



PlatteChat

AN ONGOING CONVERSATION ABOUT HOW TO BEST PRESERVE FREE ENTERPRISE,
PERSONAL RESPONSIBILITY AND LIMITED GOVERNMENT IN NEBRASKA.



Omaha's Occupation Tax Addiction by Jordan Cash

Tomorrow, the Omaha City Council plans to vote on a new 7 percent occupation tax on cigarettes to fund the University of Nebraska-Medical Center's new cancer research facility. A new occupation tax would harm Omaha's economic outlook and is another example of local government raising taxes for non-essential services.

In addition to its negative impact on Omaha's economy, a cigarette tax would also hurt local businesses and lower income individuals.

Cigarette taxes are notoriously unreliable as a source of revenue, particularly since their intent is to discourage consumption. The state of Nebraska already imposes a cigarette tax of 64 cents per pack of 20 and 80 cents per pack of 25, on top of the federal cigarette tax of \$1.01 per pack.[\[1\]](#) This gives Nebraska the 38th highest cigarette tax in the nation, a rank which would increase to 31st if Omaha successfully imposes its additional tax of 35 cents per pack.[\[2\]](#) Between 1967 and 2011, the amount of cigarette packs sold in Nebraska decreased 38 percent, with 6.1 percent of that decrease occurring between 2006 and 2011.[\[3\]](#) Such a rapid decrease in consumption demonstrates that the cigarette tax cannot be relied on as a long-term revenue stream, as decreasing consumption inevitably leads to decreased revenue.

Additionally, because the occupation tax would only exist within Omaha city limits, Omaha smokers can easily avoid it by buying their cigarettes outside the city limits, undercutting not only the projected cigarette tax revenue but local sales tax revenue as well.

Driving smokers to buy cigarettes outside the city-as this tax would do-would also have a detrimental effect on Omaha businesses who sell cigarettes, as they would lose customers to sellers outside Omaha. The revenue Omaha businesses would lose because of this tax could cost Omahans jobs, or even force Omaha sellers out of business.[\[4\]](#)

The cigarette tax is also a regressive tax. A recent study by the Research Triangle Institute found that nationally 24.3 percent of individuals in the lowest income group smoked, and from 2010-2011, those individuals spent 14.2 percent of their annual household income on cigarettes. In New York-which has the highest cigarette taxes in the nation-individuals in the lowest income group spent 23.6 percent of their annual income on cigarettes.[\[5\]](#) Imposing this tax for the benefit of UNMC-which is supported

by a Foundation with a \$1.7 billion budget-the City Council would essentially be taxing the poor to benefit a well-connected special interest group.

In recent years, Omaha has shown a propensity for imposing occupation taxes as a way to avoid the limits on sales tax. Among the most egregious examples is Omaha's 2.5 percent tax on restaurants, which when combined with local and state sales taxes, gives Omaha the 6th highest meal tax rate in the nation, with 9.5 percent of every restaurant bill going to taxes, a rate even higher than the notoriously expensive and high tax cities of New York, Los Angeles, and Boston.^[6] Additionally, Omaha has a 6.25 percent occupation tax on telecommunications companies, which has contributed to Nebraskans having the highest cell phone tax bill in the nation, with 23.7 percent of every bill going to pay taxes.^[7] Another example of occupation taxes gone wild is the 1.5 percent hotel and lodging tax, which, when combined with state, county, and city sales and other lodging taxes, results in Omaha hotel patrons paying 15.36 percent of their bill in taxes, not including the immense costs shouldered by local hotels and their employees.^[8]

This addiction by the City of Omaha to occupation taxes has even prompted two bills in the state Legislature, LB165-which capped the amount municipalities could charge on telecommunications occupation taxes-and LB745-which force occupation taxes that bring in over a certain amount of revenue to be put to a public vote and tied to a specific project.^[9] Yet Omaha has found ways to avoid these restrictions, as the cigarette tax is estimated to bring in less than the \$6 million of annual revenue that would trigger a public vote under the law.

It is time for Omaha to break its insatiable appetite for occupation taxes, and it can start by refusing to implement a cigarette tax that would raise little revenue, punish the poor, and put Omahans out of work.

[1] Bernard J. Scherr, "LRO Backgrounder: A Brief History of Nebraska's Cigarette Tax," Legislative Research Office, March 2012. Available at http://nebraskalegislature.gov/pdf/reports/research/2012_cigtax.pdf, accessed September 19, 2012.

[2] Campaign for Tobacco-Free Kids, "State Cigarette Excise Tax Rates & Rankings." Available at <http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf>, accessed September 19, 2012.

[3] Berk Brown, "Hate the Sin, Tax the Sinner?" Platte Institute for Economic Research, March 11, 2010. Available at <http://www.platteinstitute.org/research/comments/hate-the-sin-tax-the-sinner>, accessed September 19, 2012; Campaign for Tobacco-Free Kids, "State Cigarette Tax Rates & Rank, Date of Last Increase, Annual Pack Sales & Revenues, and Related Data." Available at <http://www.tobaccofreekids.org/research/factsheets/pdf/0099.pdf>, accessed September 19, 2012. Calculations performed by author.

[4] Karla James, "Omaha looking at new tax on cigarettes to fund UNMC's new cancer facility," *Nebraska Radio Network*, September 10, 2012. Available at <http://nebraskaradionetwork.com/2012/09/10/omaha-looking-at-new-tax-on-cigarettes-to-fund-unmcs-new-cancer-facility/>, accessed September 19, 2012.

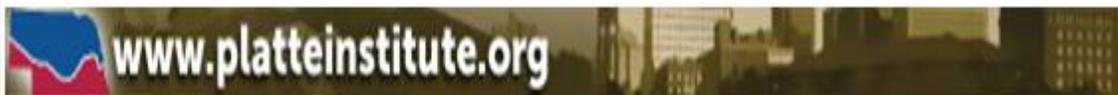
[5] Matthew Farrelly, James Nonnemaker, and Kimberly Watson, "The Consequences of High Cigarette Excise Taxes for Low-Income Smokers," Research Triangle Institute, September 12, 2012. Available at <http://www.plosone.org/article/info%3Adoi%2F10.1371%2Fjournal.pone.0043838>, accessed September 19, 2012.

[6] Joseph Henchman, Alex Raut, and Kevin Duncan, "Meal Taxes in Major U.S. Cities," Tax Foundation. Available at <http://www.taxfoundation.org/news/show/28018.html>, accessed September 19, 2012.

[7] Steve Pociask, "Nebraska Has the Highest Cell Phone Taxes in the Country: Harms Consumers," The American Consumer Institute Center for Citizen Research, February 21, 2011. Available at <http://www.theamericanconsumer.org/2011/02/21/nebraska-has-the-highest-cell-phone-taxes-in-the-country-harms-consumers/>, accessed September 19, 2012.

[8] 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 September 19, 2012; 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 September 19, 2012.

[9] Nebraska Legislature, "Legislative Bill 165," May 18, 2011. Available at <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Slip/LB165.pdf>, accessed September 19, 2012; Nebraska Legislature, "Legislative Bill 745," April 11, 2012. Available at <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Slip/LB745.pdf>, accessed September 19, 2012.



If you do not wish to receive this newsletter or if you wish to be removed from all future newsletters, please [click here](#) to manage your subscriptions.