

Nebraska

Highlights

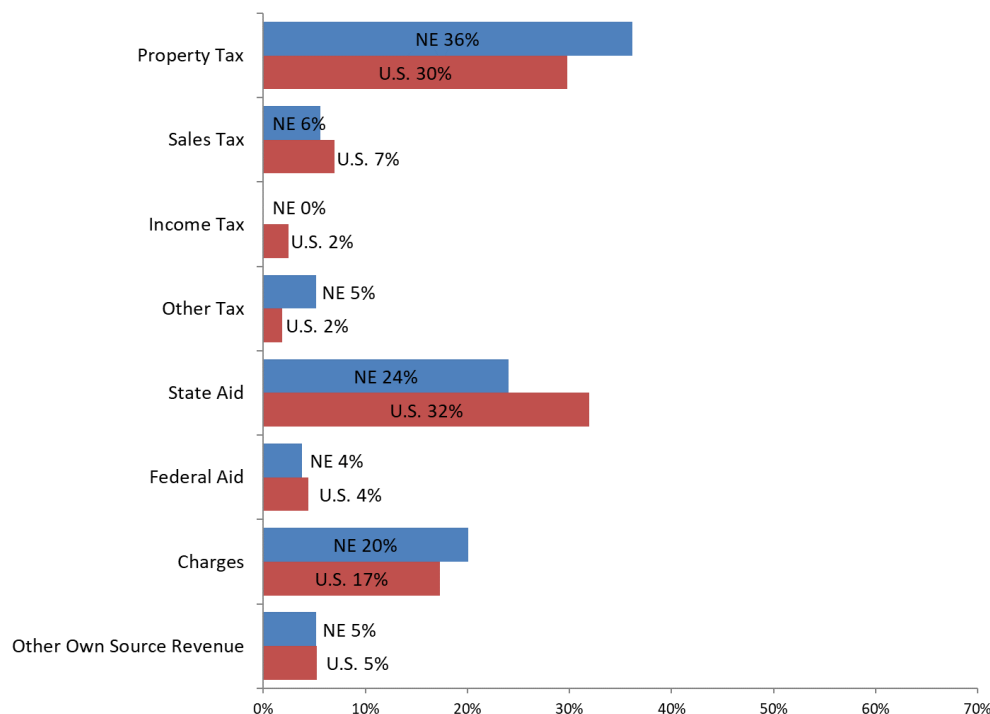
Nebraska local governments rely on the property tax for 36 percent of local general revenue, compared to a 24 percent share from state aid (figure NE-1).

Nebraska has a classified property tax system that treats agricultural property differently from all other property types. Agricultural property is assessed at 75 percent of market value, while all other types of property are assessed at full market value.

As a general rule, assessed values are based on market values. This valuation method is unusual among agriculturally oriented states that generally value agricultural land in its current agricultural use, not its highest and best use. Nebraska allows this kind of use-value assessment for agricultural land only in relatively urbanized counties.

Nebraska has three types of property tax limitations: tax rate caps, which vary by type of government; revenue and expenditure limitations; and local-option levy limits.

Figure NE-1
Sources of Nebraska Local General Revenue, 2014



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

Although property taxes accounted for 18.9 percent of total general revenue for the state and local governments in Nebraska (table NE-1), that overall figure masks the importance of the property tax for local governments. The property tax is the largest source of general revenue for Nebraska local governments.

Table NE-1
Selected Nebraska Property Tax Statistics, 2014¹

	Nebraska	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,759	\$1,464	13
Property tax percentage of personal income	3.6%	3.2%	14
Total property tax as percentage of state-local revenue	19.8%	16.9%	11
Median owner-occupied home value ²	\$133,200	\$178,600	40
Median real estate taxes paid for owner-occupied home ²	\$2,467	\$2,149	18
Effective tax rate, median owner-occupied home ³	1.9%	1.2%	7

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In Nebraska, 2,181 local governments (counties, municipalities, townships, school districts, and special districts) levy property taxes. The state's 93 counties assess all property at full market value except for agricultural property, which is assessed at 75 percent of market value. In 2013, agricultural property accounted for 30 percent of the property tax base. Valuation of taxable property is conducted annually.

Tangible personal property used by business, other than inventories, is taxed. This property is also taxed at full market value.

Limits on Property Taxation

Local governments are subject to a property tax rate cap that limits rates to a range from 4.5 mills to 10.5 mills depending on the locality (table NE-2). Currently, school systems are limited to 10.5 mills. Cities, counties, community colleges, natural resource districts, and sanitary improvement districts can also be subject to levy limits upon a petition signed by 10 percent of the registered voters. Finally, cities,

counties, and political subdivisions are subject to revenue and expenditure limits. In 2012 through 2013, the maximum growth rate for school districts was 0.5 percent.

Property Tax Relief and Incentives

Nebraska provides residential tax relief through property tax circuit breaker programs for the elderly, disabled, and veterans. For elderly households in 2017, income cannot exceed \$48,201 for married homeowners and \$40,601 for single homeowners (Nebraska Department of Revenue 2017). There is also a real property tax credit for all properties, including centrally assessed railroads and public services. The real property tax credit for 2013 is 65.97 mills.

The state provides property tax incentives for economic development through two programs: (1) Nebraska Advantage Act incentives, which are not targeted by geographic area, and (2) Tax Increment Financing for Community Redevelopment, which does target specific geographic locations that must fit the definition of a blighted area or a substandard area to qualify.

Table NE-2
Property Tax Features of State Governments, United States, 2015

Feature	Nebraska	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

The state of Nebraska levied a property tax in its first year of statehood in 1867 and continued to levy the tax until 1966. In that year, voters approved a constitutional amendment abolishing the state property tax and authorizing a state income tax (Patent 2015).

In the 1980s, the farm crisis hit Nebraska and other farm-oriented states, depressing agricultural land values and reducing the share of property taxes derived from agricultural land. That situation brought about changes in the state's approach to property taxation. An important Supreme Court case in 1984, *Kearney Convention Center Inc. v. Board of Equalization*, held that the state constitution's uniformity requirement demanded that agricultural land be assessed similarly to other classes of property, which

were assessed at full market value. Nebraska then adopted an amendment to the constitution permitting a classified property tax system. A later amendment and legislation put in place the current system under which agricultural land is valued at 75 percent of market value.

Education finance was reformed in 1990 with legislation to increase the state sales tax rate permanently and the state income tax rate temporarily to fund the Tax Equity and Educational Opportunities Support Act. That Act shifted public school funding substantially from the local level to the state with the implementation of a new school aid formula distributing aid on an equalized basis. The state expanded the tax base of school districts by giving them a portion of the state income tax revenue collected in their districts and by increasing funding of the state equalization aid formula through an increase in the state sales tax rate.

In the early 1990s, Nebraska experienced a personal property crisis. The crisis began when the railroads questioned whether Nebraska was complying with the federal Railroad Revitalization and Regulatory Reform Act of 1976 (the so-called 4-R Act). That Act was intended to save railroads from financial collapse and contained a provision that prohibited imposition of any discriminatory tax on railroads. In 1988, the U.S. Court of Appeals in the *Trailer Train v. Leuenberger* case held that Nebraska discriminated against railroads because the state provided exemptions for agricultural and business inventories, livestock, and farm machinery that were not available to railroads with no such property. The state was prevented from collecting personal property tax from the railroads. Further complicating the situation, the Nebraska Supreme Court ruled in the *Northern Gas v. State Board of Equalization* case that the state constitution required pipelines, telephone companies, and other centrally assessed entities to be treated equally and have their property equalized to that of the railroads, which were paying no tax. Later, in the 1991 case of *MAPCO Ammonia Pipeline v. State Board of Equalization*, the Supreme Court ruled that all prior personal property exemptions were unconstitutional, thus reversing earlier cases.

In response, the legislature placed a constitutional amendment on the ballot in 1992, which passed, that separated real and personal property in the uniformity clause of the state constitution, permitted personal property exemptions, allowed legislation to revise assessment methods applied to personal property, and created a distinct class of railroad personal property.

Recent Developments

The result of changes to Nebraska's property tax system in the 1980s and 1990s was a larger share of the property tax derived from residential property. The residential share was about 40 percent in 1980; whereas in 2013, it was 47 percent (Anderson and Thompson 2014). Recent dramatic increases in agricultural land values are changing this situation, however. Average farmland values increased 252 percent between 2007 and 2017, peaking in 2014 and declining somewhat from 2015 to 2017 according to the survey data collected by the University of Nebraska-Lincoln Department of Agricultural Economics (2017).

Property tax relief has been a centerpiece of Governor Pete Ricketts's administration. In 2015, the legislature exempted the first \$10,000 in personal property from taxation and increased the rate of the

Property Tax Credit (Schulte 2016, Nebraska Department of Revenue, Property Assessment Division 2015).

In 2017, the legislature failed to approve the Agricultural Valuation Fairness Act, a major tax reform bill backed by the governor and based in part on recommendations from a 2016 Tax Foundation report (Koklanaris 2017). LB 461 would have based farmland assessments on income production instead of market value and it would have capped growth in the statewide aggregate valuation of agricultural land at 3.5 percent. The bill also included phased income tax rate cuts (*State Tax Today* 2017 and Koklanaris 2017). The governor, who had promised income and property tax relief in his 2017 State of the State Address and made property tax relief a centerpiece of his re-election campaign, has vowed to reintroduce similar property tax relief legislation in 2018 (Walton 2017 and 2017b).

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