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A recent BluePrint Nebraska report on a proposed state tax framework suggests it would leave Nebraska with a more progressive tax code. While a more progressive tax code would benefit Nebraska, and particularly low- and middle-income residents, OpenSky analysis of the report revealed a number of questions and concerns about the framework and how it would actually impact our state and its residents.

Many families would likely pay more in taxes

Our chief concern was that many Nebraska families could be hit hard by these tax ideas. It appears the state's Earned Income Tax Credit would be eliminated should this framework be adopted. Many low-income working Nebraska families rely on this refundable credit and receive refunds from the state because the credit often more than offsets their income tax liability. Under the BluePrint tax framework, such working families could lose this money while also being faced with the prospect of paying more sales tax on items that were once exempted.

Those with major medical issues could be hit hard by the elimination of the deduction for medical expenses as well as new sales taxes on some health care services, prescription drugs and medical equipment. Eliminating this deduction -- which was claimed on nearly 20,000 Nebraska tax returns in 2019[1] -- could wipe out the tax savings they experience from other tax changes discussed in the report.

The report calls for an additional tax on gasoline by eliminating the sales tax exemption for motor fuels while keeping the state's gas tax. This would be a regressive tax change that would be particularly hard on low- and middle-income Nebraskans, who pay more of their income in sales taxes than do higher-income residents.

Many county governments would likely experience revenue losses

The BluePrint framework calls for the elimination of the state's inheritance tax and the report claims the revenue losses local governments experience will be offset by increases in local option sales tax revenue.[2] This increased sales tax revenue, however, would primarily benefit cities that use the local option sales taxes. Counties, which are the primary users of inheritance tax revenue, collect little in the way of sales taxes and thus are unlikely to be made whole after the inheritance tax is eliminated.[3] Counties would likely need to cut services or raise fees and other taxes, such as property taxes, to offset the revenue losses they would experience because of the loss of inheritance tax revenues.

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[1] Nebraska Department of Revenue, "Nebraska Statistics of Individual Income Tax," accessed at https://revenue.nebraska.gov/research/statistics/nebraska-statistics-income" on Sept. 1, 2021.
[2] Regional Economic Models, Inc., Sponsored by Blueprint Nebraska, "Economic and Fiscal Impacts of Modernizing Nebraska Tax Codes & Supporting Innovation to Advance the Prosperity of Nebraska," August 21, 2021, page 9.
[3] Nebraska Department of Revenue, "Monthly Nebraska Non-Motor Vehicle Sales Tax Collections by County and Selected Cities," accessed at https://revenue.nebraska.gov/research/statistics/monthly-nebraska-non-motor-vehicle-sales-tax-collections-county-and-selected-cities on Sept. 1, 2021.

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Potentially low revenue growth could create budget challenges

BluePrint estimates that under this framework, total state government revenue will increase by $469.7 million from 2022 to 2031 -- or about $47 million annually.[4] It's unclear from the report if this revenue growth is on top of the regular growth the state typically experiences or if this is just the total amount of revenue growth Nebraska will experience over this period. If the state were to experience overall growth of $470 million over this time span, it would equate to about one percent average annual revenue growth, which trails the 20-year average for state revenue growth of 4.8% and also would likely fail to keep up with inflation.[5] This low level of revenue growth could make it difficult for the state to fund key services like education and health care. Nebraska already ranks low in its level of state support for school districts and other local governments and this low level of revenue growth could force local entities to increase property taxes to offset the cost of providing vital services.[6]

Conclusion

As is often the case with major tax proposals, the devil is in the details when it comes to the ideas put forth in the BluePrint Nebraska tax report. A closer look at the report reveals cause for skepticism and concern as the prospect exists for many Nebraska families to pay more in taxes, for many counties to experience revenue losses, and for the state to see its already high reliance on property taxes increase.

[4] Regional Economic Models, Inc., Sponsored by Blueprint Nebraska, "Economic and Fiscal Impacts of Modernizing Nebraska Tax Codes & Supporting Innovation to Advance the Prosperity of Nebraska," August 21, 2021, page 3.
[5] Legislative Fiscal Office, State of Nebraska FY 2021-22 / FY 2022-23 Biennial Budget, August 2021.
[6] Nebraska ranks 49th in the nation for state support to K-12 education and 47th for state aid to local governments. U.S. Census Bureau, 2019 Annual Survey of School System Finances and U.S. Census Bureau, 2019 Annual Survey of State and Local Government Finances.