

## Repositioning for Continued Growth and Quality of Life

### CHALLENGE

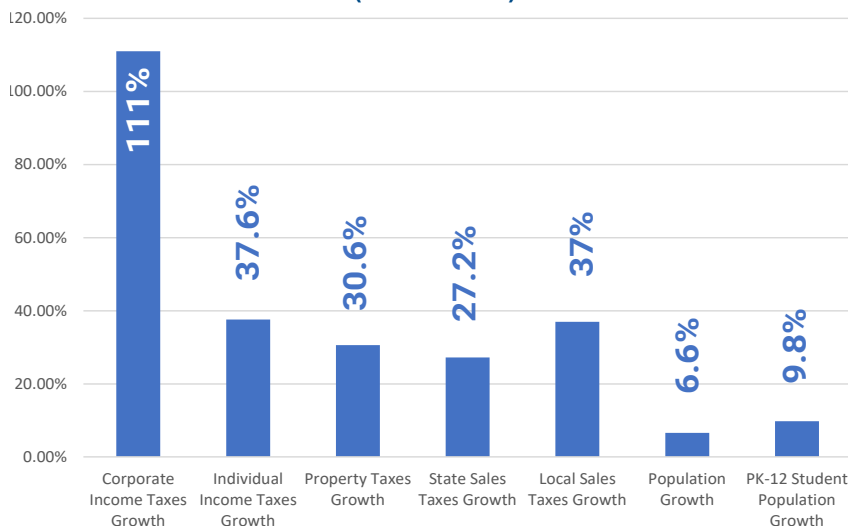
Nebraska's relatively high income and property tax burdens are a challenge to the continuing competitiveness of communities, businesses, manufacturers, and agricultural producers. Importantly, tax considerations are becoming an obstacle to attracting new residents, talent, jobs and entrepreneurs.

Nebraskans are appropriately proud of the quality of our schools, infrastructure, and amenities. These play a strong role in our quality of life and a person's decision to stay in Nebraska or move here. However, without sufficient economic and population growth, their funding may be stretched thin. **Looking forward, the status quo tax system, overly dependent on property and income tax, is not an adequate recipe for sustainability and competitiveness with peer states.**

This economic crossroads has become even more pronounced due to the current pandemic. As other states take strategic steps to recover from the pandemic and attract workforce and economic growth, so must we. A key strategy identified by Blueprint Nebraska involves jump-starting a legislative process to modernize our outdated tax system and be more competitive in today's environment. In 2021, Blueprint Nebraska released a working plan for consideration.



**Comparison of Growth in Nebraska Tax Collections, Population and PK-12 Students (2009 - 2020)**



1. Corporate income tax receipts nearly doubled in 2019, some of which is due to a Nebraska Department of Revenue decision to tax foreign-source income.
2. Tax rate growth adjusted for inflation using U.S. Bureau of Labor Statistics Midwest Consumer Price Index.

### IN TAX MODERNIZATION DISCUSSIONS, WE SEEK TO:



*Reduce in-fighting over revenues by adopting a tax code that promotes economic growth.*



*Update 1967-era property, income and sales tax systems to form a more equitable and competitive tax system.*



*Minimize high tax burdens that hold residents, producers and community businesses back from greater prosperity.*



*Attract new residents by freeing up resources to invest in quality of life and innovation initiatives.*



*Preserve the state's rainy-day fund and property tax benefits from 2020 leading legislation.*

# Individual Income Tax Rates Matter



Nebraska's current individual income tax system provides relatively low tax burdens for lower income taxpayers, but middle-income and above taxpayers have some of the highest rates in the Midwest.

Many businesses, especially small businesses, also pay income taxes through the individual tax system. When income tax rates are high, the local businesses, so important to our communities, are disadvantaged compared to neighboring states.

## Nebraska's Individual Income Taxes are High Compared to Neighboring States

2020 Income Tax Liability at Different Levels of Taxable Income, Nebraska and Neighboring States (Single Filer)

State	\$30,000	\$75,000	\$150,000	\$250,000
Nebraska	\$682	\$3,600	\$8,730	\$15,570
Colorado	\$815	\$2,898	\$6,371	\$11,001
Iowa	\$1,018	\$3,490	\$8,264	\$14,163
Kansas	\$977	\$3,518	\$7,793	\$13,493
Missouri	\$738	\$3,117	\$7,244	\$12,644
South Dakota	\$0	\$0	\$0	\$0
Wyoming	\$0	\$0	\$0	\$0

Note: Assumes single filer claiming standard deduction and one personal exemption, where applicable. Colorado, Iowa, Kansas, and Missouri's calculations do not include local income taxes, which can be substantial.

Source: Tax Foundation

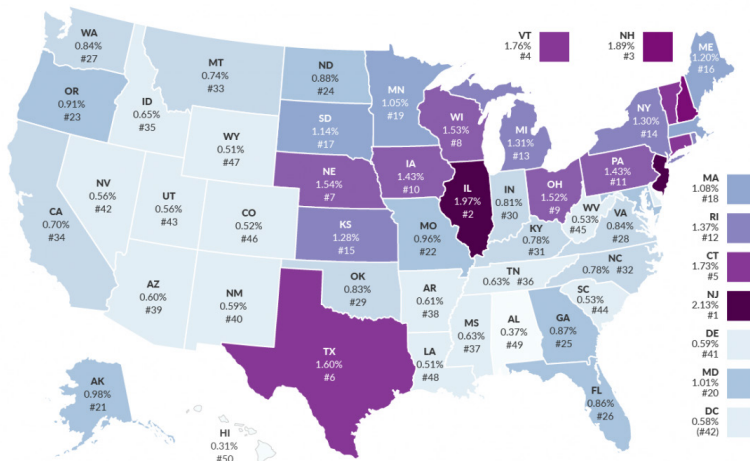
## Property Tax Rates Hold the State Back

Property taxes rates in Nebraska rank 7th highest in the nation. Whether Nebraskans are working to manage their family home mortgage or rent payments or settling up on major farm operations for the year, their property tax bills are staggering and increasing every year.



### How High Are Property Taxes in Your State?

Property Taxes Paid as a Percentage of Owner-Occupied Housing Value, 2019



Note: The figures in this table are mean effective property tax rates on owner-occupied housing (total real taxes paid/total home value). As a result, the data exclude property taxes paid by businesses, renters, and others. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Total Property Taxes Paid as a Percentage of Owner-Occupied Housing Value

Lower Higher

The State of Nebraska does not levy property taxes. They are the primary funding mechanism for local government services and community enhancement. In lieu of a more modernized tax structure, when population growth does not keep pace with growth in tax rates, the result is heavy property tax burden and strained services.

Businesses pay property taxes too. Even more importantly, the talent they hope to recruit are weighing both cost of living and community amenities when they consider relocation.



## Building consensus around a modern growth-based tax code

For decades, tax policy improvements have involved ad hoc changes in tax or spending regimes, attempting to address one singular interest or another. Often, legislative tax debates stall, with opposing sides choosing the status quo and current statutory and economic assumptions over new growth opportunities.

We must continue to fund necessary government services. We also must be accountable for growing our economy and workforce productivity at a rate as high or higher than the state and local combined spending growth.

States that fund higher levels of state and local government service with higher taxes are no longer as competitive. They are paying for it with greater out-migration of people and wealth, creating a downward fiscal spiral.

A successful legislative process begins with building consensus around a growth agenda and committing to competitiveness to deliver a modernized tax code that facilitates both.

### Overall Objectives



**Economic Growth**



**Equity and Balance**



**Innovation**



**New Families**



**Rainy Day Fund**



# NE Chamber Position



NE Chamber members recognize they are one major part of the statewide conversation and balancing act that is tax modernization.

Legislative leaders can promote open dialogue, weigh state needs and prioritize growth. We will be a good partner in this process.

**The pandemic has added urgency to the state's growing need for a competitive and growth-oriented tax code.**

Taking the necessary steps now to build a shared vision for tax modernization will ensure Nebraska can compete for talent and investment through the pandemic recovery and beyond.

We recognize the importance of compromise and flexibility while adhering to some important tax policy guard rails to guide our discussion and keep Nebraska's economy growing.

## NE CHAMBER GOALS & GUARD RAILS

### GOALS

Legislation should seek to help accomplish Blueprint Nebraska goals of attracting and retaining 18- to 34-year-olds, innovation, research and development, and entrepreneurs.

Legislation should be balanced and targeted at economic growth throughout the entire state and all our important business and industry segments.

A modernized tax code should enhance the state's ability to attract workforce and capital to our economy.

### GUARD RAILS

Any legislation should seek to reduce income tax rates to competitive levels.

Corporate income tax rates should be reduced and not exceed individual income tax rates.

Property tax laws should guard against excessive growth of property tax valuations or levy rates.

Income earned outside of Nebraska should not be taxed in Nebraska.

The sales tax system should not tax the same transactions twice, continuing exemptions for true business "inputs" and trade-in values of used equipment.

The state should retain specific sales tax exemptions common in neighboring or competitive peer states to avoid dislocation of current businesses or consumer transactions.

The percentage mix of sales, income and property tax burdens on Nebraskans should be competitive with peer states.

Property tax savings achieved with LB1107 should be preserved.

## NE CHAMBER COMMITMENT

We recognize our work must transcend politics and geography. Game-changing progress is not possible without the tough act of building consensus, which requires mutual respect and a genuine search for common ground.



## Good Life Game Changer Proposal Partners

Leaders of chambers and economic development organizations from across the state joined forces on a proposal to quickly ramp up workforce initiatives, talent attraction, innovation and economic infrastructure using American Rescue Plan Act funds. The proposal complements economic development initiatives outlined in the Blueprint Nebraska statewide strategic plan. <https://www.nechamber.com/good-life-game-changer.html>