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## Give Citizens a Voice on Occupation Taxes by Jordan Cash

In tough economic times, governments look for any method available to ensure their revenue stream continues unabated. One of the most common ways used by Nebraska cities is the imposition of "occupation taxes." Since 2008, five of Nebraska's larger cities-Grand Island, Omaha, Norfolk, Lincoln, and Sidney-have all adopted occupation taxes to either help fund specific projects, or-in Omaha's case-simply increase revenue. Kearney put such a tax to a vote of the people where it failed by nearly two to one.[\[1\]](#)

These taxes have allowed some cities to avoid the hard choices in balancing their budgets and given them an extra tool with which to extract more money from the already heavily-burdened taxpayer.

Yet a bill introduced by Valentine Sen. Deb Fischer would provide some protection for the taxpayer against these arbitrary taxes. LB745 would make Kearney's popular vote method a standard for occupation taxes across the state, and would restrict the taxes by forcing them to be tied to a specific project as well as enforcing a sunset mechanism coinciding with that project.[\[2\]](#)

However, there are some provisions giving cities flexibility in managing the taxes. Public votes are only necessary when the projected revenue from the tax exceeds a certain amount: \$6 million for cities of metropolitan class (population of 300,000 or more), \$3 million for primary class (population between 100,000 and 300,000), \$700,000 for first class (population between 5,000 and 100,000), and \$300,000 for second-class and villages (populations between 800 and 5,000 for second-class cities, between 100 to 800 for villages). If the projected revenue is below these amounts the cities may institute new taxes or increase the rates.[\[3\]](#)

Occupation taxes are usually taxes levied by cities on businesses within the city limits, often on bars and restaurants. As previously mentioned, these taxes typically fund specific projects, such as Lincoln's new Haymarket arena or Sidney's street improvements. In Omaha, the tax was not tied to any specific project and was imposed as a revenue generator.[\[4\]](#) The opaque manner in which these taxes are levied has made the need for LB745 very clear.

The use of occupation taxes has also allowed some cities to avoid state restrictions on sales taxes. Under state law, cities cannot impose local sales taxes higher than 1.5

percent. Currently, 38 percent of Nebraska's cities are at that limit, including all of the cities that currently levy occupation taxes.<sup>[5]</sup> Occupation taxes allow these cities to avoid the restrictions placed by the state as the occupations taxes can exceed the sales tax rate restrictions. Lincoln and Norfolk both impose occupation taxes at 2 percent, while Omaha's bar and restaurant tax is set at 2.5 percent.<sup>[6]</sup> When combined with local and state sales tax rates, Omaha's local bar and restaurant patrons pay 9.5 percent of their bill in taxes, which is the sixth highest total tax bill on meals in the nation according to the Tax Foundation.<sup>[7]</sup>

LB745 would ensure taxpayers are fully aware of these tax increases and prevent them from being imposed as arbitrarily as they were in Omaha. Tying the taxes to a specific project and putting it on the ballot is an excellent way to inform taxpayers and allow them to decide if the proposed project is crucial enough to constitute a tax increase. Similarly, enforcing a sunset provision on these taxes coinciding with the completion of the specified project is extremely important to ensure the taxes are not imposed any longer than necessary.

LB745 is an excellent piece of legislation. Restricting occupation taxes-as the Platte Institute has advocated before<sup>[8]</sup>-is a great way to keep government transparent, responsible, and accountable, as well as protect citizens from being overtaxed without cause.

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<sup>[1]</sup> Leslie Reed, "A real money-maker for cities," *Omaha World Herald*, October 12, 2011. Accessed January 31, 2012: <http://tinyurl.com/6o25myg>.

<sup>[2]</sup> Deena Winter, "Fischer Introduces Bill to Control Occupation Taxes," *Nebraska Watchdog*, January 4, 2012. Accessed January 31, 2012: <http://nebraska.watchdog.org/18991/fischer-introduces-bill-to-control-occupation-taxes/>.

<sup>[3]</sup> Nebraska Department of Economic Development, "Nebraska Incorporated Places by Legal Classification," 2010. Accessed March 30, 2012: <http://www.neded.org/files/research/stathand/asect7.htm>; Unicameral Update, "Occupation tax threshold would trigger public vote," March 30, 2012. Accessed March 30, 2012: <http://update.legislature.ne.gov/?p=7214>; Nebraska Legislature, "Amendments to LB 745: AM2639," March 27, 2012. Accessed March 30, 2012: <http://nebraskalegislature.gov/FloorDocs/Current/PDF/AM/AM2639.pdf>; Nebraska Legislature, "Amendments to LB 745 (Amendments to AM2639): AM2676," March 28, 2012. Accessed March 30, 2012: <http://nebraskalegislature.gov/FloorDocs/Current/PDF/AM/AM2676.pdf>.

<sup>[4]</sup> Leslie Reed, "A real money-maker for cities," *Omaha World Herald*, October 12, 2011. Accessed January 31, 2012: <http://tinyurl.com/6o25myg>.

<sup>[5]</sup> Nebraska City Sales Tax Rates. Accessed January 31, 2012:

<http://www.neded.org/files/research/stax.pdf>.

[6] Leslie Reed, "A real money-maker for cities," *Omaha World Herald*, October 12, 2011. Accessed January 31, 2012: <http://tinyurl.com/6o25myg>.

[7] Joseph Henchman, Alex Raut, and Kevin Duncan, "Meal Taxes in Major U.S. Cities," Tax Foundation, March 1, 2012. Accessed March 5, 2012: <http://www.taxfoundation.org/news/show/28018.html>.

[8] John S. McCollister, "Platte Institute Legislative Wish List," Platte Institute for Economic Research, January 4, 2012. Accessed January 31, 2012: [http://www.platteinstitute.org/docLib/20120104\\_1-4-2012.pdf](http://www.platteinstitute.org/docLib/20120104_1-4-2012.pdf).



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