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Tax Cuts Help Create Tax Equity

As the Legislature's Tax Modernization Commission continues its examination of the state's tax system, it appears there is some disagreement on where the emphasis should be. Governor Dave Heineman has called for lower taxes while Kearney Senator Galen Hadley, Chairman of the Legislative Revenue Committee and leader of the Commission, insists tax cuts are not the goal, but rather "equity" is.[\[1\]](#)

Yet there is no reason why there should be a conflict between the two, as tax cuts contribute to greater equity.

Before delving into how tax cuts can achieve equity, it is important to understand where Nebraska's system currently stands.

Nebraska levies an individual income tax that is divided into four brackets, with the top rate of 6.84 percent levied on annual income over \$27,000 for individuals and \$54,000 for couples, the 16th highest rate in the nation.[\[2\]](#) Among our neighboring states only Iowa has a higher income tax rate. Two neighboring states, South Dakota and Wyoming, do not have income taxes at all, and Kansas recently cut their income tax rate from 6.45 to 4.9 percent.[\[3\]](#) For corporate income taxes Nebraska has two brackets, 5.58 percent for businesses with net income less than \$100,000 and 7.81 percent for net business income over \$100,000, the 19th highest rate in the country.

As with individual income taxes, Nebraska's corporate tax is the highest among the neighboring states with the exception of Iowa. South Dakota and Wyoming do not levy corporate income taxes.[\[4\]](#) Nebraska's 5.5 percent state sales tax ranks slightly better at only the 27th highest in the country and below the national median of 6 percent, but it is still the highest among our neighboring states with the exceptions of Iowa and Kansas, whose rates are 6 and 6.3 percent, respectively.[\[5\]](#)

Finally, the Tax Foundation ranks Nebraska's property tax collections as relatively high, bringing in \$1,487 per person, the 16th highest collection rate in the nation and, with the exception of Wyoming, the highest among our neighboring states.[\[6\]](#) While Nebraska isn't the highest taxed state in the nation, Nebraskans clearly are taxed more than their neighbors in the surrounding states.

While some may insist that the purpose of the Commission is to achieve equity, not lower taxes, this ignores the circumstances under which the Commission was created. It

was formed in direct response to Governor Heineman's call to eliminate the income tax and close sales tax exemptions, actions which would have achieved Senator Hadley's goal of equity. No income tax means every person gets to keep what they earn, regardless of the amount.

Similarly, the closing of certain sales tax exemptions creates equality, as all businesses would be subject to the same levels of taxation as others. As Fremont Senator and Commission member Charlie Janssen recently noted, the current process is "very arbitrary" and tends to favor businesses with good lobbyists.^[7] Eliminating subjective exemptions—such as taxing prepared pizza at Domino's while exempting non-prepared pizza at Papa Murphy's^[8]—would bring equity to the tax system, and end the crony capitalism that helps politically connected businesses instead of those that please the customer.

Cutting taxes and achieving tax equity are not mutually exclusive, indeed, in a tax environment like Nebraska's whose code is filled with high taxes and numerous arbitrary exemptions, tax cutting and achieving equity go hand in hand. Instead of viewing these two goals as mutually exclusive, the Commission should see them as linked and try to achieve both, following the gospel of "low rates, broad base" as the key to success.

[1] Paul Hammel and Martha Stoddard, "Study panel focuses on Nebraska tax 'equity,' not just cuts," *Omaha World Herald*, August 8, 2013. Accessed August 12, 2013, <http://www.omaha.com/article/20130808/NEWS/130809096/1707>.

[2] Tax Foundation, "Nebraska." Accessed August 12, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>.

[3] Tax Foundation, "State Individual Income Tax Rates, 2000-2013," April 1, 2013. Accessed August 12, 2013, http://taxfoundation.org/article_ns/state-individual-income-tax-rates-2000-2013.

[4] Tax Foundation, "State Corporate Income Tax Rates, 2000-2012," March 22, 2013. Accessed August 12, 2013, <http://taxfoundation.org/article/state-corporate-income-tax-rates-2000-2013>.

[5] "State General Sales Tax Rates 2013," March 26, 2013. Accessed August 12, 2013, <http://tinyurl.com/m456fvl>; Tax Foundation, "Nebraska." Accessed August 12, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>.

[6] Tax Foundation, "Nebraska." Accessed August 12, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>; Tax Foundation, "State and Local Property Tax Collections Per Capita by State, Fiscal Year 2009," February 16,

2012. Accessed August 12, 2013, <http://taxfoundation.org/article/state-and-local-property-tax-collections-capita-state-fiscal-year-2009>.

[7] Charlie Janssen qtd. in Deena Winter, "NE gov candidate Janssen doubts tax code overhaul will bring relief," Nebraska Watchdog, August 9, 2013. Accessed August 12, 2013, <http://watchdog.org/100402/janssen-doubts-tax-code-overhaul-will-bring-tax-relief/>.

[8] Deena Winter, "NE gov candidate Janssen doubts tax code overhaul will bring relief," Nebraska Watchdog, August 9, 2013. Accessed August 12, 2013, <http://watchdog.org/100402/janssen-doubts-tax-code-overhaul-will-bring-tax-relief/>.

