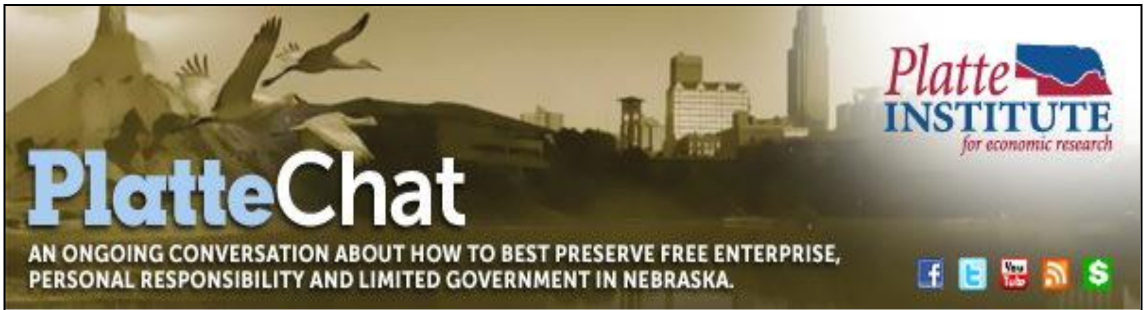


The Corporate Income Tax:
Dulling Nebraska's Competitive Edge
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While there are many measures of how ‘business friendly' a state is, one of the most telling indicators is a state's business tax rate, specifically the corporate income tax rate.

Nebraska has two corporate income tax rates. The lower rate of 5.58 percent applies to businesses that net under $50,000 a year, while the higher 7.81 percent rate applies to businesses netting more than $50,000. Nebraska's corporate tax applies only to money earned in Nebraska, so if it is a multi-state operation, taxes will only be paid on profits made in Nebraska.[1]

Corporate state taxes are paid on top of the federal government's corporate tax rate, which stands at 35 percent, making it the highest corporate income tax in the world.[2]

While 7.81 percent is not extraordinarily high, it does put Nebraska at a regional disadvantage. Among neighboring states, only Iowa has a higher corporate income tax rate. Kansas and Missouri have are at 7 and 6.25 percent, respectively, similar to Nebraska but still lower. Colorado's single flat rate is one of the lowest in the country at 4.63 percent, and South Dakota and Wyoming have no corporate income tax at all,[3] a unique feature shared only with Nevada.[4]

This regional competitiveness issue is underscored by the fact that the Tax Foundation lists Nebraska as 29th for business climate. This is in contrast to two neighboring states that rank in the top ten best business climates: South Dakota at number one, Wyoming at number three. Colorado is respectable at 15th.[5]

While Nebraska has a higher ranking than Iowa or Kansas,[6] to be regionally competitive with neighboring states, a corporate income tax reduction would be a sensible first step. One possible option would be to institute a flat tax-rate of the lower 5.58 percent rate, increasing Nebraska competitiveness.

In addition to hurting businesses and making Nebraska less competitive, the corporate income tax also has an adverse affect on employees, shareholders, and consumers. In reality, corporations do not pay taxes, people do. The costs of a corporate income tax will simply be passed on to those who associate with the business, whether it be stockholders with lower returns, workers with lower wages, or consumers with higher prices.[7] Workers in particular suffer the most from high corporate taxes, as a one percent increase in the corporate tax rate has been shown to correlate to a .8 percent decrease in worker wages.[8] So in keeping a high corporate income tax rate, Nebraska not only hurts its own business climate, but also the stockholders, workers, and customers of all the businesses in the state.

Aside from enhancing business competitiveness and decreasing the costs of doing business, a corporate income tax reduction makes sense because of its decreasing relevance to state revenues. Since 1980, the corporate income tax has been steadily decreasing as a percentage of state tax receipts. Between 1980 and 2001 the corporate income tax as a percentage of state revenue was almost cut in half, from 7 percent to 3.8 percent. It is debatable whether taxing business profits and developing a moderately unhealthy climate for business in a bad economy is worth it when the tax only accounts for 3 percent of state revenues.[9]

For as little money as it brings in, and for as much as it contributes to keeping Nebraska from being a business friendly haven, the corporate income tax rate should be revisited.

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[1] Nebraska Legislature, *Corporate Income Tax*, Accessed July 23, 2011: http://nebraskalegislature.gov/app_rev/source/corpincometax.htm.

[2] Tax Foundation, *National and State Corporate Income Tax Rates, U.S. States and OECD Countries, 2011*. January 14, 2011. Accessed July 27, 2011: http://www.taxfoundation.org/taxdata/show/23034.html.

[3] South Dakota does require banks to pay a six percent tax on income, but it should be noted even this is lower than Nebraska's highest corporate income tax rate. R. Alison Felix, *Do State Corporate Income Taxes Reduce Wages?* Federal Reserve Bank of Kansas City. Accessed July 27, 2011: www.kansascityfed.org/PUBLICAT/ECONREV/pdf/09q2felix.pd

[4] Tax Foundation, *Top State corporate Income Tax Rates as of January 1st, 2011*. Accessed July 15, 2011: http://www.taxfoundation.org/UserFiles/Image/corporaterates.png.

[5] Kail M. Padgitt, *2011 State Business Tax Climate Index*, October 2010 no. 60, 2. Tax Foundation. A pdf of this paper may be found and downloaded here: http://www.taxfoundation.org/research/show/22658.html.

[6] Ibid., 2.

[7] Alison Felix and James R. Hines Jr., *Corporate taxes and union wages*. December

14, 2009. Accessed July 27, 2011: http://www.voxeu.org/index.php?q=node/4363.

[8] Kevin A. Hassett and Aparrna 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.

[9] The Tax Tale: A Fifty-State Comparison. *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.