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## Balancing Revenues with Tax Cuts By Jordan Cash

A few weeks ago, the Platte Institute called for an examination of the corporate income tax, with a nod towards increasing Nebraska's regional competitiveness as a business friendly state; that article may be viewed [here](#). With the exception of Iowa, Nebraska's corporate tax rates are higher than all of the neighboring states. High corporate taxes have adverse effects on stockholder returns, consumer prices, and worker wages. In addition, the corporate income tax has been steadily decreasing as a percentage of state revenue for decades.

While only accounting for three percent of state revenues,[\[1\]](#) if the tax was to be lowered or abolished, in this economic climate it is necessary to identify that three percent. Since the Legislature recently closed a nearly \$1 billion budget shortfall by cutting spending,[\[2\]](#) it seems unlikely they will enact a measure that ostensibly cuts into state revenues. However, lowering or abolishing the corporate income tax would not lead to an overall revenue reduction.

2010 census data suggests states with low taxes get more businesses and people to locate there.[\[3\]](#) While corporate taxes are not the only measure of correlation between low taxes and population growth, if Nebraska can foster a tax climate agreeable to businesses, it will entice companies and workers to the Cornhusker State, expanding the tax base and allowing for lower taxes without a net loss of revenue.

Low taxes also stimulate investment. If businesses pay less in taxes then it is likely they will invest more in the state; and more investment will translate to more jobs and revenue.

Reducing the corporate tax would also affect stockholder returns, consumer prices, and labor wages positively. Employees would benefit most, as research shows that corporate taxes lowers labor wages an average 0.8 percent for every one percent rate increase.[\[4\]](#) A corporate tax cut would allow more money to flow back into the marketplace as stockholders get more on returns, consumers pay less for products and employees have higher wages.

Policymakers in state government have also explored this area. Doug Ewald, Nebraska's Tax Commissioner, noted that the top corporate income tax rate should be relatively even with the top individual income tax rate, now set at 6.84 percent.[\[5\]](#) Having these

rates be comparable is good tax policy, according to Mr. Ewald, insuring that all organizational structures are treated the same.[6]

State Sen. Rich Pahls of Omaha has also attempted to address the issue of raising revenue by lowering sales tax rates. In 2009 Sen. Pahls introduced LB 386, which would have closed sales tax exemptions while lowering the sales tax by 0.77 percent and eliminating property, income, and corporate income taxes for five years.[7] With no exemptions, the sales tax-even with a lower rate-would raise \$3 billion in additional revenue.[8] While the bill failed, it is an example of a proposal that lowers taxes while keeping revenue stable.

It should also be noted that Nebraska's revenues have begun exceeding projections. For Fiscal Year 2010, which ended June 30, Nebraska collected \$62.7 million more than was originally predicted.[9] With revenues coming in higher than anticipated, it appears that tax cuts or more spending cuts could be feasible without making a dent to the revenue base.

Cutting taxes does not mean revenues must be reduced. If Nebraska is to insure long-term economic growth it must be friendlier to businesses. Eliminating or lowering corporate income taxes would be a good first step.

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[1] The Tax Tale: A Fifty-State Comparison in *Wall Street Journal*, (April 10, 2010). Accessed July 24, 2011: <http://www.jsonline.com/news/wisconsin/89702927.html>. Click on Nebraska to see percentages of state revenues.

[2] Grant Schulte, "Nebraska lawmakers approve state budget bills" in *Bloomberg Businessweek* (May 11, 2011). Accessed July 28, 2011: <http://www.businessweek.com/ap/financialnews/D9N5IIT00.htm>.

[3] Julie Borowski, "Census Data: Americans Migrating From High to Low Tax States." FreedomWorks (December 22, 2010) Accessed July 28, 2011: <http://www.freedomworks.org/blog/jborowski/census-data-americans-migrating-from-high-to-low-t>; Michael Barone, "Census: Fast growth in states with no income tax" in *Washington Examiner* (December 21, 2011). Accessed July 29, 2011: <http://washingtonexaminer.com/politics/2010/12/census-fast-growth-states-no-income-tax#ixzz18roXz5vE>.

[4] Kevin A. Hassett and Aparna Mathur, *Taxes and Wages*. American Enterprise Institute Working Paper #128, (June 2006), 16. Accessed July 27, 2011: [http://www.aei.org/docLib/20060706\\_TaxesandWages.pdf](http://www.aei.org/docLib/20060706_TaxesandWages.pdf).

[5] Nebraska Individual Income Tax Rates for Tax Year 2010. Accessed July 29, 2011:

[http://www.revenue.ne.gov/question/iit\\_rates\\_10.html](http://www.revenue.ne.gov/question/iit_rates_10.html). The highest corporate tax rate is set at 7.81 percent.

[6] Author interview with Mr. Ewald, July 29, 2011.

[7] Legislature Revenue Committee, "Introducer's Statement of Intent: LB 386," One Hundred First Legislature-First Session-2009, (March 20, 2009). Pdf of the whole bill and the statement of intent may be found at [http://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=6234](http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=6234).

[8] Nancy Hicks, "Senators to study sales tax exemptions" in *Lincoln Journal Star* (October 3, 2009). Accessed August 1, 2011: [http://journalstar.com/news/local/govt-and-politics/article\\_3bd3429a-afb6-11de-a606-001cc4c002e0.html](http://journalstar.com/news/local/govt-and-politics/article_3bd3429a-afb6-11de-a606-001cc4c002e0.html).

[9] Associated Press, "Report: Nebraska tax receipts higher than expected" in *Beatrice Daily Sun*, July 21, 2011. Accessed August 2, 2011: [http://www.beatricedailysun.com/news/state-and-regional/article\\_c89ef37c-d596-5a86-a3e4-fb317ac9f024.html](http://www.beatricedailysun.com/news/state-and-regional/article_c89ef37c-d596-5a86-a3e4-fb317ac9f024.html).



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