



The Benefits of Eliminating the Income Tax

In his 2013 legislative package, Nebraska Governor Dave Heineman proposed a complete overhaul of Nebraska's tax structure in order to rejuvenate Nebraska's economy and make it more attractive for individuals and businesses. This tax reform, introduced by State Sen. Beau McCoy as LB405, would close many of the state's sales tax exemptions while simultaneously eliminating both the individual and corporate income tax.[\[1\]](#) In order to fully assess all three components of this proposal in its entirety, this article will focus on the effects of ending the individual income tax, with analysis of the eliminating the corporate income tax and closing sales tax exemptions to follow in the coming weeks.

Before delving into the ramifications of ending the income tax, it is important to note how Nebraska's taxes compare to other states, particularly the neighboring states in the region.

With a top rate of 6.84 percent, Nebraska has the 18th highest income tax rate in the country. Nebraska's income tax is currently divided into four brackets divided by annual income levels: \$0 and \$2,400 is taxed at 2.46 percent; \$2,401 and \$17,500 is taxed at 3.51 percent; \$17,501 and \$27,000 is taxed at 5.01 percent; and the highest rate of 6.84 percent applies to any income above \$27,000. For married couples filing jointly, the bracket thresholds are doubled; for example, the top bracket is for income above \$54,000. Because of last year's tax package, LB970, the income levels for all brackets will rise very slightly in 2014, but these changes will likely have little economic effect.[\[2\]](#)

When you consider state income taxes regionally, Nebraska is at a competitive disadvantage. South Dakota and Wyoming do not have an income tax and Colorado (4.63 percent), Kansas (4.9 percent), and Missouri (6 percent), all have lower top rates. Iowa is a relative outlier with a top rate of 8.98 percent.[\[3\]](#)

Eliminating the state income tax would immediately put Nebraska in a better position to attract new individuals, families and businesses. This is evident by looking at the nine states that do not have income taxes: Texas, Nevada, South Dakota, Wyoming, New Hampshire, Tennessee, Washington, Florida, and Alaska.[\[4\]](#) According to data from the 2010 census, seven of these nine no-income tax states saw their populations grow faster than the national average, and the two that did not, South Dakota and New Hampshire, still saw more population growth than the other states in their region.[\[5\]](#) By way of comparison, Nebraska's population growth in the last census was well under the national average, and was lower than most of our neighboring states, the only exceptions being Iowa and Kansas.[\[6\]](#)

Meanwhile, economic and job growth in the no-income tax states was significantly higher than the national average. Between 2002 and 2012, 62 percent of the three million net new jobs created in the United States were created in the nine no-income tax states. Additionally, these same states saw average economic growth of 61.23 percent between 1999 and 2009. To put that in perspective, the average level of economic growth for the U.S. over this same time period was 47.05 percent, and the percentage among the nine states with the highest income tax rates was even lower, at 44.91 percent.^[7] No-income tax states also had better growth in tax receipts than the national average, as well as states with the highest income tax rates. Among no-income tax states, tax receipts grew by over 123.66 percent, while the average among the fifty states and the nine high income tax states specifically was only 70.23 percent and 62.43 percent, respectively.^[8]

Growth in economic activity, population, and tax receipts growth demonstrates that states without an income tax have seen significant advantages over states that do, and are just a few of the reasons why Nebraska should eliminate the tax.

Another reason is because many other states are looking to do the same, and not doing so could put Nebraska at an even worse competitive disadvantage. Kansas Gov. Sam Brownback—who already cut taxes significantly last year—is continuing to call for eliminating the income tax. Louisiana Gov. Bobby Jindal has called for a plan similar to Gov. Heineman's, eliminating the individual and corporate income taxes and using sales tax revenue to compensate, as have Republican legislative leaders in North Carolina. Oklahoma Gov. Mary Fallin, who cut income taxes last year, has again proposed a substantial tax cut, and comparable calls for slashing taxes have been expressed by Indiana Gov. Mike Pence, New Mexico Gov. Susanna Martinez, and Ohio Gov. John Kasich.^[9]

Eliminating income taxes would greatly benefit Nebraska as a whole, but it would also help families and individuals on a personal level. One example is Omaha senior citizen Connie Brown, who told the Platte Institute that the money she would save from eliminating the income tax would "pay for prescription drugs and the rental of medical equipment. Overall, my financial condition improves."^[10] Connie would not be alone benefitting from the income tax's elimination. Allowing individuals to keep more of their own money to save, invest, or spend as they see fit will make their lives easier, as well as create a positive economic multiplier for the state that will continue to draw more people and businesses to Nebraska.

While the specifics of how to best reform our tax code will continue to be debated, the evidence is clear that eliminating or reducing the state income tax is smart economic and social policy, and a necessary step for serious tax reform in Nebraska.

[1] Nebraska Legislature, "Legislative Bill 406," January 26, 2013. Accessed February 2, 2013, <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Intro/LB406.pdf>.

[2] Joseph Henchman, "Nebraska Approves Modest Income Tax Reduction," Tax Foundation, April 11, 2012. Accessed February 2, 2013, <http://taxfoundation.org/blog/nebraska-approves-modest-income-tax-reduction>.

[3] State Individual Income Tax Rates, 2000-2012. Tax Foundation, February 16, 2012. Accessed February 2, 2013, <http://taxfoundation.org/article/state-individual-income-tax-rates-2000-2012>; Kansas lowered their taxes last year, and while the previous cited source indicates that Kansas has a top income tax of 6.65 percent, the top bracket was actually eliminated and the next bracket, at 6.25 percent, was lowered to 4.9 percent. This may be read about at Mark Robyn, "Not in Kansas Anymore: Income Taxes on Pass-Through Businesses Eliminated," Tax Foundation, May 29, 2012. Accessed February 2, 2013, <http://taxfoundation.org/article/not-kansas-anymore-income-taxes-pass-through-businesses-eliminated>; Mark Peters, "Kansas Governor Signs Tax-Cut Bill," *Wall Street Journal*, May 22, 2012. Accessed February 2, 2013, <http://online.wsj.com/article/SB10001424052702304791704577418641784902500.html>.

[4] Tara Dodrill, "States with No Income Tax," *YahooNews*, December 7, 2011. Accessed February 2, 2013, <http://news.yahoo.com/states-no-income-tax-224800063.html>. Tennessee and New Hampshire do levy an income tax on dividend income.

[5] Michael Barone, "Census: Fast Growth in States With No Income Tax," *Real Clear Politics*, December 23, 2010. Accessed February 2, 2013, http://www.realclearpolitics.com/articles/2010/12/23/census_fast_growth_in_states_with_no_income_tax_108332.html.

[6] David Drozd, "Nebraska State/Local Population Trends," Center for Public Affairs Research, University of Nebraska at Omaha, 23rd Annual Data Users Conference, August 15, 2012. Accessed February 3, 2013, <http://www.unomaha.edu/cpar/conf2012/State-LocalTrends2012.pdf>.

[7] Arthur B. Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*. 4th Edition. American Legislative Exchange Council. (Washington DC: American Legislative Exchange Council, 2011), 25. Accessed February 2, 2013, http://media.khi.org/news/documents/2012/08/14/Rich_States_Poor_States.pdf.

[8] Ibid.

[9] NewsOK, "Okla. Governor pledges to seek income tax cut," *The Oklahoman*, January 23, 2013. Accessed February 3, 2013, <http://newsok.com/okla.-governor-pledges-to-seek-income-tax-cut/article/feed/490879?page=1>; Francis DeLuca, "The States' Income-Tax Repeal Revolution," *National Review* January 28, 2013. Accessed February 3, 2013, <http://www.nationalreview.com/articles/338875/states-income-tax-repeal-revolution-francis-deluca>; John Frank, "GOP leaders suggest abolishing N.C. income tax," January 17, 2013. Accessed February 3, 2013, <http://www.newsobserver.com/2013/01/16/2612085/gop-leaders-suggest-abolishing.html>; "The State Tax Reformers," *Wall Street Journal*, January 29, 2013.

Accessed February 3,
2013,<http://online.wsj.com/article/SB10001424127887323968304578245720280333676.html>;
Julie Carr Smyth, "Ohio gov proposes income tax cut, hikes elsewhere," *San Francisco Chronicle* February 4, 2013. Accessed February 4,
2013,<http://www.sfgate.com/business/energy/article/Ohio-gov-proposes-income-tax-cut-hikes-elsewhere-4249552.php>.

[10] Connie Brown, interview with the author. February 4, 2013.



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