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Reject Local Option Sales Tax by Jordan Cash

Tomorrow is the last day of the 2012 legislative session. One of the items to be debated is whether to override Governor Heineman's veto of LB357, a bill introduced by Omaha Sen. Brad Ashford allowing cities to raise their local sales taxes by as much as half of one percent.[\[1\]](#)

Current state law allows for cities charge a local sales tax up to 1.5 percent, a limit that has been reached by 90 percent of Nebraska's cities with populations over 5,000.[\[2\]](#) This is in addition to a state sales tax of 5.5 percent, meaning most Nebraskans are subject to a combined seven percent sales tax.[\[3\]](#) Additionally, five cities-Omaha, Lincoln, Grand Island, Norfolk and Sidney-also have occupation taxes which, before the passage of LB745,[\[4\]](#) had not been restricted by state law. [\[5\]](#)

LB357 also has several requirements for what has to be done with the revenue gained from the higher rate, but these requirements are vague.

First, the mandate to use proceeds from the increased rate to reduce other taxes only applies to cities of the metropolitan class, which at the moment includes only Omaha.[\[6\]](#) While it is good such a clause would force Omaha to reduce taxes-most likely Omaha's 2.5 percent occupation tax-it does not specify how much the tax has to be reduced, and could lead to a general net increase in taxes if Omaha raised its sales tax by 0.5 percent but only reduced its occupation tax by 0.25 percent. Also, the sales tax increase would affect more people and businesses than increased occupation taxes would. There is also the loophole that since this clause only applies to metropolitan cities-i.e. Omaha-no other city would have to reduce taxes with the additional sales tax revenue.

Undoubtedly the best provisions in the bill are those requiring the public to vote on any tax increase, and that the increase only goes on the ballot after it is approved by 70 percent of the city's governing body. Yet current law already sets forth that any increase in local sales tax be subjected to a public vote.[\[7\]](#)

These restrictions do not diminish the fact that this bill would allow a tax-increase on already over-taxed Nebraskans, a majority of whom already pay a 7 percent combined sales taxes on everything they buy. The Tax Foundation estimates that Nebraskans already have the 27th highest combined sales tax rate in the country.[\[8\]](#)

LB357 is a well-intentioned effort to help cities, with voter approval, but the restrictions placed on the rate increase are not ironclad, and, more importantly, higher sales taxes will not solve long term problems. Higher taxes are detrimental to economic growth and hurt average Nebraskans. The Legislature passed tax relief earlier this session to help middle-class Nebraskans, this bill rows in the opposite direction. The Legislature should uphold the Governor's veto, and should look out for Nebraska's economic prospects by refusing to increase taxes.

[1] Martha Stoddard, "City leaders gird for sales tax fight," *Omaha World Herald*, April 12, 2012. Accessed April 12, 2012:
<http://www.omaha.com/article/20120411/NEWS01/704129937>.

[2] Nebraska Department of Economic Development, "Nebraska Incorporated Places by Legal Classification," 2010. Accessed April 12, 2012:
<http://www.neded.org/files/research/stathand/asect7.htm>; Nebraska Department of Economic Development, "Nebraska City Sales Tax Rates." Accessed April 12, 2012:
<http://www.neded.org/files/research/stax.pdf>.

[3] Nebraska Department of Revenue, "Current Local Option (City) Sales and Use Tax Rates," April 1, 2012. Accessed April 12, 2012:
<http://www.revenue.ne.gov/question/sales.html>.

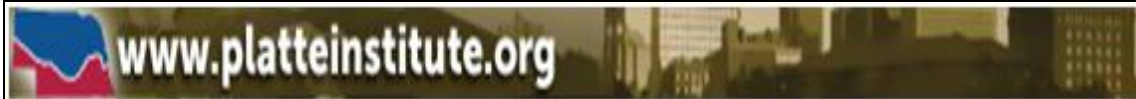
[4] LB 745 restricts occupation taxes in several ways, including forcing the tax to be tied to a specific project, enforcing a sunset mechanism on the tax so it coincides with the project, and having any tax which would bring in a certain amount of revenue subjected to a vote of the people before it can be levied. The passed version may be viewed at <http://www.nebraskalegislature.gov/FloorDocs/Current/PDF/Final/LB745.pdf>, and prior Platte Institute commentary on LB745 may be viewed at http://www.platteinstitute.org/docLib/20120404_Occupation_Taxes_Platte_Chat.pdf.

[5] Nebraska Legislature, "Legislative Bill 357," January 13, 2012. Accessed April 12, 2012: <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Final/LB357.pdf>.

[6] Nebraska Department of Economic Development, "Nebraska Incorporated Places by Legal Classification," 2010. Accessed April 12, 2012:
<http://www.neded.org/files/research/stathand/asect7.htm>.

[7] Brent Martin, "Lawmakers must override veto if cities are to get sales tax option," *Nebraska Radio Network*, April 13, 2012. Accessed April 13, 2012:
<http://nebraskaradionetwork.com/2012/04/13/lawmakers-must-override-veto-if-cities-are-to-get-sales-tax-option-audio/>.

[8] Scott Denard, "Ranking State and Local Sales Taxes," Tax Foundation, September 22, 2011. Accessed April 12, 2012:
<http://www.taxfoundation.org/news/show/27023.html>.



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