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Controlling Spending Makes Tax Cuts Affordable by Jordan Cash

Last week, Governor Dave Heineman and the Legislature's Revenue Committee forwarded a compromise amendment that reduced the tax relief offered in LB970, the Governor's tax relief package. The amendment, AM2391, dropped the provisions to eliminate the inheritance tax and lower the corporate income tax rate. It also made the individual income tax reductions gradual over three years, beginning with reducing and expanding the lower rates and brackets next year, reducing the top rate from 6.84 percent to 6.8 percent in the second year, and then reducing the top rate to 6.7 percent and fully adjusting the brackets in the third year.[\[1\]](#) This slimmed down bill won first round approval from the Legislature yesterday.[\[2\]](#)

The LB970 tax reductions are necessary. And they are, in fact, affordable if Nebraska controls its spending.

If Nebraska wishes to maintain its status as one of the best economies in the nation, we cannot grow government spending, and we should foster further economic development by providing tax relief to middle-class Nebraskans.

Nebraska has weathered the "Great Recession" well for three key reasons: a robust agricultural industry, controlled spending, and the fact that the biggest tax cut in state history was enacted just before the crisis began.

On the spending front, since fiscal year 2007-2008, expenditures from the general fund—the state's primary source of spending and which draws upon income and sales tax revenue—have increased an average of 2.08 percent annually. While not significant by itself, having spending increase by only around 2 percent annually over the past six years is a great achievement, considering that the average for the previous six years was 4.43 percent, and the previous 15 years between FY1991-1992 and FY2006-2007 saw spending increase an average of 5.03 percent annually.[\[3\]](#) The controlled increases in spending since FY2006-2007 provided Nebraska a budget surplus at the end of last year's legislative session.[\[4\]](#) If Nebraska had not lowered spending, and had continued to increase spending at the 15 year average of 5.03 percent, then the state would have spent an additional \$2.167 billion between FY2007-2008 and FY2012-2013, an increase of \$361.17 million a year, more than twice what the Governor's new proposal would cost over three years.[\[5\]](#)

In part due to controlled spending over the past several years, as well as not attempting to raise taxes in response to the recession, Nebraska's economy has continued to grow, with tax receipts exceeding expectations throughout fiscal year 2011 and into fiscal year 2012.[6] The 2007 tax cuts seem to have been perfectly timed, freeing up capital for Nebraska to grow out of the recession faster than most states, as evidenced by a four percent unemployment rate, the second-lowest in the nation.[7]

In the future, Nebraska can do more to control spending. In fiscal year 2010, Nebraska spent \$5,260 for every individual citizen in the state, more than 38 other states and more than our neighbors in Kansas, South Dakota, and Missouri.[8] Nebraska's per capita spending was also just slightly more than the per capita spending of the federal government.[9]

If Nebraska had spent as much per capita in FY2010 as Kansas or South Dakota-states similarly situated to Nebraska-we could have saved \$600 million at Kansas levels and \$1.05 billion at South Dakota spending levels.[10]

Savings of this kind would pay for all of the tax cut provisions introduced this session-both the Governor's and others, such as Sen. Nordquist's bill to exempt Social Security income from the income tax-and would leave room for more tax relief in the future. Nebraska does not have a revenue problem; tax receipts continually exceeded projections. By cutting spending or at least holding it below three percent, the Legislature could provide some much-needed tax relief to the citizens of Nebraska.

[1] Paul Hammel and Martha Stoddard, "Slimmer tax cut plan may get more trims," in *Omaha World Herald*, March 14, 2012. Accessed March 14, 2012: <http://www.omaha.com/article/20120313/NEWS01/703149993>; Nebraska Legislature Revenue Committee, "Amendments to LB 970," March 12, 2012. Accessed March 14, 2012: <http://nebraskalegislature.gov/FloorDocs/Current/PDF/AM/AM2391.pdf>.

[2] Paul Hammel, "Tax cut converts help package pass 1st test," in *Omaha World Herald*, March 20, 2012. Accessed March 21, 2012: <http://www.omaha.com/article/20120320/NEWS01/703209913>.

[3] Calculations by author using information from the Nebraska Legislative Fiscal Office, "State of Nebraska FY2011-12/FY2012-13 Biennial Budget," August 2011. Accessed March 14, 2012: <http://nebraskalegislature.gov/pdf/reports/fiscal/2011budget.pdf>.

[4] Jenniffer Berry, "Nebraska reports surplus in tax revenue," *KHAS-TV*, April 28, 2011. Accessed March 14, 2012: <http://www.khastv.com/news/local/Nebraska-reports-surplus-in-tax-revenue-120906914.html>.

[5] Calculations by author using information from the Nebraska Legislative Fiscal Office, "State of Nebraska FY2011-12/FY2012-13 Biennial Budget," August 2011. Accessed March 15, 2012:

<http://nebraskalegislature.gov/pdf/reports/fiscal/2011budget.pdf>; Governor tax proposal numbers from "Panel advances scaled-back Nebraska tax cut plan," *CBS News*, March 14, 2012. Accessed March 15, 2012: http://www.cbsnews.com/8301-505245_162-57397174/panel-advances-scaled-back-nebraska-tax-cut-plan/.

[6] "Nebraska tax receipts higher than projected," July 11, 2011. Accessed March 14, 2012: http://articles.boston.com/2011-07-11/business/29762040_1_receipts-for-fiscal-year-tax-receipts-recertified; "Nebraska tax receipts up in January," *Lincoln Journal Star*, February 10, 2012. Accessed March 14, 2012: http://journalstar.com/news/state-and-regional/nebraska/nebraska-state-tax-receipts-up-in-january/article_3f3d6cb9-1ea3-5908-93c1-217f6304f845.html; "Net state Tax Receipts in Nebraska Ticked up in December," January 10, 2012. Accessed March 14, 2012: http://www.1011now.com/news/headlines/Net_State_Tax_Receipts_in_Nebraska_Ticked_up_in_December_137050288.html.

[7] "Neb. unemployment improves to 4 percent in January," *CBS* March 13, 2012. Accessed March 14, 2012: http://www.cbsnews.com/8301-505245_162-57396309/neb-unemployment-improves-to-4-percent-in-january/.

[8] Kaiser Family Foundation, "Total State Expenditures per Capita, SFY2010." Accessed February 23, 2012: <http://www.statehealthfacts.org/comparemaptable.jsp?typ=4&ind=32&cat=1&sub=10&sortc=1&o=a>.

The per capita spending of Nebraska and its neighbors:

Nebraska: \$5,260

Iowa: \$5,790

Missouri: \$4,262

Kansas: \$4,923

Colorado: \$6,177

Wyoming: \$13,585

South Dakota: \$4,692

[9] Kaiser Family Foundation, "Total State Expenditures per Capita, SFY2010." Accessed February 23, 2012: <http://www.statehealthfacts.org/comparemaptable.jsp?typ=4&ind=32&cat=1&sub=10&sortc=1&o=a>. The United States spent about \$5,251 per capita in FY2010.

[10] Calculations based upon the per capita spending numbers provided at by the Kaiser Family Foundation, "Total State Expenditures per Capita," and compared to the population numbers compiled by the United States 2010 Census. Kaiser Family Foundation, "Total State Expenditures per Capita, SFY2010." Accessed February 23, 2012: <http://www.statehealthfacts.org/comparemaptable.jsp?typ=4&ind=32&cat=1&sub=10&sortc=1&o=a>; United States Census Bureau, "State & County Quickfacts: Nebraska." Accessed February 23, 2012: <http://quickfacts.census.gov/qfd/states/31000.html>.



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