

Legislative Issue Guide

REMOVING BARRIERS IN NEBRASKA



Solutions for the Good Life

The economic policies we enact here in Nebraska have real consequences for our daily lives. Even with all that Nebraska has to offer, our state often loses people, income, and investment to other states.

One important reason is that too many of our state policies are creating barriers—rather than ladders—to growth and opportunity. These obstacles to success can put the Good Life out of reach for Nebraskans.

Our state’s economic challenges include high tax rates and obscure taxes that many states no longer impose on their residents and businesses, regulations that have sometimes gone decades without proper review, rates of job creation that have fallen below the national average, and state economic growth that has declined significantly as agriculture struggles.

Nebraska’s citizens and policymakers need tools and

information to help remove these barriers and create more and better opportunities.

Through research and advocacy, the Platte Institute serves these Nebraskans and acts as a resource for lawmakers who seek practical solutions for economic growth. We would be honored for you to review the research and materials cited in this guide at PlatteInstitute.org and to discuss these topics with you.

In this Legislative Issue Guide, we discuss four key policy solutions that the Legislature can implement this year to strengthen economic freedom in Nebraska.

By reducing barriers to jobs, creating a 21st century tax system, and building upon our state’s tradition of smart budgeting, we can assure that Nebraska truly is the best place to live, work, and raise a family.



Occupational
Licensing Reform



Tax Reform



Reining in
Regulation



Financial Ready

Occupational Licensing Reform

KEY FACTS

- Nearly 200 different jobs in Nebraska require a government license. Many of Nebraska's licensing requirements are more burdensome than our neighboring states and the rest of the country, making it harder to create many higher-wage jobs in Nebraska than other states.
- The Nebraska Legislature has taken proactive steps to reform occupational licensing. The state became a national leader in 2018 when the Occupational Board Reform Act, LB299, was enacted into law. The Act requires legislative committees to review 20 percent of licenses under their purview a year, in a continuous five-year cycle.
- Research by the White House Council of Economic Advisers under the Obama administration found that occupational licensing requirements are often not correctly targeted to public needs of health and safety, and that licensing is often a less effective regulatory tool than more targeted consumer protections such as inspections, bonding or insurance requirements, business registration, or private certification.

THE PROBLEM

While some regulation will always be needed, Nebraska's regulatory policies are unnecessarily limiting entry into occupations or industries in a manner that lessens competition. As a result, fewer new jobs and new businesses are being created in Nebraska than in the states that directly compete with Nebraska. Imposing job licensing requirements not found in other states

reduces the upward mobility of Nebraska's workers and entrepreneurs. For example, a massage therapy license in Nebraska requires 1,000 hours of training, while most states require 500-700.

OUR SOLUTION

Nebraska now needs to implement the Occupational Board Reform Act and review all existing licensing requirements, prioritizing the least restrictive regulatory alternatives to occupational licensing where possible, and focus licensing requirements that are determined necessary only on essential needs of health and safety. Caution should be taken when industry groups want a new occupation to be regulated, and the framework created by the Occupational Board Reform Act should be kept in mind as new licensing proposals are considered in committee hearings. All new licensing laws created will eventually be reviewed by the Occupational Board Reform Act process.

Nebraska also needs to make its job licensing requirements consistent with, or more accessible, than our most reasonable neighboring states. This includes providing greater reciprocity for workers already licensed in other states. Rather than putting Nebraskans out of work, the state should promote the least restrictive approach to regulation that maintains an open marketplace for entrepreneurs and consumers.



Platte Institute Resources at
PlatteInstitute.org/Jobs

- **ARTICLE:** "Nebraska: A National Leader in Job Licensing Reform"
- **POLICY REPORT:** "2018 Occupational Licensing Review"
- **VIDEO:** "Platte Institute: Removing Barriers for Nebraskans"
- **WEBSITE:** To learn more and to meet the Nebraskans impacted by occupational licensing barriers, visit our occupational licensing blog at StrongJobsNebraska.org

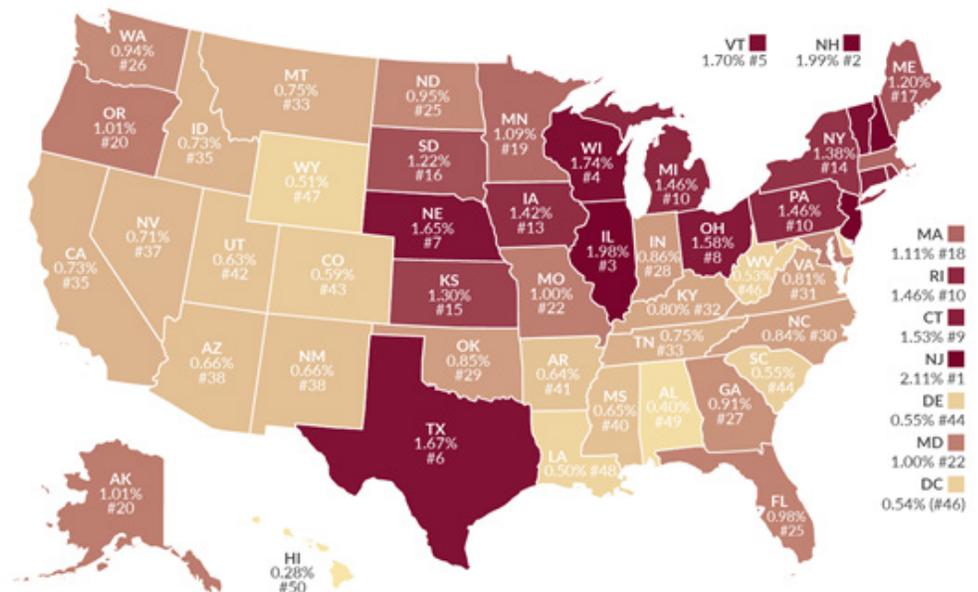
Tax Reform

KEY FACTS

- Nebraska has the 7th highest property taxes in the nation, which are levied at the local level and are the main funding source for K-12 education. School districts make up more than 60 percent of the total property taxes paid across the various taxing subdivisions.
- Unlike most Midwestern states, Nebraska imposes a personal property tax on business equipment, which is levied locally. Over the past ten years, the amount of statewide personal property tax collected as a percent of total property taxes has ranged between 5.6 percent and 6.6 percent, averaging 6.1 percent. In 2016, collections were \$217 million.
- Nebraska has one of the highest income taxes in the region. The personal income tax consists of four brackets, with a top rate of 6.84 percent. The corporate income tax has two brackets, with a top rate of 7.81 percent. South Dakota and Wyoming do not have income taxes. Colorado has a single-rate tax for both corporate and personal. Missouri has brackets for personal and a single rate for corporate. Kansas and Iowa both have brackets for both types of income taxes. Among our neighbors, Iowa most recently enacted tax reform which lowered both their personal and corporate income tax rates.
- Both personal and corporate income taxes are among the most detrimental taxes to economic growth because they discourage work and the creation of wealth. Consumption taxes, such as the sales tax, are one of the least harmful taxes to economic growth.
- Most small businesses (partnerships, sole proprietorships, LLCs and S Corps) pay their income taxes through the personal income tax.
- Nebraska's state sales tax is 5.5 percent and currently taxes the final consumption of many goods, but few services.
- Tax economists recommend that business inputs never be subject to the sales tax because this leads to 'tax pyramiding' where the tax is embedded in the final price of goods and services several times over. A well-structured sales tax would extend to all final consumer transactions, whether goods or services, but exclude business-to-business transactions.
- Nebraska is one of six states that levies an inheritance tax, which may be between 1 percent and 18 percent.

How High Are Property Taxes in Your State?

Mean Effective Property Tax Rates on Owner-Occupied Housing, Calendar Year 2014



Note: The figures in this map 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.

Source: 2014 American Community Survey, available from the Census Bureau; Tax Foundation calculations.



THE PROBLEM

Nebraska is in need of property tax reform that addresses the underlying problem of a local tax system that imposes too great a burden on the state's economic growth. More state spending alone, which leaves the current system unchanged, will not solve the problem. Instead, lawmakers must reform the overall state and local tax structure in order to reduce the financial and compliance costs associated with local property taxes.

Achieving a structural reform is particularly important in the face of statewide economic challenges that have been compounded by a downturn in agriculture. Nebraska lags behind the national average in both employment growth and population growth. States which gain the most people and jobs at Nebraska's expense levy lower income taxes and property taxes on average, while relying more heavily on their sales tax base to fund government services. States are also moving away from levying tangible personal property taxes and taxes on inheritances, since these taxes disincentivize capital formation and impose substantial compliance costs on businesses.

Unlike most states, Nebraska's corporate income tax has graduated rates, which incentivizes corporations to take part in counterproductive activities to circumvent the higher tax rate. Much of the corporate tax code is filled with deductions, exemptions, and credits which erode the tax base, and ultimately results in higher tax rates across the board.

STATE BUSINESS TAX CLIMATE INDEX RANKINGS NEBRASKA AND REGIONAL COMPETITORS (2018)

	Overall Index Rank	Corporate Tax	Personal Income Tax	Sales Tax
NEBRASKA	25th	28th	24th	13th
COLORADO	18th	18th	15th	39th
IOWA	40th	48th	33rd	19th
KANSAS	23rd	38th	19th	31st
MISSOURI	16th	5th	28th	24th
SOUTH DAKOTA	2nd	1st	1st	33rd
WYOMING	1st	1st	1st	6th

OUR SOLUTION

To truly reform the state's property tax system, all property taxing subdivisions must come to the table, along with state lawmakers, and be willing to compromise on a solution that exchanges greater property tax limitations with a broadening of Nebraska's state and local tax bases. Under current law, Nebraska's property tax system has relatively high levy and rate limitations, and no assessment limitations.

During any discussion of tax reform, the Legislature will need to be aware of the impact a change in tax revenue will have on the state's budget. Ideally, Nebraska should look to enact revenue-neutral tax reform that reforms the property tax and reduces the top rates for both the personal and corporate income taxes. Broadening the sales tax base to include select services that are currently exempt and eliminating some of the state's many corporate tax credits will allow a reduction in tax rates on working and investing in Nebraska while maintaining the current level of state revenue.

Platte Institute Resources at

PlatteInstitute.org/TaxReform

- **POLICY STUDY:** "A Twenty-First Century Tax Code for Nebraska"
- **POLICY STUDY:** "Get Real About Property Taxes"
- **POLICY STUDY:** "This Time, It's Personal: Nebraska's Personal Property Tax"

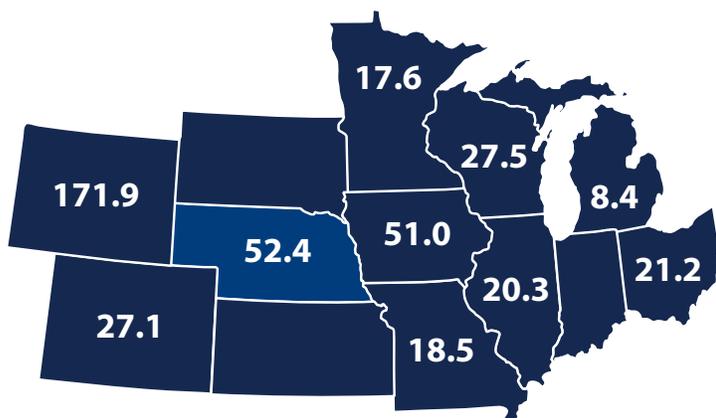
Reining in Regulation

KEY FACTS

- Nebraska has more regulations per capita than 21 of 23 states recently analyzed, including three neighboring states: Iowa, Missouri and Colorado.
- Nebraska's administrative code contains approximately 7.5 million words, which amounts to 100,627 restrictions enforced by 72 different agencies.
- The top three industries with the highest estimates of industry-relevant restrictions in 2017 are ambulatory health care services, nursing and residential care facilities, and chemical manufacturing.
- The Department of Health and Human Services is responsible for more than 37,000 restrictions, making it the largest regulator in Nebraska by this measure. The second largest is the Department of Environmental Quality with more than 8,500 regulations.
- Nebraska state government collected \$302.3 million in licensing fees, permitting fees, and other fees in 2017.
- The cost of regulations to Nebraska's private sector amounts to \$473.8 million annually.

STATE REGULATORY RESTRICTIONS

Restriction count per 1,000 people



Source: Mercatus Center State Reg Data

THE PROBLEM

Excessive regulations have harmful effects on prosperity and growth. In many cases, the compliance costs of these regulations constitute a hidden tax on businesses and citizens, costing valuable resources that could be contributing to Nebraska's economic growth. Over the years, more and more regulations have been added at the state level, which has increased the complexity and cost of doing business and has ultimately hindered Nebraska's economy.

OUR SOLUTION

Regulation is a necessity of our society, but Nebraska needs to make sure its regulations are not excessive to the point of unnecessarily inhibiting economic growth or putting up barriers to those with an entrepreneurial spirit.

Similar to the occupational licensing review process now in place, Nebraska needs a regulatory review process. Regulations should be evaluated based on their effectiveness and impact to the state's economy. One way to do this is through a REINS Act (Regulations from the Executive in Need of Scrutiny Act), which would give the Legislature authority to disapprove or nullify agency regulations. This type of act would also require a review process to take place before certain regulations could be implemented, normally those that have financial impacts over a certain dollar amount. Wisconsin was the first state to enact a state-level REINS Act in 2017.

Platte Institute Resources at

PlatteInstitute.org/RedTape

- **POLICY STUDY:** "Nebraska's Hidden Tax: Red Tape Regulation Harming Economic Growth"
- **POLICY BRIEF:** "A Snapshot of Nebraska Regulation in 2017," Mercatus Center at George Mason University
- **POLICY STUDY:** "Nebraska's REINS Act"

Financial Ready

KEY FACTS

- The federal government has an unsustainable spending problem and a large portion of that spending is going to the states in the form of federal grants.
- Nebraska has received an average of 30 percent of its total budget from the federal government since 2000, with the exception of 2011 when the stimulus helped to boost federal funding to over 35 percent.
- Federal funds totaling \$2,677,321,017 were received in fiscal year 2017 from various federal agencies and spent on Medicaid, aid to education, and other projects and programs.
- Nebraska, along with other states, has become increasingly dependent on federal funds, and if these funds were to be drastically reduced or stopped, the state would be unprepared to provide the essential government services these funds provide for Nebraskans.
- Thirty-four agencies or programs in Nebraska are funded with federal money. Six of these agencies have over 50 percent of their budget coming from the federal government.
- “Free” federal money isn’t really free. Every tax dollar Washington sends to Nebraska is a dollar taken from taxpayers in Nebraska and the other states. Economists have found that federal subsidies to the states lead to higher state taxes and spending in the long run because the federal “seed money” creates a demand for more government with current and future commitments.

THE PROBLEM

Federal grants and aid are not a stable long-term source of revenue, and burdensome regulatory strings are often attached to grants, which increases program costs to the state. Although Nebraska is in a better situation than most states because federal funds are appropriated through the budget process, there is still a lack of information and transparency when it comes to the details of those grants. Nebraska needs to measure the

federal funds coming into the state in order to have a clear picture of what effect they are having on state government. Nebraska must be prepared for the next financial crisis whether it’s because of a sequester, shutdown, or simply unsustainable funding levels.

OUR SOLUTION

Nebraska needs an inventory of all the federal funds being spent at the state level. Legislation for a federal funds inventory would require an audit that includes the details of each grant: how long the grant lasts, if there are any state matching requirements, or if there are any maintenance of effort requirements attached. State agencies receiving these federal funds will be required to create a contingency plan in the case of a hypothetical 10 or 25 percent reduction in federal funding.

Utah, Idaho, Mississippi and Indiana have implemented similar inventories and some have already seen savings from the information provided through the inventory.



Platte Institute Resources at

PlatteInstitute.org/Ready

- **POLICY STUDY:** “One size fits all federal policy endangers Omaha children and families”
- **VIDEO:** “Make Nebraska Financially Ready!”
- **VIDEO:** “Strings Attached”

OUR MISSION

The Platte Institute is dedicated to advancing policies that remove barriers to growth and opportunity in Nebraska. We envision a state where Nebraskans have the freedom and opportunity to achieve their Good Life, Nebraska's own version of the American Dream.

For more information, call 402-452-3737, or see our website, PlatteInstitute.org.



6910 Pacific Street, Suite 216
Omaha, NE 68106
402.452.3737

PLATTEINSTITUTE.ORG

