



Senators to study sales tax exemptions

By NANCY HICKS / Lincoln Journal Star | Posted: Saturday, October 3, 2009 12:20 am

Nebraskans pay a sales tax on the water that runs out of the faucet, but not on bottled water.

We pay sales tax on food prepared in a restaurant, but not on the prepared food we buy from vending machines.

We pay taxes when we wash the car at a coin-operated car wash but not when we wash clothes in a coin-operated laundry.

The state's sales tax system is riddled with exemptions, according to Sen. Rich Pahls of Omaha, who has made the topic his project.

Plugging all those holes would bring in another \$3 billion a year that could be used to eliminate the property tax or dramatically reduce the sales tax rate to less than 2 percent.

Pahls' lectures in the 2009 legislative session on the cost of exemptions and their unfairness created enough concern that the Legislature's Revenue Committee is studying the issue during the interim, with a public hearing scheduled Tuesday in Bloomfield and a report expected before the 2010 session begins.

Those who receive exemptions are paying close attention to the study.

"Each and every one of those exemptions was established for a good reason, typically it is a competitive reason," said Barry Kennedy, president of the Nebraska Chamber of Commerce and Industry.

The exemption for collecting sales tax on repairing planes, for example, brings new business to Nebraska, Duncan Aviation in particular, said Bill Mueller, a lobbyist whose firm represents some businesses that have tax exemptions.

"It sounds great - eliminating exemptions - but someone is going to be paying those taxes," Mueller said.

A manufacturer may pass on the cost of the sales tax by raising the price of the product so customers or clients end up paying, he said.

Farming and ranching have interests in both sides of the tax issue.

Production agriculture has many exemptions, from the water used in irrigation to bull semen.

Yet farmers and ranchers would benefit from property tax relief that could be provided if exemptions were gone.

The Nebraska Farm Bureau welcomes a focus on "providing real property tax relief," said Jay Remppe, state director of governmental relations.

But Farm Bureau members get nervous when there is talk about just removing exemptions across the board without any discussion, he said.

"We don't want to do something that will harm the state in the long term," Remppe said.

The Revenue Committee's final report will compare Nebraska's tax system to other states to determine whether we are competitive.

"When you hear that we exempt more than we tax, it sounds like a lot," said state Sen. Abbie Cornett, chairman of the Revenue Committee.

"But we need to know, where does that put us competitively with other states?" she said.

Pahls, who has three more years before he is term limited, intends to continue asking senators to look at tax exemptions.

"Some senators are open to looking at the issue," he said.

But they are getting pressure from the lobbyists, he said.

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