Tax Modernization in Nebraska

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Outline

• Economics of Tax Modernization

• Tax Modernization Strategy

• Examples of Tax Modernization Approaches
Economics of Tax Modernization

- Four Principles of Tax Modernization
  - 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 Modernization Strategy

- 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)
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

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)

2. **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)

3. **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)**