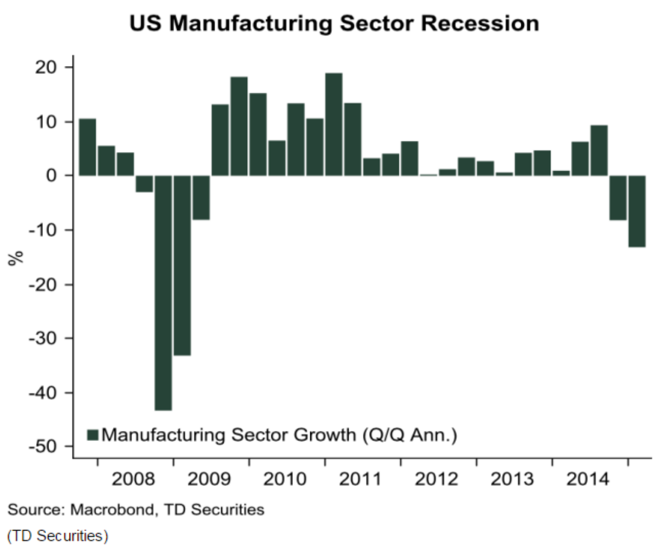
One Property Tax That Should Be Easy to End

By Jessica Herrmann

Nebraska's manufacturing industry received an early lump of coal for Christmas this past week. Creighton University's Mid-America Business Conditions Index reported that in 2016, Nebraska will continue losing twice as many industrial jobs as the national rate. U.S. manufacturing activity recently hit the lowest level since the recession.[1]

Nebraska has already lost an estimated 2,500 manufacturing jobs over the past year, mostly from ethanol and food processing plants.[2] According to Creighton University economist Ernie Goss, falling commodity and oil prices have contributed to the state's job losses. [3] The current strength of the U.S. dollar abroad is also hurting U.S. agricultural exports, as these goods are more expensive for international consumers.[4]



Unfortunately, these conditions are not likely to improve in the coming months, particularly for a state with a manufacturing industry that is heavily dependent on agriculture. While the Nebraska Legislature cannot control global markets, lawmakers can improve the cost of doing business in Nebraska by making policy improvements to

[1] "The Employment Situation – November 2015." Bureau of Labor Statistics, U.S. Department of Labor, Dec. 4, 2015. http://www.bls.gov/news.release/pdf/empsit.pdf
[2] "Nebraska Workforce Trends: Nov 2015." Nebraska Department of Labor, November 2013, p. 7 https://dol.nebraska.gov/webdocs/Resources/Trends/November%202015/Trends_NOV_2015_FINAL.pdf
[3] Epley, Cole. "No boost in business conditions in November; manufacturing job losses expected to continue in 2016." Omaha World Herald, Dec. 2, 2015. http://www.omaha.com/money/no-boost-in-business-conditions-in-november-manufacturing-job-losses/article_5b99561f-d68d-50a9-917f-26cdcac62d4e.html
[4] Newman, Jesse. "Strong Dollar Shreds Wheat Exports." The Wall Street Journal, Dec. 6, 2015. http://www.wsj.com/articles/strong-dollar-shreds-wheat-exports-1449444757

the state's tax code. This is even more important considering Nebraska's economy also competes with growing states that are not suffering from large manufacturing job losses.

Repealing the property tax on tangible personal property is one policy solution that should be strongly considered, however long it may take to responsibly phase out the tax entirely. While tangible personal property tax is collected locally, deciding which classes of property are subject to tax in Nebraska is a power reserved for the Legislature.

Currently, Nebraska is one of increasingly few states in our region to tax tangible property used for the production of income. This personal property typically includes machinery, equipment, pivots, irrigation systems, and motors.

According to the Tax Foundation, good tax policy should promote economic growth by raising revenue in the least economically destructive manner possible. [5] Personal property taxes, however, reap serious economic harm while comprising very little of total tax collections.[6] States are starting to recognize that the small amount of revenue gained from these taxes is not worth the damage to local economies.

Personal property taxes are a major drain on businesses. Taxing machinery and equipment decreases the value of labor and stifles overall production. This is nonsensical considering these investments are often the vehicles that allow a small business to compete on a larger scale.

Conflicting assessment ratios, tax rates, and depreciation schedules also make it difficult for business owners to calculate capital investments. This leads to excessive compliance costs and more government bureaucracy.

In 2015, Nebraska's Legislature passed a bill to partially exempt tangible personal property from taxation. LB 259, introduced by Revenue Committee Chairman Mike Gloor, exempted the first $25,000 filed. [7] This legislation is a strong first step toward reducing the economic impact of this harmful tax.

Next year, policymakers should begin work toward a full exemption, and counties should exercise local spending control to help facilitate this process. Nebraska's manufacturers cannot control the strength of the U.S. dollar, falling oil prices or global

[5] "Principles of Sound Tax Policy." Tax Foundation. http://taxfoundation.org/principles-sound-tax-policy

[6] Errecart, Joyce, Ed Gerrish and Scott Drenkard. "States Moving Away From Taxes on Tangible Personal Property," Tax Foundation, Oct. 4, 2012 http://taxfoundation.org/article/states-moving-away-taxes-tangible-personal-property

[7] Legislative Bill 259. 104th Nebraska Legislature, first session. 2015. http://nebraskalegislature.gov/FloorDocs/104/PDF/Intro/LB259.pdf

demand for U.S. agriculture. However, the Legislature can control whether Nebraska has favorable conditions for businesses to invest, succeed and expand.