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State income taxes—both individual and corporate—would be eliminated under a new tax plan outlined by Gov. Dave Heineman on Jan. 18. To make up for lost income tax revenue, the plan would end sales tax exemptions on products from agricultural machinery and chemicals to medicine and medical equipment.

Sens. Brad Ashford and Beau McCoy of Omaha will cosponsor two separate bills to be introduced to the legislature on Jan. 22.

The first bill – Heineman's preferred option – would eliminate all state income taxes and end \$2.4 billion in sales tax exemptions.

The second bill would do away with the corporate income tax and exempt the first \$12,000 of retirement income for married couples and \$6,000 for individuals, while only ending \$395 million in sales tax exemptions.

"Taxes are too high in Nebraska," Heineman said. "High taxes impede economic growth. High taxes are adverse to entrepreneurial growth and high paying jobs." He said Nebraskans should not be forced to leave the state because they couldn't find a job or the right career.

Heineman said Nebraska's top personal income tax rate is the 35th highest in the nation and eliminating income taxes would create "a better business tax climate in the state."

Along with eliminating or reducing income taxes, both bills would end exemptions for agricultural machinery and chemicals, energy used in agriculture and seeds for commercial use, amounting to more than \$200 million in additional annual sales taxes on agricultural-related products.

"The agriculture of the 1960s is not the agriculture of today," Heineman said. "They're so much more efficient." He said the bills are not intended to target any one industry but other businesses do not enjoy the same exemptions as farms.

McCoy recounted some of his experiences growing up on a farm. "I know what it's like to buy farm equipment," he said. "I'm sure there's going to be a robust discussion over some of these exemptions, but I believe that these families and Nebraskans as a whole understand that we need to look at this as what is best for the state."

The Nebraska Farmer's Union, which represents more than 5,000 family farms and ranches throughout the state, is opposing the tax bills.

"It will cost us more money," said John Hansen, president of the farmer's union. "It will distort business activity and increase border bleed."

Hansen said eliminating the sales tax exemptions would encourage Nebraska farmers to go outside the state to purchase equipment. "We don't want to put Nebraska farm equipment dealers out of business." He said Nebraska farmers would see little benefit from the elimination of individual and corporate income taxes, noting that property taxes have the greatest impact on farmers.

Both tax bills would also end more than \$125 million in sales tax exemptions for medicine and medical equipment.

Heineman said he would ask those opposed to ending particular exemptions, "What are you for? Are you for the current system?"

After being introduced, the bills will head to the Revenue Committee where they are expected to meet tough opposition, with some lawmakers suggesting they will be dead on arrival.

"I don't think anything is dead on arrival," McCoy said. "Everything gets a fair and public hearing in our legislature and I think Nebraskans want this conversation."

"Let me be very succinct," Heineman said, "with Senator Ashford and Senator McCoy leading the way, this bill is not dead on arrival."