

Funding early childhood education is vital to support the growth and economic well-being of Nebraska. [LB 625](#), a bill before the Revenue Committee on Thursday, would increase funding for this vital investment by implementing a surtax on the wealthiest Nebraskans.

What LB 625 does

LB 625 would create an income tax surcharge of 4% on incomes exceeding \$500,000 for individuals and \$1 million for married couples filing jointly. The revenue raised by the surtax would be used to increase funding for public early childhood education. The bill's fiscal note estimates that it would generate about \$36 million in new revenue in FY 21-22 and would grow to about \$97 million in FY 24-25.¹ According to modeling by the Institute on Taxation and Economic Policy, only those with taxable income in the top .24% of all Nebraskans would be impacted by LB 625. This is a group that -- thanks to Nebraska's many tax credits and deductions -- currently pays a relatively low amount of their income in state income taxes.²

A big bang for the economic-development buck

Children who attended high-quality early childhood programs were less likely to be placed in special education or retained in a grade and more likely to graduate from high school than peers who did not attend such programs, a recent study from the Harvard Graduate School of Education found. The study concluded that “public funding for early childhood education has the potential to mitigate the high costs of [poor educational outcomes] and creates upward mobility through opportunity.”³ High-quality early childhood education builds the cognitive and social skills needed for school readiness, a fact recognized by Blueprint Nebraska's 2019 report, which calls for revolutionizing “all educational segments from early childhood to career, making Nebraska the nation's leader in lifelong learning and preparing people for the jobs of the future.”⁴ LB 625 would help meet that lofty goal by generating the revenue to improve access to, and the quality of, early childhood programs in the state.

Early childhood programing benefits the workforce and economy at large

Affordable early childhood programs support our workforce as well by enabling parents to balance work, school, family and finances. The U.S. Chamber of Commerce

¹ Nebraska Legislature, “LB 625 Fiscal Note,” accessed at https://www.nebraskalegislature.gov/FloorDocs/107/PDF/FN/LB625_20210224-105856.pdf on Feb. 24, 2021.

² Department of Revenue, “2016 Nebraska Tax Burden Study,” accessed at https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/research/burden/2016_Tax_Burden_Study.pdf on February 23, 2021.

³ Megan Feldman, “New Harvard Study Reveals Lasting Benefits of Quality Early Childhood Education,” First Five Years Fund, March, 23, 2018, accessed at <https://www.ffyf.org/new-harvard-study-reveals-lasting-benefits-quality-early-childhood-education/> on Feb. 23, 2021.

⁴ Blueprint Nebraska, “Growing the Good Life,” July 2019, accessed at https://blueprint-nebraska.org/wp-content/uploads/2019/07/BlueprintNE_Summary.pdf on Feb. 23, 2021.

Foundation notes that every \$1 invested in high-quality early childhood education programs can lead to \$16 back into the community through positive education, health and employment outcomes.⁵

Each dollar of spending generates as much as \$1.88 in economic activity through the output of early childhood providers alone, while supporting other businesses' bottom lines by increasing worker productivity. Turnover and absenteeism due to insufficient early childhood programs cost businesses \$1,150 per working parent each year, but providing access to early childhood education decreased employee absences by 20% to 30% and reduced turnover by 37% to 60%. Such programs also are proven to increase the workforce rates of women with young children and allow working parents to increase their earnings.⁶

Higher tax on the wealthy a popular idea among Nebraskans

This type of tax has popular support, according to recent polling conducted by OpenSky. A December 2020 poll found that Nebraskans support raising taxes on high income earners, particularly when the new revenue is dedicated to education. Respondents were increasingly in favor of raising income taxes on high earners if the money were to be used for public education, with 63% in support of such an idea and 45% in "strong support." Out of the respondents who believe taxes are too high in Nebraska, the majority of them, 57%, would still support a proposal like LB 625.

Bill unlikely to significantly impact migration

There is no conclusive evidence that raising taxes on wealthy Nebraskans would cause them to flee the state. A 2016 study looked at IRS data from all 50 states over the course of 13 years⁷ and found that "millionaire tax flight is occurring, but only at the margins of statistical and socioeconomic significance." Millionaires, the researchers found, move at a lower rate than the population as a whole, and little more than 2% of the elite's migration patterns can be explained by tax hikes. The researchers hypothesized that millionaires are unlikely to move due to state tax changes because they have high rates of other factors that reduce mobility. For example, millionaires are much more likely than the general population to be married, have kids at home, and to own a business.

⁵ U.S. Chamber of Commerce Foundation, "The Bedrock of American Business: High-Quality Early Childhood Education," accessed at <https://www.uschamberfoundation.org/early-childhood-education/the-business-case> on February 24, 2021.

⁶ Anna Powell, Sarah Thomason, and Ken Jacobs, "Investing in Early Care and Education: The Economic Benefits for California," accessed at <https://laborcenter.berkeley.edu/investing-early-care-education-economic-benefits-california/> on February 24, 2021.2

⁷ Cristobal Young and Charles Varner, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," 2016, accessed at <https://web.stanford.edu/~cy10/public/Jun16ASRFeature.pdf> on February 23, 2021.

Conclusion

An increased investment in early childhood education is among the most powerful steps the state could take to grow its economy. LB 625 presents a sound and sustainable funding source to support this vital investment.