TAX FOUNDATION

Nebraska Property Tax Relief

Jared Walczak, Tax Foundation

TAX FOUNDATION

NECHAMBER FOUNDATION

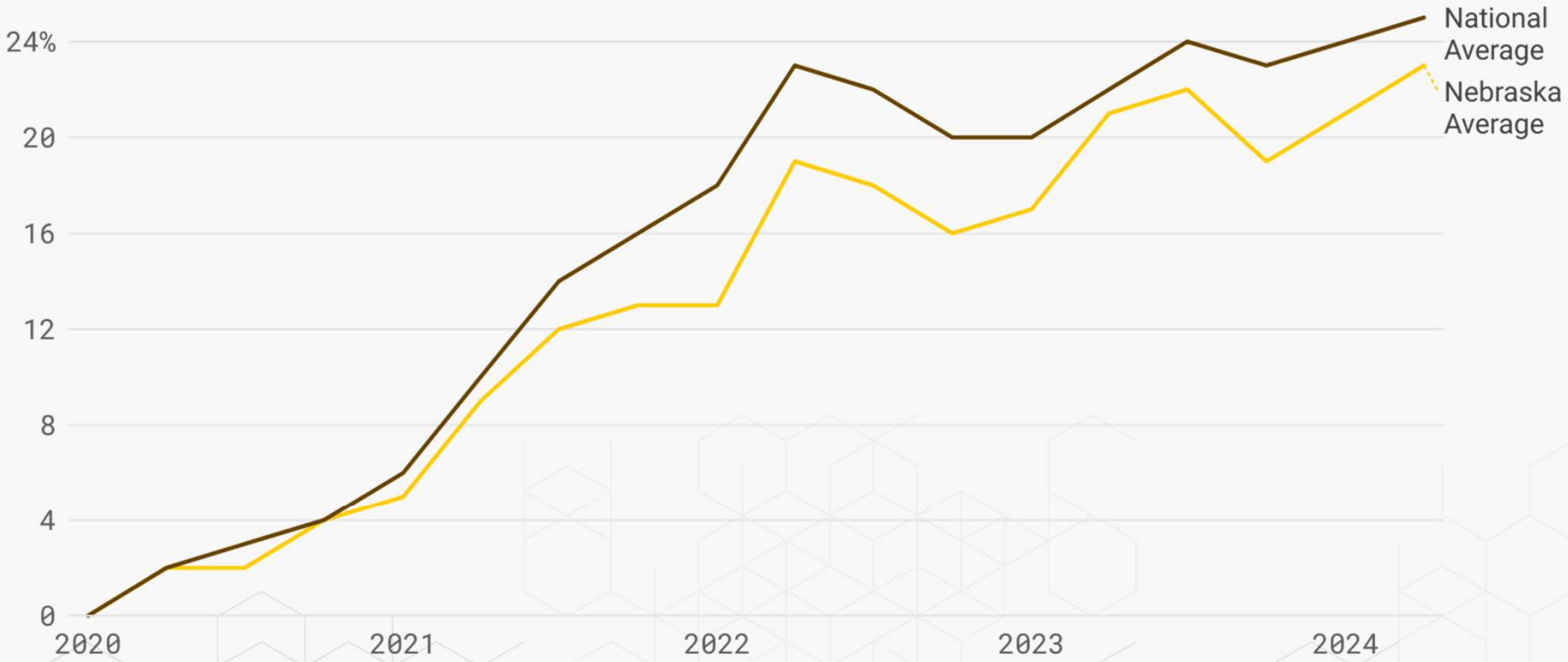
Nebraska Property Tax Relief After LB 34

Abir Mandal Senior Policy Analyst
Jared Walczak Vice President of State Projects

January 2025

Nebraska Home Prices Have Risen Dramatically Since 2020

Inflation-Adjusted Increases in Home Prices, Nebraska and US Average, 2020-2024

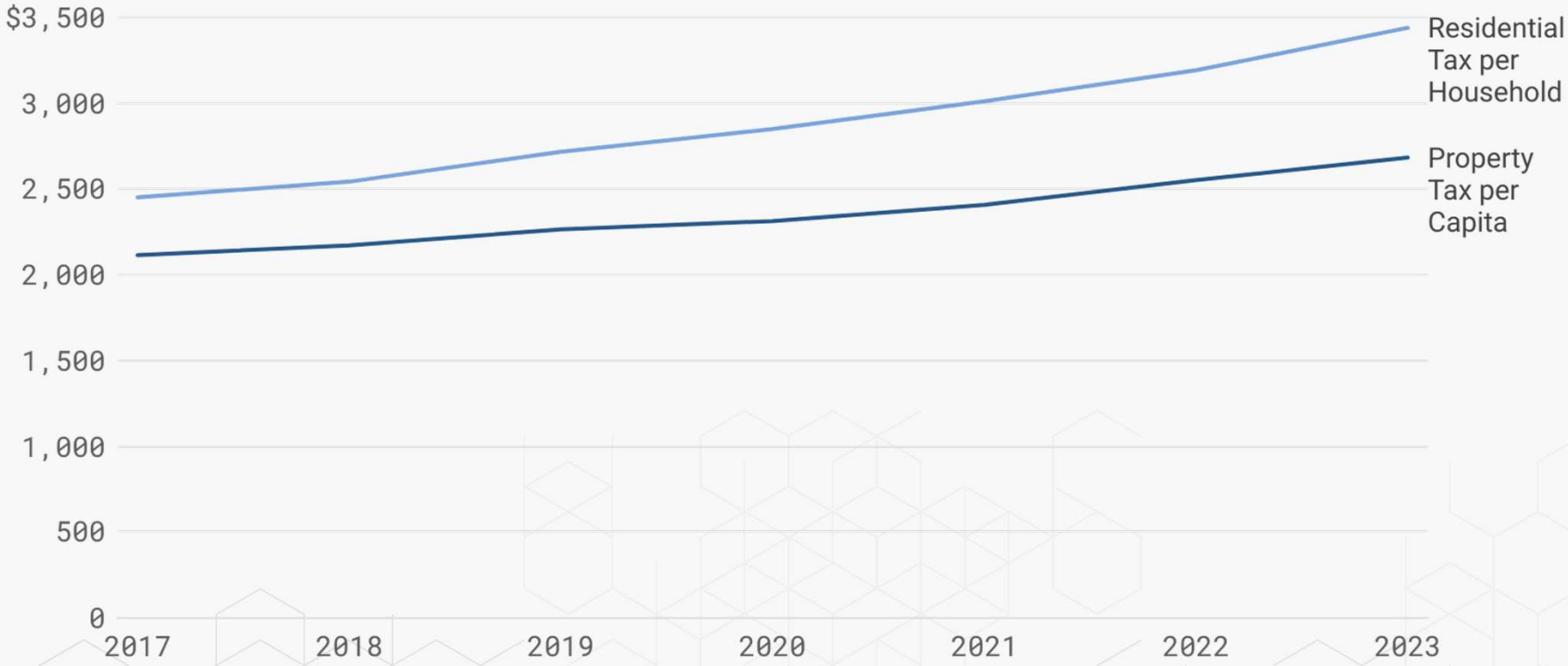


Source: US Federal Housing Finance Agency, "All-Transactions House Price Index for the United States"; Id., "All-Transactions House Price Index for Nebraska"; US Bureau of Labor Statistics, "Consumer Price Index"; Tax Foundation calculations.

TAX FOUNDATION

Nebraska Households' Property Tax Bills Are Rising

Average Property Tax Bills for Households and Individuals, 2017-2023

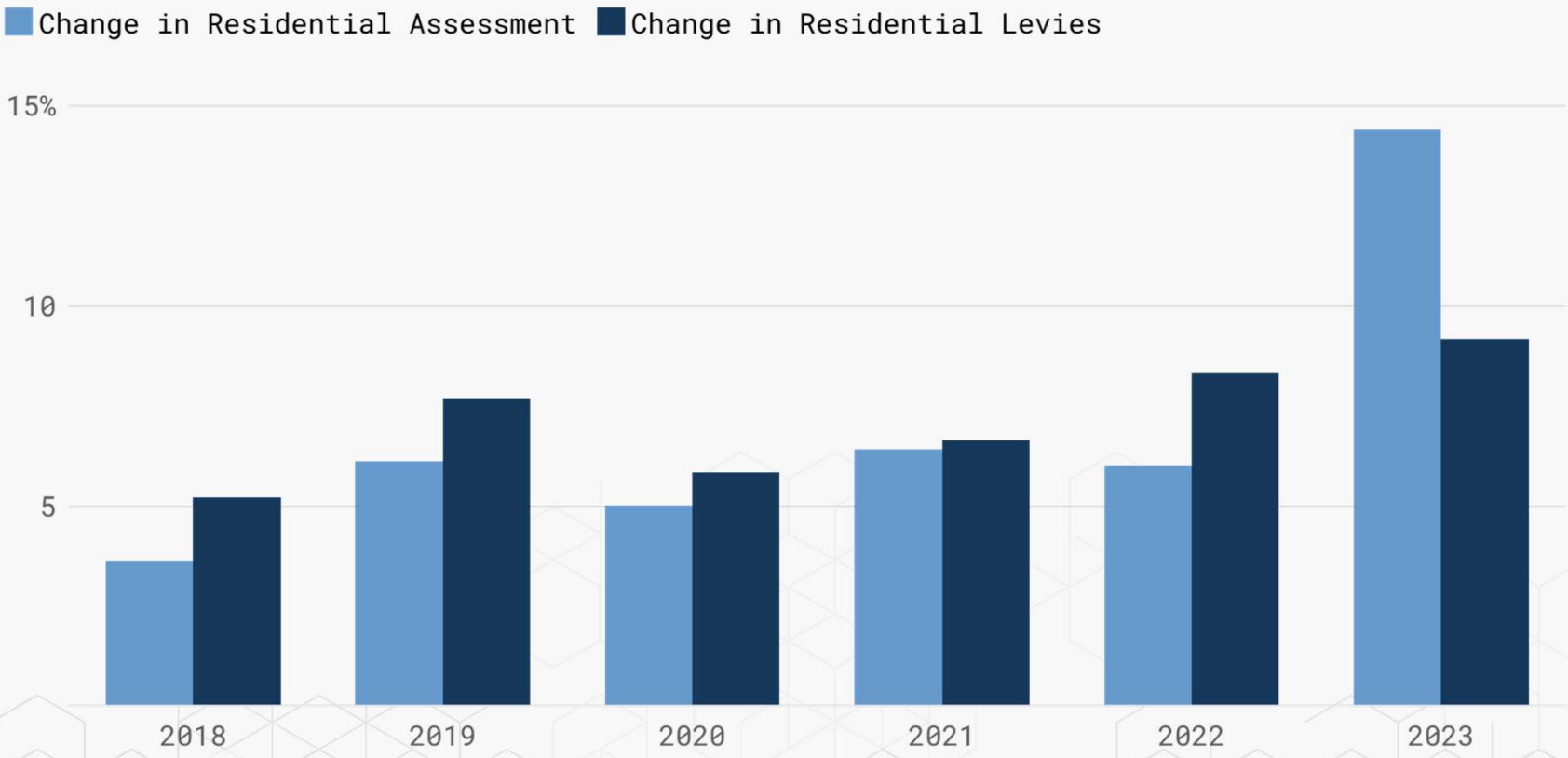


Source: Nebraska Department of Revenue, "History of Valuation & Taxes Levied by Political Subdivision"; Tax Foundation calculations.

TAX FOUNDATION

Nebraska's Property Taxes Have Risen, Not Just Assessments

Growth Rate of Assessments vs. Property Tax Revenues



Source: Nebraska Department of Revenue, "History of Valuation & Taxes by Property Type"; Tax Foundation calculations.

TAX FOUNDATION

The Case for Property Taxes

1. Property taxes **do less economic harm** than alternative ways to raise the same amount of revenue, making them more economically efficient than the alternatives.
2. Property taxes **have less of an effect on decision-making**—including location decisions—than most other taxes, making them less distortionary than the alternatives.
3. Property taxes **roughly align with the benefits** that property owners receive from local services, making them more equitable than the alternatives.
4. Property taxes are **highly transparent** and correlate strongly with services that enhance the value and utility of property, making them unusually sensitive to local preferences on size and scope of government.

Economic Efficiency of Property Taxation

- A 1 percentage point shift from income taxes to sales taxes improves GDP by 0.74%, while shifting to property taxes **increases GDP by 1.45%**

  ~ Arnold, Brys, Heady, Johansson, Schwellnus, & Vartia, *Economic Journal*

- Gross state product **decreases by 2.8%** when the income tax replaces the property tax, while household income **declines by 3.47%**

  ~ Faulk, Thairprasert, & Hicks, Ball State working paper

- While a 1 percentage point higher rate on *personal* property reduces annual employment growth by 2.44%, higher *real* property taxes actually correspond to **modestly increased rates of employment growth**, likely because the business benefits of higher local spending are greater than the additional tax costs

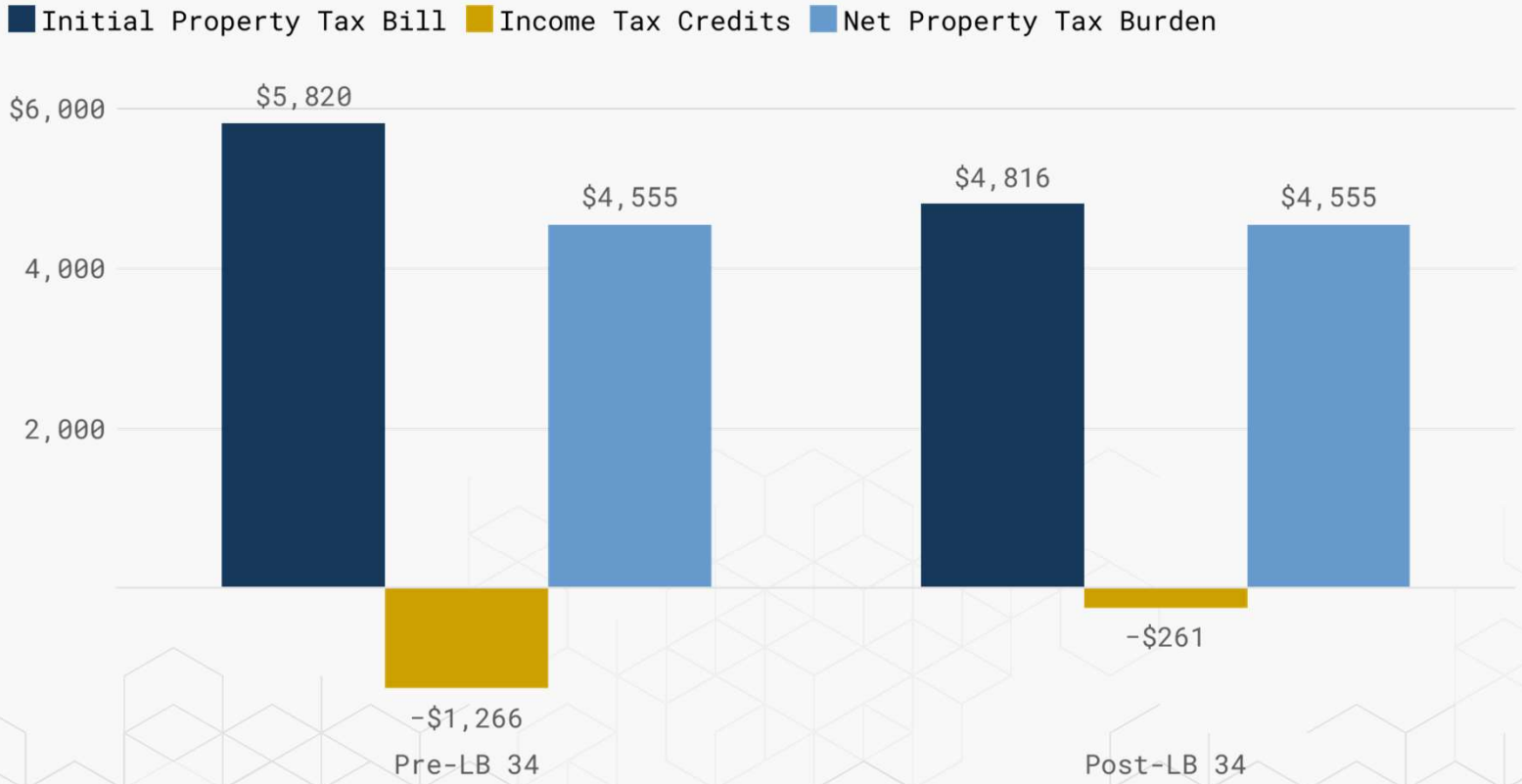
  ~ Mark, McGuire, & Papke, *National Tax Journal*

Why are Property Taxes More Efficient?

- Land is a fixed asset
  - The supply of land itself does not change with property taxes, and elasticities on supply of housing are favorable
- Does relatively little to distort economic decision-making
  - Even taxing improvements isn't as harmful as it might be, since the tax on the value of unimproved land encourages efficient land use
- Does not penalize productivity or consumption
  - Contrasts with income and sales taxes, which reduce incentives to work, invest, or consume
- Tax is capitalized into home prices
  - Can't avoid impact of increase by moving

Under LB 34, Credits Directly Offset Property Tax Liability

Under LB 34, Credits Directly Offset Property Tax Liability Initial and Net Property Tax Bills Before and After LB 34 for a $275,000 Douglas County Home



Source: Tax Foundation calculations based on Douglas County tax rates for a $275,000 home.

TAX FOUNDATION

Property Tax Limitation Typology

Overall Constraints

Levy Limits

Rate Limits

Assessment Limits

Full Repeal

Other Mechanisms

Circuit Breakers

Homestead Exemptions

Tax Credits & Tax Shifting

Assessment Limits and Housing

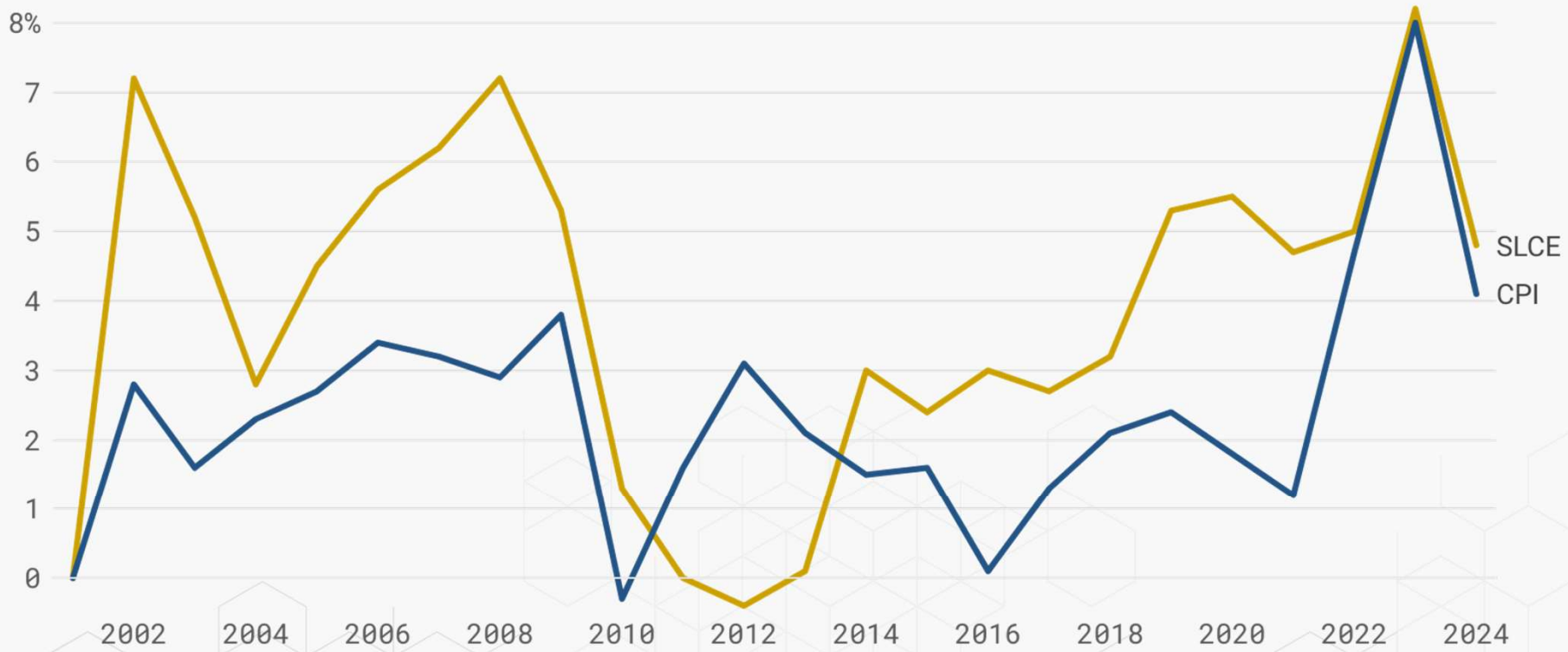
- Shifts tax burdens onto newer (and younger) homeowners, making the tax cost of housing less affordable for those who may be the most income-restricted
  - Tax capitalization may be limited or uneven
  - May deter new construction much as impact fees do
- Creates lock-in effect that discourages relocation or renovation
  - Affects both downsizing and upsizing
  - If new construction is constrained by other factors (e.g., permitting or land use restrictions), or lots are limited, this creates incentives to build bigger—making it even more detrimental if older stock doesn't recirculate
- Can worsen housing affordability for first-time homebuyers

Tax Swap Challenges

Achieving Distributional Fairness
Calculating Future Distributions
Safeguarding Against Overall Tax Hikes
Avoiding a Shift to Less Competitive Taxes

SLCE Is a Poor Measure of Government Cost Increases

Annual Change in CPI vs. SLCE, 2000-2024



Source: US Bureau of Economic Analysis, "State and Local Consumption Expenditures & Gross Investment"; US Bureau of Labor Statistics, "Consumer Price Index."

TAX FOUNDATION

Next Steps

Adopt traditional inflation measure like CPI
Incorporate a reasonable growth factor
Adjust the timing within the TNT law
Reconsider the property tax relief revenue set-aside


TAX FOUNDATION
Questions?