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PERSONAL RESPONSIBILITY AND LIMITED GOVERNMENT IN NEBRASKA.

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Platte Institute Legislative Wish List by John S. McCollister, Platte Institute Executive Director

With today marking the start of a new session of the Nebraska Legislature, here is a look at what the Platte Institute hopes to see in the 2012 legislation.

Taxes

Few things harm economic growth more than taxes, and Nebraska continues to be a high tax state with a tax burden that is the 15th highest in the nation according to the Tax Foundation.[1] The Platte Institute has several proposals on how Nebraska's tax burden could be lowered:

Eliminate the Inheritance Tax

The Platte Institute has noted before that the inheritance tax hurts family farms, ranches, small family businesses, and investors.[2] Nebraska has the fifth-highest death tax rate in the country, and studies show estate taxes are the greatest drivers of out-of-state migration, and states without these taxes grew jobs at twice the rate of states with them.[3]

Because the inheritance tax is collected at the county level, counties will undoubtedly oppose repeal. However, many counties use the inheritance tax as a cash reserve fund, and do not budget for it, and of those that budget for it the amount is often very small. For those few counties that depend on the inheritance tax as a substantial part of their revenue, the inheritance tax could be a true local tax, repealing it on the state level, but allowing counties to reinstitute the tax by vote of the people. Therefore, counties that need the tax revenue may collect it if they convince the people of the county that it is necessary.

Examine the Alternative Minimum Tax

Nebraska is one of the few states with its own alternative minimum tax (AMT).[4] The AMT was originally designed to force wealthy people taking advantage of the tax system to pay a minimum amount of taxes. However, it is now hitting more middle class taxpayers due to inflation, increased incomes, and tax deductions, which make more people AMT liable. Nebraska's AMT is based off of the federal AMT and brings in little additional revenue-only about \$10 million or 0.3 percent of the state's budget-while substantially hurting the middle class.

Lower or Eliminate the Corporate Income Tax

The corporate income tax (CIT) is a significant drain on the state's economic competitiveness. As the Platte Institute has previously noted, the CIT penalizes consumers, workers, and investors more than actual corporations.[5] The tax is passed on to these groups in the form of higher prices, lower wages, and lower returns. Nebraska has a 7.81 percent CIT on corporations making over \$100,000, and a 5.58 percent rate for net corporate income under that amount. The CIT also makes Nebraska less attractive to businesses, as all of our neighboring states--except Iowa--have lower rates, and South Dakota and Wyoming have no CIT at all.[6]

The CIT made up 4.9 percent of the state's revenues in fiscal year 2010, so while it may be too difficult to eliminate it overnight, lowering it or phasing out the tax would be possible. Lowering the top rate to match the top individual income tax rate--6.84 percent--or making it a flat tax at the lower 5.58 percent rate would be a good start. A phase out plan would make Nebraska much more competitive in attracting businesses to the state.

Restrict Local Occupation Taxes

A recent trend among many Nebraska cities has been to use occupation taxes as an additional generator of revenue. Some, like Omaha, simply enacted the tax to generate revenue, like Lincoln, Sidney, and Norfolk, tied the taxes to specific projects, such as new arenas, or street improvements. These taxes allow cities to circumvent state restrictions on sales tax. 80 percent of cities already impose the maximum 1.5 percent local sales tax and occupation taxes are placed on top of this. In Omaha, patrons to bars and restaurants end up paying 9.5 percent of their bill in taxes because of sales and occupation taxes.

Restricting these taxes would protect citizens and keep government transparent. Such restrictions could include mandating these taxes be tied to a specific public improvement, such as a new arena or street improvements, with a sunset mechanism ending these taxes once the project is complete. Also, making these taxes voter approved would give citizens a choice and make them aware of a new tax. These restrictions are possible, and a bill has already been submitted forcing occupation taxes to be voter approved and mandating sunset provisions be instituted.[7]

Health Care

Refuse to Implement a Health Care Exchange

The federal Patient Protection and Affordable Care Act (PPACA) insists that states set up their own health care exchanges by 2014; the Platte Institute has voiced its opposition to a state exchange before, would like to see the Legislature stand up to the federal government and refuse to construct such an exchange.[8] Setting up a state exchange will not allow for local control, the federal government will set up the rules and regulations to govern the exchanges and will effectively control the exchange no matter what Nebraskans try and do. To set up an exchange would greatly undermine the state's lawsuit against the PPACA and give the law legitimacy, making it harder to overturn, sabotaging the efforts of the Attorney General and the Governor. These exchanges will also cost the state hundreds of millions of dollars, and after 2014, the federal government will no longer be offering grants, putting the state entirely on the hook for

maintenance of an exchange Nebraska will have no control over.

Furthermore, exchanges have been known to raise health care costs, as they did in both Utah and Massachusetts.[9] For the Legislature to construct an exchange in the next session would be a tremendous mistake, particularly while the law's constitutionality is still in question.

Education

Education is another subject that the Platte Institute has written on extensively in the past, particularly educational choice. The Platte Institute has produced articles on Omaha Public Schools (OPS),[10] and information on charter schools.[11] The benefits of digital learning have also been a subject of a Platte Institute policy study.[12] OPS reform and expanding educational choice are two things that should be addressed in the 2012 session.

Reform the Administration of the Omaha Public Schools

Restructuring of the OPS board to five or seven members and instituting term limits could help rejuvenate OPS and introduce new ideas. OPS is in dire straits with falling test scores and sub-par graduation rates, especially compared to other local schools.[13] Drastic change is needed, and restructuring the school board in tandem with a new superintendent is just the way to do it.

Expand Educational Choice

Nebraska remains one of the most restrictive states in the country when it comes to school choice. The Cornhusker state is one of only nine states that do not allow charter schools.[14] Simply allowing for charter schools to operate would go a long way towards establishing more educational choice in Nebraska, and give parents more options about how their children could be educated. Similarly, expanding digital learning-a project in which the state has already made some progress[15]-would be another way to expand choice and improve Nebraska's educational system, especially for children in rural areas. Opening up education and allowing for choice and competition will help schools be more innovative and focus on delivering the best education possible for students. Nebraska should open up these choices to students and their parents, and help insure every child receives an education that both meets their needs and gives them the tools to be successful.

Foster Care

With the recent report produced by the Legislature's Health and Human Services Committee, it is clear that reforming Nebraska's child welfare system will be a top priority during this year's session. While there clearly needs to be reform, case management and foster care services should not be returned to the state. The privatization of child welfare services has performed as well or better than state welfare services, and foster and biological parents have been recorded as having a higher level of satisfaction with the work of private agencies than they have of state welfare services.[16]

Reforms to the foster care system should be based upon ways to improve the current system, and not simply restructure the entire framework for the second time in three years. Privatization has

been proven to work and deliver the best outcomes for children and their families, the issue in Nebraska is how to make privatization work, and there are several ways to do that. Reforming caseworker caseloads and conditions, setting a minimum foster care payment structure, redesigning data collection, setting benchmarks and performance goals, implementing performance based budgeting and contracting, and strengthening fiscal oversight are all things the legislature can do in coordination with the Department of Health and Human Services and the private agencies to strengthen the system.

There will certainly be more issues the Platte Institute will be examining and promoting over the coming year, but for the next legislative session, these issues are the most pressing from our perspective. Nebraska can become a leader among the states by returning to the principles of limited government, personal responsibility, and free enterprise. Enacting the preceding proposals would be a good start, and would go a long way to making Nebraska and its citizens freer and more prosperous.

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