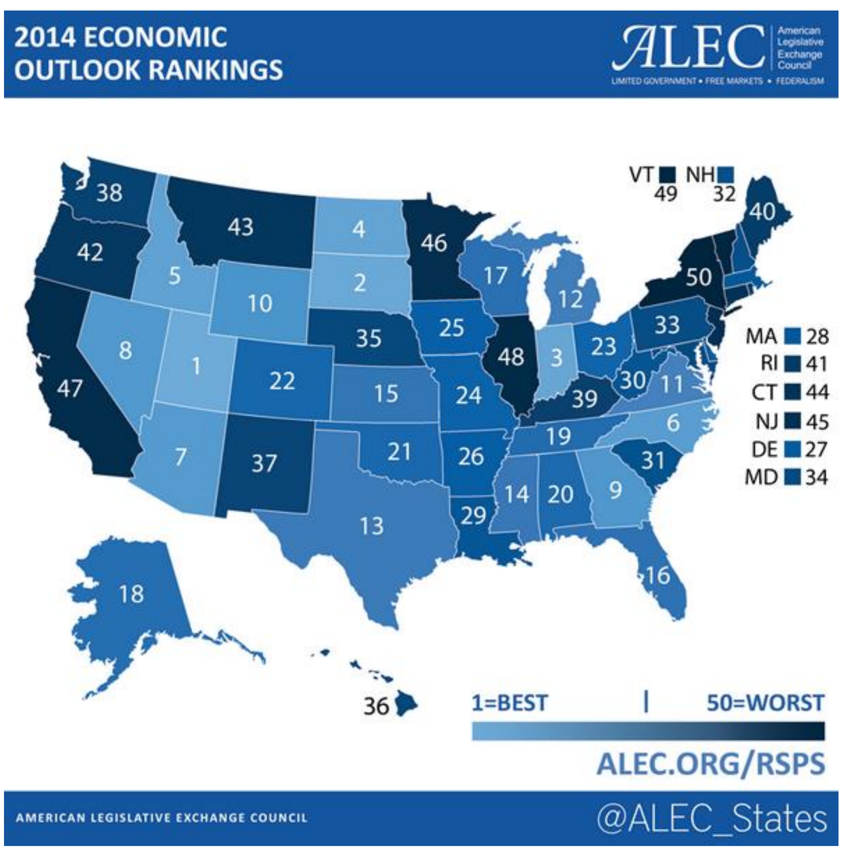
<u>No Time Like the Present: An Opportunity for Nebraska</u>
By Dick Clark

Nebraska ranks a mediocre thirty-fifth in economic outlook among the fifty states, according to the latest edition of *Rich States, Poor States*. However, the annual report on economic competitiveness gives Nebraska top billing among states to watch closely in 2015. The authors point to recent reforms that, while modest, may position “Nebraska as a state to watch in the coming years, as it could enact some major pro-growth tax changes.”

The report specifically cites “small but important” Nebraska reforms including elimination of the state’s alternative minimum tax, authorization of tax deductible college savings plans, expanded capital gains tax exclusions tied to employee stock option programs, and commissioning of the Tax Modernization Committee in 2013. These changes could “set the stage for real positive reform,” leaving Nebraska ripe for a “broad tax overhaul.”



While the report is optimistic about the future, Nebraska's poor overall ranking recognizes that the current state tax burden in Nebraska is a serious problem. The data analyzed for the report "show that high tax burdens result in a weaker tax base, low economic activity, and higher levels of outmigration." Nebraska suffers from high personal income tax rates, high corporate income tax rates, and high property taxes, especially compared to other states in the region.

The Great Plains states are generally following "the pro-growth approach to tax and fiscal policy by keeping tax rates, spending, and regulatory burdens low." However, Nebraska's high tax environment leaves the state with a significantly worse economic outlook than any of its neighbors. South Dakota (#2), Wyoming (#10), and Kansas (#15) all rank near the top, but even conditions in Colorado (#22), Missouri (#24), and Iowa (#25) look more favorable for growth than those in Nebraska.

Taxation of business income for companies located in Nebraska is nineteenth highest in the United States. It is higher than the national average and even worse than the taxes in many foreign countries with expansive regulatory regimes. Corporations in Nebraska are subject to a combined state and federal tax rate of 40.1 percent, significantly higher than the combined tax levied on companies in Japan (34.54 percent), France (34.4 percent), and Belgium (33.99 percent).

Advocates for the taxation status quo might object that Nebraska's high taxes are essential to pay for the public services necessary for economic development. But spending more does not necessarily mean getting better roads and public education or reducing crime and poverty levels. The taxation that pays for lots of government spending now may actually hamper public revenues for years to come without getting better results.

> "States with smart tax policies often bring in more revenues than states with destructive tax policies. Growth is a very good way to raise revenues…. High spending states do not have better public services than low spending states in general. They simply spend more for the same or often worse outcomes."

Rich States, Poor States provides several accounts of tax reform success stories that could provide a road map for legislators here in Nebraska. One such story comes from North Carolina. In the Tarheel state, legislators passed an "historic tax overhaul" in 2013, flattening the income tax, reducing taxes across all income brackets, and substantially lowering the top marginal income tax rate. The state also eliminated its death tax and lowered its corporate income tax in two steps from 6.9 percent to 5 percent. Reform legislation provided revenue growth triggers that will lower tax rates even further as North Carolina's economy expands. These tax relief measures boosted the state from its uninspiring twenty-second place finish in 2013 to a very competitive sixth place position in overall economic competitiveness for 2014.

As the 2015 Nebraska legislative session approaches, lawmakers should prepare to seize this opportunity to implement real, substantial tax reform in Nebraska. Doing so will promote growth, and "growth is not a zero-sum game — it's a positive sum game with the favorable outcome of more jobs, higher incomes, and more opportunity benefitting all, or at least nearly all. More investment, entrepreneurship, invention, and hard work are positive forces for progress."

The Platte Institute's *Strong Roots Nebraska* plan for tax relief incorporates lessons from the experiences of states like North Carolina to provide a stable platform for future economic growth. Nebraska's neighbors are already among the most attractive states for business development in the country. With a more attractive, pro-growth tax environment for businesses and families, Nebraska could be on that list, too.