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EC59-802 The Nebraska Tax Situation

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the Nebraska TAX Situation

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A Discussion Guide

BY
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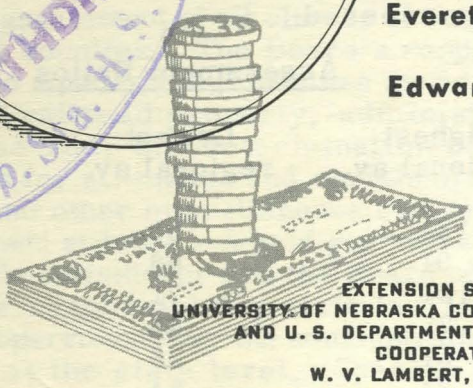

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When America was young, only certain specified classes of property were subject to taxation. Real estate was taxed at rates per acre specified by law. There were fewer classes of property and some of those were exempt from taxation. Administrative procedures were simple. As the economy of the nation became more complex the property tax became more difficult to administer. New classes of property, including intangibles, have created new problems in administration. Fluctuating prices made valuation and assessment procedures extremely difficult. Many tax authorities believe that the property tax should be modified and assigned a much less prominent position in our present complex economy.

Before 1921 Nebraska law provided for the assessment of all tangible property at 20 percent of "actual" value. In 1921 the Nebraska Legislature changed the law to require assessment of all tangible property at 100 percent or full value. Since 1921 unusual price fluctuations have occurred in property. Except for a sharp decline in assessment in 1932 and 1933, farm land assessments have remained relatively steady while land prices have risen due mainly to the stimulus of wartime prices for livestock and farm products.

The following tabulation shows how farm land assessment ratios have fluctuated in the various regions of Nebraska since 1950. The assessment ratio is the percentage of market value at which farm land is assessed.

Assessment Ratios

Year	Highest regional av.	Lowest regional av.	State av.
1930	131	51	75
1935	91	66	80
1940	121	71	105
1945	75	45	61
1950	51	26	38
1958	34	24	30

On January 9, 1953, the Nebraska Supreme Court announced a decision in the Lewis Laflin vs. State Board of Equalization case calling attention to the law requiring assessment at 100 percent of full value in the current market. This decision served notice on public officials that all tangible property must be assessed at the level prescribed by law. Soon thereafter the Nebraska Legislature enacted the new (1953) Assessment Law which legalized assessment of all tangible taxable property at 50 percent of actual value.

Importance of Property Taxation

Property taxation is the principal source of revenue for local government in Nebraska, and also a contributing source for the support of state government. In 1958, 51 percent of property tax revenue in Nebraska went to local school districts; 15.5 percent to state government, 15.9 to county government; and 15.8 to cities and villages. The remainder, 1.8 percent, was divided among minor local subdivisions, such as townships, rural fire districts, and drainage districts.

Property tax law is administered under the general supervision of the State Tax Commissioner and the State Board of Equalization. The Tax Commissioner is appointed by the Governor for a term of six years. The State Board of Equalization consists of the Governor as Chairman, the State Auditor, State Treasurer, Secretary of State, and the Tax Commissioner. This Board is expected to obtain uniform and equitable assessment of all classes of tangible property among 93 counties. The Board's responsibility, in addition to equalization, involves assessment of airlines and railroad property, administration of the Franchise Tax, and determination of assessment schedules for all makes and models of automobiles, trucks, and other miscellaneous classes of property not assessed at local levels of government. In short, the Tax Commissioner and the Board of Equalization are made responsible by state law for exercising general supervision over the administration of property taxation at the state level. Specific enforcement measures are not clearly and specifically stated in

the law, yet general supervision clearly is contemplated by the law.

Constitutional Law

Constitutional Provisions--Revenue:

The state constitution contains the following provisions for taxation, Article VIII, Sections 1, 1A, and Section 10 :

Section 1: "The necessary revenue of the state and its governmental subdivisions shall be raised by taxation in such manner as the Legislature may direct. Taxes shall be levied by valuation uniformly and proportionately upon all tangible property and franchises, except that the Legislature may provide for a different method of taxing motor vehicles provided that such tax proceeds from motor vehicles taxed in each county shall be allocated to the state, counties, townships, cities, villages, and school districts of such county in the same proportion that the levy of each bears to the total levy of said county on personal tangible property. The Legislature may prescribe standards and methods for the determination of the value of real or other tangible property at uniform and proportionate values. Taxes uniform as to class may be authorized by law. Existing revenue laws shall continue in effect until changed by the Legislature. "(Effective, December 2, 1954.)

Section 1A: "When a general sales tax, or an income tax, or a combination of a general sales tax and income tax is adopted by the Legislature as a method of raising revenue, the state shall be prohibited from levying a property tax for state purposes." (Effective, December 2, 1954.)

Section 10: "Notwithstanding the other provisions of Article VIII, the Legislature is authorized to substitute a basis other than valuation for taxes upon grain and seed produced or hauled in this state. Existing revenue laws not inconsistent with the Constitution shall continue in effect until changed by the Legisla-

ture." (Effective, December, 1956.)

Current Tax Problems in Nebraska

Because state government obtains revenue from property taxation, it becomes necessary to make an effort to obtain statewide "uniformity" in the assessment of all tangible property. Statewide uniformity would be equally necessary if property valuations were used for apportioning state support revenues to local governments. Uniformity is exceedingly difficult to attain. There are many reasons for this difficulty: (1) There are widely varying opinions concerning "value." Nebraska has 93 counties and therefore 93 county assessors and county boards of equalization. In the more densely populated counties the assessor's office uses from 25 to 100 deputies during the assessment season. In this highly decentralized system of administration, uniformity in assessment is difficult to get.

(2) Value is always difficult to determine, but particularly so in periods of fluctuating prices. Value varies geographically and seasonally, even within the same class of property. Farm tractors of the same make and model are not worth the same money on all farms. Yet, the prevailing uniform assessment policy assumes uniformity in value of the property assessed. In the assessment of farm real estate, as in other property, uniformity may be carried too far. Uniform assessment sometimes means that poorer land is over-assessed, and the better land is under-assessed.

There are revenue problems at local levels as well as in state government. Population is growing. Recreational and educational facilities are in need of expansion. More government services of various kinds are being demanded. Should additional revenue be drawn from the property tax, or should the additional revenue come from other sources? This is one of the crucial problems.

The 1959 Legislature enacted several laws designed to strengthen administration of the property tax.

One such law provides that the rules and regulations of the State Tax Commissioner will have the force and effect of law until overruled by the courts. This law seems to resolve the question concerning the division of authority between state and local governments in administration of the property tax. The assessment date was changed from March 1 to January 1 but all efforts to abandon the election of county assessors were unsuccessful. Another new law requires county boards of equalization to submit detailed reports to the Tax Commissioner on all actions taken by them. Unresolved remains the issue as to whether or not county assessors are required to comply with the assessment standards established by the County Assessors Association. The penalties for failure to list were greatly increased. Starting with the year 1959 and subsequent years the penalty for omitted and not returned property will be the tangible tax plus seven per cent per year and the addition of a penalty of fifty per cent of the amount found due. Under the new act there is no limitation on the number of years beginning for the year 1959 and thereafter.

Basic Weaknesses in the Property Tax

In view of the current emphasis on stronger administration, it is well to recognize fundamental weaknesses which are built into the property tax and which therefore cannot be easily or quickly overcome merely by changing administrative procedures. These problems have roots in basic, or internal, weaknesses in the property tax. One basic weakness is that property taxes paid in any one year do not vary directly with the income and taxpaying ability of taxpayers. Instead, property taxes fall on the taxpayers with relatively constant weight every year regardless of flucatuations in income. This defect in the property tax is especially serious in agricultural states like Nebraska where due to drought or other uncontrollable causes, income may fluctuate sharply from year to year.

Another basic weakness is that all tangible taxable property is treated as a single class and taxed

according to the same standard, namely, 50 percent of full "actual" value. Yet the owners of various classes of property are not equally able to carry a tax load. Some kinds of taxable property produce monetary income. There are other classes from which there is no apparent income. Widely varying kinds of property should not be treated alike for tax purposes. To attempt to solve problems arising from these differences merely by exempting certain classes of non-income property either in whole or in part, may only complicate the situation. Once a policy of granting exemptions is started there is no clearcut stopping place. Also, exemptions tend to create as much new inequity as they cure.

Intangible properties, such as stocks and bonds, are seldom if ever taxed adequately by means of the property tax. Attempts to obtain an equitable assessment of intangibles have generally failed in states relying upon the property tax approach. Although low rate taxation of intangibles provides an incentive for getting these properties on the tax rolls, individual owners or intangibles react differently to this incentive.

Benefits of government go to persons, not to property. In other states the property tax is recognized as something less than a completely satisfactory method of distributing the tax load among persons receiving benefits from state and local government. In all communities there are substantial numbers of people who receive benefits from government but who pay relatively little property tax.

Policy Problems in the Current Tax Situation

The property tax alone does not provide a tax base sufficiently broad to get an equitable distribution of the cost of state and local government. Owners of real estate, both city and farm real estate, are now carrying a larger share of the cost of the state and local government than ever before. In 1953, under the new 50 percent assessment law, farm and city real estate represented approximately 70 percent of total assessed valuation. All the states adjoining Nebraska

have recognized the need for a broader tax base and accordingly have enacted either a sales tax or an income tax, or both, as substantial replacement sources for the property tax.

Requirements of a Sound Tax System

A good tax system should distribute the cost of government with reasonable fairness among all people who receive benefits from government services and who have tax paying ability. Furthermore, a good tax system should be readily understood by the tax paying public. It should be relatively easy to administer, so administrative complications do not develop too frequently or too easily. A good tax system should provide adequately for the revenue needs of state and local government. Not only are sufficient amounts of revenue necessary but there should be enough flexibility in the tax system to meet changing situations.

A tax system should be sufficiently broad to reach all groups (or segments) in the total population. All persons share in the benefits of government. Nearly all persons receiving benefits have at least some tax-paying ability. This means that all segments of the population should contribute in some measure to the support of government. Widespread distribution of the financial responsibility for government helps inspire good citizenship.

No single form of taxation alone constitutes a tax "system". The property tax is no exception. In order that a tax "system" may have width and breadth enough to reach all segments of the population, its scope must be broad. This means that to get necessary breadth in the distribution of government costs, several forms of taxation should be integrated into a "system" of taxation. There are more reasons, too, for spreading the responsibility over several forms of taxation. All forms of taxation fall short of perfection. The property tax has numerous fundamental weaknesses, previously referred to in this circular. Other taxes have their weaknesses. Because of basic weaknesses in all forms of taxation it becomes necessary to avoid relying too heavily on any one. Hence, the strongest tax "systems"

are those which avoid too much concentration on a single form of taxation. In this mid-twentieth century complex economy the property tax is less capable of carrying so large a proportion of the tax load as it did 25 or 50 years ago.

The elements of strength and weakness in the various forms of taxation may well be studied and discussed by citizens in public discussion groups. All viewpoints are needed; each can contribute to the building of a stronger tax system. The equitability of a system will be determined by its breadth and the degree of fairness with which all earning groups within the population are contributing to the support of government.

Advantages and Disadvantages of Each Principal Form of Taxation

The strength and weakness of each of the following major forms of taxation are listed in an attempt to encourage public discussion. The enumeration of advantages and disadvantages which follows is not necessarily complete. The reader is invited to suggest additional pros and cons which in his (or her) opinion should receive consideration.

The Property Tax:

Advantages:

1. The property tax is an established part of the present system. It could not be abandoned without substantially disturbing property values.
2. The mill levy on property can be changed from year to year with considerable ease thus contributing flexibility to the revenue system.
3. This form of taxation lends stability to the revenue system.

Disadvantages:

1. Property ownership is not always a measure of benefits received from state and local government, nor is it necessarily an indicator of taxpaying ability.
2. The property tax is hard to administer, especially in states where statewide uniformity in the

assessment of all tangible property is required by law.

The Sales Tax:

Advantages:

1. A general retail sales tax would reach every family and thus obtain the widest possible sharing of the responsbility for contributing to the support of government.

2. It is a convenient and relatively painless form of taxation, because the tax-payer makes only a small tax payment at a time and has opportunity to spread his payments over the entire year.

Disadvantages:

1. This form of taxation takes a larger percent of the income of people with small earnings than of people with large earnings.

2. The revenue of a sales tax is subject to fluctuation from year to year.

State Income Tax:

Advantages:

1. An income tax does not burden taxpayers in years of low income, because tax liability diminas income falls.

2. The income tax may be used as a progressive form of taxation to offset the tendency in the property tax and the retail sales tax, both, to fall more heavily on lower income people.

Disadvantages:

1. As a source of revenue within states, the income tax lacks the stability of the property tax.

2. A steeply graduated scale in the tax rate of an income tax may discourage individual initiative.

3. The federal government already exploits this tax quite fully.

Questions for Discussion

1. What is the meaning of a "good tax system"?
2. Point out the strongest features of the property tax. The principal weaknesses.
3. Indicate the proper division of authority between state and local government in the administration of property taxation. Which duties should be

performed by state government, and which by local subdivisions?

4. What are the principal elements of strength in a general retail sales tax? The major weaknesses?
5. Do the elements of strength in an income tax offset the weaknesses?
6. Does the use of income taxation by the federal government make its use by state government inadvisable? Why, or why not?
7. Is the present Nebraska tax system adequate for obtaining a fair distribution of the cost of state and local government?
8. When is a tax system truly a "system"?
9. Point out the advantages and disadvantages of eliminating statewide uniformity in the assessment of all tangible property.
10. What changes in tax policy and administration procedures should be made in order to get a fair and equitable assessment of intangible property?

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