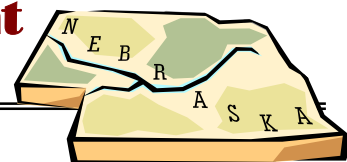


## Lesson 7: Ask Not What Your Government Can Do For You...Why Not?



**Overview:** In this lesson students will evaluate Nebraska laws, which allow tax incentives for businesses to locate or expand their operations in Nebraska. In addition they will also discuss LB 840, which allows local governmental units to use a local option municipal sales tax for economic development. Municipalities can use the tax money collected to offer incentives for businesses to locate or expand operations in their community. This lesson also introduces the concept of fiscal policy employed by state and local governments.

### Economic Concepts:

Aggregate Demand  
Fiscal Policy  
Incentives  
Role of Government

**Objectives:** The students will be able to:

- 1) Explain how governments use fiscal policy to influence the behavior of entrepreneurs
- 2) List the incentives for governmental bodies to provide tax breaks and other inducements to businesses
- 3) Identify reasons entrepreneurs should be aware of governmental incentives available

### Nebraska Standards:

SS/H—8.3.5, 8.3.6, 12.4.17, 12.4.18, 12.4.25, 12.4.26  
R/W—005.01D, 005.02A, 005.02D, 005.02E, 005.03A, 006.01B,  
006.01C, 006.02A, 006.02D, 006.02E, 006.03A, 006.04A

### Materials:

- 1) Computers with Internet access (optional)
- 2) Copies of the Nebraska Department of Economic Development's "Nebraska Tax Incentives" printout. (One copy per student, if you decide to provide the copies instead of have them search for the information)

**Time required:** 1 class period

## Procedure:

- 1) Ask the students why it is important for an entrepreneur to understand local laws as well as the laws of Nebraska that may affect their business. Record their responses on the board or overhead projector. Answers may include *stay out of jail, avoid fines, keep from making changes later that could be very costly, etc.*
  
- 2) If the students do not mention that Nebraska law allows for tax breaks and other incentives for entrepreneurs, proceed with the lesson as follows: A.) Say *not only do our laws place restrictions on business and punish people for violations of the law, they also offer incentives for entrepreneurs to locate or expand their operations in Nebraska. Remember that incentives are factors that motivate and influence human behavior. Today we are going to examine these types of laws.* B.) Divide the class into the number of groups, as there are tax incentive laws. (At the time of this publication there were four laws that offered tax incentives to businesses) C.) Assign each group a law to research and prepare a brief report on that law that they will give to the rest of the class. D.) Have the students perform the search for the information by accessing the Department of Economic Development's web site at <http://info.neded.org> at this site they would click on incentive programs and at that site they should choose either overview or the specific act you have assigned to them. If you decide to provide the students with handouts of the laws, access the site and print out the information and make copies for each student. E.) Give the students 10 to 15 minutes to read through the information and prepare a brief oral report for the rest of the class. F.) Have the groups give their reports. **If students respond to the question in step one by stating that entrepreneurs can take advantage of tax incentives, proceed as follows.** *Tell the students that you are going to take a closer look at specific Nebraska laws that offer tax incentives to business and follow steps B through F.*
  
- 3) Write the following on the board: **Fiscal Policy—changes in taxes, in government expenditures on goods and services, and in transfer payments that are designed to affect the level of aggregate demand in the economy.** Explain to the students that providing tax incentives for businesses is a part of the state fiscal policy designed to raise the level of aggregate demand in the state. Ask: How can this policy raise demand? (*expanding business operations in the state create more jobs, because there are more*

*jobs people have more disposable income, people will spend this money on goods and services therefore increasing total demand for goods and services which is also known as aggregate demand)*

- 4) Tell the class that in addition to state incentives many local governments in the state have taken steps to offer incentives to businesses to locate or expand in their communities. Explain that in 1990 LB840 was passed which allowed local governments to generate funds, to be used for economic development, from local property or sales tax. Tell them that there are several things the money can be used for but the general purpose of the funds is for economic development of the community and surrounding area. Based on this information, ask students why a local government would enact fiscal policy that would impose additional tax on their citizens with the intent of offering it as an incentive to potential and existing businesses. Record their responses on the board. *(Students should indicate that bringing businesses to the community or expanding existing businesses will mean more jobs, which means more people in the community, which means more taxable property on the tax rolls, which means a larger tax base to share the property tax burden, which could result in lower property taxes for everyone. If the reduction in property tax is large enough to offset the additional sales tax paid, the total tax burden of their citizens is reduced.)*
- 5) Conclude the lesson with a class discussion of why it is important for entrepreneurs to know the local laws as well as the Nebraska laws that affect their business. *(Along with several of the reasons that were discussed throughout the lesson, students should also realize that the incentives can be used to reduce their total operating costs and therefore help them maximize their profit)*

### **Assessment:**

- 1) Changes in taxes, in government expenditures on goods and services, and in transfer payments that are designed to affect the level of aggregate demand in the economy.
  - A. incentives
  - B. fiscal policy \*
  - C. monetary policy
  - D. governmental policy

- 2) Using standard conventions of writing, compose a paragraph explaining why local governmental units would choose to impose additional tax on their citizens to offer incentives to potential or existing businesses.
- 3) A good friend of yours lives in California and is considering starting his own business. Compose a letter, using standard conventions, explaining why he should start his business in your community. Make sure you not only include information about available incentives but also about the quality of life, location, and other advantages of life in your Nebraska community.

### **Extension Activity:**

Find out if your community has a local option municipal development tax program. If they do, they will also have a written economic development program on file at the city office or with the program administrator. Obtain copy of the plan and make enough copies for your class so each student has one or if you decide to do this as a group project, one for each group. Assign the students read through the program and be prepared to discuss what projects would be eligible to receive funds, what they would have to do if they had a project that they wanted funding for, and the process that is used to determine who will get funds (in other words who makes the decisions on how the funds are spent).