LB970 Tax Relief Package

Today, the Platte Institute for Economic Research released a study analyzing Governor Dave Heineman's tax relief package LB970.

LB970 will do three things: Lower the top corporate income tax from 7.81 percent to 6.7 percent; eliminate the inheritance tax; lower individual income tax rates and expand the tax brackets.[1]

For a Midwestern state that generally supports low taxes and restrained government spending, Nebraska taxpayers pay an excessive amount of taxes. According to the Tax Foundation, Nebraska has the 15th highest state tax burden in the nation, paying an average of $2,842 per capita to state government, higher than all of the neighboring states.[2]

Nebraska's relatively high corporate income tax puts the Cornhusker State at an immediate disadvantage when competing for businesses and investment. Nebraska has two corporate income tax rates, 7.81 for corporations making over $100,000 and 5.58 percent for corporations making under that amount.[3] The 7.81 percent rate is the highest corporate income tax of all of our neighboring states-with the exception of Iowa. South Dakota and Wyoming, on the other hand, are one of only three states with no corporate income tax at all (the third is Nevada).[4] This high rate underscores the fact that Nebraska is ranked as having only the 30th best business climate in the nation, making us less attractive for potential businesses looking to expand, relocate, or start up, particularly when Wyoming is ranked number one and South Dakota number two.[5]

While corporate income taxes are often thought to be levied on large businesses with massive profits, the fact is that the costs of the corporate income tax are passed down and borne by consumers through higher prices, workers through lower wages, and investors through lower returns. Indeed, the Congressional Budget Office estimates that 70 percent of the corporate income tax is borne by workers through reduced wages, with the other 30 percent largely passed down to consumers and investors.[6] For every $1 the state gains through the corporate income tax, it is estimated that workers lose about $2.50 in potential wages.[7] Reducing the top corporate income tax by 1.11 percent as proposed by LB970 would return about $15.1 million to workers through higher wages in FY2012-2013 alone, an amount that will increase exponentially in subsequent years.[8]

On the inheritance tax, Nebraska is one of only eight states that continues to retain this antiquated tax. Fourteen other states impose estate taxes-although Ohio's will be repealed as of 2013-while Maryland and New Jersey have both an estate and inheritance tax.[9] The individuals who bear the brunt of the inheritance tax are not the super-wealthy, but family farmers, small businesses and investors.

As many of Nebraska's farms are family-owned, the inheritance tax makes passing property from one generation to the next complicated and sometimes impossible. The United States Department of Agriculture estimated the net income of farms is generally higher than that of the normal American household, however, three-fourths that income is in farm-related assets.[10] The result is that many farms end up liable for the inheritance tax due to high income, but have to sell land, equipment, or, in some cases, the entire operation to pay death taxes.

Small business owners face the same challenge as family farmers when it comes to the inheritance tax. Much of their income is tied up in business-related assets, and the result is that they become liable for the inheritance tax and must sell part or perhaps all of the business to pay the tax bill. If the business does survive then it is much less productive with fewer resources to expand or create jobs.

Inheritance taxes also play a role in driving migration out of the state. The Ocean State Policy Research Institute found that death taxes are one of the most significant drivers of out-state migration.[11] This is significant for Nebraska, whose population growth was well below the national average in 2010, growing only 6.7 percent since 2000.[12]

LB970 would also make some relatively minor changes to Nebraska's individual income tax, but any effort allowing taxpayers to keep more of the money they earn is a worthwhile effort. LB970 would expand the tax brackets so more individuals pay less, as well as lower the overall rates. Much of the relief is targeted at middle class families, for example a couple making a combined $54,000 a year would see their taxes decrease by nearly two percent annually.

Along with increased equity in the tax code, reducing personal income taxes would have a great effect on economic growth and attracting people to the state. Data from the 2010 census shows that states with low taxes had the greatest population growth, with the nine states without income taxes leading the way in their respective regions, and seven showing growth well above the national average.[13] These states with low taxes also posted much higher economic growth than those with high taxes, demonstrating how important it low taxes are to growing the state economy.[14]

Furthermore, seven other states are looking to drastically reform and lower their taxes, including several proposals to eliminate personal or corporate income taxes altogether-Kansas is one of the states looking for eliminate its income tax.[15] With other states taking bold steps in their approach to taxes, Nebraska cannot afford to not lower taxes and develop a more business friendly climate this year. If Nebraska does not pass tax reform, it will be left behind in a very uncompetitive and economically disadvantageous position.

LB970 is good public policy and important to Nebraska's long-term economic success, which is why it should be passed.

The full study may be downloaded here.

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[1] Nebraska Legislature, "Legislative Bill 970," January 12, 2012. Accessed January 16, 2012: http://nebraskalegislature.gov/FloorDocs/Current/PDF/Intro/LB970.pdf.

[2] "Nebraska's State and Local Tax Burden, 1977-2009," February 23, 2011. Accessed January 16, 2012: http://www.taxfoundation.org/taxdata/show/466.html.

[3] Nebraska Department of Revenue, *2010 Nebraska Corporate Income Tax Booklet*, p. 8. Accessed January 23, 2012: http://www.revenue.ne.gov/tax/current/f_1120n_inst.pdf .

[4] Tax Foundation, "State Corporate Income Tax Rates, 2000-2011," March 1, 2011. Accessed January 23, 2012:http://www.taxfoundation.org/taxdata/show/230.html.

[5] Mark Robyn, "2012 State Business Tax Climate Index," Tax Foundation Background Paper No. 62, January 25, 2012. Accessed March 8, 2012: http://www.taxfoundation.org/news/show/22658.html.

[6] William C. Randolph, "International Burdens of the Corporate Income Tax," Congressional Budget Office, August 2006. Accessed January 23, 2012: http://www.cbo.gov/ftpdocs/75xx/doc7503/2006-09.pdf.

[7] Robert Carroll, "The Corporate Income Tax and Workers' Wages: New Evidence from the 50 States," Tax Foundation Special Report No. 169, August 2009. Accessed January 23, 2012: http://www.taxfoundation.org/files/sr169.pdf.

[8] Calculations based upon the numbers given by Doug Gibbs, "LB 970 Fiscal Note," Legislative Fiscal Office, February 10, 2012. Accessed March 9, 2012: http://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB970.pdf. The $15.1 million number comes from taking the fiscal impact to the general fund from the corporate income tax cut-$6.052 million in the first year-and estimating how much workers would receive according to the $1:$2.50 ratio estimated by Robert Carroll in "The Corporate Income Tax and Workers' Wages: New Evidence from the 50 States," Tax Foundation Special Report No. 169, August 2009. Accessed January 23, 2012: http://www.taxfoundation.org/files/sr169.pdf.

[9] Joel Michael, "Estate and Inheritance Taxation: Ann Overview of Taxes in the States" in *House Research*, (November 2011). Accessed January 16, 2012:

http://www.house.leg.state.mn.us/hrd/pubs/ss/ssestinh.pdf.

[10] United States Department of Agriculture Economic Research Service, "Farm Household Economics and Well-Being: Assets, Debt, and Wealth," August 31, 2010. Accessed January 16, 2012:http://www.ers.usda.gov/briefing/wellbeing/farmnetworth.htm.

[11] Ocean State Policy Research Institute, "Death Tax Ambush," *Wall Street Journal* Lead Editorial, February 8, 2011. Accessed January 16, 2012:http://online.wsj.com/article/SB10001424052748703960804576120050963075390.html#articleTabs%3Darticle.

[12] United States Census Bureau, "Nebraska QuickFacts." Accessed January 17, 2012: http://quickfacts.census.gov/qfd/states/31000.html.

[13] Barone, December 21, 2010 *Washington Examiner*.

[14] Nick Kasprak, "Monday Map: Top State Marginal Income Tax Rates, as of January 1st, 2012," Tax Foundation, February 27, 2012. Accessed March 8, 2012: http://www.taxfoundation.org/blog/show/28002.html.

[15] *Wall Street Journal*, "The Heartland Tax Rebellion," in *The Wall Street Journal* February 7, 2012. Accessed March 6, 2012: http://online.wsj.com/article/SB10001424052970203889904577200872159113492.html.