



## **Legislative Update: Achievements and Room for Improvement on Taxes and Spending**

April 01, 2014

By Dick Clark

High taxes hurt businesses, stifle economic growth, and cause productive workers to move out of state or locate elsewhere.[1] Despite the negative effects of high taxation, Nebraska continues to saddle taxpayers with one of the most burdensome tax regimes in the entire country. After the Unicameral punted on Governor Heineman's tax reform initiative in the 2013 session, many had high hopes that 2014 would be the year for real tax relief in Nebraska. As the Tax Modernization Committee proceeded with its work over the interim, though, a lack of consensus about tax policy quickly became apparent. Despite a brighter than anticipated revenue forecast[2] and bills that could readily serve as reform vehicles,[3] the Legislature has not demonstrated this session that it has an appetite for serious tax reform.

None of the major tax reform bills[4] advanced to the floor for debate by the full Unicameral, but modest reform proposals from the Revenue Committee were approved by legislators. Though not the bold changes that many had thought possible, these bills would extend the homestead exemption,[5] reduce the degree to which military retirement[6] and Social Security benefits are taxed, and index income tax brackets to inflation to avoid bracket creep.[7] Proposals to eliminate[8] or scale back[9] the inheritance tax in Nebraska, from Senators Hansen and Carlson respectively, were unsuccessful. However, discussion of the inheritance tax bills properly centered on the costly state mandates on counties, significant drivers of the local spending for which inheritance tax is collected.

Though the Legislature seems poised to wind up for the year without seriously taking up tax reform, there is reason to be optimistic as the legislative session draws to a close. Major increases in future spending have largely been avoided this session. The most prominent of these was LB 887, Senator Kathy Campbell's Medicaid expansion bill. Appropriations for the Department of Health and Human Services represent more than forty percent of the state budget, with half of that going to pay for Medicaid.[10] Slowing the growth of the already unsustainable Medicaid program is crucial to reining in state spending, and the defeat of LB 887 signals that many lawmakers are taking this problem seriously.

The Legislature is also working to head off future spending related to prison overcrowding while enhancing public safety in the process. Nebraska's over-capacity corrections facilities expose the taxpayer to expensive lawsuits, and they are not as effective as they should be at protecting the

public. The broad corrections reforms in Senator Brad Ashford's LB 907, combined with the enhanced reentry programming provided for in the senator's LB 999, should help Nebraska reduce prison populations while still providing for supervision when an inmate is released, all while avoiding the astronomical costs associated with building and running a new prison.[11] Additionally, Senator Ashford's juvenile justice reform bill, LB 464, takes a number of recommendations from a 2012 Platte Institute policy study[12] to save taxpayer dollars, reduce crime, and promote better youth outcomes. The bill would ensure that more juveniles accused of delinquent acts are adjudicated in the juvenile system. It would prioritize community-based services as alternatives to juvenile detention. As amended, the bill also provides that chronic absences from school should be treated primarily as educational and family concerns rather than as problems for the criminal justice system to resolve.[13]

An important vote for young people and for economic liberty was the vote stopping LB 943, Senator Jeremy Nordquist's bill to increase the minimum wage. After voting down amendments to incorporate elements of Senator Steve Lathrop's LB 947 and to narrow the scope of the minimum wage hike to exclude some small businesses, legislators chose not to advance the underlying bill.[14] This defeat of further price controls on wages in Nebraska is important most of all for the many workers earning the minimum wage, nearly half of whom are under the age of twenty-four. For them, these short-term, low-wage jobs are opportunities to gain needed work experience that will equip them to grow their productivity and become qualified for higher-paying work.

One opportunity that has been conspicuously overlooked during the 2014 session is the prospect of improving public education by expanding school choice. Senator Scott Lautenbaugh's Independent Public Schools Act[15] would authorize the creation of charter schools in Nebraska and give teachers and administrators the flexibility to innovate in education and improve student performance in the process.[16] Unfortunately, despite a lengthy hearing featuring numerous charter school success stories, the Education Committee has so far failed to advance the bill to the floor for discussion by the full Legislature.

Lawmakers championing responsible government can take pride in their modest victories this session, but as the business of the 103rd Nebraska Legislature nears its conclusion, advocates for tax relief, checks on government spending, and market-friendly policy solutions still have a lot of work to do. With a bumper crop of new senators due to arrive in Lincoln next January, Nebraska voters have the opportunity to help them do it.

---

[1] "State Taxation and Migration." *Platte Chat*. Platte Institute for Economic Research. January 15, 2014. [URL: <http://www.platteinstitute.org/research/detail/state-taxation-and-migration>]

[2] "Sunny Revenue Forecast is a Golden Opportunity for Taxpayers." *Platte Chat*. Platte Institute for Economic Research. March 4, 2014. [URL: <http://www.platteinstitute.org/research/detail/sunny-revenue-forecast-is-a-golden-opportunity-for-taxpayers>]

[3] Drenkard, Scott. "Tax Reform Bill Moving in Nebraska Legislature." *Platte Chat*. Platte Institute for Economic Research. February 19, 2014. [URL: <http://www.platteinstitute.org/research/detail/tax-reform-bill-moving-in-nebraska-legislature>]

[4] Significant income tax reform bills this session included Senator Burke Harr's LB 1097 and Senator Charlie Janssen's LB 721. Additionally, Senators Beau McCoy, Tom Hansen, and Pete Pirsch each introduced meaningful property tax relief legislation.

[5] Legislative Bill 986. 103rd Nebraska Legislature, second session. 2014. [URL: [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=21950](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=21950)]

[6] The exclusion of certain military retirement benefits from income tax was the result of Senator Janssen's successful AM 2458, which amended the Revenue Committee's LB 987.

[7] Legislative Bill 987. 103rd Nebraska Legislature, second session. 2014. [URL: [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=22074](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=22074)]

[8] Legislative Bill 812. 103rd Nebraska Legislature, second session. 2014. [URL: [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=21836](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=21836)]

[9] Legislative Bill 960. 103rd Nebraska Legislature, second session. 2014. [URL: [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=22067](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=22067)]

[10] "General Fund Appropriations Summary, 2013–2015 Biennium, By Agency." Budget Division. Department of Administrative Services. State of Nebraska. 2013. [URL: [http://budget.nebraska.gov/das\\_budget/budget14/gfsummary0713.pdf](http://budget.nebraska.gov/das_budget/budget14/gfsummary0713.pdf)]

[11] Levin, Marc and Derek Cohen. "Controlling Costs and Protecting Public Safety in the Cornhusker State." Platte Institute for Economic Research. February 2014. [URL: <http://www.platteinstitute.org/research/detail/controlling-costs-and-protecting-public-safety-in-the-cornhusker-state>]

[12] McCollister, John and Jeannette Moll. "Right-sizing the Juvenile Justice System." *Policy Study*. Platte Institute for Economic Research. December 2012. [URL: <http://www.platteinstitute.org/research/detail/right-sizing-the-juvenile-justice-system>]

[13] "Refocusing on Juvenile Justice Reform." *Platte Chat*. Platte Institute for Economic Research. March 7, 2014. [URL: <http://www.platteinstitute.org/research/detail/refocusing-on-juvenile-justice-reform>]

[14] Legislative Bill 943. 103rd Nebraska Legislature, second session. 2014. [URL: [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=21772](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=21772)]

[15] Legislative Bill 972. 103rd Nebraska Legislature, second session. 2014. [URL: ]

[16] "Charter Schools are Right for Nebraska." *Platte Chat*. Platte Institute for Economic Research. February 26, 2014. [URL: <http://www.platteinstitute.org/research/detail/charter-schools-are-right-for-nebraska>]