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Repeal the Local Option Sales Tax

Among the most contentious debates of last year's legislative session was LB357, which raised the cap on city sales tax from 1.5 to 2 percent if approved by a vote of the people. Vetoed by Gov. Heineman, the bill survived when the Legislature overrode the governor's veto with the minimal 30 votes.[\[1\]](#) Omaha Senator Ernie Chambers' LB266 would repeal LB357, lowering the cap back to 1.5 percent and reignite the controversy.[\[2\]](#)

Before the cap was raised, the 1.5 percent maximum city sales tax ceiling had been reached by 90 percent of Nebraska's cities with populations over 5,000. Taken with the state sales tax of 5.5 percent, most Nebraskans end up paying a combined local-state sales tax rate of 7 percent.[\[3\]](#) Under the previous cap, Nebraska already had the 27th highest combined state and local sales tax rate in the nation.[\[4\]](#) Additionally, six cities—Omaha, Lincoln, Grand Island, Norfolk, Fremont, and Sidney—have imposed occupation taxes on specific businesses, such as bars, restaurants, and hotels. The occupation tax is included when calculating sales tax, increasing the amount the customer pays.[\[5\]](#) Therefore, customers in cities like Omaha—which has a 2.5 percent restaurant tax—pay 9.5 percent of their bill in taxes, the sixth highest meal tax rate in the nation and higher than notoriously high tax cities like New York, Boston, and Los Angeles.[\[6\]](#)

Soon after the cap was raised, several cities jumped at the opportunity to raise taxes on their citizens. Less than a month after LB357 passed, Lincoln officials were already floating the idea of putting the issue on the ballot.[\[7\]](#) While Lincoln eventually decided against it, several other cities put it to a vote with mixed results: Waterloo, Alma, and Sidney all approved raising their sales tax to 2 percent, while voters in Bellevue and Nebraska City rejected it.[\[8\]](#)

Although sales taxes are fairer and more transparent than other taxes as everyone pays the same rate no matter what they buy, increasing sales tax from its current level is bad fiscal policy. Increased taxes make cities—and by extension, the state—more unattractive to businesses and encourage individuals and families to leave the city limits in pursuit of a lower tax burden. When considered in the context of income and property taxes, Nebraska's tax climate is undesirable. Nebraska has the 18th and 19th highest individual and corporate income taxes, respectively, higher than all of the surrounding states except for Iowa; and Nebraska's combined state and local property taxes are the 17th highest

nationally and higher than all of the surrounding states, with the exception of Wyoming.^[9] Increased city sales tax rates will compound an already problematic tax climate. Cities would be far better served by cutting spending rather than trying to squeeze more money out of the taxpayer.

At the personal level, high income, property, and sales taxes directly impact individual and families by leaving them less of their own hard-earned money to do with as they see fit. Add to that the fact that food prices are projected to increase another three to four percent because of drought, and gas prices continue to climb unabated,^[10] consumers are hit hard enough, and a 33 percent increase in local sales tax is the last thing they need.

Nebraskans already pay high taxes on their income, their property, and what they buy; and every day crucial items like food and gas get more expensive. The costs of allowing cities to raise their sales taxes far outweigh any small, short term benefit. Repealing the local option sales tax would protect Nebraskans from further imposition by their government and give them more control over what they do with their own money. Cities-like states and countries-must compete for people and businesses, and those cities that raise their sales taxes will feel the negative effects.

[1] Kevin O'Hanlon, "Lawmakers override veto of sales tax bill," *Lincoln Journal Star*, April 18, 2012. Accessed February 14, 2013, http://journalstar.com/news/unicameral/lawmakers-override-veto-of-sales-tax-bill/article_1a77296c-7c9f-5705-9c95-0d92379efa83.html.

[2] Martha Stoddard, "Ernie Chambers wants to repeal cities' extra sales tax option," *Omaha World Herald* January 17, 2013. Accessed February 14, 2013, <http://www.omaha.com/article/20130116/NEWS/701179999>.

[3] Nebraska Department of Revenue, "Nebraska Jurisdictions with Local Sales and Use Tax-Effective April 1, 2013." Accessed February 24, 2013, <http://www.revenue.ne.gov/question/newersales.html>; Nebraska Department of Economic Development, "Nebraska Incorporated Places by Legal Classification," 2010. Accessed February 24, 2013, <http://www.neded.org/files/research/stathand/asect7.htm>.

[4] Scott Drenkard, "State and Local Sales Tax Rates in 2013," February 11, 2013. Accessed February 24, 2013, <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2013>.

[5] Nebraska Department of Revenue, "Occupation Taxes." Accessed February 24,

2013, http://www.revenue.state.ne.us/info/occupation_tax.html.

[6] Joseph Henchman, Alex Raut, and Kevin Duncan, "Meals Taxes in Major U.S. Cities," Tax Foundation Fiscal Fact No. 293 March 1, 2012. Accessed February 24, 2013, <http://www.taxfoundation.org/news/show/28018.html>.

[7] Deena Winter, "Exclusive: Will Lincoln be first city to seek sales tax increase?" *Nebraska Watchdog*, May 15, 2012. Accessed February 24, 2013, <http://watchdog.org/44486/ne-exclusive-will-lincoln-be-first-city-to-see-sales-tax-increase/>.

[8] Martha Stoddard, "Ernie Chambers wants to repeal cities' extra sales tax option," *Omaha World Herald* January 17, 2013. Accessed February 24, 2013, <http://www.omaha.com/article/20130116/NEWS/701179999>. Alma and Waterloo's increases will go into effect on April 1, 2013, Sidney's will go into effect July 1, 2013.

[9] Tax Foundation, "Nebraska." Accessed February 25, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>; Tax Foundation, "State Individual Income Tax Rates, 2000-2012," February 16, 2012. Accessed February 25, 2013, <http://taxfoundation.org/article/state-individual-income-tax-rates-2000-2012>; Tax Foundation, "State Corporate Income Tax Rates, 2000-2012," February 16, 2012. Accessed February 25, 2013, <http://taxfoundation.org/article/state-corporate-income-tax-rates-2000-2012>; Tax Foundation, "State and Local Property Tax Collections Per Capita by State, Fiscal Year 2009," February 16, 2012. Accessed February 25, 2013, <http://taxfoundation.org/article/state-and-local-property-tax-collections-capita-state-fiscal-year-2009>.

[10] United States Department of Agriculture, "Food Price Outlook, 2013," Economic Research Service, January 24, 2013. Accessed February 24, 2013, <http://www.ers.usda.gov/data-products/food-price-outlook/summary-findings.aspx>; Elizabeth MacDonald, "Gas-Price Rise Fueled By Taxes," *FOXBusiness*, February 20, 2013. Accessed February 24, 2013, <http://www.foxbusiness.com/government/2013/02/20/gas-price-rise-fueled-by-taxes/>.

