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## Whatever Happened to Hospitality? A Look at Nebraska's Lodging Taxes by Jordan Cash

If there is one recurring theme for the the College World Series in Omaha, it is that Nebraskans are renowned for their hospitality. Yet the warmth these baseball-loving visitors feel from Cornhusker friendliness will be chilled if they notice the taxes on their hotel tab.

Nebraska's lodging taxes are not overly excessive compared to some other states, but they are high enough to tamp down Nebraska's tourism industry and burden visitors. Lodging taxes-also known as hotel taxes-are imposed at the city, county, and state level, and are imposed concurrently with the state and local sales tax. At the state level, the lodging tax is fairly low at a meager one percent. When combined with the 5.5 percent state sales tax, this gives Nebraska the 19<sup>th</sup> highest tax burden on lodging in the country, already higher than all of our neighboring states.[\[1\]](#) But the real costs kick in at the local level.

Locally, hotels are subjected to three different taxes: city sales tax, city hotel occupation tax, and county lodging taxes. Currently, 90 percent of Nebraska cities with populations over 5,000 impose a local sales tax of 1.5 percent, which until the last legislative session was the maximum allowed by state law.[\[2\]](#) On top of that, 44 of Nebraska's 93 counties impose a 4 percent lodging tax, the maximum amount allowed by state law; 30 other counties impose lower lodging taxes. (Kudos to Box Butte County which eliminated their 4 percent lodging tax last year.[\[3\]](#)) In addition to the county tax and local sales tax, 19 cities impose their own lodging tax, with rates ranging from 1 percent in Gothenburg to 7 percent in Blair. Of Nebraska's ten largest cities only Fremont and Columbus do not impose their own city lodging tax.[\[4\]](#)

To appreciate the full impact of these taxes- consider a \$100 hotel room in Omaha. On top of the room rate, a visitor would also pay Omaha's 5.5 percent lodging tax, increasing their bill to \$105.50. Then they would pay the combined state and city sales tax rate of 7 percent-5.5 percent state, 1.5 percent city-and also the combined state and county occupation tax rate of 5 percent-1 percent state, 4 percent county-bringing the room's total cost to \$118.17.[\[5\]](#) When lodging in Omaha, 15.36 percent of the entire cost of a room is just taxes.

Local public officials often see lodging taxes as a way to boost revenue through tourism,

economic analyses indicate lodging taxes are not borne solely by visitors. Research by the Maine Heritage Policy Center indicated that while there is no economic consensus on who bears the burden of lodging taxes, a good estimation can be made using the "one-third rule" which says that one-third of the costs of lodging taxes are borne equally by the hotels, hotel employees, and the customers. Hotels pay through lower profits, employees pay through lower wages, and customers pay through higher prices.<sup>[6]</sup> William Gale, Vice President and Director of Economic Studies at the Brookings Institution further characterized attempts to export taxes through mechanisms like lodgings taxes as "'beggar thy neighbor' policy," and insisted that "all localities would be better off in the absence of all such policies."<sup>[7]</sup>

Opponents suggest that exporting the tax burden onto tourists and others hides the true cost of government from taxpayers, allowing public officials to promise more services. For example, the Douglas County Board approved about \$2.5 million in tourism grants this year.<sup>[8]</sup> This essentially means that the Douglas County Board is using taxpayer money to support various organizations to attract tourism-often with very little oversight into how the money is used<sup>[9]</sup>-and when the tourists arrive, they will be heavily taxed for staying in local hotels, hurting the hotel's business even while it enriches tourist attractions. If the Board were not giving out subsidies to organizations like the Henry Doorly Zoo, Joslyn Art Museum, or the Omaha Symphony, they could possibly lower local property taxes.

Lodging taxes are ways for public officials to hide the true costs of government and they discourage tourism. Eliminating these deceptive taxes would be a good way for the local and state governments to help demonstrate our legendary Nebraska hospitality.

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<sup>[1]</sup> National Conference of State Legislatures, "State Lodging Tax Rates," April 3, 2012. Available at <http://www.ncsl.org/issues-research/budget/state-lodging-taxes.aspx>, accessed June 15, 2012.

<sup>[2]</sup> Nebraska Department of Economic Development, "Nebraska Incorporated Places By Legal Classification," 2010. Available at <http://www.neded.org/files/research/stathand/asect7.htm>, accessed June 15, 2012; Nebraska Department of Economic Development, "Nebraska City Sales Tax Rates." Available at <http://www.neded.org/files/research/stax.pdf>, accessed June 15, 2012. The bill that raised the cap on city sales tax was LB357, which allows cities to increase their sales tax to 2 percent and was passed when the Legislature overrode an executive veto by Governor Dave Heineman, the slip law copy of the bill may be accessed at <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Slip/LB357.pdf>. The city of Lincoln has already considered raising their sales tax to meet the 2 percent cap; Deena Winter, "Lincoln Voters Could Consider Sales Tax Increase Next Spring," Nebraska Watchdog, April 24, 2012. Available at <http://nebraska.watchdog.org/21624/lincoln-voters-could-consider-sales-tax-increase-next-spring/>, accessed June 15, 2012.

<sup>[3]</sup> Nebraska Department of Revenue, "Nebraska Tax Rate Chronologies: Table 4-

County Lodging Tax,\*" 2012. Available at <http://www.revenue.ne.gov/research/4-607table4.pdf>, accessed June 15, 2012.

[4] Nebraska Hotel & Motel Association, "Room Taxes On Nebraska Hotels And Motels." Available at [http://www.nebraskahma.com/PDF/lodging\\_taxes.pdf](http://www.nebraskahma.com/PDF/lodging_taxes.pdf), accessed June 15, 2012; Geonames, "Nebraska-Largest Cities." Available at <http://www.geonames.org/US/NE/largest-cities-in-nebraska.html>, accessed June 15, 2012. Nebraska's ten largest cities are listed below in order of population:

- 1. Omaha
- 2. Lincoln
- 3. Bellevue
- 4. Grand Island
- 5. Kearney
- 6. Fremont
- 7. Hastings
- 8. North Platte
- 9. Norfolk
- 10. Columbus

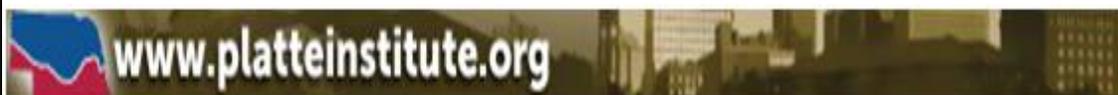
[5] Nebraska Department of Revenue, "Nebraska and Local Taxes on Lodging," Information Guide, October 2010. Available at <http://www.revenue.ne.gov/info/5-141.pdf>, accessed June 15, 2012.

[6] J. Scott Moody, "The Fallacy of Tax Exportability," Maine Heritage Policy Center, Issue Brief No. 7, February 22, 2007. Available at <http://www.thetowntalk.com/assets/pdf/DK138922720.PDF>, accessed June 15, 2012.

[7] William Gale qtd. In John Nordurft, "How Taxes Could Ruin the Tourism Industry," July 20, 2009. Available at <http://newsblaze.com/story/20090720133059zzzz.nb/topstory.html>, accessed June 15, 2012.

[8] John Ferak, "Tourism grants awarded amid criteria discussion," in *Omaha World Herald*, June 13, 2012. Available at <http://www.omaha.com/article/20120613/NEWS01/706139897>, accessed June 15, 2012.

[9] Ibid. The article notes that Douglas County gave the Special Olympics a \$100,000 grant in 2009 for them to hold their event at Creighton University in 2010, only to see the event moved to Lancaster County. While the county eventually was recouped for \$50,000, that still meant that \$50,000 of taxpayer money went to an event that had no economic benefit for the county whose taxpayers had subsidized it.



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