

State of Nebraska

2017 Interim Tax Expenditure Report

Prepared by
Nebraska Department of Revenue
Tony Fulton, Tax Commissioner
Lincoln, Nebraska

NEBRASKA

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DEPARTMENT OF REVENUE

October 13, 2017

Introduction

This 2017 Interim Tax Expenditure Report and Summary is published by the Nebraska Department of Revenue (Department), pursuant to the Tax Expenditure Reporting Act, Neb. Rev. Stat. §§ [77-379 through 77-385](#). This report provides a review of tax and fee (tax) expenditures, which is required in even numbered years to enable the Legislature to better determine those sectors of the economy that are receiving indirect subsidies as a result of tax expenditures. This Interim Report provides updated estimates of a portion of the sales tax exemptions found in the full Tax Expenditure Report, which is published biennially during even numbered years.

A “tax expenditure” is defined as a revenue reduction that occurs in the tax base of the state or a political subdivision as a result of an exemption, deduction, exclusion, tax deferral, credit, or preferential rate introduced into the tax structure. See Neb. Rev. Stat. § [77-381\(1\)](#).

This report is submitted to the Governor, the Executive Board of the Legislative Council, and the chairpersons of the Legislature’s Revenue and Appropriations Committees. This report is also available on the Department’s website at revenue.nebraska.gov.

Questions and comments regarding the format, content, and usefulness of the information provided in this report may be directed to James Bogatz, Policy Manager, at jim.bogatz@nebraska.gov or 402-471-5921. The Department appreciates input and feedback from the public on this report.



Tony Fulton
Tax Commissioner

October 13, 2017

Nebraska Tax Expenditure Reporting Requirements

Neb. Rev. Stat. § 77-379 provides:

Sections 77-379 to 77-385 shall be known and may be cited as the Tax Expenditure Reporting Act.

Neb. Rev. Stat. § 77-380 provides:

It is the intent of sections 77-202.03 and 77-380 to 77-385 to provide a mechanism which will enable the Legislature to better determine those sectors of the economy which are receiving indirect subsidies as a result of tax expenditures. The 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.

Neb. Rev. Stat. § 77-381 provides:

For purposes of the Tax Expenditure Reporting Act, unless the context otherwise requires:

- (1) Tax expenditure shall mean a revenue reduction that occurs in the tax base of the state or a political subdivision as the result of an exemption, deduction, exclusion, tax deferral, credit, or preferential rate introduced into the tax structure;
- (2) Department shall mean the Department of Revenue;
- (3) Income tax shall mean the tax imposed upon individuals and corporations under the Nebraska Revenue Act of 1967;
- (4) Sales tax shall mean the tax imposed upon expenditures under the Nebraska Revenue Act of 1967;
- (5) Property tax shall mean the tax imposed upon real and personal property under Chapter 77; and
- (6) Miscellaneous tax shall mean revenue sources other than income, sales, and property taxes for state and local government including, but not limited to, motor fuel taxes, liquor taxes, cigarette taxes, inheritance and estate taxes, generation-skipping transfer taxes, insurance premium taxes, and occupation taxes and fees or other taxes which generate state or local revenue annually in excess of two million dollars.

Neb. Rev. Stat. § 77-382 provides:

(1) The department shall prepare a tax expenditure report describing (a) the basic provisions of the Nebraska tax laws, (b) the actual or estimated revenue loss caused by the exemptions, deductions, exclusions, deferrals, credits, and preferential rates in effect on July 1 of each year and allowed under Nebraska's tax structure and in the property tax, (c) the actual or estimated revenue loss caused by failure to impose sales and use tax on services purchased for nonbusiness use, and (d) the elements which make up the tax base for state and local income, including income, sales and use, property, and miscellaneous taxes.

(2) The department shall review the major tax exemptions for which state general funds are used to reduce the impact of revenue lost due to a tax expenditure. The report shall indicate an estimate of the amount of the reduction in revenue resulting from the operation of all tax expenditures. The report shall list each tax expenditure relating to sales and use tax under the following categories:

- (a) Agriculture, which shall include a separate listing for the following items: Agricultural machinery; agricultural chemicals; seeds sold to commercial producers; water for irrigation and manufacturing; commercial artificial insemination; mineral oil as dust suppressant; animal grooming; oxygen for use in aquaculture; animal life whose products constitute food for human consumption; and grains;

- (b) Business across state lines, which shall include a separate listing for the following items: Property shipped out-of-state; fabrication labor for items to be shipped out-of-state; property to be transported out-of-state; property purchased in other states to be used in Nebraska; aircraft delivery to an out-of-state resident or business; state reciprocal agreements for industrial machinery; and property taxed in another state;
- (c) Common carrier and logistics, which shall include a separate listing for the following items: Railroad rolling stock and repair parts and services; common or contract carriers and repair parts and services; common or contract carrier accessories; and common or contract carrier safety equipment;
- (d) Consumer goods, which shall include a separate listing for the following items: Motor vehicles and motorboat trade-ins; merchandise trade-ins; certain medical equipment and medicine; newspapers; laundromats; telefloral deliveries; motor vehicle discounts for the disabled; and political campaign fundraisers;
- (e) Energy, which shall include a separate listing for the following items: Motor fuels; energy used in industry; energy used in agriculture; aviation fuel; and minerals, oil, and gas severed from real property;
- (f) Food, which shall include a separate listing for the following items: Food for home consumption; Supplemental Nutrition Assistance Program; school lunches; meals sold by hospitals; meals sold by institutions at a flat rate; food for the elderly, handicapped, and Supplemental Security Income recipients; and meals sold by churches;
- (g) General business, which shall include a separate listing for the following items: Component and ingredient parts; manufacturing machinery; containers; film rentals; molds and dies; syndicated programming; intercompany sales; intercompany leases; sale of a business or farm machinery; and transfer of property in a change of business ownership;
- (h) Lodging and shelter, which shall include a separate listing for the following item: Room rentals by certain institutions;
- (i) Miscellaneous, which shall include a separate listing for the following items: Cash discounts and coupons; separately stated finance charges; casual sales; lease-to-purchase agreements; and separately stated taxes;
- (j) Nonprofits, governments, and exempt entities, which shall include a separate listing for the following items: Purchases by political subdivisions of the state; purchases by churches and nonprofit colleges and medical facilities; purchasing agents for public real estate construction improvements; contractor as purchasing agent for public agencies; Nebraska lottery; admissions to school events; sales on Native American Indian reservations; school-supporting fundraisers; fine art purchases by a museum; purchases by the Nebraska State Fair Board; purchases by the Nebraska Investment Finance Authority and licensees of the State Racing Commission; purchases by the United States Government; public records; and sales by religious organizations;
- (k) Recent sales tax expenditures, which shall include a separate listing for each sales tax expenditure created by statute or rule and regulation after July 19, 2012;
- (l) Services purchased for nonbusiness use, which shall include a separate listing for each such service, including, but not limited to, the following items: Motor vehicle cleaning, maintenance, and repair services; cleaning and repair of clothing; cleaning, maintenance, and repair of other tangible personal property; maintenance, painting, and repair of real property; entertainment admissions; personal care services; lawn care, gardening, and landscaping services; pet-related services; storage and moving services; household utilities; other personal services; taxi, limousine, and other transportation services; legal services; accounting services; other professional services; and other real estate services; and

(m) Telecommunications, which shall include a separate listing for the following items: Telecommunications access charges; prepaid calling arrangements; conference bridging services; and nonvoice data services.

(3) It is the intent of the Legislature that nothing in the Tax Expenditure Reporting Act shall cause the valuation or assessment of any property exempt from taxation on the basis of its use exclusively for religious, educational, or charitable purposes.

Neb. Rev. Stat. § 77-383 provides:

The department may request from any state or local official or agency any information necessary to complete the reports required under § 77-382 and subsection (2) of § 77-385. All state and local officials or agencies shall cooperate with the department with respect to any such request.

Neb. Rev. Stat. § 77-385 provides:

(1) The report required under § 77-382 and a summary of the report shall be submitted to the Governor, the Executive Board of the Legislative Council, and the chairpersons of the Legislature's Revenue and Appropriations Committees on or before October 15, 1991, and October 15 of every even-numbered year thereafter. The report submitted to the executive board and the committees shall be submitted electronically. The department shall, on or before December 1 of each even-numbered year, appear at a joint hearing of the Appropriations Committee of the Legislature and the Revenue Committee of the Legislature and present the report. Any supplemental information requested by three or more committee members shall be presented within thirty days after the request. The summary shall be included with or appended to the Governor's budget presented to the Legislature in odd-numbered years.

(2)(a) In addition to the tax expenditure report required under § 77-382, the department shall prepare an annual report that focuses specifically on the tax expenditures relating to sales and use tax as follows:

(i) For 2014 and every fourth year thereafter, the report shall analyze the actual or estimated revenue loss caused by the tax expenditures described in subdivisions (2)(a) through (c) of § 77-382;

(ii) For 2015 and every fourth year thereafter, the report shall analyze the actual or estimated revenue loss caused by the tax expenditures described in subdivisions (2)(d) through (f) of § 77-382;

(iii) For 2016 and every fourth year thereafter, the report shall analyze the actual or estimated revenue loss caused by the tax expenditures described in subdivisions (2)(g) through (j) of § 77-382; and

(iv) For 2017 and every fourth year thereafter, the report shall analyze the actual or estimated revenue loss caused by the tax expenditures described in subdivisions (2)(k) through (m) of § 77-382.

(b) The report required under this subsection shall be submitted to the Governor, the Executive Board of the Legislative Council, and the chairpersons of the Revenue Committee of the Legislature and the Appropriations Committee of the Legislature on or before October 15 of each year. The report submitted to the executive board and the committees shall be submitted electronically. The department shall, on or before December 1 of each year, appear at a joint hearing of the Appropriations Committee of the Legislature and the Revenue Committee of the Legislature and present the report. Any supplemental information requested by three or more committee members shall be presented within thirty days after the request.

Recent Sales Tax Exemptions

1. Substance Abuse Treatment Centers and Centers for Independent Living

Statutory citation: [77-2704.12](#)

Enacted: 2016

Description: Nonprofit substance abuse centers and nonprofit centers for independent living (institutions that provide services to persons with developmental disabilities) are exempt from paying sales and use taxes on their purchases.

Estimate: \$299,000

Data source: National Center for Charitable Statistics; U.S. Census Bureau, Economic Census, Nebraska Department of Health and Human Services; Internal Revenue Service Form 990

2. Energy Used in Manufacturing, Processing, or Refining

Statutory citation: [77-2704.13](#)

Enacted: 2016

Description: Provides that processing include drying, aerating, blending, cleaning, or sorting of grain in commercial agricultural facilities.

Estimate: \$902,000

Data source: U.S. Census Bureau, Economic Census; U.S. Department of Agriculture, Agricultural Census.

3. County Agricultural Societies

Statutory citation: [77-2704.15](#)

Enacted: 2016

Description: County agricultural societies are exempt from paying sales and use taxes on their purchases.

Estimate: \$129,000

Data source: Internal Revenue Service Form 990

4. Fine Art and Other Property Purchased by Museums

Statutory citation: [77-2704.56](#)

Enacted: 2016

Description: Expands the current exemption to include purchases of any displays by any type of museum.

Estimate: \$258,000

Data source: Internal Revenue Service Exempt Organizations Business Master File via National Center for Charitable Statistics

5. Streamlined Compliance

Statutory citation: [77-2704.24](#)

Enacted: 2016

Description: Carves out an allowable exception to the definition of “prepared food” for food that requires additional cooking, like take-and-bake pizza.

Estimate: \$0

Services Purchased for Nonbusiness Use

With the available data sources, the Department is unable to separate business use from non-business use in many of the following services.

6. Motor Vehicle Cleaning, Maintenance, and Repair

Motor vehicle cleaning: *

Total motor vehicle repair: \$19,718,000

- Body repair: \$7,748,000
- Brake repair: \$1,319,000
- Electrical system repair: \$772,000
- Repair of recreational motor vehicles: \$63,000
- Other repair services, such as muffler and exhaust systems, air conditioning and heating systems, etc.: \$2,473,000
- Power train repair: \$4,206,000
- Scheduled preventative maintenance: \$2,577,000
- Wheel and alignment services: \$560,000

Source: U.S. Census Bureau, Economic Census

***Note:** Neb. Rev. Stat. § [77-382\(l\)](#) as amended by LB 989 (2014), requires a listing for “motor vehicle cleaning, maintenance, and repair services;” however, motor vehicle cleaning is subject to sales tax. The estimates above refer to services related to motor vehicle repair performed, and do not include the value of replacement parts installed.

7. Cleaning and Repair of Clothing

Total cleaning of clothing: \$2,430,000

- Coin-operated laundry and dry cleaning: \$672,000
- Dry cleaning services: \$1,051,000
- Other laundry services: \$707,000
- Repair of clothing: *

Source: U.S. Census Bureau, Economic Census

***Note:** Neb. Rev. Stat. § [77-382\(l\)](#) as amended by LB 989 (2014), requires a listing for “cleaning and repair of clothing;” however, the repair of clothing is subject to sales tax.

8. Cleaning, Maintenance, and Repair of Tangible Personal Property

Cleaning of tangible personal property: Not available

Maintenance of tangible personal property: *

Repair of tangible personal property: *

***Note:** Neb. Rev. Stat. § [77-382\(l\)](#) as amended by LB 989 (2014), requires a listing for “cleaning, maintenance, and repair of tangible personal property;” however, maintenance and repair of tangible personal property is subject to sales tax.

9. Maintenance, Painting, and Repair Services to Real Property

Estimate: \$12,159,000

- Painting and wall covering contractors: \$712,000
- Poured concrete foundation and structure contractors: \$392,000
- Framing contractors: \$49,000
- Glass and glazing contractors: NA
- Roofing contractors: \$866,000
- Siding contractors: \$459,000
- Electricians: \$1,280,000

- Plumbing, heating, and air conditioning contractors: \$6,575,000
- Drywall and insulation contractors: \$369,000
- Flooring contractors: \$135,000
- Carpentry contractors: \$1,322,000

Source: U.S. Census Bureau, Economic Census

Note: The estimates above refer only to repair work completed to existing single family housing and not to commercial structures, which are excluded from the estimate pursuant to [77-382](#).

10. Entertainment Admissions

Estimate: *

Source: U.S. Census Bureau, Economic Census

***Note:** Neb. Rev. Stat. § [77-382\(l\)](#) as amended by LB 989 (2014), requires a listing for “entertainment admissions;” however, entertainment admissions are subject to sales tax.

11. Personal Care Services

Estimate: \$10,047,000

- Hair care services: \$6,535,000
- Hair removal services: \$196,000
- Massage services: \$339,000
- Nail care services: \$995,000
- Other beauty and personal care services: \$218,000
- Skin care services: \$353,000
- Tanning services: \$1,357,000

Source: U.S. Census Bureau, Economic Census

12. Lawn Care, Gardening, and Landscaping Services

Estimate: \$209,000

- Lawn care: \$192,000
- Gardening: \$17,000
- Landscaping: *

Source: U.S. Census Bureau, Economic Census

***Note:** Neb. Rev. Stat. § [77-382\(l\)](#) as amended by LB 989 (2014), requires a listing for “lawn care, gardening, and landscaping services;” however, much of what constitutes landscaping, for example, installation of tangible personal property and live plants is subject to sales tax.

13. Pet-related Services

Estimate: \$15,030,000

Source: U.S. Census Bureau, Economic Census

Note: The estimate includes veterinary services performed on both pets and livestock. Other pet-related services, such as the boarding and caring of animals; grooming; training, exercising, or handling; waste removal; breeding and insemination services; and cremation, burial, and disposal services are subject to sales tax.

14. Storage and Moving Services

Estimate: \$8,049,000

- Used household goods moving services: \$6,646,000
- Lessors of mini-warehouses and self-storage units: \$1,403,000

Source: U.S. Census Bureau, Economic Census

15. Household Utilities

Estimate: *

Source: U.S. Census Bureau, Economic Census

***Note:** Neb. Rev. Stat. § [77-382\(l\)](#) as amended by LB 989 (2014), requires a listing for “household utilities,” however, household utilities, such as electricity, gas, cable television, and water are subject to sales tax.

16. Other Personal Services

Estimate: \$3,646,000

- Weight loss services: \$737,000
- Tattoo and body modification services: \$1,433,000
- Interment of human remains: \$444,000
- All other personal services, including bail bonding, shoeshine, wedding planning, and social escorts: \$1,032,000

Source: U.S. Census Bureau, Economic Census

17. Taxi, Limousine, and Other Transportation Services

Estimate: \$969,000

- Local, fixed-route passenger transportation by road and transit rail: \$512,000
- Long-distance passenger transportation by road, except fixed-route: \$73,000
- Local taxi service: \$70,000
- Local passenger transportation by chartered road vehicles, except limousines: \$2,000
- Local passenger transportation by limousines and similar luxury vehicles: \$148,000
- Special needs transportation service, including paratransit, senior citizen, etc.: \$135,000
- Sightseeing services by ground vehicles: \$29,000

Source: U.S. Census Bureau, Economic Census

Note: Estimates above include transportation services sold to businesses.

18. Legal Services

Estimate: \$55,388,000

Source: U.S. Census Bureau, Economic Census

Note: Estimate includes legal services purchased by businesses.

19. Accounting Services

Estimate: \$6,628,000

Source: U.S. Census Bureau, Economic Census

Note: Estimate includes tax preparation services for individuals and unincorporated businesses and does not include services, such as preparation of financial statements, payroll, and budgets.

20. Other Professional Services

Estimate: \$267,983,000

- Investment advice: \$5,637,000
- Travel agencies: \$2,036,000
- Tour operators: \$102,000
- Offices of physicians: \$183,903,000
- Offices of dentists: \$38,080,000
- Offices of chiropractors: \$6,954,000
- Offices of optometrists: \$4,065,000
- Offices of mental health practitioners: \$4,127,000
- Family planning: \$166,000
- Substance abuse: \$4,246,000
- Other outpatient services: \$18,667,000

Source: U.S. Census Bureau, Economic Census

Note: Healthcare estimates refer only to patient care services.

21. Other Real Estate Services

Estimate: \$33,103,000

- Offices of real estate agents: \$31,400,000
- Offices of real estate appraisers: \$1,703,000

Source: U.S. Census Bureau, Economic Census

Telecommunications

22. Telecommunications Access Charges

Statutory citation: [77-2704.51](#)

Enacted: 1989

Description: Gross receipts from the sale, lease, or rental of and the storage, use, or other consumption in Nebraska of telecommunication services between telecommunications companies, including division of revenues, settlements, or access charges.

Estimate: \$12,161,000

Data source: Federal Communications Commission ARMIS Report 43-01 and 43-08

23. Prepaid Calling Arrangements

Statutory citation: [77-2704.52](#)

Enacted: 1989

Description: Telephone services using a prepaid telephone calling arrangement.

Estimate: \$0

Data source: Federal Communications Commission, Wireless Competition Report

Note: Prepaid calling arrangements are subject to sales tax when purchased, rather than when used. See Neb. Rev. Stat. § [77-2701.16\(8\)](#).

24. Conference Bridging Services

Statutory citation: [77-2701.16\(2\)\(a\)\(i\)](#)

Enacted: 2009

Description: Sales of conference bridging services associated with the provision of ancillary services.

Estimate: \$1,054,000

Data source: U.S. Census Bureau, Economic Census

25. Nonvoice Data Services

Statutory citation: [77-2701.16\(2\)\(a\)\(i\)](#)

Enacted: 2009

Description: Sales of value-added, nonvoice data service associated with the provision of telephone communications services.

Estimate: Not available