

1970

EC70-817 Local Property Taxes in Nebraska

Everett Peterson

Follow this and additional works at: <http://digitalcommons.unl.edu/extensionhist>

Peterson, Everett, "EC70-817 Local Property Taxes in Nebraska" (1970). *Historical Materials from University of Nebraska-Lincoln Extension*. 4012.

<http://digitalcommons.unl.edu/extensionhist/4012>

This Article is brought to you for free and open access by the Extension at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Historical Materials from University of Nebraska-Lincoln Extension by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

EC70-817
AGRI
S
85
E7
#70-817

EC70-817

LOCAL PROPERTY TAXES IN NEBRASKA
by
Everett E. Peterson, Extension Agricultural Economist^{1/}

RECEIVED
JUN 2 1970
COLLEGE OF AGRICULTURE
LIBRARY

WHY THE CURRENT CONCERN?

Nebraska's citizens are expressing considerable concern over property taxes. The main reasons seem to be: recent increases in local property taxes; lack of understanding on the nature, extent and timing of property tax relief provided by the 1967 and 1969 Legislatures; impacts of reappraisal of real property; and inherent difficulties in trying to make the property tax a fair method of taxation.

This publication provides factual information on these issues and points out possible alternatives for additional local property tax relief, if desired by citizens.

LOCAL SERVICES FUNDED BY PROPERTY TAX

Providing public services is the basic function of government, whether local, state or federal. Public services in Nebraska are provided by nearly 4,000 different governmental units. These are: state government; 93 counties; more than 500 towns and cities; nearly 500 townships; about 1,800 school districts; and almost 1,000 special districts.

The state government no longer receives any revenue from property taxes. However, the property tax remains the largest source of revenue for support of Nebraska's local governments. For example, local property taxes provide 74% of the total revenue from all sources for support of Nebraska's elementary and secondary public schools. Nebraska ranks 4th in the nation as to dependence upon property taxes for revenue from local sources and is tied with Massachusetts for 47th place in proportion of school finance from state sources-- 20% in 1969-70.

Property taxes are an important source of revenue for most other local governmental subdivisions in Nebraska--counties, municipalities, special districts and townships. Other sources are: shares of gasoline and grain taxes; motor vehicle and drivers' licenses; other fees and fines; and state and federal aid.

HISTORICAL BACKGROUND OF NEBRASKA'S PROPERTY TAX

The property tax was first levied by the territorial auditor in 1854. The territorial legislature adopted the Iowa revenue code in 1857. During the first 50 years of statehood, Nebraska had no other significant source of revenue. Since 1920, its importance has been decreasing as a source of state government revenue until it was eliminated entirely in 1966. However, as indicated above, the property tax remains the main source of revenue for local governments in this and other states.

^{1/} The assistance of Curt Bromm, student in the College of Law, University of Nebraska, in the preparation of this publication is gratefully acknowledged.



114-0121
OFFICE OF THE ATTORNEY GENERAL
STATE OF NEBRASKA
LINCOLN, NEBRASKA 68509

The present property tax is based on the 1903 Revenue Law, which provided for continued taxation of tangible property and made special provisions for taxing capital stock, shares of banks, railroads, and insurance companies. Subsequent legislation and amendments to the Constitution have provided special methods of assessing cattle and motor vehicles, and special methods for taxing motor carriers, airline equipment, and grain and seed. Some types of property have been exempt from taxation, such as religious, charitable and educational property, household goods, intangibles, property owned by governmental units, and a portion of the value of owner-occupied dwellings. These changes have departed significantly from the uniformity concept of property taxation as stated in Article VIII of the Constitution.

A constitutional amendment will be submitted to the voters in November, 1970 to authorize the exemption of tangible personal property used for business purposes such as farm and non-farm inventories, machinery and equipment, and agricultural livestock.

OPERATION OF THE NEBRASKA PROPERTY TAX

Listing and Assessment

The county assessor is responsible for listing real estate and improvements on the tax rolls and determining their assessed value. The taxpayer is responsible for reporting tangible business personal property, but assessors are required to examine personal property returns. The total value of all property subject to taxation is the base upon which the property tax is levied and collected.

All real and business personal property must be listed at actual value but assessed at 35% of actual value under present law, which merely means that mill levies must be set higher to raise needed revenue. Property values are supposed to be determined every year, but in practice values are generally carried over from one year to the next. A law passed in 1963 required periodical reappraisal in all counties at specified time intervals. This was changed by the 1969 Legislature to annual reviews by County Assessors with authority to the State Tax Commissioner to order professional reappraisal if necessary.

Actual value under Nebraska law (Rev. Statutes 77-112) is supposed to be based upon seven factors: earning capacity; location; desirability and use; reproduction costs less depreciation; comparison with other similar properties with known values; market value; and zoning.

Court decisions have held that for tax purposes actual value means the same as fair market value. Thus, market value seems to have been interpreted to encompass the other six factors in determining actual value. Many farm and ranch landowners feel that sales price data are given too much weight and productivity too little weight in setting actual values. Property owners may use valuation appeal procedures if they feel the present valuation standards have been applied to their property incorrectly. If Nebraska property owners feel the standard for evaluating property are unfair or misleading, they could request the Legislature to change the law, or try to amend Article VIII of the State Constitution.

Detailed schedules are provided to county assessors for determining values of motor vehicles, farm machinery and equipment, livestock, coin-operated laundry equipment, bowling alley equipment, and industrial earth moving equipment. Uniform depreciation schedules based on book value are provided for pipe line companies, oil and gas well equipment, telephone equipment, REA lines, and business furniture, fixtures and equipment. The value of merchants' inventories is determined from the taxpayers' account books and related financial records. These records may be checked against federal income tax returns. Total 1969 assessed valuations of major classes of tangible property in the state are shown in Table 1. Note that real estate accounts for 75% of the total.

Table 1. Assessed Value of Tangible Property in Nebraska, 1969.

Class	Value in Millions	Percent of Total
1. Rural land and improvements ¹	\$2,071	40.4
2. Town lots and improvements	1,754	34.3
3. Business personal property	349	6.8
4. Motor vehicles	307	6.0
5. Livestock and feeds	242	4.7
6. Pipelines, telephone, etc.	141	2.8
7. Tractors and farm machinery	140	2.7
8. Public utilities, railroads, franchises	92	1.8
9. Oil and mineral interests	11	0.2
10. Miscellaneous ²	14	0.3
Total	\$5,121	100.0

¹ Includes non-farm property outside incorporated cities and towns

² Includes improvements on state lease lands, boats, airplanes, motor vehicles not licensed, other personal property.

To improve the quality of assessment, the 1969 Legislature, in LB 20, provided additional authority for procedures and regulations. Under this law, county assessors must be certified by the State Tax Commissioner, and training programs must be conducted for assessors. Ratios of assessed values to selling prices for various classes of property are computed as one method of checking on assessment quality. Authority is provided for the Tax Commissioner to remove from office any county assessor who does not comply with assessment laws and regulations. Property owners are required to disclose information needed by assessors in determining values.

Equalization

After county assessors set real property values each year as of January 1, county boards of equalization, which are county boards of supervisors or commissioners, equalize valuations between individual properties and classes of property within each county. Changes in values may be made by such a board upon its own initiative or in response to a property owner's protest. This is done annually between April 1 and May 30 except the board may meet at any time to place values on omitted property. Notices of valuation increases must

be sent to property owners. County boards are not permitted to make wholesale adjustments up or down in the valuation of county property values; adjustments may be made only on individual properties.

The county board's task of equalization among individual properties is the basis for efforts to attain equitable assessment. Later adjustments among classes of property or counties by the State Board of Equalization cannot correct inequities in valuation among individual items, whether land or business personal property.

The State Board of Equalization (Governor, Secretary of State, Auditor, Treasurer and Tax Commissioner) meets in July and August each year and must certify equalized county values by August 15. Since the State no longer gets property tax revenue, its purpose is to assure that property owners in all 93 counties are treated equitably as to valuations. This is important because some school districts and other local government units now cross county lines, and because property valuation, along with population, is considered in allocating state aid to counties and cities. The State Board acts only on broad classes of rural and urban property; it does not hear individual protests. Only county representatives may appear at State Board hearings. Under LB 406, a 1969 law, equalization between counties by the State Board is now mandatory.

Valuation Appeal Procedure

If a property owner is not satisfied with the assessed value of his property, he has the right to protest and appeal. His first step is to discuss his situation with his County Assessor. He should do this before April 1 to see whether a mutually satisfactory adjustment can be made at this level. If still dissatisfied, he may appeal to his County Board of Equalization between April 1 and May 10.

The next step is to take his case to District Court. This is done by filing an appeal with the Court within 45 days after the County Board adjourns for the year; adjournment is not later than May 30 but may be earlier. The decision of the District Court may be appealed to the State Supreme Court.

Actions of the State Board of Equalization may be appealed to the State Supreme Court by counties or by individual property owners affected. Such an appeal must be filed within 10 days after the State Board decision. The State Board also looks to the Supreme Court for guidelines on valuation and equalization procedures which meet the constitutional requirement of uniformity.

The original valuation established by the County Assessor is not easily changed, provided it was done in a reasonable and consistent manner as prescribed by law.

Reappraisal

Legal basis for recent and future reappraisals of real property in Nebraska for local tax purposes come from 1963 and 1969 laws enacted by

the State Legislature. These laws attempt to provide improved standards and procedures, to reduce inequities which develop over time, and to approach closer the uniformity concept of taxation as stated in Section 1, Article VIII of the State Constitution. More specific objectives are to update real property values within and among counties, and to get a complete inventory of the real property tax base in each county.

The 1963 Act established guidelines for first reappraisals after the law became effective depending upon when reappraisal was last done in a county. The latest possible date for signing a reappraisal contract is October 19, 1973. This law also provided for mandatory reappraisal at 6 to 16-year intervals. A 1969 law (LB 84) retained the guidelines for first reappraisal but removed the periodical reappraisal requirement, substituting a different procedure.

In first reappraisals, professional appraisal firms are awarded contracts by individual counties. Each contract is reviewed by the State Tax Commissioner's office to make sure it meets legal requirements as to establishing current actual values and achieving equalization. This reappraisal procedure is supposed to result in up-to-date real property values, and equalization among individual properties, between rural and urban property, among different classes of agricultural land (crop, pasture, irrigated, dry, etc.), and between real and personal property. How effectively this has been done is, and will be in the future, a matter for considerable argument and the basis for a number of law suits. Property owners who are dissatisfied with the results may use the appeal procedures described above, and try to get the laws changed or the Constitution amended.

After first reappraisal is completed and accepted, LB 84 requires each County Assessor to make an annual review of assessment accuracy and submit a report to the Tax Commissioner. The hope is that counties will now keep their valuations more current and so reduce the development of inequities in future years. If county assessment performance fails to meet legal standards and regulations, the Tax Commissioner may contract professional reappraisal at the county's expense.

Effects of reappraisal vary among counties and property owners within counties depending upon quality of assessment before reappraisal. Also, possible differences in reappraisal can result because setting values involves personal judgment and several appraisal firms have been awarded contracts. If notices of new valuations are received, since local property tax levies were set in the summer of 1969, property taxes due in 1970 are not affected. The new values will be used in setting 1970 levies for property taxes to be paid in 1971. (See sections below on rate setting procedure and due dates for property taxes.)

Rate Setting--Figuring Mill Levies

Property tax levies are determined each year by dividing the property tax portion of the fund request of the various units of local government by the total assessed valuation of the taxing district. Total mill levies are thus determined by local government expenditures, not by valuation as such. Property values distribute the cost of providing local government

services from property taxes among property owners in a taxing district. A general increase in valuation may temporarily relieve a financial crisis for a governmental unit which has reached the maximum mill levy limit. Since a mill levy is the tax per \$1.00 of assessed value, each property owner's share of local property taxes is determined by applying these mill levies to the assessed value of his property.

Under the uniform budget law (LB 1433, 1969 Legislature), the governing boards of school districts, special districts, cities and counties determine funds needed for the coming fiscal year and hold public hearings on these budgets in late spring and early summer. Notices of hearings must be published in local newspapers. Any citizen may attend the hearings to express his views on purposes and levels of proposed expenditures. He may also talk to board members individually and work through various organizations to influence spending and the quantity and quality of public services.

After the budget is finally determined, those fund requests which are to be financed from local property taxes are sent by the various governmental units to the County Board of Equalization. This must be done before September 1. On that date, the County Board sets the various property tax mill levies to raise the funds requested by these local governments. LB 1433 also requires that all such mill levies shall be adjusted to reflect proportionately any valuation change ordered by the State Board of Equalization and Assessment. A list of levies is usually on the back of your property tax statement.

Most local property tax mill levies are flexible, up to legal ceilings. It should be emphasized that these are maximum limits, not floors; no governmental unit has to develop a budget that will require the upper limit. Numerous maximum mill levies are set by state law; some examples are:

	<u>Mills</u>
(1) County general fund	
(a) Over 9,000 population	10.00
(b) 9,000 or less population	12.00
(2) County road fund	4.50
(3) City general fund	
(a) First class cities	12.00
(b) Second class cities and villages	10.00
(4) Omaha, all municipal purposes except bond issues and recreation fund	14.40
(5) Lincoln general revenue (under city charter)	9.75

For information on other levy limits, ask your County Clerk or appropriate Board members, or write to the State Tax Commissioner.

Collection of Property Taxes

After the individual's tax bill has been determined, the County Treasurer may bill him for the amount of personal property taxes due. This is customarily done in Nebraska. The County Treasurer is not required to notify real property owners of the amount of taxes due. It is the taxpayer's

responsibility to find out how much tax he owes and when it is due. Real estate taxes become due January 1. The taxpayer may pay half by the following May 1 and the second half by September 1. These optional dates are April 1 and August 1 in Douglas County and Lancaster County. Thus, 1969 property taxes are being paid in 1970.

Unless at least half the taxes are paid by May 1, the real estate tax becomes delinquent and draws interest at 9% per year from the due date. The County Treasurer may sell tax certificates to recover delinquent taxes. These tax sale certificates represent a first lien against the property. The purchaser of such certificates receives the interest. He may obtain a tax deed to the property after three years and title to the property by foreclosing within two years after that. The owner may redeem the property by paying delinquent taxes plus interest and advertising costs during this five-year period.

Tangible business personal property, like real property, is assessed at 35% of actual value and taxed at the same rate as real estate within the same taxing district. Personal property taxes are due on November 1 and may be paid in two installments--half by December 1 and the second half by the following July 1. Delinquent personal property taxes also draw interest at 9% from the date due. The penalty for failure to report tangible personal property is 50% of the amount of taxes due plus interest at 9%.

PROPERTY TAX RELIEF SINCE 1967

The state government is prohibited from levying a property tax for state purposes by an amendment to the Constitution approved by voters in 1966. Except for delinquent taxes, final payments of state property taxes were made by taxpayers on or before September 1, 1967.

Actions of the 1967 Legislature provided for:

1. General sales and income taxes to replace state property tax.
2. State aid to public schools and junior colleges.
3. Consolidation of the University of Omaha and the University of Nebraska effective July 1, 1968.
4. Exemption of household goods not used for business.
5. Exemption of intangible property.
6. Replacement of revenue lost to local governments from exemption of household goods and intangibles.

The 1969 Legislature enacted the following measures which affect local property taxes, in addition to reappraisal:

1. Homestead exemption which provides small reductions in local property taxes on owner-occupied dwellings.
2. Replacement revenue for that lost to local governments from the homestead exemption.
3. Increased state aid to schools to \$35 million a year in 1969-71, up \$10 million a year from 1967-69.

Total state aid to local governments now amounts to nearly \$50 million

a year. School districts receive more than 70% of the total. Money for this purpose comes from state general sales and income taxes.

Effects of these changes in Nebraska's tax system have been somewhat obscured by: timing of state-aid payments to local governments; inflation since 1967^{2/}; increases in local government expenditures in response to citizens' demands for more and better public services; and impacts of reappraisal and equalization efforts. In 1969, the Legislature did not make appropriations for state aid to schools until after September 1. This meant that local school district levies were set before level of state aid was known. The Legislature requested that school boards adjust mill levies for 1969-70 downward to reflect the \$10 million increase in state aid. Information is not available on the extent to which such adjustments were made over the state.

To maintain the same level of expenditures, estimates made by the Nebraska State Department of Revenue show that mill levies in 25 towns and cities would have to be 8-19 mills higher in 1970 without state aid; rural mill levies would have to be 3-19 mills higher. Also, an additional 19-20 mills would be necessary to raise revenue for state government purposes, excluding aid to local governments; this revenue now comes from the general sales and income taxes.

A study made by the Economic Research Service of the U.S. Department of Agriculture shows that total taxes levied on farm real estate in Nebraska declined from \$79.2 million in 1966 to \$70.1 million in 1967. Since then increases have occurred in local property taxes paid by both rural and urban property owners for the reasons just discussed.

POLICY CHOICES FOR MORE PROPERTY TAX RELIEF

Keep in mind that your local governments determine your property taxes. Reappraisal may result in some shift of amount of local property taxes paid among taxpayers. You can appeal your property valuation if you so desire. You can also influence amount and purposes of local government expenditures by attending meetings of school boards, county boards and other governing bodies with public spending authority, and by other methods of exercising your rights as a citizen.

The main policy choices in public finance for more property tax relief are:

1. "Hold-the-line" or reduce local government expenditures, recognizing the effect on quantity and quality of public services.
2. Use other sources of revenue such as: more state aid, especially to schools; or local sales and/or income taxes.
3. Reorganization of local governments if cost-saving efficiencies can be realized.
4. Exempt business personal property and increase the homestead exemption, realizing that this could result in higher property taxes on urban and rural real estate unless other sources of revenue are available.

^{2/} Inflation in the national economy caused average wholesale prices to increase 9.3% from 1967 to early 1970. The cost-of-living index rose 6% just in 1969. It should not be forgotten, however, that many taxpayers' incomes have also increased in recent years.