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PLATTE CHAT

Tax Foundation: Nebraska's Business Tax Climate Improving

According to the Tax Foundation's 2010 State Business Tax Climate Index, Nebraska is becoming a more business-friendly state, but still has a lot of work to do.

The index, which is available here, shows Nebraska moved from a ranking of 42 last year to 33 in 2010. Tax Foundation staff economist Kail Padgitt, author of the index, pointed to Nebraska finally repealing its generation-skipping tax on property for the improved ranking.

"Thanks to Nebraska, the 2010 index is the first for which a variable has been rendered obsolete. For the past few years, the state had been the lone hold-out maintaining the generational skipping tax - which is levied on bequests of assets to grandchildren," Padgitt said.

Only Iowa, which ranks 46th, has a worse business tax climate than Nebraska, according to the index. South Dakota (1st), Wyoming (2nd), Colorado (13th), Missouri (16th) and Kansas (32nd) all maintained their competitive advantage over Nebraska. If Nebraska continues to make a conscious effort to be more business-friendly with its tax structure, the state could continue to rise in the rankings, according to Padgitt.

“These improvements will help Nebraska be more competitive both regionally and nationally,” he said.

According to the index, Nebraska scored the worst in the area of corporate tax, but its scores in sales tax (17^{th}) and unemployment insurance tax (15^{th}) were among the best in the nation.

“We are pleased that Nebraska’s Business Tax Climate Index ranking moved up to 33 from 42, which is a significant improvement,” John McCollister, Platte Institute for Economic Research’s Executive Director, said. “The Tax Foundation noted that our lower ranking stems from the property tax sub-index component of the index. However, Nebraska’s property tax ranking of 34 is probably in jeopardy because of the recent property tax increase in Omaha.”

New legislation this year, at both the state and local levels, can have a large impact on how Nebraska looks in 2011, the Tax Foundation said. As an example, Oklahoma dropped from 19^{th} in 2009 to 31^{st} in 2010 because many municipalities have local-option sales taxes which are much higher than the national average. This makes local tax policy especially important to Nebraska, since such a significant portion of the state’s population and businesses are located in either Omaha or Lincoln.

According to the index, when assessing which changes to make, lawmakers need to remember these two rules:

1. Taxes matter to business. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency

of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus, a state with lower tax costs will be more attractive to business investment, and more likely to experience economic growth.

2. States do not enact tax changes (increase or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.