



## **Hiking Local Sales Tax Not the Right Path for Lincoln**

March 26, 2014

Lincoln voters may soon be asked to approve an increase in the local option sales tax. The possibility of a sales tax hike in Lincoln was discussed in November on KFOR-AM by Mayor Chris Beutler and radio host Coby Mach, with Beutler describing transportation projects as key spending priorities.<sup>[1]</sup> Mayor Beutler's Chief of Staff has mentioned street and sidewalk repair, construction of new arterial roads, and ongoing maintenance as the likely uses for any new sales tax dollars.<sup>[2]</sup> Construction of a South Beltway in Lincoln has been aired as a project that could be funded by increasing the sales tax.<sup>[3]</sup>

Due to the enactment of LB 357<sup>[4]</sup> over the objections of Governor Heineman in 2012, a number of Nebraska locales are facing similar questions. The 2011 carryover bill enacted in 2012 authorized a higher local option sales tax of two percent, increasing the tax cap by half a percent. Although Senator Ernie Chambers was successful in repealing the tax authority expansion for Omaha in 2013,<sup>[5]</sup> the additional taxing authority remains a temptation for other municipalities in the state. Within the first year after the passage of LB 357, Alma, Sidney, and Waterloo all raised their local sales tax, and voters in Bellevue and Nebraska City rejected proposals to increase their sales tax burden.

In Lincoln, the mayor and his staff have promised continuation of an “ongoing community discussion”<sup>[6]</sup> before making a final proposal. However, voters are already being wooed with suggestions that a sales tax increase might facilitate property tax relief.<sup>[7]</sup> There is no doubt that tax relief is greatly needed in Lincoln and in the rest of Nebraska, but increasing the local option sales tax is unlikely to achieve that result. Governments virtually never abandon sources of revenue once they are made available, and past tax increases sold on the promise of future tax relief have not reduced the tax burden in Nebraska.<sup>[8]</sup>

Increasing the local sales tax will have negative effects on economic growth, and sales taxes in Nebraska are already too high. According to the Tax Foundation, the 2014 combined state and local average sales tax in Nebraska is 6.79 percent.<sup>[9]</sup> That number reflects the sales tax increases that have occurred since the enactment of LB 357, and it caused Nebraska to lose ground in the national rankings of states by average sales tax burden.<sup>[10]</sup> High sales tax is a factor in Nebraska's poor overall tax ranking, with one recent measure of state tax burdens listing Nebraska as the third worst tax environment in the country after New York and California, with an average annual tax burden that is 36 percent higher than the national average.

Several of Nebraska's neighbors—Wyoming, South Dakota, and Colorado—are among the ten states with the lowest average tax burdens.<sup>[11]</sup>

Although a half percent sales tax bump may not be a major driver in pushing retail activity out of town or out of state, increasing the price of goods will have an effect on the margin, especially for major purchases.<sup>[12]</sup> For example, evidence suggests that Chicago's high sales tax has pushed many retail transactions out into suburban areas or to the Internet.<sup>[13]</sup> Perhaps more worrisome is the possibility of the "bad neighbor effect" suggested by some studies, in which an increase in local sales tax was correlated with subsequent sales tax hikes in neighboring communities.<sup>[14]</sup>

From sidewalks in need of repair to bustling commuter arteries, voters and elected officials in "America's happiest city"<sup>[15]</sup> clearly have some difficult choices to make. Increasing the local sales tax should not be one of them.

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<sup>[1]</sup> Winter, Deena. "Lincoln Mayor Open to Raising Sales Tax for Street, Security" *Nebraska Watchdog*. November 22, 2013. [URL: <http://watchdog.org/117502/lincoln-mayor-tax-increase/>]

<sup>[2]</sup> Hicks, Nancy. "Sales tax hike one way to pay for city needs." *Lincoln Journal-Star*. February 16, 2014. [URL: [http://journalstar.com/news/local/govt-and-politics/sales-tax-hike-one-way-to-pay-for-city-needs/article\\_e77b5d1c-b5a2-59a8-817f-9308c7f50c95.html](http://journalstar.com/news/local/govt-and-politics/sales-tax-hike-one-way-to-pay-for-city-needs/article_e77b5d1c-b5a2-59a8-817f-9308c7f50c95.html)]

<sup>[3]</sup> Hicks.

<sup>[4]</sup> Legislative Bill 357: "Change and eliminate provisions relating to increases in local option sales tax." 102nd Nebraska Legislature. [URL: [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=12077](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=12077)]

<sup>[5]</sup> Senator Chambers introduced LB 266 in 2013. Provisions of the bill eliminating the additional sales tax authority for cities of the metropolitan class were amended into LB 104, which was enacted late in the 2013 session.

<sup>[6]</sup> Hicks.

<sup>[7]</sup> Winter, Deena. "Lincoln mayor may put sales tax hike on November ballot." *Nebraska Watchdog*. March 3, 2014. [URL: <http://watchdog.org/130786/sales-tax-lincoln/>]

<sup>[8]</sup> "State Aid Not the Path to Nebraska Property Tax Relief." Platte Chat. Platte Institute. December 18, 2013. [URL: <http://www.platteinstitute.org/research/detail/state-aid-not-the-path-to-nebraska-property-tax-relief>]

<sup>[9]</sup> Drenkard, Scott. "State and Local Sales Tax Rates in 2014." Tax Foundation. March 18, 2014. [URL: <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2014>]

[10] See Padgitt, Kail. “Updated State and Local Option Sales Tax.” Tax Foundation. October 16, 2009. [URL: <http://taxfoundation.org/article/updated-state-and-local-option-sales-tax>]

[11] Kiernan, John S. “Best & Worst States to Be a Taxpayer.” WalletHub. 2014. [URL: <http://wallethub.com/edu/best-worst-states-to-be-a-taxpayer/2416/#complete-rankings>]

[12] Drenkard.

[13] Drenkard, *citing* Chandler, Susan. “The Sales Tax Sidestep.” *Chicago Tribune*. July 20, 2008. [URL: [http://articles.chicagotribune.com/2008-07-20/business/0807190001\\_1\\_sales-tax-tax-avoidance-tax-landscape](http://articles.chicagotribune.com/2008-07-20/business/0807190001_1_sales-tax-tax-avoidance-tax-landscape)]

[14] Burge, Gregory S. and Brian Piper. “Strategic Fiscal Interdependence: County and Municipal Adoptions of Local Option Sales Taxes.” *National Tax Journal*. June 2012. [URL: [http://ntj.tax.org/wwtax/ntjrec.nsf/175d710dff186a385256a31007cb40f/8bf6ea0a9af8e80485257a1e004de1eb/\\$FILE/A05\\_Burge.pdf](http://ntj.tax.org/wwtax/ntjrec.nsf/175d710dff186a385256a31007cb40f/8bf6ea0a9af8e80485257a1e004de1eb/$FILE/A05_Burge.pdf)] See also Sjoquist, David L., William Smith, Sally Wallace, and Mary Beth Walker. “Copycat Behavior: Evidence from the Adoption of Local Sales Taxes.” Georgia State University. 2005.

[15] “Lincoln is the Happiest Place in the U.S.” *Lincoln Journal-Star*. March 5, 2013. [URL: [http://journalstar.com/news/local/lincoln-is-the-happiest-place-in-the-u-s/article\\_33db256b-16d0-50ce-99ec-fbe7fc048ff6.html](http://journalstar.com/news/local/lincoln-is-the-happiest-place-in-the-u-s/article_33db256b-16d0-50ce-99ec-fbe7fc048ff6.html)]