Abstract

A lack of detailed data on state tax incentive programs has limited the assessment of their economic impacts. However, in 1987, the Nebraska legislature, as part of its new business tax incentive initiative, required that the state Department of Revenue collect data on all business tax incentive agreements and report findings yearly. Nebraska’s legislative mandate produced a unique data set for assessing the impact of a business tax incentive program. Using these data, this article evaluates business tax incentives across Nebraska’s 93 counties during 1987 to 1995 and concludes that qualifying business investment (a) had a positive and statistically significant impact on economic growth for low-unemployment counties, (b) had no statistically significant impact on economic growth for high-unemployment counties, and (c) tended to be undertaken in areas with historically higher investment activity, thus contributing to greater economic performance differences among counties in the state.

1.

1. Exceptions include Fox and Murray (1990), Sander (1989), and White (1986). See Bartik (1991, 1992), Phillips and Goss (1995), and Wasylenko (1997) for surveys of this research.

2.

2. In 1995, in an effort to encourage Micron Technologies Inc. to establish operations in Nebraska, the state enacted LB828, LB829, and LB830. Each of these bills provides significant tax incentives to businesses that expand in Nebraska. However, to date, few companies have received tax credits under this legislation.
3.
3. The uniqueness of the Nebraska program also stems from the ubiquity of the program. Whereas other states provide a variety of programs and benefit levels, Nebraska's LB775 essentially encompasses the tax incentive benefits provided by the state.
4.
4. Between 1987 and 1995, the Nebraska Department of Revenue estimated that more than $3 billion in taxable property was exempted from county property tax rolls according to the provisions of LB775. Using 1990 county property tax rates, we estimated a cost of $73,472,686.
5.
5. Milward and Newman (1990) and Spindler (1994) estimated the cost per job (1995 dollars) of recently awarded high-profile packages. Estimates were Volkswagen to Pennsylvania, 1978, $62,000; Nissan to Tennessee, 1984, $17,000; Mazda to Michigan, 1987, $19,000; Toyota to Kentucky, 1988, $64,000; and Saturn to Tennessee, 1990, $28,000.
6.
6. Some companies applying for LB775 credits indicated no specific geographic location. It is assumed that the geographic distribution of these investments did not differ significantly from investments specifically identified by geographic location.
7.
7. Statistical analysis cannot determine the extent to which this is true because actual LB775 investment activity is not identified by city.
8.
8. The data used here come from county tax records as summarized in LB775 yearly reports and represent actual, as opposed to planned, LB775 investment by county.
9.
9. Goss and Phillips (1994) found that population density has been used in the literature as a proxy for at least six different factors: cost of land, market demand, labor supply, agglomeration economies, environmental damage, and infrastructure demand.
10.
10. Similar to Bartik (1991), Fisher and Peters (1998) found that state tax incentives were positively correlated with unemployment, but the strength of the relationship was quite weak, with correlation coefficients varying between 0.05 and 0.23.
11.
11. For high-unemployment areas, LB775Inv was not statistically significant in any of the estimations of the growth equations, and the results are not presented here but are available from the authors.

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