Clear thinking for a stronger Nebraska
About OpenSky Policy Institute

We are a non-partisan think tank focused on fiscal policy in Nebraska.

Our mission is to improve opportunities for every Nebraskan by providing impartial and precise research, analysis, education, and leadership.
Major Tax Proposals
LB 405 and 406

LB 405
Eliminates corporate and individual income taxes
Eliminates the child care credit and EITC
Replaces lost revenue with $2.4 B in new sales taxes

LB 406
Eliminates corporate income tax
Eliminates EITC for low income families
Exempts first $12,000 of pension income from PIT
Replaces lost revenue with $395 M in new sales tax
Why should you care?
Education, Health Care Top Spending
General Fund Expenditures, FY 10-11

Total: $3.32 billion

Sources: OpenSky analysis of data from Legislative Fiscal Office and Department of Administrative Services Accounting Division.

More information on these spending categories is available on our website.

Note: Percentages do not sum to 100 due to rounding.
Revenue Collections Fall Short of Cost of Providing Services

State Spending in Nebraska Has Fallen

General Fund Spending per $1,000 of Nebraska GDP

Sources: OpenSky analysis of Department of Administrative Services Accounting Division, Legislative Fiscal Office, and US Bureau of Economic Analysis data.
Drop in Spending on Three Largest Budget Areas
General Fund Spending per $1,000 of Nebraska GDP

Sources: OpenSky analysis of Department of Administrative Services Accounting Division, Legislative Fiscal Office, and US Bureau of Economic Analysis data.
Spending Trends in all Major Budget Areas
General Fund Spending per $1,000 of Nebraska GDP

*** Data to separate Medicaid and CHIP from the rest of Health and Human Services are only available beginning in FY 02-03.
Sources: Department of Administrative Services Accounting Division, Legislative Fiscal Office, and US Bureau of Economic Analysis
Income Taxes Make Up 58% of Projected General Fund Revenues, FY 13-14

Corporate Income: $255,000,000 (7%)
Sales and Use: $1,490,000,000 (38%)
Individual Income: $2,010,000,000 (51%)
Miscellaneous receipts*: $167,000,000 (4%)

Total: $3,922,000,000

Source: Legislative Fiscal Office, Tax Rate Review Committee Report, November 2012
*Miscellaneous receipts are primarily Excise Taxes, Business and Franchise Taxes, and special income taxes on fiduciary income and financial institutions.
Major State and Local Tax Revenues
Taxes per $1,000 of Nebraska Personal Income, 1995-2011

*State data are for fiscal years (2011 = FY 10-11); local data are for calendar years. Sources: Department of Administrative Services Accounting Division, Annual Budgetary Reports, and Department of Revenue Property Assessment Division, 2011 Annual Report.
Nebraska’s Tax System is Regressive

State & Local Taxes in 2007
Shares of family income for non-elderly taxpayers

Source: Institute for Taxation and Economic Policy
So what does that mean for nonprofits?
LB 405 Would Increase Taxes for Most Nebraskans
Annual Tax Change by Income Level

Middle- and low-income Nebraskans would face the largest tax increases.

Families with incomes below about $80,000 would see a tax increase.

The wealthiest 1% of Nebraskans, with incomes averaging $1.2 million, would receive an average tax cut of $44,132.

The highest-income Nebraskans would receive the largest tax cuts.

Sources: LB 405 and Institute for Taxation and Economic Policy
LB 406 Would Increase Taxes for Most Nebraskans
Annual Tax Change by Income Level

- Middle- and low-income Nebraskans would face the highest tax increases.
- Families with incomes below about $85,000 would see tax increases.
- The wealthiest 1% of Nebraskans, with incomes averaging $1.2 million, would receive an average tax cut of $1,554.
- The highest-income Nebraskans would receive the largest tax cuts.

Sources: LB 406 and Institute for Taxation and Economic Policy
Selected Impacts of LB 405

- Higher Prices for All Families Due to New Sales Taxes
- Tax Shift from Progressive Income Tax to Regressive Sales Tax
- New Taxes on Energy Used by Hospitals
- Loss of Refundable Child Care Credit for Low-Income Families
- Loss of Earned Income Tax Credit for Low-Income Working Families
- New Taxes on Hospital Rooms and Dorms
- New Taxes on Medical Equipment
- New Taxes on Prescription Drugs
- New Taxes on Purchases by Private Nonprofit Hospitals, Schools, Colleges, and Churches

Sources: LB 405 and supporting documents; NE Department of Revenue Tax Expenditure Reports; NE Department of Revenue Statistics of Income Reports

Sales tax exemption amounts are 2014 estimates. EITC is 2012. Child Credit is 2011.
Selected Impacts of LB 406

- Higher Prices for All Families Due to New Sales Taxes
- New Taxes on Energy Used by Hospitals
- Loss of Earned Income Tax Credit for Low-Income Working Families
- New Taxes on Medical Equipment

Sources: LB 406 and supporting documents; NE Department of Revenue *Tax Expenditure Reports*; NE Department of Revenue *Statistics of Income* Reports

Sales tax exemption amounts are 2014 estimates. EITC is 2012.
LB 405 Would Have Cost $5.5 Billion from 1998 - 2012

Sources: LB 405; NE Department of Administrative Services Accounting Division, Annual Budgetary Reports; NE Department of Revenue, Tax Expenditure Reports.
Missing tax exemption data were estimated based on other years where necessary. For the cumulative shortfall, the effect in odd-numbered years was estimated by averaging the two adjacent years.
Tax Shift Winners and Losers

**Winners**
- High Income Earners
- Out-of-State Businesses
- Roads Interests

**Losers**
- Low and Middle-Income Families
- In-State Businesses
- Farmers/Ranchers
- Goods Industry (esp. ag and manufacturing)
- Health Care Consumers and Hospitals
- Nursing Homes
- People with Disabilities
- Churches/Parishioners
- Nonprofit Private Colleges/Students
- College Students
- Education/Health Care
- Good Public Policy
Conclusion

• We already don’t collect enough revenue to meet our spending needs
• This has caused a rapid decline on spending for education and health
• Further income tax cuts will likely cause further cuts to education, public safety and other priorities
• Our tax code is regressive and will become more so if we shift the tax burden to sales and property taxes
• We need comprehensive tax reform, allowing us to be more strategic in how we invest for the future
How to receive our information

• www.openskypolicy.org
• Sign up for our email updates
• Find us on facebook
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