UNL News

Vol. 58 No. 16 February, 1979

Business in Nebraska

Published once in June and July, twice in May, Aug., Oct., Nov., and Dec., and 3 times in Jan., Feb., Mar., April, and Sept. by the University of Nebraska–Lincoln, Dept. of Publications Services & Control, 209 Nebraska Hall, Lincoln, NE 68588. Second-class postage paid Lincoln, Nebraska.

Prepared by the Bureau of Business Research College of Business Administration

THE KEMP-ROTH BILL AND ITS EFFECTS UPON NEBRASKA

During the last session of Congress, Representative Jack Kemp, R-N.Y., and Senator William Roth, R-Del., introduced a bill calling for major cuts in personal income taxes, as well as relatively modest cuts in corporate income taxes. Although the bill was defeated in both houses of Congress, it has been introduced once again and promises to stir as much, if not more, debate in the current session. Even if the Kemp-Roth bill does not advance through Congress in its present form, amended or somewhat diluted versions (perhaps in the spirit of the Nunn Amendment introduced toward the end of the last session) could still be passed. Economists and other analysts have attempted to examine the impacts of the Kemp-Roth bill upon the national economy. Even so, it is equally important for us to consider the effect of such tax reductions upon the Nebraska economy.

Before addressing the nature of those effects, it is useful to review the tax cuts contained in the Kemp-Roth bill and its rationale. The important aspects concerning taxation in the bill are:

1. Reduce personal income tax rates by approximately 33 percent over a three-year period, with the rates being reduced equally in each of the three years.
2. Reduce the maximum corporate income tax rate by 1 percent for each of the next three years, from 48 percent to 45 percent overall.
3. Reduce the percentage rates applied to base earnings under the corporate income tax.

These cuts are far more drastic than those signed into law in late 1978 and it can be safely assumed that their effects would be a great deal stronger. Specific rates under Kemp-Roth for each bracket of the personal income tax schedule can be viewed in Table 1. For comparison, the table lists the schedule existing prior to the late 1978 reductions.

PROS AND CONS

Proponents of the bill (or tax cuts of similar magnitude) point to the large tax burden imposed upon the economy by the existing rate structure. Federal revenues in 1977 stood at 19.8 percent of Gross National Product (GNP). A government estimate shows that if present tax rates remain in effect over the next few years, federal revenues will be at a level that is roughly 22 percent of GNP in 1983. Since federal spending has persistently resulted in budget deficits, the proportion of GNP accounted for by the public sector would also expand. At least one culprit can be identified as a cause of the growing tax burden: inflation, and, more specifically, inflation coupled with progressive rates in the personal income tax schedules. It is no secret that inflation results in the movement of individuals upward through the tax brackets. With a progressive rate structure, extra income is taxed more heavily than previous income. While after-tax income in current dollars will increase as before-tax income does, the real purchasing power of the after-tax income may actually decline. In essence, if existing tax rates remain in effect over time, a taxpayer may realize a net loss in purchasing power even if his/her dollar income shows increases equal to the rate of inflation. The example in Table 2 (p. 2) illustrates this effect. There it is assumed that prices will double over the next twelve years (they doubled during the last twelve years) and that the income of a hypothetical individual matches these price increases, thereby keeping his/her real before-tax income (purchasing power) constant. (Continued on page 2)

Table 1
FEDERAL PERSONAL INCOME TAX RATE SCHEDULES

Over-	But not over-	1978*	Kemp-Roth (1978 version)
$3,200	$4,200	14%	8%
$4,200	$5,200	$140+15%	$80+9%
$5,200	$6,200	$290+16%	$170+10%
$6,200	$7,200	$450+17%	$270+11%
$7,200	$11,200	$620+19%	$380+13%
$11,200	$15,200	$1,380+22%	$900+15%
$15,200	$19,200	$2,260+25%	$1,500+17%
$19,200	$23,200	$3,260+28%	$2,180+19%
$23,200	$27,200	$4,380+32%	$2,940+21%
$27,200	$31,200	$5,660+36%	$3,780+24%
$31,200	$35,200	$7,100+39%	$4,790+27%
$35,200	$39,200	$8,600+42%	$5,820+29%
$39,200	$43,200	$10,340+45%	$6,980+31%
$43,200	$47,200	$12,140+48%	$8,220+33%
$47,200	$55,200	$14,060+50%	$9,540+35%
$55,200	$67,200	$18,060+53%	$12,340+36%
$67,200	$79,200	$24,420+55%	$16,660+37%
$79,200	$91,200	$31,020+58%	$21.100+40%
$91,200	$103,200	$37,980+60%	$25,900+42%
$103,200	$123,200	$45,180+62%	$30,940+44%
$123,200	$143,200	$57,580+64%	$39,740+46%
$143,200	$163,200	$70,380+66%	$48,940+47%
$163,200	$183,200	$83,580+68%	$58,340+48%
$183,200	$203,200	$97,180+69%	$67,940+49%
$203,200	---	$110,980+70%	$77,740+50%

*Figures refer to "Married Filing Joint Returns and Qualifying Widows and Widowers" and represent the tax structure in effect prior to the modest cuts passed in late 1978.

(Continued from page 1) The rate structure for 1978 given in Table 1 is used to calculate the personal income tax liability for the years 1978, 1984, and 1990.

When examining Table 2, attention should be focused upon real income, real taxes, and real after-tax income. The current dollar magnitudes are only an illusion, since the real value (purchasing power) of income indicates the ability to purchase goods and services. Real values are obtained by dividing the current dollar magnitudes by the price level. Under the assumptions in this example, the hypothetical taxpayer is worse off at the end of the twelve-year period even though his/her current dollar income has kept pace with the rate of inflation. It should also be noted that state personal income taxes which are based upon a percentage rate of federal taxes will contribute to this effect. In essence, taxpayers are given a "second exposure" to the progressive federal tax structure.

One obvious approach to lessening the severity of this effect is to cut tax rates over time, thereby preventing erosion of real after-tax incomes. However, this approach does not necessarily offer support to the Kemp-Roth bill, since the cuts it prescribes are so large. Proponents continue by arguing that saving and investment are currently too low to support long-term economic growth at high levels. They point to the current tax system as one of the causes. If taxes were lowered, after-tax income would increase, encouraging more saving. Investment would then be stimulated and productivity of the labor force would increase. With productivity at higher levels, the possible inflationary impacts of the tax cuts would be diluted. The incentive for workers to become more productive is obvious from the fact that they would retain a greater portion of extra income earned under the lower rates. In sum, proponents of the bill view it as a fundamental shift in tax policy by making taxes as a share of economic activity (GNP) decrease. When viewed in that context, the bill is consistent with the recent public attitudes toward taxation that have surfaced, as evidenced by California's Proposition 13 and, closer to home, the various "lid bills" in Nebraska.

Opponents of Kemp-Roth do not object to the concept of tax reduction, but rather are concerned with the sizes of the cuts contained in the bill. Three of their concerns deserve mention. First, it is argued that massive cuts in taxes would provide too large a fiscal stimulus to the economy. By increasing after-tax incomes, spending would increase substantially, while additions to productive capacity in the economy would lag behind. Inflation could worsen as a result.

Second, can we afford tax cuts of the size specified in the Kemp-Roth bill? With federal receipts dropping due to the bill and federal expenditures maintaining their current or anticipated levels, a larger federal deficit would immediately result. The government would then be forced to find alternative forms of financing for this shortfall, mainly the sale of government bonds or the printing of money. The latter is definitely inflationary but would be, from the government's point of view, extremely convenient. This argument that the budget deficit would soar must be judged in terms of a longer period of time. Little doubt exists that the deficit would expand immediately after the cut. However, expansion of the economy and personal incomes over time will also make the tax base grow. The federal tax revenues which would be generated by applying the lower rate structure to the larger tax base could eventually equal the revenue gained by the existing rate structure. In essence, tax cuts need not imply continued lost revenues. Of course, the matter of timing is important here. Minor tax reductions will involve shorter periods of time to make up the revenue lost initially. Under Kemp-Roth, more time—perhaps as much as five years—would be needed for the tax base to expand sufficiently.

The third area of objection to Kemp-Roth deals with the issue of equity and income distribution. Specifically, if personal income tax rates are reduced across the board, won't high-income persons

Table 2

EFFECT OF INFLATION UPON FEDERAL PERSONAL INCOME TAXES

Year	Price Level	Dollar Income	Dollar Tax	Real Income	Real Tax	Real After-Tax Income
1978	1.0	$20,000	$3,484	$20,000	$3,484	$16,516
1984	1.5	$30,000	$6,668	$20,000	$4,445	$15,555
1990	2.0	$40,000	$10,700	$20,000	$5,350	$14,650

Table 3

FEDERAL INCOME TAXES PAID BY UPPER-INCOME BRACKETS*

	1961	1962	1963	1964	1965	1966
Maximum Tax Rate	91%	91%	91%	77%	70%	70%
Level of Adjusted Gross Income						
$100,000 - $500,000	$1,970	$1,740	$1,890	$2,220	$2,752	$3,176
$500,000 - $1,000,000	$297	$243	$243	$306	$408	$457
Over $1,000,000	$342	$311	$326	$427	$603	$590

*All tax figures are in millions.

Source: *Statistics of Income,* Internal Revenue Service, various issues.

benefit at the expense of low- and middle-income persons? Perhaps some light can be shed upon this question by examining the taxes paid in the upper-income brackets prior to and after the Kennedy-Johnson tax cuts in 1964. Table 3 contains this information. The figures show that tax revenues from these brackets increased after rates were reduced, an effect which does not support arguments of more severe tax inequalities. Though Kemp-Roth contains somewhat larger reductions than the Kennedy-Johnson package, it is fairly safe to assume a similar outcome after allowing a somewhat longer period of time.

EFFECTS UPON NEBRASKA

Over the past several months, the Bureau has taken initial steps toward expanding its capabilities in forecasting movements of the Nebraska economy. A pilot study has resulted in forecasts of selected components of the state economy for 1979. In addition to producing "standard" forecasts of state activity, the forecasting model has the capability of examining the effects of major policy changes, such as Kemp-Roth. Unfortunately, space precludes a discussion of the methodology.

At the present time, no one can be sure if or when a Kemp-Roth-type tax bill will be passed. However, to gain insight into its potential effects upon Nebraska's economy, we *assumed* that the bill was enacted in 1978 and took effect on January 1, 1979. The

(Continued on page 6)

Table 4

NEBRASKA ECONOMIC FORECASTS:
STANDARD AND KEMP-ROTH

	78.4	79.1	79.2	79.3	79.4	Growth Rate
Real Gross State Product-Total (millions of 1972 dollars, S.A.*)						
Standard	2,597.8	2,607.4	2,603.8	2,624.8	2,642.0	1.7%
Kemp-Roth	2,597.8	2,643.2	2,632.4	2,653.4	2,664.4	2.6%
Real Gross State Product-Agri. (millions of 1972 dollars, S.A.)						
Standard	389.1	384.1	368.2	375.6	378.2	-2.8%
Kemp-Roth	389.1	419.7	394.8	400.9	395.1	1.5%
Real Gross State Product-Manu. (millions of 1972 dollars, S.A.)						
Standard	412.8	417.0	419.9	423.0	426.3	3.3%
Kemp-Roth	412.8	417.0	420.8	424.0	428.3	3.8%
Personal Income (billions of current dollars, S.A.)						
Standard	12.0	12.2	12.4	12.7	12.9	7.5%
Kemp-Roth	12.0	12.2	12.5	12.7	13.0	8.3%
Unemployment Rate, S.A.						
Standard	3.0	2.9	2.9	2.9	3.0	---
Kemp-Roth	3.0	2.9	2.8	2.8	2.9	---
Net Taxable Retail Sales (billions of current dollars, N.S.A.**)						
Standard	2.088	1.988	2.160	2.204	2.256	8.0%
Kemp-Roth	2.088	1.991	2.171	2.219	2.274	8.9%
Sales Tax Revenue (millions of current dollars, N.S.A.)						
Standard	62.7	59.7	64.8	66.1	67.7	8.0%
Kemp-Roth	62.7	59.7	65.1	66.6	68.2	8.9%
State Personal Income Taxes (millions of current dollars, S.A.)						
Standard	57.7	64.6	66.1	67.3	68.7	19.1%
Kemp-Roth	57.7	64.4	65.0	66.0	67.3	16.6%
Total Housing Starts (thousands of units, S.A.)						
Standard	12.0	11.4	11.2	11.9	12.9	7.5%
Kemp-Roth	12.0	11.3	11.1	11.7	12.8	6.7%

*S.A. - Seasonally adjusted.
**N.S.A. - Not seasonally adjusted.

Review and Outlook

Real output in Nebraska rose slightly in October, with the physical volume index for the state registering an increase of 0.1 percent during the month. This was the third consecutive monthly rise in the index and marked the fifth increase in real output during the first ten months of the year. The value of the index was 42.0 percent above its 1967 base-period level (see Table 2).[1]

On a year-to-date basis, the Nebraska economy has recorded moderate improvement compared to last year. For the January-to-October period, physical output was 1.1 percent above the level for the same period in 1977. This compares to a 3.8 percent year-to-date growth in the U.S. physical volume index.

The October increase in real output in the state resulted primarily from a sizable increase in output in the volatile agricultural sector, where the level of activity was up 10.7 percent. While nonagricultural physical volume fell 1.3 percent, one of the four sectors experienced an increase during October. Manufacturing output was up 0.8 percent. The remaining nonagricultural sectors and their September-to-October declines were: construction, −1.7 percent; distributive, −1.7 percent; and government, −2.0 percent.

The index of state agricultural output increased for the third consecutive month. The dollar volume (Continued on page 5)

[1] Downward revisions in manufacturing and government sector output for September resulted in a drop in the value of the index to 141.9. Initially the index was reported to have a value of 142.0.

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

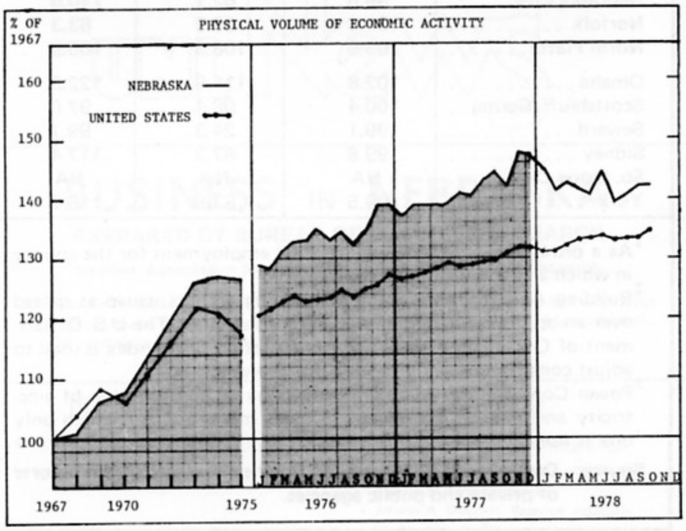
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

October, 1978	Current Month as Percent of Same Month Previous Year		1978 Year to Date as Percent of 1977 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	111.9	112.8	109.7	111.4
Agricultural	121.6	128.9	113.6	111.3
Nonagricultural	110.4	112.3	109.1	111.4
Construction	112.8	117.7	109.5	115.8
Manufacturing	120.9	114.1	113.9	111.8
Distributive	108.4	112.3	108.4	111.8
Government	102.4	106.8	104.5	107.8
Physical Volume	100.7	103.6	101.1	103.8
Agricultural	94.4	105.1	96.2	98.3
Nonagricultural	101.7	103.6	101.9	104.0
Construction	101.6	106.0	98.9	104.5
Manufacturing	110.1	105.1	105.8	104.4
Distributive	99.5	103.2	100.9	104.1
Government	99.2	101.6	101.2	102.9

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	293.4	273.8
Agricultural	277.4	265.2
Nonagricultural	296.2	274.1
Construction	321.9	259.3
Manufacturing	338.1	263.9
Distributive	286.7	283.5
Government	267.3	265.1
Physical Volume	142.0	134.4
Agricultural	129.0	122.2
Nonagricultural	144.3	134.8
Construction	133.6	107.6
Manufacturing	158.4	125.9
Distributive	142.7	141.1
Government	134.9	139.9

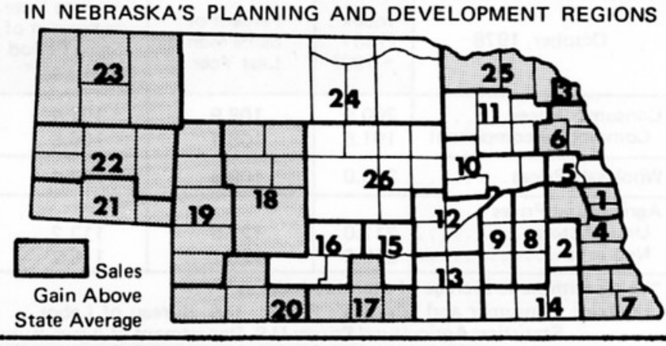


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)

Region Number[1] and City	City Sales[2] Oct. 1978 as percent of Oct. 1977	Sales in Region[2] Oct. 1978 as percent of Oct. 1977	Sales in Region[2] Year to date'78 as percent of Year to date'77
The State	106.8	107.7	103.0
1 Omaha	105.5	105.6	104.9
Bellevue	98.7		
2 Lincoln	99.0	100.1	98.9
3 So. Sioux City	102.4	119.4	109.0
4 Nebraska City	101.1	116.6	111.1
5 Fremont	104.4	110.8	102.7
Blair	120.9		
6 West Point	100.8	112.4	107.2
7 Falls City	108.0	107.5	104.3
8 Seward	111.2	108.6	98.3
9 York	113.3	120.6	96.7
10 Columbus	116.1	113.7	102.5
11 Norfolk	105.7	108.3	101.6
12 Grand Island	101.3	105.1	102.3
13 Hastings	114.1	112.9	100.0
14 Beatrice	112.4	119.9	102.1
Fairbury	108.9		
15 Kearney	107.7	111.7	99.4
16 Lexington	110.8	105.5	96.9
17 Holdrege	110.0	109.5	105.3
18 North Platte	110.8	110.0	104.4
19 Ogallala	98.9	101.9	105.7
20 McCook	100.1	100.0	103.5
21 Sidney	101.3	104.8	108.1
Kimball	94.1		
22 Scottsbluff/Gering	112.4	114.4	106.1
23 Alliance	109.5	111.1	112.5
Chadron	114.3		
24 O'Neill	108.1	113.3	96.7
25 Hartington	115.1	106.8	104.7
26 Broken Bow	116.1	119.4	100.9

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1978 YEAR TO DATE AS PERCENT OF 1977 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(Continued from page 4) of Nebraska cash farm marketings was $539.0 million in October, the highest level ever reported. Usually sales of farm products are high in October and are about 19 percent above that of a typical month. Cash farm marketings corrected for these seasonal influences, however, also rose sharply. In October they were $452.6 million, up nearly $100 million from the previous month. This increase reflects both an increase in prices and a greater quantity of commodities marketed. Seasonally adjusted prices received by Nebraska farmers were 5.9 percent above their September level and were 28.7 percent above the level of October, 1976.

Manufacturing is the only sector of the state economy which has been consistently strong throughout the first ten months of 1978. October's increase was the eighth monthly increase during the year. The growth in manufacturing output has been accompanied by increases in employment, as the level of employment in October was 4.0 percent above that of October, 1977.

Although strong earlier in the year, construction sector activity in October fell for the third time in the last four months. Nonbuilding construction increased during the month, but was insufficient to offset losses in residential and nonresidential construction. Nebraska cities also experienced depressed levels of construction activity, with only ten of the twenty-five reporting cities registering gains compared to October, 1977. Sizable gains in price-adjusted building activity were reported by Broken Bow, Lincoln, and Alliance (see Table 4).

Recent declines in the index of Nebraska government activity have also been accompanied by a lower level of employment. Seasonally adjusted government employment in the state was 124,400 in October, down 1.7 percent from September and down 0.8 percent from the previous year. Since October, 1977, federal government employment increased 2.2 percent, but the increase was offset by declines in state and local government employment of 2.3 percent and 0.8 percent, respectively.

The reduction in activity in the distributive sector in October did not result in a lower level of employment. Seasonally adjusted employment levels were 0.5 percent higher compared to September and 2.7 percent higher compared to October, 1977.

The city business indexes for October indicate an underlying strength in the Nebraska economy, with twenty of the twenty-five reporting cities registering gains in economic activity relative to October, 1977. Nebraska cities experienced gains in all four components of the city business index. Alliance posted the largest gain, with an increase of 16.2 percent. Other cities with sizable October-to-October increases in business activity were: Broken Bow, Omaha, York, Blair, Hastings, Chadron, and North Platte.

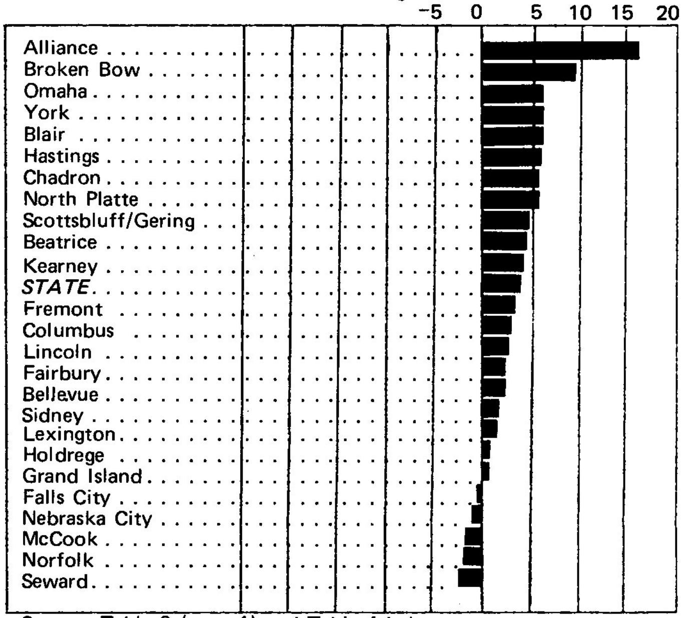
J. A. D.

5. PRICE INDEXES

October, 1978	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	200.9	108.9	107.4
Commodity component	191.8	108.4	106.8
Wholesale Prices	215.0	109.5	107.4
Agricultural Prices			
United States	217.0	122.6	113.2
Nebraska	215.0	128.7	118.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

CITY BUSINESS INDEXES
Percent Change Oct. 1977 to Oct. 1978



Source: Table 3 (page 4) and Table 4 below.

4. OCTOBER CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	100.9	105.1	105.4
Alliance	122.0	140.2	121.0
Beatrice	100.6	73.8	104.8
Bellevue	102.8	126.3	105.9*
Blair	97.0	65.0	106.8
Broken Bow	98.3	176.9	113.0
Chadron	94.2	98.0	119.7
Columbus	93.4	79.5	98.1
Fairbury	98.9	71.7	105.7*
Falls City	99.4	52.0	97.1
Fremont	100.9	132.1	98.5*
Grand Island	100.4	131.0	84.9
Hastings	100.1	130.9	88.3
Holdrege	99.7	58.7	89.1
Kearney	99.1	128.7	103.9
Lexington	100.7	46.3	101.8
Lincoln	102.8	153.9	99.5
McCook	100.2	61.3	107.4
Nebraska City	99.6	62.7	110.9
Norfolk	101.0	56.9	83.3
North Platte	99.9	108.9	105.9
Omaha	102.8	111.9	122.3
Scottsbluff/Gering	100.4	98.4	97.0
Seward	99.1	24.3	99.7
Sidney	99.8	87.3	117.4
So. Sioux City	NA	NA	NA
York	99.5	83.8	116.7

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(Continued from page 3)

tax cuts were then integrated into the model for simulation of its hypothetical effects during 1979. If the bill is passed during 1979 or at a later date, the effects in succeeding years would no doubt be somewhat different. Even so, the present analysis gives us valuable information. For convenience, the forecasts derived assuming the Kemp-Roth is in effect are accompanied by the standard forecasts in Table 4 (p. 3). Growth rates are computed over the fourth quarter of 1978 through the fourth quarter of 1979.

Examination of Table 4 indicates that the Kemp-Roth bill would have a positive influence upon the growth rate of most major components of state activity. The growth rate of real gross state product (the state analog to GNP at the national level) would increase from 1.7 percent to 2.6 percent due to Kemp-Roth. This suggests that gains in industrial and agricultural activity would not be absorbed by the higher inflation rates which some observers anticipate under Kemp-Roth. In the individual sectors of Nebraska's economy, a major gain, in contrast with the standard forecast, would be posted by the real GSP of the agricultural sector. This is due to the increase in disposable (after tax) personal income at the national level which would result from a sizable tax cut. In general, all sectors of the Nebraska economy would post gains in their real GSP as a result of Kemp-Roth, with agriculture having the largest absolute increase when compared to the standard situation. Personal income for Nebraska would also show a higher growth rate, although the increase over the standard forecast is not of a large magnitude. With the increases in activity and spending in the state economy due to Kemp-Roth, the unemployment rate would be expected to decline below its standard forecast value. The forecast bears this out, as seen by the decline in the employment rate in the second and third quarters of 1979 to 2.8 percent and having a value of 2.9 percent in the fourth quarter of 1979. This effect is in line with the views of the proponents of Kemp-Roth. However, even proponents usually concede that the inflation rate might increase initially due to the bill. If that is the case, interest rates could be expected to remain at high levels during the initial three years of the bill's effective cuts. Construction activity, and particularly housing, could be negatively influenced as a result. The forecasts confirm this effect, with total housing starts showing values over 1979 less than those anticipated in the standard forecast. Proponents argue that adverse influences upon the inflation rate from the bill would eventually diminish. One private forecasting firm has presented figures showing that the rate of inflation would actually be below its value in the standard forecast by 1983.

Higher levels of personal income resulting from enactment of Kemp-Roth would provide a positive stimulus to the level of retail sales and tax revenues collected from those sales. The simulation of the bill's impact demonstrates this effect, with the retail sales aggregate increasing at 8.9 percent over 1979 versus the 8.0 percent increase anticipated in the absence of the bill, that is, in the standard forecast. Sales tax revenues would also show an 8.9 percent increase over 1979, since a constant percentage tax rate is applied to the retail sales total. When anticipating the effects upon personal income tax revenues, the analysis is slightly different because the federal tax rates are being cut directly. As shown by the figures in the standard forecast, cuts in the federal tax rates do not imply continued loss in revenues. The standard forecasts were made taking into account the recent tax cut legislated by the Congress and passed by the president to take effect January 1, 1979. Kemp-Roth implies cuts in the tax rates that are much larger. As a result, it may take longer for the resulting increases in personal income and the taxes collected upon that income total to make up the initial difference caused by the decline in the tax rate. The forecasts under the Kemp-Roth bill confirm this effect. The growth rate in state personal income tax revenues under Kemp-Roth would be 16.6 percent versus the 19.1 percent in the standard situation. The difference in the actual collection total is not great, however, as can be seen in the tables. For the fourth quarter of 1979, the anticipated decline in seasonally adjusted state personal income tax revenues would be only 1.4 million dollars due to Kemp-Roth. As we look beyond 1979, while assuming Kemp-Roth, the eventual revenue collections from the personal income tax could become equal to or greater than collections in the standard situation, that is, in the absence of Kemp-Roth.

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UNL News

BUSINESS IN NEBRASKA

PREPARED BY BUREAU OF BUSINESS RESEARCH

Member, Association for University Business & Economic Research

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No. 413

February, 1979

Publications Services & Control
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Nebraska Hall—City Campus 5U
Lincoln, Nebraska 68588