How US Counties Use Revenue Windfalls

Evidence from Nebraska's Inheritance Tax

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1. Introduction

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A local government can save a revenue windfall, spend it or cut taxes.

- Who benefits: future budgets, users of public services or taxpayers
- Most estimates use revenue that is anticipated or permanent
- **Anticipated:** early estimates of 30 cents to a dollar per dollar of grants (Inman 2008)
- **Permanent:** wind farms (Brunner and Schwegman 2022), a census (Helm and Stuhler 2024)

1. Introduction

Each inheritance tax windfall arrives with a resident's death, and counties anticipate little of it.

- **Inheritance tax windfall:** the inheritance tax a county receives in a fiscal year
- No county board controls when its residents die or what their heirs owe
- Five previous ones and valuation growth explain **0.02** of its within-county variance
- Of the 45 largest relative to the budget, counties had estimated a median of **20%**
- The median is 2.2% of budgeted spending, and the largest one percent exceed 12.8%

The timing of an inheritance tax windfall, set by deaths, is the quasi-experiment.

1. Introduction

Three results, in dollars per windfall dollar.

1. **Saved:** in the windfall year, county saving **1.14**, county spending 0.03 (not significant)
2. **Partly spent:** by the end of the following year, county spending **0.60** to **0.68**
3. **No significant fall:** property tax request 0.02 over the windfall-year and next budgets

The request already rises before an inheritance tax windfall. If that rise stops, the main estimates allow a cut of at most 9 cents.

1. Introduction

Related literature.

- **Intergovernmental grants:** Gordon (2004), Dahlberg et al. (2008), Lutz (2010), Leduc and Wilson (2017), Helm and Stuhler (2024), Mauri (2024), Dal Borgo (2024)
- **New revenue and government saving:** Caselli and Michaels (2013), Berset and Schelker (2020), Brunner and Schwegman (2022), Brunner, Hoen and Hyman (2022), Berset, Huber and Schelker (2023), Solé-Ollé and Viladecans-Marsal (2019), Andersen and Sørensen (2022), Ladd (1993), Knight and Levinson (1999), Gore (2009), Craig et al. (2016)
- **Taxes at death in US states:** Bakija and Slemrod (2004), Moretti and Wilson (2023)

This paper: US evidence on revenue windfalls, revenue that is neither anticipated nor permanent, with county saving measured directly.

2. Institutional background and data

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The tax goes to the deceased's county, which may use it as it likes.

- Nebraska taxes **inheritances**, not estates
- Rates and exemptions depend on the heir's relationship to the deceased
- The county board may credit the receipts to **any fund**
- Property tax rate limited to 50 cents per $100, only 5% of county-years within 5 cents
- The fiscal year runs July to June, and the budget is adopted **after the year has begun**

2. Institutional background and data

Inheritance tax receipts, county audits and adopted budgets, all public records.

- **Inheritance tax receipts:** Curry (2021) to 2020, then audits and Department of Revenue
- Checked against the audits and the next filed budgets, **22** corrected
- **County audits:** 1,487 read, **1,094** county-years in 86 counties pass the checks
- Douglas, Lancaster and Sarpy (accrual accounts) are out: 33% of the state's inheritance tax receipts
- County saving: change in the cash balance. County spending: disbursements
- **Adopted budgets:** the property tax request of all 93 counties, from 2004

3. Empirical approach

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Each estimate is the response to one windfall dollar.

$$y^h_{ct} = \beta_h\, w_{ct} + \gamma_1 w_{c,t-1} + \gamma_2 w_{c,t-2} + \delta\, \Delta \ln V_{ct} + \alpha_c + \tau_t + \varepsilon_{ct}$$

- Treatment $w_{ct} = P_{ct}/S_{ct}$: inheritance tax windfall over the **denominator** S_{ct}, the budget for $t-1$
- Outcome: change from $t-1$ to $t+h$ over S_{ct}, county spending cumulated
- A local projection (Jordà 2005): β_h is **dollars per windfall dollar**
- Two lagged inheritance tax windfalls, valuation growth, county and year effects

3. Empirical approach

For county saving and county spending, β_h is causal if the size of an inheritance tax windfall is as good as random.

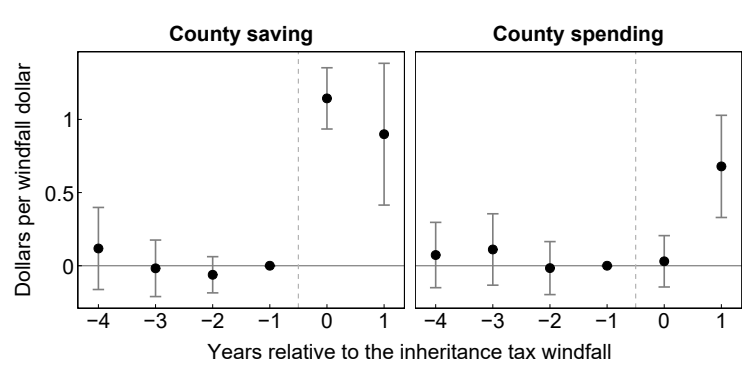
- Given the county's own history and the year
- Deaths make it plausible: no county chooses when residents die or what heirs owe
- An estate can take months to settle, so a county could **respond early**

Two timing tests check for such early responses.

4. How counties use an inheritance tax windfall

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A county saves an inheritance tax windfall in the year it arrives and spends part of it the year after.



4. How counties use an inheritance tax windfall

In the windfall year, county saving rises by 1.14 per windfall dollar, while county spending rises by only 0.03.

- By the end of the following year, county spending is up **0.68**, cash balance still 0.90
- They add up to more than a windfall dollar, partly because other receipts rise by 0.37
- Extra county spending: **0.56** on other functions, 0.11 on general government and public safety

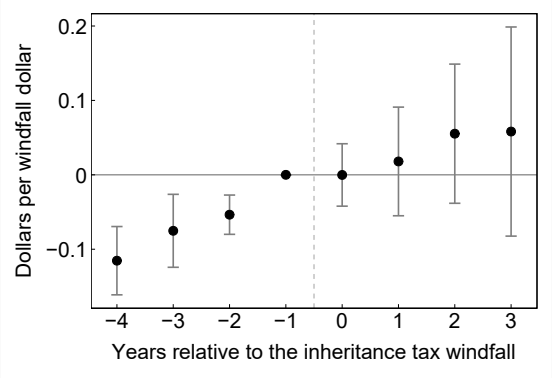
4. How counties use an inheritance tax windfall

Audits that print the inheritance tax on its own line separate the inheritance tax windfall from other receipts.

- County saving in the windfall year: **0.98**
- County spending by the end of the following year: **0.60**
- Printed in the windfall year and the year before: 28 counties for county spending

4. How counties use an inheritance tax windfall

The property tax request rises before an inheritance tax windfall and does not fall significantly after it.



4. How counties use an inheritance tax windfall

If the earlier rise stops, no main estimate allows a cut in the request larger than 9 cents per windfall dollar.

- Property tax request: 0.00 in the windfall-year budget, **0.02** over the two budgets
- Outstanding debt, not significant: 0.02 in that budget, 0.02 over the two budgets

5. Causal interpretation and robustness

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County saving and county spending show no significant movement before an inheritance tax windfall.

- Timing test: $p = \mathbf{0.39}$ for county saving, $\mathbf{0.50}$ for county spending
- Next year's inheritance tax windfall predicts neither: 0.041 and -0.025
- For county spending, the test has **limited power**
- Controlling for the earlier rise in the request and budget growth **barely changes** either

5. Causal interpretation and robustness

The property tax request rises in the budgets before an inheritance tax windfall.

- Timing test: $p < \mathbf{0.01}$
- Next year's inheritance tax windfall also predicts this year's request: 0.055
- If the rise continued, the path would hide a cut of 0.07, significant at 10% but not 5%
- With the rise from year -2 to -1 controlled for, the timing test still rejects at 5%

5. Causal interpretation and robustness

County saving and county spending rise in every check of Table 2.

- Corrected receipts dropped: county saving **1.12**, county spending **0.77**
- Inheritance tax windfalls up to fiscal year 2020: 1.17 and 0.64
- Baseline, wild cluster bootstrap: $p < 0.001$ for county saving, 0.002 for county spending
- Under the bootstrap, county spending is **not significant** at 5% once the largest one percent are dropped
- Nor on an earlier budget as the denominator: 0.29 and 0.40, the second failing the timing test

6. Conclusion

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A county saves an inheritance tax windfall in the year it arrives, and the next budget spends part of it.

- County spending by the end of the following year: **0.60** to **0.68**
- It goes mostly to functions other than general government and public safety
- The property tax request has **not fallen significantly**
- The main estimates rule out a cut above 9 cents only if its earlier rise stops
- The estimates apply most directly to unanticipated, temporary revenue free to spend

Thank you.

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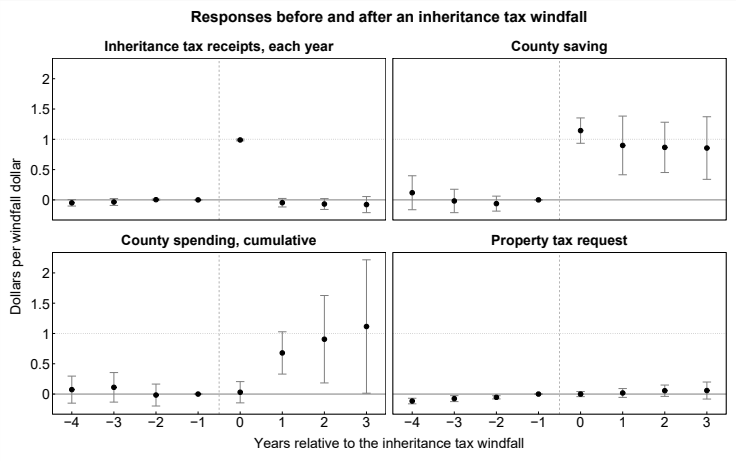
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Backup: Figure 1 of the paper



95% intervals clustered by county.

Backup: Table C.1, responses to an inheritance tax windfall

Outcome	Year 0	Year 1	N	Counties
County saving	1.14	0.90	965	84
	(0.11)	(0.25)		
County spending	0.03	0.68	957	84
	(0.09)	(0.18)		
Property tax request	0.00	0.02	1,944	93
	(0.02)	(0.04)		
Inheritance tax receipts	0.99	0.94	1,388	93
	(0.01)	(0.03)		
Other receipts	0.16	0.37	957	84
	(0.10)	(0.19)		

Dollars per windfall dollar, standard errors clustered by county. Year 0: the windfall year. County spending and the two receipt lines cumulated from year 0. County saving: change in the cash balance from year -1. Request: budget adopted during the year, relative to the budget for year -1, all counties from 2004. N and counties: year 0. The notes in the paper define the rows and samples.

Backup: Table C.2, timing tests

Outcome	Placebo	Joint test, years −4 to −2, p
Property tax request, 2004–2024	0.055 (0.015)	<0.01
Property tax request, 2010–2024	0.065 (0.019)	<0.01
County saving	0.041 (0.063)	0.39
County spending	−0.025 (0.100)	0.50
Other receipts	0.026 (0.070)	0.90
Inheritance tax receipts	−0.009 (0.004)	

Placebo: the coefficient on next year's inheritance tax windfall, added to the year-0 regression, standard error clustered by county. Joint test: the inheritance tax windfall does not predict the outcome in years −4, −3 and −2, relative to year −1. The notes in the paper define the rows and samples.

Backup: Table 2, robustness (exclusions)

	County saving *windfall year*	County spending *over two years*	Property tax request *over two budgets*
Baseline	1.14	0.68	0.02
	(0.11)	(0.18)	(0.04)
Excluding			
Inheritance tax windfalls above the 99th percentile	1.29	0.45	0.11
	(0.19)	(0.29)	(0.06)
Inheritance tax windfalls above 15% before 2009			0.02
			(0.04)
Fiscal years after 2020	1.17	0.64	0.01
	(0.15)	(0.27)	(0.05)
Douglas, Lancaster and Sarpy			0.02
			(0.04)
Corrected receipts	1.12	0.77	0.03
	(0.11)	(0.18)	(0.04)
Repeated or round receipts	1.13	0.69	0.01
	(0.10)	(0.18)	(0.04)
Bond levies in the request			0.01
			(0.04)

Dollars per windfall dollar, standard errors clustered by county in parentheses. The note to Table 2 in the paper defines each row.

Backup: Table 2, robustness (audits, denominators, controls)

	County saving *windfall year*	County spending *over two years*	Property tax request *over two budgets*
Only audits			
With the inheritance tax on its own line	0.98	0.60	0.08
	(0.11)	(0.16)	(0.08)
Read from the PDF's own text	1.02	0.66	0.03
	(0.10)	(0.17)	(0.05)
Where receipts and disbursements add up	1.12	0.79	0.04
	(0.08)	(0.19)	(0.04)
Other denominator			
Average budget, 2001–2008	0.91	0.29	−0.04
	(0.17)	(0.26)	(0.03)
Budget four years earlier	1.00	0.40	−0.01
	(0.12)	(0.20)	(0.04)
Added controls			
Inverse of the budget	1.13	0.60	0.02
	(0.10)	(0.18)	(0.03)
Valuation growth, $t-2$ to $t+1$	1.13	0.64	0.01
	(0.11)	(0.19)	(0.04)
County linear trends	1.08	0.79	0.01
	(0.11)	(0.23)	(0.03)

Dollars per windfall dollar, standard errors clustered by county in parentheses. The note to Table 2 in the paper defines each row.

Backup: what the budgets expected

Among the largest inheritance tax windfalls, few budgets estimated at least half of the inheritance tax windfall.

- The 45 largest inheritance tax windfalls relative to the budget, 2014–2024, outside the metropolitan counties
- Their adopted budgets, read one by one: median estimate **20%** of the amount received
- Only **8** of the 45 estimated at least half of it
- The budget is adopted after the fiscal year begins, so a close estimate can record an inheritance tax windfall already received

Backup: deaths

Deaths in the county the year before predict the inheritance tax windfall.

- First-stage F: 10.0 on all counties from 2004, 19.6 on audited county-years for county saving
- Neither the budget variables nor the audit variables jointly predict deaths
- County saving: Anderson–Rubin test of no response, $p = 0.007$, and two-stage least squares 1.67 against 1.14 by least squares
- County spending and the request: too imprecise, Anderson–Rubin p 0.913 and 0.978

For county saving, the responses the Anderson–Rubin test does not reject include the least-squares estimate. The instrument is the county's deaths per 1,000 residents in the previous fiscal year (Census Bureau county population estimates).