State Taxes in the Great Plains

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Outline

• Part 1: Overview of State Revenue Sources and Expenditure Trends

• Part 2: Nebraska Tax Reform Issues

• Part 3: Property Taxes

• Part 4: Issues in Other States
2012 Expenditures Relative to 2002
Expenditures, by State
Colorado Own-Source Revenue, 2012

- Property revenue: 34%
- Sales and gross receipts: 37%
- Individual income: 23%
- Corporate income: 2%
- All other taxes: 4%
Iowa Own-Source Revenue, 2012

- Property: 35%
- Sales and gross receipts: 35%
- Individual income: 24%
- Corporate income: 3%
- All other taxes: 3%
Kansas Own-Source Revenue, 2012

- Property: 32%
- Sales and gross receipts: 39%
- Individual income: 23%
- Corporate income: 3%
- All other taxes: 3%
Nebraska Own-Source Revenue, 2012

- Property: 37%
- Sales and gross receipts: 32%
- Individual income: 23%
- Corporate income: 3%
- All other taxes: 5%
South Dakota Own-Source Revenue, 2012

- Property: 36%
- Sales and gross receipts: 54%
- Corporate income: 2%
- Individual income: 0%
- All other taxes: 8%

South Dakota
Wyoming Own-Source Revenue, 2012

- Property: 35%
- Sales and gross receipts: 36%
- All other taxes: 29%
- Corporate income: 0%
- Individual income: 0%
North Dakota Own-Source Revenue, 2012

- All other taxes: 51%
- Sales and gross receipts: 27%
- Corporate income: 3%
- Individual income: 7%
- Property: 12%

North Dakota
Texas Own-Source Revenue, 2012

- Property: 42%
- Sales and gross receipts: 48%
- All other taxes: 10%
- Corporate income: 0%
- Individual income: 0%
Part 2: Tax Reform
Tax Reform

- Four Principles of Tax Reform
  - 1) reduce sales tax exemptions for household goods and services,
  - 2) reduce taxes most for the most mobile productive resources,
  - 3) tax consumption more and production less, and
  - 4) levy taxes at the level of government that provides productive public services.
Tax Reform

• Reduce marginal income tax rates. Principles 2) and 3)

• Broaden the sales tax base on consumer goods and services. Principle 1)

• Eliminate the Real Property Tax Credit. Principle 2) and 4)
Tax Reform

• There are only a handful of consumer sales tax exemptions that could bring substantial revenue
  – Food (unprepared)
  – Prescription medicine
  – Gasoline
  – Health care services
  – Tuition paid to post-secondary institutions
Example 1

• Cut and Simplify Income Tax Rates
  – 2 Personal Income Rates: 2.5% and 5.5% (-$402M)
  – Corporate Income Tax Rates: 3.0% and 5.5% (-$57M)

• Broaden the Sales Tax Base
  – Sales Taxes on Personal Services and Repair Labor (+$89M)
  – Sales tax on food (unprepared) (+$129M)
  – Sales tax on prescription medicine and medical equipment (+$125M)

• Eliminate the Real Property Tax Credit (+$115M)
Example 2

• Cut Income Tax Rates
  – Personal Income Rates: 2.5%, 3.0%, 3.5% and 5.5% (-$283M)
  – Corporate Income Tax Rates: 3.0% and 5.5% (-$57M)

• Broaden the Sales Tax Base
  – Sales Taxes on Personal Services and Repair Labor (+$89M)
  – Sales tax on food (unprepared) (+$129M)

• Eliminate the Real Property Tax Credit (+$115M)
Nebraska Also Has Tax Cuts

• “The Nebraska Budget Cycle”

• In recent decades in Nebraska,
  – We cut spending during economic recessions to balance the budget
  – We cut taxes during economic expansions as budget surpluses grow
Kansas 2012 Tax Law

• Tax “Reform” Not Revenue Neutral and without Spending Cuts
• 2012 Tax Cut – Cut tax rates and deductions without broadening the tax base
  – 2 income tax rates (3% and 4.9%)
  – Eliminated tax on pass through entities – proprietorships, partnership, LLCs and S-corporations
Kansas 2012 Tax Law

• $800 million annual reduction in revenue – tax cuts generally will not *fully* fund themselves

• Kansas had no plan on spending cuts, or priorities about what to cut

• Cuts addressed later. According to the Center on Budget and Policy Priorities
  – Cuts in per pupil school aid
    • 15% to 20% below pre-recession levels
  – Other cuts: higher education, health
Kansas 2013 Revision

• Further reduction (over time) in income tax rates - 2.3% and 3.9%

• Income tax base broadening introduced
  – steadily reduced value of deductions

• Canceled most of a planned reduction in the state sales tax rate

• Restored $300 million in year 1 and $200 million in year 2; but ultimately revenue neutral
Colorado

- Taxes include:
  - 2.9% retail and medical marijuana sales tax
  - 10% retail marijuana special sales tax
  - 15% marijuana excise tax
  - Retail and medical marijuana application and license fees
- FY 2014-15 Total marijuana taxes, licenses and fees $52.6 million
- May require rebate under TABOR
Part 3: Property Taxes
North Dakota

- North Dakota early on worked to develop a revenue portfolio which was not dependent on oil revenue
- However, ultimately the state has become fairly dependent
North Dakota

- The original proposal was to place all oil and gas revenue above $100 million per year in a Legacy Fund.
- The compromise was to earmark 30% of oil extraction and production taxes go to LEGACY FUND.
- Fund can be spent after 2017, with permission of super-majority of the state legislature.
North Dakota

• With just 30% going to the LEGACY FUND,
  – a 50% reduction in oil prices means a 35% reduction in annual oil tax revenue to the general fund

• The state, however, also has run large budget surpluses, stored in a rainy day fund
Property Tax Policy Ideas

• Nebraska’s property tax system with assessments based on market value is exemplary.
  – This provides for a fair and efficient tax system and should not be changed.

• Nebraska’s property tax system is classified
  – Agricultural property is assessed at 75% of market value
  – Other property is assessed at 100% of market value, including residential, commercial, and industrial property
  – Any reduction in the agricultural assessment ratio will shift the property tax burden to other property owners
Property Tax Policy Ideas

- If a new state mechanism for property tax relief is desired, the state should consider consolidating its current $66 million expenditure for the Homestead Exemption program and its $140 million expenditure for general property tax relief into a new circuit breaker program that provides targeted tax relief.
  - Tax relief would be provided to any taxpayer whose property tax bill is high relative to the income of the taxpayer (measured broadly).
  - Tax relief could be delivered in the form of a refundable credit on the state income tax.
Property Tax Policy Ideas

- If experimentation in property tax reform is desired, a state program should be considered that permits local communities to implement a graded tax system, with land tax rate higher than the improvements tax rate (or a land value tax with zero tax on improvements) on a pilot program basis.
Thank You

Any Questions?