THIRTEEN PRIORITIES FOR PRO-GROWTH TAX MODERNIZATION IN NEBRASKA

BY KATHERINE LOUGHEAD
EXECUTIVE SUMMARY

Nebraska’s motto promises “Good Life. Great Opportunity.” It is a promise on which policymakers have long worked hard to deliver, and residents take great pride in hailing from the Cornhusker State. Many, however, are frustrated by the economic challenges the state has faced for years, including high taxes, modest economic growth, and out-migration of its educated workforce—economic challenges in tension with Nebraska’s pursuit of being a state of opportunity.

The state’s tax code remains the product of a 20th century economy. The individual income tax, corporate income tax, and sales tax were all adopted in 1967 and have seen relatively few changes over the past five decades. Three of the major taxes—the corporate income tax, individual income tax, and property tax—are distinctly high in Nebraska compared to many neighboring states and states across the country, while the sales tax base is narrow and continues to erode over time.

On the Tax Foundation’s State Business Tax Climate Index, a measure of tax structure, Nebraska ranks slightly below-average, signifying significant room for structural improvement. A comprehensive reexamination and modernization of Nebraska’s tax code would relieve tax burdens for existing residents while making the state more attractive as a destination for business investment, which could unlock significant job and wage growth potential for the state for years to come.

This report identifies 13 of the highest tax reform priorities Nebraska policymakers should consider in their effort to create a more growth-friendly tax code. Near the end of this report, a sample comprehensive tax reform plan is offered to show one way policymakers could begin tackling these objectives over the next couple legislative sessions, with further progress to be made in the years ahead.

If the sample tax reform proposal were adopted, Nebraska would improve from 28th to 18th overall on the State Business Tax Climate Index and from 32nd to 23rd on corporate taxes, 21st to 20th on individual income taxes, 15th to 12th on sales taxes, and 41st to 29th on property taxes respectively.

The 13 tax reform priorities that are outlined in this report are summarized on pages 2-4.
Corporate Tax Solutions

Reduce the corporate income tax rate. Nationwide, only 14 states and the District of Columbia have a top marginal corporate income tax rate higher than Nebraska’s, and two of the states bordering Nebraska—South Dakota and Wyoming—have no income tax at all. While the corporate income tax generates a relatively small share of the state’s total tax revenue, it is one of the most economically harmful taxes the state levies, as it reduces in-state investment and is borne in large part by a firm’s employees, shareholders, and consumers. Reducing the corporate income tax would greatly improve Nebraska’s economic competitiveness regionally and nationally.

Shift from a graduated-rate to a single-rate corporate income tax structure. Nebraska is one of only 14 states that uses a graduated-rate corporate income tax structure. A graduated-rate structure makes the tax code more complex, and there is little justification for maintaining a progressive corporate income tax structure, as a corporation’s size bears no relation to the income of its owners.

Remove Global Intangible Low-Taxed Income (GILTI) from the corporate income tax base. As a byproduct of its rolling conformity with changes to the federal tax code made by the 2017 federal tax reform law, Nebraska automatically taxes certain international income. As a result, some firms could face significant in-state liability for the activities of their foreign subsidiaries, making Nebraska less attractive to multinational corporations. States were never meant to tax international income, and taxing GILTI makes the tax code significantly more complex while raising constitutional issues. Nebraska policymakers should prioritize removing GILTI from the corporate tax base.

Reduce reliance on targeted business incentives. Nebraska forgoes substantial amounts of revenue each year by offering targeted business tax incentives under the Nebraska Advantage and, as of 2021, the ImagiNE Nebraska program. These tax incentives mitigate some of the harmful aspects of Nebraska’s tax code—including income taxes, tangible personal property taxes, and sales taxes on business inputs—for firms that qualify for them, but only about two of every 1,000 Nebraska businesses benefit from this tax relief. Moving forward, Nebraska policymakers should prioritize permanent structural reforms that benefit all firms. A lower income tax rate and fewer taxes on tangible personal property and business inputs would make the state more attractive to businesses of all sizes and types.

Individual Tax Solutions

Reduce individual income tax rates. Nationwide, only 15 states and the District of Columbia have a top marginal individual income tax rate higher than Nebraska’s. Of the states bordering Nebraska, only Iowa currently has a higher top marginal rate, while South Dakota and Wyoming do not levy income taxes at all. While the effective tax rate in Nebraska for low- and moderate-income taxpayers is low compared to neighboring states with an income tax, the effective rate for middle- and higher-income taxpayers is higher than in any neighboring state. High top marginal rates are associated with state net out-migration. Pass-through businesses pay under the individual rather than the corporate income tax, so high individual income tax rates impact businesses and households alike.
Consolidate individual income tax brackets. Nebraska’s four-bracket individual income tax structure penalizes upward mobility by taxing individuals at increasingly higher effective rates as their income rises. Under Nebraska’s current structure, the first seven deciles of income earners pay only 15 percent of the state’s total income taxes, while the top three deciles pay the other 85 percent. Studies have shown that higher marginal income tax rates reduce gross state product growth. An income tax structure with fewer brackets and lower rates could help reverse Nebraska’s out-migration problem and create a tax environment that is more hospitable for all current and prospective Nebraska taxpayers.

Sales Tax Solutions

Modernize the sales tax base. A well-structured sales tax applies to all final personal consumption—both goods and services—while exempting business inputs to prevent tax pyramiding. Nebraska’s sales tax falls short of this ideal, as it exempts many consumer services and goods that ought to be taxable, while applying the sales tax to many business inputs that ought to be exempt. Right-sizing and modernizing the sales tax base should be a priority for lawmakers, as this would make the tax code more neutral while generating additional state and local revenue that can be used to reduce reliance on more economically harmful taxes.

Property and Wealth Tax Solutions

Tighten the property tax levy limit. Nebraska has property tax rate and levy limits, but these limitations are relatively permissive and do little to restrain property tax growth. The current levy limit can be easily overridden with a public hearing and a vote of the local political subdivision’s governing board. A stricter levy limit that requires a vote of the people would better restrain property tax growth. As an alternative, policymakers could consider enhancing transparency surrounding property tax increase proposals by adopting policies similar to those found in Utah’s Truth in Taxation law, which notifies taxpayers regarding proposed property tax increases without otherwise restricting local political subdivisions’ ability to raise revenue.

Convert property tax credits into direct local aid. Each year, Nebraska spends millions of dollars on tax credits designed to offset local property taxes paid, but this spending does nothing to prevent local property tax increases. In fact, local property tax collections have continued to increase at a faster rate than offsetting state credit amounts have increased. To ensure state dollars spent on property tax relief truly help replace local property tax dollars that would otherwise be collected, Nebraska policymakers should consider converting the existing credit system into a direct local aid system in which state aid is contingent upon reductions in local property taxes collected.

Phase out taxes on tangible personal property (TPP). Taxes on tangible personal property are a significant impediment to business investment in Nebraska. These taxes fall especially heavily on capital-intensive industries such as agricultural producers and manufacturers, and they are complex to administer and comply with. Compared to real property taxes, which are relatively neutral, TPP taxes significantly distort economic decision-making. As other states have modernized their tax codes, many have phased out their TPP taxes, and Nebraska would benefit by doing the same. Nebraska can begin phasing out its TPP tax by either exempting property acquired after a certain date or exempting additional classes of property over time.
Restore the TPP tax *de minimis* exemption. Until policymakers can fully phase out the TPP tax, they should make every effort to restore—and preferably increase—the $10,000 *de minimis* exemption that was repealed in 2020. In restoring a *de minimis* exemption, it should become both a payment threshold and a filing threshold to mitigate compliance costs for those small businesses that have historically had to file every year despite having less than $10,000 in TPP tax liability.

Phase out the inheritance tax. Nebraska remains one of only six states that continues to levy an inheritance tax, and its top inheritance tax rate of 18 percent is the highest in the nation. Inheritance and estate taxes create significant economic distortions and can cause high-net-worth individuals to either move out-of-state or use costly tax planning strategies to avoid or reduce liability. Nebraska should work to repeal its inheritance tax and can start by increasing its *de minimis* exemptions and reducing the exorbitantly high rate on bequests to non-relatives.

Repeal the capital stock tax. Nebraska is one of only 15 states still levying a capital stock tax, or a tax on net worth or capital accumulated in-state. These taxes—which are levied in addition to the corporate income tax—penalize in-state investment despite generating a relatively small amount of revenue. Nebraska's capital stock tax generates very little revenue and is thus more of a nuisance tax than a valuable source of revenue. As such, the benefit to taxpayers in repealing this tax likely outweighs the revenue impact to the state of repealing it.
For many residents, the “good life” is what has kept their family in Nebraska for generations. With sprawling farmland, tight-knit communities, and access to urban centers, there is something in Nebraska for everyone. Increasingly, though, otherwise proud Cornhuskers have turned their eyes to nearby states wondering if life could be just as good—but perhaps more affordable—elsewhere.

Like many states in its region, Nebraska has faced the challenge of "brain drain": many students who grow up in Nebraska move out-of-state after high school or college, finding job opportunities and establishing roots elsewhere. Between 2009 and 2018, Nebraska saw net out-migration of more than 19,000 working-age adults with a bachelor's degree or higher despite seeing net in-migration of individuals with lower levels of educational attainment.¹

When it comes to the state's tax code, Nebraska’s competition is fierce: South Dakota and Wyoming—the only states that levy neither an individual income tax nor a corporate income or gross receipts tax—both share a border with Nebraska. And while neighboring Iowa suffers from its own high-tax reputation, it has made significant reforms in recent years, while Nebraska’s taxes continue trending upward. Colorado has enjoyed great economic growth and prosperity for years, attracting new residents from all over the country and world, while Nebraska loses existing residents faster than it gains new ones.

Policymakers in the Nebraska Unicameral have worked for years to try to tackle these problems by offsetting growing local property tax burdens and offering tax incentives to lure investors to the state, but these efforts have had only a negligible impact while leaving existing residents bearing the hefty price tag.

In the months and years ahead, policymakers will consider a wide range of policy solutions—education solutions, transportation solutions, and others—to help the state continue growing into its motto of “Good Life. Great Opportunity.” Tax reform is but one piece in that puzzle, but it is a critical piece that must receive the attention it is due.

For Nebraska to grow into its desired reputation as an opportunity-rich state, policymakers will need to trade the status quo for a bigger, bolder vision: one in which Nebraska sets itself apart as a leader in sound, pro-growth tax policy. By reimagining certain features of the tax code that currently impede the state’s economic competitiveness, Nebraska can—over time—improve both its economic competitiveness and its attractiveness as a desirable location to live, work, grow a business, and raise a family.

unemployment insurance taxes. Using more than 120 policy variables, the Index shows how states' tax structures compare, with the best-performing states adhering closely to the principles of sound tax policy: simplicity, transparency, neutrality, and stability.

Table 1 shows Nebraska's component rankings on the 2021 State Business Tax Climate Index. Nebraska performs competitively on unemployment insurance taxes and sales taxes, in the middle of the pack on individual taxes, and below-average on corporate and property taxes. With an overall rank of 28th, Nebraska's tax structure is slightly below average and has plenty of room for improvement.

<table>
<thead>
<tr>
<th>TABLE 1. Nebraska’s Rankings on the 2021 State Business Tax Climate Index</th>
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</thead>
<tbody>
<tr>
<td>Overall</td>
</tr>
<tr>
<td>Corporate Taxes</td>
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<tr>
<td>Individual Taxes</td>
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<tr>
<td>Sales Taxes</td>
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<td>Property and Wealth Taxes</td>
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<tr>
<td>Unemployment Insurance Taxes</td>
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</tbody>
</table>


Each of the tax reform priorities outlined in this report, if adopted, would improve Nebraska’s economic competitiveness both regionally and nationally. Progress on even a handful of these metrics would therefore also improve Nebraska’s ranking on the State Business Tax Climate Index, bringing Nebraska closer to the front of the pack.
CORPORATE INCOME TAXES

Nebraska's Graduated-Rate Corporate Income Tax Structure Makes Little Sense

Among the 44 states with a corporate income tax, Nebraska is one of only 14 that uses a graduated-rate rather than a single-rate structure. In Nebraska, a rate of 5.58 percent applies to the first $100,000 in taxable income and a rate of 7.81 percent applies to taxable income above $100,000, as shown in Table 2.

<table>
<thead>
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<th>TABLE 2.</th>
<th>Nebraska's Corporate Income Tax Rate Schedule</th>
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</thead>
<tbody>
<tr>
<td>5.58%</td>
<td>&gt; $0</td>
</tr>
<tr>
<td>7.81%</td>
<td>&gt; $100,000</td>
</tr>
</tbody>
</table>

Source: Nebraska Department of Revenue; Bloomberg Tax.

Maintaining a graduated-rate corporate income tax structure makes little sense, as there is no meaningful concept of "ability to pay" in corporate taxation that would warrant different rates on different levels of marginal income. As Jeffrey Kwall, Professor of Law at the Loyola University Chicago School of Law, points out:

Graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners. Indeed, low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes.

Nebraska's Corporate Income Tax Rate Is High Regionally and Nationally

In addition to having a graduated-rate structure, Nebraska's corporate income tax stands out in that its top rate is high both regionally and nationally. Among the contiguous states west of the Mississippi River, only California, Iowa, Louisiana, and Minnesota have higher top corporate income tax rates. Two states that share a border with Nebraska—South Dakota and Wyoming—do not levy a corporate income tax at all. Nationwide, only 14 states and the District of Columbia have a top marginal corporate income tax rate that is higher than Nebraska's.

Nebraska's high corporate income tax rate creates "sticker shock" compared to otherwise similarly situated states, making the state less attractive to potential investors. In a report examining the effects of corporate income taxes on the location of foreign direct investment in U.S. states, Agostini and Tulayasathien (2001) found that "[for] foreign investors, the corporate tax rate is the most

3 Id.
relevant tax in their investment decision." Domestic investors are sensitive to corporate tax rates as well, and that sensitivity will only increase as both businesses and individuals experience increasing mobility in an ever more interconnected and remote work-friendly world.

FIGURE 1.
Nebraska’s Corporate Income Tax Rate is High Regionally and Nationally
Top Marginal Corporate Income Tax Rates as of January 1, 2021

Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware, Oregon, and Tennessee have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level. Florida’s corporate income tax rate will return to 5.5% for tax years beginning on or after Jan. 1, 2022. Georgia’s corporate income tax rate will revert to 6% on January 1, 2026. Illinois’ rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. Indiana’s rate is scheduled to decrease to 4.9% on July 1, 2021. Mississippi continues to phase out the 3 percent bracket by increasing the exemption by $1,000 a year. This year, the exemption is $4,000. By the start of 2022, the 3 percent bracket will be fully eliminated. In New Jersey, a temporary surcharge is in effect, bringing the rate to 11.5 percent for businesses with income over $1 million. In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

Sources: Tax Foundation; state statutes, forms, and instructions; Bloomberg Tax.

Compared to many alternative revenue sources, corporate income taxes are especially harmful to a state’s economy. While the legal incidence of the corporate income tax falls on corporations, the economic incidence of the tax falls on a firm’s employees, shareholders, and consumers in the form of lower wages, lower dividends or share values, and higher retail prices on goods and services sold. Harden and Hoyt (2002) found that among the taxes levied by state and local governments, the corporate income tax has the most significant negative impact on the rate of growth in employment.6

To help compensate for high rates and other uncompetitive features of the tax code, Nebraska relies heavily on business tax incentives. Incentives, while well-intended, are a suboptimal solution, as they are available only to businesses that meet certain qualifications, and they make the tax code less neutral and more complex in the process. Rather than pouring additional resources into large incentives packages to try to lure job creators to the state, a better approach would be to use some

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of the revenue that is being spent on industry-specific or metric-specific incentives to instead reduce corporate and individual income tax rates, which would make the state more attractive to all current and prospective investors.

In fiscal year 2018, Nebraska's corporate income tax generated just under $313.7 million, or about 4.4 percent of the state's own-source revenue. While the corporate income tax raises a relatively small share of the state's total revenue, it is highly complex and creates significant compliance burdens for the firms that pay it. Working to reduce—and potentially ultimately eliminate—the corporate income tax would greatly improve Nebraska's economic competitiveness regionally and nationally, especially given that Nebraska shares a border with two states that do not levy corporate or individual income taxes at all. Reducing reliance on the corporate income tax would help Nebraska better compete with others states for business investment.

**Nebraska's Taxation of International Income Makes the State Less Attractive to Multinational Businesses**

As a byproduct of Nebraska's rolling conformity with certain changes to the Internal Revenue Code (IRC) that were enacted by the Tax Cuts and Jobs Act (TCJA), the Nebraska Department of Revenue has determined the state automatically taxes certain Global Intangible Low-Taxed Income (GILTI). At the federal level, GILTI is one of two guardrails, along with the Base Erosion Anti-Abuse Tax (BEAT), that returns some international income to the federal tax base despite the broader transition from a worldwide to a territorial tax system. In other words, while the federal government has moved away from taxing international income—with two major exceptions—Nebraska, which has not historically taxed international income, is now doing so for the first time.

The federal GILTI provision functions in tandem with the federal credit for foreign taxes paid, thus reducing or eliminating liability for GILTI at the federal level. But because state tax codes were not meant to tax international income and thus do not offer such credits, this yields a far more aggressive international tax regimen at the state level than the one implemented by the federal government. GILTI's purpose, moreover, of discouraging profit shifting that occurs when intangible property is parked in low-tax jurisdictions overseas is appropriate for the federal government to address, not states.

States were never meant to tax international income, and doing so injects great complexity into Nebraska's tax code while raising serious constitutional issues that may have to be resolved through costly litigation. Taxation of GILTI penalizes multinational businesses for locating in Nebraska, as those businesses would not face similar taxation of international income were they to domicile in many other states. As such, taxation of GILTI discourages in-state investment and makes Nebraska less attractive compared to states that avoid taxing international income, including several of Nebraska's immediate neighbors. Fully eliminating any taxation of international income should be a top tax policy priority for Nebraska policymakers.

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During the 2020 legislative session, a bill (LB 1203) was introduced to remove GILTI from Nebraska’s tax base by giving GILTI the benefit of the state’s 100 percent dividends received deduction. This legislation did not advance, but similar legislation to decouple from GILTI ought to be a top priority for policymakers in 2021.

**Nebraska Relies Heavily on Business Tax Incentives**

Nebraska forgoes substantial amounts of revenue each year in offering numerous incentives under its income, sales, and property tax codes. Nebraska is not unique in this; most states offer economic development tax incentives with the goals of job creation and in-state investment in mind. But numerous studies, including state-sponsored studies, show that by and large, these incentives subsidize job growth, wage growth, capital investments, and other economic activities that would have occurred anyway. Additionally, the more a state carves out its tax base with incentives for specific firms or activities, the higher overall tax rates must be for all firms in order to generate the desired amount of revenue.

Under the Nebraska Advantage program—the tax incentive program that was in place from 2006 through 2020 (but was replaced by the ImagiNE Nebraska program starting in 2021)—qualifying employers meeting certain employment, investment, and wage criteria could apply for relief from sales taxes on some of the business inputs used in qualifying projects, as well as relief from taxes on the value of certain tangible personal property used in those projects. An investment credit and a compensation credit were also offered, reducing income tax liability based on a firm’s level of investment in qualified property or new employees at specified wage levels.

Between 2006 and 2017, 140 projects spanning 124 companies earned a cumulative $1.2 billion in tax benefits under the Nebraska Advantage program. Of that amount, nearly $710 million in investment credits were earned, plus $196 million in compensation credits, $187 million in sales tax refunds, and $109 million in tangible personal property tax exemptions. While the program has provided a substantial amount of relief for qualifying firms, there are just under 50,000 for-profit establishments operating in Nebraska. That means that only about two of every 1,000 Nebraska businesses have benefited from the tax relief offered under the Nebraska Advantage program.

Prior to the sunset of the Nebraska Advantage Act at the end of 2020, the Unicameral passed and Governor Pete Ricketts (R) signed LB 1107, legislation that, among other provisions, replaced the Nebraska Advantage Act with the ImagiNE Nebraska Act for 2021 through 2030. The ImagiNE Nebraska program is in large part a continuation of Nebraska Advantage, albeit with a handful of changes. The program will provide a maximum of $25 million in tax credits and refunds in 2021 and 2022, with that expenditure set to increase to $100 million in 2023 and 2024, $150 million in 2025, and approximately 3 percent of general fund receipts for years thereafter, not to exceed $400 million. While new applications in 2021 and beyond must be filed under the ImagiNE Nebraska program, some firms will still earn benefits under the Nebraska Advantage program for many years.

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9 Id., 13.
10 U.S. Census Bureau, “County Business Patterns, Geographic Area Series: County Business Patterns by Legal Form of Organization,” 2018.
So while outlays for the ImagiNE Nebraska program are limited at $25 million in 2021 and 2022, the state will continue paying out millions of dollars in benefits under the Nebraska Advantage program.

Prior to passage of the ImagiNE Nebraska Act, the Nebraska Legislative Performance Audit Committee, which conducts periodic evaluations of Nebraska's tax incentives, issued an April 2019 report detailing various Nebraska Advantage program metrics.12

Among other metrics, this audit evaluated the cost to the state per new full-time equivalent (FTE) employee added under programs receiving tax relief under the Nebraska Advantage program. The Audit Office analysis assumes 12 to 25 percent of new jobs reported under Nebraska Advantage were attributable to the program, while the rest of the job growth would have occurred with or without the program. If those assumptions are accurate, each new job created and reported under the Nebraska Advantage Act cost the state between $100,109 and $208,559 per year in forgone revenue or other benefits.13

The audit report also explains how the Nebraska Advantage program has departed from legislators' original intent in terms of cost, as legislators originally envisioned a program with a budget impact of only $24 million to $60 million per year, a cost that has regularly been exceeded in recent years. The program resulted in nearly $75 million in forgone revenue in 2017 and more than $114 million in forgone revenue the previous year.14

The report further explains the Audit Committee’s limitations in conducting such an incentives review, saying, “The Office does not assert that the actions of incentivized companies...were caused by their participation in the Advantage Act. Because a company’s actions may be the result of many factors, it is difficult, if not impossible, to prove the effect of participation in one program.”15

Given the costs associated with administering Nebraska's incentives program (and the costs for firms in applying for it and complying with it), as well as the great amount of forgone revenue associated with it, the evidence suggests these incentives provide little, if any, net economic benefit to the state. The Nebraska Advantage program (and now the ImagiNE Nebraska program) partially protect some qualifying firms from some of the most harmful features of Nebraska's tax code—high income taxes, tangible personal property taxes, and sales taxes on numerous business inputs—but these incentives are only available to select firms that have the resources to navigate the system and meet certain eligibility standards. Ultimately, a neutral, transparent, low-rate tax code would be far more effective in attracting both established and growing companies—as well as entrepreneurs and start-ups—to the state. Nebraska policymakers should consider streamlining existing incentives and use any additional revenue for truly pro-growth reforms that level the playing field for investors and job creators of all sizes and types.

12 Nebraska Legislative Performance Audit Committee, “Nebraska Advantage Act: Performance on Selected Metrics.”
13 Id., 21.
14 Id., 37.
15 Id.
INDIVIDUAL INCOME TAXES

Nebraska’s Top Marginal Individual Income Tax Rate Is High Regionally and Nationally

Nebraska has a four-bracket individual income tax with a top marginal rate of 6.84 percent. Nationwide, only 15 states and the District of Columbia have a top marginal individual income tax rate that is higher than Nebraska’s. Of the six states that border Nebraska, only Iowa has a higher top marginal rate, but its top rate of 8.53 percent is scheduled to drop below Nebraska’s—to 6.5 percent—on January 1, 2023, subject to revenue triggers. Meanwhile, two of Nebraska’s immediate neighbors (South Dakota and Wyoming) do not levy income taxes at all.

<table>
<thead>
<tr>
<th>Single Filers</th>
<th>Joint Filers</th>
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</thead>
<tbody>
<tr>
<td>2.46% &gt; $0</td>
<td>2.46% &gt; $0</td>
</tr>
<tr>
<td>3.51% &gt; $3,340</td>
<td>3.51% &gt; $6,660</td>
</tr>
<tr>
<td>5.01% &gt; $19,990</td>
<td>5.01% &gt; $39,990</td>
</tr>
<tr>
<td>6.84% &gt; $32,210</td>
<td>6.84% &gt; $64,430</td>
</tr>
</tbody>
</table>

Source: Nebraska Department of Revenue; Bloomberg Tax.

Middle- and Higher-Income Nebraskans Face High Effective Income Tax Rates

Like most states, Nebraska offers various deductions, exemptions, and credits to reduce the amount of income that is subject to state income tax rates. Even so, Nebraska’s high top marginal individual income tax rate is indeed indicative of high income tax burdens, especially for middle- and higher-income earners.

Table 4 shows individual income tax liability at various income levels in Nebraska and each of its bordering states. This illustration assumes a single filer with no dependents, and any applicable standard deduction and personal exemption (or personal exemption credit) is applied.

A taxpayer with $30,000 in taxable income has lower tax liability in Nebraska than in any of its neighboring states that levy an individual income tax. But for a taxpayer with $75,000, $150,000, or $250,000 in taxable income, that taxpayer pays more in income taxes to Nebraska than they would in any of its bordering states.

Nebraska’s income tax code already minimizes the burden for those near the lower end of the income spectrum, but as marginal income rises, Nebraska penalizes upward mobility more than any of its neighbors.

### TABLE 4.

**Nebraska’s Income Taxes are Modest for Lower-Income Taxpayers but High for Middle-Income Taxpayers**

<table>
<thead>
<tr>
<th>State</th>
<th>$30,000</th>
<th>$75,000</th>
<th>$150,000</th>
<th>$250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nebraska</td>
<td>$682</td>
<td>$3,600</td>
<td>$8,730</td>
<td>$15,570</td>
</tr>
<tr>
<td>Colorado</td>
<td>$815</td>
<td>$2,898</td>
<td>$6,371</td>
<td>$11,001</td>
</tr>
<tr>
<td>Iowa</td>
<td>$1,018</td>
<td>$3,490</td>
<td>$8,264</td>
<td>$14,163</td>
</tr>
<tr>
<td>Kansas</td>
<td>$977</td>
<td>$3,518</td>
<td>$7,793</td>
<td>$13,493</td>
</tr>
<tr>
<td>Missouri</td>
<td>$738</td>
<td>$3,117</td>
<td>$7,244</td>
<td>$12,644</td>
</tr>
<tr>
<td>South Dakota</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Wyoming</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

Note: Assumes single filer claiming standard deduction and one personal exemption, where applicable. Colorado, Iowa, Kansas, and Missouri’s calculations do not include local income taxes, which can be substantial.  
Source: Author’s calculations.

The relative income tax relief afforded to lower-income individuals is evidenced by the fact that, when total individual income tax collections are taken as a share of its total population, Nebraska brings in approximately $1,162 in individual income tax collections per capita, just slightly below the fiscal year 2017 national average ($1,181).

In 2016, the Nebraska Department of Revenue conducted a tax burden study in which it analyzed the distributional impact of the individual income tax on Nebraskans of various income levels. The study
found that in tax year 2016, when looking at federal adjusted gross income, the first seven deciles of Nebraska income earners paid just over 15 percent of the state's total individual income taxes, while the other 85 percent of the state's individual income tax collections came from just the top three deciles of income earners.

Looking at it another way, more than half the state's individual income tax collections (56 percent) were generated by the top decile of income earners alone, while the remaining 44 percent were generated from the other nine deciles combined (see Figure 3). Of the 857,062 individual income tax returns filed by Nebraska residents for tax year 2016, the top 500 returns (in terms of highest federal adjusted gross income) represented roughly one-half of 1 percent of returns filed but generated 5.2 percent of the state's individual income tax collections that year.

The study also examined the effective income tax rate across various income groups, which was determined by taking total individual income taxes paid in a particular decile as a percentage of total federal adjusted gross income generated by the taxpayers within that decile. As can be seen in Figure 4, taxpayers in higher-income deciles faced higher effective income tax rates than those in lower deciles, with the top 10 percent of income earners paying an effective rate of 4.81 percent, which is nearly three times the effective rate (1.76 percent) experienced by taxpayers in the first seven deciles combined.
Income Taxes—Especially Graduated-Rate Taxes—Are More Economically Harmful than Sales and Real Property Taxes

It is important to keep in mind that individual income taxes are paid by individuals and families, as well as by businesses that are structured as pass-throughs (including sole proprietorships, partnerships, limited liability companies, and S corporations). One recent study estimated that in fiscal year 2019, $400 million—or 15 percent of Nebraska's individual income taxes collections—were paid by pass-through businesses. Since many owners of pass-through businesses have income exposed to the top state individual income tax rate, this rate greatly impacts the state's economic competitiveness and attractiveness to businesses. To improve the state's economic competitiveness regionally and nationally, Nebraska should prioritize reducing its top marginal individual income tax rate, as well as consolidating brackets to reduce complexity and mitigate the penalty on upward mobility.

In a comprehensive review of international econometric tax studies, Arnold et al. (2011) found that corporate income taxes, followed by individual income taxes, are among the most detrimental to economic growth, while consumption and property taxes are the least harmful to economic growth. The economic literature on graduated-rate income taxes is particularly unfavorable. The Arnold et al. study concluded that reductions in top marginal rates would be beneficial to long-term growth, and Mullen and Williams (1994) found that higher marginal tax rates reduce gross state product growth. This finding even adjusts for the overall tax burden of the state, lending weight to the idea that any state can benefit from a broader-based, lower-rate tax structure.

Source: Nebraska Department of Revenue, "2016 Nebraska Tax Burden Study."

In addition to lowering individual income tax rates, Nebraska policymakers should consider consolidating the state’s four individual income tax brackets. Reducing the number of brackets and ultimately moving toward a single-rate structure would make the tax code simpler, more transparent, and more competitive. Graduated-rate income tax structures discourage additional work at the margin, especially when the top marginal rate is high. This results in lower productivity and reduced state economic growth. Currently, 10 states, including neighboring Colorado, use single-rate individual income tax structures, and Nebraska would benefit from pursuing a similar competitive advantage.

**States with Lower Income Tax Rates Are More Likely to Experience Net In-migration**

Just as higher top individual income tax rates are associated with lower levels of economic growth, high rates are also associated with state net out-migration.

One way to measure interstate migration is to compare the movement of federal individual income tax returns and the corresponding exemptions (people) between states over time. Using Internal Revenue Service (IRS) migration data, Figure 5 shows annual net migration into states with a top marginal individual income tax rate below Nebraska’s 6.84 percent rate. States see migration from other states and from abroad, but here we focus on state-to-state migration trends. In the aggregate, states with a top marginal individual income tax rate below Nebraska’s saw net in-migration each year between 2012 and 2018, for a total net gain of more than 1.47 million residents during those seven years, with identical outflows of residents from states with higher rates.

![Figure 5. Lower Individual Income Tax Rates Are Associated with Net Inbound Migration](source)
There are many reasons an individual or family might move from one state to another, whether for a job or educational opportunities, for family reasons, for quality of life, or otherwise. While taxes are not often the primary reason individuals move, cost-of-living considerations—including tax burdens—factor into many people’s relocation decisions.

Tax burdens impact migration in two key ways. First, some individuals and businesses move in search of more competitive tax rates, and this is especially true of higher-net-worth individuals. Second, because many people’s interstate moves are driven by new job opportunities, individuals will move where jobs are prevalent. As such, business location decisions—which can be heavily influenced by tax considerations—are a significant driver of individuals’ location decisions.

While there are many ways to measure a state’s fiscal health, states that enjoy steady in-migration are more likely to experience economic growth than those that struggle to attract and retain businesses and residents. States with well-structured tax codes are better able to attract new businesses, facilitate new employment opportunities, and generate economic growth, so policymakers should always be on the lookout for ways to improve and modernize their tax code. A simple, stable, modern, pro-growth tax code is a valuable competitive advantage for any state, but it can be of particular benefit to states in the Great Plains region that, however unfairly, might struggle to attract businesses and residents due to certain geographic biases.

While states with low or no income taxes have long been among the most successful states for in-migration, the COVID-19 pandemic—one of the most disruptive events in modern history—is accelerating that trend. With more and more employers offering long-term remote work flexibility, it has never been easier for people to relocate to lower cost-of-living, lower-tax regions, regardless of where their job is located.

While IRS migration data for 2020 are not yet available, early insight into interstate migration patterns can be gleaned from the National Movers Study, a report published annually by United Van Lines, the largest moving company in the U.S. This year’s study shows that in 2020, states like South Dakota, North Carolina, Tennessee, and Florida—each with low or no income taxes—were among the top 10 states for highest net inbound migration. Meanwhile, Nebraska, which saw more outbound migration than inbound migration, was 33rd in the study. Among study participants who cited the pandemic as influencing their decision to move, 57 percent cited a change in their employment arrangement—including the ability to work remotely—as a factor in their decision.

This ongoing trend presents a unique opportunity for states like Nebraska to attract remote workers and see recent graduates and young professionals “move back home,” but Nebraska’s current tax code is not doing the state any favors in this regard. However, comprehensive tax reform that lowers income tax rates, moves toward a flat income tax structure, and modernizes outdated provisions would help Nebraska gain competitive standing as an appealing destination for remote workers and other new residents.

Individuals and businesses care about many things when making location decisions, but taxes are an important part of the equation, and they are a factor that is within policymakers’ control. States with

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well-structured tax codes and lower top marginal individual income tax rates are already enjoying the economic benefits of net in-migration, but states like Nebraska that face a fairly consistent net out-migration problem can take steps to reverse that trend by reducing income tax rates and burdens.\textsuperscript{22} Tax modernization could help Nebraska carve out a niche as an appealing lower-tax alternative to many high-tax states, especially states that are further increasing taxes on their residents amid the current recession.

Nebraska's Sales Tax Rate Is Competitive Regionally and Nationally

Nebraska's state sales tax is levied at a rate of 5.5 percent, making it the 29th-highest state sales tax rate in the country. In addition to the state levy, incorporated municipalities (except cities of the metropolitan class) are authorized to levy a local sales tax at a rate of either 0.5 percent, 1 percent, 1.5 percent, 1.75 percent, or 2 percent. Cities of the metropolitan class (Omaha is the only one) may levy a local sales tax at a rate of 0.5 percent, 1 percent, or 1.5 percent. Counties may also levy a sales tax, but only for portions of the county in which a municipal sales tax is not already imposed.

As of January 1, 2021, the average local sales tax rate in Nebraska was 1.44 percent, bringing the combined state and average local sales tax rate to 6.94 percent, which, like the state-only rate, is the 29th-highest in the country, among 45 states levying a statewide sales tax.

Nebraska's sales tax rate is also competitive regionally. Among neighboring states, Nebraska's state sales tax rate of 5.5 percent is higher than the rates in South Dakota, Missouri, Wyoming, and Colorado. But when state and average local sales tax rates are combined, Nebraska's rate is lower than the rates in Colorado, Kansas, and Missouri, and on par with the rate in Iowa.

Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. Sources: Sales Tax Clearinghouse; Tax Foundation calculations; state revenue department websites.

Combined State & Average Local Sales Tax Rates as of January 1, 2021

Nebraska's Sales Tax Rate is Competitive Regionally and Nationally

FIGURE 6.

Combined State & Average Local Sales Tax Rates

Lower

Higher

Sources:
### TABLE 5.
**Sales Tax Rates, Nebraska and Bordering States (as of January 1, 2021)**

<table>
<thead>
<tr>
<th>State</th>
<th>State Rate</th>
<th>Average Local Rate</th>
<th>Combined Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nebraska</td>
<td>5.50%</td>
<td>1.44%</td>
<td>6.94%</td>
</tr>
<tr>
<td>Colorado</td>
<td>2.90%</td>
<td>4.82%</td>
<td>7.72%</td>
</tr>
<tr>
<td>Iowa</td>
<td>6.00%</td>
<td>0.94%</td>
<td>6.94%</td>
</tr>
<tr>
<td>Kansas</td>
<td>6.50%</td>
<td>2.19%</td>
<td>8.69%</td>
</tr>
<tr>
<td>Missouri</td>
<td>4.225%</td>
<td>4.03%</td>
<td>8.25%</td>
</tr>
<tr>
<td>South Dakota</td>
<td>4.50%</td>
<td>1.90%</td>
<td>6.40%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>4.00%</td>
<td>1.33%</td>
<td>5.33%</td>
</tr>
</tbody>
</table>

Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local rate. The sales tax in South Dakota has a very broad base that includes many business-to-business services.

Sources: Sales Tax Clearinghouse; Tax Foundation calculations; state revenue department websites.

### Nebraska's Sales Tax Base Is Narrow and in Need of Modernization

While Nebraska's sales tax rate is regionally and nationally competitive, Nebraska's sales tax base is outdated and needs modernization.

An ideally structured sales tax is one that applies broadly to most, if not all, final personal consumption while exempting business inputs. Exemptions for business inputs exist not to provide special treatment to businesses but as structural features designed to keep the sales tax functioning as intended: as a retail sales taxes that applies to final personal consumption.  

There are many ways in which Nebraska's sales tax currently departs from the ideal structure. Like most states, Nebraska exposes some transactions to multiple levels of taxation while omitting others altogether.

Apples-to-apples comparisons of state sales tax bases are difficult, but one method of approximating sales tax breadth is to calculate the total value of taxed transactions as a percentage of total state personal income. This calculation yields a sales tax breadth of 34 percent for Nebraska for fiscal year 2017, which is below the national median—26 of the 45 states imposing a state sales tax have sales tax bases that are broader than Nebraska’s. A robust, well-structured sales tax base would not reach 100 percent of personal income, as not all personal income is consumed in any given year, but a tax on all final personal consumption would result in a sales tax breadth equal to approximately 75 percent of personal income.

Much of Nebraska’s narrow sales tax base stems from its application to relatively few consumer services, and services are excluded largely due to historic accident. When states first began adopting sales taxes in the 1930s, the U.S. economy was heavily goods-oriented, and sales tax laws were thus written to apply only to sales of tangible personal property; most sales taxes did not account for the sale of services. Although Nebraska was one of the last states to adopt a sales tax, doing so in 1967, its sales tax was largely modeled after the sales taxes adopted three decades earlier.

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25 Tax Foundation calculations using Bureau of Economic Analysis data on personal consumption expenditures.
Today, however, services comprise a much larger share of personal consumption than they did when sales taxes were first adopted (see Figure 7). The trend toward a more service-oriented economy, combined with pressure to exempt certain goods that were originally subject to the tax, such as the exemption of food for home consumption in 1983, has resulted in the erosion of Nebraska’s sales tax base over time.

As shown in Figure 8, Nebraska’s sales tax originally applied to a base representing approximately 64 percent of personal income in the state. Over the past five decades, the sales tax has eroded to just more than half its original breadth—despite the base being broadened in the early 1980s to include utility services, computer programming, and warranty contracts, and in 2002 and 2003 to include certain cleaning and maintenance services, certain motor vehicle services, select animal services, construction labor, and other services.  

FIGURE 7.
Goods Have Declined as a Percent of Total Personal Consumption Nearly 30 Percent Since the 1950s

Source: Bureau of Economic Analysis, Regional Economic Accounts.
If Nebraska’s sales tax base continues to shrink as a share of total personal consumption, lawmakers will likely have to continue resorting to sales tax rate increases to recoup lost revenue. But instead of increasing the tax rate that applies to a narrow sales tax base, lawmakers should opt to broaden the sales tax base. Right-sizing the sales tax base would improve the structure of the tax by making it more neutral in its application while generating additional state and local revenue that could be used to reduce reliance on other, more economically harmful or burdensome state and local taxes.

In broadening the sales tax base, Nebraska policymakers should take care to avoid newly applying the sales tax to goods or services that are primarily purchased as business inputs. By definition, retail sales taxes should apply to final consumer transactions, not intermediate transactions. When intermediate goods and services are exposed to the sales tax, this increases the costs of production. As a result, many of those taxes get passed along to consumers in the form of higher prices, but this disguises the true costs of government, as consumers have no way of knowing how much of the cost of the final good or service is attributable to tax pyramiding.

Whether businesses can pass on these costs depends on the nature of the market in which they operate. Businesses that are regional in their nature will largely pass these costs onto purchasers since the cost is shared by most if not all of their competitors. Those operating within larger markets, however, may absorb the costs themselves if their out-of-state peers are not exposed to similar levels of taxation on their inputs, as they cannot raise prices without putting themselves at a competitive disadvantage against their competition. In this way, sales taxes on business inputs also operate as a punitive tax on in-state businesses compared to competitors with production out-of-state.

When a sales tax exposes many business inputs to taxation, the sales tax ends up functioning more like a gross receipts tax, which is among the most economically harmful taxes states currently levy.
The taxation of business inputs inevitably impacts some businesses and industries more heavily than others depending on how heavily a business consumes taxable products and services. Severe cases of tax pyramiding can distort business decision-making, encouraging some firms to integrate vertically to avoid intermediate-level sales taxes, for example, when maintaining two separate firms might otherwise be the most economically efficient decision.

While no state hews perfectly to the ideal of avoiding the taxation of business inputs altogether, Nebraska should take care to avoid worsening the tax pyramiding that is already occurring. One recent study estimated that approximately 47 percent of Nebraska’s state and local sales taxes are paid by businesses on purchases made in the course of doing businesses.²⁷ Again, much of the burden of these taxes gets passed along to consumers, but the legal incidence of the sales tax on businesses in Nebraska is higher than in many other states. Nebraska policymakers should keep this in mind when pursuing sales tax base modernization.

In prioritizing ways to right-size the sales tax base, policymakers should seek to exempt the currently taxed inputs that are most prone to pyramiding (those that are likely to be taxed several times over) and which fall on the most mobile aspects of production (those most easily shifted to other states to avoid taxation). Intermediate goods that are consumed in the production process are the most counterproductive to tax. Meanwhile, consumer goods and services that tend to be purchased disproportionately by higher-net-worth individuals, but which are currently exempt from the sales tax, may be the most attractive place to start in sales tax base broadening.

Among existing exemptions of consumer goods, the exemption for motor fuels is the largest in terms of forgone revenue. (While motor fuels are subject to excise taxes to fund state road and bridge upkeep, the sales tax—which funds general state programs—is not currently applied.) After motor fuels, the next largest consumer goods exemption is for unprepared foods, which results in approximately $206 million in forgone revenue each year. The largest services exemptions tend to be for professional services.

Table 6 shows several options for sales tax base broadening, with Option A adding a few additional consumer transactions to the base, while Option D is the broadest, adding a more comprehensive array of goods and services to the base. The estimated revenue impact of each option is also shown.

### TABLE 6.
Sales Tax Base-Broadening Options

<table>
<thead>
<tr>
<th>Good or Service</th>
<th>Revenue</th>
<th>Option A</th>
<th>Option B</th>
<th>Option C</th>
<th>Option D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle repair services</td>
<td>$17,029,620</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Maintenance, painting, and repair services to real property (painting, glass, roofing, flooring, plumbing)</td>
<td>$15,472,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Personal care services (hair care, nail care, massage, tattoo)</td>
<td>$10,202,070</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Storage and moving services</td>
<td>$9,730,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Travel agencies and tour operators</td>
<td>$2,474,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dry cleaning and laundry services</td>
<td>$2,008,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cleaning of tangible personal property</td>
<td>Not available</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Membership or admission to zoos and aquariums</td>
<td>Not available</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Motor fuels</td>
<td>$214,890,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Veterinary services (including medical and grooming)</td>
<td>$15,974,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Investment counseling services</td>
<td>$6,525,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Taxi, limousine, and other transportation services</td>
<td>$5,977,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Other personal services (weight loss, burial-related services)</td>
<td>$4,422,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Admission to sporting and related events (not including schools)</td>
<td>$3,819,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Newspapers</td>
<td>$3,312,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accounting services</td>
<td>$2,569,110</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Admission to school events</td>
<td>$620,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>School-supporting fundraisers</td>
<td>$531,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Unprepared food and food ingredients</td>
<td>$206,392,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Physicians, dentists, optometrists, chiropractors, etc.</td>
<td>$490,674,690</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Medical equipment and prescription medicine</td>
<td>$205,432,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Real estate agent and appraisal services</td>
<td>$36,766,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Legal services</td>
<td>$21,273,240</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Total Estimated Revenue Impact</td>
<td>$56,915,690</td>
<td>$315,554,800</td>
<td>$521,946,800</td>
<td>$1,276,092,730</td>
<td></td>
</tr>
</tbody>
</table>

Note: The revenue impact of the sales tax exemption for unprepared food and food ingredients ($206,392,000) is in addition to the sales tax exemption for food and food ingredients purchased with SNAP benefits ($12,082,000). Per federal law, states are not authorized to apply the sales tax to purchases made using SNAP and WIC benefits.

In most cases, the revenue impact listed above matches that which is listed in the Nebraska Department of Revenue’s "2020 Tax Expenditure Report." For some goods or services that are substantially purchased as business inputs, the revenue impact listed above has been reduced to estimate the impact of broadening the sales tax base to consumer purchases only, rather than to consumer and business purchases.

Sources: Nebraska Department of Revenue, "2020 Tax Expenditure Report"; Federation of Tax Administrators, "FTA 2017 Services Taxation Survey"; Council on State Taxation and Ernst & Young, "The Impact of Imposing Sales Taxes on Business Inputs"; Tax Foundation calculations.

Some of the services that are currently excluded from the base could constitute either a final consumer transaction or a business input, depending on the identity of the purchaser. In such instances, the state should either define the categories in a way that excludes business inputs, or, preferably, provide a mechanism by which business purchases of such services are exempted. This could be done through sales tax exemption certificates for businesses or in a manner that is similar to how purchases of nonprofit organizations are exempted in many states.
For purposes of the calculations listed in Table 6, several of the services that are frequently purchased as business inputs have their revenue impact prorated based on the estimated business share of purchases of that type of service. For instance, the state forgoes an estimated $73.4 million due to the legal services exemption, but only 29 percent of that forgone revenue is associated with final consumer purchases, so only $21.3 million is potentially available for sales tax base broadening.

In presenting these options, we do not attempt to weigh the political considerations that are sure to accompany any discussion of sales tax base broadening. Rather, we present a few base-broadening options so policymakers can weigh the available options and decide how much to broaden the sales tax base while keeping other policy considerations in mind.

Any amount of broadening of the sales tax base could be used to offset rate reductions elsewhere in the tax code. For example, a revenue-neutral implementation of the base broadeners in Option B could be used to pay down an across-the-board individual income tax rate reduction of approximately 1 percent, as explained in more detail in the Sample Comprehensive Tax Reform Plan (see pages 44-48).

PROPERTY AND WEALTH TAXES

Real Property Taxes

Nebraska’s Localities Rely Heavily on Property Taxes for Revenue

Property taxes are by far Nebraska’s largest source of combined state and local tax revenue, but unlike some states, Nebraska’s property taxes are exclusively a local revenue source. In fiscal year 2019, property taxes generated approximately 37.4 percent of Nebraska’s total state and local tax collections, with individual income taxes generating 24.7 percent, sales taxes generating 19.3 percent, and corporate income taxes generating 4.1 percent.\(^{29}\) As is the case in most states, property taxes are by far the largest source of local tax revenue in Nebraska. In fiscal year 2018, 78 percent of all local taxes collected were property taxes, with sales taxes accounting for close to 9 percent of all local taxes collected.

Nebraska has more than 30 types of local political subdivisions, and most are authorized to collect property taxes, including school districts, counties, cities, natural resources districts, community colleges, and others. School districts levy approximately 60 percent of all property taxes collected in Nebraska, followed by counties at 16 percent, cities and villages at 10.1 percent, and community colleges at 5.5 percent, with other political subdivisions levying the remaining 8.4 percent.\(^{30}\)

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29 Tim Erickson, “The Basics of Nebraska’s Property Tax,” 1.
30 Id., 6.
Nebraska's Property Taxes Are High Regionally and Nationally

Nebraska is notorious for being a high property tax state. Unlike some states in which property taxes are high for some classes of property but low for others, Nebraska's property taxes are high for all types of payers, including homeowners and (indirectly) renters, agricultural landowners, and businesses alike. In fiscal year 2017, Nebraska brought in $1,957 in property tax collections per capita, making it the 12th-highest for state and local property collections per capita that year even though property values in Nebraska are not nearly as high as they are in many other states.\(^{31}\)

When total real property taxes on owner-occupied housing are taken as a percentage of total owner-occupied home value, Nebraska's mean effective property tax rate is 1.65 percent, which is the eighth-highest effective rate in the country, higher than in each of Nebraska's bordering states.\(^{32}\) Meanwhile, nearly half of the taxes businesses pay to Nebraska are property taxes, a greater proportion than in all but five states.\(^{33}\)

Of great concern to farmers, ranchers, and other agricultural producers is that their property tax bills have increased substantially in recent years just as their ability to pay those higher bills has declined. Agricultural land values and commodity prices reached record-high levels around 2010, but since that time, agricultural income has fallen due to plummeting commodity prices even as property values have continued to rise.\(^{34}\)

Assessment and Valuation of Real Property Explained

In Nebraska, property is assessed based on its market value. While most property is assessed at full market value and subject to the state constitution's Uniformity Clause, agricultural and horticultural land, tangible personal property, livestock, and motor vehicles fall outside the Uniformity Clause and are treated as distinct classes of property that receive special valuation.\(^{35}\)

For decades, Nebraska has sought to ease property tax burdens for agricultural producers by providing for special valuation of agricultural and horticultural land. Since 1972, agricultural and horticultural land has been valued based on current use rather than potential use. Such land was taxed at 100 percent of actual value until 1992, when the assessment ratio was reduced to 80 percent. In 2006, the assessment ratio was further reduced to 75 percent of actual value, where it stands to this day.

Some stakeholders have suggested Nebraska shift to assessing agricultural and horticultural land based on income potential rather than at 75 percent of its market value. While an income approach to taxing agricultural property would have the effect of reducing tax liability for agricultural producers when farm receipts are low, such a methodology would detract from one of the property tax's


\(^{32}\) Id.


\(^{35}\) Tim Erickson, “The Basics of Nebraska’s Property Tax,” 4.
greatest strengths: its stability. Shifting to an income approach for agricultural valuation would inject volatility into local property tax collections, especially in rural communities in which agricultural property represents a vast majority of the property tax base. While calculating the income factor using a multiyear formula would produce less volatility than a single-year snapshot, the introduction of any income approach to valuation would introduce new volatility into an otherwise stable revenue source. This would create new budgetary challenges for local governments that are expected to maintain a stable level of essential services from year to year and have little flexibility to adapt to revenue swings.

Nebraska’s Current Property Tax Limitations Explained

Like most states, Nebraska has various property tax limitations written in statute, including both a rate limit and a levy limit. The rate limit is robust, but the levy limit—the more important of the two—is fairly permissive and does little to restrain property tax growth.

Most political subdivisions are subject to rate limits outlined in statute and in some cases in the state constitution. School districts have the most permissive rate limit of $1.05 per $100 in valuation (10.5 mills), and counties, cities, and villages are limited to $0.45 per $100 in valuation (4.5 mills) plus an additional $0.05 per $100 (0.5 mills) for expenses incurred as part of a joint agreement. Meanwhile, sanitary and improvement districts, community colleges, and natural resources districts are generally limited to 4 mills, 1.125 mills, and 0.45 mills, respectively.36

Nebraska’s rate limits are the more restrictive of the two property tax limitations in that they generally may only be overridden with an affirmative vote of the people. There are two ways a political subdivision can request an override of the rate limit. One option is for the governing body of the political subdivision to pass a resolution by a two-thirds vote. The second option is for a petition to be submitted with the signatures of at least 5 percent of the voters of each county affected by the proposed override. If either option is met, the question will be submitted to voters at a primary, general, or special election. Should a majority of voters approve a rate limit override, the political subdivision may then exceed the limit for up to five years.37

In addition to the aforementioned rate limits, Nebraska is among the states that has a property tax revenue limit (also known as a levy limit) on the books, but its levy limit is so easily overridden that it has little practical effect on restraining property tax growth. Under current law, if the annual assessment of all taxable property in a county, municipality, school district, or other political subdivision would result in an increase in total property taxes levied by that subdivision, by default, the tax rate must be adjusted downward so total property tax revenue is held constant from one year to the next. However, the governing board of a political subdivision can easily override that limit—increasing the total property tax levy beyond the prior year’s levy—by simply holding a public hearing and passing a resolution or ordinance to allow an increase.

With no voter approval necessary, Nebraska’s levy limits are easier to override than its rate limits. Given the ease with which levy limits can be overridden, Nebraskans tend to see their property tax

36 Id., 7.
bills rise from one year to the next based on rising valuations alone, even when the property tax rate itself remains constant and subject to a cap.

It makes sense for property values to drive property tax burdens, since values are a good proxy for the benefit people receive from local government. Just because property values are rising, however, does not mean that tax collections need to go up in aggregate—or at least not proportionally. Property values can often rise more quickly than the need for more expensive government services.

Nebraska’s levy limit is the more important of the state’s two forms of property tax limitations in that it has the potential to limit property tax increases from one year to the next even when valuations rise. However, because the levy limit is not subject to the same protections as the rate limit (in that voter approval is not required for the levy limit to be overridden), Nebraska is currently forgoing an effective means of limiting property tax growth.

Under LB 103, enacted in 2019, a public hearing in which a year-over-year property tax revenue increase is being considered must be advertised in a newspaper at least four days before the hearing, and the hearing notice must provide information about the amount by which property taxes would increase under the proposal. This law took an important step to increase taxpayer transparency, but many would argue it does not go far enough, and that additional measures should be taken to notify taxpayers before property tax increases are considered.

**Policymakers Should Consider Strengthening the Property Tax Levy Limit or Enhancing Taxpayer Transparency Laws**

When it comes to pursuing property tax relief in Nebraska, the pressing question in taxpayers’ and policymakers’ minds is not if but how. The Unicameral has grappled with this question for years, and while various laws have been enacted to provide property tax relief, true reform remains to be accomplished. State lawmakers have allocated more and more money in recent years to try to offset local property taxes paid, but few changes have been made to the underlying property tax structure. While numerous structural reform proposals have been introduced and considered, policymakers have struggled to reach a consensus that stakeholders across the state can agree upon.

To truly achieve long-term property tax relief, structural reform is both necessary and desirable. These reforms need not be drastic; policymakers can indeed achieve desirable property tax outcomes by making slight modifications to the existing structure. As they do so, it is critical that policymakers work to ensure any changes that are made to Nebraska’s property tax system are aligned with the principles of sound tax policy: simplicity, transparency, neutrality, and stability.

Most scholars and stakeholders agree that the root of Nebraska’s property tax dilemma is the fact that rising valuations have led to significant property tax increases over time. As such, some have proposed adding an assessment limit to the mix of property tax limitations on the books. While limiting the amount by which an individual taxpayer’s property taxes can rise from one year to the next may sound appealing in theory, there are several unintended consequences that would come along with an assessment limit, including the introduction of highly uneven tax burdens across
otherwise similar properties. Members of the Unicameral’s Revenue Committee have also proposed reducing assessment ratios to provide additional relief to certain classes of property. While adjusting assessment ratios would provide relief in the short term, tweaking assessment ratios for various classes of property—some more than others—shifts property tax burdens in potentially harmful ways, increasing business startup costs, curtailing growth, and undermining tax neutrality.

The most economically neutral and effective approach lawmakers could take to enacting property tax relief would be to reform the state’s existing property tax revenue limit to make it more effective. Specifically, the levy limit could be modernized to accommodate a certain amount of allowable growth from one year to the next—say 3 percent, as proposed at the request of Governor Ricketts in LR 22CA—but tightened to allow overrides only with the approval of voters. This type of reform would provide some amount of flexibility to local political subdivisions while ensuring any significant increase in property tax collections can only occur with voter approval. Economists and public finance scholars tend to view property tax levy limits as the most economically efficient of the three major types of property tax limitations, as they avoid the inequities and inefficiencies that assessment limits can produce, and they are usually more effective than rate limits at constraining growth from rising valuations. Nebraska’s levy limit, however, would be much more effective if it could only be overridden with an affirmative vote of the people.

As an alternative to a tighter revenue limit requiring overrides be approved by voters, policymakers could instead simply build upon the taxpayer transparency improvements that were made in 2019 by further enhancing taxpayer notification laws. Utah has taken this approach with its “Truth in Taxation” (TNT) law, which has proven highly effective. Compared to the property tax limitation systems in many other states, Utah’s TNT law places softer constraints on local governments but mandates a higher degree of taxpayer transparency.

Specifically, under the TNT law, local entities proposing a property tax increase must send notice to each property parcel detailing the property owner’s current estimated property tax payment as well as their estimated new property tax payment as it would be under the proposal. This effectively informs each property owner of precisely how much additional money they would be asked to pay to cover the increased costs of local government services. It also gives local governing bodies an opportunity to explain why they are requesting more revenue. The notice must also provide the date, time, and location of the public hearing in which the proposed property tax increase will be discussed, and the proposed increase must be addressed as a separate agenda item at said hearing. In addition to providing individualized notice to taxpayers, the county auditor must publish notice of the proposed tax increase and details about the public hearing in the newspaper, on the state’s public notice website, and on the county website at least two weeks before the public hearing.

After these steps are taken, local entities are welcome to adopt their proposed tax increases. While there are no further restrictions, the court of public opinion is a strong one, with taxing districts facing significant pushback if they try to increase taxes without sufficient justification or to levels beyond what residents are willing to accept. The TNT approach seems to work well for the state:

39 Id.
Utah’s property taxes are among the lowest in the country when taken as a percentage of owner-occupied housing value, and Utah’s property tax collections as a share of personal income are falling relative to other states. The success the TNT model has had in Utah demonstrates that high standards of taxpayer transparency can increase awareness about the true costs of local government without unduly constraining local governments’ ability to make the case for more revenue when it is truly needed. Nebraska could also incorporate this approach into its existing property tax limitation regime, so that voters are better informed of the impact of overriding the levy limit.

Nebraska policymakers took an important step in 2019 toward enhancing taxpayer transparency by requiring public hearings related to proposed property tax increases be advertised in the newspaper. Many would argue, however, that newspaper notification is not enough, as it reaches a limited audience and does not specify to individual taxpayers how their bill would be affected. To truly increase stakeholder engagement in local revenue and spending decisions, Nebraska policymakers may want to consider reforming existing laws to provide direct notice to taxpayers regarding proposed property tax increases while allowing revenue-raising flexibility to local political subdivisions that meet the specified transparency requirements.

As the State Has Increased Credits to Offset Local Property Taxes Paid, the Local Property Tax Burden Has Continued to Rise

For many years, state policymakers have dedicated a significant amount of revenue toward offsetting the local property tax burdens residents face. One such offset, the Property Tax Credit Cash Fund, has existed since 2007, when the Property Tax Credit Act was enacted to provide property tax credits based on the assessed value of a taxpayer’s real property as a percentage of the total assessed value of all real property in Nebraska. The amount of money allocated to the fund has increased since its creation, as shown in Table 7.

| TABLE 7. |
| Funding for the Property Tax Credit Cash Fund Has Grown Over Time |

<table>
<thead>
<tr>
<th>Property Tax Credit Cash Fund Funding Levels (2007-2020)</th>
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<tbody>
<tr>
<td>2007</td>
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<td>2018</td>
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<tr>
<td>2019</td>
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<tr>
<td>2020</td>
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</tbody>
</table>

Source: Nebraska Department of Revenue.
Under LB 1107, enacted in August 2020, the Property Tax Credit Cash Fund must pay out no less than $275 million in credits per year starting with tax year 2020. The law also includes provisions to ensure any additional revenue added to the fund pursuant to other laws will increase the minimum yearly credit amount accordingly. With the adoption by voters in November 2020 of Initiative 431, a ballot measure that imposes a 20 percent tax on racetrack gambling, 70 percent of the revenue that is generated from that tax will be dedicated to the Property Tax Credit Cash Fund, thereby increasing the minimum total credit amount as provided in LB 1107.

In addition to boosting the Property Tax Credit Cash Fund, LB 1107 established the Nebraska Property Tax Incentive Act, which created a new refundable income tax credit that is calculated as a percentage of the amount of school district property taxes a taxpayer pays. LB 1107 set the total credit amount at $125 million for tax year 2020, while leaving open the possibility that the credit amount could be increased in tax years 2021, 2022, or 2023 if a certain level of growth in tax receipts occurs and the Cash Reserve Fund is funded at a specified level. For tax year 2024, the credit amount is tripled to $375 million, and for 2025 and beyond, the credit amount is $375 million plus a specified growth percentage based on growth in the value of real property.

LB 1107 specifies that the Department of Revenue must develop a process to ensure Nebraska property taxpayers who do not file income or franchise taxes can still receive the benefit of this refundable income tax credit in another manner. What neither the Property Tax Credit Act nor the Nebraska Property Tax Incentive Act does, however, is compensate renters for the property taxes they pay in the form of higher rent when property owners pass along those tax costs to renters. Because both credits are based on either the assessed value of a property owner’s property or the amount of school district property taxes paid, renters do not currently qualify for either credit. In many states, renters’ credits are offered in an effort to better allocate property tax relief among all taxpayers who bear the economic incidence of property taxes, not just among those who are legally obligated to remit the tax.

Under LB 1107, the state plans to spend a combined $400 million on these two credits in tax year 2020, which amounts to roughly 8 percent of annual state General Fund tax collections. Unless the law is changed, the state will spend at least $650 million on these two credits alone in tax year 2024.

State spending to offset local property taxes paid has increased substantially over the past decade, but these state spending increases have not translated into a reduction in local property taxes collected. Figure 10 shows how property tax collections grew between 2007 and 2018, as well as the amount by which annual Property Tax Credit Cash Fund allocations reduced total statewide property tax collections. Even after adjusting for inflation, the increase in property tax collections that occurred over time far outpaced the tax relief that was provided through the Property Tax Credit Cash Fund.

If Nebraska policymakers truly want to reduce property taxes and limit future property tax growth, increases in state aid must be paired with significant tightening of levy limits.
One option worth considering is for Nebraska policymakers to convert the existing credit system into a direct local aid program, whereby funding would be allocated to local political subdivisions on a formula basis. For example, instead of the state spending $400 million on property tax-related credits in a given year, the state could allocate that money among local political subdivisions based on—for example—the percentage of total state assessed property value that is situated in that jurisdiction. If this type of local aid system were paired with a tighter property tax levy limit, local political subdivisions could be afforded a certain amount of allowable growth each year but required to subtract any state aid from total allowed growth. This would help ensure state aid is actually being used to reduce local property taxes collected. Under the current credit system, local political subdivisions can keep increasing property taxes even as the state spends more and more money trying to offset growing local property tax burdens.

Another benefit of conversion to a direct local aid system is that taxpayers would actually begin to see this tax relief in their underlying property tax bills rather than through the current combination of property and income tax relief. Furthermore, policies that contain and minimize future property tax growth would benefit property owners and renters alike, since some of the savings property owners would receive would be passed along to renters in the form of lower rent or less frequent increases in the price of rent.
For this system to work, however, it is important that the levy limit be strengthened and that the allowable levy be reduced by the amount of formula-driven aid that a local government receives. Imagine, by way of example, that a jurisdiction collected $10 million in property taxes last year and was permitted 2 percent annual growth under the levy limit, excluding new development. If the jurisdiction receives $800,000 in direct aid, then its next allowable levy would be $9.4 million on those properties, yielding $10.2 million (a 2 percent growth factor) across collections and aid.

**While Relief and Reform Are Important, Nebraska Should Avoid Pivoting Too Far from Real Property Taxes as a Local Revenue Source**

Given many Nebraskans’ concern that local property taxes are growing too high, it makes sense that policymakers are looking for ways to provide property tax relief. But to be truly effective, property tax relief should come in the form of structural property tax reforms that improve the tax code’s alignment with the principles of sound tax policy. It is also important to keep in mind that different types of tax relief yield varying economic results, so any further property tax relief in Nebraska ought to be accompanied by reforms to other, more economically harmful taxes.

Real property taxes are an ideal local tax base for a variety of reasons. One key reason is that they adhere well to the benefit principle, or the idea in public finance that taxes paid should relate closely with benefits received. Compared to most alternative tax bases, the value of a taxpayer’s land and buildings is a reasonable proxy for the value of local services received, including roads, public utilities, police and fire protection, and related services. These local services all increase or preserve the value of a taxpayer’s property, and if a property owner were to procure these services privately, they would likely increase in cost the higher the property value.

Taxes on real property are also one of the most stable sources of revenue since property values do not fluctuate greatly from one year to the next. When property values do increase, local political subdivisions can adjust the tax rates downward to keep overall collections in check. Further contributing to revenue stability is that real property is inherently immobile; therefore, property taxes are difficult to evade or avoid.

Another benefit of the property tax is its transparency. Taxpayers know—and can often remember—exactly how much they paid in a given year and can easily evaluate whether they think the local services in their community are worth the price they are being asked to pay. In the Cornhusker State, a common grievance among taxpayers is the perception that property taxes are rising year after year without a corresponding increase in the value of local services received. The ability of taxpayers to come to this conclusion is evidence of the tax’s transparency.

As policymakers continue working toward a long-term solution, they will need to achieve a balance between supporting local entities’ flexibility to raise an appropriate amount of revenue—through a relatively well-structured tax—with taxpayers’ growing sentiment that property tax burdens are rising too quickly.

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Tangible Personal Property Taxes

Tangible personal property (TPP) taxes—or taxes on property that can be touched and moved—are among the most notable impediments to a competitive tax code in Nebraska. Each year, Nebraskans who own or lease depreciable tangible personal property for business or other income-generating purposes must pay *ad valorem* taxes on the net book value of that property.

As written on Nebraska's personal property tax return, "Depreciable tangible personal property is any tangible personal property which is used in a trade or business (commercial, industrial, or agricultural) or for the production of income, and which has a determinable life of more than one year." In Nebraska, office furniture, computers, unlicensed commercial vehicles, agricultural machinery and equipment, construction equipment, manufacturing machinery and equipment, recreational and entertainment-related equipment, and telecommunications equipment are all forms of taxable TPP.

Because every state but Oklahoma has exempted from taxation TPP that is not used for income production, most states’ TPP taxes fall exclusively on non-household property. As such, many individuals are not even aware that TPP taxes exist, much less the extent to which they yield expenses and compliance costs for farmers and businesses. Limited awareness about TPP taxes among the general population has contributed to a relative lack of emphasis in the Unicameral in recent years on reforming TPP taxes, especially given greater political appetite for real property tax relief.

Moving forward, however, there are many compelling reasons Nebraska policymakers should prioritize reforming and reducing TPP taxes as part of any broader tax reform effort. According to the Council on State Taxation, half of the taxes paid by businesses to Nebraska's state and local governments are property taxes, and TPP taxes represent a sizable share of those taxes. In 2017, TPP taxes accounted for 4.92 percent of Nebraska's total property tax collections, but some industries are much more heavily affected by them than others, with manufacturers, agricultural producers, and other capital-intensive economic drivers bearing a significant share of the burden.

While businesses and farmers pay taxes on their real and tangible property alike, the economic impacts of taxing TPP differ greatly from those involved in taxing land and structures. Compared to taxes on real property, TPP taxes are nonneutral, complex, and distortionary, making TPP an inferior property tax base.

One of the advantages of real property taxes is that they are taxpayer-passive; taxpayers receive their bill in the mail and then they pay it, or have the amount automatically transferred from escrow. TPP taxes, however, are taxpayer-active, requiring taxpayers to make a list of their taxable property, calculate the depreciable value of that property, apply the correct assessment ratios and millages, and remit the appropriate amount. TPP taxes also influence economic decision-making in a way that

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real property taxes do not, as they increase the cost of capital relative to labor and may delay a firm’s ability to upgrade aging machinery or make other growth-inducing capital investments.

Another reason TPP taxes are harmful is they specifically target business inputs, or machinery, equipment, and other property used directly in the production process. These taxes are often passed along to consumers—albeit in an inherently nontransparent way—in the form of higher prices. TPP taxes are also nonneutral in that they are levied on the value of some business inputs—year after year—but are not levied on others. As such, they disincentivize the accumulation of capital and fall more heavily on capital-intensive industries than on other types of firms. In fact, Nebraska's rural and micropolitan counties tend to pay more in TPP taxes than the state's metropolitan counties due to the heavy impact of TPP taxes on the agricultural sector.  

In recent years, many states—including many of Nebraska’s economic competitors—have recognized the archaic and economically harmful nature of TPP taxes and have reduced reliance on them over time. Seven states—Iowa, Illinois, and Ohio among them—no longer levy TPP taxes at all. Meanwhile, the TPP taxes in five states, including North Dakota, South Dakota, and Minnesota, are limited to only centrally assessed property, such as public utilities or property involved in oil and natural gas production. Still other states have enacted broad TPP tax exemptions, such as machinery and equipment exemptions in Wisconsin and Connecticut. Similarly, Indiana and Michigan have reduced the burden of their TPP taxes in recent years through increasing their broadly-applied dollar-level exemptions.

The Cornhusker State offers exemptions for licensed motor vehicles, business and agricultural inventory (items destined to be sold), livestock, property used in wind generation and data centers, and certain property used in electricity generation if installed after a certain date, but these exemptions are relatively limited and narrowly targeted.

For the 2016 through 2019 tax years, Nebraska offered a $10,000 de minimis exemption under the Personal Property Tax Relief Act, whereby the first $10,000 of assessed value of taxable TPP was exempt from taxation. While this exemption reduced taxpayers' TPP tax liability, it did little to reduce compliance costs, as any taxpayer owning or leasing taxable TPP was required to file a personal property tax return even if the total depreciable value of their TPP was well below the $10,000 threshold. This exemption was repealed, however, effective retroactively to the beginning of 2020, to partially offset the costs of LB 1107, the property tax relief and business incentives bill that was signed into law on August 17, 2020.
As a result, Nebraska is now among the 20 states with no *de minimis* TPP tax exemption. According to the fiscal note for LB 1107, the repeal of the Personal Property Tax Exemption will increase TPP taxes by between $14.8 million and $16.9 million per year. Without a *de minimis* exemption, only taxpayers that meet highly specified qualifications—such as new farmers or incentive-eligible businesses—will qualify for any significant amount of TPP tax relief.

Under the Beginning Farmer Tax Credit Act, which was adopted in 1999, qualified Nebraskans who are in their first three years of farming, and whose net worth is below a specified level, may be eligible for a TPP tax exemption, whereby up to $100,000 worth of otherwise taxable machinery and equipment is exempted in each of the farmer or rancher's first three years of operation. Qualifying beginning farmers and ranchers may also receive a one-time income tax credit of up to $500 to offset the costs of participating in a financial management class.

Similarly, under the former Nebraska Advantage Act and the recently enacted ImagiNE Nebraska Act, businesses that meet certain investment and hiring criteria can qualify for various TPP tax exemptions, but oftentimes this relief is not available for smaller firms, and participating in the incentive program comes with its own administrative costs.

In any broader effort to reform Nebraska's property tax system, TPP tax reform should be a key factor in those deliberations. Readopting a *de minimis* exemption that is at least as generous as the previous $10,000 exemption—and ensuring that exemption is also a filing exemption—would be a good place to start. In many states with a *de minimis* exemption, the exemption is both a payment threshold and a filing threshold, meaning taxpayers need not file a TPP tax return if the total taxable value of their TPP falls below the threshold. If a *de minimis* exemption is reinstated, allowing the exemption to serve as both a payment and filing threshold would reduce administrative and compliance costs for many small businesses that have historically had to file year after year even when they owed no tax.

Another complementary reform option for the state to consider is to exempt new property purchased after a specified date. This would initiate the gradual phaseout of TPP taxes as aging machinery and equipment is replaced with new property over time. This approach has the advantage of avoiding sudden drops in revenue while giving local governments time to recoup that revenue through less economically harmful revenue sources—such as real property taxes or sales taxes—or cumulative economic growth.

This approach also promotes economic growth by making it easier for businesses to upgrade to more efficient machinery. Several states have successfully taken the approach of exempting TPP acquired after a certain date. For example, Kansas enacted an exemption for most types of machinery and equipment placed in service after fiscal year 2006, and starting on April 1, 2008, Maine began exempting all newly acquired TPP of retail businesses.

54 Garrett Watson, "States Should Continue to Reform Taxes on Tangible Personal Property," 10.
58 Sarah Curry and Luke Ashton, "This Time, It’s Personal: Nebraska’s Personal Property Tax."
In the absence of broad, statewide TPP tax reform, state lawmakers ought to at least consider giving local political subdivisions the option of reducing or eliminating TPP taxes on their own, which 23 states already allow.\(^5^9\) One benefit of a local option is that it allows localities to remain in control of their own property tax base: localities that rely heavily on TPP taxes would not be forced to abandon the revenue source, but those that have the ability to phase out their TPP taxes would have the option of doing so, thereby enhancing their local tax competitiveness and reducing costs associated with administering the tax.

As the Platte Institute has pointed out:

Each political subdivision within Nebraska has a different economic make-up and their reliance on the personal property tax differs greatly, which will affect how they want to approach reform. When looking at the percentage of personal property tax collected out of total property taxes, Loup County is the lowest at 2.4 percent while the highest is Stanton County at 15.7 percent. Seven counties have a reliance greater than 10 percent, and the average county rate is 6.4 percent. Allowing counties to approach reform would allow Loup County to remove the tax without too much interference with their revenue, while Stanton County may choose to keep it due to their higher reliance on the tax.\(^6^0\)

Reforming Nebraska's TPP tax system to reduce tax burdens and compliance costs would improve the state's economic competitiveness and attractiveness to potential in-state investors.

**Inheritance Tax**

Nebraska is one of only six states that continues to levy an inheritance tax, or a tax on assets transferred to a recipient after—or in anticipation of—an individual's death. Nebraska's inheritance tax has rates ranging from 1 to 18 percent, depending on the heir's relationship with the deceased. Nebraska's 18 percent rate, imposed on bequests to non-relatives, is the highest inheritance tax rate in the nation.

While only six states continue to levy inheritance taxes, Maryland—one of the states with an inheritance tax—also levies an estate tax. Meanwhile, 11 other states and the District of Columbia levy an estate tax but do not levy an inheritance tax.\(^6^1\)

While inheritance taxes and estate taxes are similar, they are not identical. A key distinction is that estate taxes are levied based on the size of the taxable estate, whereas inheritance taxes are levied based on the size of each bequest. Unlike estate taxes, which are imposed on a decedent’s taxable estate before bequests are distributed, inheritance taxes are paid by heirs based on their share of the estate’s proceeds and, often, based on their relationship with the decedent.

\(^{5^9}\) Garrett Watson, “States Should Continue to Reform Taxes on Tangible Personal Property,” 3.

\(^{6^0}\) Sarah Curry and Luke Ashton, “This Time, It’s Personal: Nebraska’s Personal Property Tax.”

Of the two approaches to taxing property transfers after death, inheritance taxes are the older, and now less common. Nebraska’s inheritance tax was adopted in 1901 during a brief window of time in which the federal government temporarily levied an inheritance tax. By 1916, Nebraska was one of 43 states levying an inheritance tax, but after the federal government adopted an estate tax that year, many states replaced their inheritance taxes with estate taxes.

In 1926, the federal government began offering a credit against federal estate tax liability for state estate or inheritance taxes paid, thereby allowing states to impose “pick-up” estate or inheritance taxes without increasing taxpayers’ overall tax liability. However, when the federal credit was eliminated in 2005 and replaced with a far less generous deduction, many states repealed their estate or inheritance taxes altogether. For example, South Dakota and Wyoming’s estate taxes—which were tied to the federal credit—ended when the credit was eliminated, and Kansas phased out its estate tax starting in 2008, repealing it completely by 2010.

In 2001, all 50 states levied an estate or inheritance tax, but today, they are far less common. Among Nebraska’s immediate neighbors, Iowa is the only other state that levies a so-called “death tax.”

Table 8 shows Nebraska’s inheritance tax rates. The state’s top inheritance tax rate of 18 percent applies to bequests made to friends and other non-related individuals. When bequests are made to non-relatives, only the first $10,000 is exempted before the 18 percent tax rate is applied. Remote relatives—like nieces, nephews, aunts, or uncles—receive only slightly better treatment, with a tax rate of 13 percent that applies after a de minimis exemption of $15,000 is taken. When bequests are made to immediate relatives—including children, parents, siblings, or grandchildren—the first $40,000 is exempted before the 1 percent tax rate applies. (No state imposes estate or inheritance taxes on surviving spouses.) It is also worth noting that Nebraska’s inheritance tax does not apply to bequests made to charitable organizations or to state or federal entities.

TABLE 8.
Nebraska Has the Highest Top Inheritance Tax Rate in the U.S.

<table>
<thead>
<tr>
<th>Nebraska’s Inheritance Tax Rates</th>
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<tbody>
<tr>
<td>Immediate Relatives</td>
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<td></td>
<td>1%</td>
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<td></td>
<td></td>
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<td>Remote Relatives</td>
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<td>13%</td>
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<td>Non-related Individuals</td>
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<td></td>
<td>18%</td>
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<td>Charitable Bequests</td>
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<td>&gt;</td>
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<td>$0</td>
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Note: Nebraska’s inheritance tax is levied at the county level. Source: Bloomberg Tax; state statutes.

Figure 11 shows the effective tax rate on a $1 million bequest to a non-related individual in each of the states with an inheritance tax. With a de minimis exemption of only $10,000 and a rate of 18 percent, Nebraska's effective rate on such gifts is 17.8 percent, the highest effective rate in the country.

In Nebraska, the inheritance tax is a local, not a state, revenue source, and it is collected at the county level. The amount of inheritance tax revenue a county receives in a given year depends upon the timing of death and the types of bequests that are made. As such, the inheritance tax yields unpredictable revenue streams that can vary greatly from one year to the next, making it a relatively unreliable revenue source for local governments. In fiscal year 2018, Nebraska's inheritance tax generated $70.4 million across all counties, with the county average being a mere $757,590.68

Compared to alternative sources of local revenue, inheritance taxes are highly economically harmful. They generate a relatively small amount of revenue but are nonneutral, distortionary, and complex and detract from the economic competitiveness of the states that levy them.
FIGURE 11. 
State Inheritance Tax Effective Rates for Unrelated Individuals 
on a $1 Million Bequest (2020)

Under Nebraska’s inheritance tax, a $1 million bequest to an immediate family member would generate a $9,600 tax bill, but the same gift to a friend or other non-relative would generate a tax bill more than 18 times as large: $178,200. This nonneutral structure creates a strong disincentive against bequeathing to non-related individuals, as gifting $1 million to a non-relative instead of an immediate family member comes not only with the direct tax cost, but also with an opportunity cost of $168,600 in gifts that could go to another individual if not being paid in taxes to the county government. Because it is an inheritance rather than an estate tax, moreover, the tax generates no revenue if a Nebraska decedent bequeaths assets to out-of-state beneficiaries but does tax Nebraskans when they inherit something from individuals in or out of state.

Anyone who has written their will knows that estate planning carries with it a slew of highly personal decisions that most people do not take lightly. But by picking winners and losers and influencing taxpayers’ decision-making on the basis of something as arbitrary as an heir’s relationship with the deceased, Nebraska’s inheritance tax injects the government into this highly personal decision-making process, pressuring many individuals to make decisions for tax reasons that otherwise might not make sense personally or economically.

For individuals who may have few living relatives to give their estates to, a friend or other non-relative might be the most obvious personal choice, but Nebraska’s tax code penalizes individuals who find themselves in this position. For example, if an individual has no children to leave their estate to but has a niece or nephew who is like a child to them, the tax code will tax them higher regardless. Likewise, Nebraska’s inheritance tax treats a charitable bequest much more favorably than a bequest to a specific family in need. Apart from the inheritance tax, the decision of whether a decedent’s
estate goes to one individual or another has no material impact on the government, but these
decisions have tremendous material impacts on the individuals involved. Despite this, in its efforts to
generate revenue, Nebraska’s inheritance tax arbitrarily treats gifts to some individuals much more
favorably than others, causing severe and avoidable distortions.

Inheritance taxes are also distortionary in that they cause individuals to pour resources into finding
ways to legally avoid the tax because—in many cases—with careful estate planning, inheritance taxes
can be avoided or significantly reduced. This creates dead-weight loss, where resources that might
otherwise benefit either an heir or the county are spent finding ways to either reduce inheritance
tax liability or avoid the tax entirely. There is ample evidence that—for those who have the time,
resources, and foresight to plan their estates effectively—good estate planning often results in
individuals selling businesses they would not otherwise sell or giving inter vivos gifts they might not
otherwise give until after death—all to avoid the inheritance tax. Unlike estate taxes, moreover,
which typically have large exemptions, many beneficiaries will owe some amount of inheritance tax in
Nebraska.

Nebraska’s inheritance tax creates complexities both for those who pay it and for those who plan
their estates around avoiding it. Given its complexity, volatility, nonneutrality, and harmful impacts
on economic decision-making, Nebraska policymakers ought to work to phase it out. Increasing the
inheritance tax’s de minimis exemptions would be a good place to start, as this would reduce tax
liability for all bequests while reducing the number of people having to file and pay. Since Nebraska’s
inheritance tax currently treats bequests to non-relatives least favorably, increasing that de minimis
exemption and reducing the 18 percent rate should be a priority.

**Capital Stock Tax**

Nebraska is one of only 15 states, as of January 1, 2021, still levying a capital stock tax. This tax,
known as the Corporation Occupation Tax, is due every two years and is owed by C corporations and
S corporations. For firms incorporated in Nebraska (“domestic corporations”), the tax is based on the
corporation’s total paid-up capital stock, or “the sum of the par value of all shares of capital stock of
the corporation issued and outstanding.” For corporations incorporated in another state (“foreign
corporations”), capital stock is defined as the actual value of all real estate and tangible personal
property situated in Nebraska and used by the corporation in the course of doing business.

The tax is levied based on a fixed dollar payment schedule, where tax liability increases as capital
stock rises, although the effective tax rate decreases as taxable capital increases. Tax liability can
be as low as $26 paid every two years for corporations with very little capital stock and as high as
$30,000 every two years for corporations with higher levels of capital stock. In general, the payment
schedule is set up such that foreign corporations pay double the amount Nebraska corporations pay
at every specified capital stock level, although total tax liability is limited to $23,990 for Nebraska
corporations and $30,000 for foreign corporations. The Corporation Occupation Tax generated only
$13.7 million in the fiscal biennium ending in 2018, with revenue sent to the General Fund.

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While Nebraska’s Corporation Occupation Tax is far less aggressive than many other states’ capital stock taxes—which in some cases are unlimited in the liability that can be incurred—capital stock taxes are an outdated, nonneutral tax, and many states are therefore phasing them out. Over the past decade, Kansas, Virginia, Rhode Island, and Pennsylvania all phased out their capital stock taxes. New York’s phaseout of its capital stock tax was complete as of January 1, 2021. Connecticut, Illinois, and Mississippi are currently phasing out their taxes, with Connecticut and Illinois’ taxes set to phase out by 2024 and Mississippi’s by 2028.

Taxing companies based on their net worth—or based on the amount of capital they accumulate in Nebraska—penalizes investment in the state of Nebraska compared to states that do not levy such taxes, while creating compliance costs that are outsized compared to the revenue generated by the tax. Nebraska’s Corporation Occupation Tax is levied in addition to the state’s corporate income tax but generates only a small amount of additional revenue, making it a nuisance tax, not a valuable source of revenue. Nebraska would do well to repeal this tax in its entirety.

A SAMPLE COMPREHENSIVE TAX REFORM PLAN FOR NEBRASKA

This paper has outlined a series of tax reform priorities for Nebraska. Each reform priority recommended in this report would improve Nebraska's tax code so it better embodies the principles of sound tax policy: simplicity, transparency, neutrality, and stability.

There are many different ways Nebraska's tax code could be modernized to promote economic growth while improving the state's economic competitiveness. In general, though, a broad-based, low-rate tax system is an ideal that policymakers should strive for.

In any comprehensive tax reform effort, policymakers must first agree to the specific level of revenue that is needed to fund government services, whether that be less, more, or the same as is currently collected. Once that amount is agreed to, various parts of the tax code will need to be modified to achieve a sounder, more competitive tax structure. This will involve some amount of rebalancing: generating additional revenue through less economically harmful taxes in order to provide relief from taxes that are more economically harmful and burdensome. Tax reform is all about trade-offs, and it always involves some amount of compromise.

Ultimately, it is up to legislators to draft a bill that taxpayers and stakeholders across the state widely agree will improve the state's tax code and put the state on the path to better prosperity and growth for decades to come. We have crafted a sample tax reform plan below to show what one possible pro-growth comprehensive tax reform plan could look like. This sample comprehensive tax reform plan is approximately revenue-neutral, but tax rates could be dialed down or up to either provide a net tax cut or generate additional revenue.

Sales Tax Reform Solutions

Any comprehensive tax reform plan seeking to shift the state away from more economically harmful taxes and toward less economically harmful taxes will require reexamination of the state's sales tax base. Nebraska's sales tax base is the product of the 20th century and has not yet evolved to accommodate 21st century personal consumption patterns. Most consumer services have never been included in Nebraska's sales tax base, while various consumer goods have been removed from the base over time.

Broadening the sales tax base to additional consumer goods and services would generate new state and local revenue that could be used to offset pro-growth reforms elsewhere in the tax code. Compared to other revenue-raising tax changes, sales tax base broadening comes with a unique advantage in that it improves tax structure by making the sales tax more neutral in its application to consumer goods and services alike, while freeing additional revenue that can be used to lower tax rates. Nebraska's sales tax rates, however, are already fairly competitive, so policymakers should apply the additional revenue from sales tax base modernization toward rate reductions in other taxes, where they could have a greater economic impact.
Table 6 of this paper shows various categories of goods and services that are not currently included in Nebraska’s sales tax base, and it estimates the amount of additional state tax revenue that would be collected if the base were broadened to each category. The table also shows four sample sales tax base-broadening options, with Option A raising a modest amount of additional revenue, Option B raising a moderate amount of revenue, Option C generating substantially more revenue, and Option D representing comprehensive base broadening to all major categories of consumer goods and services that are currently exempt.

For the sake of this sample comprehensive tax reform plan, we propose broadening the sales tax to the goods and services listed under Option B. Broadening the sales tax base to those goods and services (excluding business inputs) would generate an estimated $300 million in additional revenue for the state, as well as approximately $75 million in additional revenue across all localities that levy a local option sales tax.

**Individual Income Tax Reform Solutions**

Any amount of additional revenue that is generated through sales tax base broadening ought to be used to reduce the rates of more economically harmful taxes, including the individual income tax. We calculate that if $300 million in additional state sales tax revenue is used to offset individual income tax rate reductions, Nebraska policymakers could reduce the top individual income tax rate from 6.84 to 6 percent, and the other rates to approximately 4 percent, 2.5 percent, and 1.5 percent, respectively.

**TABLE 9.**

<table>
<thead>
<tr>
<th>Nebraska’s Individual Income Tax Rate Schedule, Current and Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Single Filers</strong></td>
</tr>
<tr>
<td>$2.46% \text{ &gt; } $0</td>
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<tr>
<td>$3.51% \text{ &gt; } $3,340</td>
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<tr>
<td>$5.01% \text{ &gt; } $19,990</td>
</tr>
<tr>
<td>$6.84% \text{ &gt; } $32,210</td>
</tr>
<tr>
<td><strong>Proposed</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Single Filers</strong></td>
</tr>
<tr>
<td>$1.50% \text{ &gt; } $0</td>
</tr>
<tr>
<td>$2.50% \text{ &gt; } $3,290</td>
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<tr>
<td>$4.00% \text{ &gt; } $19,700</td>
</tr>
<tr>
<td>$6.00% \text{ &gt; } $31,750</td>
</tr>
</tbody>
</table>

*Source: Nebraska Department of Revenue; Bloomberg Tax; Tax Foundation calculations.*

An across-the-board individual income tax rate reduction like the one shown above (which reduces each rate by between 0.84 and 1.01 percentage points) would be a solid step in the right direction toward making Nebraska more economically competitive with its neighbors and more attractive to individuals, families, and businesses alike. However, this is just one of many ways the individual
income tax rates could be modified to apply revenue from sales tax base broadening toward income tax relief and reform. While an across-the-board rate reduction is one possible approach, policymakers should ultimately work to enhance neutrality and simplicity by reducing rates while consolidating the number of brackets.

If policymakers take the initial step of reducing individual income tax rates (and consolidating brackets where possible), they can build upon it by outlining in statute plans for future income tax rate reductions that will occur if the state meets certain pre-established revenue (or related) targets, a concept known as “tax triggers.” Well-designed tax triggers limit the unpredictability and volatility that can be associated with changes to the tax code, helping policymakers achieve pro-growth reforms while balancing the need to maintain a specified level of revenue. Nebraska could, therefore, use future revenue growth to reduce the top individual income tax rate even further in the future. A top rate of 5.5 percent, for example, would give Nebraska a competitive edge over Kansas and help the state better compete with Missouri’s top rate of 5.4 percent—which is itself scheduled to see further triggered reductions.

If policymakers opt for a plan that broadens the sales tax base even further, such as is proposed in Options C and D in Table 6, bolder reforms to the individual income tax could occur upfront, without having to rely on tax triggers to achieve more competitive rates.

**Corporate Income Tax Reform Solutions**

The ImagiNE Nebraska Act allows for a maximum expenditure on incentives awards of $25 million in tax credits and refunds in 2021 and 2022, $100 million in 2023 and 2024, and $150 million in 2025. (Some firms will still receive outstanding awards under the Nebraska Advantage program for many years to come.) For years thereafter, LB 1107 allows the allocation to grow to approximately 3 percent of general fund receipts, not to exceed $400 million.

Instead of pouring increasing amounts of money into an incentives program that only about two of every 1,000 Nebraska businesses benefit from, some of that revenue ought to be dedicated to reducing the corporate income tax rate so that all businesses can benefit from tax relief, not just those that have the resources to apply for and qualify for special incentives.

If Nebraska policymakers revised current law to reduce the amount of revenue spent on the ImagiNE Nebraska program, that revenue could instead be used to reduce the corporate income tax rate for all firms that pay it. For example, by capping the ImagiNE Nebraska Act program at $100 million per year instead of allowing that amount to increase in 2025 and beyond, policymakers could reduce the top corporate income tax rate from 7.81 to 6.8 percent. If the bottom corporate income tax bracket were eliminated such that all taxable income were taxed at a flat rate, the rate could drop even lower, to approximately 6.65 percent.

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TABLE 10.
Nebraska's Corporate Income Tax Rate Schedule, Current and Proposed

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed (Option A)</th>
<th>Proposed (Option B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.58% &gt; $0</td>
<td></td>
<td>5.58% &gt; $0</td>
<td>6.65% &gt; $0</td>
</tr>
<tr>
<td>7.81% &gt; $100,000</td>
<td></td>
<td>6.80% &gt; $100,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Nebraska Department of Revenue; Bloomberg Tax; Tax Foundation calculations.

Ultimately, less spending on targeted incentives will mean more revenue is available to reduce the corporate income tax rate for all firms. Likewise, as progress is made to reduce the corporate income tax rate for all taxpayers, the more attractive the state will become to current and prospective investors even without targeted incentives.

If Nebraska reduced its corporate income tax rate to 6.65 percent, the state would gain another competitive edge over neighboring Kansas. Further reductions would still be needed, however, to better compete with states like Colorado and Missouri—which both have rates in the 4 percent range, as well as states like South Dakota and Wyoming, which do not levy corporate income taxes at all.

Another important reform recommended in this sample comprehensive plan is for the state to apply the 100 percent dividends received deduction to GILTI, which would have the effect of removing GILTI from the tax base. By taxing GILTI, Nebraska would begin collecting revenue it was never meant to collect. As such, Nebraska should clarify that GILTI will not be included in the state tax base.

**Property and Wealth Tax Reform Solutions**

To slow and potentially reverse the rising burdens property taxpayers face, stricter laws should be put in place to limit the amount by which overall property tax collections can grow in any given jurisdiction. This sample tax reform plan proposes converting existing credits under the Property Tax Credit Act and the Nebraska Property Tax Incentive Act into a direct local aid system. Instead of spending $400 million to $650 million annually on these credits, the state could transfer that money directly to local political subdivisions while requiring that revenue serve as a substitute for local property taxes that would otherwise be collected. This plan also proposes tightening the levy limit to accommodate a modest amount of allowable growth while requiring any overrides be approved by a vote of the people.

Our comprehensive tax reform plan also proposes reestablishing a *de minimis* exemption of at least $10,000 to offset TPP taxes while establishing a new policy by which the payment threshold is also the filing threshold. This would mitigate compliance costs for taxpayers who have historically filed
year after year despite having below $10,000 in TPP tax liability. Restoring the *de minimis* exemption would cost approximately $15 million-$17 million annually and could be paid for with some of the revenue that would otherwise be spent on the two aforementioned credit programs. (The *de minimis* exemption was repealed in LB 1107 to help offset the new income tax credit, so our plan would reverse that policy.)

Finally, Nebraska should repeal its capital stock tax. The capital stock tax, which is collected every other year, generated only $13.7 million in fiscal year 2018 (less than $7 million annualized). Given the small amount of revenue this tax raises, it is more of a nuisance tax than anything else and ought to be repealed.

**Improvement in State Business Tax Climate Index Ranking**

If the aforementioned comprehensive tax reform plan were adopted (using Option B in Table 10), Nebraska's ranking on the *State Business Tax Climate Index* would improve both overall and on the major tax components, as shown in Table 11.

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>28th</td>
<td>18th</td>
</tr>
<tr>
<td>Corporate Taxes</td>
<td>32nd</td>
<td>23rd</td>
</tr>
<tr>
<td>Individual Taxes</td>
<td>21st</td>
<td>20th</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>15th</td>
<td>12th</td>
</tr>
<tr>
<td>Property and Wealth Taxes</td>
<td>41st</td>
<td>29th</td>
</tr>
<tr>
<td>Unemployment Insurance Taxes</td>
<td>11th</td>
<td>11th</td>
</tr>
</tbody>
</table>

Source: Tax Foundation calculations.
CONCLUSION

Nebraska’s tax code currently contains many outdated, complex, and burdensome provisions that impede the state’s economic competitiveness, but this need not be the case for much longer. Improvement on even a handful of the 13 priorities outlined in this report would improve the state's competitive standing and help combat the state’s economic challenges.

As policymakers look for ways to reduce tax burdens and attract new businesses and residents to the state, the importance of a structurally sound tax code must not be underestimated. A broad-based, low-rate tax structure—and one that avoids penalizing in-state investment—will help Nebraska attain stronger competitive footing to grow and prosper for decades to come.
ABOUT THE TAX FOUNDATION

The Tax Foundation is the nation's leading independent tax policy research organization. Since 1937, our research, analysis, and experts have informed smarter tax policy at the federal, state, and global levels. Our Center for State Tax Policy uses research to foster competition among the states and advises policymakers on how to improve their tax systems.

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“Good Life. Great Opportunity.” It’s why Cornhuskers take pride in their Nebraska roots, and it’s a vision of a more prosperous future.

Residents have long touted Nebraska’s quality of life, but many are frustrated seeing nearby states reap the benefits of lower taxes and faster growth while their own state grapples with persistent tax challenges and sluggish growth. Too many Nebraskans leave for opportunities elsewhere despite the “quality of life” factors that might otherwise compel them to stay.

Not everyone will stay, and there are many factors outside policymakers’ control. But where policymakers can improve Nebraska’s attractiveness, they ought to, and the tax code is one of those factors.

Nebraska’s real property taxes are high and growing, and addressing them is a priority, but they are only one aspect of the tax code hindering the state’s economic competitiveness. Corporate and individual income taxes are also high—a barrier to business growth—even as tangible personal property, inheritance, capital stock, and other outdated taxes add complexity and reduce investment.

For Nebraska to live up to its promise and potential as a state of opportunity, comprehensive tax modernization must be a priority. Tax modernization may seem daunting, and it requires prioritization. That is why we have written this report: to identify the areas of Nebraska’s tax code most in need of modernization, and to offer 13 specific recommendations for doing so in a pro-growth manner that enhances tax simplicity, transparency, neutrality, and stability.