



# THE CENTER FOR RURAL COMMUNITY REVITALIZATION AND DEVELOPMENT

## A Working Paper\*

### **Nebraska State and Federal Tax Issues: Opinions of Rural Nebraskans**

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# Nebraska State and Federal Tax Issues: Opinions of Rural Nebraskans

## Executive Summary

This working paper presents findings from the first annual Nebraska Rural Poll. The study is based on 2,754 responses from households in the 87 nonmetropolitan counties in the state. The objectives of this paper are to provide information on how rural Nebraskans view the following issues and questions:

- Do rural Nebraskans support or oppose the following alternatives to Nebraska's current system of taxation and spending?
  - ◆ The elimination of property tax as a revenue source.
  - ◆ The reduction of property taxes (by approximately \$400 million annually) by limiting property tax levies for local units of government.
  - ◆ The freezing of local spending for three years beginning in 1997.
  - ◆ The reduction of property taxes by increasing income and/or sales taxes.
  - ◆ The expansion of opportunities for gambling.
  
- Do rural Nebraskans support or oppose the following tax changes as a way of reducing the federal deficit?
  - ◆ An increase in federal income tax paid by individuals.
  - ◆ An increase in federal income tax paid by corporations.
  - ◆ An increase in federal estate taxes.
  - ◆ The establishment of a national sales tax.
  - ◆ The establishment of a national value-added tax.
  
- Which, if any, of 14 federal programs would rural Nebraskans choose to spend less on to help reduce the federal deficit?

In the case of Nebraska's taxation and spending issues, it is important to emphasize this poll was done in March of 1996. Since then, there has been a rapid increase in the amount and level of public discussion -- especially in terms of specific proposals that are on the November 5 election ballot. Whether the increased recent dialogue, discussion, and debate have changed the earlier views of those responding to this poll is unknown.

Key findings from the March poll include the following:

- Sixty-two percent of rural Nebraskans support limiting property tax levies for local units of government.
- Fifty-seven percent support freezing state and local spending levies for three years beginning in 1997.
- Fifty-six percent support reducing property taxes by increasing income and/or sales taxes.
- Fifty-one percent support elimination of property taxes as a revenue source.
- Thirty-seven percent support an expansion of gambling opportunities.
- A majority of rural Nebraskans support increasing the amount of federal income tax paid by corporations.
- A majority of rural Nebraskans oppose increases in the federal estate tax and federal income taxes paid by individuals.
- A majority of rural Nebraskans favor reduced spending on foreign aid, food stamps, the national endowment for the arts and humanities, aid to families with dependent children, and farm programs.
- A majority of rural Nebraskans oppose reductions in spending on Social Security, Medicare, Medicaid, and veterans compensation and pensions.

## **Introduction**

Government policy and taxation have been a major focus for public discussion at the federal and state levels during the last decade, especially during the past 2 to 3 years. At the state level, Nebraskans have been struggling with the perceived need to reduce property taxes while maintaining the quality of public services. Issues at the national level include the overriding question of how to balance the federal budget: Should it be done by increasing taxes, reducing spending, or both? The Nebraska Rural Poll addressed these questions and issues and the following is a summary of the results.

## **Methodology and Respondent Profile**

This study is based on 2,754 responses from Nebraskans living in non-metropolitan counties in Nebraska. A self-administered questionnaire was mailed in March of 1996 to 6,200 randomly selected households. Metropolitan counties not included in the sample were the six Nebraska counties that are part of the Omaha, Lincoln, and Sioux City metropolitan areas. All of the other 87 counties in the state were sampled. The 14-page questionnaire included questions pertaining to well-being, access to services, environment, public policy issues, and work. This report focuses only on the tax and public spending issues facing rural Nebraskans.

A 45% response rate was achieved using the Total Design Method (Dillman, 1978). The sequence of steps in the survey process were:

1. A “pre-notification” letter was sent first. This letter requested participation in the study, and was signed by the Governor of Nebraska and the President of the University of Nebraska.
2. The survey was mailed with an informational letter about seven days subsequent to the “pre-notification” letter being sent. The letter was signed by the project director.
3. A reminder postcard was sent to the entire sample approximately seven days after the survey (Step #2) had been sent.

4. Those who had not responded within approximately 14 days of the original mailing were then sent a replacement questionnaire.

### *Respondent Profile*

The profile of the respondents reflects an aging population. The average respondent was 53 years of age. Seventy-five percent were married, and seventy percent lived in a town or village. On average, respondents had lived in their current town or village 32 years. Sixty percent of the respondents were living in towns or villages smaller than 5,000 people. Eighteen percent indicated they were farmers or ranchers. Thirty-three percent reported that they worked in a professional, technical, or administrative job.

Sixty-two percent of the respondents reported an approximate household income from all sources, before taxes, for 1995 of below \$40,000. Twenty-three percent reported incomes of over \$50,000. Ninety-one percent had attained at least a high school diploma.

Thirty-five percent reported that their spouse or partner worked full time, and an additional fifteen percent said their spouse or partner was working part time. Fifteen percent also reported that their spouse or partner was retired.

## Findings

A large amount of data was generated from the rural poll and is reflected in the subsequent tables and figures. Only selected comments will be made on the data presented. The reader is encouraged to study the tables and figures to draw additional conclusions and insights.

### Nebraska Tax Issues

During the past year, Nebraska residents have been discussing various tax related issues. Questions include whether or not Nebraska should eliminate property taxes, reduce property taxes, freeze state and local spending, increase income or sales taxes, or expand gambling opportunities. To address these issues, respondents were asked the following specific questions:

**Nebraskans currently are considering various tax related issues. Please indicate how strongly you support or oppose the following.**

*The elimination of property tax as a revenue source.* (Strongly Support to Strongly Oppose)

*Reduce property taxes (by approximately \$400 million annually) by limiting property tax levies for local units of government.* (Strongly Support to Strongly Oppose)

*Freeze state and local spending for three years beginning in 1997.* (Strongly Support to Strongly Oppose)

*Reduce property taxes by increasing income and/or sales taxes.* (Strongly Support to Strongly Oppose)

*Expand opportunities for gambling.* (Strongly Support to Strongly Oppose)

Strong support exists for changes in state and local government financing. Of the various options proposed, the greatest support was for reducing property taxes by limiting property tax levies for local units of government. Sixty-two percent of rural Nebraskans supported this option, with only 18 percent opposed. Respondents were also supportive (57 percent) of an approach that would freeze state and local spending for three years beginning in 1997, although about 25 percent were opposed to this action. Over one-half (56 percent) of the respondents would favor the reduction of property taxes in concert with an increase in income and/or sales taxes, while one-third oppose this approach. Fifty-one percent of the rural respondents support the option of eliminating property taxes as a

revenue source, with about one-third of the respondents opposed to this approach. Only thirty-seven percent support expanded gambling opportunities, with 48 percent opposed to an expansion in gambling. About 15 percent had no opinion.

The data were further analyzed to determine if opinions differed depending upon certain characteristics of the respondents, e.g., age, education, and place of residence. Results are presented in Table 2.

Occupation of the respondents played only a slight role in influencing whether rural Nebraskans supported or opposed most of the tax alternatives presented. Farmers/ranchers were the occupational group most supportive of the alternatives presented (except for the gambling option). For example, 72 percent of the farmers favored the reduction of property taxes by limiting property tax levies for local governments. Farmers/ranchers, along with administrative support workers, were the occupational groups least likely to support the expansion of gambling (33 percent). (See Table 2).

The youngest age group was the least supportive of reducing property taxes and freezing state and local spending, while those in the older age group tended to be most supportive. Specifically, sixty-four percent of the respondents age 65 and over supported such a freeze, but only 39 percent of those aged 19 to 29 years supported a spending freeze. The effect of age was similar when asked about reducing property taxes in concert with an increase in income or sales taxes. The reverse trend occurred when asked about the possible expansion of gambling. Specifically, sixty percent of those age 19 to 29 supported an expansion of gambling compared to only 25 percent of those age 65 and over.

Gender also appeared to influence the respondents' opinions and views. Females were less likely than males to support a spending freeze and the various options for reducing property taxes.

Community size appeared to influence how some, but not all, of the alternatives were viewed. The biggest difference was in the case of a state and local spending freeze. Seventy percent of those respondents residing in towns of less than 100 people supported such a freeze, while only 53 percent of respondents from towns of greater than 10,000 people supported this option. Respondents living in town were somewhat less supportive of the various options proposed than were those living outside town boundaries.



Household income and education were also related to how individuals responded. Generally, those with the lowest incomes were least supportive of property tax elimination and reductions. For example, only 50 percent of respondents having a gross household income in 1995 below \$10,000 supported limiting property taxes by increasing sales and income taxes. In contrast, 70 percent of those with incomes of at least \$75,000 supported this option.

The higher the level of education, the more likely the respondent was to oppose eliminating property taxes, a spending freeze on state and local governments, or limiting local levy limits. For example, only 36 percent of those with graduate or professional degrees supported a freeze on state and local spending, while 67 percent of those with less than a ninth grade education supported this option.

### **Federal Government Deficit Reduction**

There are two basic ways to reduce the federal deficit: increase federal taxes or reduce federal spending. Rural Nebraskans were asked their opinion about five taxation strategies (See Table 3), and were also asked whether or not they would support reduced federal spending for each of 14 different programs (Table 4).

#### *Federal Taxation Options*

Respondents were asked whether they supported, had no opinion, or opposed five different taxation options for reducing the federal deficit: an increase in the federal income tax paid by individuals; an increase in the federal income tax paid by corporations; an increase in the federal estate tax; establishing a national sales tax; and establishing a national value-added tax.

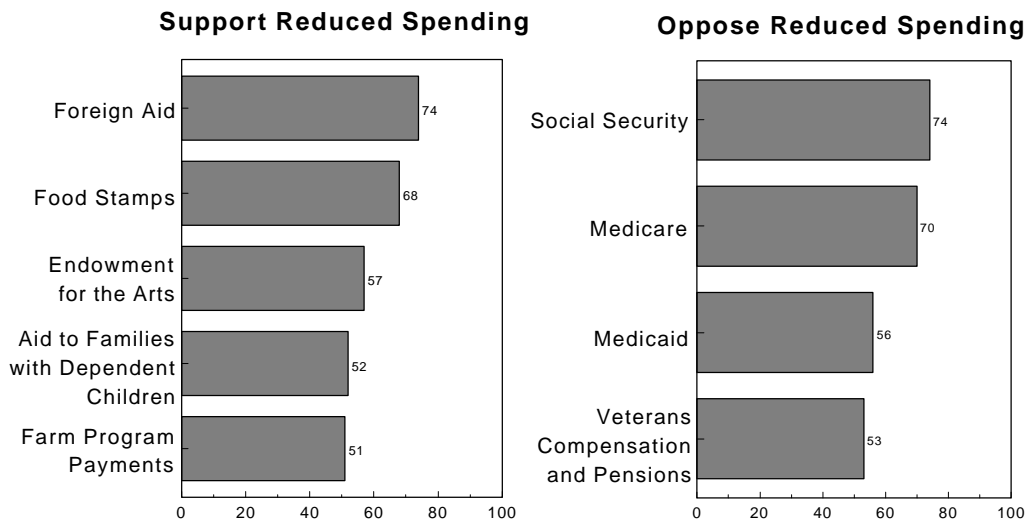
The only alternative strategy that received majority support was that of increasing corporate taxes (65 percent supported, 24 percent opposed). Establishing a national sales tax was split, with forty-one percent supporting and forty-one percent opposing. A majority of rural Nebraska residents opposed increasing the federal income tax paid by individuals (85 percent) and increasing the federal estate tax (66 percent). Forty-four percent of the respondents had no opinion on a national value added tax while forty-one percent opposed such a tax.

*Federal Program Reduction Alternatives*

Rural Nebraska respondents were asked to indicate whether or not they supported, opposed, or had no opinion, for reduced spending on fourteen different federal programs. The federal programs included Social Security, Food Stamps, Farm Program Payments, National Public Radio, and ten other programs (See Table 4).

A majority of the respondents avored reduced spending on only 5 of the 14 programs listed. Those programs were: Foreign Aid (74 percent favored reductions); Food Stamps (68 percent favored reductions); National Endowment for the Arts and Humanities (57 percent favored reductions); Aid to Families with Dependent Children (52 percent favored reduction); and Farm Program Payments (51 percent favored reduction). (See Figure 1).

**Figure 1. Percent of Respondents Supporting/Opposing Reduction in Selected Federal Programs**



A majority of the respondents were opposed to reduced spending in four programmatic areas: Social Security (74 percent opposed reductions); Medicare (70 percent opposed reductions); Medicaid (56 percent opposed reductions); and Veterans Compensation and Pensions (53 percent opposed reductions). (See Figure 1).

In the remaining five programmatic areas a majority of the respondents neither favored nor opposed spending cuts. In the case of national defense, the respondents were evenly divided (42 percent favoring and 42 percent opposing reduced spending). In three cases, the proportion opposed to reduced spending exceeded the proportion favoring such reductions: Child Nutrition Programs, Guaranteed Student Loans, and Research. In the case of National Public Radio, the proportion opposed to reduced spending was less than the proportion favoring such a reduction.

## Conclusions

As policy makers and local officials reflect on the findings of this study of rural Nebraskans, it is important to understand that these findings are like a snapshot. The results are the beliefs, attitudes, and opinions of rural Nebraskans at a given point in time. Yet there are some basic policy questions and considerations this research may help illuminate.

When rural Nebraskans were asked to indicate their support or opposition to several alternatives to Nebraska's current system of taxation, more than one-half supported limiting property tax levies for local units of government, freezing state and local spending for three years beginning in 1997, eliminating property tax as a revenue source, and reducing property taxes in concert with an increase in income and/or sales tax. A majority did not support an expansion of gambling opportunities in the state.

At the federal level, rural Nebraskans support increased federal income taxes paid by corporations, but oppose increases in federal income taxes paid by individuals and in the federal estate tax.

Federal programs in which a majority of rural Nebraskans would favor reduced spending include Foreign Aid, Food Stamps, The National Endowment for the Arts and Humanities, Aid to Families with Dependent Children, and Farm Programs. A majority of rural Nebraskans oppose reduced spending for Social Security, Medicare, Medicaid, and Veterans Compensation and Pensions. Nebraskans were evenly divided on the issue of whether or not to reduce spending on national defense. Similarly, rural Nebraskans were evenly divided on the merits of a national sales tax.

**Table 1. Nebraska Tax Issues by Support or Opposition**

	<i>Strongly Support</i>	<i>Support</i>	<i>No Opinion</i>	<i>Oppose</i>	<i>Strongly Oppose</i>
The elimination of property tax as a revenue source	23.8 (635)	27.4 (730)	14.7 (391)	28.5 (760)	5.6 (148)
Reduce property taxes (by approximately \$400 million annually) by limiting property tax levies for local units of government	22.5 (596)	39.7 (1050)	19.4 (514)	13.4 (355)	5.0 (131)
Freeze state and local spending for three years beginning in 1997	28.6 (766)	28.4 (760)	18.2 (487)	18.6 (496)	6.2 (167)
Reduce property taxes by increasing income and/or sales taxes	20.8 (556)	34.9 (933)	11.0 (294)	22.9 (612)	10.4 (276)
Expand opportunities for gambling	16.1 (437)	21.0 (567)	15.4 (418)	17.8 (481)	29.7 (803)

\* Values are percentages - numbers in parentheses are number of respondents.

**Table 3. Taxation Alternatives for Reducing the Federal Government Deficit**

	<i>Strongly Support</i>	<i>Support</i>	<i>No Opinion</i>	<i>Oppose</i>	<i>Strongly Oppose</i>
Increase the federal income tax paid by individuals	1.2 (32)	7.4 (196)	6.5 (173)	48.4 (1285)	36.5 (969)
Increase the federal income tax paid by corporations	25.4 (676)	39.4 (1050)	11.0 (294)	15.3 (406)	8.9 (237)
Increase the federal estate tax	2.5 (66)	9.0 (238)	22.9 (602)	40.9 (1078)	24.7 (650)
Establish a national sales tax	10.3 (273)	30.6 (806)	18.5 (488)	25.5 (672)	15.1 (398)
Establish a national value-added tax	3.2 (85)	12.4 (325)	43.5 (1138)	24.5 (640)	16.4 (428)

\* Values are percentages - numbers in parentheses are number of respondents.

**Table 4. Spending Reduction Options Related to the Federal Government Deficit**

	<i>Strongly Support</i>	<i>Support</i>	<i>No Opinion</i>	<i>Oppose</i>	<i>Strongly Oppose</i>
Foreign Aid	46.9	27.6	7.8	9.1	8.6
National Endowment for the Arts and Humanities	32.2	24.3	22.1	14.3	7.1
Food Stamps	29.8	38.5	10.8	13.6	7.3
National Public Radio	21.7	25.3	26.3	19.6	7.1
Farm Program Payments	17.9	33.0	20.4	20.0	8.7
Aid to Families with Dependent Children	16.6	35.5	19.4	21.9	6.6
National Defense	11.5	30.7	15.7	30.2	11.9
Medicaid	11.1	20.4	12.3	37.6	18.6
Guaranteed Student Loans	10.2	25.8	18.7	33.6	11.7
Research	9.3	27.5	23.9	31.6	7.7
Child Nutrition Programs	8.0	22.9	20.2	36.4	12.5
Veterans Compensation and Pensions	6.6	18.9	21.1	36.9	16.5
Medicare	5.9	14.6	10.0	44.0	25.5
Social Security	5.3	12.8	8.4	44.5	29.0

\* Values are percentages.

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