

**By Grant Schulte  
Associated Press**

LINCOLN (AP)—Some of Nebraska's powerful farm interests are skeptical about Gov. Dave Heineman's proposed income-tax overhaul, arguing that the state should focus instead on reducing property taxes.

The governor unveiled two plans Friday that would eliminate \$395 million to \$2.4 billion in sales breaks, including hundreds of millions of dollars in exemptions for commercial seed, farm chemicals, machinery and fuel used by farmers.

Heineman, a Republican, told lawmakers in his State of the State address that he has spent months visiting with farmers and ranchers, many of whom are willing to discuss a tax system that would be simpler and more efficient.

But Steve Nelson, president of the Nebraska Farm Bureau, said eliminating the sales tax exemptions would increase the tax burden on farmers. The more modest of the governor's two plans would still eliminate about \$211 million in sales tax breaks used by farmers.

Nelson said the exemptions help many farmers stay in business, and eliminating the income tax wouldn't benefit them as much as the sales tax breaks. Farmer incomes rise and fall each year depending on how much they produce, so they pay less in taxes in years when they aren't as successful.

If the tax plan was enacted, farmers would pay more in sales taxes in both good and bad years—whereas the income tax allows them to pay less when they aren't as successful.

"We're very open to a conversation about Nebraska policy and the tax system," said Nelson, a farmer from Axtell. "We're all for job growth and growing the economy, just like everyone else. But from our perspective, the discussion also needs to include issues related to property taxes. From that perspective, we're disappointed."

The Center for Rural Affairs, a group that represents family farmers and rural Nebraskans, cautioned that the sales tax plan would disproportionately hit middle-class residents who don't pay as much in income taxes as the wealthy.

"This is a tax shift, not a tax cut," said Jon Bailey, the group's program director.

After giving an overview in his State of the State speech, Heineman added details Friday with two proposals. One would eliminate the state's individual income tax, but require lawmakers to cut \$2.4 billion in sales tax breaks to offset the lost state revenue.

A second, more modest plan would eliminate \$395 million in sales tax exemptions, but only retirees would see their income taxes reduced. The proposal would exempt the first \$12,000 of retirement income for married couples and the first \$6,000 for single filers.

In his announcement Friday, Heineman stressed that he wanted a broader public discussion over the state's tax exemptions, and was willing to make changes to his specific plans. But he insisted that eliminating, or at least reducing, the state income tax would help farmers and other businesses.

"In the big picture, you have to look at what it means for your bottom line," Heineman said. "You won't be paying other taxes."

State Sens. Beau McCoy and Brad Ashford, both of Omaha, introduced the bills on Tuesday. McCoy, who was raised on a western Nebraska cattle ranch, said lawmakers and the governor wanted suggestions from Nebraska farm and ranch families.

"I'm sure there's going to be a robust discussion over some of these exemptions," McCoy said.

"But I believe that these families, and Nebraskans as a whole, will look at this—at what's best for our state. I think we'll have a great conversation about that."

Nebraska hasn't used property-tax revenue since the last major tax-system overhaul in 1967, when the state shifted to a sales and income tax. But lawmakers have introduced several property-tax measures this year that could compete with Heineman's plans.

The Farm Bureau is reviving a bill that would reduce the value of farmland that school districts are allowed to tax, which in turn would lower the property taxes that farmers have to pay. The bill also would increase state aid to rural schools to offset the lost revenue. Former state Sen. Lavon Heidemann of Elk Creek introduced similar legislation last year, but it died in committee.

State Sen. Steve Lathrop of Omaha introduced a bill on Friday that would provide state aid to cities and counties that agree to lower their property taxes. Cities would receive aid based on their populations, but Lathrop said he and lawmakers plan to push a discussion about property taxes statewide.

"When I knock on doors and talk to people, their concern is over property taxes," Lathrop said.

Other Nebraska industries remained on the fence Friday as they studied the plan. Nebraska hospitals and clinics would lose \$36.7 million in yearly tax breaks for medical equipment under both plans, and potentially millions more if Nebraska eliminates the exemption on hospital rooms.

The Nebraska Hospital Association has not yet taken a position on the bills, said spokesman Adrian Sanchez. Sanchez said the group's board of directors will meet next week to decide how to proceed.

"It's still very preliminary," said Sanchez, whose group has 89 member hospitals.