Principles of Taxation
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1. Don't look for the Holy Grail. There is no Holy Grail. Only tough decisions. Taxes are one of the things a legislature CAN control. Beware of people trying to seduce you with ideological fairy tales.
   - Operate based on evidence not on self-serving anecdotes.

2. Never use a shotgun if a rifle will do.
   - Narrow, tailored provisions are better than screwing up a tax system with broad measures to reach a small group. If after research it is decided that a particular group needs a special provision then deal with that with a narrow special provision. Don't give something away to reach a narrow group.

3. Be risk averse. Don't put all of your eggs in one basket. A tax structure should be balanced with a variety of taxes.
   - Each tax has its own rewards, strengths and weaknesses. In a balanced system, you play the strengths of one off the weaknesses of another. You would never invest retirement income in one particular asset, and the same approach should be taken with the tax system.
   - Spread the risk. Don't shoot craps with the state economy. It is not a coincidence most states have income tax, corporate tax, sales tax, property tax; this provides a balanced approach and covers the various bases.

4. The income tax is the only progressive element of a tax code.
   - A progressive tax takes an increasing percentage of income as income increases. The other way around is regressive. The overall tax structure in NE is regressive. Most states are regressive.
   - The only progressive element of the Nebraska tax structure is the personal income tax. The sales tax is regressive and takes a smaller percentage from the wealthy than the poor. Personal income tax is the one tax that brings some progressive features.

5. There is no free lunch.
   - A limited number of states through luck of the draw have some natural advantage to getting by without a state personal income tax – Alaska, natural resources, Texas natural resources, Nevada tourism/gambling, Florida tourism. It is hard to mimic states like that if you aren't endowed with a natural advantage.
   - In New Hampshire, there is no broad based sales tax, they do tax meals and hotel rooms, but there is no broad-based personal income tax. In return they have a very low level of public services and poor schools. Many Dartmouth professors live in Vermont for good schools. There is no free lunch in this business. We tried with supply side economics. We cut taxes at federal level, hoping for an outbreak of economic activity, that the tax cut would pay for itself. It didn't work.

- If we were to cut federal income tax, would people work harder? If you increase taxes, people won't work less hard, but will they work harder? Yes, they have to make up for revenue loss. It is a very empirically ambiguous question about whether lower taxes increases economic activity. At the state level it is probably insignificant. Be skeptical of a state tax system designed to encourage work or savings.

6. Do no harm. The law of unintended consequences will show up.
   - Unintended consequences are often greater than intended consequences. It is extremely hard to predict what consequences will be of changing a tax system. Beware of wholesale changes; there is a lot of money on the table.
   - What happens if you eliminate personal income tax and shift to increased sales tax? Any kind of progressive taxation is eliminated and the tax code is more regressive. What happens to these low-income tax credits like the child-care tax credit and the earned income tax credit if the personal income tax is eliminated?
   - If you put your eggs all in one basket, sales tax or some other tax, if the one tax turns out to be more volatile, you may have a problem.
   - Sales tax is more volatile as a tax than the existing Nebraska tax structure. Having a lot of taxes tends to smooth out fluctuations. If you rely heavily on one tax, and you're wrong, and the revenue is less than anticipated, then what happens? Spending has to be cut. Your pattern in Nebraska is that school aid drops. When that happens, property taxes go up. And then you have a new round of unintended consequences especially in regard to agriculture.

7. Be wary of tax rankings.
   - You don't have a major problem with Nebraska personal income taxes. You are within the range of what you see elsewhere.
   - Don't take the rankings seriously. Rankings are abstract. Nobody pays the aggregate of an abstract. You pay what your situation dictates.
   - Nebraska has attractive features for bringing businesses to Nebraska. For example, single factor apportionment (the share of a corporation's total profit that is taxed is based solely on the share of the corporation's nationwide sales occurring in the state) and the lack of a throwback rule (sales of a multistate corporation shipped from Nebraska to a customer in another state where the company has no nexus, and therefore cannot be taxed by that state, are not considered Nebraska sales for purposes of apportioning multistate income). Income tax doesn't seem to be an issue in Nebraska.
   - Businesses don't worry about rankings; they want to know, "how does the tax structure affect us?" It's not about rankings, it's about specific situations.

8. Taxes have little influence on where people live.
   - Bankrate ranks Nebraska as the best state for retirement overall. AARP lists Lincoln as the 8th best medium-sized city to live and Grand Island as the 7th best small city to live, in the entire U.S. Is Nebraska competing with South Dakota, Wyoming where there are no income taxes? Is Nebraska competing with the Arizona and Florida's good weather? It is hard to do anything about the weather with a tax system.

- There is very little empirical evidence that exempting retirement income makes any difference in where people live. A driving factor may be where the grandchildren are. There are all sorts of reasons outside of how are our pensions are taxed to determine where someone lives.
- If someone receives only social security income, they aren't taxed in Nebraska if they pay no tax on their Social Security at the federal level. And not everyone has pensions. Some people work part time, should their salary be exempt? Dividend interest income, should that be exempt? It's a slippery slope when you start to carve out exemptions for one group over another. Right now, Nebraska income tax isn't bad; it's pretty clean.

9. If you want to attract recent grads, or attract dot-coms, you have to create the conditions to encourage them to stay in Nebraska.
   - Replicate the conditions in Silicon Valley, Route 128 in Massachusetts, the research triangle in North Carolina, that make it attractive for recent grads. The University system is one of the keys to economic development. Make it attractive for people to stay.

10. Taxing business inputs will change the structure of a sales tax and is bad policy. Taxing services should be considered.
    - Every tax is intended to do something different. Don't go screwing around with what the tax is supposed to be doing.
    - A sales tax is intended to eliminate the tax on business inputs and be left with one tax on outputs. You don't want pyramiding; you don't want a disguised tax, a tax on a tax. You don't want to tax manufacturing, agriculture inputs, purchase of seed, livestock, and capital equipment. If you do tax those business inputs, you no longer have a sales tax, but a turnover tax. There are legitimate exemptions that are part of the structure of the sales tax.
    - Be sensitive to big business versus small business. If you tax business inputs that small businesses have to buy in the marketplace that big business don't have to pay because they produce it in-house, you stack the deck against small business. This is one reason that states have manufacturing exemptions, to prevent this problem. This is a correct exemption.
    - One sales tax hole in Nebraska is the lack of taxation of personal services. Nebraska doesn't tax many personal services. Sales tax goes back to the Depression before we were a service economy, and Nebraska needed to put the sales tax into place quickly. Not taxing services is giving up a way to get progressivity in sales tax. If I rent a car I pay sales tax, if I rent a driver, I don't. If Nebraska is going to expand the sales tax, this area should be looked at.

11. Tax incentives result in waste in taxation and present a transparency issue.
    - Just as we ferret out waste on spending side of the budget, we need to ferret out waste in taxing side of the budget. Where is the potential waste in taxation? Large amount of special credits for corporations. Credits are so large in amount that in many cases, corporations wipe out what they owe.

- Studies across the country have raised serious questions about whether these special credits can survive a cost benefit analysis. They cost a lot of money, but are they paying for themselves?
- The problem in Nebraska is that you can't tell who is getting how much. In other states, you can. Nebraska ranked 37th in transparency in corporate tax credits from Good Jobs First. Sunlight is the best disinfectant – you need transparency.

12. Taxes should be constantly monitored
    - You need to constantly monitor taxes.
    - There should be a standing committee if possible, or an ad hoc committee if necessary, to ensure the tax system is helping the state meet its goals.