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Building on Success:

A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska

Joseph Henchman & Scott Drenkard

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The Platte Institute for Economic Research is a research and educational organization dedicated to improving the quality of life for all citizens of Nebraska by advancing sensible, well-researched solutions to state and local economic policy issues.

The Platte Institute's scholars study public policy problems and propose solutions that increase economic opportunity for all Nebraskans. The Institute then promotes these solutions by publishing studies, briefing papers, and other educational materials which help policymakers, the media, and the general public gain a better understanding of the issues.

The Platte Institute is founded on the belief that the freedom and quality of life that Nebraskans deserve is best achieved by promoting free enterprise, limited government and personal responsibility. Our scholars move beyond the mindset that every problem has a government solution. Instead, we propose policy alternatives that respect the rights of the individual and encourage hard work and perseverance.

Joseph Henchman is Vice President of State Projects at the Tax Foundation and **Scott Drenkard** is an Economist at the Tax Foundation. The authors would like to thank Elizabeth Malm, Philip Hammersley, and Lyman Stone for their research assistance.

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Executive Summary

Nebraska has many strengths: an enviable employment rate, a fiscally responsible state government, good transportation infrastructure, a diverse array of successful businesses, and a deserved reputation for honesty and hard work. The state performs well—often in the top ten—in a number of broad surveys of economic performance and broad quality of life issues.[1]

The key for tax reform, therefore, is to build on this success, to take what works and make it even better. One may ask though: why tax reform? If things are so good, why change?

Over the past several months, we have met and exchanged communications with business leaders, policymakers, and other stakeholders in the state. We heard strong concerns:

- Nebraska's top income tax rate and corporate tax rates are high for the region and for the revenue they collect. These rates cause "sticker shock" for recruiting talent to come to Nebraska and retaining talent to stay in Nebraska. Outward net interstate migration is not just anecdotal; it is supported by available data.
- High corporate tax rates have led to increasing demands for generous tax incentives to counter the high corporate tax rate—a vicious circle.
- Property taxes are a concern but there is strong support for retaining local control over local spending priorities. The property tax on business equipment is of particular concern.
- Nebraska needs every advantage it can to overcome the cultural bias against the Plains states (perception that they are not exciting and productive places to live and work).

Nebraska's economic performance would make most states envious, but its tax system is middle-of-the-pack. From our review of economic and fiscal data, from our research on the economic efficiency of various tax structures, and from dozens of conversations with Nebraska stakeholders, we have isolated components of Nebraska's code ripe for reform. Rather than providing another incentive or two for this or that favored group, the approach we outline would result in an equitable and simplified tax system for everyone that would promote long-term economic growth and boost job creation.

This report presents the details of these tax reform possibilities, developed specifically for Nebraska. These options would reduce the state's high top individual income tax rate (from 6.84 percent to 5.5 percent), lower the uncompetitive corporate tax rate (from 7.81 percent to 5.5 percent), offer more meaningful relief from excessive property tax increases, and provide options for difficult sales tax reform.

Finally, we would like to express our gratitude to the countless officials, organizations, and individuals who shared their thoughts with us on the subject of Nebraska's tax system, and the hospitality of Nebraska's residents as we solicited that input.

Nebraska
Tax Facts & Comparisons

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State Business Tax Climate Index

31st best

Nebraska ranks 31st out of the 50 states on the Tax Foundation's 2013 State Business Tax Climate Index, which annually compares the states' tax systems on over 100 variables that impact business. Last year, Nebraska ranked 30th.

Neighboring states' ranks: South Dakota (2nd), Iowa (42nd), Missouri (16th), Kansas (26th), Colorado (18th), Wyoming (1st)

State-Local Tax Burdens Rank

21st highest

Estimated at 9.7% of income, Nebraska's 2010 state-local tax burden ranks 21st highest nationally, below the national average of 9.9%.
Nebraska taxpayers pay $3,853 per capita in state and local taxes. $2,769 of that amount is paid to Nebraska, while $1,085 is paid to other state and local governments.

Neighboring states' ranks: South Dakota (49th), Iowa (24th), Missouri (34th), Kansas (22nd), Colorado (32nd), Wyoming (46th)

Tax Freedom Day® 2013

April 12

In 2013, Nebraska taxpayers worked 102 days into the year until April 12 to pay their total tax bill, ranking 28th highest nationally.

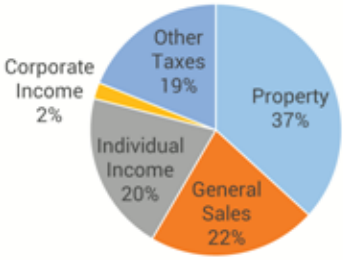
That's 6 days before national Tax Freedom Day (April 18), the day when Americans finally have earned enough money to pay their total tax bill for the year.

General Info

		Rank	Nat. Avg.
Income per capita	$42,450	19	$41,560
Federal aid as % of gen. revenue	36%	26	36%
State and local debt per capita	$7,616	29	$7,616

Nebraska's Sources of Revenue

State and Local Governments Fiscal Year 2010



Individual Income Tax

Number of brackets	4
Bottom income bracket rate	2.46%
Bottom bracket kick In	$0
Top income tax rate	6.84%
Top bracket kick in	$27,000
Collections per capita (2009)	$832
Collections rank (2009)	22nd

Property Tax

Collections per capita (2009)	$1,487
Collections rank (2009)	16th
Mean real estate tax as share of mean home value (2010)	1.72%
Mean property tax percent rank (2010)	6th

Excise Taxes

	Rate	Rank
Gasoline taxes and fees	25.5¢ per gallon	24th
Cigarette taxes	$0.64 per pack	37th
Spirits taxes	$3.75	34th
Beer taxes	$0.31	21st
Cell phone taxes	18.67%	1st

Corporate Income Tax

Number of brackets	2
Top corporate tax rate	7.81%
Collections per capita (2009)	$85
Collections rank (2009)	33rd

Sales Tax

State rate	5.50%
State + average local rate	6.78%
State + average local rank	27th
Collections per person (2009)	$878
Collections rank (2009)	25th

Other Taxes

	Rate	Exemption
Gross receipts tax	None	NA
Capital stock tax	Vari-able	$11,995
Inheritance tax	0-18%	Variable
Estate tax	None	N/A

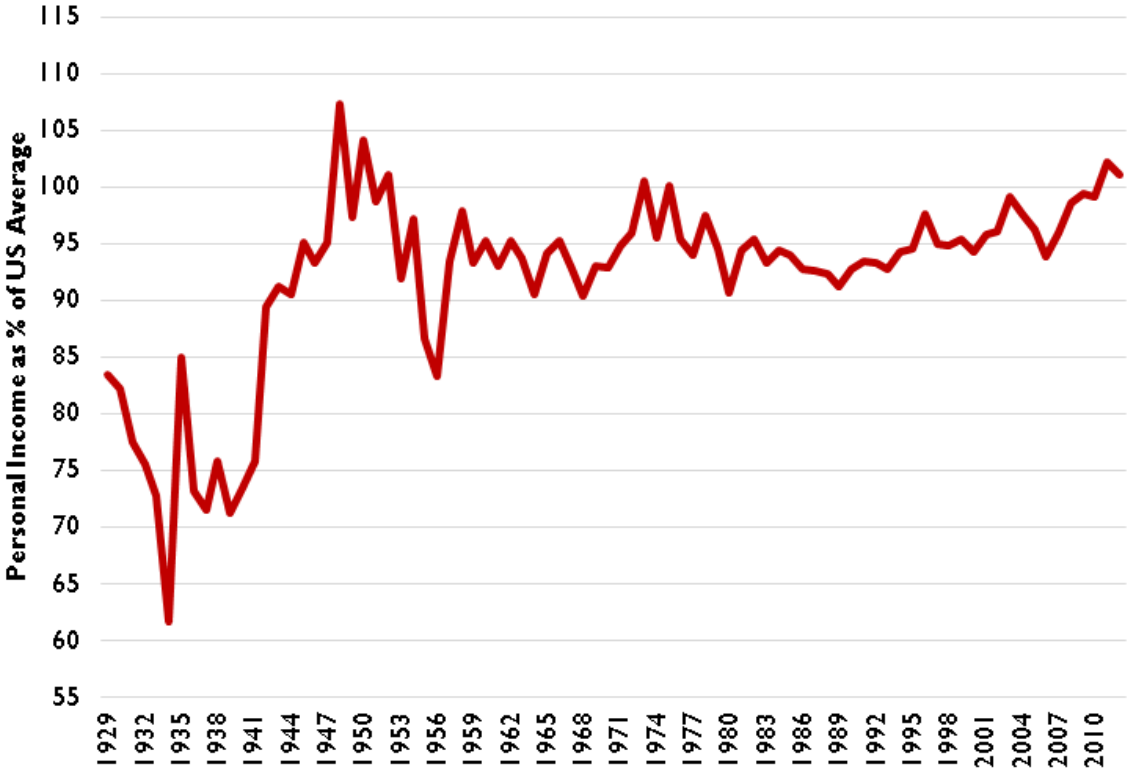
Nebraska's Economy

The following charts illustrate the current state and major components of Nebraska's economy.

Income

Since the 1940s, Nebraska's average personal income has been approximately equal to the U.S. average (Figure 1). Indeed, in recent years, as railroad companies have prospered and agricultural prices have reached new highs, Nebraska's income has actually risen above the national average, $43,143 compared to $42,693 in 2012. However, this differential could be jeopardized in the event that agricultural prices decline.

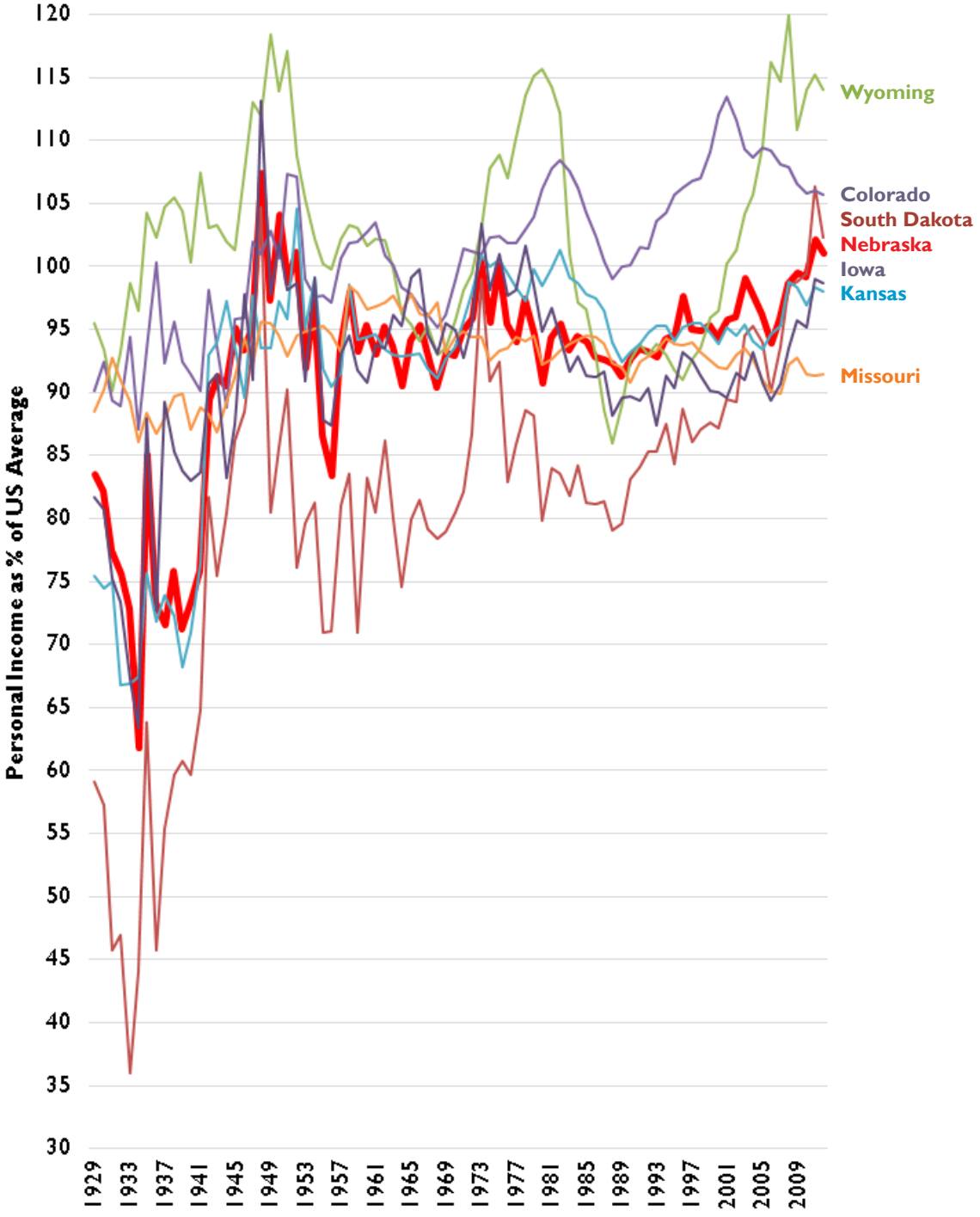
Figure 1. Nebraska Average Personal Income as a Percent of U.S. Average, 1929-Present (U.S. Average = 100)



Source: Bureau of Economic Analysis

In recent years, the economic fortunes of Nebraska's neighbors have changed radically in response to changing supply and demand of valuable commodities like coal, oil and gas, and agricultural goods (Figure 2). Wyoming, once poorer than Nebraska, is now significantly richer, with a 2012 average personal income of $48,670, as well as the best-ranked tax code in the Tax Foundation's State Business Tax Climate Index. South Dakota, likewise enjoying its second-ranked tax code and a huge natural gas and oil boom, has gone from Nebraska's poorest neighbor to being richer than the Cornhusker State. On the other hand, Iowa, ranked 42nd on our Index, has fallen from being one of the richest states in the region in the 1960s and 1970s to being poorer than Nebraska. Through all these changes, Nebraska has remained about middle-of-the-pack in income.

Figure 2. Select States' Personal Income as a Percent of U.S. Average
(U.S. Average Personal Income = 100)

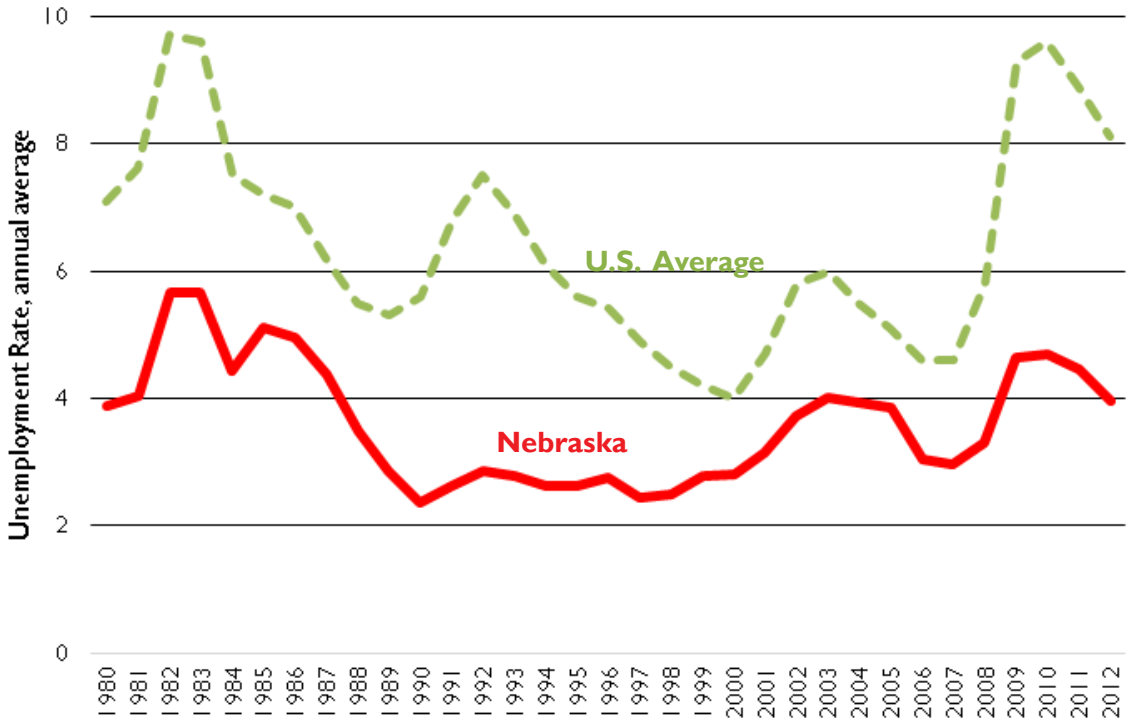


Source: Bureau of Economic Analysis

Unemployment

Historically, Nebraska's unemployment rate has been much lower than the national average, a trait shared by many states in its region (Figures 3 and 4). However, even for low-urban-density western states, Nebraska's unemployment rate is very low. Even at the low point of the recent recession, Nebraska unemployment rates were enviable compared to the nation as a whole.

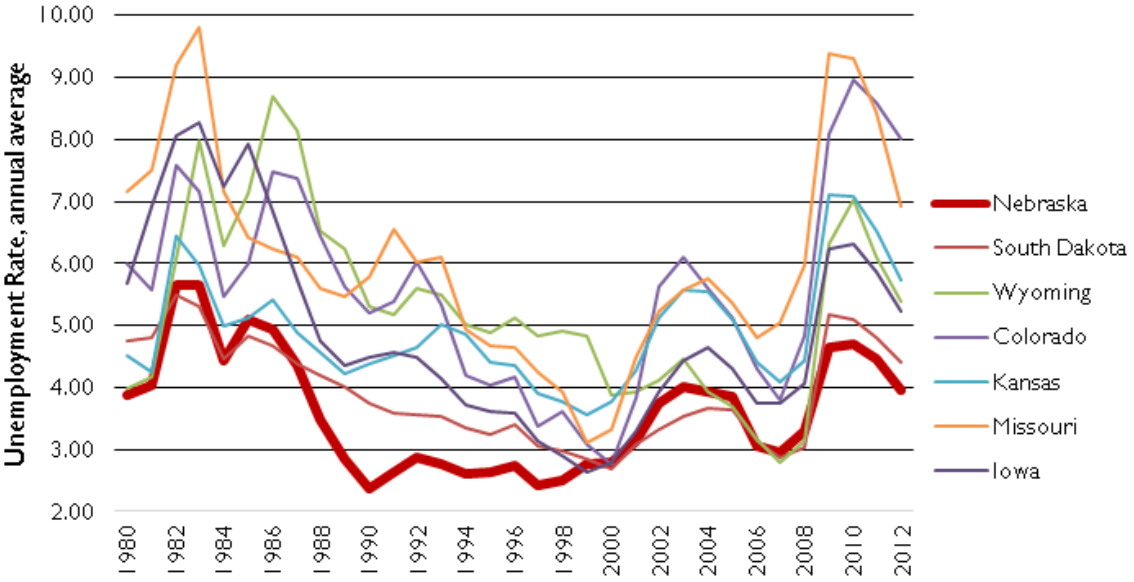
Figure 3. U.S. and Nebraska Unemployment Rate, 1980-2012



Source: Bureau of Labor Statistics

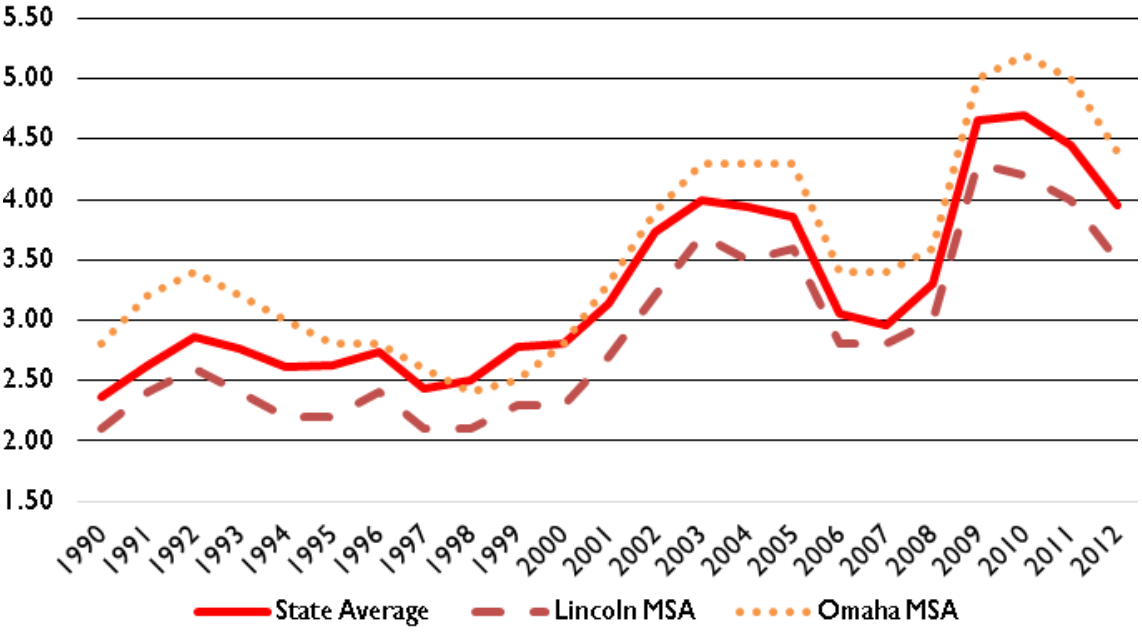
Unemployment varies around Nebraska (Figure 5). It tends to be lower in farming and rural areas, and higher in the Omaha metropolitan area and Omaha-Council Bluffs region. Furthermore, Nebraska shares an employment anomaly with many other western states: the presence of Native American reservations. The entirety of Thurston County, with 8 percent unemployment (the highest in Nebraska), is covered by two Native American reservations, as is a portion of Knox County.

Figure 4. Nebraska and Neighboring States Unemployment Rates 1980-2012



Source: Bureau of Labor Statistics

Figure 5. Lincoln and Omaha Unemployment Rates, 1990-2012



Source: Bureau of Labor Statistics

Migration

Interstate migration has a number of causes but is one measure of state economic success. Nebraska's low unemployment rate is a cause for celebration, but unemployment is low partly because of outward net migration.

Since 1993, Nebraska has consistently lost more people and income than it has attracted: a net of 39,000 people and $2.9 billion in personal income (Table 6). While this loss has slowed in recent years, likely due to the aforementioned agricultural and railroad booms, migration patterns remain a point of weakness. These statistics support the common belief that the state is struggling to retain young people and retirees.

Table 6. Income Migration between Nebraska and Other States, 1994-2010 (dollar amounts in thousands)

Year	Elsewhere to NE		NE to Elsewhere		Net Migration	
	INCOME	PEOPLE	INCOME	PEOPLE	INCOME	PEOPLE
1994	$732,852	18,861	$824,315	19,825	-$91,463	-964
1995	$824,193	20,577	$830,140	20,546	-$5,947	31
1996	$893,381	20,657	$935,287	20,935	-$41,906	-278
1997	$842,388	19,688	$1,024,466	22,119	-$182,078	-2,431
1998	$881,722	19,124	$1,146,843	23,030	-$265,121	-3,906
1999	$904,282	19,665	$1,239,123	23,137	-$334,841	-3,472
2000	$875,179	19,130	$1,205,511	23,179	-$330,332	-4,049
2001	$889,648	18,801	$1,220,446	23,430	-$330,798	-4,629
2002	$841,787	18,919	$1,068,578	22,732	-$226,791	-3,813
2003	$831,774	18,767	$971,600	20,738	-$139,826	-1,971
2004	$818,972	18,323	$980,003	21,177	-$161,031	-2,854
2005	$898,963	18,887	$1,033,903	21,553	-$134,940	-2,666
2006	$835,306	18,691	$1,050,462	21,901	-$215,156	-3,210
2007	$931,785	18,481	$1,042,309	21,544	-$110,524	-3,063
2008	$895,793	19,913	$1,073,617	21,958	-$177,824	-2,045
2009	$843,289	20,324	$960,913	21,103	-$117,624	-779
2010	$741,104	19,397	$808,808	19,215	-$67,704	182
Total, 1994 to 2010	$14,482,418	328,205	$17,416,324	368,122	-$2,933,906	-39,917

Source: Internal Revenue Service; Tax Foundation at interactive.taxfoundation.org/migration.

Nebraska gained net migration from 14 states and lost net people to 36 states and the District of Columbia during the 1993 to 2010 period.

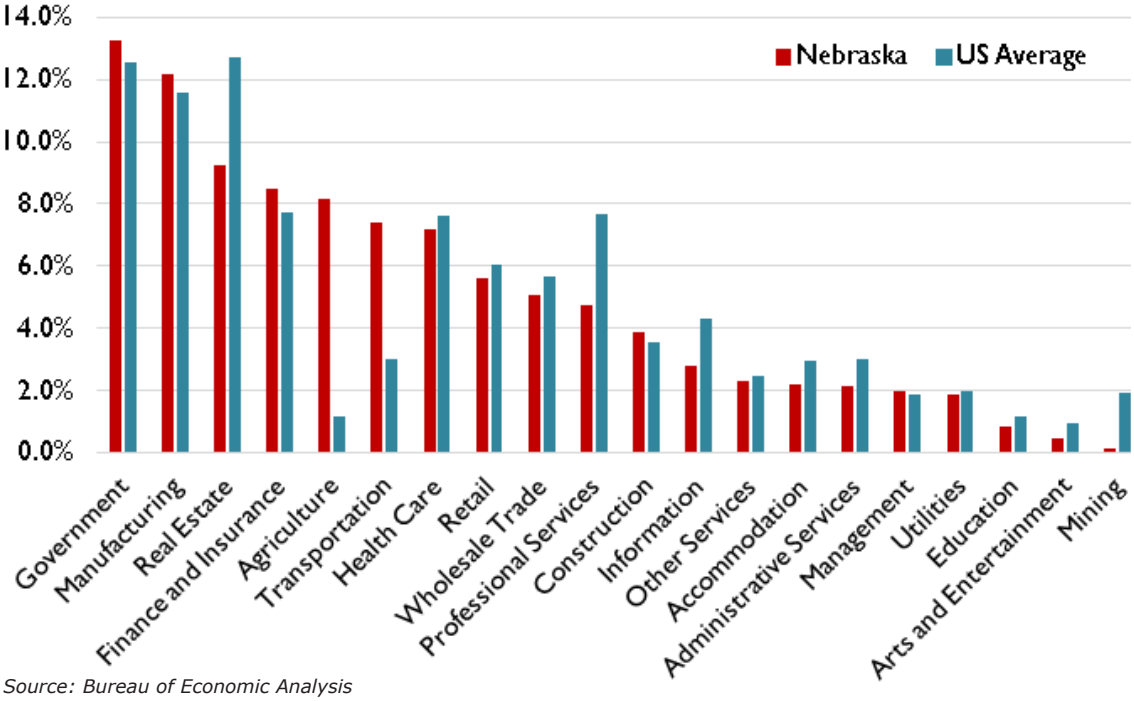
- Significant net inflow came from California (+19,746 people), North Dakota (+1,747), Illinois (+1,425), and New York (+972).
- Significant net outflow went to Texas (-10,448 people), Arizona (-9,845), Missouri (-8,120), Florida (-7,082), Colorado (-4,319), Iowa (-3,930), Kansas (-3,826), Minnesota (-3,723), Georgia (-3,251), South Dakota (-2,931), and North Carolina (-2,215).

Key Economic Sectors

Nebraska's economy has a substantial manufacturing sector, but is truly unique in its large agricultural and transportation sectors (Figures 7 & 8). As a share of the economy, agriculture is six times as prominent in Nebraska as in the United States on the whole, comprising 8.2 percent of the state's economy in 2011 compared to 1.2 percent nationally.

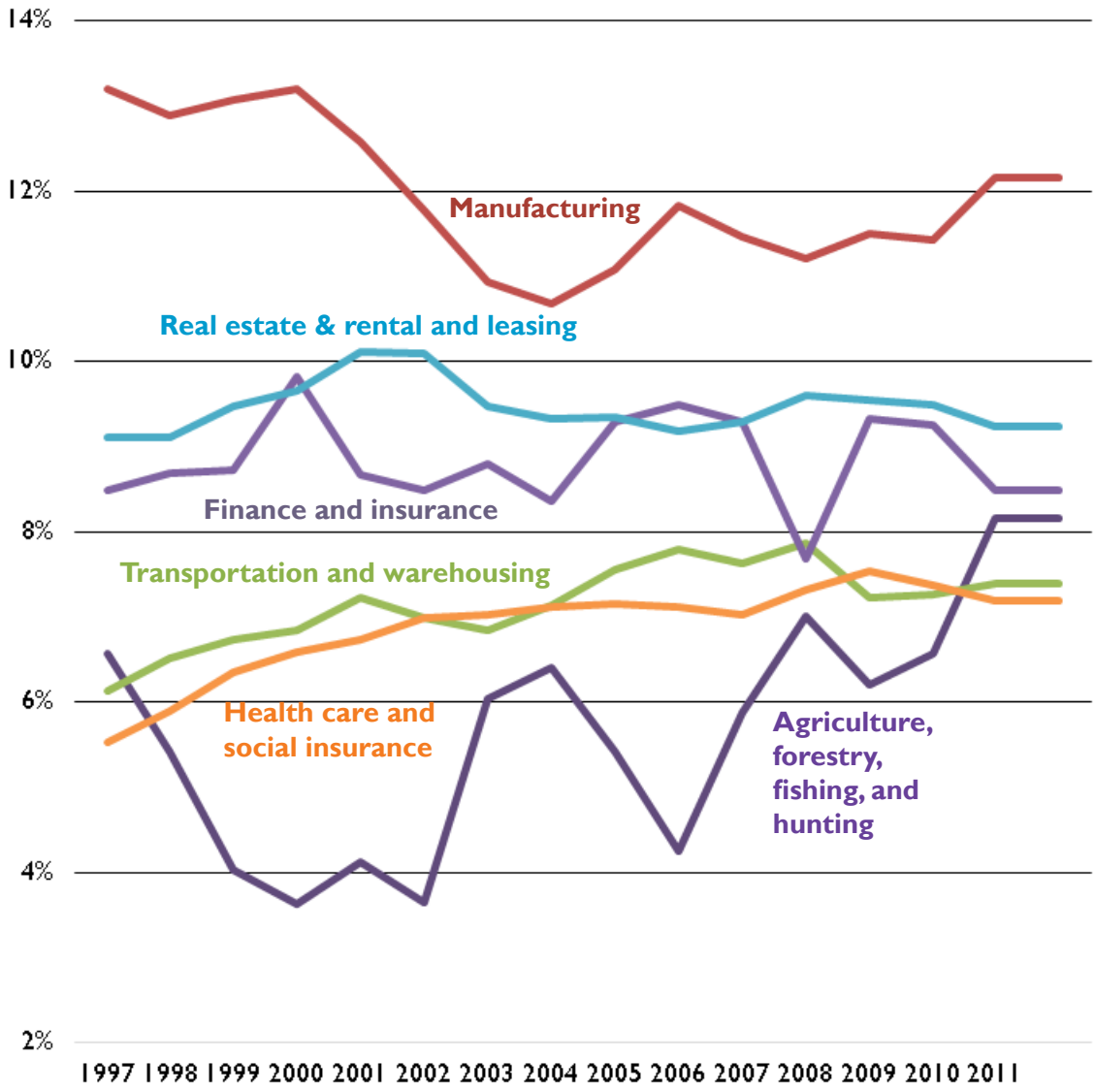
Furthermore, Nebraska has a large transportation sector, especially rail transportation (Union Pacific has its headquarters in Omaha and both it and Burlington Northern Santa Fe have significant operating presence in the state) and pipelines (thanks to South Dakota's oil and gas boom). Finance and insurance remains a major sector, including companies such as Berkshire-Hathaway, based in Omaha. On the other hand, service industries such as IT, education, research, real estate, entertainment, and accommodation are much smaller in Nebraska than in the rest of the nation.

Figure 7. Nebraska and US Economic Comparison by Major Industry, 2012



Source: Bureau of Economic Analysis

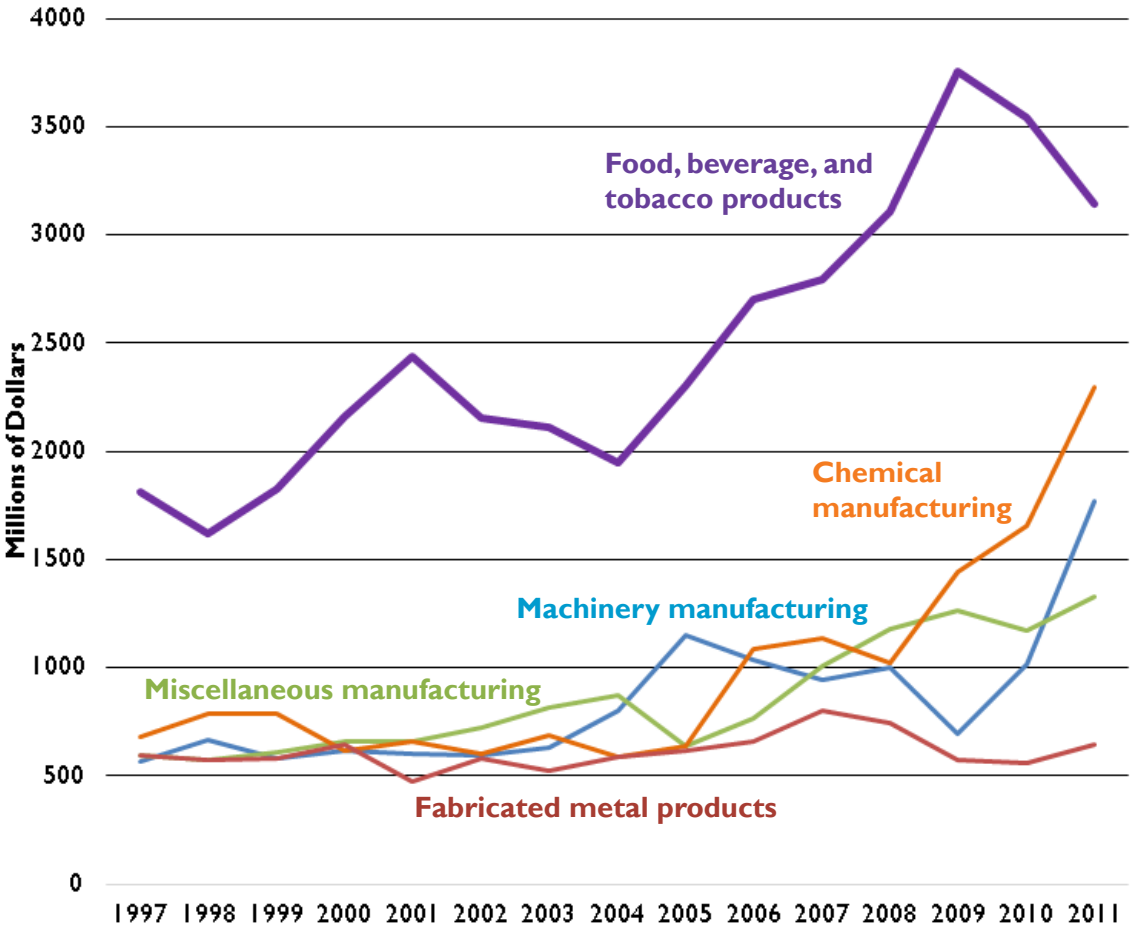
Figure 8. Nebraska Economy Key Industries, 1997-2011



Source: Bureau of Economic Analysis

Manufacturing remains a significant component of Nebraska's economy, and several categories in particular continue to be important, such as machinery manufacturing, chemical manufacturing, and food and beverage manufacturing (Figure 9). These sectors are complements of agriculture and transportation, as they include production of machinery and parts, fertilizers, crop derivatives, and other similar products. Indeed, while manufacturing is dropping as a share of the U.S. economy as a whole, it has remained approximately steady in Nebraska since 1997.

Figure 9. Nebraska Key Manufacturing by Type, 1997-2011



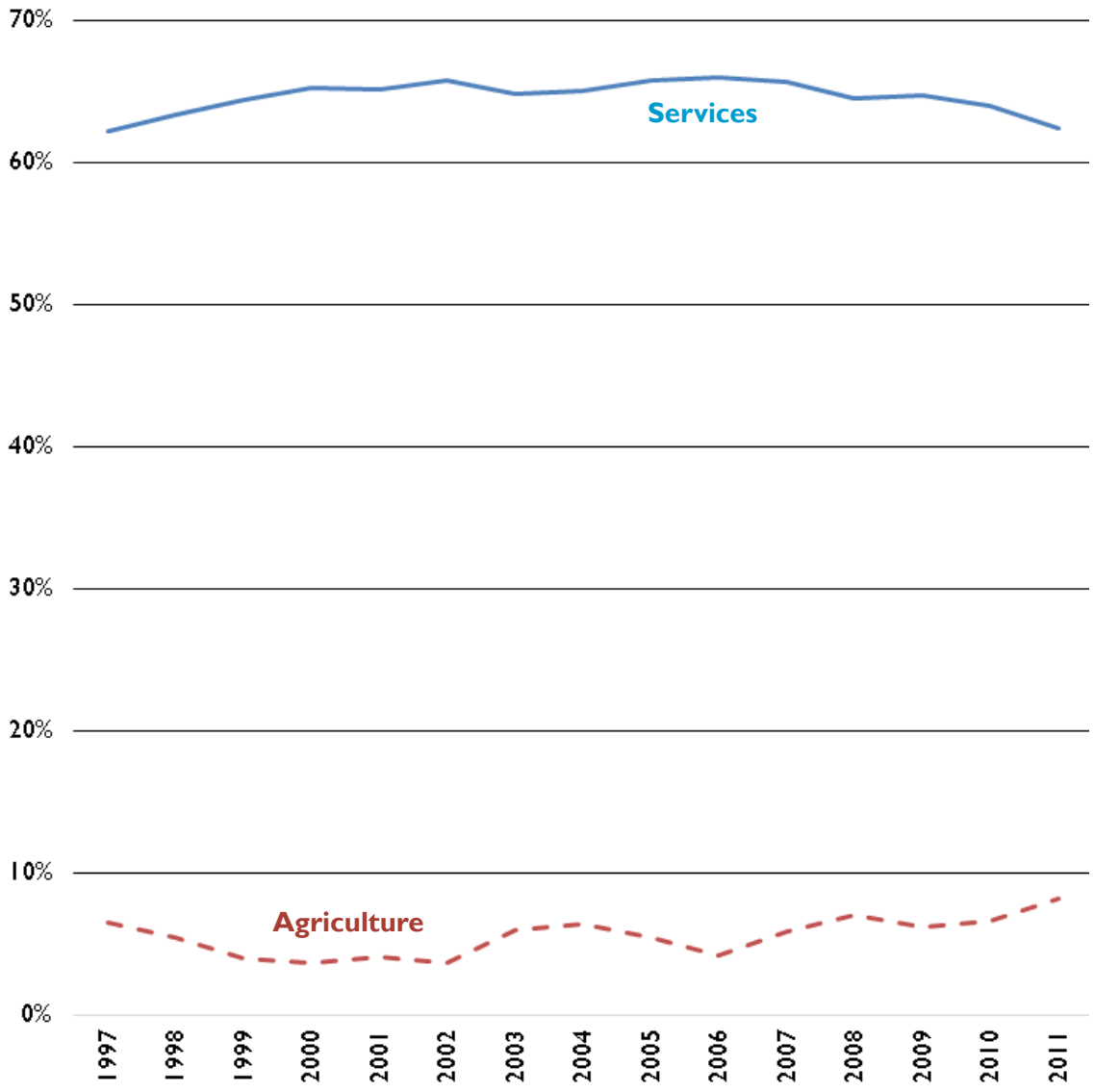
Source: Bureau of Economic Analysis

Services

At one point, Nebraska was primarily an agricultural and goods-based economy. In recent decades, however, Nebraska has become primarily a services-based economy. Even the recent surge in agricultural growth has not significantly changed this picture (Figure 10).

The growth of services as a share of the economy poses long-term challenges for Nebraska's sales tax. Services are for the most part exempt from sales tax; today, only 33 percent of what Nebraskans buy and sell are subject to the sales tax. The rate on what is taxed must go higher and higher as more of economy is made up of nontaxable purchases, like services and food.

Figure 10. Services and Agriculture as a Share of Nebraska's Economy



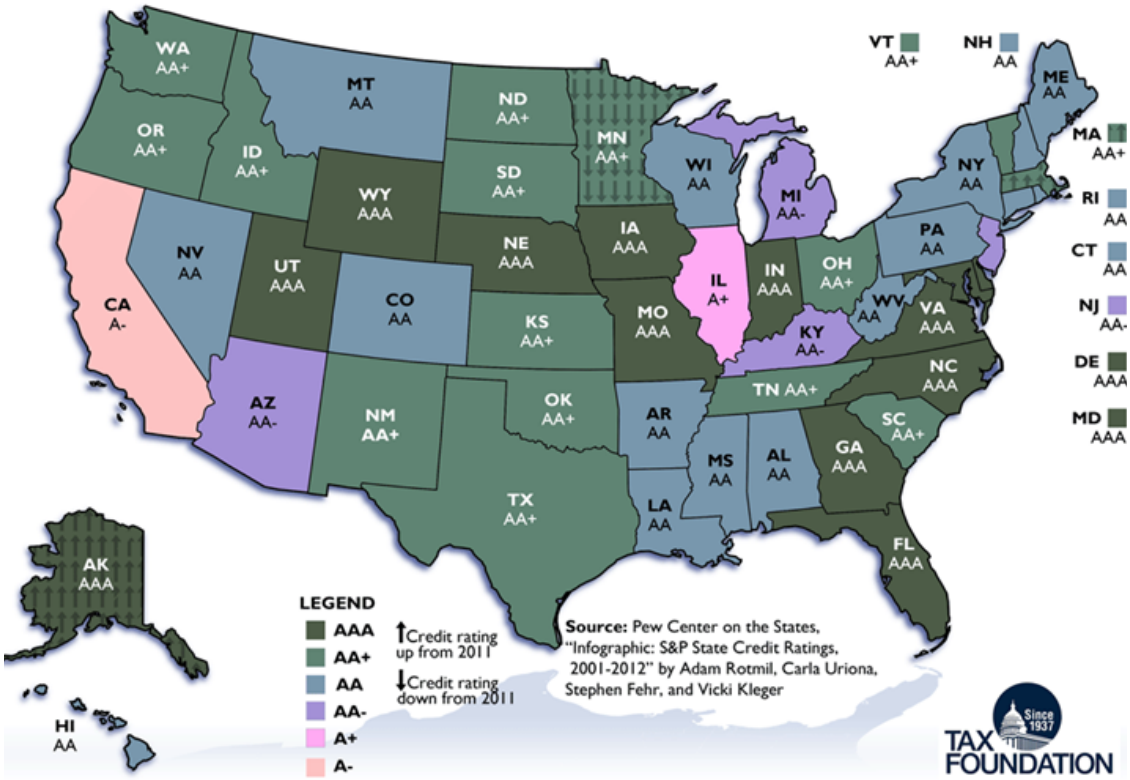
Source: Bureau of Economic Analysis

Debt, Liabilities, & Credit Rating

Nebraska has a low amount of government debt. As of 2009, the state owed $1,584 per capita, the 49th highest among the states. For both state and local debt, Nebraska is more middle of the pack: $7,616 per person was owed, the 29th highest among the states.

Nebraska is one of just thirteen states to maintain a AAA credit rating (see Figure 11). This highest rating is also held by regional neighbors Iowa, Missouri, and Wyoming. Kansas, Minnesota, and South Dakota are one grade lower; Colorado is two grades lower.

Figure 11: State Credit Ratings (S&P), as of July 2012



Source: Tax Foundation.

Nebraska's Existing Tax System

Like most states, Nebraska depended on property taxes to fund state and local government for much of its early history. Nebraska moved away from this model in the late 1960s, adding an income tax and a sales tax in 1968 with the goal of reducing property taxes.

Today, Nebraska's state government gets 41 percent of its tax revenue from income taxes, 33 percent from sales taxes, 16 percent from excise taxes, and 4 percent from corporate income taxes. Local governments continue to rely heavily on the property tax; it makes up 79 percent of their tax revenue. All told, Nebraskans pay $3,853 per capita in state and local taxes, the 17th highest in the nation—similar to neighbors Colorado ($4,104, 16th) and Kansas ($3,802, 19th).

Despite these similarities to its neighbors in tax collections, Nebraska's tax rates are much higher. The top individual tax rate of 6.84 percent compares unfavorably to Colorado's 4.63 percent, Kansas's 4.9 percent, Missouri's 5 percent, Oklahoma's 5.25 percent, and of course the zero rates in South Dakota, Texas, and Wyoming. Colorado's dependence on income tax is almost identical to Nebraska's; Kansas is even more dependent. Yet they have lower rates on a broader tax base.

Similarly, the top corporate tax rate of 7.81 percent is higher than Colorado (4.63 percent), Kansas (7 percent), Missouri (6.25 percent), Oklahoma (6 percent), and South Dakota and Wyoming (both zero). Despite this significantly higher rate, Nebraska collects just $84 per capita from this tax, compared to Colorado's $75, Kansas's $86, Missouri's $54, and Oklahoma's $94. Both research and anecdotal evidence suggest that Nebraska's corporate income tax is porous because of heavy incentive use, ironically adopted to counter the state's high tax rate.

The governor and legislature have made great efforts in recent years to simplify and improve Nebraska's tax system. These include reforming net operating loss carryforwards, limiting highest-in-the-nation cell phone taxes, and repealing the alternative minimum tax.

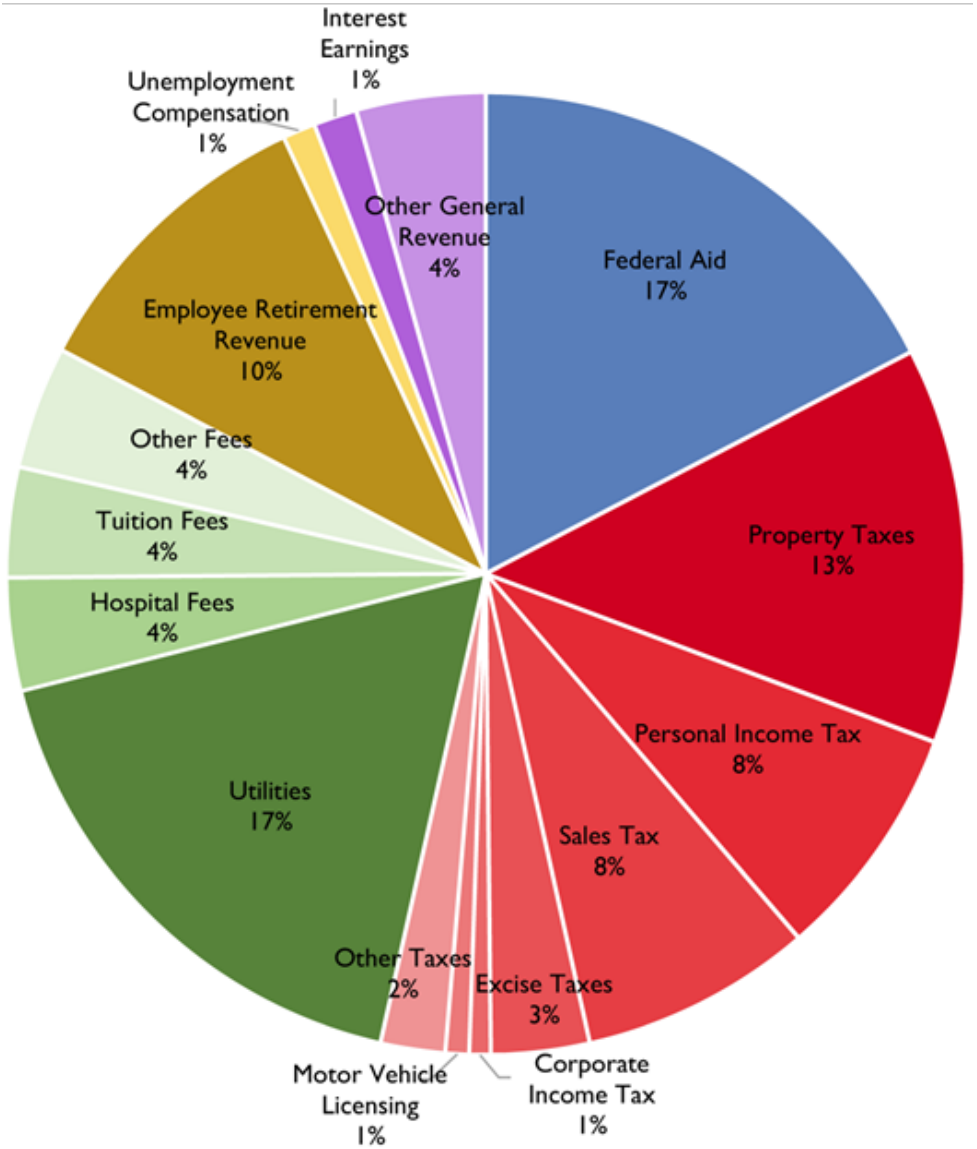
Sources of Revenue

Heavy State Reliance on Income Tax, Federal Aid

Media reports often focus just on the "general fund"—the portion of the state budget mostly funded by taxes. However, the general fund is only about half of overall state government spending.

For fiscal year 2012-13, Nebraska's state government will spend just over $7.52 billion; the next two years in the biennial budget will increase that spending to $8.11 billion (2013-14) and $8.27 billion (2014-15). Key state spending items include health and human service programs (42 percent), state aid to education (29 percent), roads (10 percent), and public safety programs (6 percent).

Figure 12: Nebraska State & Local Government Sources of Revenue, 2011, as a Percent of Total Revenue



Source: U.S. Census Bureau, 2011 Annual Surveys of State and Local Government Finance.

State spending in turn is just 36 percent of government spending in Nebraska; local governments spend the rest. In fiscal year 2012, the most recent year for which U.S. Census Bureau data on local spending is available, the state spent $7.05 billion and local governments spent $12.43 billion. Local governments spend primarily on public utilities (35 percent, primarily paid by user fees), education (32 percent), public safety and the courts (8 percent), environment and housing (6 percent), hospitals (5 percent), roads (4 percent), health and human service programs (3 percent), and interest on debt (2 percent).

To pay for this combined $19.48 billion in state and local government spending, Nebraska's governments collected $7.80 billion in taxes, $3.84 billion in various user fees, $3.78 billion in utility revenue, and $2.24 billion in employee retirement trust revenue. Federal aid added another $3.75 billion, 17 percent of the total. (See Figure 12.)

Property taxes are the largest state-local tax revenue source, at $2.87 billion. Income taxes totaled $1.72 billion, and corporate taxes were $155 million. Sales taxes added another $1.69 billion ($1.39 billion in state sales taxes and $305 million in local sales taxes). Excise taxes totaled $717 million, including $318 million in gasoline tax, $43 million in tobacco taxes, and $28 million in liquor taxes.

Looking at it another way (excluding local governments, fees, and non-tax revenues), every $1 in taxes collected by the Nebraska state government is made up of 41¢ in state individual income tax, 33¢ in sales taxes, 16¢ in excise taxes (including 8¢ in gasoline tax and 2¢ in car tax), 4¢ in corporate tax, and 6¢ in other taxes.

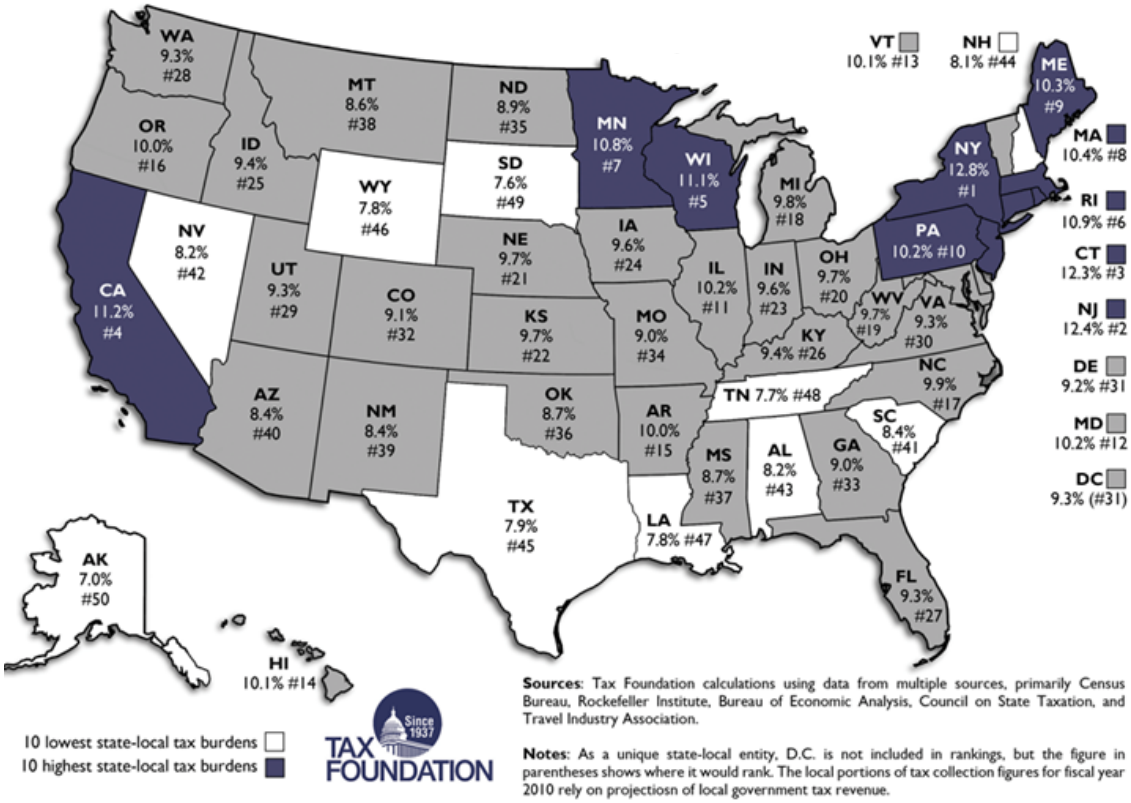
State-Local Tax Burden

Middle of the Pack

"Tax collections" and "tax burdens" are two different things. Tax collections are the amount of money collected by a government. Tax burdens, by contrast, are the amount of money paid by taxpayers. For example, the state of Alaska collects the most tax revenue of any state, primarily from oil extraction and other corporate taxes. However, Alaskans bear the lowest tax burden in the country, paying no state income tax and no state sales tax, and even receiving an oil revenue refund check from their state government.

The Tax Foundation annually estimates the percentage of state income that residents in each state are paying in state and local taxes (to their state and to other states). Collections data are adjusted for tax importation and tax exportation, and the result is a percentage paid in state-local taxes and a ranking. For the most recent year available, New Yorkers pay the most in state-local taxes (12.8 percent of personal income); Alaskans pay the least (7.0 percent).[2]

Figure 13: State & Local Tax Burdens as Percentage of State Income, FY 2010



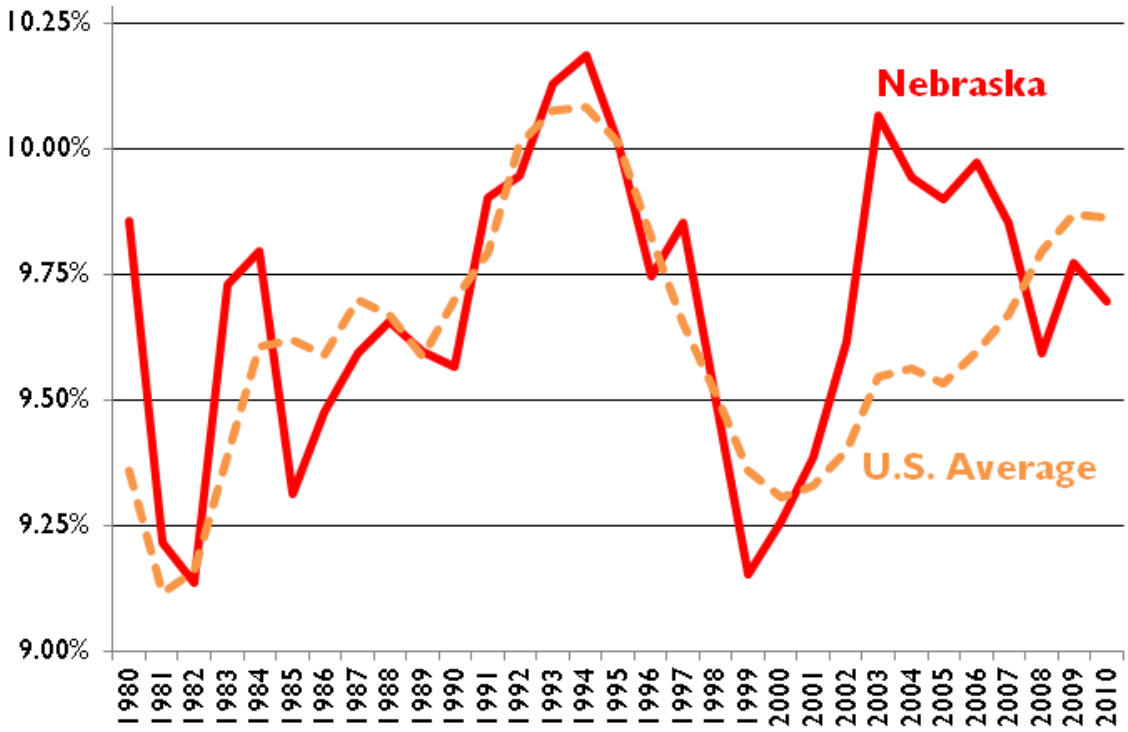
Source: Tax Foundation.

Nebraskans have an about-average state-local tax burden. In fiscal year 2010, the most recent year for which information is available, residents of the state paid $3,853 per capita in all state-local taxes, a rate of 9.7 percent of income and 21st highest in the country and higher than all nearby states (see Figure 13).

Specifically, Nebraska's 9.7 percent (21st highest) compares to Kansas's 9.7 percent (22nd highest), Iowa's 9.6 percent (24th highest), Colorado's 9.1 percent (32nd highest), Missouri's 9.0 percent (34th highest), Wyoming's 7.8 percent (46th highest), and South Dakota's 7.6 percent (49th highest).

Over time, Nebraskans' tax burden has fluctuated somewhat, outpacing the U.S. average in the early 1980s and again in the first decade of the 2000s (see Figure 14). Since 2008, it has been below the national average.[3]

Figure 14: Nebraska State-Local Tax Burden as Percentage of Personal Income, Compared to U.S. Average, 1980 to 2010



Source: Tax Foundation.

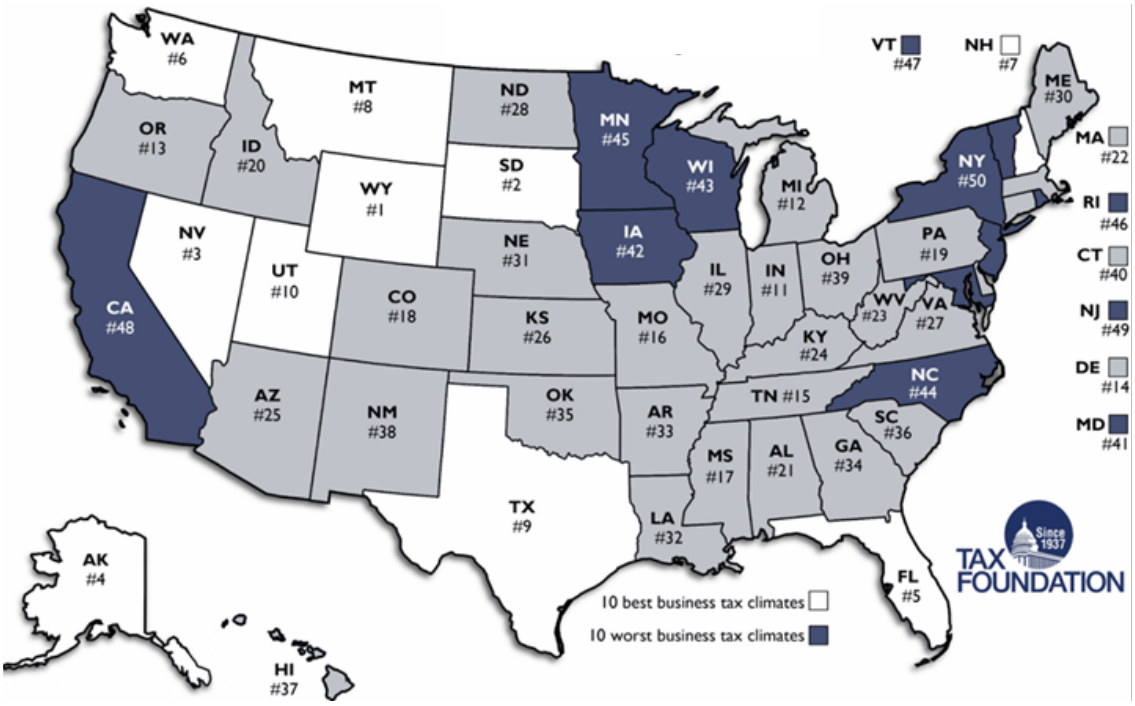
State Business Tax Climate

Middle of the Pack

Each year the Tax Foundation produces the *State Business Tax Climate Index* to enable business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare.[4] While total taxes paid is a relevant measure, another important consideration is how the elements of a state tax system enhance (or harm) the competitiveness of a state's business environment. The *Index* looks at over 100 variables in individual income tax, corporate income tax, sales tax, unemployment insurance tax, and property tax to condense these many complex considerations to an easy-to-use ranking.

In the most recent report (see Figure 15), which gauges states as of July 1, 2012, the states with the best tax systems are Wyoming, South Dakota, Nevada, Alaska, Florida, Washington, New Hampshire, Montana, Texas, and Utah. The states with the worst tax systems are New York, New Jersey, California, Vermont, Rhode Island, Minnesota, North Carolina, Wisconsin, Iowa, and Maryland. Nebraska has one of the best unemployment tax systems, but is middle-of-the-pack relative to the other states for the other major tax categories (see Table 16). Nebraska is among the least business-friendly state tax climates in the Plains states.

Figure 15: State Business Tax Climate Index, FY 2013



Source: Tax Foundation.

Table 16: 2013 *State Business Tax Climate Index* Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Ins. Tax Rank	Property Tax Rank
Alabama	21	17	18	37	13	8
Alaska	4	27	1	5	28	13
Arizona	25	24	17	50	1	5
Arkansas	33	37	28	41	19	19
California	48	45	49	40	16	17
Colorado	18	20	16	44	39	9
Connecticut	40	35	31	30	31	50
Delaware	14	50	29	2	3	14
Florida	5	13	1	18	10	25
Georgia	34	9	40	13	25	30
Hawaii	37	4	41	31	30	15
Idaho	20	19	23	23	47	2
Illinois	29	47	13	34	43	44
Indiana	11	28	10	11	11	11
Iowa	42	49	33	24	34	37
Kansas	26	36	21	32	9	28
Kentucky	24	26	26	9	48	18
Louisiana	32	18	25	49	4	23
Maine	30	41	27	10	32	39
Maryland	41	15	45	8	46	40
Massachusetts	22	33	15	17	49	47
Michigan	12	7	11	7	44	31
Minnesota	45	44	44	35	40	26
Mississippi	17	11	19	28	7	29
Missouri	16	8	24	27	6	6
Montana	8	16	20	3	21	7
Nebraska	**31**	**34**	**30**	**26**	**8**	**38**
Nevada	3	1	1	42	41	16
New Hampshire	7	48	9	1	42	43
New Jersey	49	40	48	46	24	49
New Mexico	38	39	34	45	15	1
New York	50	23	50	38	45	45
North Carolina	44	29	43	47	5	36
North Dakota	28	21	35	16	17	4
Ohio	39	22	42	29	12	34
Oklahoma	35	12	36	39	2	12
Oregon	13	31	32	4	37	10
Pennsylvania	19	46	12	20	36	42
Rhode Island	46	42	37	25	50	46
South Carolina	36	10	39	21	33	21
South Dakota	2	1	1	33	35	20
Tennessee	15	14	8	43	26	41
Texas	9	38	7	36	14	32
Utah	10	5	14	22	20	3
Vermont	47	43	47	14	22	48
Virginia	27	6	38	6	38	27
Washington	6	30	1	48	18	22
West Virginia	23	25	22	19	27	24
Wisconsin	43	32	46	15	23	33
Wyoming	1	1	1	12	29	35
Dist. of Columbia	(44)	(35)	(36)	(42)	(48)	(24)

Note: A rank of 1 is more favorable for business than a rank of 50. Rankings do not average to total. States without a tax rank equally as 1. D.C. score and rank do not affect other states. Report shows tax systems as of July 1, 2012 (the beginning of Fiscal Year 2013). Source: Tax Foundation.

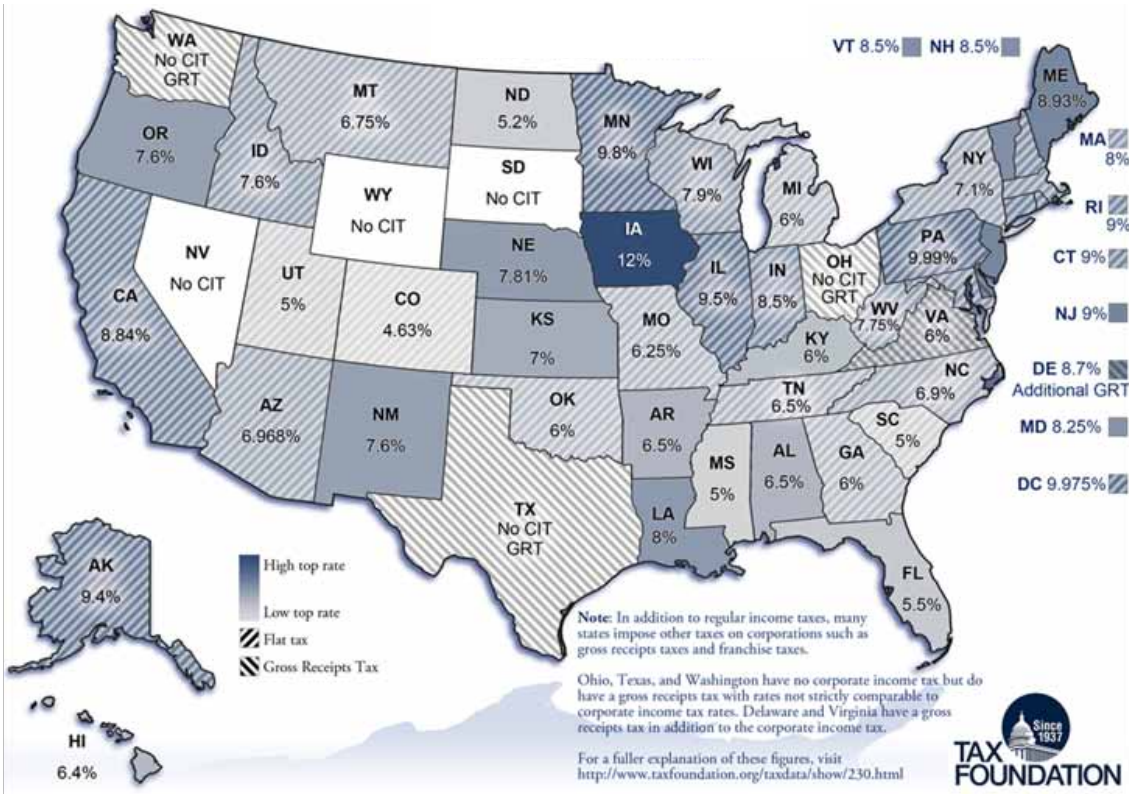
Corporate Income Tax

High Rate, Narrow Base

Nebraska's corporate income tax is a graduated tax, imposed at the rate of 5.58 percent on the first $100,000 of profits and 7.81 percent above that amount. This top rate is high relative to neighboring states (see Figure 17); Iowa, an outlier, also permits federal deductibility so their effective rate is approximately one-third lower than their sticker tax rate.

Nebraska's corporate income tax is poorly structured, with the biggest reason for the high rate being that the tax gives away as much of a third of its potential revenue in tax carve-outs and incentives. Despite the high rate, in fiscal year 2009, the tax collected just $84 per Nebraska resident, the 35th highest of the states, and made up just 0.72 percent of state and local revenue collected in Nebraska.

Figure 17: Top State Corporate Income Tax Rates, 2012



Source: Tax Foundation.

Economists generally agree that corporate income taxes are not borne by businesses but are instead passed on to consumers in the form of higher prices, shareholders in the form of lower dividends, or labor in the form of lower wages.[5] This observation, coupled with the low revenue collection of corporate taxes, poor structure of their bases, and relatively small share they represent of state tax collections has led some observers to conclude that corporate tax repeal is a necessary, if not obvious, reform for state tax codes.[6]

Six states do without a corporate tax, although three of those six instead impose more destructive gross receipts taxes on businesses. Wyoming, South Dakota, and Nevada do not have a corporate income tax or a gross receipts tax, and, not coincidentally, are the top three scoring states in the *State Business Tax Climate Index*.

Tax Incentives

Incentive programs, usually billed as tools for economic development, are common throughout the 50 states. However, such programs vary widely in their degree of distortion, and Nebraska's is extreme in the size of its handouts, which can result in firms having zero or even negative tax liabilities for extended periods of time—even highly profitable companies.

According to the Tax Foundation's *Location Matters* report, a comparison of corporate tax burdens across the fifty states, Nebraska has the lowest effective tax rate for new businesses in the nation, and the 9th lowest for mature businesses.[7] However, this is not due to having a simple, neutral tax code (Nebraska only ranks 31st in our State Business Tax Climate Index), but rather due to an expansive system of tax incentives.

Nebraska's tax incentive regime, led by the flagship Nebraska Advantage and Investment Growth Act programs, provides huge handouts for corporations operating in the state (see Table 18). Since 2006, over $950 million in incentives have been offered to dozens of participating companies, with over $590 million being accepted and spent.[8] Those incentives are provided in the form of credits to corporate income tax liabilities based on investment and hiring, sales tax refunds, and property tax exemptions.

For reference, these incentives total to an amount equal to between 44 percent and 71 percent of Nebraska's total corporate tax revenues since 2006.[9] In other words, Nebraska's corporate income tax rate is so uncompetitive and porous that it could lower the rate by a third and reduce the "sticker shock" of high rates, end or scale back incentive programs, and raise at least the same amount of money.

Tax incentive programs create major distortions by favoring new firms over old ones and certain politically favorable categories of business over others. Many firms that create lots of jobs care more about fundamentals than targeted incentive packages. Insofar as tax incentives make up for other tax deficiencies, such as Nebraska's high corporate or property tax burdens, those core problems should be addressed at the root and for all taxpayers with broad reform, not just for selected incentive recipients.

Broad bases and low rates are the best incentive of all. For that reason, tax reform should focus on addressing those core problems primarily. As a bare minimum consideration, Nebraska legislators should set performance goals for these programs and continually evaluate their effectiveness.[10]

Table 18: Nebraska Incentive Programs

Program	Starting Year	Incentives Earned since starting year	Incentives Used since starting year
Nebraska Advantage (NA)	2006	$484,972,780.04	$171,473,112.04
NA Rural Development	2006	$5,193,059.00	$4,970,402.00
NA Microenterprise Tax Credit	2006*	$13,999,995.00	$8,851,293.00
NA Research and Development	2006*	$13,556,077.00	N/A
Employment and Investment Growth Act (LB 775)	1988	$439,272,367.00	$411,444,619.00
Invest Nebraska (LB620)	2001	* *	* *
Quality Jobs Act (LB829)	1996	* *	* *
Angel Investment Credit	2011	N/A	N/A
New Markets Job Growth	2013	N/A	N/A
Total		**$956,994,278.04**	**$596,739,426.04**
Total as % of Corporate Tax Revenues (since 2006)		**71%**	**44%**

Source: Nebraska Department of Revenue, Nebraska Tax Incentives: 2012 Annual Report to the Nebraska Legislature
**Sunset provision for 2015 as of LB 164, passed in 2009*
***Participant number too low for disclosure*

Apportionment Formulas, Combined Reporting, & Throwback Rules

Multistate corporations earn profits all over the country and the world, so determining how much of the profit each state may tax is complicated. At one time, states adhered to a uniform formula averaging the share of employees in the state, the share of property in the state, and the share of sales in the state (known as the "three-factor" formula). If a company had all of its sales in a state but none of its employees or property there, the state would apply its tax to one-third of the company's profits. If a company had all of its property and employees in a state but none of its sales there, the state would apply its tax to two-thirds of the company's profits.

This "three-factor" apportionment formula has been superseded in many states, including in Nebraska, by heavier or exclusive weighting of the sales factor (and lower weighting to payroll and property factors) as states sought to shift tax burdens away from in-state businesses toward out-of-state businesses, thus exporting a portion of their tax burden. The eagerness by which states have adopted the single sales factor formula and encouraged targeted tax incentives to select companies—with little sign of the trend halting—is more evidence of the eventual extinction of the state corporate income tax as a significant revenue source in a globally competitive economy.

Some states have sought to raise corporate taxes by requiring corporations to treat certain out-of-state sales like in-state sales with policies such as mandatory unitary combined reporting or "throwback" or "throwout" rules. Pursuing these policies would increase distortions without changing the overall trend and put Nebraska at a competitive disadvantage.

Individual Income Tax

High for the Region

Nebraska's individual income tax, first enacted in 1968, has a graduated rate structure, meaning that taxable income above each threshold (after subtracting deductions and exemptions) is taxed at progressively higher percentages (see Table 19). Nebraska currently allows a standard deduction ($6,100 for singles; $12,200 for married filing jointly) and a $126 personal exemption credit for each dependent.

Table 19: Nebraska Individual Income Tax Rates, Tax Year 2012

Taxable Income	Tax Rate
>$0	2.46%
>$2,400	3.51%
>$17,500	5.01%
>$27,000	6.84%

Source: Nebraska Department of Revenue. Income brackets for married couples are twice the number shown.

Nebraska's top income tax rate is one of the highest in the region (see Figure 20), and the rates kick in at relatively low levels of income. As Nebraska grows and diversifies its economy, many prospective employees will have income levels above the top bracket, so the comparison to other states in the region and around the country is important for relocation decisions.

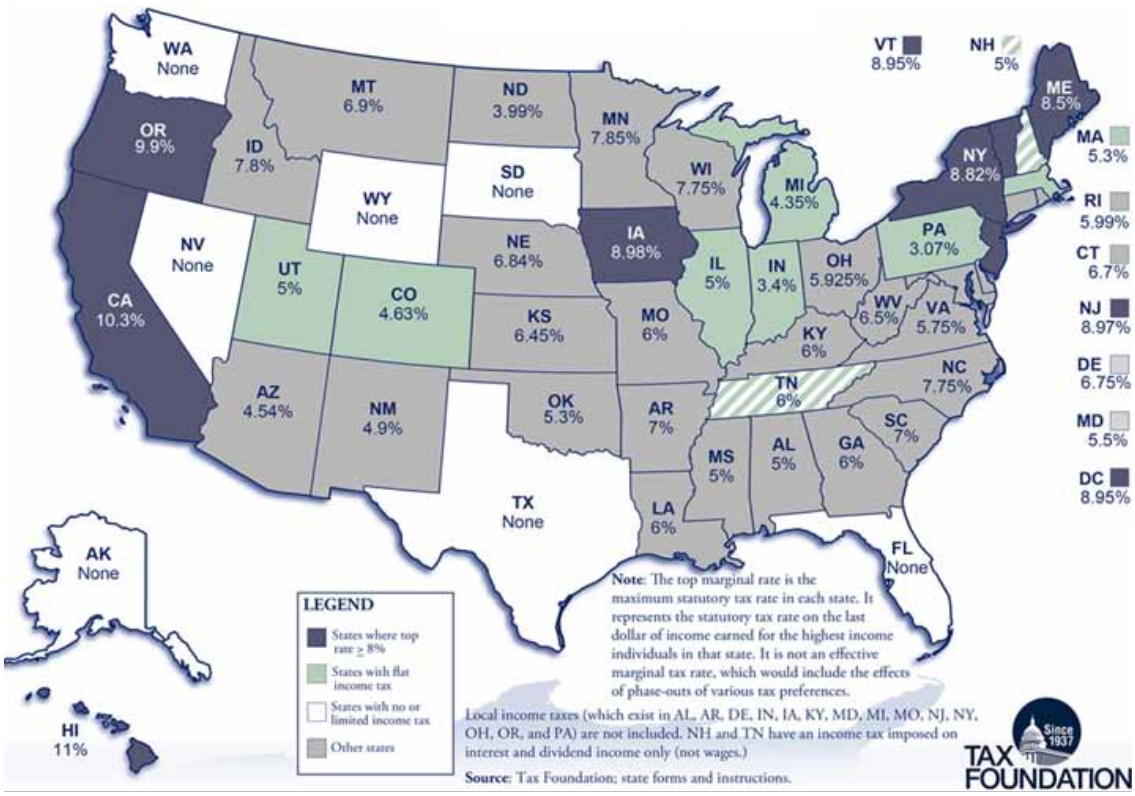
Excessive taxes on income are also generally less desirable than taxes on consumption because they discourage wealth creation. In a comprehensive summary of international econometric tax studies, Arnold et. al. (2011) found that individual income taxes are among the most destructive to growth, being outdone only by corporate income taxes.[11] The authors found that consumption and property taxes are the least harmful.

The economic literature on progressive income taxes is especially unkind.[12] For example, the Arnold et. al. study finding that reductions in the top marginal rate of income taxes would be beneficial to long term growth. Examining the period 1969-1986, Mullen and Williams (1994) found that higher marginal tax rates reduce gross state product growth. This finding even adjusts for the overall tax burden of the state, lending credence to the principle of broad bases and low rates.[13]

Prescott (2004) found that that progressive income taxes in Europe since the 1970s led workers on average to work fewer hours and not seek additional career-advancing opportunities.[14] This means that progressive tax policy today can hinder the long run earning potential of a worker for the rest of their life.

A better approach would be to tax income at a lower rate but on a broader base, reducing the "sticker shock" of Nebraska's current out-of-line tax rates. Applying the tax to all adjusted gross income would greatly reduce the taxpayers' compliance costs of calculating state taxes and eliminate distortions between types of income.

Figure 20: Top State Income Tax Rates, Tax Year 2012



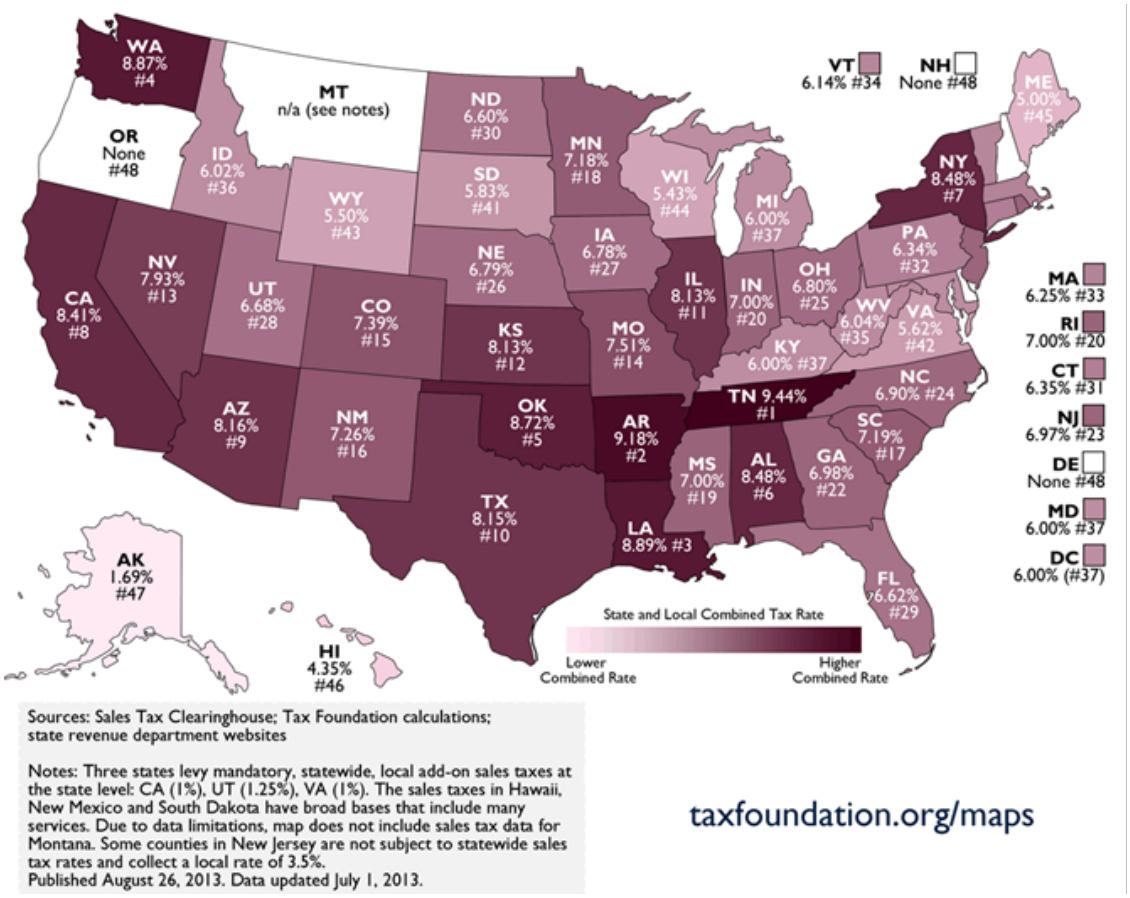
Source: Tax Foundation.

Sales Tax

Nebraska adopted its sales tax in 1967, the second-to-last state to do so.[15] Nebraska's initial sales tax rate was just 2.5 percent. The rate has generally risen over time: to 3 percent (1976), 3.5 percent (1977), 4 percent (1983), 5 percent (1990), and 5.5 percent (2002).[16] Like most states, Nebraska has not updated its sales tax as our economy transformed from a goods-based economy to today's service-based economy. Since most service transactions and some goods transactions (e.g., food) are exempt from sales tax, the rate on what is taxed must go higher.

Local governments are authorized to levy additional local sales taxes up to 2 percent; as of July 1, 2013, these average 1.29 percent.[17] Major population centers Lincoln and Omaha charge a total combined sales tax rate of 7 percent. The combined state and average local sales tax is 6.79 percent in Nebraska, the 26th highest in the country (see Figure 21).

Figure 21: Combined State and Average Local Sales Tax Rates, as of July 1, 2013



Source: Tax Foundation.

Sales Tax Applies to Business Inputs, Distorting Market

Sales taxes are intended to be a consumption tax levied on final consumer sales. In many states however, this ideal is not adhered to, as these states apply sales taxes to intermediate transactions made between businesses. This taxation of goods higher up in the production chain is called business-to-business taxation or business inputs taxation. Business inputs should be exempt not because businesses deserve special treatment, but because failure to do so results in "tax pyramiding," the process whereby taxes stack on top of each other as raw goods move through the production process.

As an example, if one were to build a car under a sales tax regime that taxes business-to-business transactions, the rubber of the tire would be taxed once when it was sold from the rubber producers to the tire company, then taxed again when the tire is sold to the car company, then taxed a final time when the finished car is sold to the end consumer. This practice inordinately burdens industries with long production lines with many components and has the inadvertent consequence of encouraging vertical integration to avoid taxes, even when it would not be otherwise economically efficient to do so. Finally, taxing business-to-business transactions reduces tax transparency, because while a statutory rate paid by the consumer at the point of final sale may be low, the business-to-business taxes are already embedded in the price of the product (see Figure 22 for an illustration).

Figure 22: Illustration of Taxes Embedded in Prices

How Tax Pyramiding Penalizes Industries with Multiple Production Stages Lumber Products Production Stage	Cost of Business Inputs	Value Added	Sale Price to Next Production Stage	Gross Receipts Tax (1%, Fully-Forward Shifted)
Timber Cutting	$0	$1,000	$1,000	$10
Milling and Processing	$1,010	$1,000	$2,010	$20.10
Wholesale Distribution	$2,030.10	$1,000	$3,030.10	$30.30
Retail Sales	$3,060.40	$1,000	$4,060.40	$40.60
Total **Effective Tax Rate ($101.01÷$4,000): 2.53 percent**		**$4,000**		**$101.01**
Auto Repair				
Parts Manufacturing	$0	$1,000	$1,000	$10
Retail Sales of Parts & Labor	$1,010.00	$1,000	$2,010.00	$20.10
Total **Effective Tax Rate ($30.10÷$2,000): 1.51 percent**		**$2,000**		**$30.10**
Computer Programming				
Programming Labor Time	$0	$1,000	$1,000	$10
Total **Effective Tax Rate ($10÷$1,000): 1 percent**		**$1,000**		**$10**

Note: Illustration assumes a one percent gross receipts tax levied on business sales, full forward-shifting of the economic incidence of the tax, and $1,000 of value added at each stage of production. Producers at the first stage of production are assumed to have zero input costs to simplify calculations. Source: Tax Foundation.

Many states try to avoid these problems by engaging in the laborious task of picking products that are frequently used as business inputs and individually carving out exemptions for them in the sales tax code. This approach is a step in the right direction but does not and cannot ever comprehensively address all the items that businesses use in the production process, which should not be subject to sales tax. A more straightforward approach would be to give businesses an identifying card to present to retailers when making business purchases that exempts them from the tax on whatever they are buying.[18]

By the latest estimate, sales taxes on business inputs make up 22.5 percent of total state and local business taxes collected in Nebraska. This is slightly higher than the 21.2 percent U.S. average.[19] Table 23 lists sales tax treatment of business-to-business transactions in Nebraska and other regional competing states.

Table 23: Exemption of Select Business-to-Business Transactions in Select States as of July 1, 2012

	General Treatment of Business-to-Business Services	Farm Equipment	Office Equipment	Manufacturing Machinery	Manufacturing Raw Materials	Business Purchases of Fuel & Utilities	Business Leases & Rentals	Software Purchases
Colorado	T	E	T	E	E	E	T	P
Iowa	T	E	T	E	E	E	T	P
Kansas	T	E	T	E	E	E	T	P
Missouri	T	E	T	E	E	E	T	T
Nebraska	**T**	**E**	**T**	**E**	**E**	**E**	**T**	**T**
South Dakota	T	T	T	T	E	T	T	T
Texas	T	E	T	E	E	E	T	T
Wyoming	T	E	T	E	E	E	T	P
States that exempt	**4**	**37**	**0**	**33**	**45**	**32**	**1**	**3**

T=Taxable; E=Exempt; P=Partly Taxable Depending on Type. Total is out of 50 states + DC. Source: Tax Foundation; Commerce Clearing House.

Sales Tax Does Not Apply to Services, at Expense of Goods Industry

When sales taxes were created in the 1930s as a response to falling revenues brought on by the Great Depression, most states placed them on goods and not services. When Nebraska established its sales tax with the Nebraska Revenue Act of 1967, the tax followed the structure of sales taxes created in other states several decades earlier. This application to "the sale of tangible personal property" was for years a satisfactory base, as it taxed roughly two-thirds of the economy. However, in the decades since then, the service sector has expanded rapidly as the economy has grown, and goods now only make up one-third of the economy.

Professor John Mikesell, a leading sales tax scholar, estimates that Nebraska's sales tax applies to about 33 percent of personal consumption expenditures, a drop from the 1970-2010 median of 44 percent and below the national average of 34 percent.[20] States that tax services have a broader base; South Dakota, for instance, applies its sales tax to an estimated 59 percent of consumption, and New Mexico applies its tax to an estimated 52 percent of consumption.

In response, instead of broadening the sales tax base to include services, most states have simply increased rates on the shrinking base of goods.[21] Nebraska is no exception and even exacerbates this narrow base and high rate situation by exempting from sales tax most medical equipment, medicine, and food purchases, leaving a revenue hole of $242 million to be filled by higher taxes on other purchases.[22]

When the state enacted the sales tax in 1968, the rate was 2.5 percent; today the rate has climbed to 5.5 percent. This practice is distortive to the economy as it discriminatorily burdens the goods industry but not the services industry. Services also represent a higher percentage of consumption for people with higher incomes, raising equity concerns, as these purchases are largely untaxed.[23]

While no state taxes all final retail sales while exempting all business inputs, the three states that do it best are Iowa, Indiana, and Connecticut. States that do the worst job include North Dakota, Arizona, Nevada, New Jersey, and North Carolina (See Table 24).

Expanding the sales tax to services has proven politically difficult. Despite many attempts, the only states that comprehensively tax services (Hawaii, New Mexico, and South Dakota) have done so since the inception of their sales tax. While the problematic track record makes reform seem daunting, at the federal level the Tax Reform Act of 1986 was able to overcome the efforts of individual lobbyists to preserve their tax benefits by enacting a comprehensive income tax reform (base broadening, rate reduction). Just as the federal tax reform of 1986 relied on producing a comprehensive, holistic reform that overcame the efforts of individual lobbyists to preserve tax benefits, a strong case can be made that successful sales tax base expansion must be comprehensive to succeed.

Attempts at limited base expansions have been more difficult, as defenders of exemptions mobilize to protect them, and are able to point out the injustice of being singled out while lawyers, accountants, real estate agents, etc. continue to offer tax-free services. This occurred in Maryland in 2007, when the state sought to tax "luxury" services. Lobbyists for many of the targeted services dissuaded the state, and the resulting legislation expanded the tax to just one service (computer services). This industry, which had no lobbyists in Annapolis, hired lobbyists the next year and got the tax repealed.[24] These and other difficulties suggest that expanding the sales tax to multiple industries at a time would be more likely to succeed.

Table 24: Taxability of Select Final Retail Services in Select States as of July 1, 2012

	Cleaning Services	Landscaping Services	Barber Services	Repair Services	Legal Services	Medical Services	Veterinary Services	Information Services	Financial Services	Accounting Services	Lobbying Services
Colorado	E	E	E	E	E	E	E	E	E	E	E
Iowa	T	T	T	T	E	E	E	E	T	E	E
Kansas	E	E	E	T	E	E	E	E	E	E	E
Missouri	E	E	E	E	E	E	E	E	E	E	E
Nebraska	**T**	**T**	**E**	**T**	**E**	**E**	**E**	**E**	**E**	**E**	**E**
South Dakota	T	T	T	T	T	E	T	T	E	T	T
Texas	T	T	E	T	E	E	E	T	E	E	E
Wyoming	E	E	E	T	E	E	E	E	E	E	E
States that tax	**18**	**19**	**4**	**21**	**3**	**2**	**4**	**9**	**2**	**3**	**6**

T=Taxable; E=Exempt; P=Partly Taxable Depending on Type. Total is out of 50 states + DC. Source: Tax Foundation; Commerce Clearing House

While large-scale sales tax expansion to services will likely be a hot button issue in state tax policy in the years to come, this report's suggested options only include small sales tax base expansion in the core recommendations. More comprehensive sales tax base expansion to services, while exempting business inputs, can be a viable addition to a tax reform effort, and Table 29 details options and revenue estimates for small, medium, and large base broadening.

Sales Tax Base Expansion Presents an Opportunity for Local Tangible Personal Property Tax Reform

One of the difficulties with making changes to the state sales tax base is that it has an impact on the collection capabilities of local option sales tax rates. For example, if the state mandates an exemption for a class of goods, localities (which are pegged to the state sales tax base) will extract less revenue from their local sales taxes and might be forced to raise rates.

Conversely, a robust expansion of the sales tax base to services leaves localities with a revenue windfall, presenting a rare opportunity for the states to lower or eliminate other economically damaging sources of local revenue.

One place policymakers should look first is elimination of the tangible personal property tax. Taxes on tangible personal property incaease the long-term cost of buying capital like machinery or equipment because they force businesses to pay taxes on those items year over year. This distorts the economy by favoring labor over capital, which has effects on growth and invention of tools that make production easier. Property taxes are a stable source of local revenue but are best when only applied to real property, not tools used in the production process.[25]

Tangible personal property taxes are discussed in more detail in the property tax section of this report.

Property Tax

Property taxes are the main source of funding local government activities within Nebraska. These taxes make up nearly 79 percent of local tax revenues (higher than the national average of 74.2 percent).[26] Local property taxation in Nebraska raised approximately $2.87 billion in 2011.[27]

Nebraska levies tax on both real property and tangible personal property.

Real property taxes are taxes on land, structures on the land, and fixtures attached to the structures, and are based on market or actual value of the property ("assessed value"). The taxable value in Nebraska is generally 100 percent of this assessed value,[28] except in the case of agriculture, where it is 75 percent.[29] Certain properties are exempt from paying property taxes, including government property used for public purposes, property owned by nonprofits, or property used for charitable, religious, cemetery, or educational purposes.[30]

Tangible personal property (TPP) taxes are taxes on property that can be touched and moved, such as equipment, furniture, and other possessions. Historically, households had to pay taxes on all personal possessions, but over time these have been exempted in all states except Oklahoma, although some states still impose property tax on automobiles. Today, state TPP taxes fall primarily on business equipment.[31] In general, tangible personal property taxes are poor tax policy because they are often only levied on businesses; they impose large compliance costs; they are complicated in nature; and they do not generate significant tax revenue. In 2009, Nebraska TPP taxes only generated 5.6 percent of total local tax collections.[32]

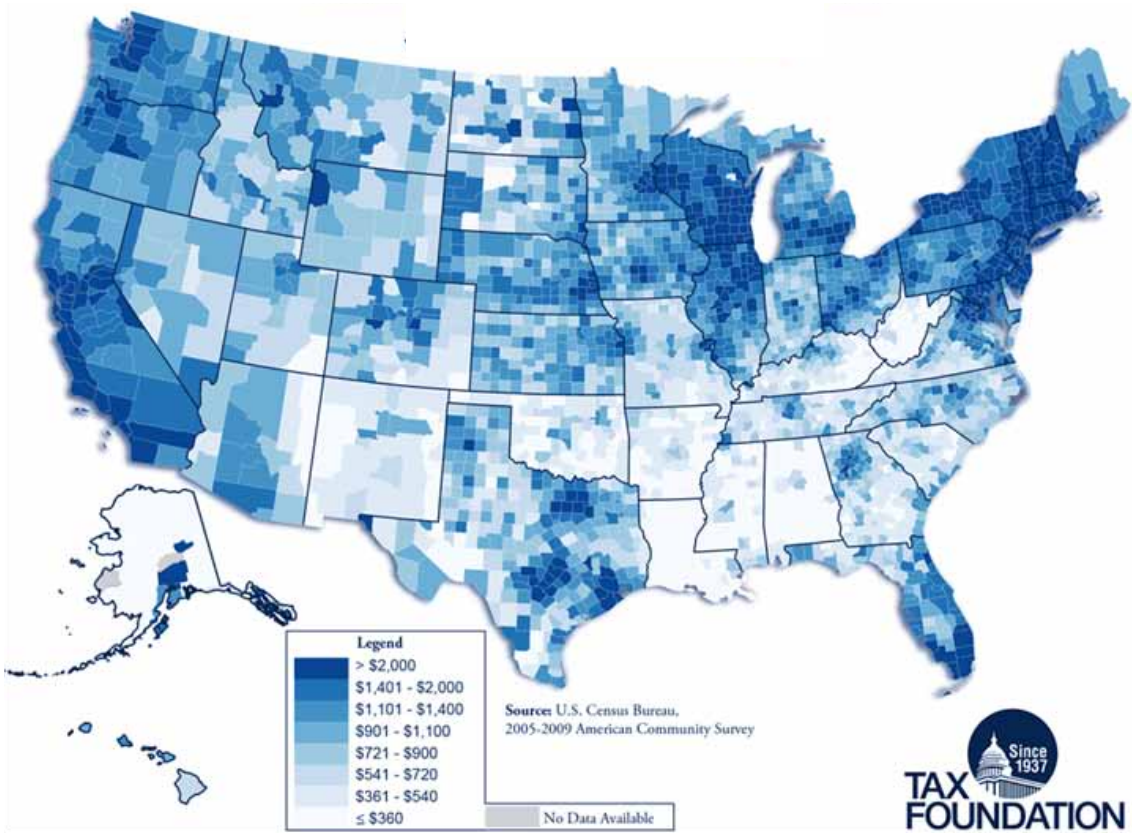
When compared to other states, Nebraska's real property taxes are higher than most (see Table 25 & Figure 26). The Nebraska mean property taxes on owner-occupied housing as a percentage of median home value in 2010 was 1.82 percent, which is 6th highest in the nation and above the 1.14 percent U.S. average.[33] Similarly, Nebraska local property tax collections per capita were $1,560 in 2011, higher than the national average of $1,377.[34]

Table 25: Property Taxes on Owner-Occupied Housing as Percentage of Median Home Value, 2010

State	Effective Tax Rate	Rank
Alabama	0.41%	49
Alaska	1.24%	18
Arizona	0.85%	29
Arkansas	0.57%	45
California	0.78%	34
Colorado	0.61%	43
Connecticut	1.70%	8
Delaware	0.49%	47
Florida	1.09%	21
Georgia	0.93%	28
Hawaii	0.27%	50
Idaho	0.74%	37
Illinois	1.93%	2
Indiana	0.84%	31
Iowa	1.34%	16
Kansas	1.35%	15
Kentucky	0.78%	34
Louisiana	0.43%	48
Maine	1.17%	19
Maryland	0.98%	23
Massachusetts	1.08%	22
Michigan	1.82%	6
Minnesota	1.10%	20
Mississippi	0.73%	38
Missouri	0.94%	27
Montana	0.85%	29
Nebraska	**1.82%**	**6**
Nevada	0.98%	23
New Hampshire	1.92%	3
New Jersey	2.01%	1
New Mexico	0.66%	40
New York	1.38%	13
North Carolina	0.81%	32
North Dakota	1.36%	14
Ohio	1.44%	11
Oklahoma	0.80%	33
Oregon	0.98%	23
Pennsylvania	1.40%	12
Rhode Island	1.47%	10
South Carolina	0.55%	46
South Dakota	1.32%	17
Tennessee	0.70%	39
Texas	1.90%	4
Utah	0.65%	41
Vermont	1.61%	9
Virginia	0.77%	36
Washington	0.98%	23
West Virginia	0.58%	44
Wisconsin	1.85%	5
Wyoming	0.62%	42
District of Columbia	0.54%	(47)
U.S. Average	**1.14%**	

Source: Tax Foundation calculations from U.S. Census Bureau data.

Figure 26: Median Property Taxes Paid by County, 2005-2009 Average



Source: Tax Foundation.

To Date: Ineffective State Relief for Local Property Taxes

Property taxes are both vital to local governments and hated by taxpayers. In broad economic terms, property taxes are the least destructive tax to economic growth; are transparent; and due to their local nature, they connect the cost of local government services to the end beneficiaries of those services. When administered badly, however, property taxes can be unfair and excessively burdensome.

At the state level, Nebraska offers two property tax relief programs.[35] These include the Homestead Exemption Act and the Property Tax Credit Relief Act. The Homestead Exemption Act allows qualified homeowners[36] to exempt a portion of their homestead from taxable value. Since this reduces local government revenue, the state reimburses local jurisdictions for exemptions paid to taxpayers via State General Fund appropriations.[37] Exemption level varies with household income and limits apply for certain eligible homeowners.[38] Nebraska's property tax exemption program provides property tax relief to the elderly, disabled, and certain veterans.

The Property Tax Credit Relief Act was enacted in the 2007 and is a credit for property taxes owed and is administered by the state government. All taxable real property owners are eligible for the credit. The total value of the credit has increased over time. In 2000, a similar (but differently named) credit granted $30.54 for every $100,000 in taxable value. No money was appropriated for the act in 2001 and it was repealed in 2002. The current credit provides $83.22 in credits for each $100,000 of taxable value. Since 2008, $115 million is appropriated annually to fund the credits.[39]

Why Not Just Increase State Aid?

Concerns about the property tax burden in Nebraska, which, at $1,487 per capita, is the 16th highest nationally, could lead to calls for state-financed property tax relief. The property tax is especially burdensome in Nebraska due to the state's much larger proportion of agricultural real property than in most states, somewhat higher homeownership rates than the national average (68.3 percent vs. 66.1 percent nationally), and lower median home value ($125,400 vs. $186,200 nationally). These factors cause the property tax to have a larger impact on business activities than in many states and the "felt burden" of property taxes to be somewhat higher. Indeed, adjusting property tax collections for median home value places Nebraska's property taxes at the 6th highest in the nation.

However, the strategy of giving additional state aid to reduce property taxes has a poor track record. States that provide large amounts of aid to local governments have similar property tax burdens to states providing very little aid. States with similarly high property tax burdens as Nebraska (such as Vermont, Michigan, or Wisconsin) all offer very large amounts of state aid but this has done little to reduce local property tax bills. New Jersey has infamously adopted income tax increases and sales tax increases to reduce local property taxes, and today has the highest property taxes and among the highest income and sales taxes.

The reasons for this strategy's lack of success are many, but research suggests that state-financed property tax relief increases citizens' willingness to accept a higher burden of taxation. At least one study has found evidence that when localities receive aid predicated upon credits for property taxes, they simply boost taxes higher, knowing the state will foot the bill.[40]

For these reasons, additional state subsidies to high-taxing local authorities are a poor solution for high property taxes.

Consider Repealing of Property Tax Credit and Replacing with Cap

The credit program provides very little tax relief. Rather than take up valuable revenue to barely reduce property tax bills, the state could consider enacting a policy that will help slow the growth of property tax revenue over time by enacting some sort of property tax limitation, also known as a property tax "cap." Nebraska has a form of cap now, but there is concern from some in Nebraska that it is ineffective in the long term.

Property tax caps come in three broad forms and can be implemented alone or in concert with one another.[41] A number of states have recently enacted variations of property tax caps, including Massachusetts, Indiana, New York and New Jersey. The mix of policies chosen will affect how restrictive the limitations are on property tax growth. They can be designed to restrain excessive property tax growth while still enabling local citizens to override caps by popular vote when desired.

The three forms of limitations or "caps" are:

1. ***Imposition of maximum tax rate.*** Setting a maximum property tax rate creates a limit on the rate of taxation. For a locality to increase a rate higher than the maximum set by law, a certain amount of voters must approve the higher rate. These rate maximums can come in the form of an overall ceiling that applies to all local taxing jurisdictions within a state (municipalities, school districts, counties), or there may be specific maximums for specific types of local jurisdictions. These maximum rates are only binding if they are accompanied by some sort of cap on increases in assessed values, because without them, increased property tax revenue could be raised by simply increasing assessed values of property within the base. These do not explicitly limit the growth of property tax revenue from year to year (only the rate).

2. ***Limitation of tax levy growth rate.*** Alternatively, a limitation can be set on the amount of revenue (levy) growth over time without stipulating a ceiling on the actual tax rate. Legislation typically dictates an allowable growth rate in revenue and stipulates the requirements for a voter override and any exemptions from the limit. This has proven to be the most effective form of cap at restraining excessive tax growth while permitting voter overrides when desired.[42]

3. ***Limitation of growth of assessed property value.*** Finally, a limit may be placed on the yearly growth in assessed valuation of property. Again, for this to be binding it must be accompanied by a rate limit, or higher revenue can be raised by simply increasing the tax rate while the assessed value is held steady. California has this limit as part of their Proposition 13, and while assessments for long-time property owners are held low, it has resulted in inequitable tax bills between similarly situated homeowners.

Cell Phone Taxes

Nebraska has the highest tax on wireless services in the United States, charging an estimated 18.67 percent combined rate, in addition to an over 5 percent federal tax. These taxes are well-hidden from most users and come in a variety of forms. In Nebraska, wireless service is subject to the state sales tax, local sales taxes, city business and occupation taxes, a state universal service fund fee (USF), a wireless 911 fee, and a telecommunications relay services (TRS) fee.

Representing these fees as a statewide percentage can be difficult as they vary with local policy and include some fixed-value fees (such as the TRS and 911 fees) which will represent different percentages depending on the size of the phone bill, with cheaper family plans paying a larger percentage than more expensive plans.

Occupation taxes also form a major component of Nebraska's high cell phone tax rate. Omaha and Lincoln levy occupation taxes of 6 percent or more. Municipal governments may prefer these taxes because they can be implemented easily without a citizen vote and, as they are generally incorporated directly into a cell phone bill, users rarely notice them. These kinds of un-transparent taxes are not sound tax policy, and make the system more burdensome.

These issues have been raised before, with previous studies recommending reductions in Nebraska's excessively high USF and its opaque occupation taxes.[43] Those recommendations remain valid, as Nebraska's citizens still pay significantly higher cell phone taxes than the nation on the whole, even as much as double some states, like Nebraska's neighbor Iowa. The Legislature enacted LB 165 in 2011 to cap local occupation taxes on cell phones at 6.25 percent, unless increased by popular vote. Officials should monitor to see if this is effective at reducing high cell phone tax bills, although the cap is set at a level that would still be the highest in the nation.

Tax Administration

The Council on State Taxation (COST) regularly grades states on their tax administration procedures. As they note:

> "[O]ur federal and state tax systems are premised, to a great degree, on voluntary compliance. It is a common truth that taxpayers will more fully and willingly comply with a tax system they perceive to be balanced, fair, and effective. Taxpayers operating in a system they perceive as oppressive, unfair, or otherwise biased are less likely to voluntarily comply. The clear message to state legislatures is that they must be sensitive to the compliance implications and competitiveness concerns created by poor tax administrative rules and ineffective tax appeal systems.[44]

Key elements COST evaluates in state tax administration include:

- ***Whether the forum deciding taxpayer appeals is independent of the tax collection authority.*** About half the states have separated the tribunal or court hearing tax cases from the department of revenue, preserving both objectivity and the appearance of objectivity.
- ***Whether taxpayers are required to pay or post a bond prior to an independent hearing and resolution of a dispute ("pay-to-play").*** Some states deny taxpayers a fair hearing before depriving them of their property.
- Whether the record for further appeals can be established before an independent body.
- Whether the arbiter at the hearing is well-versed in state tax laws and concepts.
- ***Whether the state is even-handed in imposing statutes of limitations for refunds and assessments.*** If a state can reach back three years to assess taxes, taxpayers should be able to reach back three years in pursuing refund claims.
- Whether interest rates on refunds and assessments are equalized.
- ***Whether taxpayers have adequate time to file a protest before an independent dispute forum.*** The American Bar Association recommends a ninety-day protest period, and with taxpayers complying with multiple jurisdictions, protest periods of less than sixty days are unreasonable.
- Whether corporate income tax return due dates are at least thirty days after the federal due date with procedures for automatic extension upon a federal extension.
- Whether the state has reasonable and clearly defined procedures for filing amended returns after a change in federal liability.
- Whether the state has any additional ineffective, burdensome, or inequitable practices, such as contingent fee audits, duplicative local revenue departments, use of outside counsel to litigate cases, or retroactive statutes, penalties, or interest.

In their 2010 report, the most recent produced, COST determined Alaska to have the best state tax administration and California the worst. Nebraska received a B grade in the 2010 report (see Table 27; points represent areas of concern).

Table 27: Nebraska Grade on COST 2010 Administrative Scorecard

Independent Dispute Forum	Pay-to-Play	Even-handed Statute of Limitations	Equal Interest Rates	Ample Protest Period	Return Due Date/ Automatic Extension	Filing of IRS Changes	Other Issues	Total Points	Overall Grade
3	0	0	0	0	1	1	1	6	B

Source: Council on State Taxation.

COST identified these issues with Nebraska's tax system (as of 2010):

- ***Lack of an Independent Dispute Forum.***
- ***Pay-to-Play*** (bond or prepayment required).
- ***Return Due Date.*** Return is due on the 15th day of the third month after the close of the tax year.
- ***Other Issues***
  - If a taxpayer files an amended federal return, the state may then conduct a complete re-examination of the taxpayer's tax return at any time, even for issues unrelated to the amended federal return.

The 2007 Nebraska Tax Commission Report (the Burling Study) recommended that the Legislature reform all of these areas.

Notwithstanding these issues, businesses we spoke to generally praised the current tax commissioner for accessibility and fairness.

Key Previous Nebraska Tax Reform Efforts and Proposals

1967: Nebraska Revenue Act

This major tax reform added a state income tax and a state sales tax, following a successful ballot initiative to eliminate the state property tax (leaving local property taxes).[45] The design of the sales tax followed closely on recommendations by Professor Harold F. McClellan in a 1962 legislative report, particularly with regard to exempting all business inputs and sales for resale.[46] These broad exemptions were narrowed by LB 715 in 1985 and subsequent years. The reform also repealed the tangible personal property tax on household goods, two archaic head taxes, and a tax on intangible property.

1987-88: Nebraska Ceomprehensive Tax Study ("Syracuse Study")[47]

This study recommended expanding the sales tax to personal services and exempting all business inputs and was critical of the move to "single sales factor" corporate tax apportionment.

2007: Nebraska Tax Policy Commission Report ("Burling Study")[48]

This report made a number of recommendations:

- Expand the sales tax to services
- Adjust income tax brackets for inflation
- Review the present "breathtakingly progressive" nature of Nebraska's income tax
- Review the effectiveness of the corporate income tax in general and incentives in particular
- Retain the single sales factor for corporate tax apportionment
- Impose a tax on ethanol production
- Increase state aid to local governments, with the intent of reducing property taxes
- Reject any gross receipts tax proposal
- Improve tax administration practices

2013: Governor's Proposal

Governor Heineman proposed repealing certain business-to-business sales tax exemptions for agriculture and manufacturing, using the revenue to reduce or eliminate the individual and corporate income taxes. The Legislature did not adopt the proposal but did set up a process to consider tax reform proposals, which are due by the end of 2013.

Tax Reform Options

Tax Reform Action Plan

The following pages contain a number of options for reforming Nebraska's tax system. All are designed to address Nebraska's out-of-line top income tax rates; improve competitiveness; reduce demand for corporate credits by reducing the corporate tax rate; restrain excessive growth in property taxes without making localities more dependent on state aid; and retain progressivity while reducing complexity.

Sales tax reform is not directly addressed in any of the presented options, but we include different possibilities for broadening the sales tax base and exempting business inputs that can be "added on" to any of the options. We include rate estimates, depending on whether additional revenue is used to reduce income tax rates, sales tax rates, or both.

Option 1 strives to be roughly revenue-neutral; that is, it raises about the same amount of revenue as the state's current tax system. Options 2 and 3 offer more aggressive rate reductions and would result in a reduction in the state's overall tax collections. The state could enact Option 1 and authorize Option 2 or 3 to take effect in subsequent years if revenue surpasses a designated "trigger" amount.

The revenue amounts in these options are estimates based on Tax Foundation estimates from federal and state data. Detailed estimates would need to be made by the state revenue department.

OPTION 1: Reforming the Income and Corporate Taxes with Minimal Revenue Impact

Individual Income Tax

- Reduces out-of-line rates by bringing them more in line with neighboring states. Top rate will be reduced from 6.84 percent to 5.5 percent.
- Includes generous personal exemption of $7,500 per person, increased from $6,100 per person, to ensure burden is not shifted to lower-income Nebraskans.
- Retains progressivity while reducing complexity. Imposes only two brackets instead of four; 4.0 percent tax levied on incomes below $35,000 and 5.5 percent above that.
- Drastically simplifies code by basing income calculation on Federal Adjusted Gross Income.
- Adjusts brackets for inflation to prevent automatic future increases in tax liability.
- Expands Earned Income Tax Credit to double its current size.

What will Nebraska families pay after tax reform?

- Single earners pay no tax on first $7,500.
- Families guaranteed to pay no tax on first $12,500 but could see exemption up to $22,500 depending on number of dependents.

Corporate Income Tax

- Imposes single rate of 5.5 percent, down from top rate of 7.81 percent.
- Levels playing field between businesses of all types.
- Includes proportionate reduction of tax incentives to mirror lower rate.

Sales Tax

- Retains current exemptions for agricultural industry and other business inputs.
- Includes small base expansion to services (detailed in Table 29).

Property Tax

- Option of a strengthened property tax cap to prevent future tax burden increases.

Table 28: Revenue Impact of Changes

	Estimated Revenue Impact ($millions)
Income Tax Reform	(85)
Corporate Tax Reduction and Proportionate Reduction in Credits	(30)
EITC Expansion	(15)
Limited sales tax expansion to select services	126
Net Impact	**(4)**

Source: Tax Foundation.

OPTION 2: "Trigger" to Further Reduce Corporate Tax

Individual Income Tax

- Reduces out-of-line rates by bringing them more in line with neighboring states. Top rate will be reduced from 6.84 percent to 5.5 percent.
- Includes generous personal exemption of $7,500 per person, increased from $6,100 per person, to ensure burden is not shifted to lower income Nebraskans.
- Retains progressivity while reducing complexity. Imposes only two brackets instead of four; 4.0 percent tax levied on incomes below $35,000 and 5.5 percent above that.
- Drastically simplifies code by basing income calculation on Federal Adjusted Gross Income.
- Adjusts brackets for inflation to prevent automatic future increases in tax liability.
- Expands Earned Income Tax Credit to double its current size.

What will Nebraska families pay after tax reform?

- Single earners pay no tax on first $7,500.
- Families guaranteed to pay no tax on first $12,500 but could see exemption up to $22,500 depending on number of dependents.

Corporate Income Tax

- Imposes single rate of 5.5 percent, down from top rate of 7.81 percent.
- Levels playing field between businesses of all types.
- Includes proportionate reduction of tax incentives to mirror lower rate.
- **"Trigger" to reduce rate to 4 percent if revenue exceeds a stated goal (cut taxes by approximately an additional $30 million)**
- **"Trigger" to reduce rate to 3 percent if revenue exceeds a stated goal (cut taxes by approximately an additional $40 million)**

Sales Tax

- Retains current exemptions for agricultural industry and other business inputs.
- Includes small base expansion to services (detailed in Table 29).

Property Tax

- Option of a strengthened property tax cap to prevent future tax burden increases.

OPTION 3: "Trigger" to Further Reduce Individual & Corporate Taxes

Individual Income Tax

- Reduces out-of-line rates by bringing them more in line with neighboring states. Top rate will be reduced from 6.84 percent to 5.5 percent.
- Includes generous personal exemption of $7,500 per person, increased from $6,100 per person, to ensure burden is not shifted to lower income Nebraskans.
- Retains progressivity while reducing complexity. Imposes only two brackets instead of four; 4.0 percent tax levied on incomes below $35,000 and 5.5 percent above that.
- Drastically simplifies code by basing income calculation on Federal Adjusted Gross Income.
- Adjusts brackets for inflation to prevent automatic future increases in tax liability.
- Expands Earned Income Tax Credit to double its current size.
- **"Trigger" to reduce rate to a flat 4 percent if revenue exceeds a stated goal (cut taxes by approximately an additional $500 million)**
- **"Trigger" to reduce rate to a flat 3 percent if revenue exceeds a stated goal (cut taxes by approximately an additional $750 million)**

What will Nebraska families pay after tax reform?

- Single earners pay no tax on first $7,500.
- Families guaranteed to pay no tax on first $12,500 but could see exemption up to $22,500 depending on number of dependents.

Corporate Income Tax

- Imposes single rate of 5.5 percent, down from top rate of 7.81 percent.
- Levels playing field between businesses of all types.
- Includes proportionate reduction of tax incentives to mirror lower rate.
- **"Trigger" to reduce rate to 4 percent if revenue exceeds a stated goal (cut taxes by approximately an additional $30 million)**
- **"Trigger" to reduce rate to 3 percent if revenue exceeds a stated goal (cut taxes by approximately an additional $40 million)**

Sales Tax

- Retains current exemptions for agricultural industry and other business inputs.
- Includes small base expansion to services (detailed in Table 29).

Property Tax

- Option of a strengthened property tax cap to prevent future tax burden increases.

OPTION ADD-ON: Sales Tax Reform

The chart on the following pages lists items currently taxed under Nebraska's sales tax ("Current Sales Tax Base") and base-broadening under three options (Small, Medium, and Large). All base broadening includes exempting all agricultural, industrial, and business purchases and business-to-business transactions, not because businesses deserve special treatment but because these exemptions are necessary to prevent distortions and tax pyramiding.

To estimate possible tax rate reductions under sales tax reform, we assumed that half the additional revenue would be used for income tax rate reductions and half would be used for sales tax rate reductions. Under this assumption:

- "Small" base broadening is included in formal recommendations.
- "Medium" base broadening could reduce the sales tax rate to 5.5 percent, the individual income tax rate to 5.5 percent, and the corporate tax rate to 5.5 percent.
- "Large" base broadening—which would subject some 79 percent of transactions to the sales tax, a similar percentage from several decades ago—would enable the repeal of the corporate tax, a 4 percent sales tax, and a 3 percent individual income tax. These rates would all be among the lowest in the country.

Table 29: Add-On Sales Tax Reform Option

Area of Expenditure	Current Sales Tax Base	Small Base-Broadening	Medium Base-Broadening	Large Base-Broadening
Motor Vehicles and Parts	✓	✓	✓	✓
Furniture and Appliances	✓	✓	✓	✓
Electronics and Sports Items	✓	✓	✓	✓
Jewelry	✓	✓	✓	✓
Eyeglasses, Contact Lenses, and Therapeutic Items	✓	✓	✓	✓
Books and Other Media	✓	✓	✓	✓
Groceries (excluding alcohol purchases, subject to separate excise tax)			✓	✓
Clothing & Footwear	✓	✓	✓	✓
Gasoline & Fuels			✓	✓
Nonprescription Drugs	✓	✓	✓	✓
Prescription Drugs			✓	✓
Recreational Items (Games, Toys, Pet Products, Plants)	✓	✓	✓	✓
Household Supplies	✓	✓	✓	✓
Personal Care Products	✓	✓	✓	✓
Tobacco	✓	✓	✓	✓
Periodicals		✓	✓	✓
Rental Housing				✓
Household Utilities & Communications Services	✓	✓	✓	✓
Health Care Outpatient Services (Doctor, Dentist, Home Care, Laboratory)			✓	✓
For-Profit Hospital & Nursing Home Services			✓	✓
Non-Profit Hospital & Nursing Home Services				✓
Automobile Repair Services		✓	✓	✓
Automobile & Truck Rental & Leasing		✓	✓	✓
Membership Clubs		✓	✓	✓
Amusements	✓	✓	✓	✓
Museum Admissions		✓	✓	✓
Photo Processing & Video Rental Services		✓	✓	✓
Veterinary Services		✓	✓	✓
Prepared Food & Beverages (exc. School Lunches)	✓	✓	✓	✓
Accommodations	✓	✓	✓	✓
Financial Services Furnished With Payment			✓	✓
Financial Service Charges, Fees, and Commissions			✓	✓
Investment Services			✓	✓
Trust, Fiduciary, & Custody Services			✓	✓
Day Care & Nursery Schools				✓
Higher Education Tuition & Expenses				✓
Elementary & Secondary Education Tuition & Expenses				✓
Legal Services			✓	✓
Accounting Services			✓	✓
Labor Organization Dues		✓	✓	✓
Professional Association Dues		✓	✓	✓
Funeral & Burial Services		✓	✓	✓

Table 29 Continued

Area of Expenditure	Current Sales Tax Base	Small Base-Broadening	Medium Base-Broadening	Large Base-Broadening
Personal Care Services		✓	✓	✓
Drycleaning, Clothing Repair, & Shoe Repair Services	✓	✓	✓	✓
Child Care Services			✓	✓
Social Assistance Services (Elder Care, Substance Abuse, Vocational Training, Food Relief, etc.)				✓
Other Services Provided by Non-Profit Organizations				
Household Services (Moving, Repairs, Cleaning)	✓	✓	✓	✓
Business-to-Business Transactions	some	exempt	exempt	exempt
*Share of Personal Consumption Subject to Sales Tax**	*32%*	*41%*	*65%*	*80%*
*Estimated Size of Sales Tax Base (billions of dollars)**	*$21*	*$27*	*$43*	*$52*
Revenue at Current 5.5% State Sales Tax Rate	$1.37b	$1.50b	$2.43b	$2.92b
Net Additional Revenue	n/a	$126m	$1.05b	$1.54b
Under scenario where additional revenue is split half into lowering sales tax rates and half into lowering individual and corporate tax rates:				
Corporate Tax Rate	n/a	5.5%	3%	repealed
Individual Income Tax Rate	n/a	5.5%	4%	3%
Sales Tax Rate	n/a	5.5%	4.5%	4%

Source: Tax Foundation estimates based on Personal Consumption data (Table 2.4.5U) from the Bureau of Economic Analysis, applied to Nebraska's share of national personal income. Data is year 2011.
**Percentage for current sales tax base excludes business-to-business transactions.*

Table 30: Tax Distribution Estimates Under Option 1

Federal AGI	Avg Income based on Federal AGI	Avg Income based on NE AGI	Avg Liability (under old tax system)	Average HH size	Average Total of Personal Exemptions	Taxable income (Fed AGI - PEs) (corrected to zero if negative)	Average Tax Liability under New PIT Rates	New # of Returns with Liability	Nebraska Income Tax Collections Under New PIT Rates
Negative income - $0	-$69,516	$21,022	$1,119	1.9	$14,243	$0	$0	5785	$0
$0-$10,000	$5,300	$5,314	$8	1.9	$14,243	$0	$0	124375	$0
$10,000-$20,000	$14,895	$14,832	$109	1.9	$13,977	$917	$37	122280	$4,485,957
$20,000-$25,000	$22,479	$22,368	$273	2.2	$16,692	$5,787	$231	55370	$12,816,970
$25,000-$30,000	$27,469	$27,307	$436	2.3	$17,221	$10,248	$410	51845	$21,251,917
$30,000-$40,000	$34,746	$34,513	$715	2.4	$17,644	$17,102	$684	85845	$58,724,823
$40,000-$50,000	$44,799	$44,451	$1,126	2.5	$18,709	$26,090	$1,044	65755	$68,622,744
$50,000-$75,000	$61,666	$61,136	$1,791	2.7	$20,325	$41,341	$1,749	119365	$208,737,592
$75,000-$100,000	$86,485	$85,689	$3,074	3.0	$22,194	$64,291	$3,011	77880	$234,498,383
$100,000-$200,000	$131,015	$129,798	$5,772	3.2	$22,500	$108,515	$5,443	80330	$437,263,053
$200,000-$500,000	$285,688	$280,726	$15,588	3.3	$22,500	$263,188	$13,950	16495	$230,111,023
$500,000-$1m	$669,530	$632,662	$37,842	3.3	$22,500	$647,030	$35,062	2665	$93,439,237
$1m-$5m	$1,795,951	$1,517,497	$90,513	3.3	$22,500	$1,773,451	$97,015	1025	$99,440,201
Greater than $5m	$11,594,033	$8,132,075	$434,167	3.3	$22,500	$11,571,533	$635,909	120	$76,309,120
Total	**$54,837**	**$55,082**		**2.6**					**$1,545,701,021**
	Equal to Federal AGI divided by # of Returns	Equal to NE AGI divided by # of Returns	Equal to NE Income Tax divided by # of Returns with Liability	Weighted average of household sizes from Census household data. Weights are share of total households in each income group.	Equal to Average Household Size multipllied by $7,500 per person exemption, capped at $22,500.	Equal to Average Income minus Average Total PEs	Using this rate structure: 4% on income under $35k; 5.5% on income above that (applied to Average Income).	Average of # of Returns and # of Returns with Liability	Equal to Average Tax Liability under New PIT Rates multiplied by New # of Returns with Liability

Conclusion

We undertook this project as a national organization familiar with tax developments in many states, with the view that tax systems should adhere to sound economic principles, and in the spirit of providing useful information and observations for Nebraska policymakers, journalists, and citizens as they evaluate their state's tax system.

We hope the information we provide here offers Nebraskans a menu of choices for helping their state be the place where investment, entrepreneurs, and talented individuals go in the years ahead.

Nebraska today has much to celebrate: low unemployment, high quality of life, and a diverse array of successful businesses that would make many states jealous. But beneath that success are anxieties: worries about the future of agricultural prices, about the outward migration of young people and retirees, about the cultural perception of the Plains states, and about heavy reliance on tax incentives.

Addressing these concerns requires a number of solutions, including pro-growth tax reform. A strong tax system can overcome perceived weaknesses in other areas. The options laid out in this book would reduce top individual and corporate tax rates that are too high compared to competitor states, reduce the state's dependence on offering corporate incentives, offer meaningful local property tax reform beyond just more checks from the state, and present options for sales tax modernization.

Creating sound tax policy is more than a question of how much revenue should be raised. Public finance experts and economists generally agree that not all taxes are created equal, and certain types of taxes are more damaging to the economy than others. The idea that good tax systems are simple, neutral, transparent, and stable—first outlined by economist Adam Smith in 1776—continues to serve as the cornerstone of tax reform discussions everywhere and guide the analysis and recommendations in this book.

There is no "perfect" state tax system. Our fifty states have strengths and weaknesses, and tax systems complement or compensate for these. Tax reform means setting out a vision for Nebraska, applying a set of uncontested principles to the whole of the proposal, and hearing the unique insights of all stakeholders as ideas turn into law. We hope the contributions in this book, or parts thereof, are beneficial to that process.

Go Big Red!

Endnotes

1 *E.g.*, #2 in states for employment leaders (Business Facilities magazine), #2 of pro-business states (Pollina Corporate Real Estate), #4 in quality of life (CNBC), #8 in cost of living (Wall Street Cheat Sheet), #6 in well-being (Gallup), #9 for retirees (Bankrate.com), #7 in states to make a living (MoneyRates.com). Omaha does well also: #6 in mid-sized cities for college graduates (MSN), #6 in secure metro areas to live (Farmers Insurance Group), #4 in military friendly cities (G.I. Jobs), #1 in least financial stress (Credibility.org), #9 in best cities for young entrepreneurs (Forbes), #10 for best city to start a small business (NerdWallet.com), and #2 for up-and-coming cities for music (MTV Iggy).

2 Elizabeth Malm & Gerald Prante, *Annual State-Local Tax Burden Ranking 2010: New York Citizens Pay the Most, Alaska the Least*, Tax Foundation Background Paper No. 65 (Oct. 2012), http://taxfoundation.org/article/annual-state-local-tax-burden-ranking-2010-new-york-citizens-pay-most-alaska-least.

3 See Tax Foundation, *Nebraska State-Local Tax Burden Compared to U.S. Average, 1977 to 2010,* http://taxfoundation.org/article/nebraskas-state-and-local-tax-burden-1977-2010.

4 Scott Drenkard & Joseph Henchman, *2013 State Business Tax Climate Index*, Tax Foundation Background Paper No. 64 (Oct. 2012), http://taxfoundation.org/article/2013-state-business-tax-climate-index.

5 *See, e.g.*, Robert Carroll, *Corporate Taxes and Wages: Evidence from the 50 States*, Tax Foundation Working Paper No. 8 (Aug. 2009), http://taxfoundation.org/article/corporate-taxes-and-wages-evidence-50-states. *See also* Jim Nunns, *How TPC Distributes the Corporate Income Tax*, Tax Policy Center Working Paper (Sep. 13, 2012) (changing TPC's assumption from 0 percent incidence on labor to 20 percent incidence on labor, citing wide evidence of impact on labor), http://www.taxpolicycenter.org/UploadedPDF/412651-Tax-Model-Corporate-Tax-Incidence.pdf.

6 *See, e.g.*, David Brunori, State Tax Policy: A Political Perspective 95-110 (3rd ed. 2011).

7 Tax Foundation, Location Matters: A Comparative Analysis of State Tax Costs on Business (2012), http://taxfoundation.org/article/location-matters.

8 Tax Foundation calculation based on Nebraska Department of Revenue, *Nebraska Tax Incentives: 2012 Annual Report*, July 15, 2013, http://www.revenue.ne.gov/incentiv/annrep/12an_rep/12_annrp.html.

9 Tax Foundation estimate based on available data. The wide range is because some incentives data is not publicly available due to confidentiality agreements. Many corporate incentives are tied to sales and property taxes but are included here for perspective.

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Platte INSTITUTE for economic research

900 South 74th Plaza
Suite 400
Omaha, NE 68114
402.452.3737
platteinstitute.org

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Platte Institute

900 South 74th Plaza, Suite 400
Omaha, NE 68114
(402) 452-3737
www.platteinstitute.org

Tax Foundation
National Press Building
529 14th Street N.W., Suite 420
Washington, DC 20045
(202) 464-6200
www.TaxFoundation.org