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The LB775 Tax Incentive Program

Richard K. Perrin
University of Nebraska-Lincoln, rperrin@unl.edu

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Department of Agricultural Economics
University of Nebraska – Lincoln

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Market Report	Yr Ago	4 Wks Ago	2/13/04
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$77.27	$79.03	$77.62
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	82.63	98.72	91.85
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	88.23	106.54	104.00
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	117.32	126.77	116.32
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	*	40.00	43.13
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	38.50	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	97.25	110.35	130.17
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	*	*	113.50
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	171.35	181.44	189.38
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.77	3.96	3.75
Corn, No. 2, Yellow Omaha, bu	2.34	2.55	2.68
Soybeans, No. 1, Yellow Omaha, bu	5.64	8.18	8.25
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.47	4.78	4.88
Oats, No. 2, Heavy Minneapolis, MN , bu	2.32	1.79	1.67
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	150.00	130.00	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	82.50	55.00	55.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	115.00	*	*

* No market.

Passed by the Nebraska Unicameral in 1987, LB775 is a bill that was triggered by pressure to keep ConAgra from leaving the state. It offers income tax credits, sales tax refunds and property tax exemptions to companies who make investments that meet minimum levels of investment and employment. Such projects must be approved in advance by the State Department of Revenue.

At the time the bill was passed, the legislative fiscal office estimated that the cost to the state budget (in tax refunds and credits) would start at $3 million, rise by several thousand per year and level off by the late 1990's, presumably at something less than $10 million per year. The actual budget costs rose to ten times that amount, over $100 million in 2000 and in 2001. The runaway nature of the cost for the incentive program, during a time of fiscal crisis for the state, has brought calls for reform or repeal.

Is the program a good taxpayer investment in economic development, or is it just a giveaway to powerful corporate interests with little affect on their decisions? It's difficult to say.

What would make it a good investment? That is, what would make it a good deal for you as a taxpayer? How much are you willing to pay for a new job that someone else will hold, probably in another county? If the new economic development activity actually reduced your taxes, you'd probably be happy. This could conceivably happen, if the expenditures by the new job-holder stimulates the incomes of other persons to the extent that new taxes paid by the job-holder and the others end up being more than the extra tax you paid to get the job started. Keynes introduced this notion as a means of combating recessions, but I don't think any serious economist believes that this "multiplier effect" could be so great in Nebraska.

So if your LB775 tax investment (in the vicinity of $60 per year per person) doesn't actually reduce your taxes, just what good does it do for you? It could create jobs for Nebraskans who are now jobless, and while this may occur it's not the general case. It could create jobs for people who migrate into the state, as has apparently occurred with some railroad and packinghouse projects. Your investment might allow a worker to move to a higher-paying job, with a chain of upward mobility movements following. Or your investment might not really be responsible for any new jobs at all, as would be the case if the company would have made the investment even in the absence of your subsidy. As a matter of fact, the Nebraska Department of Revenue has estimated that about two-thirds of the 72,320 jobs related to LB775 projects would have been put into place even without the subsidy.

Why don't we have some good economic research that tells us the effect of LB775? Because it's exceedingly difficult to infer how people would have behaved in circumstances that didn't actually occur. If Nebraska did not have LB775, how would executives' decisions have changed with respect to the three hundred or so LB775 projects that were implemented? And those persons who now hold the LB775 jobs -- what would they be doing, otherwise?

One thing is pretty clear, and that is LB775 has not had any discernable effect on aggregate Nebraska job growth. The graph below shows Nebraska's job growth relative to all neighboring states, and there is no apparent pattern of change after 1987. The 240,000 increase in jobs in Nebraska since 1987 seems to be about what we should have expected without LB775, even though about 70,000 of these jobs are associated with LB775 projects. Most economic studies of tax incentive programs elsewhere have similarly failed to show any aggregate economic development effects.

LB775 is clearly a significant source of savings to the business community. The current level of LB775 corporate income tax credits, $37 million per year over the past four years, is over a fourth of the amount of total corporate income taxes collected by the state. Corporations are presumably the predominant recipients of sales tax refunds and property tax exemptions, also, which have averaged another $48 million and $12 million, respectively, over the past four years. LB775 is also significant to the state budget, with total costs now equivalent to about 5 percent of state budget receipts.

Using Department of Revenue reports, Dr. Greg Hayden (Professor of Economics, UNL) and I have calculated that taxpayers are paying a net cost of about $70,000 for each of the 22,000 or so jobs that owe their existence to LB775. Clearly the people who hold these jobs are better off because of LB775 – though they might have preferred to receive the $70,000. The economic and social value of these jobs cannot be determined objectively, but my own judgment is that this is far too expensive per job, and far too significant in the state budget, to be a reasonable economic development tool. LB775 needs to be reformed.

Richard K. Perrin, (402) 472-9818
Roberts Professor
rperrin@unl.edu