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**Capitol View
*Commentary by J.L. Schmidt***

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**Who Benefits the Most from Income Tax Rate Cuts?**

It has been said “the rich get richer, and the poor get poorer.”

That aphorism (a pithy observation that contains a general truth) is attributed to British poet and author Percy Bysshe Shelley in 1840. It has been heard in more than one iteration during the debate on a major income tax cut bill (LB939) currently before lawmakers

The measure, introduced by Elkhorn Sen. Lou Ann Linehan, would cut Nebraska’s top individual income tax rate in three steps, from the current 6.84 percent to 5.84 percent by tax year 2025.

The rate applies to taxable income of $29,000 and over for individuals and $58,000 and over for those who are married filing jointly.

She said it would help attract workers and businesses and provide a tax cut to middle class Nebraskans at a time when the state is collecting hundreds of millions of dollars more in revenue than is necessary to fund its operations. “We need to send it back to the people,” she said. The state Department of Revenue estimates the bill would reduce general fund revenue by $61.7 million in fiscal year 2022-23 and $176.5 million in FY2023-24. By FY2026-27, the reduction would grow to $363.4 million.

Speaker of the Legislature Mike Hilgers of Lincoln said the tax cut would give middle-class families more disposable income that they could use to save for a house or invest in a business. Albion Sen. Tom Briese said Nebraska’s top individual income tax rate is higher than the top rate in all neighboring states except one.

Sen. Megan Hunt of Omaha opposed the bill. She said millionaires and billionaires would benefit most from cutting the top individual income tax rate. “If this was really a tax cut for middle-income earners … then we would be supporting a bill to create additional income tax brackets, not cut rates for top earners,” she said.

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Omaha Sen. Machaela Cavanaugh offered an amendment to remove the corporate income tax provisions from the proposal and change individual income tax brackets and rates to provide a larger tax cut for individuals with a taxable income of less than $200,000. A new top bracket, with a rate of 8.01 percent, would apply to families with a taxable income of more than $1 million. The amendment failed.

Hunt said a state’s minimum wage, types of available jobs and housing and childcare costs — not its tax rates — are what young families and professionals consider when deciding whether to move.

Lincoln Sen. Patty Pansing Brooks suggested amending the bill on the second round of debate to increase the state’s earned income tax credit, which would benefit low-income, working Nebraskans.

She said it would be best to adjust the numbers after the Nebraska Economic Forecasting Advisory Board made updated projections.

Those projections subsequently came in with increases across all tax receipts for the current fiscal year and FY2022-23. The board projected a $160 million increase in individual income tax receipts in FY2021-22 and a $200 million increase in individual income tax receipts in FY2022-23.

Total projected revenue receipts for FY2021-22 were raised to $5.72 billion, an increase of $370 million. Projected total revenue receipts for FY2022-23 were set at $5.96 billion, an increase of $405 million.

The OpenSky Policy Institute warned lawmakers and state officials to be cautious with their largesse. While the forecast provides a “rosy state revenue picture, we also know we are in unprecedented times,” said Executive Director Rebecca Firestone.

“Our revenues are being impacted by a range of factors beyond the control of the Legislature – such as a massive influx of federal relief dollars, substantial inflation, and workforce shortages. We therefore urge caution about enacting ongoing tax or spending

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measures as they will force tough choices in the future when revenues fail to keep up with state needs,” she said.

After lengthy debate over several days, Linehan filed a motion to invoke cloture, which ends debate and forces a vote on the bill and any pending amendments. The motion was adopted and the bill was advanced to second round consideration.

An Institute on Taxation and Economic Policy (ITEP) analysis shows the highest-paid 5% of Nebraska residents receiving 54% of the tax cut. The lowest paid 40% of Nebraskans, meanwhile, would get less than 1% of the tax cut.
 **The rich get richer.**

I agree with Sen. John Cavanaugh of Omaha who said the bill provides the most benefit to people who need it the least. These are the people who "already are ahead."

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*J.L. Schmidt has been covering Nebraska government and politics since 1979. He has been a registered Independent for more than 20 years.*