



By Dick Clark

Strong Roots Nebraska: Questions and Answers about Tax Relief

For more information on Strong Roots Nebraska tax reform, visit StrongRootsNebraska.org or [read our latest report on the plan.](#)

Q: Can Nebraska afford tax relief?

A: Nebraska can't afford not to enact meaningful tax relief. With the exception of Iowa, all of Nebraska's neighboring states have top income tax rates that are lower than those imposed on Nebraska taxpayers. These high taxes mean that Nebraska is giving away opportunities for growth.¹

Q: Does the Strong Roots Nebraska plan protect the state's Cash Reserve Fund?

A: State cash reserves are at record levels. At the end of November, the cash reserve fund was projected to reach \$769 million by the end of the fiscal year.² The Strong Roots Nebraska plan requires only \$40 million per year for just the first two years, or about 5 percent of the cash reserve fund. The reserve and state tax revenues are projected to continue growing. The chairman of the Unicameral's Appropriations Committee has reported that the state's budgetary position is better than any time since he entered office six years ago.³ The Nebraska Economic Forecasting Advisory Board estimated in October that tax revenues would exceed last year's total collections by \$61.5 million this fiscal year⁴ — 153 percent of the amount of relief proposed

¹ Drenkard, Scott and Joseph Henchman. "Building On Success." Platte Institute for Economic Research and the Tax Foundation. October 2013. p. 16. [URL: http://www.platteinstitute.org/Library/docLib/20131002_Building_on_Success_Final_Low_Res.pdf]

² Stoddard, Martha. "Property tax relief, prison woes may tip balance in Nebraska state budget." *Omaha World-Herald*. November 23, 2014. [URL: http://www.omaha.com/news/nebraska/property-tax-relief-prison-woes-may-tip-balance-in-nebraska/article_cfc12843-cb70-5dad-b8e2-cd48428d9f75.html]

³ *Ibid.*

⁴ Young, JoAnn. "Forecasters Predict Growth to Nebraska Economy." *Lincoln Journal-Star*. November 1, 2014. [URL: http://journalstar.com/legislature/forecasters-predict-growth-to-nebraska-economy/article_c98b8757-486c-5843-a810-33d18fd94fba.html]

under the Strong Roots Nebraska plan. The plan does not call for use of cash reserves at all after the first two years.

Q: How does the Strong Roots Nebraska plan differ from the tax reforms in Kansas?

A: The biggest difference is that the Strong Roots Nebraska plan is fully funded using a responsible, gradual approach. The plan proposes smaller, more incremental reductions in income tax that will require reduced government spending. The plan protects the state's cash reserve by giving lawmakers ample time to reconsider priorities for how taxpayer resources are used before further cuts are implemented. Revenue triggers for future cuts will ensure that if state revenues decline, tax rates hold steady until the economy grows stronger.

Q: Can Nebraska cut taxes without reducing education funding?

A: Yes. Nebraska's state budget was more than \$8.1 billion for the fiscal year ending in June 2014.⁵ Of that, \$1.49 billion was appropriated to the state Department of Education.⁶ The tax cuts proposed in the Strong Roots Nebraska plan are so modest that they amount to less than one half of one percent of the state budget each year, or about one percent of general fund appropriations. While some spending cuts may be necessary, most tax relief from the Strong Roots Nebraska plan will be funded by slowing the growth of state spending. Lawmakers will have the time and resources to ensure schools and other public priorities are adequately funded. In the long run, the economic growth promoted by lower taxes will generate more funding for schools than would otherwise be possible.

Q: Will Strong Roots Nebraska income tax relief cause or require other taxes to be increased?

A: No. The Strong Roots Nebraska plan is different from past reform proposals because it achieves a net reduction in the state's total tax burden through spending restraint and economic growth over a period of years. While previous reform proposals have shifted the tax burden between property, sales, and income taxes, the goal of Strong Roots Nebraska tax reform is to lighten the burden on all taxpayers. When structured gradually over several years, income tax relief does not require increases or changes to any other type of tax.

Q: Does tax relief favor higher income earners over low and middle-income Nebraskans?

A: 100 percent of Nebraskans benefit from Strong Roots Nebraska tax reform. While some states have tax rates that specifically apply to high levels of income, Nebraska's top individual income tax rate applies to income over only \$29,000, making tax relief an issue that directly impacts middle class families. The Strong Roots Nebraska plan also provides relief for taxpayers at all income levels by eliminating taxation of the state's bottom personal income tax bracket.

⁵ See NebraskaSpending.gov

⁶ *Ibid.*

Q: Does tax relief favor large corporations over small businesses?

A: While some larger companies may receive corporate tax incentives for doing business in Nebraska, small businesses typically pay personal income taxes just like their employees and often do not benefit from incentives. The Strong Roots Nebraska tax reforms do not change current tax incentive programs, but the changes to Nebraska's personal and corporate income taxes will provide greater simplicity and fairness. A friendlier tax code will make doing business in Nebraska more attractive and rewarding for employers of all sizes. A lower tax burden for small businesses frees up money to invest in creating and expanding businesses, training workers, and purchasing equipment that that helps companies become more productive.