

One Hundred Fifth Legislature - First Session - 2017

Introducer's Statement of Intent

LB374

Chairperson: Senator Jim Smith

Committee: Revenue

Date of Hearing: March 15, 2017

The following constitutes the reasons for this bill and the purposes which are sought to be accomplished thereby:

Income distributed to a shareholder of a corporation is subject to a double income tax. The tax rates are high. A corporation's income can be taxed at the federal level at 34% and at 7.81% at the state level. After imposition of the corporate tax only \$ 0.5819 is left out of every dollar earned.

When \$ 0.58 is distributed as a "qualified" dividend it is generally taxed at the federal level at between 15% and 20% and at 6.84% at the Nebraska level. Thus, about \$ 0.42 of the dollar is left. The situation is even worse when distributed to a shareholder as a "non-qualifying dividend", taxed at 35% at the federal level and at 6.84% at the Nebraska level. Thus, only about 1/3 of a non-qualified dividend is left as spendable return on capital. Such high taxation has created problems at both the state and national level.

Recognizing the short comings of the Nebraska corporate income tax, Nebraska has devised many "incentive" programs to functionally reduce or eliminate the state corporate tax to incent investment in the Nebraska economy on a highly discriminatory basis. The incentive programs are cumbersome, hard to administer, and simply not fair to many long standing businesses. A hundred jobs produced by a single employer are highly incented but 100 similar or better jobs produced 3 at a time by 34 employers are taken for granted. LB374 substitutes its simple and easily administered program for the complex, discriminatory, and highly questionable performance of the Nebraska Advantage Act. LB374 is designed to dovetail with expected federal reductions in the corporate tax rate and allows existing businesses to reorganize as C-corporations qualifying under its provisions.

LB374 combines the need to reduce or eliminate the state corporate tax with a new simple approach to corporate incentives. It proposes the corporation be issued a credit equal to the corporate tax paid. Recognizing that the underlying corporate income was the fruit of both labor and capital, it then instructs that half of the credit be distributed to the corporation's employees and half to its shareholders. The credits distributed to the shareholders or employees who have no Nebraska income tax are not usable and have no fiscal impact. The credits distributed to Nebraska employees or shareholders are direct returns on their contributions and offset their taxes. Thus, all corporations are incented to build their Nebraska employment base and investors are encouraged to invest in income generation sourced in Nebraska. Corporations incented by existing incentives cannot participate unless they forego their existing incentives.

The purpose of LB374 is to incent Nebraska employment, investments in Nebraska, in a fair and broad way and to reduce the burden of our current, near confiscatory, layers of corporate tax.

Principal Introducer: _____

Senator Paul Schumacher