

Key Points:

- Nebraska State Patrol releases news that more than 14,000 Nebraska residents have potentially illegally registered their vehicles in Iowa and South Dakota.
- To register a 2007 Honda Odyssey in Nebraska would cost roughly \$500 more than in South Dakota and \$200 more than in Iowa.
- The state should overhaul the use of vehicle registration tax revenue to focus on transportation and infrastructure issues. Currently, 60 percent of the tax goes to education.
- High motor vehicle registration costs dominated by a vehicular property tax is just another knock against Nebraska.

Nebraska's Motor Vehicle Tax: Time for an Overhaul

By Berk Brown

Platte Institute Editor

Pain avoidance is a natural human instinct. That's hardly earth-shattering news, but it's important to remember when the Nebraska State Patrol releases news that more than 14,000 Nebraska residents have potentially registered their vehicles illegally in the states of Iowa and South Dakota. While there is no justification for intentionally breaking the law, it does seem alarming that nearly one percent of Nebraska's population is willing to do just that. Chalk it up to our natural instinct to avoid pain.

Avoiding pain was a recurring theme in the Platte Institute for Economic Research's study *Nebraska's Tax Competitiveness: Should I Live in Nebraska?* The study, which was released in April, compared the tax burden of Nebraskans to that of citizens in bordering states. In the study, Dr. Ernie Goss of Creighton University stated that by 2016 the median household income in Nebraska will drop below the national median while the projected per capita tax burden will be roughly 13 percent higher than the national average. For those reasons, recommendations were proposed for the state to set a goal that by 2016, the tax burden per capita will be less than the national average and that, to the extent possible, taxes should be levied, administered and debated at the lowest level of government. What better place to begin the discussion on how to accomplish such goals than to look at an area

where 14,000 residents intentionally break the law to avoid a particular tax burden.

To remain consistent in comparing Nebraska to bordering states and to offer conversation starting points in accomplishing the recommendations of the study, we took a vehicle that a Nebraska family might easily drive - a 2007 Honda Odyssey minivan - and collected estimates from each neighboring state on the cost to register the vehicle. Before looking at the data, however, it is important to consider two major factors in Nebraska - differentiating between the fees and taxes which are collected in the registration process and where the collected monies go.

In Nebraska, the total cost of registering a vehicle comes from adding the a motor vehicle fee, a registration fee, a potential plate fee (if you require new physical plates), a motor vehicle tax as well as a potential wheel tax (if you live within a city which has one). Table 1.1 breaks down the total amount going to each fee and tax using the 2007 Honda Odyssey as an example.

[Where the money goes](#)

The fees and taxes each take a different journey. In Nebraska, money collected from the motor vehicle fee ends up back at the county and city level through the Motor Vehicle Fee Fund. This fund is to be used for road, bridge and street purposes. The registration fee is broken off with roughly 30 per-

“In this case, registering a 2007 Honda Odyssey in Nebraska would cost roughly \$500 more than it would in South Dakota and \$200 more than it would in Iowa.”

cent going to the Motor Vehicle Tax Fund and 70 percent making its way to the Highway Trust Fund. If a plate fee is paid, that money is used to pay for the expense of the new plates. The motor vehicle tax, which in this example constitutes more than 92 percent of the total cost to register the vehicle, is divided with 60 percent of the collected dollars going to the respective education system, 22 percent to the respective counties (except Douglas, which gets 18 percent) and the remaining 18 percent to the cities (except Omaha, which gets 22 percent).

How Nebraska stacks up

Now, as for comparing Nebraska to its bordering states, Table 1.2 takes a look at the Cornhusker State against all of its neighbors with the exception of Kansas, which is not included in this comparison due to the fact that each county in Kansas collects a different amount based on its own tax rate. Therefore, Kansas is looked at in a later comparison in this report.

It does not take much time studying Table 1.2 to decipher the reason why so many Nebraska residents are looking to South Dakota and Iowa for their plates as was mentioned at the very beginning. In this case, registering a 2007 Honda Odyssey in Nebraska would cost roughly \$500 more than it would in South Dakota and \$200 more than it would in Iowa. Only Wyoming ranks higher

TABLE 1.1

Breakdown of costs to register a 2007 Honda Odyssey EX-L in Nebraska	
Motor Vehicle Fee	\$20.00
Registration Fee	\$20.50
Plate Fee	\$0
Motor Vehicle Tax	\$522
Estimated Wheel Tax	\$0
Estimated Total Due	\$562.50

in the cost than Nebraska.

As mentioned earlier, cities in Nebraska may impose a wheel tax on top of the motor vehicle tax. This wheel tax allows those municipalities the opportunity to gather dollars specifically for transportation issues. Keeping with the Honda Odyssey as an example, the price a Nebraskan would pay if living in a city utilizing the wheel tax would draw it close to Wyoming costs. With the wheel tax included, residents would pay an additional \$49 in Lincoln, \$35 in Omaha, \$12 in Hastings and \$10 in Arlington. Those same four municipalities are used in Table 1.3 and are compared against similarly-sized Kansas

TABLE 1.2

State Comparison	Cost to License a 2007 Honda Odyssey EX-L
Missouri	\$54.75
South Dakota*	\$61.00
Iowa	\$360.00
Colorado	\$455.53
Nebraska	\$562.50
Wyoming	\$615.75

*South Dakota counties may each add a wheel tax of up to \$4 per wheel with a maximum of four wheels. The cost to license the vehicle in South Dakota does not include any wheel tax, which could be as much as an additional \$16 depending on the county.

communities. As you can see, an individual living in Omaha would pay substantially more to register the vehicle than someone living in Wichita. An individual in Lincoln, however, would pay almost an identical amount as someone living in Topeka. A resident of Hastings, Nebraska, would pay roughly \$100 more than someone in Garden City, Kansas, while a resident of Arlington, Nebraska, pays nearly \$40 less than someone living in Lyons, Kansas. While there are communities in Kansas which would be more expensive than similar cities in Nebraska, those municipalities charging more in the Jayhawk State aren't charging a substantial amount more than Nebraska's most expensive city - Lincoln. Meanwhile, Wichita and Garden City, Kansas, are each approximately \$80-90 less than the lowest amount you would pay in a Nebraska city (\$562.50) meaning Nebraska's overall burden is greater than that of Kansas.

So what does all of this mean? It means Nebraska's motor vehicle tax is long overdue for an overhaul. As was pointed out in *Nebraska's Tax Competitiveness: Should I Live in Nebraska?*, our state cannot maintain the current course it's on without facing a bleak future of slowing population growth and growing tax burden. Changes are needed to right the ship, and one of the key recommendations from the study was for the state to set long-range goals of lowering the state and local tax burden to the national average by 2016. To accomplish this goal, the state will need to take bold steps in examining areas where taxes can be reduced or the taxation responsibility falls to the lowest governmental levels possible, which encourages greater oversight by citizens, resulting in better restraint.

Recommendations

It is hard to conceive of a taxing arrangement more debilitating to Nebraska's reputation, the ability to retain people in the state (especially the younger, working age generation), and something lacking in transparency and accountability. A short, informal

TABLE I.3

City Comparison	Cost to License a 2007 Honda Odyssey EX-L
Omaha, NE	\$597.50
Wichita, KS	\$470.27
Lincoln, NE	\$611.50
Topeka, KS	\$620.12
Hastings, NE	\$574.50
Garden City, KS	\$479.02
Arlington, NE	\$572.50
Lyons, KS	\$628.72
*The variance in fees in Nebraska is due to a wheel tax which exists in the four communities. The variance in fees in Kansas is due to different tax rates in the counties where the city is located.	

survey of citizens, including some state senators, revealed that most believe the funding generated by the vehicle registration tax goes generally to roads. So while the state is engaged in a serious debate on the roads funding shortfall a natural source for funding is actually diverted to education.

First and foremost, the state should overhaul the use of vehicle registration tax revenue to focus on transportation and infrastructure issues. To have the highest vehicle registration cost, except for Wyoming, in the Midwest region and yet face such a severe road construction funds crisis appears illogical. This recommendation deals with how the funding should be used.

Another question is whether a form of property tax should be used to fund roads? The motor vehicle tax portion of the registration cost is a property tax, pure and simple.

“First and foremost, the state should overhaul the use of vehicle registration tax revenue to focus on transportation and infrastructure issues. To have the highest vehicle registration cost, except for Wyoming, in the Midwest region and yet face such a severe road construction funds crisis appears illogical.”

“Overhauling the motor vehicle tax arrangement would be a great way to begin the journey toward tax reform that unleashes the entrepreneurial spirit and work ethic needed to place Nebraska in position to grow and prosper in the twenty-first century.”

The greater the cost of a new automobile the more one pays each year to register the vehicle. The tax is paid regardless of how much (or how little) one drives the vehicle. The tax is particularly burdensome on citizens with fixed incomes, often time retirees.

The property tax approach is also burdensome on younger families. As young families grow and upgrade to different vehicles (like the Honda Odyssey) the tax becomes a sticking point affecting purchase ability and options. In addition to sales tax at the time of purchase, young families are suddenly confronted with a substantial annual registration tax that lingers until the vehicle loses substantial value.

Therefore, the state should examine shifting from a significant property tax aspect of the vehicle registration fee structure to something aligned with infrastructure use.

The dramatic increases to gasoline prices will certainly spawn changes to driving and vehicle purchasing habits which may very likely cause significant fluctuations in revenue from vehicle registrations. If driving declines, a dip in automobile replacement can certainly be expected causing sales tax and motor vehicle registration revenue declines. The relatively high price of fuel hybrid vehicles along with the pinch “from the pump” may direct people to smaller, less expensive vehicles which will also drive sales tax and registration revenue lower.

Finally, what should a reasonable policy for the amount of revenue collected from vehicle registration be? Using the Honda Odyssey example, the lowest of the “high cost registration” states is Iowa at \$360. Since the majority of Nebraskans live near Iowa, developing a registration structure that totals \$300 or less for this example would certainly eliminate temptations to illegally register vehicles in Iowa and actually increase revenue flowing to Nebraska. Consideration should also be given to eliminating the assessment portion of the fee for vehicles

below a certain value.

Using the Honda Odyssey example, 5000 illegal registrations (which might be low) is costing Nebraska over \$2.8 million in revenue annually. Charging \$300 annually in Nebraska and regaining those illegal registrations would add \$1.5 million to the state coffers. Registration fees currently going to Colorado illegally would also return to Nebraska. Granted, an overall revenue decline would occur, at least for a short period of time, but with the majority of affluent citizens living within two hours driving distance of Iowa, additional study might show a significant reduction to illegal motor vehicle registration and result in revenue gain in Nebraska rather than loss. If this helps retain more working age people in the state and overhauls the motor vehicle registration tax, it becomes a “win-win.”

What about the schools? In Nebraska fiscal year 2005-2006, school districts received slightly under \$118 million in funding from the motor vehicle tax. One unfortunate aspect of Nebraska’s taxation policies is that they have intertwined needs and sources such that changing one item often affects another unrelated item. Overhauling the system has to start somewhere. This report does not imply that schools should or should not do without the funding flowing from the motor vehicle tax. That is a topic for another study. The point is that revenue from vehicles should logically go to infrastructure needs.

Conclusion

High motor vehicle registration costs dominated by a vehicular property tax is just another knock against Nebraska, a wonderful but highly-taxed place to live. Overhauling the motor vehicle tax arrangement would be a great way to begin the journey toward tax reform that unleashes the entrepreneurial spirit and work ethic needed to place Nebraska in position to grow and prosper in the twenty-first century.

