not pay Ogallala city taxes and Ogallala residents would not pay rural fire district taxes. Property owners with equally assessed taxable property in Keith County could have quite different property tax liabilities, depending on the subdivisions within which those properties lie and their respective tax levies.

The **average** property tax levied in Keith County in 1991 was $2.02 per $100 of assessed valuation. During that same year, average county rates ranged from a high of $2.71 in Douglas County to a low of $1.43 in Keya Paha County, with the statewide average at $2.33 (*Table III*).

The first half of personal property taxes become delinquent on Dec. 1 of the year in which the tax liability was incurred, with the second half delinquent the following July 1. All real estate taxes become delinquent in the year after the tax liability was incurred. For most counties, first-half taxes become delinquent the following May 1, with second-half taxes delinquent on Sept. 1. In Douglas, Lancaster and Sarpy Counties, taxes become delinquent on April 1 and Aug. 1.

Table III. Average property tax levy in Nebraska, by county, 1991.

County	Ave. Tax Rate	County	Ave. Tax Rate	County	Ave. Tax Rate
Adams	2.00	Cheyenne	2.08	Furnas	2.33
Antelope	1.88	Clay	2.03	Gage	2.46
Arthur	1.94	Colfax	1.77	Garden	2.12
Banner	1.73	Cuming	1.82	Garfield	1.94
Blaine	1.87	Custer	2.34	Gosper	2.00
Boone	1.75	Dakota	2.26	Grant	2.58
Box Butte	1.99	Dawes	2.06	Greeley	2.08
Boyd	1.88	Dawson	2.15	Hall	2.35
Brown	2.05	Deuel	2.06	Hamilton	2.04
Buffalo	1.76	Dixon	2.14	Harlan	2.40
Burt	2.29	Dodge	2.16	Hayes	1.90
Butler	2.05	Douglas	2.71	Hitchcock	1.96
Cass	2.30	Dundy	2.11	Holt	1.94
Cedar	2.01	Fillmore	2.06	Hooker	1.79
Chase	2.20	Franklin	2.12	Howard	1.93
Cherry	1.81	Frontier	2.41	Jefferson	2.32
Johnson	2.36	Nuckolls	2.46	Sheridan	1.96

Kearney	1.84	Otoe	2.05	Sherman	1.93
Keya Paha	1.43	Pawnee	2.20	Sioux	1.42
Keith	2.02	Perkins	2.18	Stanton	1.83
Kimball	2.20	Phelps	2.02	Thayer	2.23
Knox	2.30	Pierce	1.95	Thomas	2.08
Lancaster	2.68	Platte	1.97	Thurston	2.21
Lincoln	2.34	Polk	2.13	Valley	2.35
Logan	2.11	Red Willow	2.08	Washington	2.03
Loup	2.26	Richardson	2.18	Wayne	1.98
Madison	1.80	Rock	1.73	Webster	2.29
McPherson	1.37	Saline	2.25	Wheeler	1.45
Merrick	1.95	Sarpy	2.59	York	2.16
Morrill	2.21	Saunders	2.17		
Nance	1.92	Scottsbluff	2.17	*State Ave.*	2.33
Nemaha	2.32	Seward	2.30		
Source: Nebraska Department of Revenue, unpublished data.					

Property Tax Critique

Harold F. McClellan, author of a well-known 1962 study of Nebraska's state and local tax system, declared that tax systems should be governed by four operating principles. The following critique of property taxes is offered within the context of those principles:

1. **Equity and fairness.** With respect to equity and fairness, property taxes have several limitations.

   First, absolute uniformity in real property valuations cannot be guaranteed, even though county assessors are required to update property valuations periodically and the county and state boards of equalization are charged with keeping values uniform. Lack of uniformity helps those whose property is undervalued and hurts those with higher relative valuations.

   Because property taxes are levied on a political subdivision basis, two persons, each with identical property valuations, may pay widely divergent amounts of taxes. It depends on the tax levy applicable to the respective subdivision(s) in which they own property. The higher the levy, the higher the tax obligation.

   Property ownership should not be associated with wealth. Some property is owned debt-free, while other property is heavily mortgaged. Yet the property tax obligation does not vary according to debt/equity ratios. Moreover, those who own financial assets (stocks, bonds, certificates of deposit, etc.) may own little or no property for tax purposes but still be wealthy by most measures.

   Some people, including farmers and ranchers, must own property to earn a living while wage and salary earners generally do not. In the case of production agriculture, it frequently is argued that high property taxes harm the state's most important economic sector.

   Property taxes are not linked closely with income, especially in the short run. Whether income is high or low, property taxes must be paid. Longer run, the relationship between property ownership and income may be somewhat closer because presumably one cannot accumulate property without generating income.

Finally, tax fairness sometimes is considered from the standpoint of benefits received. Because most property taxes go for the support of public education, the linkage between property taxes and benefits received is tenuous at best.

2. **Economic neutrality.** By most comparisons (per capita, per $100 of personal income, and per $100 of real property values) property taxes are higher in Nebraska than the national average. With the possible exception of Wyoming, property taxes also are higher in Nebraska than in all adjacent states.

   Nebraska's property tax system, comparatively speaking, is not a plus for businesses, including farms and ranches. It makes us less able to compete with others. (In fairness, however, most firms considering business establishment or expansion in Nebraska weigh the total tax system, not just property taxes.)

   Implementation of a new personal property tax law in 1992 also may be a step back from economic neutrality, particularly for agricultural producers. Only Missouri among the adjacent states levies a tax on agricultural equipment and breeding livestock.

   Within the state, high property taxes may encourage some to seek ways to earn a living that do not require property ownership.

3. **Economy of administration.** Taxes on real estate are relatively easy to levy and collect, primarily because such property is visible and changes little from year to year. (Land, in particular, tends to be stable.)

   Personal property taxes are less easy to administer because personal property is less visible than real estate. In the past a significant portion of personal property subject to taxation apparently has not been reported to the county assessor. Some policymakers argue compliance will be higher under the new system in Nebraska, which taxes personal property on a net book basis. However, some property still will not be reported, despite heavy penalties for failing to do so.

   County assessors also may need additional staff to fully monitor and audit the reporting of personal property.

4. **Stability of yield.** Property taxes provide stable yields, particularly when compared to income or sales taxes. Most of the time property tax levies and collections do not depend on the economy. Exceptions might occur in recessions when the governing boards of political subdivisions voluntarily hold down levy increases or when property owners simply have no money to pay taxes, such as in a 1930s-style depression.

   Planning is easier for governing boards when there is a heavy dependence on property taxes than with most other taxes.

Property Tax Issues

The critique above suggests that property taxes have a number of limitations. However, if changes are considered in the future, important questions must be answered:

1. How can dependence on property taxes be reduced? Less spending? Higher sales and/or income taxes? More user fees?
2. Should all personal property taxes be repealed now that constitutional authority has been granted to do so?
3. Should property taxes be limited to functions where the linkage between property ownership and taxation is fairly direct, e.g., fire protection?
4. Is increased efficiency through fewer local services a reasonable trade-off to make for reduced property taxes?
5. Is reduced local control of governmental functions a reasonable trade-off to make for reduced property taxes?

None of these questions is easily answered. Any changes in property tax policy can be expected to be vigorously debated by both citizens and policymakers.

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