Looking for Clarity

An Overview of Nebraska Budget and Tax Policy

open sky
POLICY INSTITUTE

About OpenSky Policy Institute

Our mission is to improve opportunities for every Nebraskan by providing impartial and precise research, analysis, education and leadership.

Founded in 2011, our vision is to be the most trusted resource for identifying, analyzing and communicating fiscal policy-improving opportunities for all Nebraskans.

Acknowledgements

OpenSky Policy Institute would like to acknowledge those whose work was instrumental in the development of this report, led by Craig Beck, OpenSky's Senior Fiscal Policy Analyst.

Colleagues providing essential technical assistance include Jerry Deichert, Director Emeritus of the Center for Public Affairs Research at the University of Nebraska at Omaha and former member of the Nebraska Economic Forecasting Advisory Board; Carol Ebdon, Regents/Foundation Professor in the School of Public Administration at the University of Nebraska at Omaha; and Don Leuenberger, retired Vice Chancellor for Business Affairs and Special Assistant for Strategic Initiatives at the University of Nebraska Medical Center.

Open Sky Policy Institute

1327 H St #102, Lincoln, NE 68508

https://www.openskypolicy.org

To download a copy, visit [openskypolicy.org](https://www.openskypolicy.org)

Looking for Clarity

An Overview of Nebraska Budget and Tax Policy

open sky
POLICY INSTITUTE

Updated October 2023

Table of Contents

Introduction

The good life in Nebraska is made possible by our natural resources, educated workforce, strong legal and business institutions, close-knit social fabric, and a responsive, efficient government. Nebraskans expect good public education, a clean environment, efficient transportation, safe communities, and humane social services. All are key elements of Nebraska's competitive edge.

Good management of these resources is not a given; it is something we all must create together. A critical component of this is the process by which public funds are raised and spent. It must be efficient, effective, fair, and responsive.

Inadequate public services, dilapidated highways, aging school buildings, and outdated communications infrastructures do not stimulate job creation or build strong, thriving communities. All public spending needs to be scrutinized to ensure that taxpayers get the highest value for their dollar, yet we should not miss opportunities to make solid investments for our future.

To promote a vibrant debate on public spending, it is important to begin with a clear, precise explanation of how Nebraska generates resources and how those resources are spent. This primer is a starting point for any Nebraskan who wants to understand how the budget process works. It is intended as an overview of how the state creates a budget, how it allocates resources, and how those resources are generated.

Chapters 1 and 2 discuss how the budget is created and how state revenue is **appropriated** or authorized for spending. Chapters 3 and 4 explain how **revenue** is generated and clarify what Nebraska does and does not tax. Chapter 5 evaluates our tax system and highlights its strengths and weaknesses.

We hope this primer illuminates how our system works and provides more explanation about the process.

***Appropriations** are laws, passed annually, directing and authorizing state spending.*

***Revenues** are dollars flowing into the state budget through taxes, fees, or federal aid.*

How the State Budget Affects Nebraskans:

- Almost 10,000 miles of highway (enough road to reach nearly halfway around the earth) and over 3,500 bridges are maintained by the state (Department of Transportation, n.d.);

- Nebraska rural public transit services traveled more than 4.2 million miles in 2022, connecting residents to health care, work, education and civic life (UNO, 2023);

- More than 320,000 students are educated by nearly 24,000 teachers in Nebraska's public schools each year (Department of Education, 2021-22);

- Approximately 135,000 students attend the University of Nebraska, state colleges, and community colleges each year (Coordinating Commission for Postsecondary Education, 2023);

- Approximately 18,000 miles of rivers and streams, about 430 square miles of lakes and 2,956 dams are monitored and inspected for water quality, dam safety, floodplain management, and public recreation purposes (Department of Environment and Energy, n.d. and Department of Natural Resources, n.d.);

- The State Patrol drives approximately 10 million miles of Nebraska's roadways annually, improving public safety, enforcing traffic and drug laws, and investigating crimes (State Patrol, 2023);

- Nebraska's state park system is made up of 77 areas encompassing more than 105,000 acres with an economic impact of nearly $4 billion annually (Game and Parks, 2022);

- More than 171,000 children receive health care through Medicaid and the Children's Health Insurance Program each month (Department of Health and Human Services, 2022);

- More than 5,600 inmates are housed daily in the state correctional system (Department of Correctional Services, 2023).

Chapter 1: The Budget Process

What is the State Budget?

The state budget is the set of laws that dictate how the state allocates and spends its resources. These include spending decisions for every service the state provides.

The resources available to the state to be allocated and spent in the state budget are collected as state revenues, in the form of taxes, fees, or federal aid.

Like many other states, Nebraska creates a two-year budget, though the Legislature can continue making adjustments throughout each year as needed. The two-year budget period is called the **biennium.**

The state's budget must be balanced, meaning that spending can only occur to the extent that money is available. Unlike the federal government, Nebraska cannot borrow money for general spending needs, although some entities have the independent ability to issue bonds for construction purposes and the state can borrow money for roads (LB 727, 2023).

An increase in spending or unexpected decline in revenues may create a budget "shortfall." Since the state must balance its budget, the Legislature must fix a shortfall through some combination of spending cuts, tax increases, cash fund transfers and use of cash reserves.

For Fiscal Year 2022-23 (FY23), the Legislature appropriated over $13.7 billion from three main sources: the General Fund, Federal Funds, and Cash Funds. This number omits approximately $1.2 billion in revolving and other funds, which would largely be double counted if included (Fiscal Office, 2023).

> *In Nebraska, the **Fiscal Year** ("FY") begins on July 1 and ends on June 30 of the following year.*
>
> *The **Biennium** is the period of two fiscal years covered by a single budget. For example, FY24 and FY25 represent the period from July 1, 2023 to June 30, 2025.*

The **General Fund** is the state's primary account, consisting largely of revenues from Nebraska's individual income tax, corporate income tax, and sales tax. The Legislature has significant discretion over how General Fund money is spent, and budget debates in the Legislature typically revolve around the use of this money. General Fund money is allocated to programs addressing state priorities like education, services for vulnerable citizens, and public safety.

Cash Funds are used to hold taxes or fees imposed on specific activities to pay for specific services. For example, university tuition is deposited into a cash fund that can only be used by the university. State motor fuels taxes, which are taxes levied on gasoline, diesel fuel, and compressed natural gas, are deposited into a cash fund that is used for transportation projects like road construction.

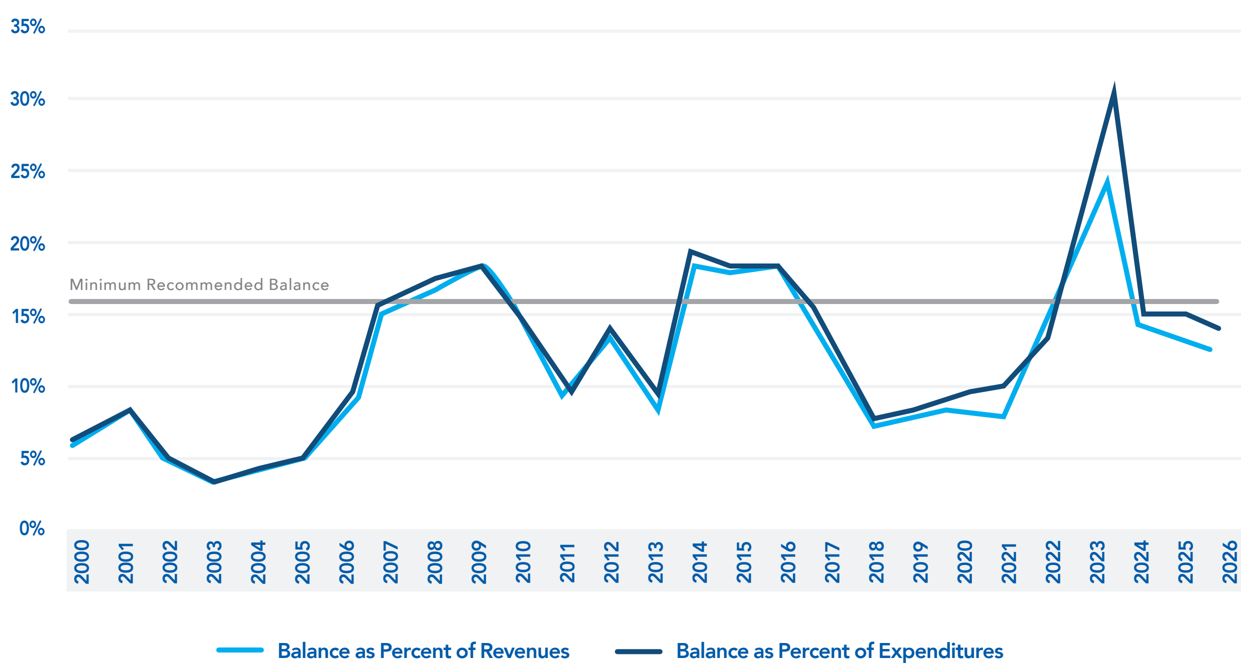
Federal Funds come from the federal government and are devoted to a particular purpose. The state Legislature appropriates and spends this money in accordance with federal rules. In Nebraska, federal funds go primarily to health care, K-12 education, higher education, and environmental quality. In some areas, including Medicaid, the federal government matches a percentage of state spending on the program.

States received a significant influx of federal funds as a result of the COVID-19 pandemic (Pew Charitable Trusts, 2023). Nebraska was no exception, having received more than $24 billion in federal stimulus from various programs, including nearly $16 billion from the Coronavirus Aid, Relief, and Economic Security Act (CARES) and $6 billion from the American Rescue Plan Act (ARPA) (Fiscal Office, Biennial Budget Report, 2022). Just over $1 billion of ARPA funding was appropriated by the Legislature in 2022 through the normal appropriations process for various projects including housing, health care provider rates under Medicaid, and workforce development (Fiscal Office, State Fiscal Recovery Fund, 2022). In 2023, the Legislature authorized the State Auditor to conduct audits of this funding to ensure it was distributed consistent with federal guidance and in a timely manner (LB 814, 2023).

Revolving Funds and **Other Funds** make up the rest of the budget. Revolving Funds are used for money transferred from one government agency to another — for example, when an agency pays rent to a different agency for office space in a state building. Other funds hold small amounts of revenue used for construction and maintenance of state buildings, for example.

Nebraska also has a "rainy day fund" called the **Cash Reserve Fund**. If more tax revenue comes in than is projected by the Nebraska Economic Forecasting Advisory Board (NEFAB, described below), the excess is automatically deposited into the Cash Reserve if the balance doesn't exceed 16% of total budgeted General Fund expenditures for the current fiscal year (LB 638, 2019). In such an instance, the automatic transfer is reduced, though nothing prohibits the Legislature from authorizing a fund balance of greater than 16%. The Legislature can vote to transfer other money into or out of the "rainy day fund," and lawmakers can use the funds for any reason, although they are primarily to be used to cover obligations in the case of a budget shortfall and to fund one-time projects.

Figure 1: Cash Reserve Fund Fiscal Year Ending Balance



Source: Fiscal Office, 2023

Based on historical revenue trends, the Legislative Fiscal Office has calculated that a Cash Reserve balance of approximately 16% of net General Fund receipts is necessary to cover situations where revenues collected are short of what was forecasted (Fiscal Office, 2021). The Government Finance Officers Association recommends that a minimum of two months of General Fund revenues or expenditures be reserved to protect against revenue shortfalls or unanticipated expenditures (Government Finance Officers Association, 2015). Two months is equal to just over 16% of annual revenues or expenditures.

The importance of the Cash Reserve Fund was highlighted in 2009, when the fund held a balance of more than 17% of annual General Fund receipts, which at the time was a record high (Fiscal Office, 2023). This healthy reserve allowed the Legislature to reduce the severity of budget cuts made in the aftermath of the Great Recession, even while the state saw lower tax receipts. To address the budget shortfall during this period, the Legislature used almost $1 billion in one-time funds to balance the budget -- two-thirds of which came from the federal government's stimulus programs and one-third of which came from the Cash Reserve (Fiscal Office, 2017).

In FY23, the Cash Reserve Fund held more than $1.5 billion (Fiscal Office, 2023). This record-high balance was largely the result of strong revenue growth resulting from the state's receipt of $24 billion of federal funds from various stimulus programs meant to stave off the worst economic effects from the COVID-19 pandemic (Fiscal Office, Biennial Budget Report, 2022). The FY23 balance was equal to more than 24% of that year's net receipts and 30% of budgeted expenditures but was short-lived, however, as the Legislature authorized more than $1.1 billion in transfers from the fund in the following fiscal year for various items (Fiscal Office, 2023). The projected balance at the end of FY24 is about $860 million, or 45% lower than FY23.

How is the budget developed?

The first Legislative session of the biennium is usually known as the "long," or budget, session and occurs in odd-numbered years. The **Governor** begins the budget process in the year before the long legislative session. Working with the **Department of Administrative Services (DAS) Budget Division**, they create guidelines and instructions for the funding requests that state government agencies must submit by September 15 of every even-numbered year. Agencies are required to indicate in their budget requests if their programs are evidence-based, meaning their outcomes can be measured using quantifiable benchmarks or research, and to what extent their programs meet those benchmarks (LB 1092, 2016).

Between September and January, the Governor develops a budget proposal, which must be balanced. The proposal is due to the Legislature by January 15 in odd-numbered years (or February 1 for a new Governor). This proposal becomes the starting point for the Legislature's budget debate and is introduced by the Speaker of the Legislature on behalf of the governor. The budget proposal is introduced as a series of separate bills, including one for government appropriations, one for salaries of legislative members, and one for capital construction and property acquisition, among others. Seven budget bills were introduced in the 2023 legislative session.

In January and February, the Legislature's **Appropriations Committee** meets with **Legislative Fiscal Office** staff to review agency budget requests. They develop a preliminary recommendation within 20 to 30 legislative days of the Governor's budget submission (Legislature, Rule 8, Sec. 3, 2023-24). The Committee uses revenue forecasts by the **Nebraska Economic Forecasting Advisory Board** to determine how much revenue it has available to appropriate. Next, the Appropriations Committee holds mandatory public hearings on the budget proposal.

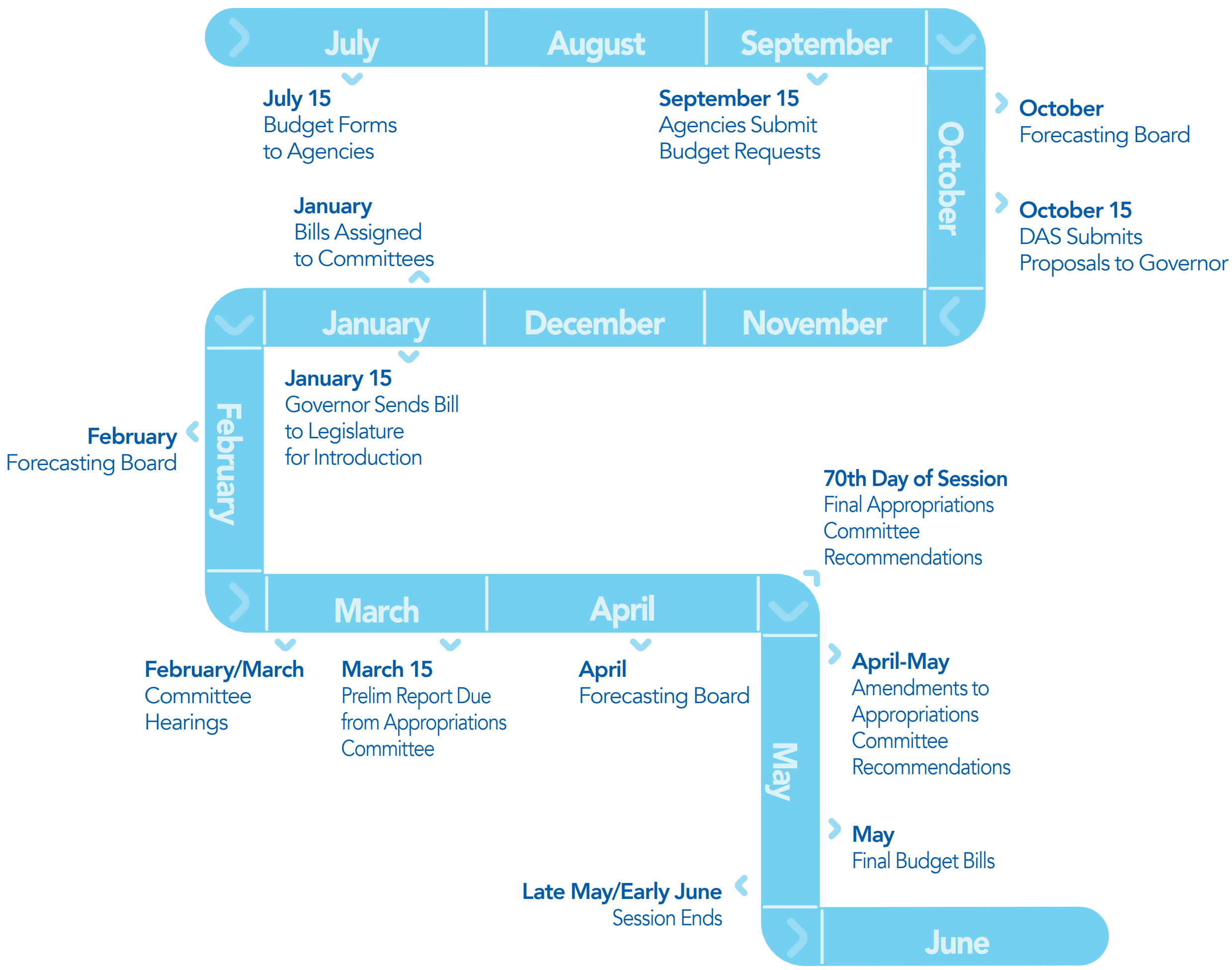
During this time, other legislative committees are advancing bills for consideration by the full Legislature. While the Legislature's **Revenue Committee** plays a vital role in influencing the amount of revenue collected by the state every year, the Revenue Committee does not play a primary role in developing the budget. Any bill that requires an appropriation has an "A" bill (appropriations bill), authorizing any spending necessary to implement the proposed legislation. Bills that require an appropriations bill cannot be read on Final Reading until the budget bills are passed by the Legislature (Legislature, Rule 8, Sec. 5, 2023-24).

*The **Nebraska Economic Forecasting Advisory Board** was created to assist the Governor in developing estimates of revenue, and to assist the Legislature in setting income tax and sales tax rates. The board provides a forecast of General Fund receipts based on how it expects revenue-generating activities to perform. For example, the board looks at the state unemployment rate and economic activity to estimate individual income, corporate income, and sales taxes, and other miscellaneous revenues the state can expect. The board has nine members — five appointed by the Legislature and four by the Governor. Appointees must have expertise in tax policy, economics, or economic forecasting. The board meets in February and October of each year and in April of each odd-numbered (budget) year to develop its forecasts.*

Almost all budget bills are passed with a two-thirds vote (33 of 49) of the Legislature, which ensures they take effect the day after the bills are enacted using an "emergency clause," (Legislature, The Budget Process, n.d.). They are then sent to the Governor, who may sign the bills, decline to sign them (but allow them to take effect automatically), veto bills, or veto particular items in each bill. The Legislature may override all or part of any veto with 30 votes.

The budget passed in odd-numbered years begins on July 1, which is the beginning of the next fiscal year and the budget biennium. During even years, budget modifications continue according to a process similar to the one outlined above, but with narrower deadlines given the shorter session. Deficit appropriations, or adjustments made to appropriations after they are enacted in budget sessions, can be made during even-year sessions in response to agency needs. The Legislature may also need to make changes to the budget during even-year sessions due to a shortfall in tax revenues to ensure the budget is balanced.

Figure 2: Budget Timeline



What role do citizens play?

Citizens play a critical role in developing the state budget. All legislative bills, including those that require appropriations, are given public hearings where members of the public can testify. Individuals can also contact their state senators to share their opinions.

Nebraskalegislature.gov offers many valuable tools to help people engage in the budget process, including how to find state senators' contact information, live streaming of committee hearings and legislative debates, and an automated bill tracker service.

Chapter 2: State-Authorized Spending

As stated in Chapter 1, the state budget authorized and directed over $13.7 billion of General Funds, Federal Funds, and Cash Funds in FY23. Federal sources accounted for about one of every $3 spent by the state, and Cash Funds made up nearly one of every $4 (Fiscal Office, 2023).

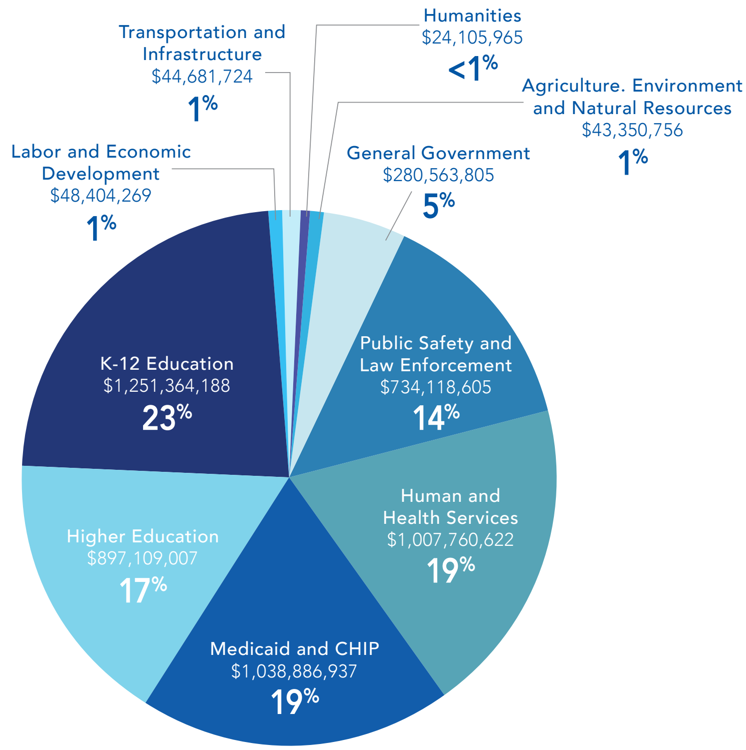
The General Fund is the largest piece of the budget — $5.4 billion in FY25 — and is at the heart of state budget debates. About 40% of all General Fund dollars are allocated to education, and more than one-third are allocated to health care and services for vulnerable Nebraskans, including individuals with disabilities, abused and neglected children, and others (Figure 3). Together, education and health care make up the majority of the budget. Different services rely on different mixes of General, Cash, and Federal Funds. Medicaid and the Children's Health Insurance Program (CHIP), for example, receive the majority of their funding from federal sources. In contrast, almost all transportation infrastructure appropriations come from Cash Funds, which receive the proceeds of the state's motor fuels taxes, a portion of the state's sales tax diverted from the General Fund to transportation-related cash funds and federal funds (Department of Transportation, 2023).

Appropriations are not the only way the state funds its priorities. Economic development, for example, is less than 1% of direct state appropriations but is a central goal behind various tax breaks and other subsidies (Figure 3). These "tax expenditures" are not counted as appropriations, but because they significantly reduce state revenues, they are an important part of the state's budget. Tax expenditures are discussed further in Chapter 4.

General Fund appropriations as a share of Nebraska personal income have fallen over the past decade (Figure 4). Effectively, in FY23, total General Fund appropriations were about $1 billion smaller (unadjusted) than they were in FY00 (Fiscal Office, 2023; Federal Reserve Bank of St. Louis, 2023). We use personal income as a measure of inflation to compare with the growth of General Fund appropriations because it better reflects the growth in expenses that governments face. Some other measures of inflation, such as Consumer Price Index (CPI), are based on household purchases of a certain set of common items that are fundamentally different than most government expenses. Most education and health care-related expenses (which make up 81% of General Fund appropriations) are not included in CPI.

General Fund appropriations to major budget areas like education, health care, and transportation and infrastructure have also fallen as shares of Nebraska personal income over the last decade, as shown in Figures 5 and 6.

Figure 3: Education, Health Care Top General Fund Appropriations (FY25)

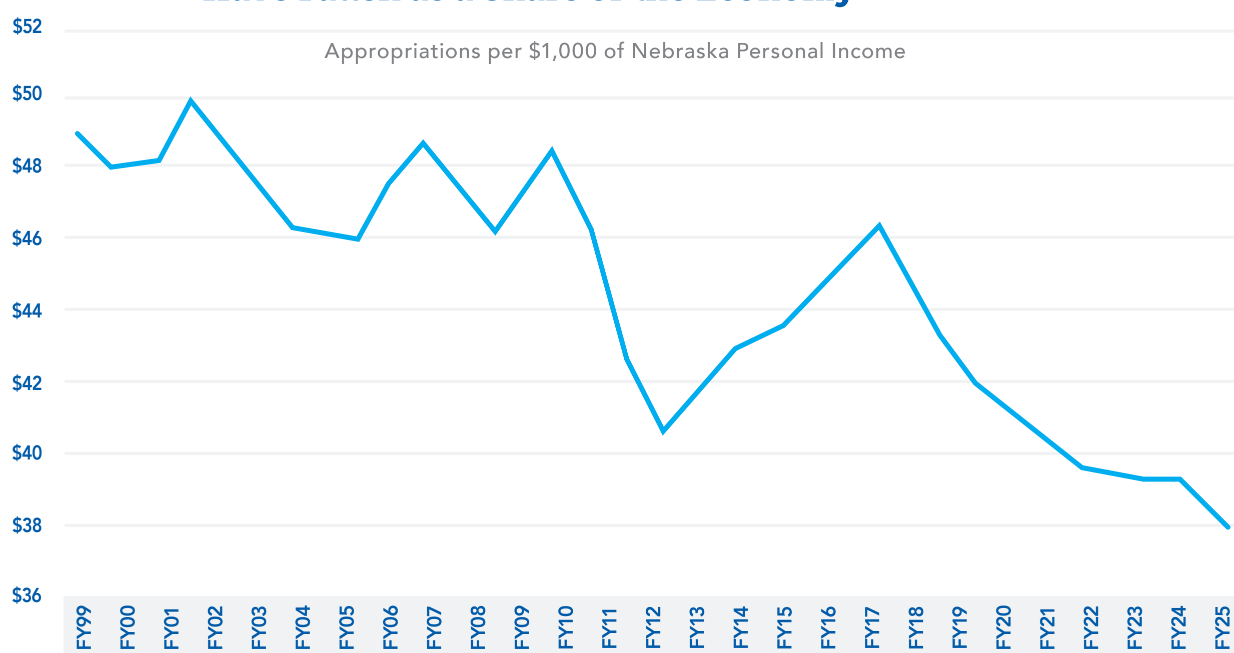


Total: $5.4 billion

Categories are an aggregation of General Fund appropriations by agency based on its major function and do not include deficit appropriations

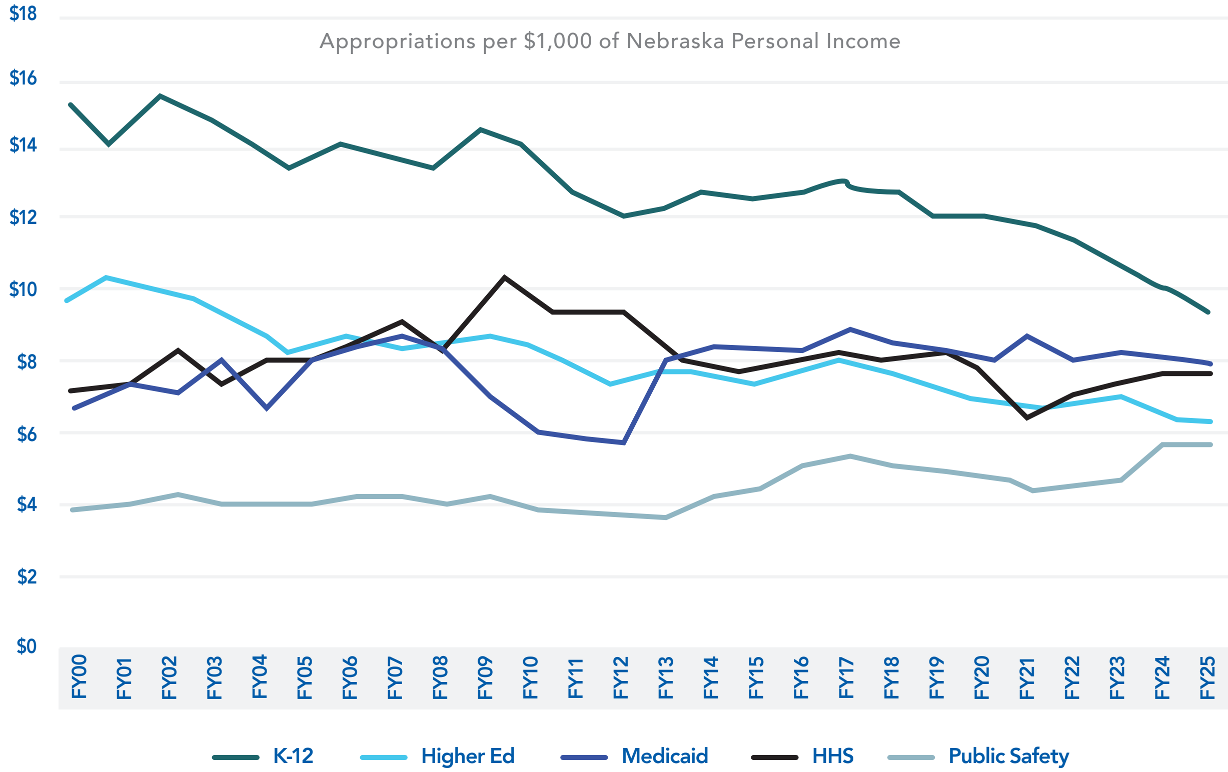
Source: OpenSky analysis of FY2023-24 and FY2024-25 Biennial Budget (Fiscal Office, 2023)

Figure 4: General Fund Appropriations in Nebraska Have Fallen as a Share of the Economy



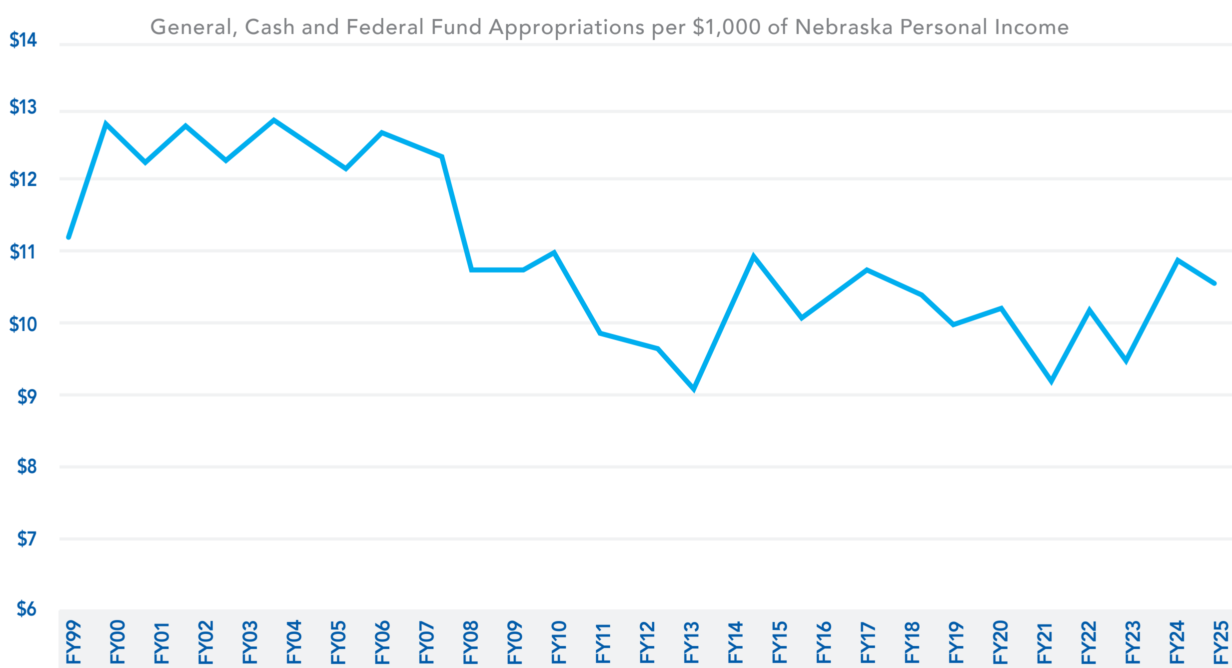
Sources: Legislative Fiscal Office, U.S. Bureau of Economic Analysis; Personal income for FY23-25 is estimated based on the average change over prior years.

Figure 5: General Fund Appropriations for Largest Budget Areas



Sources: Legislative Fiscal Office, U.S. Bureau of Economic Analysis; Personal income for FY23-25 is estimated based on the average change over prior years.

Figure 6: Decline in Transportation and Infrastructure Appropriations



Sources: Legislative Fiscal Office, U.S. Bureau of Economic Analysis; Personal income for FY23-25 is estimated based on the average change over prior years.

Chapter 3: State Revenue

How the state raises revenue has as much impact on Nebraska's families and businesses as its spending decisions. The state collects a variety of taxes and fees from people and businesses and also receives money from the federal government to assist in providing certain services.

According to the U.S. Census Bureau, Nebraska generally ranks in the middle of states for taxes when measured against various economic growth statistics (Table 1) and in the bottom half of states for spending. Nebraska has held steady in these rankings over recent years, but several policies have been enacted which are not factored into the rankings in Table 1 and will affect them. These include individual and corporate income tax cuts, which are subsequently discussed in this chapter.

Of the $13.7 billion received by the state in FY23, almost $6.4 billion came from net sales, income, and miscellaneous taxes (Figure 7) deposited in the General Fund. In addition, the state received and appropriated through the budget more than $5.2 billion in grants, contracts, and matching funds from the federal government, and appropriated over $3.3 billion in cash funds, used to carry out specific programs (Fiscal Office, 2023).

While unadjusted General Fund revenue has increased over time, when taken as a share of Nebraska personal income, it has largely remained flat (Figure 8). It's a similar story for local revenue, which although increasing generally year over year, its growth as a share of Nebraska's personal income has been relatively flat, indicating the taxes levied by Nebraska's state and local governments are not keeping pace with the state's growth in personal income.

Table 1: Nebraska's National Tax & Spending Rankings

(HIGHEST TO LOWEST)	PER CAPITA			PER $1K NE PERSONAL INCOME			PER $1K GDP		
	STATE + LOCAL	STATE	LOCAL	STATE + LOCAL	STATE	LOCAL	STATE + LOCAL	STATE	LOCAL
Individual Income Tax	20	18	-	20	17	-	31	27	-
Corporate Income Tax	15	13	-	15	12	-	21	19	-
Property Tax	12	-	10	10	-	9	14	-	10
Sales Tax	18	22	22	21	18	23	28	26	24
All Taxes	18	25	11	15	31	4	30	39	12
General Revenue (incl. charges)	23	36	12	27	37	11	41	41	32
Direct General Expenditure	21	38	11	25	36	8	41	41	23

Note: Sales taxes do not include selective taxes such as the motor fuel or alcoholic beverage tax

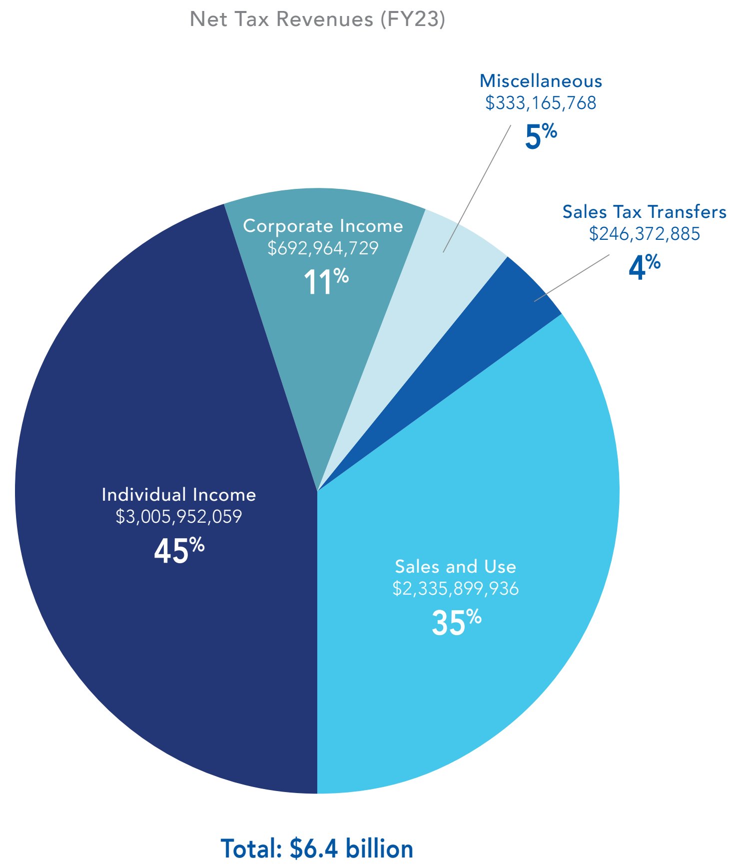
Sources: U.S. Census Bureau, "2021 Annual Survey of State and Local Government Finances;" U.S. Census Bureau, "Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2022;" and U.S. Bureau of Economic Analysis, "Personal Income Summary: Personal Income, Population, Per Capita Personal Income," and "Gross Domestic Product by State: All Industry Total"

State Taxes

Individual Income Taxes – The individual income tax is the largest source of state revenue, totaling $3 billion in FY23. All individual income tax collections, which equal about $1,530 per Nebraska resident, are deposited into the General Fund (Fiscal Office, 2023).

Most Nebraskans who pay federal income taxes are required to file Nebraska income tax returns, as are residents of other states who have income that comes from Nebraska sources. Taxable income, or the amount of income left after subtracting exemptions and deductions, is subject to four tax brackets in 2023. The Legislature cut income tax rates in both 2022 and 2023, and these cuts will phase in or ramp up through 2027. Beginning in 2026, Nebraska's four tax brackets will condense to three (LB 754, 2023).

Figure 7: Most General Fund Revenue Comes from Individual Income and Sales Tax



Note: Sales tax transfers not deposited in the General Fund include proceeds from leased motor vehicles,sales of ATVs and motorboats, and turnback taxes

Sources: Department of Revenue, "General Fund Receipts – June 2023;" Department of Administrative Services, "Fund Summary by Fund Report," June 2023

Table 2 lists the marginal income tax rates in Nebraska for tax year 2023 and highlights the future rate cuts slated to occur. The marginal tax rate is the rate paid on a taxpayer's last dollar of income. Table 3 lists the effective tax rates paid by Nebraska's taxpayers, which is the share of income a taxpayer pays in taxes. Effective tax rates are usually lower than marginal rates.

Table 2: Nebraska Individual Income Tax Rates and Brackets

2023 TAX BRACKETS			TAX RATES				
SINGLE AND MARRIED, FILING SEPARATELY	MARRIED, FILING JOINTLY	HEAD OF HOUSEHOLD	2023	2024	2025	2026	2027+
$0 to $3,700	$0 to $7,390	$0 to $6,900	2.46%	2.46%	2.46%	2.46%	2.46%
$3,700 to $22,170	$7,390 to $44,350	$6,900 to $35,480	3.51%	3.51%	3.51%	3.51%	3.51%
$22,170 to $35,730	$44,350 to $71,460	$35,480 to $52,980	5.01%	5.01%	5.01%	4.55%	3.99%
$35,730 and over	$71,460 and over	$52,980 and over	6.64%	5.84%	5.20%	4.55%	3.99%

Source: Department of Revenue, Estimated Income Tax Payment Vouchers, 2023

Like most other state income taxes and the federal income tax, Nebraska's income tax applies different tax rates to different amounts of income. A married couple with no children filing jointly could take the standard deduction of $15,800, as set for 2023. That would mean their first $7,390 of adjusted gross income (AGI) over $15,800 would be taxed at 2.46%. Their taxable income above $7,390 but below $44,350 would be taxed at 3.51%. Their taxable income between $44,350 and $71,460 would be taxed at 5.01%. Finally, any taxable income over $71,460 would be taxed at 6.64% in 2023. A childless married couple with an AGI of $87,000 would therefore not pay the top rate on any of their income because their taxable income (AGI minus the standard deduction) would be less than $71,460. For that couple, once the standard deduction is factored in, only AGI above $87,260 would be taxed at the top rate for 2023.

Because different levels of income are subject to different tax rates in each bracket, and many taxpayers claim exemptions and deductions, taxpayers pay effective tax rates that differ from the statutory rates specified above. According to the Nebraska Department of Revenue's 2018 Tax Burden Study, the effective tax rate that taxpayers face changes with their AGI, divided into deciles (Table 3).

Table 3: 2018 Nebraska Effective Income Tax Rate by Decile

DECILE	EFFECTIVE TAX RATE
First 7 deciles (70% of Returns)	1.91%
8th Decile (Beginning AGI $69,305)	3.33%
9th Decile (Beginning AGI $91,755)	3.98%
10th Decile (Beginning AGI $128,577)	4.95%
Top 500 Returns (Beginning AGI $2,049,000)	3.82%

Note: Deciles are created by sorting all Nebraska Individual Income Tax returns by federal adjusted gross income and dividing them into 10 groups with an equal number of returns.

Source: Department of Revenue, 2021

After the rates are applied, credits or additional taxes may reduce or increase income tax liability, including the personal exemption credit. In the example used previously, the childless couple would reduce their computed tax liability by $314 – the personal exemption credit of $157 times 2. Tax rates, brackets, and other provisions are set in statute and subject to change by the Legislature. For example, in 2012, a bill was enacted (LB 970, 2012) that reduced tax rates and expanded the tax brackets, which have been adjusted for inflation annually since a 2015 law was passed (LB 987, 2014). And as previously noted, the Legislature again cut rates in 2022 and 2023.

Nebraska's income tax is tied closely to the federal income tax and changes to the federal tax also can affect the state income tax with no state legislative change (Rev. Stat. § 49-801.01, 2023). In 2018, the Legislature passed LB 1090 as a response to federal changes that would have affected state income tax liability for Nebraskans. The law restored the personal exemption credit, increased the standard deduction and retained CPI as the measure to be used for indexing for inflation.

Corporate Income Taxes – In FY23, corporate income taxes generated approximately $700 million, which went into the General Fund, making up 11% of General Fund revenues (Fiscal Office, 2023).

Every corporation engaged in business in Nebraska, or that has a source of income from Nebraska and is subject to federal corporate income tax, must file a return. However, most Nebraska businesses are organized in such a way that they are not required to pay corporate income tax. These businesses are organized as S-Corporations, LLCs, or Partnerships, whose profits are passed through to owners and investors and taxed under the individual income tax. In tax year 2019, less than 13% of Nebraska businesses paid tax through the corporate income tax return (Department of Revenue, 2019).

As with the individual income tax, Nebraska's corporate income tax allows numerous deductions, exclusions, and credits to reduce the amount of tax owed. In tax year 2023, Nebraska's corporate income tax used brackets where corporations paid a tax rate of 5.58% on the first $100,000 of net Nebraska taxable profits and 7.25% on profits above $100,000 (Rev. Stat. § 77-2734.02, 2023).As with Nebraska's individual income tax, the Legislature enacted several corporate income tax cuts with the most recent cut occurring in 2023 (LB 754). As part of this tax rate cut, Nebraska's two-bracket corporate income tax will move to one bracket for tax year 2025 and all corporate income will be taxed at the same rate from there forward.

Table 4: Nebraska Corporate Income Tax Rates

TAX YEAR	PRIOR TO 2022	2022	2023	2024	2025	2026	2027
First $100,000 of Taxable Income	5.58%	5.58%	5.58%	5.58%	5.2%	4.55%	3.99%
Taxable Income > $100,000	7.81%	7.5%	7.25%	5.84%	5.2%	4.55%	3.99%

Source: Rev. Stat. § 77-2734.02, 2023

A corporation's taxes may also be reduced by various state subsidy programs developed to attract businesses to the state or encourage existing businesses to expand. These programs are discussed further in Chapter 4.

Sales Taxes – The state of Nebraska collected more than $2.3 billion in sales and use tax in FY23, about $1,190 per Nebraskan. (Note: The "use tax" is sales tax that is due but is not collected by the seller and must be paid directly by the buyer. For purposes of this primer, we use "sales tax" and "sales and use tax" interchangeably.) Of that, about $2.1 billion, or 89%, went into the General Fund, making it the second largest source of General Fund revenue (Fiscal Office, 2023; Department of Administrative Services, 2023). The sales tax on motor vehicles generated almost 11% of all sales tax paid in Nebraska in FY23 (Department of Revenue, Motor Vehicle Sales Tax Collections, 2022-23). Sales taxes collected from the sale of motor vehicles are distributed as follows: after 1% is retained by the County Treasurer and 1% is distributed to the Vehicle Title and Registration System Replacement and Maintenance Cash Fund, of the remaining funds, 22% is allocated to the county, 60% to the school district and 18% to the city or village where the vehicle has situs (the location of the property for tax purposes) (Rev. Stat. § 60-3,186, 2023).

Cities, counties, and villages may impose an additional local sales tax if approved by a local vote.

Not all sales taxes levied and collected at the state level are deposited in the General Fund because of several policies that divert state sales tax revenue to other funds for other purposes.

One-quarter cent of the state's sales tax and all sales tax receipts from motor vehicles leased for over 31 days are diverted to the state Department of Transportation and local governments for road construction and maintenance (Rev. Stat. § 77-27,132, 2023). Sales taxes collected at eligible arenas and convention centers and nearby retailers, also known as turnback taxes, are directed to cities to pay for arena construction debt and other community projects (Rev. Stat. §§ 13-3108 and 13-2610, 2023). Lastly, sales taxes collected on all-terrain vehicles and motorboats are directed to the Game and Parks Commission (Rev. Stat. § 77-27,132, 2023). These sales tax receipts are listed as "sales tax transfers" in Figure 7.

All transactions subject to sales tax are taxed at the state rate (5.5% since 2002) unless the item, purchaser, or use is legally exempt or the sale occurs in a "Good Life District," in which case the rate applied to transactions is 2.75% (LB 727, 2023). Groceries, manufacturing machinery, equipment when purchased by a manufacturer, and purchases made by governments, schools, and religious organizations are among the exempted goods.

Table 5 outlines examples of what is and what is not subject to sales tax. For more information about Nebraska's sales tax base, see the Sales and Use Tax FAQs page at the Department of Revenue's website.

Table 5: Nebraska's Sales Tax Base

EXAMPLES OF WHAT IS SUBJECT TO TAX:	EXAMPLES OF WHAT IS EXEMPT FROM TAX:
Most goods, unless otherwise specified by law	Services, unless otherwise specified by law
Sales, leases, rentals, installations, and repairs of personal property	Sale of goods for resale
Admissions to movies, concerts, etc.	Component and ingredient parts
Intellectual and entertainment property	Transactions across state lines
Warranties, service agreements, etc.	Groceries
Accommodations of less than 30 days	Prescription drugs
Digital goods and prepaid calling	Livestock and feed
Utilities, such as water and electricity	Purchases by governments and some nonprofits

Source: Rev. Stat. § 77-2701.16, 2023

Some services also are subject to sales tax, but unlike goods, they are not taxed unless specified by law. Decisions about what goods and services are taxed impact revenue collections just as much as the overall sales tax rate: the more goods and services that are exempt from sales tax, the higher the sales tax rate must be to raise the same amount of revenue. As a result, sales tax revenues may rise and fall with changes in how much Nebraskans are buying but also in what they are buying and who is buying it.

The taxes the State of Nebraska collects include:

- Income taxes, which are a percentage of personal and business income;
- Sales taxes, which are a percentage of the price of certain purchased goods and services; and
- Excise taxes, which are paid on particular types of goods, like alcoholic beverages, tobacco, and gasoline.

Miscellaneous Taxes and Fees – Excise taxes, including those levied on alcohol, cigarettes, charitable gaming (keno, bingo, pickle cards), and insurance premiums raised more than $330 million in FY23 (Fiscal Office, 2023). This total also includes relatively small amounts of revenue raised through fees for business licenses and mechanical amusement device permits, sales of surplus state property, fines, statutory transfers, and interest earned on state investments. Voters passed Initiative 431 in 2020, which allowed casino gambling in Nebraska and authorized a 20% tax on gross gaming revenues. Of the tax's proceeds, 70% is directed toward the Property Tax Credit Cash Fund and 2.5% to the General Fund. The remaining revenue is directed to assistance for compulsive gamblers (2.5%) and to the city and county where the casino is located (25%) (Rev. Stat. §§ 9-1204 and 9-1205, 2023).

Motor Fuels Taxes – Excise taxes on motor fuels generated over $340 million in FY23 (Department of Revenue, Motor Fuels Taxes, 2022-23). (Motor fuels tax collections are not included in Figure 7 because these proceeds are deposited only in cash funds.) The motor fuels tax rate is adjusted every six months as determined by the price of gas and a formula intended to keep up with the amount appropriated to the State Highway Trust Fund. However, because motor fuels tax revenue has declined over time (Figure 6), legislators passed a law to divert a portion of the state sales tax from the General Fund to funding for roads beginning in FY14 (LB 84, 2011). In 2015, the Legislature approved a motor fuels tax increase of 6 cents per gallon, with the proceeds allocated between the Department of Transportation and cities and counties (LB 610, 2015). The motor fuels tax rate is 29 cents per gallon as of the second half of 2023 (Department of Revenue, Fuel Tax Rates, 2023).

Local Taxes

Nebraskans also pay taxes to their local governments. The revenue is used to fund services like police and fire protection, education, and road maintenance. Local taxes and services are not part of the state budget but are important pieces of the state's overall tax and spending picture.

Property Taxes – Property taxes apply to real estate (i.e., homes, commercial buildings, farmland, etc.) and some personal property used to generate income. Totaling more than $5 billion in 2022, property taxes are the largest source of local tax revenue (Department of Revenue, History of Property Taxes Levied, 2022). In fact, more money is raised through local property taxes than through any state tax. The money is divided among a number of entities, including school districts, community colleges, counties, and cities to help support the services provided by Nebraska's 2,541 local governments (U.S. Census Bureau, 2022). For a detailed look at property taxes in Nebraska, see OpenSky's primer, *Taking Ownership: An Overview of Property Taxes in Nebraska*.

The state imposes limits on the property tax rate that can be applied, although residents can vote to override limits for up to five years (Rev. Stat. § 77-3444, 2023). The state may grant exemptions from property taxes for certain types of property, including properties owned by and used for a government, religious, educational, or charitable purpose. Cemetery property may also be excluded.

Agricultural and horticultural land is taxed at 75% of its market value. All other property is taxed at 100% (Rev. Stat. § 77-201, 2023).

Local Option Sales Taxes – Cities, counties, and villages may impose a sales tax if approved by a local vote. Of Nebraska's 529 municipalities, 261 (and Dakota County) levy a local option sales tax (Department of Revenue, Local Sales and Use Tax Rates, 2023; Department of Revenue, Certified Municipal Population, 2022). State law puts restrictions on these taxes. For example, the maximum local sales tax rate is 2% except for cities of the metropolitan class (cities with 300,000 or more people), which are limited to 1.5%, and it can only be imposed on the same goods or services that are taxed at the state level (Rev. Stat. § 77-27,142, 2023). Municipalities received more than $660 million in local option sales tax revenues in FY23 (Department of Revenue, City Sales Tax, 2023).

Inheritance Taxes – The inheritance tax is levied on the transfer of a decedent's assets to beneficiaries of an estate, with the tax rate depending on the beneficiary's relationship to the decedent. Surviving spouses pay no tax; close relatives and siblings pay 1% on the portion of inheritances over $100,000; remote relatives pay 11% on the amount over $40,000; and non-relatives pay 15% on the amount over $25,000 (Rev. Stat. §§ 77-2002 to 77-2006, 2023). Also, any beneficiary younger than 22 is not subject to the tax. The tax's parameters are defined by the Legislature and the proceeds – $45 million in the first six months of 2023 – are remitted to counties (Department of Revenue, Inheritance Tax, 2023).

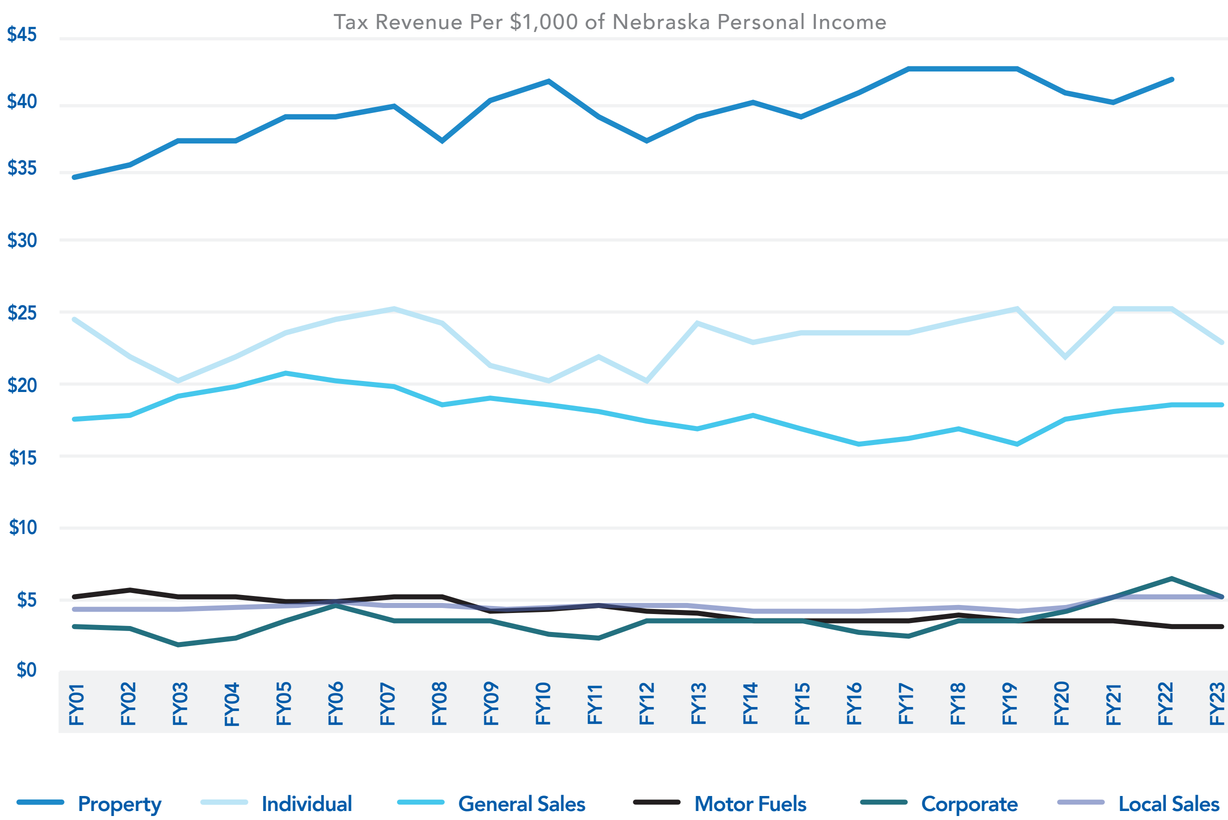
Occupation taxes – These taxes are levied on a variety of business operations. For example, several Nebraska cities collect occupation taxes on hotels, restaurants, and bars to finance local construction projects like new or improved stadiums, arenas, streets, parks and fairgrounds. Other types of occupation taxes include taxes on phone service and rental cars. The rate is set by the city imposing it and can vary by the type of occupation or business activity within the city, which may result in multiple rates on different activities in the same city at the same time (Department of Revenue, Occupation Taxes, n.d.).

Federal Revenues

Historically, about one-third of Nebraska's total revenue comes from the federal government. Most federal aid goes to Medicaid, the Children's Health Insurance Program, and other health and human services, but a significant portion of the budgets of the University system and the Department of Education are also supported by federal funds (Fiscal Office, 2023). Over time, federal funding as a share of total appropriations has slightly increased from about 29% in FY00 to about 35% in FY23 (Fiscal Office, 2023).

Nationally, federal spending constitutes about 37% of states' revenues. Federal spending as a share of states' total revenue budgets in FY21 was a record high due to federal spending on the COVID-19 pandemic (Pew Charitable Trusts, 2023).

Figure 8: State and Local Tax Revenues by Type



Note: Property tax is reported on a calendar-year basis

Sources: Department of Revenue, Property Assessment, Motor Fuels, and Research Divisions; U.S. Bureau of Economic Analysis

Chapter 4: Tax Expenditures

In addition to the money spent by the Legislature through the appropriations process, Nebraska also supports many services and priorities through the tax code by giving out tax credits, deductions, and exemptions. These are known as **"tax expenditures"** and have been the subject of many legislative bills and studies (Rev. Stat. § 77-381, 2023).

Tax expenditures function like state spending in that both represent money the state uses for some purpose, like assisting certain taxpayers, subsidizing activities, or incentivizing desirable behaviors (National Conference of State Legislatures, n.d.). They differ, however, in that spending represents revenue collected by the state whereas expenditures represent potential revenue the state chose not to collect. For example, Nebraska gives tax breaks to businesses in efforts to promote job creation and investment and offers tax credits to offset a portion of local property taxes paid and support families with children. Tax expenditures reduce the amount of state taxes owed by taxpayers, effectively refunding taxes already paid to the state. The net effect on the state General Fund is the same as an appropriation.

However, the rules for tax expenditures and state budget appropriations are very different. For budget appropriations, the Legislature must authorize funding for each program every biennium, which means spending can only continue after being reviewed at least every two years by the agency in charge, the legislative committees that oversee it, the full Legislature, and the Governor. A tax expenditure, however, generally only goes through that process once, and is then written permanently into the tax code, with no requirement that it ever be reviewed by the Legislature again.

As a result, while appropriations are under regular review, tax expenditures are on autopilot once enacted. For this reason, some tax expenditures can outlive their usefulness or outgrow their expected costs, turning into significant — but unnoticed — drains on state revenue. However, Nebraska has made positive steps in increasing the transparency of tax expenditures in recent years. These efforts will be discussed in the next chapter.

> *Rev. Stat. § 77-381 defines a tax expenditure as "a revenue reduction that occurs in the tax base of the state or political subdivisions as a result of an exemption, deduction, exclusion, tax deferral, credit, or preferential rate introduced into the tax structure."*
>
> *Annually in October, the Department of Revenue produces a Tax Incentives Report covering major business tax breaks and a Tax Expenditure Report.*

Information available through the Department of Revenue and other sources can help policymakers and citizens learn about tax expenditures. Each even-numbered year on October 15, the Department of Revenue releases a full tax expenditure report that reviews credits, exemptions, deductions, and exclusions for all tax programs andpresents it to a joint hearing of the Appropriations and Revenue committees on or before December 1. During odd years, the Department publishes an interim report that focuses on select sales tax exemptions (Rev. Stat. § 77-385, 2023).

Sales Tax Expenditures – Many of Nebraska's current sales tax exemptions were created when the sales tax was enacted in 1967, following the lead of other states by focusing the tax on purchases by final consumers (Lock, 2009). Since that time, several new sales tax exemptions have been enacted.

Nebraska's Tax Expenditure Report is required to include estimates for sales tax exemptions on business-to-business transactions and sales to final consumers. The largest sales tax exemptions in the Tax Expenditure Report are for business inputs, most of which are exempt because they become products that are taxed when sold to consumers. Most states exempt business inputs from their sales tax bases to prevent extra layers of taxation from being added on each stage of production, called "pyramiding." This can result in market distortions like consumers paying a "tax on a tax," the encouragement of firms to merge with their suppliers, a reduction in the transparency of the tax, and increased compliance costs (Fox & Luna, 2006).

Motor fuels are exempt from the sales tax but are taxed separately under the motor fuels tax. Purchases by governments and select nonprofits also are exempt, as are sales of groceries, newspapers, and school lunches.

As discussed in Chapter 3, consumer services are not taxed unless defined specifically as part of the sales tax base in statute, even though the objective of the sales tax is to tax final consumption. The Department of Revenue's Tax Expenditure Report is required to include a list of untaxed services for nonbusiness use (Rev. Stat. § 77-382, 2023). It estimates that the failure to include these services in the sales tax base resulted in a total of more than $650 million in foregone sales tax collections in 2022 (Department of Revenue, Tax Expenditure Report, 2022). However, this estimate includes some business purchases of the services listed, as the department is unable to isolate business from consumer purchases of the listed services in its estimates.

LB 284, passed in the 2019 Legislative session, requires remote sellers that have gross revenue of more than $100,000 from Nebraska sales or make at least 200 separate Nebraska sales in the previous or current calendar year to collect and remit sales tax to the state.

Income Tax Expenditures - Some income tax expenditures promote broad policy goals and affect most Nebraskans. For example, the Personal Exemption Credit increases with family size based on the principle that income required for basic necessities should not be taxed.

Other income tax expenditures benefit only specific groups of people, usually to encourage particular behaviors. For example, the Beginning Farmer Tax Credit is intended to help young farmers and ranchers establish themselves in the workforce. The Earned Income Tax Credit is intended to keep low-income working families out of poverty. Other income tax expenditures include credits and deductions for child care expenses, charitable contributions, and college savings plans.

Additionally, the Special Capital Gains exclusion is a one-time tax break that allows certain corporate employees to sell stocks or collect dividends without paying taxes on the earnings. Nebraska also has an exclusion allowing Nebraskans to avoid paying income tax on earnings from S-Corporations and LLCs that are generated from goods or services sold outside Nebraska, even when the income isn't being taxed in another state.

Business Tax Breaks – Nebraska has a long history of providing tax subsidies to businesses that invest in the state by relocating, expanding, or creating new jobs. Once a business has met requirements for investment or employment, it earns credits used to offset income or sales taxes, or to keep income taxes they withhold on behalf of their employees. Businesses may also be directly refunded state and local sales taxes paid on items related to a specific project. They may also receive local personal property tax exemptions for purchases like computer systems. Property tax exemptions and refunds of local sales tax can cost local governments significant revenue.

The Department of Revenue publishes an annual tax incentive report on October 31 and presents its findings to a joint session of the Revenue and Appropriations committees on or before December 15 of every even-numbered year. The report estimates the fiscal impact of the state's incentive programs, including the number of jobs gained or lost, and provides information on the projects approved for tax incentives (Rev. Stat. §§ 77-5731 and 77-6837, 2023). The Legislative Performance Audit Committee reviews the effectiveness of Nebraska's tax incentives and is further discussed in Chapter 5.

Nebraska has had several business subsidy programs, the first of which was enacted in 1987. That program – the Employment and Investment Growth Act (LB 775, 1987) – sunset in 2005 and was replaced by the Legislature with the Nebraska Advantage Act (LB 312, 2005). Though the Employment and Investment Growth Act stopped accepting applications in 2005, it continues to pay out tax credits for participation agreements. It's estimated this program will continue abating taxes for participants through FY26, at which point it's estimated there will be no more tax credits available (Department of Revenue, Tax Incentives Annual Report, 2022).

The Nebraska Advantage Act, which started accepting applications in 2006, sunset in 2020. Much like the Employment and Investment Growth Act, it will continue to abate taxes for participants with active agreements and will do so for years to come (Department of Revenue, Tax Incentives Annual Report, 2022).

Upon the sunsetting of Nebraska Advantage, the Legislature enacted Nebraska's third business subsidy program, the ImagiNE Nebraska Act (LB 1107, 2020). ImagiNE Nebraska started accepting applications in 2021 and will continue accepting applications through 2030.

From January 1, 2021, to June 30, 2022, the Employment and Investment Growth Act and Nebraska Advantage Act abated nearly $550 million in state and local taxes (Department of Revenue, Tax Incentives Annual Report, 2022). Local taxes include city sales tax. (These programs were reported over 18 months because of a law changing the program's reporting from calendar year to fiscal year (LB 1150, 2022).)

The Department of Revenue does not collect data on the amount of property taxes abated at the local level but does collect the value of property exempted. Nebraska Advantage exempted nearly $4.3 billion of personal property at the local level throughout the state from January 1, 2021, to June 30, 2022 (Department of Revenue, Tax Incentives Annual Report, 2022).

There was no data to report for ImagiNE Nebraska in FY22, because no tax credits or exemptions had been earned (Department of Economic Development, 2022).

Two of the three programs -- Nebraska Advantage and ImagiNE Nebraska -- also include a provision allowing participating companies to retain their employees' state income taxes. This "withholding component" applies to employment credits earned by participants and can be applied to new employees' withholding of income taxes. This allows another avenue for participants to utilize the tax credits earned and was not available under LB 775.

If a company does not maintain the required investment and employment levels, the state can require it to repay any incentives received.

Both LB 775 and Nebraska Advantage have been shown by the Department of Revenue to cause significant revenue losses for the state. According to the department's 2022 report, even after factoring in any revenue gains from increased economic activity induced by the incentives, LB 775 is projected to be a net revenue loss to the state of more than $2 billion at the end of its life in FY26, and Nebraska Advantage a net revenue loss of $1.4 billion through FY32 (Department of Revenue, Tax Incentives Annual Report, 2022).

A 2019 performance audit of Nebraska Advantage conducted by the Performance Audit Committee found that out of the 124 participating companies which were verified, only 13 were new to the state because they paid no wages in the state and no Nebraska income tax in the two years prior to participation (Performance Audit Committee, 2019).

***Estimating Tax Expenditures** – Many tax expenditure cost estimates are imprecise. Data are often not available. It is not possible to fully predict people's responses to tax changes. Further, there can be disagreements over what qualifies as a tax expenditure. Throughout this chapter, we use the best data available to provide a sense of the types and costs of tax expenditures in Nebraska.*

Chapter 5: Evaluating Nebraska's Tax System

Tax experts generally agree about the central questions to ask when evaluating a tax system (National Conference of State Legislatures, 2001).

Does it collect enough revenue to pay for the public's priorities?

A good test is whether a state collects enough money each year to match its spending needs. The failure to do so over time is called a **structural deficit**. This occurs when revenues do not grow at the same rate as the cost of providing services. Legislative actions on appropriations and taxes can also create a mismatch between revenue and appropriations.

Nebraska must balance its budget. By law, for the budget to be balanced, a reserve consisting of at least 3% of net General Fund receipts must remain in the General Fund, unavailable for spending. This is referred to as the budgetary **minimum reserve**. The minimum reserve ensures that the General Fund has flexibility in its cash flow to meet any variation in its obligations (Rev. Stat. § 77-2715.01, 2023).

The Tax Rate Review Committee, which consists of the Speaker of the Legislature, the chairs of the Executive Board, Revenue and Appropriations committees, and the Tax Commissioner, meets in July and November of each year. The committee is charged with determining whether the current income and sales tax rates can generate enough revenue to pay for the state's obligations and appropriations. The adequacy of the tax rates is judged by whether anticipated revenues are enough to cover the minimum reserve. If not, the committee may petition the Governor to call a special session of the Legislature to make changes to state tax rates.

Lawmakers can balance the budget on a biennial basis but nonetheless leave the state with a structural deficit by making changes which only take effect after the current biennium, such as when tax cuts and other revenue-reducing measures are passed in one year and take effect in the future, or when tax changes are made based on projected revenues that have yet to materialize. The cost of providing education, health care, and other services becomes more expensive each year as the costs of goods, utilities, and labor increase. At the same time, the value of some revenue sources erodes over time due to inflation and a changing economy. If revenues do not keep up with increasing costs, the state must repeatedly engage in some combination of raising taxes and cutting services. In a state without a structural deficit, the tax system will collect sufficient revenue each year to cover increased costs without raising tax rates.

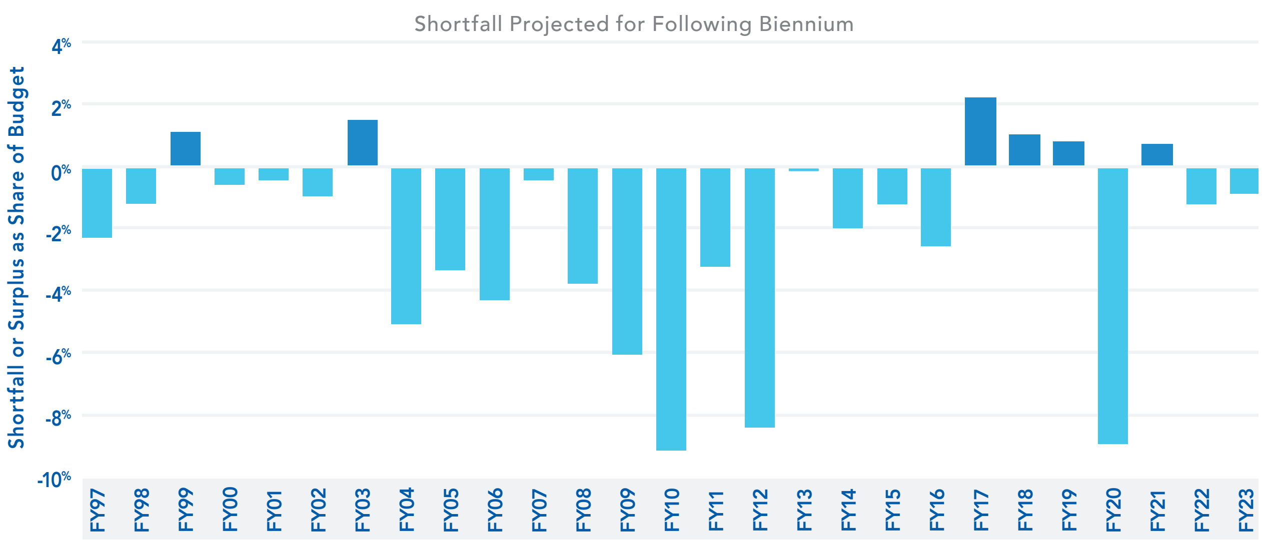
As discussed in Chapter 3, Nebraska enacted LB 754 in 2023, which will reduce the state's individual and corporate income tax rates and could make the collection of sufficient revenue in future years more difficult to attain. For an in depth look at tax cuts prior to LB 754, see OpenSky's white paper, *Giving Money Back to the People? Understanding Nebraska's 2022 Tax Package.*

Every year, the Legislative Fiscal Office prepares a Biennial Budget Report that includes estimates of future shortfalls or surpluses (Legislature, Budget Reports, n.d.). These estimates are based on the state's obligations under current law and the expected growth in the cost of providing services based on historical averages and other data.

A review of these reports shows that Nebraska has a recent pattern of structural deficits. In 16 of the last 20 years, even after balancing the short-term budget, the Legislature has ended its session projecting that revenues will fall short of needs in the following biennium (Figure 9). Projected shortfalls do not always materialize, due to revised cost estimates and improved revenue, but in most of these years the Legislature has begun the session with a shortfall to address. In fact, out of the seven budget cycles from FY04 to FY18, the Legislature faced a budget gap in the following biennium requiring action in all but two cycles. The actions taken included tax increases in two of the seven biennia, Cash Reserve Fund transfers in all seven, and spending cuts in all seven. Despite these recurring shortfalls, the Legislature also reduced state revenues by passing tax cuts in four of the seven biennia and increased or added new tax expenditures in all seven (Department of Revenue, Tax Rate Chronologies, 2023). This has exerted downward pressure on funding for schools, health care, and other vital services as the economy has grown. In some cases, this has meant shifting funding obligations from the state to the local level (LB 235, 2011).

***Structural Deficit** - when a government's tax structure is not designed to collect enough revenue to pay for services as costs increase.*

Figure 9: Nebraska's Structural Deficit

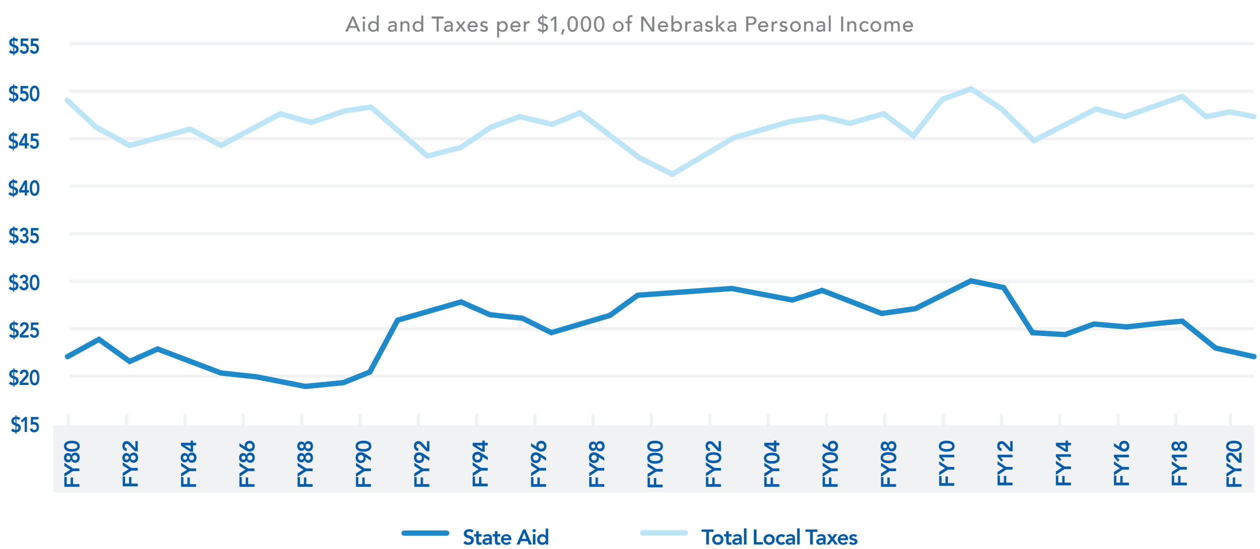


Source: Legislature, State of Nebraska Biennial Budget Reports, General Fund Financial Status

Appropriations for transportation and infrastructure as a share of the economy also have declined (Figure 6), as a large portion of revenue for those needs is tied to the volume of motor fuels sold. This means that, as the public consumes less fuel due to higher fuel prices or the purchase of more fuel-efficient vehicles, motor fuels tax revenues decline (LR 152, 2009). As previously noted, the Legislature passed a law to direct a quarter cent of sales tax collections specifically for transportation and infrastructure in 2011, with the first transfers beginning in 2013. Diverting revenue from the General Fund for infrastructure spending means less will be available for the state's other priorities. The Legislature also increased the motor fuels tax, beginning in 2016, to increase the state's ability to meet infrastructure investment needs.

The ability of localities – cities, counties, and school districts – to pay for local services also is affected by state budget policies. State aid cuts and local revenue limits can combine to squeeze local budgets, making it difficult to fund schools, police and fire departments, road and bridge repair, and other local services. As demonstrated in Figure 10, reductions in state aid to local governments are often offset by increases in local tax rates. State business subsidies can also interfere with local revenue streams when they include property tax exemptions and local sales tax refunds, creating local budgeting uncertainty and reducing needed local revenue.

Figure 10: State Aid and Local Taxes Have Mirrored Each Other



Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis; Personal income for FY23-25 is estimated based on the average change over prior years.

Is the tax system fair when it comes to who pays and how much?

Fairness is at the heart of any debate about a tax system, including whether it should be **progressive, regressive, or proportional**.

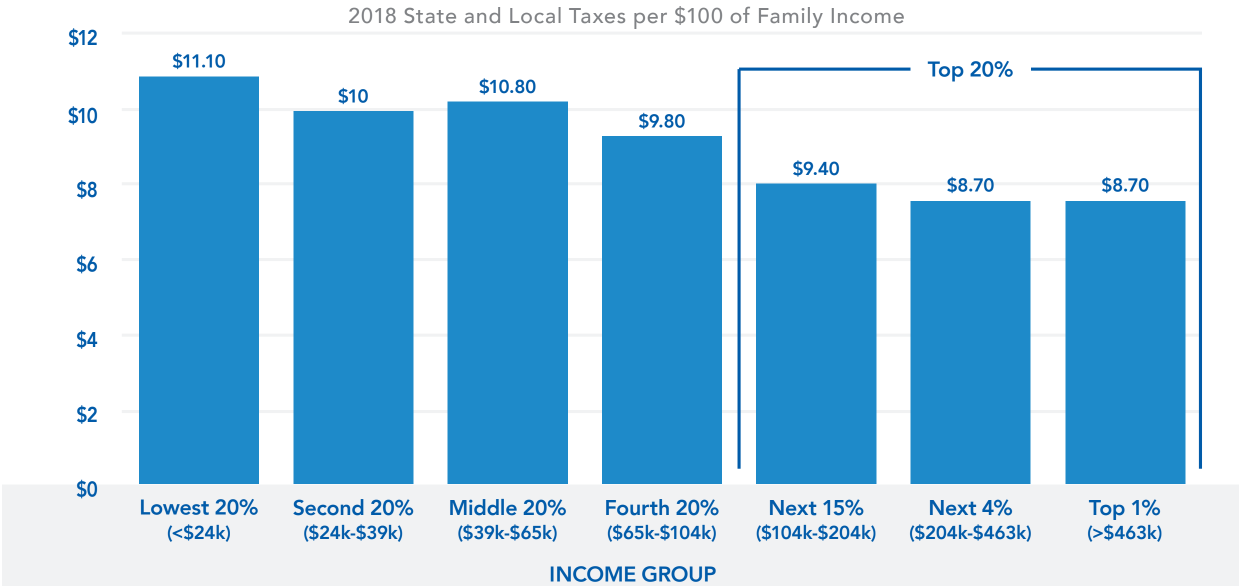
- A tax system is progressive if people with higher incomes pay a higher percentage of their income in taxes than those with lower incomes. Nebraska's income tax, where higher rates apply at higher incomes, is progressive.
- A tax system is proportional if everyone, regardless of their income and ability to pay, pays the same percentage of their income in taxes. Some states have "flat" income taxes that meet this description.
- A tax system is regressive if lower-income families pay more of their income in taxes than wealthier families. Sales taxes are typically regressive, in part because low-income families pay sales tax on nearly everything they buy, while high-income families spend less of their income on goods and services that are subject to sales tax.

As in most states, lower- and middle-income families in Nebraska pay a greater share of their incomes in state and local taxes than do higher-income residents (Figure 11). The higher a household's income in Nebraska, the lower the share of that income it pays in state and local taxes. For example, an average Nebraska family earns $50,500 in income and pays $5,454 (10.8%) in total state and local taxes. Taxpayers in the lowest 20% ($0-$24,400 income) earn an average income of $13,800 and pay $1,532 in taxes (11.1%), while taxpayers in the top 1% (earning more than $462,600) have an average income of $1.1 million and pay $92,533 in taxes, or 8.7% (Institute on Taxation and Economic Policy, 2018).

Regressive taxes, such as sales and property taxes, are the primary cause of lower- and middle-income families paying a greater share of their incomes in taxes than higher-income residents. For example, Nebraskans making less than $24,400 per year pay more than 6% of their incomes in sales tax, while those making more than $103,500 and less than $204,000 pay less than 3% of that income in sales tax. Those making more than $462,600 pay less than 1%.

Likewise, low- and middle-income families typically devote larger shares of income to housing than higher-income families. Nebraska's tax law includes measures like the Homestead Exemption that freeze or reduce property taxes for certain elderly and disabled Nebraska homeowners. Still, the lowest-income families in Nebraska pay higher percentages of their yearly incomes in property taxes than those with higher incomes (ITEP, 2018). This is partly because renters also pay property taxes – indirectly in the form of higher rent – but are not eligible for state relief programs like the Homestead Exemption.

Figure 11: Nebraska's Tax System is Regressive



Note: Totals include non-elderly taxpayers and include effect of federal deductibility

Source: Institute on Taxation and Economic Policy, 2018

In contrast to sales and property taxes, Nebraska's income tax is progressive. Nebraskans earning less than $24,400 a year pay little to no income tax, while the average earner pays 2.5% of their income in income tax, and the highest-income individuals pay 4.7% of their income in income tax (ITEP, 2018). This is because of the graduated income tax rate structure summarized in Chapter 3 and specific policies focused on low- and high-income earners. Graduated income tax rates help to counter the mostly regressive taxes levied by state and local governments (Byerly-Duke & Davis, 2023).

Policies like the state Earned Income Tax Credit (EITC) ensure that workers who earn too little to achieve economic stability only pay income tax on a small portion of their earnings. Combined with the additional tax for high-income earners mentioned in Chapter 3 and an income tax rate that increases with income, higher-income families tend to pay income taxes on more of their earnings.

Nebraska is one of 28 states that even the playing field between small and large businesses through a policy known as "combined reporting," (Mazerov, 2021). Combined reporting treats a parent company and most subsidiaries as one corporation for state income tax purposes, which prevents large, multistate corporations from shifting profits made in Nebraska to subsidiaries in other states where taxes might be lower or nonexistent (Mazerov, 2009). Combined reporting ensures that small in-state and large multistate companies are on equal footing on taxes, with each contributing toward maintaining the roads, schools, and other services that make their profits possible.

Tax expenditures raise issues of fairness. Some tax expenditures used in Nebraska are widely accepted in several other states. These include those based on the principle of avoiding taxes on business inputs, like not taxing wood purchased by a furniture maker because it will be taxed when sold as a chair. Other sales tax expenditures, like exempting a day at the spa but taxing a night at the movies, may be more questionable from a tax policy perspective.

Business subsidies also may raise questions. In particular, businesses that are not in targeted industries, are too small to qualify for subsidies, or already made investments now being subsidized for other companies may argue they're being treated unfairly because they effectively pay a higher tax rate than the subsidized businesses. Nebraska's tax incentive programs are now evaluated regularly by the Legislative Performance Audit Committee.

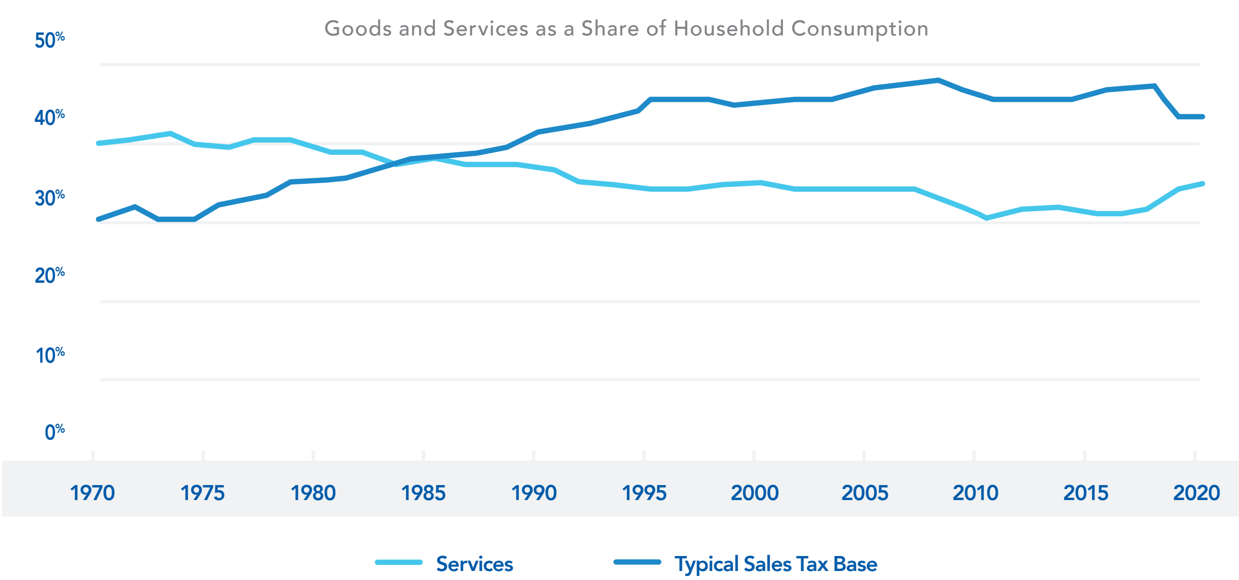
Does the tax system provide steady revenue as the economy rises and falls?

A tax system unable to weather changes in the economy provides less revenue in downturns when demand on public services is greatest. Such a system also may lead to overly large surpluses in prosperous times, which can put pressure on legislators to enact tax cuts to reduce those surpluses, leaving the state short for the next recession unintentionally.

No state tax system is completely able to avoid the roller coaster of economic ups and downs. However, a good way to minimize severe revenue fluctuations is to maintain a variety of taxes that respond differently to economic cycles (National Conference of State Legislatures, 2001). A tax system that includes a variety of taxes, draws from a broad cross section of the population, and generates enough revenue to support the state's obligations produces more stable revenue streams and allows states to plan ahead with more confidence. A strength of Nebraska's tax system is that it levies a broad range of taxes, rather than relying on just one or two major sources of revenue. However, there is room to improve.

Each November, beginning in 2016 and every two years thereafter, the Legislative Fiscal Office prepares a revenue volatility report. The report evaluates the General Fund tax base and the volatility of funds flowing to it, changes in federal legislation that affect the flow of funds to Nebraska, the Cash Reserve Fund status and projections and the adequacy of its balance, and General Fund revenue projections. The Legislative Fiscal Office is also charged with making recommendations based upon its evaluation (Rev. Stat. § 50-419.02, 2023).

Figure 12: Consumption of Services Increasing Relative to Goods



Source: U.S. Bureau of Economic Analysis, "National Income and Product Accounts," Table 2.4.5U

Sales tax revenue has failed to keep up with economic growth. This can be attributed in part to untaxed services and untaxed internet and catalog sales from remote sellers, although the latter was changed to require certain remote sellers to collect and remit sales tax to the state, as noted in the previous chapter. Families across the United States today spend much more on services than on goods that are traditionally taxed (Figure 12), yet many services remain exempt from Nebraska state sales tax. According to a survey by the Federation of Tax Administrators, Nebraska taxes less than half the 176 services taxed in at least one other state. South Dakota and Iowa both tax more services than Nebraska (Federation of Tax Administrators, 2017). Because services are only taxed if they have been individually enumerated in law, the system is inconsistent. Pet grooming services are taxed in Nebraska but barber shop and beauty parlor services are not (Rev. Stat. § 77-2701.16, 2023). Carpet cleaning is taxed but swimming pool cleaning is not. Taxing more services would help the tax system keep up with a changing economy.

Nebraska's sales tax base has faced recent challenges due to the state's previous inability to collect millions in sales tax revenue from online purchases. The U.S. Supreme Court ruling in South Dakota v. Wayfair, however, cleared the way for states to collect sales tax on purchases from remote sellers. In Nebraska, this collection has been in effect since Jan. 1, 2019, and was legally mandated with the passage of LB 284 during the 2019 session (Department of Revenue, South Dakota v. Wayfair Statement, 2018). This policy change has helped to limit the erosion of Nebraska's sales tax base, even without the removal of sales tax exemptions.

Can taxpayers easily obtain and understand information about the taxes they pay?

Information about when residents pay taxes, to whom, how they are spent and how the state's tax and budget decisions are made should always be readily available. High-quality state websites, timely and easily accessible budget reports, fiscal notes accompanying legislation to show the costs and benefits of proposed changes in law, and studies that show how taxes affect different income groups and sectors of the economy can all be used to disseminate accurate information.

When tax policy is used to encourage behavior or advance goals other than revenue collection – like when additional taxes are levied on tobacco to discourage smoking or tax breaks are given to promote certain investments – the state should be clear about what those goals are, how a given tax policy is meant to promote them, and whether or not the policy goal is achieved.

The tax expenditures described in Chapter 4 make Nebraska's revenue picture considerably less clear to the public and to policymakers. This spending is not subjected to the same level of legislative scrutiny as direct appropriations are in each budget cycle. However, the Legislature has taken steps toward increasing the transparency of tax expenditures by requiring the Tax Expenditure Report be presented to a joint hearing of the Revenue and Appropriations committees each year and through the work of the Legislative Performance Audit Committee.

According to Rev. Stat. § 77-380: "[T]he Legislature recognizes that the present budgeting system fails to accurately and totally reflect the revenue lost due to such tax expenditures and that as a result undetermined amounts of potential revenue are escaping public or legislative scrutiny. The loss of such potential revenue causes a narrowing of the tax base which in turn forces higher tax rates on the remaining tax base."

Nebraska is one of 43 states to publish a regular Tax Expenditure Report, but it has some shortcomings. It contains no cost estimates for around one-quarter of the sales and income tax expenditures it identifies (Department of Revenue, Tax Expenditure Report, 2022). It is impossible to know if Nebraskans are getting good returns on these investments due to incomplete reporting, and without regular review, programs funded through tax expenditures can sometimes greatly exceed their original cost estimates, cutting into funding for other priorities (Leachman, Grundman & Johnson, 2011).

State law now requires the Legislative Performance Audit Committee to audit each business tax incentive program at least once every five years (Rev. Stat. § 50-1209, 2023). The committee's reports evaluate the extent to which tax incentives strengthen and diversify the economy and their fiscal impact on state and local governments. The findings are presented to a joint hearing of the Revenue and Appropriations committees. All state tax incentive programs have sunset dates on which the programs stop accepting applications. Although the lives of the programs can be extended, sunset dates force future legislatures to review and discuss the effectiveness of these programs.

Transparency has been an issue, as some important information about the distribution of subsidies is not disclosed to the public. For example, when it created the state's largest business tax credit program in 1987, the Legislature took other steps to entice businesses into the state and to retain existing businesses – making major changes to individual income tax rates and changing how multistate corporations calculate taxable income – but the impact of these changes has not been tracked and reported (LB 773, 1987; Rev. Stat. §§ 77-4105 and 77-2734.05, 2023).

There is also a lack of transparency as to the companies participating in the programs. The only company-specific information reported publicly is the investment and employment from the business's application and two-year aggregate totals of the benefits used. No company-specific metrics are reported, including yearly totals and types of benefits earned and used and the actual investment and employment increases of the individual incentivized companies.

Conclusion

The state budget should be a strategic plan for Nebraska, establishing our priorities now and for the future. It's also a moral document that demonstrates the values of our state government. Our investments today in education, roads and transportation networks, healthy communities, and the Nebraska workforce, for example, will have far-reaching consequences for decades to come.

Ensuring that the state has the revenue to make critical investments and support the needs of Nebraska's changing population and economy is just as critical to the future of Nebraska.

As a state, Nebraska has made strides in budget and tax policy since this report was first published in 2012. Since then, the Legislature's Tax Modernization Committee conducted a comprehensive study of our state's tax code, finding that Nebraska's tax system "is comparable in design to most states and does not require significant changes" but that our reliance on property taxes is greater than the national average and most of our border states.

The Legislature has implemented several changes in tax and budget policy in response to the Tax Modernization Committee's recommendations, as well as other measures that have increased budget and revenue transparency and strengthened the state's fiscal position. In 2014, the Legislature indexed the income tax brackets for inflation, ensuring that low- and middle-income Nebraskans will not be subject to higher income tax rates as a result of "bracket creep." The Legislature has also implemented a number of reporting measures on tax expenditures and business tax incentive programs that increase the transparency of these policies and programs.

Challenges remain, however, and they are exacerbated by the ongoing effects of tax reductions lawmakers have passed since 2006. These changes in the tax code – projected to have reduced state revenue by more than $913 million in FY20 alone – along with changes in the economy have prevented our state revenue system from keeping pace with the existing and growing needs of our state's residents (Fiscal Office, 2019). This has threatened funding for schools and other vital state services, while shifting additional funding responsibilities to local governments – which are becoming even more reliant on property taxes to maintain key aspects of "The Good Life." Facing these challenges will be of vital importance for our state and its economy in the years to come.

Nebraska is neither a high-tax nor a low-tax state. We are also not a high-spending state (Table 1). But we do have excellent schools and other vital services that have been key to sustaining economic growth and labor force participation that is the envy of many states. As we lack major oil and natural resources and tourism that help other states generate revenue, it will always be important that we levy reasonable and appropriate taxes to meet our state's needs and make investments in what grows our state and builds our communities.

Doing this requires a strategy that must be built on the following considerations: What are the state's goals? How can the state meet these goals? What will it cost? How can the tax system best support a strong economy and sufficiently invest in these goals?

Nebraskans must answer these questions together. Together we can create opportunities for every Nebraskan now and in the decades to come.

Appendix

Definitions of categories used in appropriations figures:

K-12 Education: The only agency included in this category is the Department of Education. Most of the spending is devoted to public school aid, which is distributed to local school districts through a formula called TEEOSA (the Tax Equity and Educational Opportunities Support Act).

Agencies included:

Department of Education

Higher Education: Cash Funds in this category include tuition and fees paid by students, but not proceeds of business-like enterprises such as dormitories and food sales.

Agencies included:

Community Colleges
Postsecondary Coordinating Commission
Nebraska State Colleges
University of Nebraska

Transportation and Infrastructure: Most of this category is funded through motor fuels taxes and motor vehicle sales taxes, which are deposited into the Highway Trust Fund and then transferred into Cash Funds as needed.

Agencies included:

Aeronautics (Later merged into Transportation)
Roads (Later merged into Transportation)
Transportation
Capital Construction
Motor Vehicles
Public Service Commission
Railway Council
Electrical Board
Energy Office
Power Review Board

Health and Human Services (Non-Medicaid): 93% of this category is the Department of Health and Human Services. Also included are a few small related agencies, such as Veteran's Affairs and the Commission for the Deaf and Hard of Hearing (full list below). Cash Funds in this category include tobacco prevention programs funded by tobacco settlement money, services for compulsive gamblers funded by taxes on lotteries and charitable gaming, and oversight of health care licensing standards funded by license fees, among others.

Agencies included:

African American Affairs
Blind/Visually Impaired
Department on Aging
Foster Care Review Board
Hearing Impaired
HHS System (excluding Medicaid and Children's Health Insurance)
Indian Affairs
Latino American
Status of Women
Veterans Affairs

Medicaid and CHIP: The federal government provides matching funds for every dollar Nebraska spends on these programs.

Agencies included:

Medicaid (part of Health and Human Services agency)
Children's Health Insurance (part of Health and Human Services agency)

Public Safety and Law Enforcement: About 42% of this category is the Department of Corrections. The Supreme Court, State Patrol, and Attorney General make up most of the rest. Many small regulatory and licensing agencies are also included here, such as the Liquor Commission, Department of Banking and Finance, and Board of Barber Examiners (full list below). An example of Cash Funds in this category is court fees used to fund probation services and substance abuse rehabilitation programs.

Agencies included:

Abstracter's Board
Attorney General
Banking
Barber Examiners
Board of Geologists
Correctional Services
Crime Commission
Crime Reparations Board
Electrical Board
Engineers and Architects
Equal Opportunity
Fire Marshal
Industrial Relations
Insurance
Land Surveyors
Landscape Architects
Liquor Commission
Military Department
Motor Vehicle Dealers
Parole Board

Public Accountancy
Public Advocacy
Racing and Gaming Commission
Real Estate Appraisers
Real Estate Commission
State Patrol
Supreme Court
Workers' Compensation

General Government: This category is mostly the Department of Revenue, whose largest expenditure is payments to certain elderly and disabled homeowners through the Homestead Exemption program. Also included are the Retirement Board, Legislative Council, Department of Administrative Services, and the offices of the Auditor, Governor, Lt. Governor, Treasurer, Secretary of State, etc. (full list below). Most of the Cash Funds spending in this category is made up of the Property Tax Credit Act, which is funded by transfers from the General Fund to the Property Tax Credit Cash Fund. Another example is the Home Energy Improvement Program, an energy conservation effort funded by a portion of sales taxes paid to public power districts.

Agencies included:

Accountability and Disclosure Commission
Administrative Services
Athletic Commissioner
Constitutional Revision Commission
Governor
Investment Council
Legislative Council
Lt. Governor
Power Review Board
Property Assessment and Taxation
Retirement Board
Revenue
Secretary of State
UCC Filing Council
State Auditor
State Building Commission
State Treasurer
Tax Equalization Review Commission
Real Property Appraisers

Agriculture, Environment, & Natural Resources: This category consists primarily of the departments of Natural Resources, Game and Parks, Environmental Quality, and Agriculture. Also included are several smaller agencies such as the Dairy Board and Ethanol Board (full list below). Nearly half of this category is funded through Cash Funds, notably through hunting and fishing licenses and entrance fees to state parks and recreation areas.

Agencies included:

Agricultural Activities
Agriculture
Beef Board
Brand Committee
Corn Board
Dairy Board
Dry Bean Board
Educational Lands & Funds
Energy Office
Environmental Quality
Ethanol Board
Game & Parks Commission
Grain Sorghum Board
Hemp Commission
Land/Water Conservation Fund (Game & Parks)
Natural Resources
Oil & Gas Commission
Soybean Board
State Fair Board
Wheat Board

Labor and Economic Development: An example of Cash Funds spending in this category is the Nebraska Tourism Commission, which is funded through a 1% lodging tax.

Agencies included:

Economic Development
Economic Opportunity Commission
Labor
Rural Development Commission
Tourism Commission

Humanities: This category consists of Educational Telecommunications (Nebraska Public Media), Historical Society, Library Commission, and Arts Council.

Agencies included:

Arts Council
Bicentennial Commission
Hall of Fame/Fort Robinson
Historical Landmarks
Historical Society
Library Commission
Educational Telecommunications Commission

References

Beck, C., Firestone, R. and Maher, C. (2023). *Giving Money Back to the People? Understanding Nebraska's 2022 Tax Package.* OpenSky Policy Institute. Retrieved from https://mcusercontent.com/2d52594ba4d7d9f304ba195e5/files/c16678c8-e366-4cdc-6253-4dfc534b9d88/OSPI823_13_Nebraska_2022_Tax_Package_Report_digital.pdf

Byerly-Duke, E. & Davis, C. (2023). The Pitfalls of Flat Income Taxes. Institute on Taxation and Economic Policy. Retrieved September 22, 2023, from https://itep.org/the-pitfalls-of-flat-income-taxes/

Coordinating Commission for Postsecondary Education. (March 10, 2023). "2023 Nebraska Higher Education Progress Report." p. S3. Retrieved September 22, 2023, from https://ccpe.nebraska.gov/sites/ccpe.nebraska.gov/files/PR_2023.pdf

Department of Administrative Services. (June 2023). "Fund Summary by Fund Report." p. 96. Retrieved September 6, 2023, from https://das.nebraska.gov/accounting/docs/reports/Monthly/FY2023/062023/Fund_Summary_by_Fund_Report.pdf

Department of Correctional Services. (2023). "NDCS Quarterly Population Summary." Retrieved September 22, 2023, from https://www.corrections.nebraska.gov/sites/default/files/wysiwyg/cy_2023_q1.pdf

Department of Economic Development. (October 31, 2022). "ImagiNE Nebraska Act and Key Employer and Jobs Retention Act Joint Report to the Legislature." p. 8. Retrieved September 20, 2023, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/2022_ImagiNE_Act_and_Key_Employer_Job_Retention_Act_0.pdf

Department of Education. (2021-22). "Nebraska Public Schools State Snapshot." Retrieved September 22, 2023, from https://nep.education.ne.gov/statedata.html

Department of Environment and Energy. (n.d.). "NDEE Water Programs; Nebraska Water Quality: A Brief Overview." Retrieved September 22, 2023, from http://www.deq.state.ne.us/NDEQProg.nsf/WaterHome.xsp

Department of Health and Human Services, Division of Medicaid & Long-Term Care. (December 1, 2022). "Medicaid Annual Report State Fiscal Year 2022." p. 22. Retrieved September 22, 2023, from https://nebraskalegislature.gov/FloorDocs/107/PDF/Agencies/Health_and_Human_Services__Department_of/107_20221231-193928.pdf

Department of Natural Resources. (n.d.). "Nebraska Dam Inventory." Retrieved September 22, 2023, from https://gis.ne.gov/portal/apps/webappviewer/index.html?id=2aab04a13817421992dc5398ad462e22

Department of Revenue. (2018). "Statement from the Nebraska Department of Revenue Regarding the South Dakota v. Wayfair United States Supreme Court Decision." Retrieved September 15, 2023, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/news-release/ndr/wayfair.pdf

Department of Revenue. (2019). "Statistics of Business Income Tax Compiled from IRS and Nebraska Data Extract for the State of Nebraska, 2019 Nebraska Statistics of Income, Part II, Table 1." Retrieved September 12, 2023, from https://revenue.nebraska.gov/research/statistics/statistics-business-income-tax-compiled-irs-data-state-nebraska

Department of Revenue. (2021). "2018 Tax Burden Study." p. 21. Retrieved October 21, 2021, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/research/burden/2018_Tax_Burden_Study.pdf

Department of Revenue. (October 2022). "2022 Tax Expenditure Report." Retrieved September 13, 2023, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/2022_Tax_Expenditure_Report_0.pdf

Department of Revenue. (October 2022). "Nebraska Tax Incentives: 2022 Annual Report to the Nebraska Legislature." Retrieved September 13, 2023, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/2022_Tax_Incentives_Annual_Report_Final.pdf

Department of Revenue. (2022). "Certified Municipal Population – 2000-2022." Retrieved September 12, 2023, from https://revenue.nebraska.gov/research/statistics/local-government-data

Department of Revenue. (2022). "Table 2 – 2013 to 2022 History of Property Taxes Levied by Local Governments," Retrieved September 12, 2023 from https://revenue.nebraska.gov/PAD/2022-annual-report-property-assessment-division

Department of Revenue. (2022-23). "Monthly Nebraska Motor Vehicle Sales Tax Collections by County." Retrieved September 12, 2023, from https://revenue.nebraska.gov/research/statistics/monthly-nebraska-motor-vehicle-sales-tax-collections-county

Department of Revenue. (2022-23). "Monthly Reported Motor Fuels Taxable Gallons, Motor Fuels Taxes, and Comparison of Totals." Retrieved September 12, 2023, from https://revenue.nebraska.gov/motor-fuels/monthly-reported-motor-fuels-taxable-gallons-motor-fuels-taxes-and-comparison-totals

Department of Revenue. (2023). "2023 Nebraska Individual Estimated Income Tax Payment Vouchers." Retrieved June 27, 2023, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/tax-forms/2022/Form_1040N_ES_Individual_Estimated_Income_Tax_Payment_Vouchers_8-014-2022_final.pdf

Department of Revenue. (2023). "Fuel Tax Rates." Retrieved September 12, 2023, from https://revenue.nebraska.gov/motor-fuels/fuel-tax-rates

Department of Revenue. (2023). "Inheritance Tax Report." Retrieved September 12, 2023, from https://revenue.nebraska.gov/PAD/inheritance-tax

Department of Revenue. (2023). "Local Government Data: City Sales Tax History." Retrieved September 12, 2023, from https://revenue.nebraska.gov/research/statistics/local-government-data

Department of Revenue. (2023). "Local Government Data: Local Sales and Use Tax Rates Effective July 1, 2023 – September 30, 2023." Retrieved September 12, 2023, from https://revenue.nebraska.gov/businesses/local-sales-and-use-tax-rates

Department of Revenue. (2023). "Nebraska Tax Rate Chronologies – Table 1, Income Tax and Sales Tax Rates." Retrieved September 15, 2023, from https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/research/chronology/4-607table1.pdf

Department of Revenue. (n.d.). "Occupation Taxes." Retrieved September 12, 2023, from https://revenue.nebraska.gov/government/occupation-taxes

Department of Transportation. (January 2023). "Nebraska Transportation Financing." Retrieved September 6, 2023, from https://dot.nebraska.gov/media/u14l4n5g/ndot-funding-flowchart.pdf

Department of Transportation. (n.d.). "About Us." Retrieved September 22, 2023, from https://dot.nebraska.gov/about/

Federal Reserve Bank of St. Louis. (2023). "Total Personal Income in Nebraska." Retrieved September 12, 2023, from https://fred.stlouisfed.org/series/NEOTOT

Federation of Tax Administrators. (2017). "Sales Taxation of Services by Category – 2017." Retrieved September 15, 2023, from https://taxadmin.org/state-taxation-of-services-by-category-2017/

Fox, W. and Luna, L. (September 2006). "How Broad Should State Sales Tax Bases Be? A Review of the Empirical Literature," State Tax Notes, v. 41, p. 639

Games and Parks Commission. (2022). "2022 Annual Report." pp. 4-5. Retrieved September 22, 2023, from http://digital.outdoornebraska.gov/i/1491686-2022-annual-report-for-web-revised/0?

Government Finance Officers Association. (2015). "Fund Balance Guidelines for the General Fund." Retrieved September 6, 2023, from https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund

Institute on Taxation and Economic Policy. (2018). "Nebraska: Who Pays? 6th ed." Retrieved October 17, 2018 from http://www.itep.org/whopays/states/nebraska.php

Leachman, M., Grundman, D., & Johnson, N. (2011). "Promoting State Budget Accountability Through Tax Expenditure Reporting." Retrieved December 19, 2019, from https://www.cbpp.org/research/state-budget-and-tax/promoting-state-budget-accountability-through-tax-expenditure

Legislative Fiscal Office. (August 2017). "State of Nebraska FY 2017-18 / FY 2018-19 Biennial Budget as Enacted in the 105th Legislature – First Session." p. 23. Retrieved September 6, 2023, from https://nebraskalegislature.gov/pdf/reports/fiscal/2017budget.pdf

Legislative Fiscal Office. (2019). "Major Tax Changes Since 2006: Impact on FY20 Revenue Base."

Legislative Fiscal Office. (August 2021). "State of Nebraska FY 2021-22 / FY 2022-23 Biennial Budget as Enacted in the 107th Legislature – First Session." p. 3. Retrieved September 6, 2023, from https://nebraskalegislature.gov/pdf/reports/fiscal/2021budget.pdf

Legislative Fiscal Office. (March 2022). "LB 1014 Distribution of the Coronavirus State Fiscal Recovery Fund (CSFRF)." p. 1. Retrieved on September 22, 2023, from https://nebraskalegislature.gov/pdf/reports/fiscal/2022arpa-csfrf.pdf

Legislative Fiscal Office. (July 2022). "State of Nebraska FY 2021-22 / FY 2022-23 Biennial Budget as Revised in the 2022 Legislative Session." p. 2. Retrieved September 6, 2023, from https://nebraskalegislature.gov/pdf/reports/fiscal/2023budget.pdf

Legislative Fiscal Office. (August 2023). "State of Nebraska FY 2023-24 / FY 2024-25 Biennial Budget as Enacted in the 108th Legislature – First Session." pp. 12, 17, 19, 85, 107. Retrieved September 6, 2023, from https://nebraskalegislature.gov/pdf/reports/fiscal/2023budget.pdf

Legislative Performance Audit Committee. (April 2019). "Nebraska Advantage Act: Performance on Selected Metrics." Retrieved December 11, 2019, from https://nebraskalegislature.gov/pdf/reports/audit/advantageact_2019.pdf

Legislature. (1987). LB 773

Legislature. (1987). LB 775

Legislature. (2005). LB 312

Legislature. (2009). "LR 152." p. 1. Retrieved December 20, 2019, from https://www.nebraskalegislature.gov/pdf/reports/committee/transport/2009_lr152.pdf

Legislature. (2011). LB 84 (See also Rev. Stat. §§ 39-2701 to 39-2705)

Legislature. (2011). LB 235

Legislature. (2012). LB 970 (See also Rev. Stat. §§ 77-2701, 77-2715, 77-2727, 77-2734 and 77-2717)

Legislature, (2014). LB 987 (See also Rev. Stat. § 77-2715.03)

Legislature. (2015). LB 610

Legislature. (2016). LB 1092

Legislature. (2019). LB 638 (See also Rev. Stat. § 77-4602)

Legislature. (2022). LB 1150

Legislature. (2023). LB 727 (See also Rev. Stat. § 77-2701.02)

Legislature. (2023). LB 754 (See also Rev. Stat. § 77-2715.03)

Legislature. (2023). LB 814

Legislature. (2023-24). "Rules of the Nebraska Unicameral Legislature, Rule 8, Section 3." Retrieved September 7, 2023, from https://nebraskalegislature.gov/FloorDocs/Current/PDF/Rules/RuleBook.pdf

Legislature. (2023-24). "Rules of the Nebraska Unicameral Legislature, Rule 8, Section 5." Retrieved September 7, 2023, from https://nebraskalegislature.gov/FloorDocs/Current/PDF/Rules/RuleBook.pdf

Legislature. (n.d.). "Budget Reports." Retrieved September 15, 2023, from https://www.nebraskalegislature.gov/reports/fiscal.php

Legislature. (n.d.). "The Budget Process." Retrieved September 7, 2023, from https://www.nebraskalegislature.gov/about/budget_process.php

Lock, B. (2009). "Nebraska Sales Tax – LR 161, LR 166 and LR 97." Retrieved September 13, 2023, from https://nebraskalegislature.gov/pdf/reports/committee/revenue/2009_LR161.pdf

Mazerov, M. (2009). "A Majority of States Have Now Adopted a Key Corporate Tax Reform — 'Combined Reporting.'" p. 1. Retrieved September 15, 2021, from https://www.cbpp.org/research/a-majority-of-states-have-now-adopted-a-key-corporate-tax-reform-combined-reporting

Mazerov, M. (2021). "Testimony Of Michael Mazerov, Senior Fellow, Center on Budget and Policy Priorities Before the Maryland Senate Budget and Taxation Committee Hearing on S.B. 511, Combined Reporting, February 3, 2021." p. 3. Retrieved September 15, 2023, from https://mgaleg.maryland.gov/cmte_testimony/2021/bat/1YHMkwzQdg0Mhewr3OnaGqgNXlgRZLLeN.pdf

National Conference of State Legislatures. (June 2001). "Principles of a High-Quality State Revenue System." Retrieved September 15, 2023, from https://www.cga.ct.gov/2005/pridata/Studies/pdf/Tax_Forum_Snell_Principles_Handout.PDF

National Conference of State Legislatures. (n.d.). "Tax Expenditure Budgets and Reports: Best Practices." Retrieved September 13, 2023, from https://www.insidesalt.com/wp-content/uploads/2017/01/NCSL-Tax-Expenditures-Best-Practices.pdf

OpenSky Policy Institute. (2023). *Taking Ownership: An Overview of Property Taxes in Nebraska*.

Pew Charitable Trusts. (August 28, 2023). "Pandemic Aid Lifts Federal Share of State Budgets to New Highs." Retrieved September 12, 2023, from https://www.pewtrusts.org/en/research-and-analysis/articles/2023/08/28/pandemic-aid-lifts-federal-share-of-state-budgets-to-new-highs?utm_campaign=2023-09-12+Squeeze&utm_medium=email&utm_source=Pew&subscriberkey=0030e00002MtketAAB

Rev. Stat. §§ 9-1204 and 9-1205, 2023

Rev. Stat. §§ 13-3108 and 13-2610, 2023

Rev. Stat. § 49-801.01, 2023

Rev. Stat. § 50-419.02, 2023

Rev. Stat. § 50-1209, 2023

Rev. Stat. § 60-3,186, 2023

Rev. Stat. § 77-27,132, 2023

Rev. Stat. § 77-27,142, 2023

Rev. Stat. § 77-201, 2023

Rev. Stat. § 77-381, 2023

Rev. Stat. § 77-382, 2023

Rev. Stat. § 77-385, 2023

Rev. Stat. §§ 77-2002 to 77-2006, 2023

Rev. Stat. § 77-2701.16, 2023

Rev. Stat. § 77-2715.01, 2023

Rev. Stat. § 77-2734.02, 2023

Rev. Stat. § 77-2734.05, 2023

Rev. Stat. § 77-3444, 2023

Rev. Stat. § 77-4105, 2023

Rev. Stat. § 77-5731, 2023

Rev. Stat. § 77-6837, 2023

South Dakota v. Wayfair, U.S. Supreme Court. (2018). Retrieved September 22, 2023, from https://www.supremecourt.gov/opinions/17pdf/17-494_j4el.pdf

State Patrol. (2023). "Patrol Division." Retrieved September 22, 2023, from https://statepatrol.nebraska.gov/divisions/patrol-division#:~:text=The%20Field%20Services%20Division%20encompasses,of%20Nebraska%20roadways%20a%20year

U.S. Census Bureau. (2022). 2022 Census of Governments – Organization, "Table 1. Government Units by State: Census Years 1942 to 2022," Retrieved September 12, 2023, from https://www.census.gov/data/tables/2022/econ/gus/2022-governments.html

University of Nebraska at Omaha, College of Public Affairs and Community Service. (April 4, 2023). "Faces of Transit in Nebraska to Create Awareness of Available Services." Retrieved September 22, 2023, from https://www.unomaha.edu/college-of-public-affairs-and-community-service/news/2023/03/faces-of-transit-in-nebraska-to-create-awareness-of-available-services.php

Learn more at openskypolicy.org

open sky POLICY INSTITUTE

OpenSky Policy Institute
1327 H Street, Suite 102 | Lincoln, NE 68508
402.438.0382 | openskypolicy.org

Updated October 2023