



# PlatteChat

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

Platte  
INSTITUTE  
for economic research



## Role of State and Local Taxes in Nebraska's Economic Growth

*New Platte Policy Study by Dr. Eric Thompson, UNL*

Nebraska municipalities are actively raising taxes on businesses. For example, Omaha and Lincoln have both increased tax rates on various hospitality services and with the passage of LB 357, the Unicameral enabled future municipal sales tax increases.

Policy-makers have demonstrated willingness to increase taxes, but have fairly consistently opposed increases in income and property taxes. This suggests they either believe that 1) sales taxes are significantly less harmful to the economy than income and property taxes; 2) the public is more tolerant of sales tax increases or 3) both.

Regardless, now is the time for Nebraska to take a look at the influence of sales taxes on our economy and future economic growth both in an absolute sense and relative to other types of taxes. These issues are explored in a new study published by the Platte Institute and authored by Dr. Eric Thompson, with the Bureau of Business Research in the Department of Economics at UNL's College of Business Administration:

The principal findings:

- Economic theory suggests that sales taxes would have a similar impact on the economy as income taxes in terms of discouraging work effort and encouraging the flight of population, employment and economic activity. However, sales taxes would have less of an impact on investment than income taxes.
- Empirical research over the last three decades finds that sales taxes create as large a negative impact on state and local economies as income taxes.
- Municipal sales taxes in particular have a negative impact on economic activity in municipalities located near alternative retail trade centers. Likewise, municipal sales taxes adopted in cities along the state border have substantial potential to impact state economic activity and the state sales tax base.
- Municipal sales tax increases can be expected to turn into statewide sales

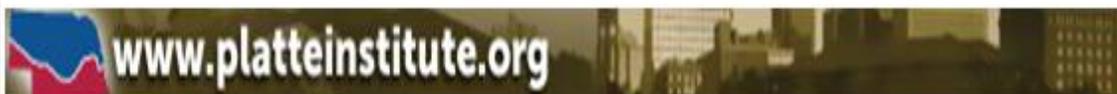
taxes increase over time as more and more municipalities representing a larger share of the state taxable sales adopt higher rates.

- The State of Nebraska may consider broadening the sales tax base to include selected services and e-commerce. However, any such policy should be revenue neutral, meaning that the state income tax rate, the state sales tax rate, or both should be cut as the sales tax base also should focus on taxing more household services, and should carefully consider whether the additional revenue from broadening the base merits the additional administrative costs for business.

- This study also used the adoption of a 2.0% local sales tax rate in Omaha and Lincoln which would lead to a reduction in sales tax base and associated economic activity in those municipalities. Part of that loss of sales tax base would result in higher sales tax revenue in neighboring jurisdictions. As municipalities begin to adopt the 2.0% local option sales tax, the State of Nebraska may want to cut the state sales tax from 5.5% to 5.0% to avoid an increase in the overall sales tax burden in the state. At the same time, the State of Nebraska can further enhance local control of tax and expenditures policy by curtailing state aide for public schools and state property tax credits.

The study examined the theoretical implications of sales taxes on local and state economies and summarized empirical research on the influence of sales tax rates. Analysis examined both the influence of sales taxes and the relative influence of sales taxes versus income taxes for the economy. In conclusion, empirical research shows state income and sales taxes to have a similar negative impact on state economies. The adoption of a 2.0% local sales tax rate combined with the State of Nebraska curtailing state aide for public schools and state property tax credits is a viable alternative to combat this. The state may also consider broadening the sales tax base to include selected services and e-commerce sales.

[Click here to view the full report](#)



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