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March 22, 2017

Senator Smith, Chair – Revenue Committee
Room 1524, State Capitol Lincoln NE, 68509

RE: Opposition to LB 373 – Change and eliminate revenue and taxation provisions

Dear Chairman Smith and Members of the Revenue Committee,

Successful stewardship of our state is not just about looking at where we are today, but thinking about where we want to be tomorrow. We all want to live in a state where we make smart investments in our children and in the people and resources that will help them succeed in life. We are supportive of the broader efforts within the bill to address our current budget shortfall by closing loopholes that have reduced state revenue without any demonstrated benefit to our state. However, **Voices for Children in Nebraska is opposed to changes within LB 373 that would reduce the current state Earned Income Tax Credit (EITC) from 10 percent to eight percent of the federal EITC, because of its harmful effect in raising taxes for hardworking Nebraska families.**

The EITC is sensible tax policy that incentivizes work in low-income families while also promoting local economies and businesses. The current structure of the credit reserves benefits for every dollar earned in low-income families, and phases out as income increases. **Between 2009 and 2011, the EITC kept nearly 20,000 Nebraska children out of poverty.**¹ Ensuring that working families are able to meet basic needs is a smart investment in Nebraska—increases in family income from credits are also associated with improved health, improved academic performance, and even increased future earning potential as an adult.² **At a time when Nebraska children experience the highest rate of poverty (16.8 percent) out of any age group, we cannot afford to disinvest in policies that are proven to support our most vulnerable children.**

Research shows that the EITC is also good for local communities and businesses, because families often utilize their credits to pay off debt, invest in education for their children, and secure housing.³ In recognition of the wide-reaching benefits of the EITC, 26 states and the District of Columbia have created a state EITC, and many have elected to utilize a higher percentage, including our neighboring states, Iowa (15 percent) and Kansas (17 percent).⁴ **Last year, 132,598 Nebraska families utilized**

¹ "Working Families Kept out of Poverty by the EITC and CTC, 2009-2011," Brookings Institution analysis of Supplemental Poverty Measure Public Use Data.

² "Studies Show Earned Income Tax Credit Encourages Success in School and Reduces Poverty," Center on Budget and Policy Priorities, June 26, 2012.

³ "The Earned Income Tax Credit and the Volunteer Income Tax Assistance Program," National Community Tax Coalition and the Hatcher Group, 2010, 6-7.

⁴ "Tax Credits for Working Families: Earned Income Tax Credit (EITC)," National Conference of State Legislatures, February 2017.

the state EITC, which has been held at 10 percent of the federal EITC since it was first enacted in 2006.⁵

LB 373 offers wise changes to our current revenue system by making changes to tax cuts and loopholes that have significantly contributed to our current budget shortfall. However, we are concerned that changes to our state EITC does not represent a balanced approach for the working poor in our state. For example, **the Special Capital Gains Election and Multi-State LLC Exclusion, together, cost Nebraska roughly \$85 million in 2014, offering an average of \$18,240 to an estimated 4,660 high-income taxpayers.⁶ By comparison, in the same year, low-income taxpayers in Nebraska received an average of \$255 in the same year.**

We thank Senator Schumacher, the Planning Committee, and this committee for their hard work in ensuring that as a state, we can continue to set and meet our long-term priorities. We believe that an effective state revenue system should produce enough revenue to meet needs, especially those of our most vulnerable children, and should be structured in a way that thoughtfully considers each Nebraskans' ability to pay. Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Julia Tse", written in a cursive style.

Julia Tse

⁵ Voices for Children in Nebraska, *Kids Count in Nebraska Report 2016*, available online at www.kidscountnebraska.com.

⁶ Analysis of "2014 Tax Expenditure Report: Section B" and "Nebraska Statistics of Income" issued by the Nebraska Department of Revenue.