

# **Digging Deeper in Shallow Pockets II: Examining Property Tax Burden Disparity among Nebraska Residents**

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## **Introduction**

Previous research has shown great disparity in property taxes among states, with Nebraska residents having some of the highest property valuations and taxes among top agricultural producing states and neighboring states.<sup>1</sup>

However, great disparities also exist within the state. This report examines the property tax burdens for Nebraska's highest and lowest income counties. The data show that the heaviest property tax burdens occur in rural, agriculturally-dependent counties and counties with low per capita incomes.

In terms of per capita income, Nebraska is home to five of the nation's 15 lowest income counties – Loup, Blaine, Grant, Arthur, and McPherson.<sup>2</sup> The data outlined herein demonstrate the regressive nature of the property tax when the lowest income areas of the state shoulder tax burdens over 200 percent greater than the highest income areas of the state.

## **Disparity among the Rich and Poor**

When examining Nebraska counties grouped by per capita income, a common feature is readily apparent. All the lowest income counties in the state are both rural and agriculturally dependent (as determined by USDA county typology).<sup>3</sup> Five counties among the highest income counties share this feature – Dundy, Cuming, Phelps, Fillmore and Kearney are considered "farm dependent" counties by USDA. The other highest income counties are large urban centers or parts of metropolitan areas.

It is clear that the combination of property tax dependence for many public institutions and low rural incomes have resulted in tremendous tax burdens for many rural residents, particularly the lowest-income rural citizens in agriculturally dependent counties. And, unlike income tax burdens (and, to some extent, sales taxes) which will decrease as income decreases, property taxes have no relation to income or the ability to pay.

Little has changed in respect to property tax since we published studies similar to this in 1997 and 1999,<sup>4</sup> which also found extreme disparities in property tax burdens. The tables below show the highest 10 counties and the lowest 10 counties by per capita income.

## **Top ten counties by per capita income and their respective property tax burden<sup>5</sup>**

<i>County</i>	<i>Per Capita Income (2002)</i>	<i>Property Tax Burden (2002)</i>
Douglas	\$36,765	3.02%
Dundy	\$30,454	6.55%
Lancaster	\$30,192	3.35%
Cuming	\$30,082	4.12%
Washington	\$29,616	3.98%
Phelps	\$28,920	4.53%
Cass	\$28,802	4.09%
Fillmore	\$28,068	6.07%
Kearney	\$27,892	5.51%
Sarpy	\$27,638	3.60%
<b><i>Average</i></b>	<b><i>\$33,053</i></b>	<b><i>3.28%</i></b>

**Bottom ten counties by per capita income and their respective property tax burden**

Keya Paha	\$18,132	11.18%
Boyd	\$18,095	6.28%
Hitchcock	\$17,405	7.27%
Hayes	\$16,880	12.11%
Sioux	\$15,663	11.63%
McPherson	\$12,647	18.23%
Arthur	\$12,238	21.08%
Grant	\$12,040	19.91%
Blaine	\$10,655	24.35%
Loup	\$9,281	15.92%
<b><i>Average</i></b>	<b><i>\$15,796</i></b>	<b><i>10.62%</i></b>

**Policy Implications and Recommendations**

Over the past several years, the Nebraska Legislature has attempted to reduce property tax burdens for all Nebraska property owners. Beginning with LB 1114, which mandated local and school property tax levy limits, and culminating with efforts to reduce property taxes by increasing state aid for K-12 education and community colleges, the issue of property taxes has been at the forefront of legislative activity.

Efforts at property tax relief have not addressed a fundamental characteristic of property taxation – it is a regressive tax assessed against property but paid by income, the effect of

which distributes the burden of the tax disproportionately. Given the cyclical economic status of agriculture and the current status of the rural economy in Nebraska, efforts at property tax relief that make property tax obligations and household income unrelated are unsatisfactory.

Further, recent budget actions by the Legislature and the Governor have increased the pressure on property tax payers. Since 2001, the Legislature has reversed course on property tax relief due to on-going budget shortfalls. The need to reduce state spending has resulted in decreased state aid to schools, counties, municipalities, Natural Resource Districts and other property tax supported entities. In 2003, the minimum property tax levy limit for schools was increased for one year, reversing the course of a planned decrease of the levy limit. Then in 2004, the Legislature adopted LB 1093 to maintain the higher property tax levy limit for K-12 schools until July 1, 2008, in order to reduce state expenditures for K-12 state aid.

The data presented in this report demonstrate continued high property tax burdens in rural areas of the state despite efforts at property tax relief. Since the property tax burdens discussed here are for periods before the recent policy course reversal on property tax relief initiatives, it is logical to assume rural property tax burdens will remain extraordinarily high in certain areas of the state. Therefore, we recommend that the Nebraska Legislature adopt property tax relief that is targeted at those property owners, both rural and urban, who are truly burdened by property taxes.

In other states, this has taken the form of a property tax "circuit breaker." Several states – Michigan, Connecticut, New York, Idaho, Utah, and Missouri, for example – have enacted "circuit breaker" statutes that allow for income tax credits or property tax rebates when property taxes reach a certain percentage of household income. Many of these laws make those at a certain age (generally available to those property owners 65 or older) or those with a disability the eligible recipients.

Some states have recently made the "circuit breaker" concept available to an expanded number of property owners by adding an eligibility category based on income, thus linking household income and property tax obligations.

These examples from other states provide a framework upon which Nebraska can build to provide property tax relief to those who are truly overburdened.<sup>7</sup> We would suggest the following elements be present in any property tax "circuit breaker" legislation in Nebraska:

- Apply the "circuit breaker" to both agricultural and residential property. While it is clear that rural property owners, particularly farmers and ranchers, are being crushed by high property tax burdens, low-income urban landowners face the same problem.
- Apply the "circuit breaker" only to owners/operators of property. In our view, those that work the land and own property are those who are truly dependent upon property for a living or for a home and are truly burdened by the property tax; they are those who are deserving of specific, targeted property tax relief.

- Provide a strong definition of "income" so that the property tax "circuit breaker" does not become a way to shelter income.

We believe a property tax "circuit breaker" would make Nebraska's tax system more progressive and would have the opportunity to provide significant property tax relief to those who are truly burdened by this tax.

Because of the tremendous property tax burdens on rural areas of the state, and particularly upon farmers and ranchers, we would also recommend that assessments of agricultural property more closely consider the income and earning potential of the property. We would also recommend that the school state aid distribution formula incorporate the local capacity of a school system's property owners to pay the levied property taxes and not base funding solely on the taxable property wealth of the system.<sup>6</sup>

## Footnotes

<sup>1</sup> See, for example, *Nebraska Agricultural Property Tax Burden Analysis: A Comparison of Nebraska and the Surrounding States*, MLB Planning and Policy Research and the Nebraska Farm Bureau Federation, March 2004.

<sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2002 data.

<sup>3</sup> The USDA county typology classifies counties by their population and proximity to metropolitan areas and by their economic and policy traits. For data on Nebraska counties and their typology, see <http://ers.usda.gov/data/TypologyCodes/>

<sup>4</sup> *Analysis of Property Tax Burdens by District and the Distribution of Aid under LB 806 in Relation to Ability to Pay*, Center for Rural Affairs, April 1997. *Digging Deeper in Shallow Pockets*, Center for Rural Affairs, November 2000.

<sup>5</sup> Per capita income data source: Bureau of Economic Analysis, Table CA1-3 -- personal income summary estimates <http://www.bea.gov/bea/regional/reis/default.cfm#s2>  
Property Tax Data Source: *Nebraska Department of Revenue, 2002 Annual Report*, Nebraska Department of Revenue. Property Tax Burden is figured by dividing the total property taxes levied in a county by personal income of a county for each county.

<sup>6</sup> Statutes in Michigan, Connecticut and New York are examples of state efforts in this regard.

<sup>7</sup> The Legislature considered LB 1070 in 2000 to create a property tax "circuit breaker" and provide a state income tax credit when property tax obligations on agricultural property reached 4 to 18 percent of household income. LB 1070 was indefinitely postponed (or killed) by the Nebraska Legislature's Revenue Committee on March 7, 2000. *Legislative Journal*, p. 895, 2000.

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