
Major State and Local Taxes

FEBRUARY 2024

PREPARED BY THE LEGISLATIVE FISCAL OFFICE

INTRODUCTION

The purpose of this report is to present data related to all major state and local taxes in Nebraska, trends related to such taxes, and the makeup of the total tax burden on taxpayers in Nebraska. The report details the overall tax burden by type and source of taxes.

State taxes included in the analysis are taxes credited to the state General Fund, including sales and use taxes, individual and corporate income taxes, and miscellaneous taxes. Additional state taxes credited to other state funds included in the analysis are state sales tax on motor vehicles, motor fuel tax, and motor vehicle registration fees.

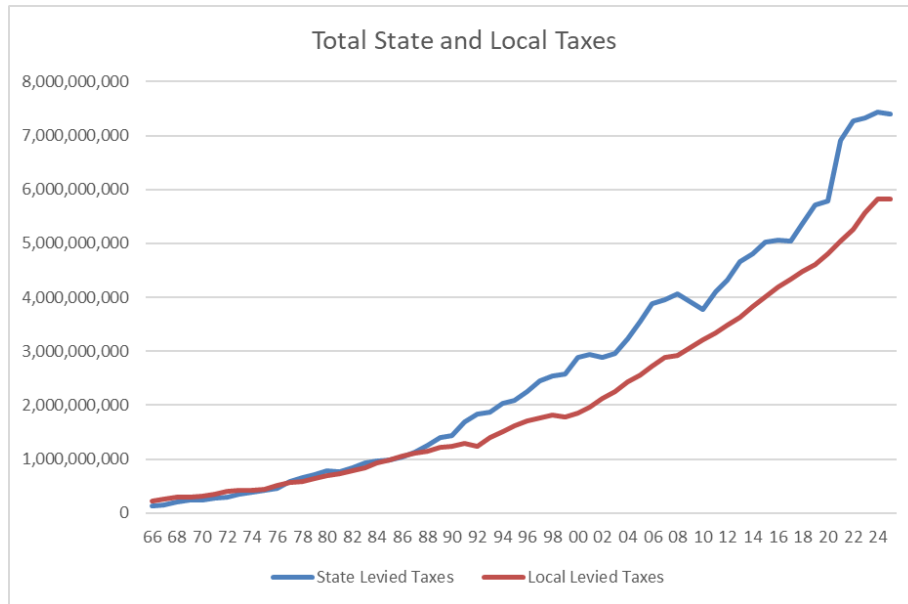
Local taxes included in the analysis are property taxes (net of state funds, such as homestead exemption and the Property Tax Credit Act), motor vehicle fees and taxes allocated to political subdivisions, and local option sales and use taxes.

Data related to these taxes has been collected from various state sources, including accounting and agency reports. Data related to state personal income and population are sourced from the Bureau of Labor Statistics and Bureau of Economic Analysis.

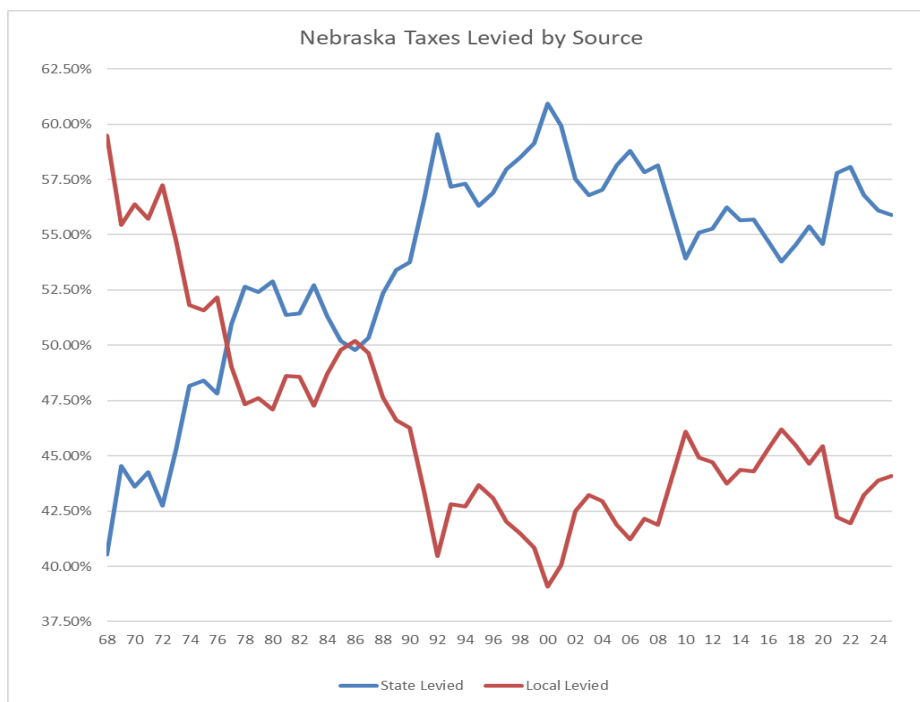
Fiscal year data for FY1965-66 to FY2022-23 reflects actual data. Fiscal year data for FY2023-24 and FY2024-25 reflects estimated amounts based on the best available data at the time of publication based on current law through the 2023 session.

TOTAL TAX LIABILITY – STATE OR LOCAL

Total tax liability by source of levy is shown in the following chart. Until the early-1990's, total amounts tracked closely together. Since that time, the total amount of state levied taxes has exceeded the amount of locally levied taxes.

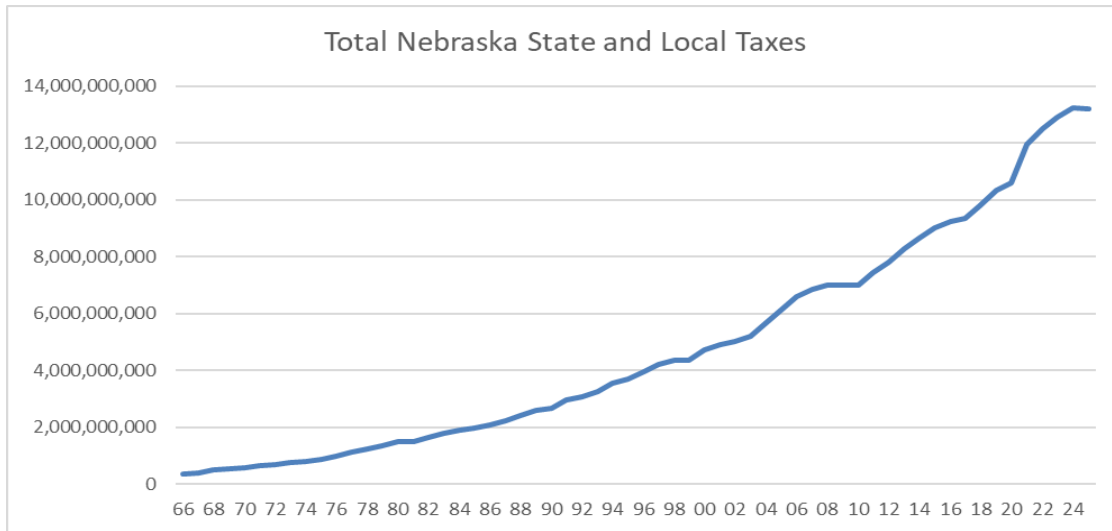


Until 1976, locally levied taxes exceeded state levied taxes. Since that time, except for a brief period in the mid-1980's, total state levied taxes have exceeded locally levied taxes. The following chart is an illustration of the percentage of both state and local taxes of the total state tax liability.

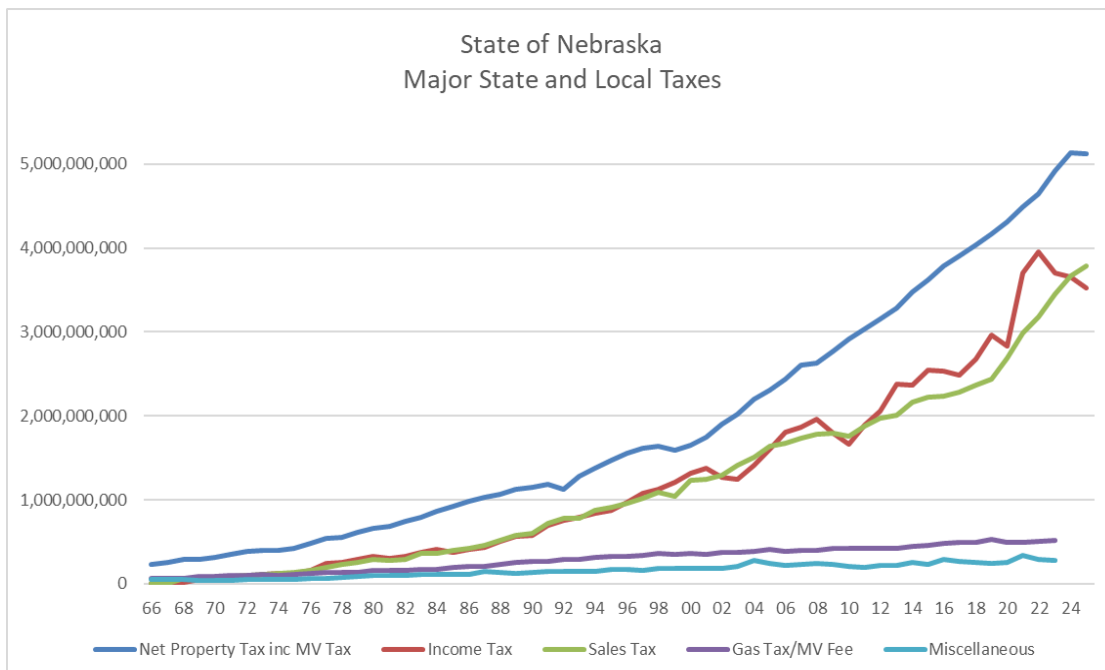


TOTAL TAX LIABILITY BY TYPE OF TAX

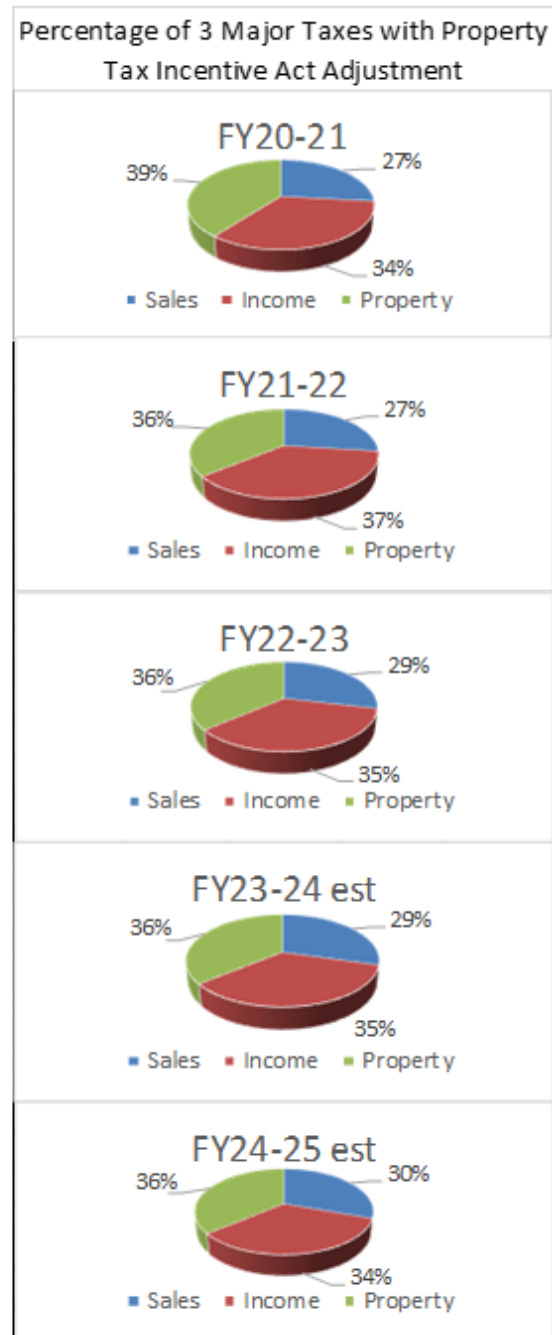
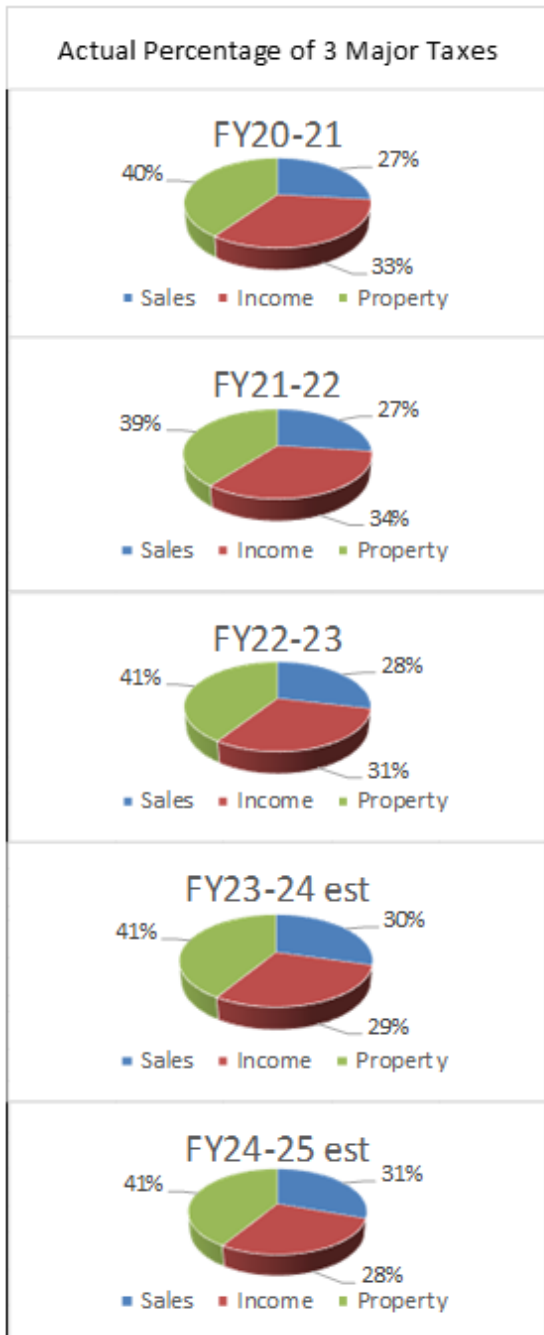
The total amount of state and local taxes has increased in nominal terms over time. The following chart shows the total amount of state and local taxes in the state of Nebraska since FY66, which exceed \$13 billion for FY24 and FY25.



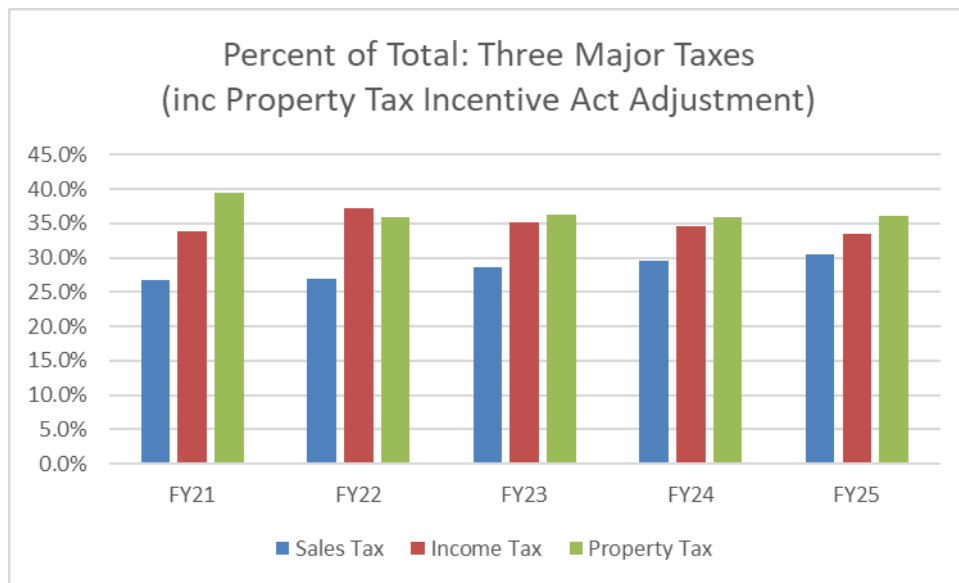
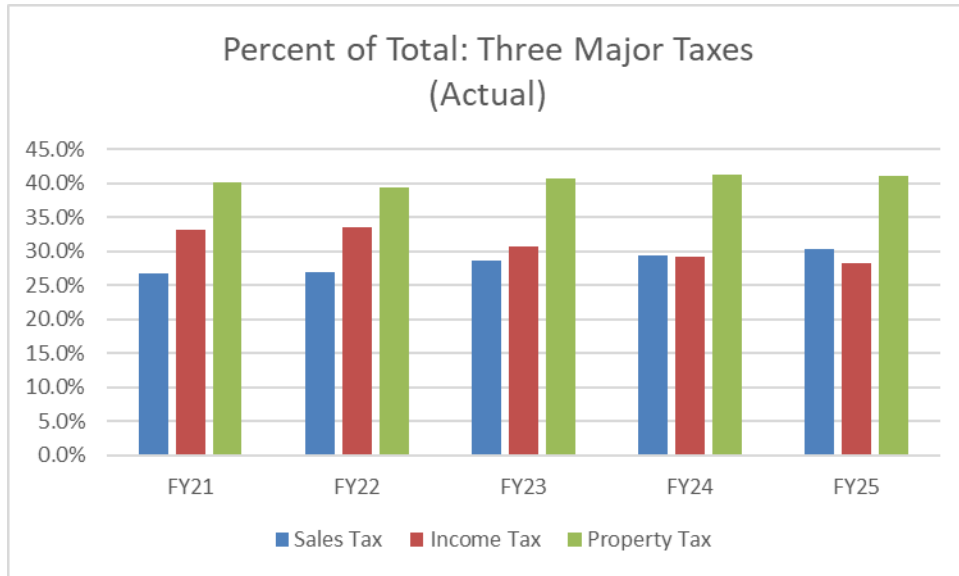
The following chart shows the total amount of state and local taxes by type of tax. For the sales tax category, a portion of the tax is levied by the state for state purposes and a portion of the tax is levied by political subdivisions for local purposes. Net property taxes include motor vehicle taxes, which were enacted to replace personal property tax on motor vehicles in the late 1990's, and a reduction for state funds used to offset property taxes, including the homestead exemption program and the Property Tax Credit Act.



When looking specifically at the three largest taxes, which for the past 20 years have totaled more than 90% of all taxes, the actual percentages for each of the three major taxes are shown below, in the pie graphs in the column on the left. The Property Tax Incentive Act, first enacted in 2020, authorizes a refundable income tax credit for property taxes paid to K-12 school districts and community colleges. This credit is included in income tax receipts since FY21, as the credit reduces total income tax liability in the state. Because it is a credit based on the amount of property taxes paid, for illustration purposes, the credit amounts for each year are subtracted from property taxes and added back into income receipts to show the allocation of the three taxes if the Property Tax Incentive Act is included as a reduction of property taxes. These allocations are shown in the pie graphs in the column on the right.

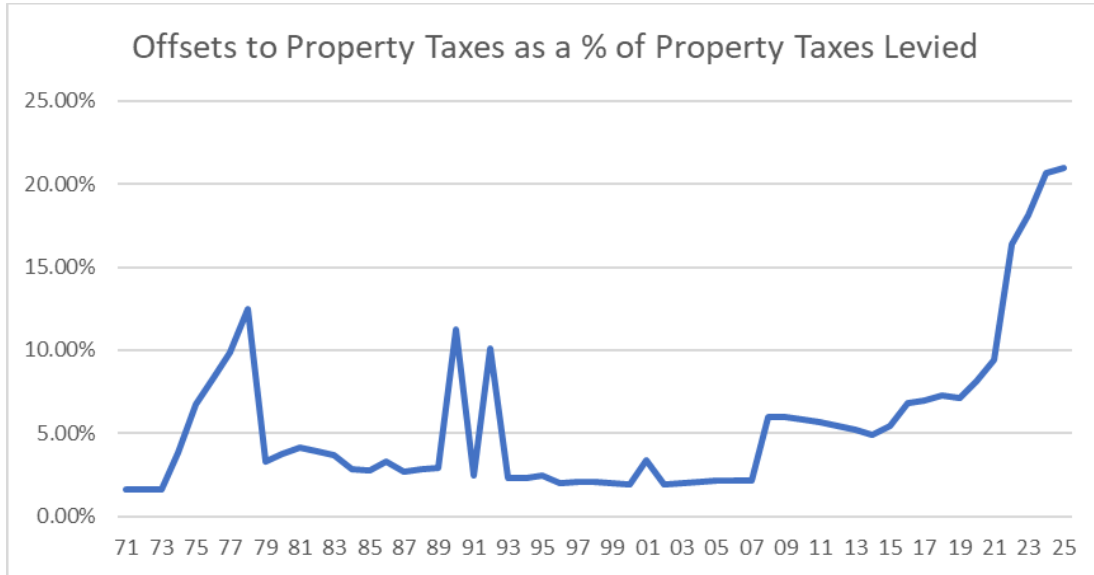


As the credit was implemented in FY2020-21, the effect was only about a 1% difference in the total percentage of property taxes and income taxes of the total amount. As the credit amount increased, the difference increased to about 3% in FY2021-22, and about a 5% difference in FY2022-23 and thereafter. A reallocation of the Property Tax Incentive Act credit amount also shows a mix of taxes that is closer to equal amongst the three taxes, although property tax is still the highest of the three, as shown in the following two charts.

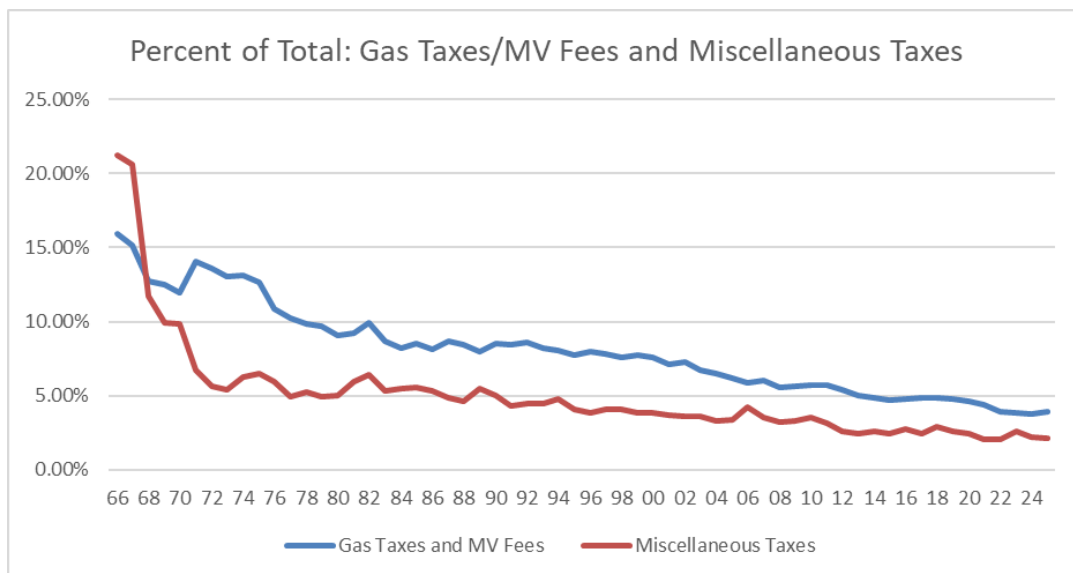


Since FY1970-71 when the first homestead exemption program reimbursements began, there has been an increase in the amount of state funds utilized to offset property taxes. In the mid-1970's and early 1990's, there were time-limited increases in property tax credits, and the offsets began increasing more steadily after the enactment of the Property Tax Credit Act in 2007. The following chart shows the amount of state funds used to offset property taxes, including the Property Tax Incentive Act income tax

credit reallocated as an offset to property taxes, as a percentage of the total property taxes levied (including motor vehicle taxes for purposes described above). For FY2023-24 and FY2024-25, total offsets to property taxes are just over 20% of property taxes levied. In FY2024-25, net property taxes also include the impact to property taxes for community colleges, enacted in LB 243 (2023).

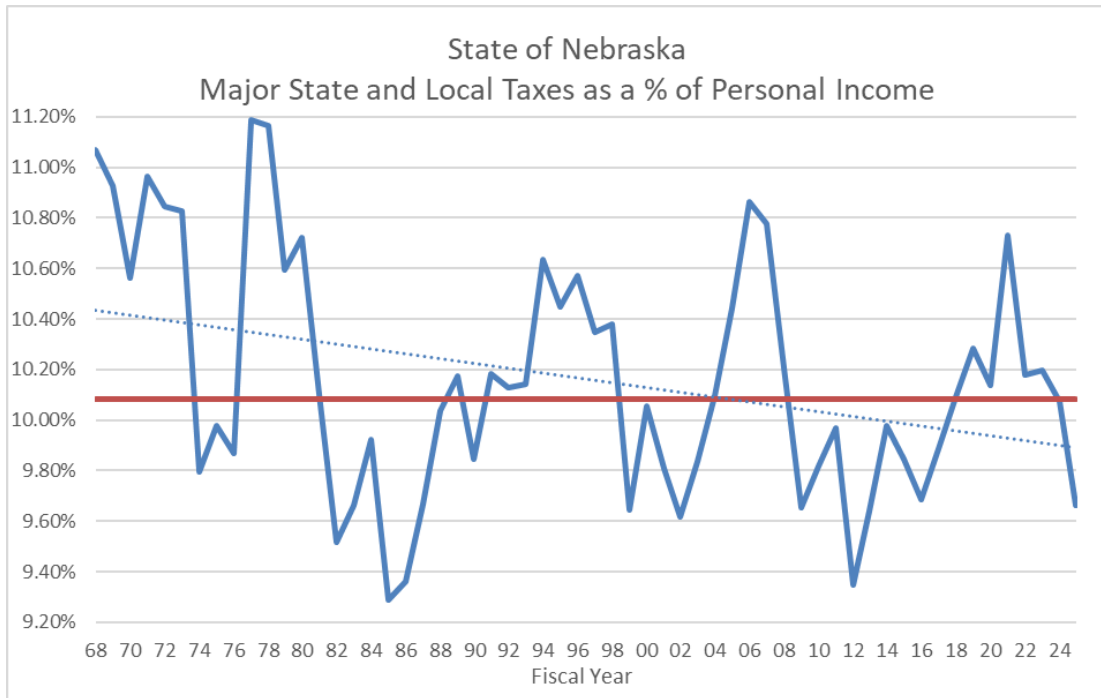


For FY2020-21 to FY2024-25, about 94% of all state and local taxes are included in the three major tax categories (property, income, and sales). In addition to those, two other categories of taxes also contribute to the total tax burden. The first category, gas taxes and motor vehicle fees, averages 4% of the total makeup of all state and local taxes for the FY2020-21 to FY2024-25 time period. The second category, which is all miscellaneous taxes (including liquor and cigarette taxes, fees, corporation occupation taxes, insurance premium tax, etc.), averages 2.2% of the total makeup of all state and local taxes for the FY2020-21 to FY2024-25 time period. In previous years, these two categories composed a larger percentage of the total tax burden, as shown in the following chart.

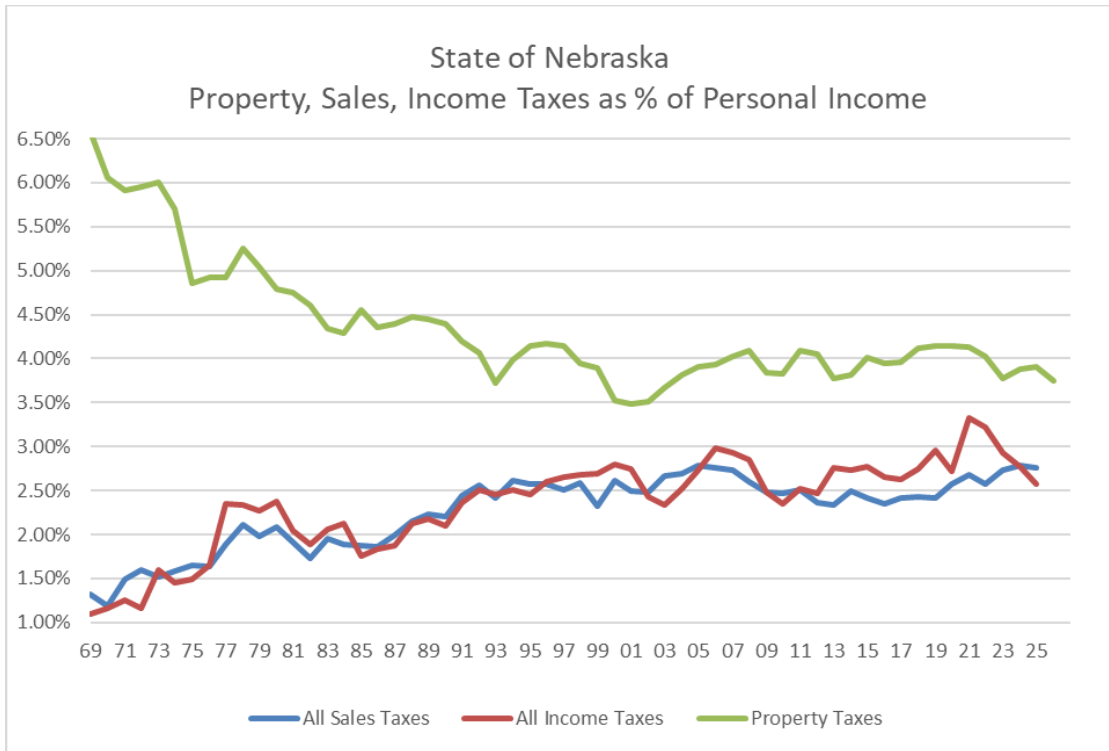


TAX LIABILITY AS A PERCENTAGE OF PERSONAL INCOME

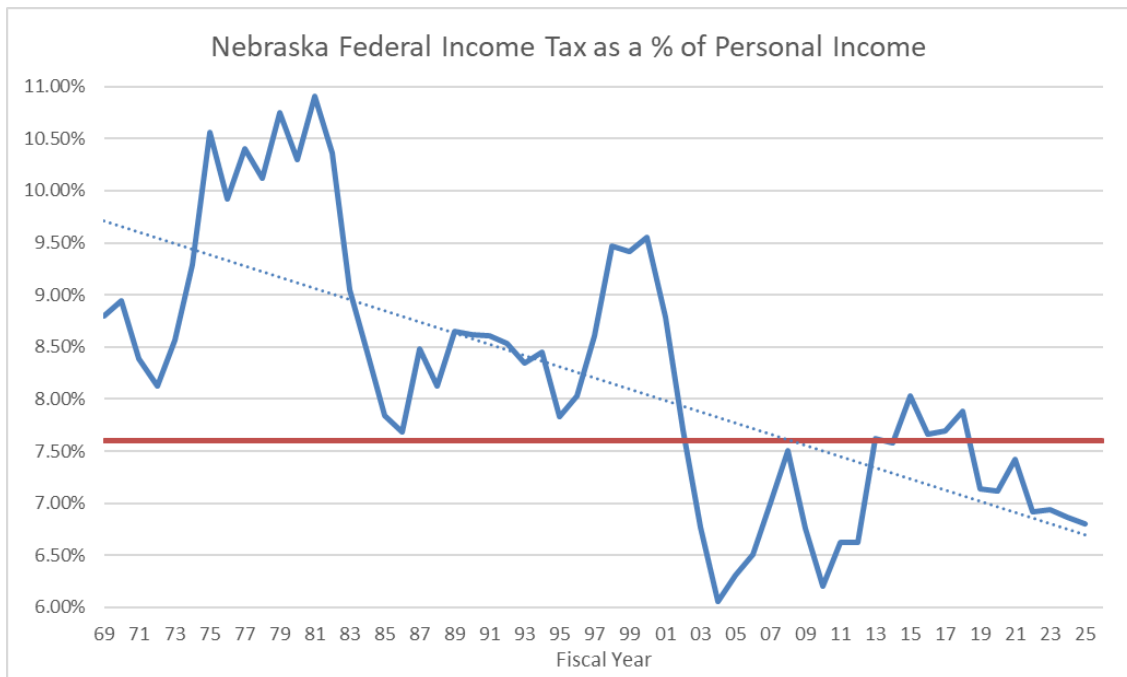
Total tax liability of all of Nebraska’s major state and local taxes, including gas, motor vehicle, and miscellaneous taxes, has fluctuated between a low of 9.29% of personal income (FY1984-85) to a high of 11.19% (FY1976-77). The average tax liability of state and local taxes combined as a percentage of personal income between FY67 to FY25 is 10.08%, and the trendline is generally declining slightly downward. Average annual growth in personal income in the state over this time period has been about 2.2% per year, but average annual growth in personal income over the last ten years is closer to 4% per year.



By type of tax, property tax liability as a percentage of personal income has remained the highest of the three major state taxes, although it has declined substantially from FY68 as the state began relying on sales and income taxes as a replacement for the state property tax. The average from FY68 to FY25 is 4.3% for property taxes, 2.3% for sales taxes, and 2.3% for income taxes. In FY22-23, the most recently completed fiscal year, the tax liability as a percentage of personal income was 3.9% for property taxes, 2.7% for sales taxes, and 2.9% for income taxes. The following shows the percentage of tax liability for these three major state and local taxes as a percentage of personal income over this time period.

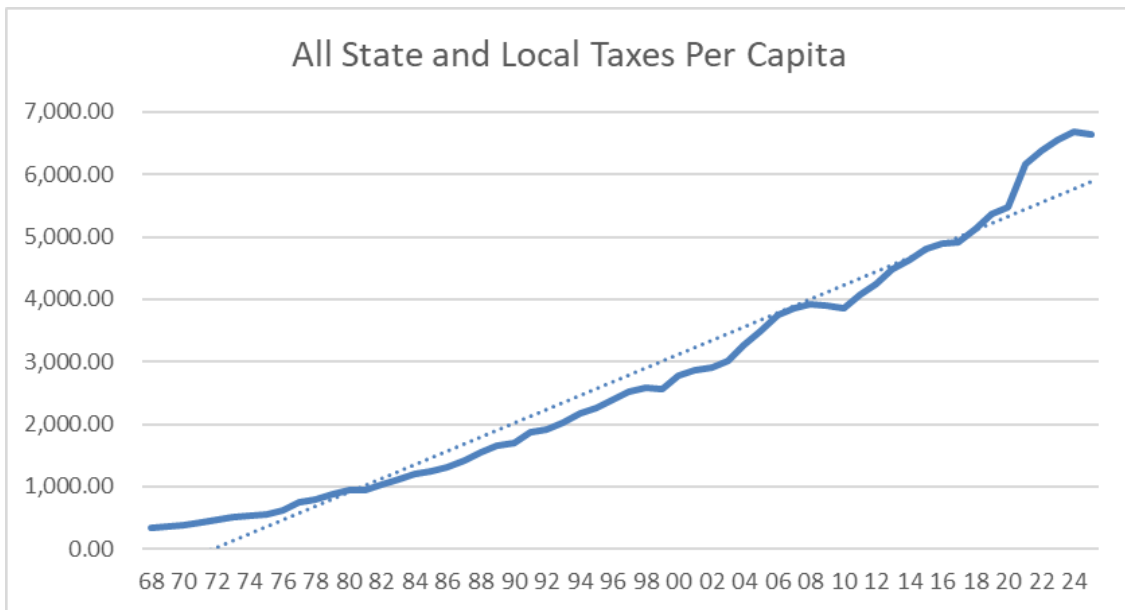


In addition to state and local taxes, Nebraskans pay, on average over the entire time period, 7.6% of total personal income in federal income taxes. Federal income tax liability as a percentage of personal income in Nebraska has fluctuated more over time than state and local tax liability as a percentage of personal income, fluctuating between about 6% and 11%. The trend is a decline over time, steeper than the trend line for state and local taxes as a percentage of personal income on the previous page.



TAX LIABILITY PER CAPITA

Over time, the total tax liability per capita (including property, sales, income, gas, motor vehicle, and miscellaneous taxes) has increased in nominal terms. This data does not account for inflation over the 40+ year time period. Since FY20, there has been a relatively sharp increase, followed by a leveling off of this amount. Average annual growth in population in the state over this time period has been about 0.5% per year.



For the three major types of tax, the nominal amount per tax per capita has also increased over time, with income tax fluctuating the most in response to economic conditions.

