



# Overview of Nebraska Tax Policy

# About OpenSky Policy Institute

The best choices are informed choices. At OpenSky, we work to make sure lawmakers and other leaders have quality data and research to make decisions that help our communities thrive.

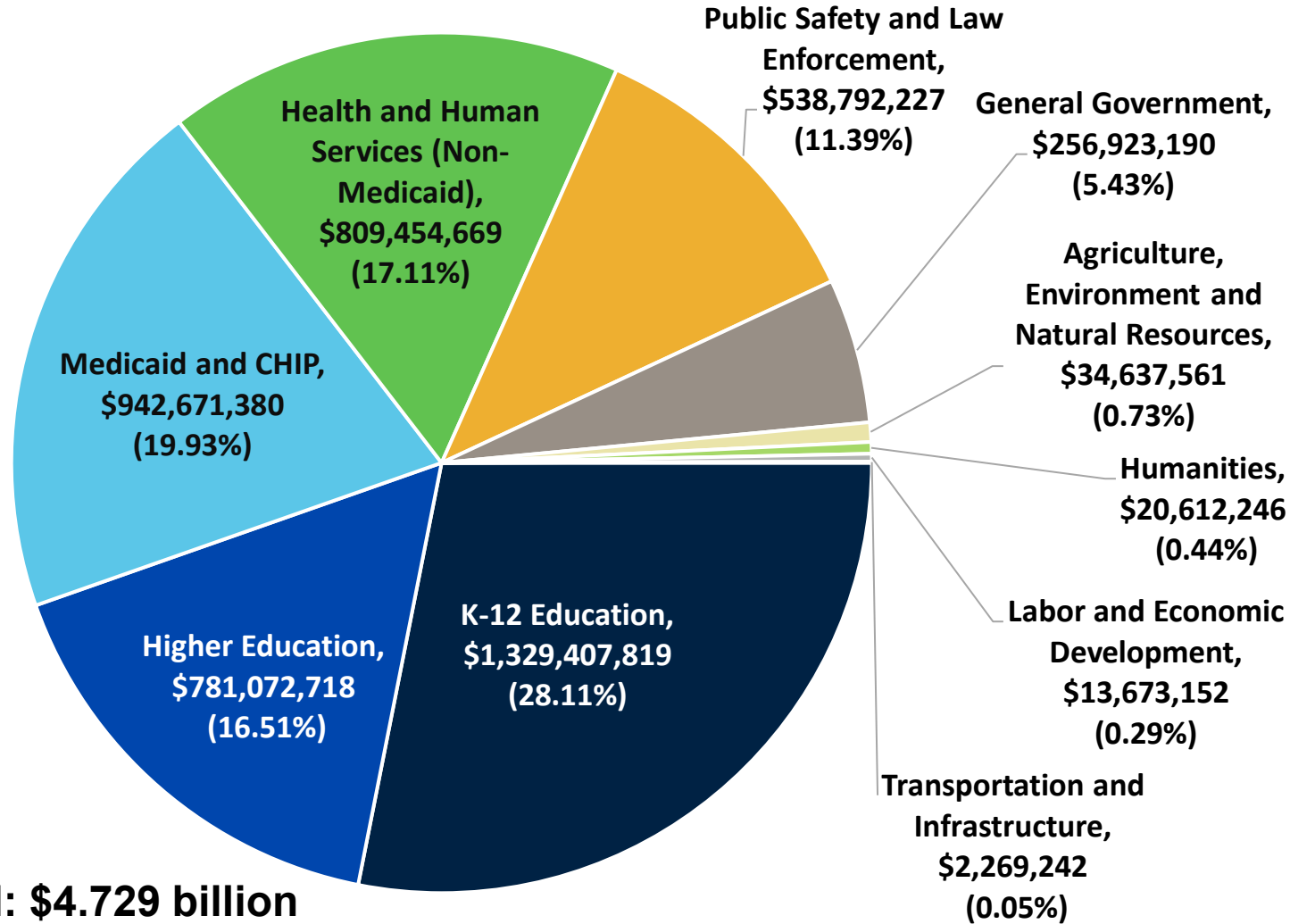
We are **non-partisan** and focus on **tax, budget, and education finance** policy in Nebraska.

# Today's Presentation:

- Quick Budget Review
- Tax Basics
- How We Compare
- Current Policy Issues

# Education, Health Care Top Spending

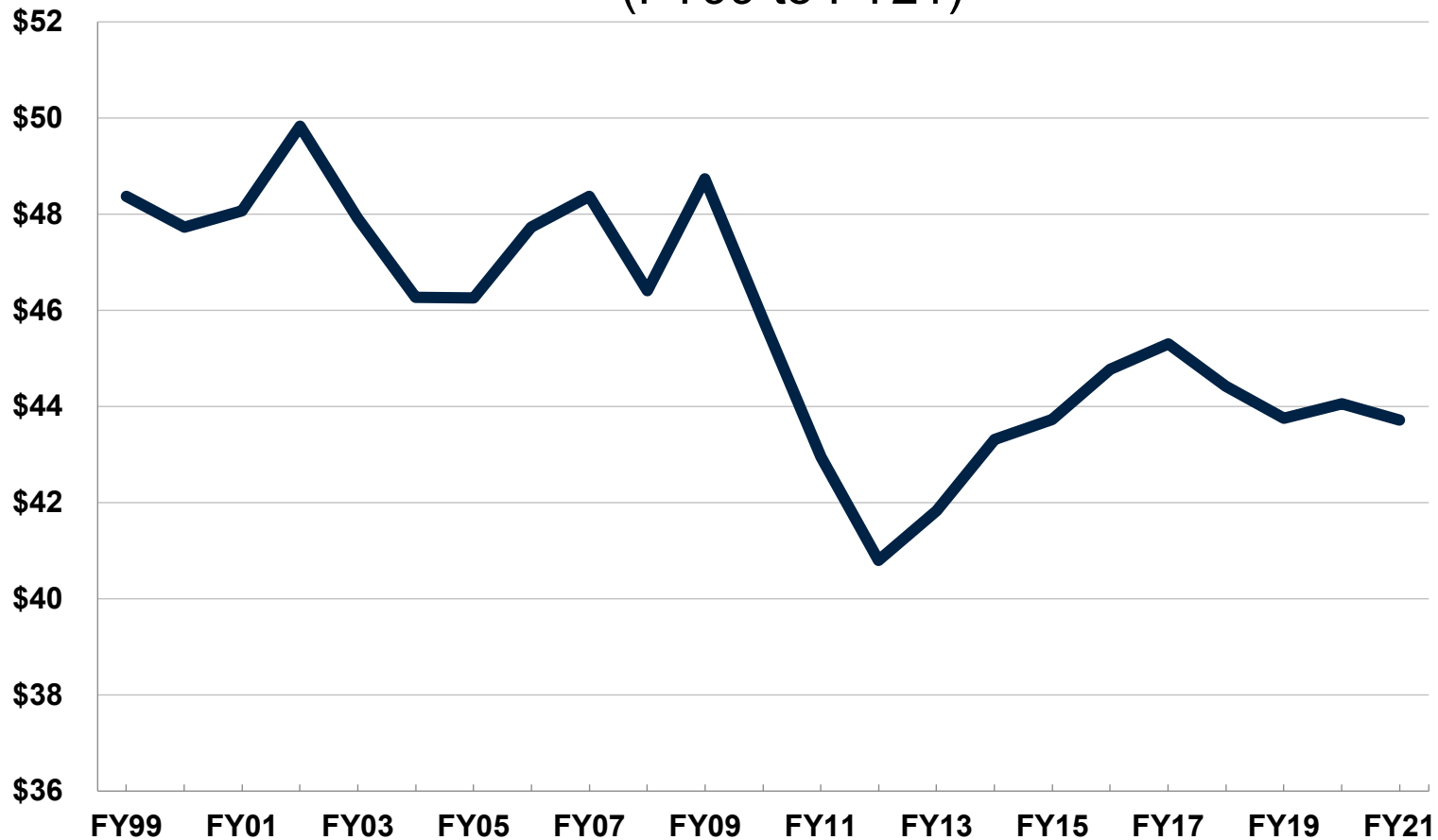
## General Fund Appropriations, FY21



**Total: \$4.729 billion**

# Appropriations declined significantly as a result of the Great Recession; could signal what is to come

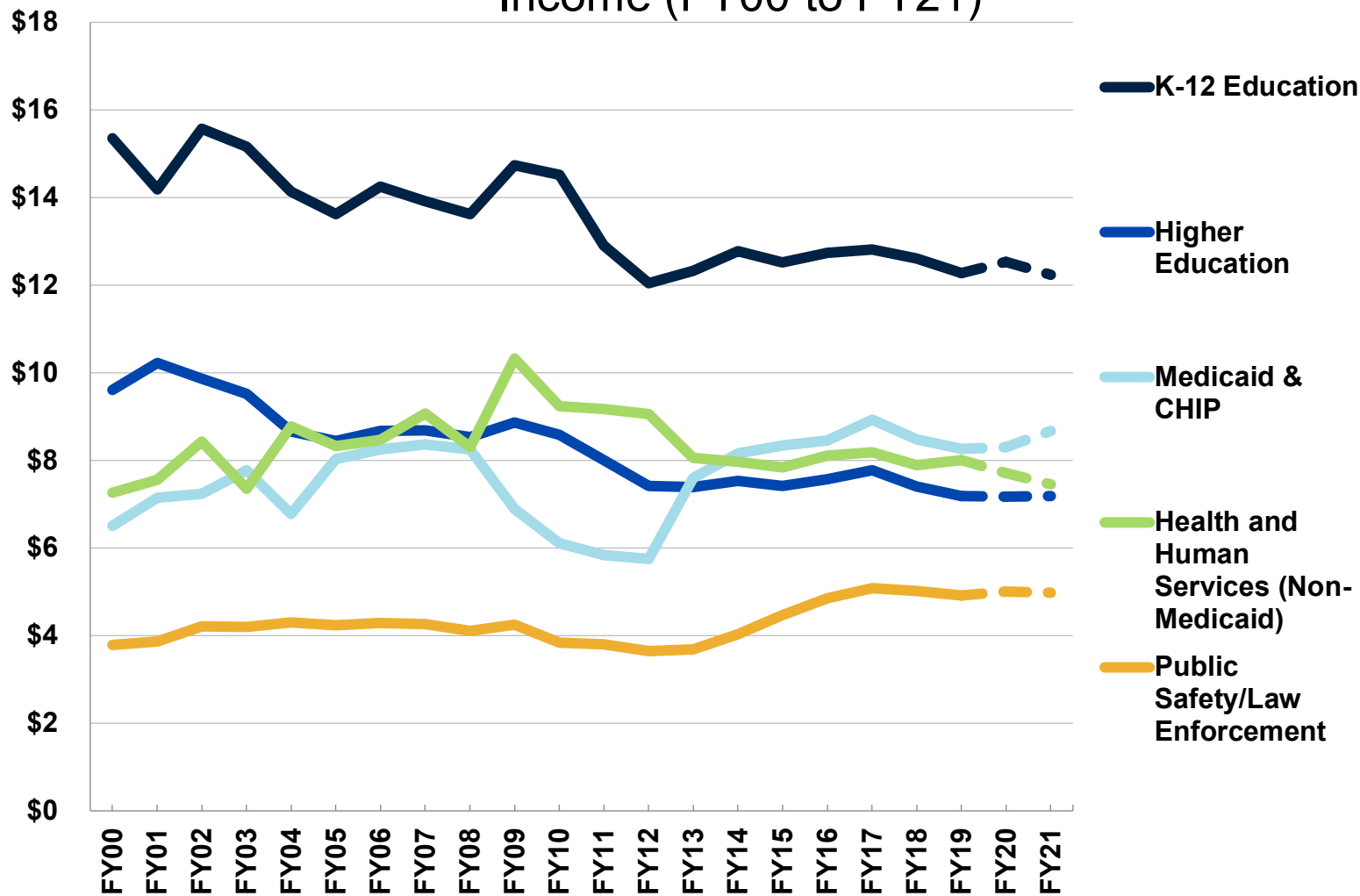
General Fund Appropriations per \$1,000 of NE Personal Income  
(FY99 to FY21)



Source: Legislative Fiscal Office

# Appropriations Trends in Major Budget Areas

General Fund Appropriations per \$1,000 of NE Personal Income (FY00 to FY21)

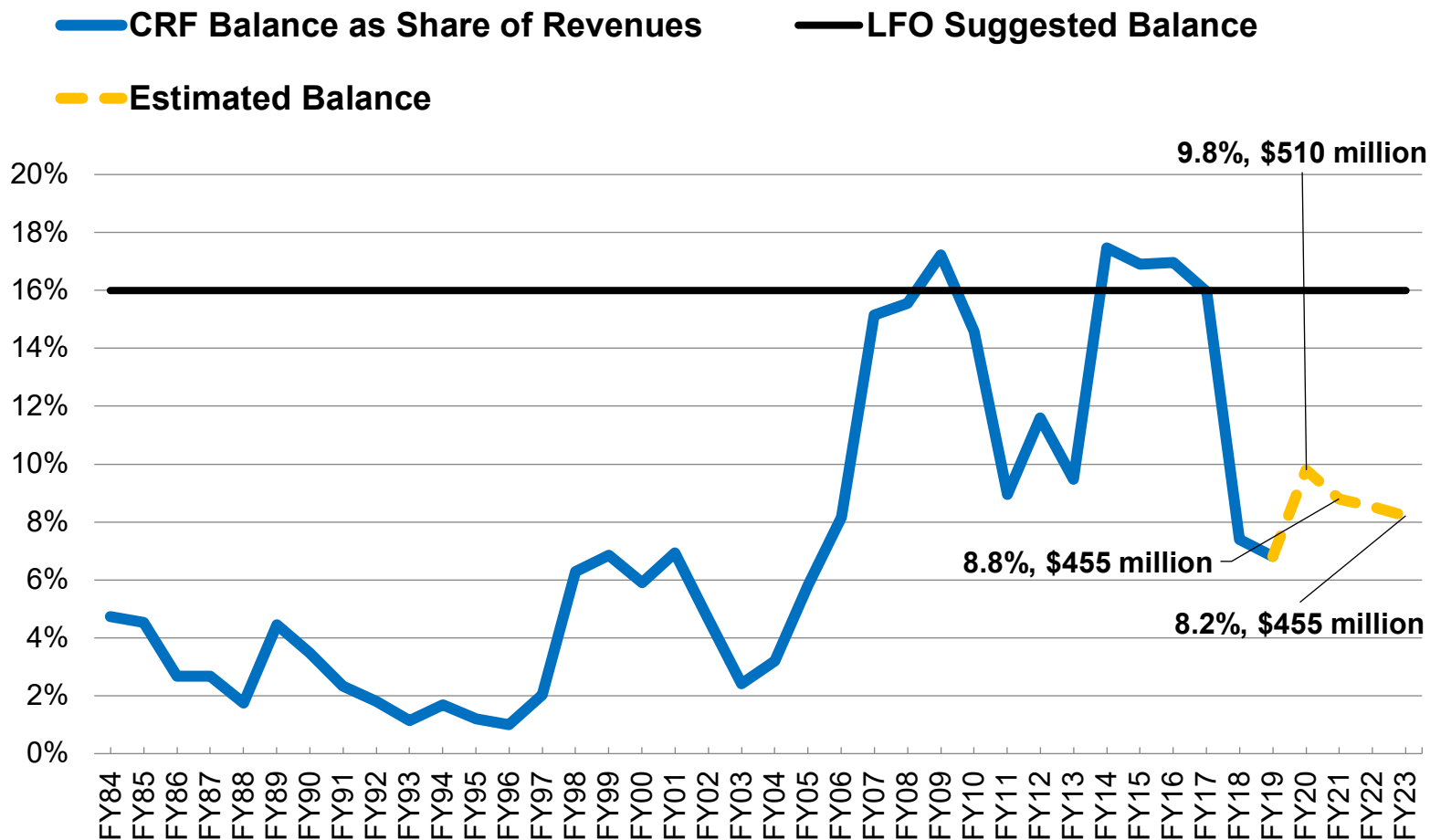


Note: Dashed line represents FY2019-FY 2021 Biennial Budget

Sources: Legislative Fiscal Office, U.S. Bureau of Economic Analysis, Appropriations Committee

# Cash Reserve Fund Departing From a Healthy Balance

Cash Reserve Fund Balance as Share of General Fund Receipts, FY84 to FY23



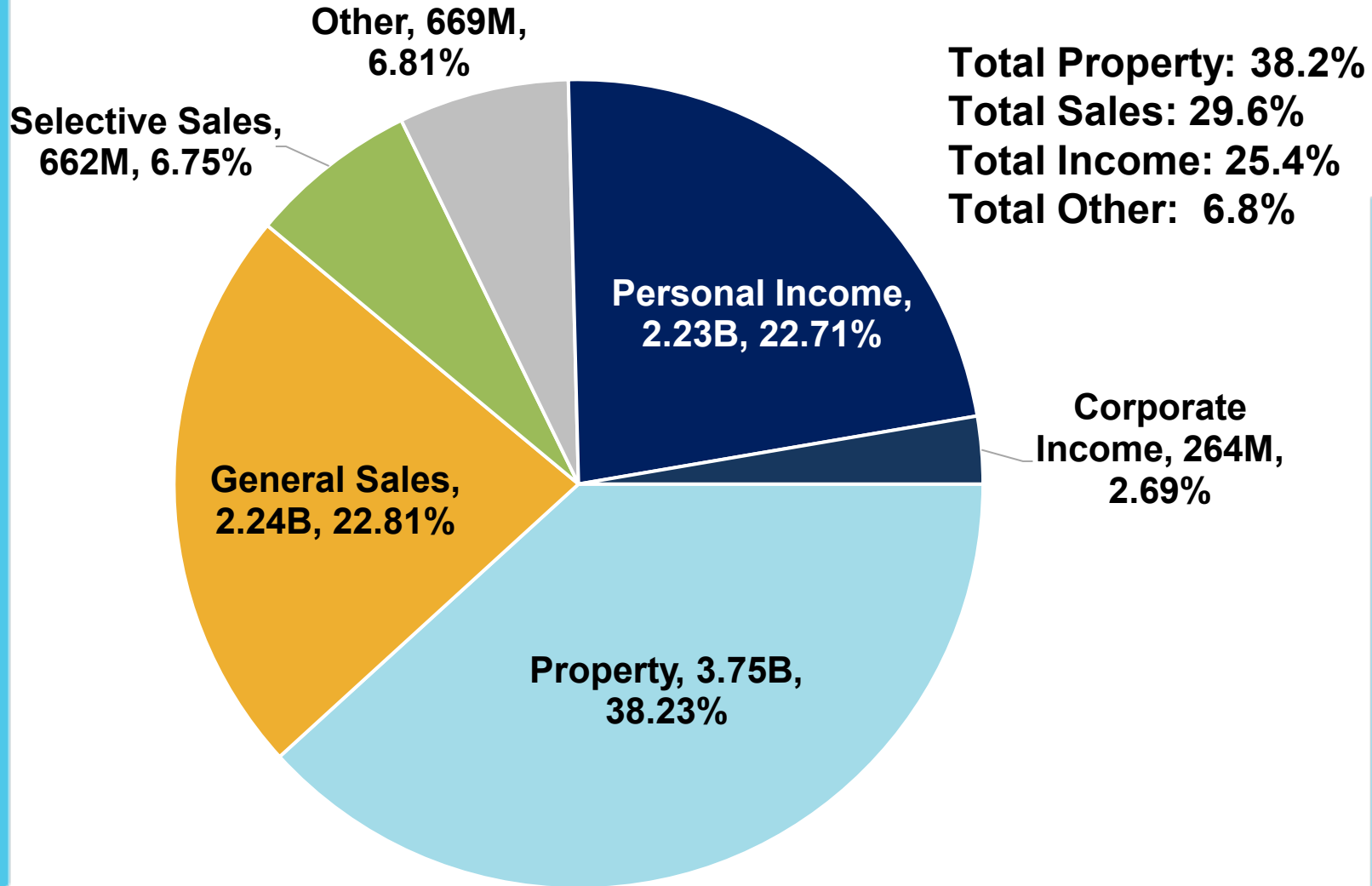
Source: Legislative Fiscal Office, Appropriations Committee Preliminary Report (February 2020), Nebraska Economic Forecasting Advisory Board (February 2020)

# TAX BASICS



# Nebraska's Three-Legged Stool

State and Local Taxes by Type, 2017



# Balancing the 3-Legged Stool

State and Local Taxes			
	% Actual (2017)	% - Balanced	Difference
Property	38.2%	31.05%	<b>-\$705M</b>
Sales (Includes General + Selective)	29.6%	31.05%	<b>+\$147M</b>
Income (Includes Personal + Corporate)	25.4%	31.05%	<b>+\$556M</b>
Other	6.8%	6.85%	\$0

# PROPERTY TAXES

# Property Taxes

## Taxable:

- Real property is taxed and assessed at 100% of its market value, except for agricultural and horticultural land, assessed at 75% of its market value.
- Personal property of businesses, including commercial property, agricultural property, Public Service Commission property, and railroad property.

## Exempt from Taxation:

- Intangible and personal household property.
- Property of certain educational, religious, charitable organizations, or cemeteries, that is owned by the organization, used exclusively for those purposes, not employed for financial gain or profit, and not used for liquor sales more than 20 hours per week.
- The first \$10,000 of tangible personal property value for each tax district in which a personal property tax return is filed.

# Property Taxes

- Property tax rate varies by locality and raises more money than any state tax.
- Statewide average total property tax rate is \$1.68 per \$100 of property value (ranges from \$.75 to \$2.31).

## Levy Limits:

- \$1.05 limit for school districts.
- 50-cent limit for counties and municipalities.
- Other limits for smaller government entities, like natural resource districts and community colleges.
- Levy limits can be overridden by local voters.

# INCOME TAXES

# Income Taxes

Tax Year 2019

Bracket	Married, Filing Jointly	Head of Household	Single Individual	Tax Rate
1	\$0 - \$6,440	\$0 - 6,020	\$0 - \$3,230	2.41%
2	\$6,440 - \$38,680	\$6,020 - \$30,940	\$3,230 - \$19,330	3.51%
3	\$38,680 - \$62,320	\$30,940 - \$46,200	\$19,330 - \$31,160	5.01%
4	Over \$62,320	Over \$46,200	Over \$31,160	6.84%

*The income amounts within each bracket are adjusted annually for inflation.*

Source: Nebraska Department of Revenue, 2019 Nebraska Income Tax Calculation Schedule

# Individual Income Taxes

## About the individual income tax:

- Nebraska standard deduction: \$13,800 for married couple, \$6,900 for individuals.
- Personal exemption credit: \$137 per exemption.
- Itemized deductions for charitable giving, medical expenses, state and local taxes, others.
- Deductions reduce how much income is subject to taxation, so if you fall into the 6.84% bracket, a \$1,000 deduction would save you \$68.40.
- Credits are dollar-for-dollar reductions of tax liability, so a \$1,000 tax credit saves you \$1,000.



# Retirement benefits

## Military retirement:

A portion of military retirement income is exempt: either 40% for seven consecutive years beginning in the year the election is made, or 15% for all taxable years beginning with the year in which he or she turns 67.

## Social security:

Taxpayers do not pay state income taxes on social security benefits if they are a married couple with AGI under \$58k, or a single taxpayer with income under \$43k. Beginning in 2020, these amounts will be indexed to inflation. Taxed on no more than 85% of benefits.

# Marginal vs. Effective Income Tax Rates

	Effective Tax Rate
First 7 Deciles	1.76%
8 <sup>th</sup> Decile	3.17%
9 <sup>th</sup> Decile	3.81%
10 <sup>th</sup> Decile	4.81%
Top 500 Returns	3.53%

# Corporate Income Taxes

<b>If Taxable Income is:</b>	<b>The Nebraska Tax is:</b>
\$0 - \$100,000	5.58% of income
Over \$100,000	5.58% on the first \$100k + 7.81% of the excess over \$100k

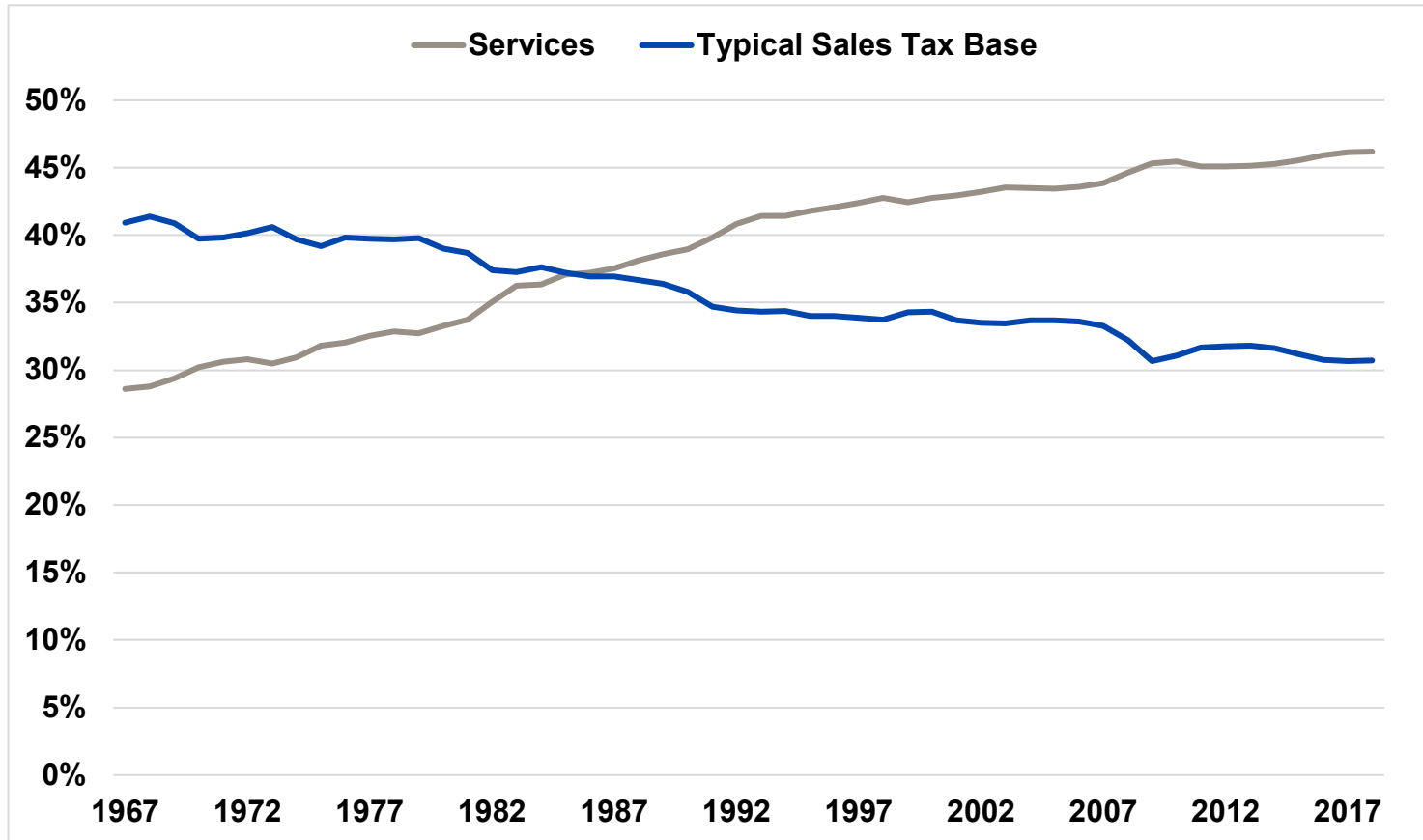
# SALES TAXES

# Sales Taxes

- Sales tax rate: 5.5% with up to 2% additional local option - 238 local jurisdictions utilized the local option as of July 2019.
- What's taxed: Goods, some services and labor charges.
- What's not: Many services, groceries, business inputs.
- Nebraska taxes 81 out of 176 services taxed in other states.
- \$178 million in annual revenue loss due to untaxed consumer services.
- Quarter-cent of sales tax diverted to the State Highway Capital Improvement Fund since 2013 – approximately \$83 million in FY19.

# Sales Tax Base Eroding

Goods and Services as Share of Household Consumption



Source: U.S. Bureau of Economic Analysis

# OTHER TAXES

# Gas Taxes

Nebraska's gas tax is 29.3 cents per gallon for the first half of 2020. It raised \$172 million in FY19. The tax consists of:

- A **fixed tax** set by the legislature (16.3 cents per gallon). Revenue is shared between the Department of Transportation (DoT) and city and county governments.
- A **wholesale tax** based upon five percent of the average wholesale cost of fuel in the previous six-month period. The tax is 10.2 cents per gallon for the first half of 2020. Revenue is shared between the DoT and city and county governments.
- A **variable tax** requested by the DoT Director to meet the appropriations made from the Highway Cash Fund by the Legislature. The tax is 2.8 cents per gallon for the first half of 2020. Revenue goes only to the DoT.



# Other Nebraska Taxes

- **Alcohol taxes:**
  - Wine: \$0.95/gallon (16<sup>th</sup>)
  - Beer: \$0.31/gallon (20<sup>th</sup>)
  - Liquor: \$3.75/gallon (39<sup>th</sup>)
- **Tobacco taxes:**
  - Cigarette Tax: \$0.64/pack (41<sup>st</sup>)
  - Other products: 20% of wholesale price
- **Lottery tax**
  - 2% of gross proceeds
- **Insurance tax:**
  - 1% of the gross amount of direct written premiums received for business done in Nebraska

# Inheritance Taxes

- Spouses - Exempt
- Close relatives and siblings – 1% on amount over \$40k
- Remote relatives – 13% on amount over \$13k
- Nonrelatives – 18% on amount over \$10k

## All revenues go to counties:

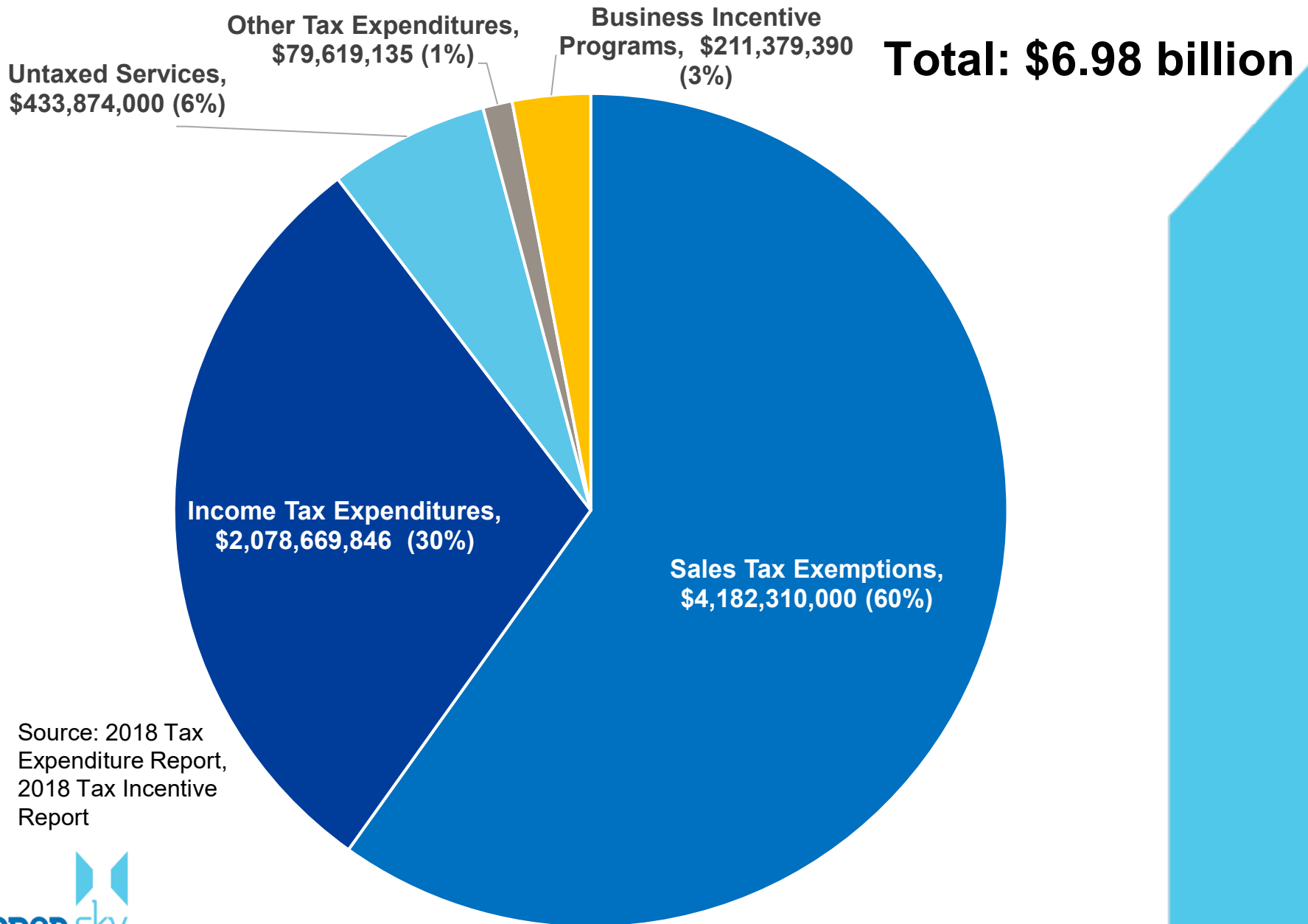
- A total of \$70.5M (FY18) to counties.
- Amount of inheritance tax collected varied, ranging from \$74 in Arthur Co. to \$16,240,156 in Douglas Co.
- Average county revenue - \$757,590
- Median county revenue \$353,519

# STATE TAX EXPENDITURES

# Introduction to Tax Expenditures

- As defined by NCSL: “A tax expenditure is an exemption, deduction, credit, exclusion, or other deviation from the ‘normal’ tax structure.”
- Tax expenditures are spending through the tax code; essentially on auto pilot once enacted.
- Tax expenditures are costly to the State and lack transparency.
- [The Tax Expenditure Report](#) is published each October 15 and presented to Revenue and Appropriations before December 1.

# Tax Expenditures by Type, 2018



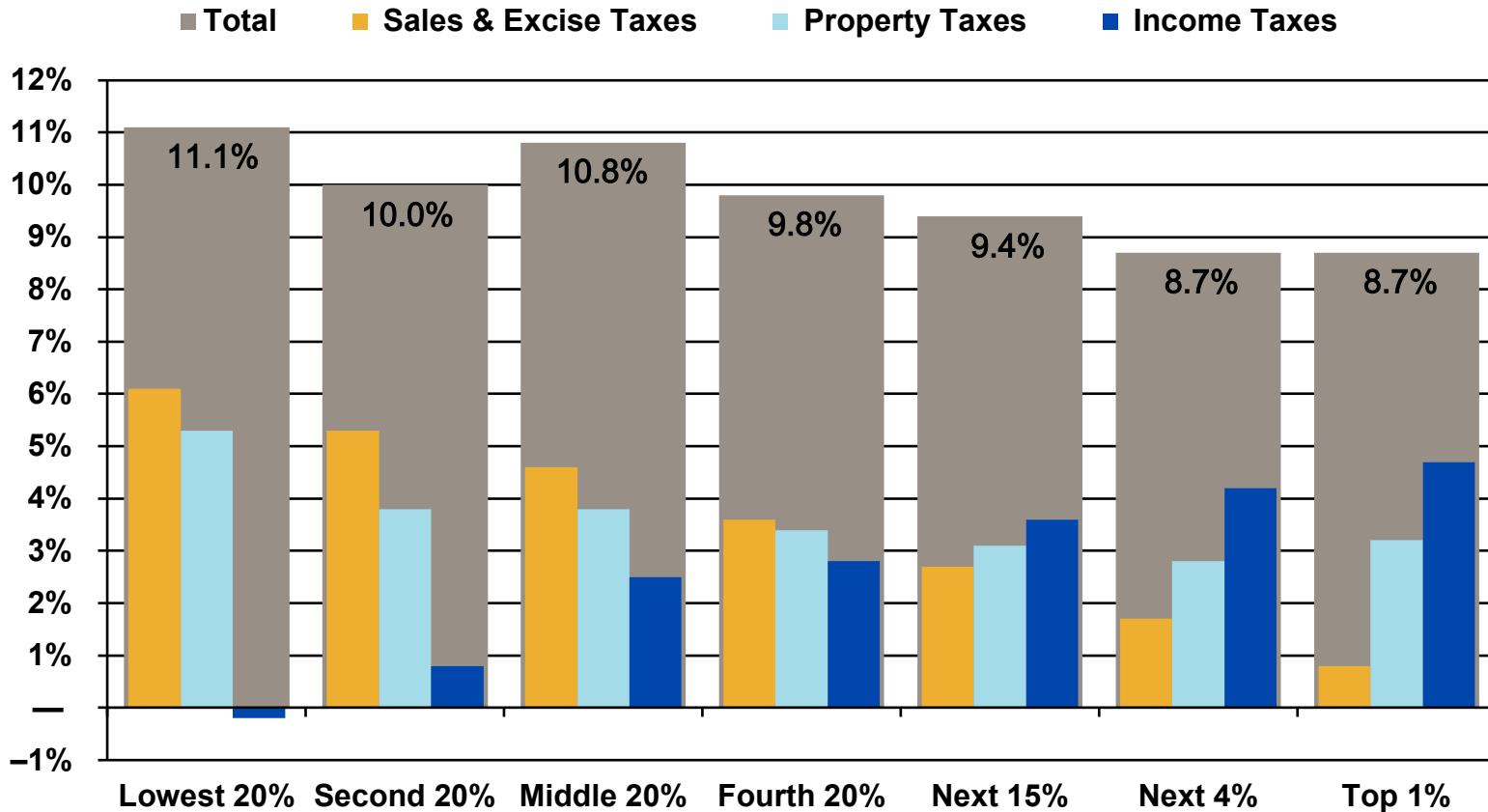
Source: 2018 Tax Expenditure Report, 2018 Tax Incentive Report

# HOW DO WE COMPARE?

# NE Not a High Tax or Spending State

2017 Rankings (U.S. Census Bureau)	Per Capita	Per \$1k of Personal Income	Per \$1k GDP
State & Local Taxes	16 <sup>th</sup>	17 <sup>th</sup>	29 <sup>th</sup>
State & Local Spending (Direct Expenditures)	23 <sup>th</sup>	29 <sup>th</sup>	37 <sup>th</sup>
Individual Income Tax	22 <sup>nd</sup>	25 <sup>th</sup>	29 <sup>th</sup>
Corporate Income Tax	17 <sup>th</sup>	22 <sup>nd</sup>	28 <sup>th</sup>
Sales Tax	21 <sup>st</sup>	25 <sup>th</sup>	27 <sup>th</sup>
Property Tax	13 <sup>th</sup>	11 <sup>th</sup>	13 <sup>th</sup>

# Nebraska's Tax System is Regressive



**Lower income earning households pay a greater % of income in NE state and local taxes than higher income earning households**



# Budget/Revenue challenges:

- Covid-19
- Ag economy/tariff
- Flooding/disaster recovery
- Tax changes since 2006 (\$913M in FY20)
- Tax incentives (spiked in 2013, 2016 and a bit in 2018)
- Base issues (i.e. services, other exemptions)
- Revenue fluctuations due to federal tax changes

# Main Discussions for Remaining 2020 Session

1. COVID Priorities- Public Health, Unemployment, Medicaid, SNAP?

2. Current Biennial Budget & CARES Act funding

Legislature or Governor's to spend?

3. University NExT project (LB 1084)

4. Property tax reductions

LB 1106, something else or nothing?

Ballot Initiative suspended

5. Tax incentives

Sunset Dec. 31, 2020

# Tax Incentives

- Typically, states subsidize businesses for creating or expanding jobs, and/or investing in the state.
  - State's biggest programs provide sales tax exemptions, tax credits and personal property tax exemptions
  - Other smaller tax incentive programs
- State's biggest program is Nebraska Advantage
  - Total estimated cost to date: \$881 million (2006-18); still accepting applications and paying benefits but the program will **sunset end of 2020**
  - Cumulative projected revenue loss through 2028 at \$1.5 billion
  - State could pay Advantage claims through 2040 or 2050.
- Precursor to Nebraska Advantage: LB 775
  - Passed in 1985, sunset in 2005
  - Still paying benefits today and will until 2025; total estimated cost to date: \$3.1 billion

# Tax Incentives (Continued)

- Successor to Nebraska Advantage? LB 720 – ImagiNE
  - Introduced in the 2019 session – failed on second round of debate
  - Brought back in the 2020 session with amendment
- What happens next?
  - If LB 720 fails to advance, senators could extend Nebraska Advantage for one year
  - If 2020 is a base year for calculating FTEs for incentive purposes, companies will have an incentive to layoff employees and will get paid to add employees back that they would have rehired anyway

# Resources

Nebraska Legislature's Revenue Committee:

- [Tax Modernization Committee Report](#) (2013)
- [Report on Agricultural Land Valuation](#) (2014)
- [K-12 Funding in Nebraska](#) (2015)

Department of Revenue:

- [2014 Tax Burden Study](#) (2017)
- [Property Valuation Changes](#) (2018)