



The Fiscal & Economic Effects of the Proposed EPIC Consumption Tax in Nebraska

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EXECUTIVE SUMMARY

The EPIC (Eliminate Property Income Corporate) Consumption Tax Act is a proposal to replace existing taxes with a consumption tax and is under consideration in the state of Nebraska. The objectives of a consumption tax include job creation, increased investment, tax simplification, and economic growth.

Specifically, the EPIC Consumption Tax Act would eliminate all state income taxes, state sales and use taxes, and all local property taxes while establishing a new state tax system consisting of a consumption tax and existing excise taxes. Moreover, by repealing the state individual income tax, the Act will eliminate the inheritance tax. To address equity concerns, the consumption tax would also provide for a prebate, which would refund taxes paid up to the poverty level.

In order to estimate the economic effects of an extensive tax change such as is under consideration here, it is necessary to apply the tax change to a model that captures the economy-wide effects of its implementation. What is needed is a “dynamic” model that captures the adjustments of taxpayers to the new tax.¹ A static analysis, such as we previously offered, ignores these adjustments.

The Beacon Hill Institute Nebraska State Tax Analysis Modeling program (NE-STAMP) is a dynamic model, that captures the effects on economic activity of tax rate changes. NE-STAMP allows the Beacon Hill Institute (BHI) to provide estimates of the fiscal and economic effects of the proposed tax change.

In this study, BHI evaluates the replacement of all state taxes on income, the state sales use tax, and all local property taxes with a revenue-neutral, broad-based consumption tax in Nebraska. The revenue-neutral consumption tax rates required to replace existing revenue, while including a prebate, starts at **8.97** percent in Fiscal Year (FY) 2024 and falls to **8.12** percent in FY 2028. NE-STAMP generated the following results:

¹ For a description of the model see www.beaconhill.org/how-stamp-works.

Table E-1: The Economic Effects of the Consumption Tax including the Prebate

Economic Effects	FY 2024	FY 2028
Population Change (%)	1.62	2.03
Personal consumption (%)	1.28	3.75
Net employment (jobs)	38,080	48,424
Investment (\$, billions)	7.588	6.605
Real disposable income(\$, billions)	7.633	10.331
State Real Gross Domestic Product (\$, billions)	18.623	26.894

- State population would increase by 1.62 percent in FY 2024 and by 2.03 percent in FY 2028;
- Personal consumption would increase by 1.28 percent in FY 2024 and by 3.75 percent in FY 2028;
- Net employment (the increase in private sector jobs less the decrease in public sector jobs) would increase by 38,080 jobs in FY 2024 and by 48,424 jobs in FY 2028;
- Investment would increase by \$7.6 billion in FY 2024 and \$6.6 billion in FY 2028;
- Real (inflation-adjusted) disposable income would increase by \$7.6 billion in FY 2024 and by \$10.3 billion in FY 2028; and
- State real (inflation-adjusted) Gross Domestic Product would increase by \$18.6 billion in FY 2024 and by \$26.9 billion in FY 2028.

Our analysis finds that as a result of the replacement of current state and local taxes by a state consumption tax, the increase in the after-tax reward for saving would rise, motivating investment and economic growth. These effects would be largely driven by the fact that the consumption tax would eliminate the existing “double taxation” feature of current law as it affects saving. All the leading economic indicators (real GDP, investment, real disposable income, and employment) would increase significantly under the tax change. The EPIC Consumption Tax Act offers rare policy reform that is beneficial to all Nebraskans.

INTRODUCTION

Overall, Nebraska is well-positioned to compete and grow based on its endowments and constructive policies on infrastructure, human capital, and the environment. According to the Beacon Hill Institute's 18th State Competitiveness Index, Nebraska ranks 6th in the nation overall in its ability to expand personal income for its citizens. However, it ranks 24th in the nation according to the index's government and fiscal policy indicator.²

According to the Tax Foundation, Nebraska ranks 32nd in the nation in corporate income tax rates, 21st in individual income tax rates, 41st in property tax rates, and 15th in state sales tax rates.³

The sustainability of its strong overall position going forward is not certain and its ability to compete nationally and globally for talent and investment is not assured. Today, a consensus is emerging that Nebraska's current tax code is an obstacle to improving its business climate. Nebraska could benefit from improving its tax competitiveness.

A viable state tax system must be able to raise the revenue that government needs in order to provide public services, while imposing the smallest possible burden on work, saving, and investment. The balancing act between taxation and spending becomes more difficult if other states provide more competitive tax systems. Offsetting its natural advantages, Nebraska levies high marginal personal income tax rates. In addition, the corporate tax in Nebraska is among the steepest in the nation.⁴ Finally, local property taxes in Nebraska rank among the highest in the nation.⁵ A consumption tax that replaces all state and local taxes is one way to correct for the competitive tax disadvantages Nebraska faces today.

² The Beacon Hill Institute, State Competitiveness Report, 18th edition, (June 26, 2018), <http://www.beaconhill.org/CompetitivenessHomePage.html>.

³ Tax Foundation, "Business Climate Index 2021," <https://files.taxfoundation.org/20201026112452/2021-State-Business-Tax-Climate-Index1.pdf> (Accessed August 1, 2021).

⁴ Ibid, 3.

⁵ Ibid, 4.

There is interest now in enacting a consumption tax at the state level. Nebraska is one state that is seriously considering this change. The EPIC Consumption Tax reform eliminates five current Nebraska taxes and replaces them with one single tax that is both easy to understand and administer. Nebraska would become the first state to eliminate five current state taxes and replace it with a single consumption tax on retail products and services.

In January 2021, BHI conducted a static analysis of a consumption tax in Nebraska. The study found that a static consumption tax rate of 9.85 percent would be required to replace all taxes on income, state sales and use taxes, and all local property taxes in Nebraska while allowing for a prebate.

As described by the Consumption Tax Institute, every month, Nebraska taxpayers will be relieved from paying real & personal property taxes, sales and use taxes, individual (including the inheritance tax) and corporate income taxes. Nebraska residents will be required to pay the consumption tax only when making a retail purchase. Every citizen will receive the monthly prebate. Consumers are exempt from paying the consumption tax on used goods, which will further benefit lower-income citizens. Table 1, provided by the Consumption Tax Institute, displays the following:

- The current size of the Nebraska annual budget including local and county budgets;
- The current value of the Nebraska retail sales tax base;
- The projected static value of the EPIC Consumption tax base (excluding automobiles sales from the tax base) in FY 2024;
- The current Nebraska retail sales exempt from sales tax;
- The revenue raised under the EPIC Consumption static tax rate of 9.94 percent in FY 2024;
- The projected dynamic value (resulting from an expansion in the economy) of the EPIC Consumption tax base in 2024; and
- The revenue raised under the EPIC Consumption dynamic tax rate of 8.88 percent in FY 2024.

Table 1: The EPIC Consumption Tax

Current Nebraska state annual budget including local and county	\$10.9 billion
Current annual Nebraska retail sales tax base	\$49.0 billion
Projected static EPIC Consumption tax base	\$110.0 billion
Current Nebraska retail sales exempt from the sales tax	\$61.0 billion
Revenue resulting from a static 9.94% consumption tax	\$10.9 billion
Projected dynamic EPIC Consumption tax base	\$124.0 billion
Revenue resulting from a dynamic 8.88% consumption tax	\$10.9 billion

*Data provided by the Consumption Tax Institute.

NEBRASKA TAXES TO BE REPLACED

Table 2: Taxes Replaced by the Consumption Tax

Tax	FY 2024 (\$)	FY 2028 (\$)
Individual Income Tax	3,012,271,873	3,353,128,497
Corporate Income Tax	626,415,302	752,711,279
Local Property Taxes	5,084,658,349	5,731,111,022
State Sales and Use Tax	2,207,618,257	2,297,598,502
Grand Total	10,930,963,780	12,046,124,483

The Nebraska Department of Revenue (DOR) reports that net state and local tax collections (excluding miscellaneous taxes) totaled \$9.611 billion in FY 2019.⁶ We assume that EPIC Consumption Tax Act would replace state tax revenues raised by the state individual income tax, the state corporate income tax, all local property

⁶ Nebraska Department of Revenue, (August 2021), Department of Revenue, <http://www.revenue.nebraska.gov/research/STATISTICS.html>

taxes, and state sales and use taxes. In Table 2 above, we estimate the tax revenue to be replaced by the consumption tax using a compounded annual growth rate (CAGR) to be \$10.931 billion in FY 2024 and \$12.046 billion in FY 2028.

The Nebraska DOR also reports various miscellaneous tax collections.⁷ According to the Nebraska DOR, excise tax revenues for motor fuels, cigarettes, and alcohol totaled \$396.502 million in FY 2020, \$48.971 million in FY 2020, and \$34.017 million in FY 2020, respectively. BHI estimates these excise tax revenues using a (CAGR) through FY 2028. The estimates are displayed in Table 3.

Table 3: Specific State Excise Taxes Not Replaced by the Consumption Tax

Tax	FY 2024 (\$)	FY 2028 (\$)
Motor Fuel Taxes	448,701,712	507,773,745
Cigarette Taxes	44,289,176	40,055,306
Alcohol Taxes	39,227,780	43,416,006

We estimate that excise tax revenues from motor fuels will be \$448.702 million in FY 2024 and \$507.774 million in FY 2028. Excise tax revenues from cigarettes will be \$44.289 million in FY 2024 and \$40.055 million in FY 2028. Excise tax revenues from alcohol will be \$39.228 million in FY 2024 and \$43.416 million in FY 2028.

The replacement of state tax revenue sources will allow for the elimination of various state and local government agencies. Specifically, the replacement of tax revenues under the EPIC Consumption Tax Act will eliminate multiple divisions under the DOR including the Property Assessment Tax Division, the Sales Tax Division, the Income Tax Division, and the Inheritance Tax Division. The replacement of local property taxes will allow for the elimination of the 93 county property assessors offices. Inevitably, the elimination of these agencies and the net decrease of jobs in the DOR will lead to a cost savings. However, some of the jobs lost as a result would be replaced by the jobs created for a newly formed division within the Nebraska Department of Revenue that would administer the consumption tax. Using a CAGR, we estimate that the elimination of the 93 county property assessors offices will result in savings of \$32.980 million in FY 2024 and \$34.567 million in FY 2028.

⁷ Ibid, 6.

The EPIC Consumption Tax Act would also eliminate all current tax expenditures as a result of replacing existing state and local tax revenue sources. Tax expenditures are revenues from tax incentives, exclusions, deductions, credits, and preferential tax rates that are foregone. Among the tax expenditures that will be eliminated are those resulting from the ImagiNE Nebraska Act, the Employment and Investment Growth Act, the Nebraska Property Tax Incentive Act, the Nebraska Property Tax Credit Act, and Tax Increment Financing (TIF). The tax revenues to be replaced are lower than they would be without these tax expenditures.

THE NEBRASKA STAMP MODEL

The implementation of a consumption tax in Nebraska poses several questions relating to its dynamic effects:

- What are the economic benefits and how will they improve the state's standing relative to other states?
- How will the economy respond in terms of jobs, disposable income, investment, and state Gross Domestic Product?
- How will the prebate affect the distribution of income?

The Beacon Hill Institute analyzed the implementation of the consumption tax by using its State Tax Analysis Modeling Program for Nebraska (NE-STAMP). STAMP is a Computable General Equilibrium (CGE) model that determines the effects of changes in a wide variety of state taxes on key economic indicators.⁸

The model applies sound economic theory to the determination of the effects of tax changes on employment, investment and incomes. NE-STAMP is able to

⁸ Ibid, 1.

capture the “dynamic” effects of a tax change on the economy. In that way, it is superior to a “static” analysis, which ignores those effects. NE-STAMP provides answers to the questions above. The consumption tax analyzed in this study is intended to be revenue neutral. The tax would replace all revenue raised by all state taxes on income, the state sales tax, and all local property taxes. The tax would also include a prebate, which would relieve every household of the consumption tax burden it would bear if it were at the poverty level. The reduction in current state taxes would provide a boost to the state’s private economy leading to an increase in private employment, disposable income, and investment.

Static estimates assume that there is no change in underlying economic activity in response to a change in tax law. For example, a static estimate of a cut in the sales tax, say from 5 percent to 4 percent, would cause revenues to fall by 20 percent ($= 5 - 4/5$). A dynamic estimate would show a smaller decrease in revenue because it would capture the positive effect on other revenue sources from the cut in the sales tax. In this example, businesses would have more money to make profitable investments in Nebraska, thus increasing investment, employment, and incomes which, in turn, would boost sales and property tax collections. One of the principal purposes of NE-STAMP is to capture such dynamic effects.

In NE-STAMP, taxes are divided into several categories with each category treated differently by the model: taxes on labor and capital, sales and excise taxes on industrial sectors (e.g., the motor fuels tax), household taxes (residential property tax and license fees) and personal income taxes. All of the taxes enter the GDP and government income equations. Here, we trace the taxes through the model and explain how they affect the economy.

ECONOMIC AND FISCAL EFFECTS

BHI modeled the implementation of the consumption tax for the period 2024 to 2028. Table 4 displays the results of an 8.97 percent consumption tax rate in FY 2024 and an 8.12 percent consumption tax rate in FY 2028 (the last year of the analysis.) Both rates allow for enough revenue to include a prebate.

Table 4: The Fiscal and Economic Effects of the Consumption Tax Including the Prebate

Economic Effects	FY 2024	FY 2028
Population Change (%)	1.62	2.03
Personal consumption (%)	1.28	3.75
Net employment (jobs)	38,080	48,424
Investment (\$, billions)	7.588	6.605
Real disposable income (\$, billions)	7.633	10.331
State Real Gross Domestic Product (\$, billions)	18.623	26.894
Fiscal Effects (\$ millions)		
Personal Income Tax	(3,012)	(3,353)
Corporate Income Tax	(626)	(753)
Sales and Use Tax	(2,207)	(2,297)
Consumption Tax	10,604	11,687
Other Taxes	83	109
Total State Tax Change	4,842	5,393
Property Tax	(2,389)	(2,693)
Sales Tax	(2,695)	(3,037)
Other Taxes and Fees	338	467
Total Local Tax Change	(4,746)	(5,263)
Total State and Local Tax Change	96	130

NE-STAMP estimates that the Nebraska state population would increase by 1.62 percent in FY 2024 and by 2.03 percent in FY 2028. Personal consumption would increase by 1.28 percent in FY 2024 and by 3.75 percent in FY 2028. Net employment would increase by 38,080 jobs in FY 2024 and by 48,424 jobs in FY 2028. Investment would increase by \$7.6 billion in FY 2024 and by \$6.6 billion in FY 2028. Real (inflation-adjusted) disposable income would increase by \$7.6 billion in FY 2024 and by \$10.3 billion in FY 2028. State real (inflation-adjusted) Gross Domestic Product would increase by \$18.6 billion in FY 2024 and by \$26.9 billion in FY 2028.

State tax revenues would increase by \$4.842 billion in FY 2024 and by \$5.393 billion in FY 2028. Local revenue, however, would fall by \$4.746 billion in FY 2024 and by \$5.263 billion in FY 2028. When combined, total state and local tax revenues would increase by \$96 million in FY 2024 and by \$130 million in FY 2028.

Table 5: The Fiscal and Economic Effects of the Consumption Tax including Used Automobiles Sales

Economic Effects	FY 2024	FY 2028
Population Change (%)	1.63	2.03
Personal consumption (%)	1.40	3.86
Net employment (jobs)	38,254	48,579
Investment (\$, billions)	7.601	6.618
Real disposable income (\$, billions)	7.662	10.356
State Real Gross Domestic Product (\$, billions)	18.682	26.952
Fiscal Effects (\$ millions)		
Personal Income Tax	(3,012)	(3,353)
Corporate Income Tax	(626)	(753)
Sales and Use Tax	(2,207)	(2,297)
Consumption Tax	10,602	11,687
Other Taxes	83	109
Total State Tax Change	4,840	5,393
Residential Property Tax	(2,389)	(2,693)
Business Property Tax	(2,695)	(3,037)
Other Taxes and Fees	256	359
Total Local Tax Change	(4,828)	(5,371)
Total State and Local Tax Change	12	22

Table 5 displays the results of replacing all state taxes on income, state sales and use taxes, and all local property taxes with a broad-based consumption tax rate of **8.88** percent in FY 2024 and of **8.04** percent in FY 2028. In this simulation, we include used automobiles sales in the tax base while allowing for enough revenue to cover the prebate. NE-STAMP estimates that Nebraska's population would increase by 1.63 percent in FY 2024 and by 2.03 percent in FY 2028. Personal consumption would increase by 1.40 percent in FY 2024 and by 3.86 percent in FY 2028. Net employment would increase by 38,254 jobs in FY 2024 and by 48,579 jobs in FY 2028. Investment would increase by \$7.6 billion in FY 2024 and by \$6.6 billion in FY 2028. Real disposable income would increase by \$7.7 billion in FY 2024 and

by \$10.4 billion in FY 2028. State real Gross Domestic Product would increase by \$18.7 billion in FY 2024 and by \$27.0 billion in FY 2028.

State tax revenues would increase by \$4.840 billion in FY 2024 and by \$5.393 billion in FY 2028. Local revenue, however, would fall by \$4.828 billion in FY 2024 and by \$5.371 billion in FY 2028. When combined, total state and local tax revenues would increase by \$12 million in FY 2024 and by \$22 million in FY 2028.

Table 6: The Fiscal and Economic Effects of the Consumption Tax excluding the Prebate

Economic Effects	FY 2024	FY 2028
Population Change (%)	1.73	2.12
Personal consumption (%)	2.12	4.71
Net employment (jobs)	40,911	51,143
Investment (\$, billions)	8.806	7.672
Real disposable income (\$, billions)	8.771	11.404
State Real Gross Domestic Product (\$, billions)	20.772	29.130
Fiscal Effects (\$ millions)		
Personal Income Tax	(3,012)	(3,353)
Corporate Income Tax	(626)	(753)
Sales and Use Tax	(2,207)	(2,297)
Consumption Tax	10,573	11,652
Other Taxes	92	119
Total State Tax Change	4,820	5,368
Property Tax	(2,389)	(2,693)
Sales Tax	(2,695)	(3,037)
Other Taxes and Fees	294	408
Total Local Tax Change	(4,790)	(5,322)
Total State and Local Tax Change	30	46

Table 6 displays the results of replacing all state taxes on income, state sales and use taxes, and all local property taxes with a broad-based consumption tax rate of **7.40** percent in FY 2024 and of **6.66** percent in FY 2028. In this simulation, we exclude the prebate. The Nebraska state population would increase by 1.73 percent in FY 2024 and by 2.12 percent in FY 2028. Personal consumption would increase by 2.12 percent in FY 2024 and by 4.71 percent in FY 2028. Net employment would increase by 40,911 jobs in FY 2024 and by 51,143 jobs in FY 2028. Investment would increase by \$8.8 billion in FY 2024 and by \$7.7 billion in FY 2028. Real disposable

income would increase by \$8.8 billion in FY 2024 and by \$11.4 billion in FY 2028. State real Gross Domestic Product would increase by \$20.8 billion in FY 2024 and by \$29.1 billion in FY 2028.

State tax revenues would increase by \$4.820 billion in FY 2024 and by \$5.368 billion in FY 2028. Local revenue, however, would fall by \$4.790 billion in FY 2024 and by \$5.322 billion in FY 2028. When combined, total state and local tax revenues would increase by \$30 million in FY 2024 and by \$46 million in FY 2028.

DISTRUBUTIONAL EFFECTS

The NE-STAMP model provides the distrubutional effects on real disposable income per capita across different income groups. The NE-STAMP model shows that the consumption tax is both progressive and equitable at all income levels. Table 7 displays the results of imposing a revenue-neutral consumption tax rate of 8.97 percent in FY 2024 and of 8.12 percent in FY 2028.

Table 7: The Distributional Effects of the Consumption Tax on Real Disposable Income per Capita

Economic Effects	FY 2024	FY 2028
< \$10,000 income (%)	0.91	1.69
\$10,001-\$25,000 income (%)	1.05	1.90
\$25,001-\$50,000 income (%)	1.37	2.16
\$50,001-\$75,000 income (%)	3.74	4.62
\$75,001-\$100,000 income (%)	4.90	5.92
\$100,001-\$150,000 income (%)	5.66	6.63
\$150,001 income and up (%)	5.92	6.52

NE-STAMP estimates that:

- Real disposable income per capita for the income group of less than \$10,000 would increase on average .91 percent in FY 2024 and 1.69 percent in FY 2028;

- Real disposable income per capita for the income group between \$10,001 and \$25,000 would increase on average 1.05 percent in FY 2024 and 1.90 percent in FY 2028;
- Real disposable income per capita for the income group between \$25,001 and \$50,000 would increase on average 1.37 percent in FY 2024 and 2.16 percent in FY 2028;
- Real disposable income per capita or the income group between \$50,001 and \$75,000 would increase on average 3.74 percent in FY 2024 and 4.62 percent in FY 2028;
- Real disposable income per capita for the income group between \$75,001 and \$100,000 would increase on average 4.90 percent in FY 2024 and 5.92 percent in FY 2028;
- Real disposable income per capita for the income group between \$100,001 and \$150,000 would increase on average 5.66 percent in FY 2024 and 6.63 percent in FY 2028; and
- Real disposable income per capita for the income group \$150,000 and up would increase on average 5.92 percent in FY 2024 and 6.52 percent in FY 2028.

Table 8: The Distributional Effects of the Consumption Tax on Real Disposable Income per Capita (Including Used Automobiles Sales)

Economic Effects	FY 2024	FY 2028
< \$10,000 income (%)	0.92	1.69
\$10,001-\$25,000 income (%)	1.06	1.91
\$25,001-\$50,000 income (%)	1.38	2.17
\$50,001-\$75,000 income (%)	3.75	4.63
\$75,001-\$100,000 income (%)	4.92	5.93
\$100,001-\$150,000 income (%)	5.67	6.64
\$150,001 income and up (%)	5.92	6.52

Table 8 displays the results of imposing a revenue-neutral consumption tax rate of **8.88** percent in FY 2024 and of **8.04** percent in FY 2028. NE-STAMP estimates that:

- Real disposable income per capita for the income group earning less than \$10,000 would increase on average .92 percent in FY 2024 and 1.69 percent in FY 2028;
- Real disposable income per capita for the income group between \$10,001 and \$25,000 would increase on average 1.06 percent in FY 2024 and 1.91 percent in FY 2028;
- Real disposable income per capita for the income group between \$25,001 and \$50,000 would increase on average 1.38 percent in FY 2024 and 2.17 percent in FY 2028;
- Real disposable income per capita for the income group between \$50,001 and \$75,000 would increase on average 3.75 percent in FY 2024 and 4.63 percent in FY 2028;
- Real disposable income per capita for the income group between \$75,001 and \$100,000 would increase on average 4.92 percent in FY 2024 and 5.93 percent in FY 2028;
- Real disposable income per capita for the income group between \$100,001 and \$150,000 would increase on average 5.67 percent in FY 2024 and 6.64 percent in FY 2028; and
- Real disposable income per capita for the income group \$150,000 and up would increase on average 5.92 percent in FY 2024 and 6.52 percent in FY 2028.

Table 9: The Distributional Effects of the Consumption Tax on Real Disposable Income per Capita (Excluding the Prebate)

Economic Effects	FY 2024	FY 2028
< \$10,000 income (%)	0.49	1.23
\$10,001-\$25,000 income (%)	1.11	1.92
\$25,001-\$50,000 income (%)	1.45	2.20
\$50,001-\$75,000 income (%)	3.82	4.65
\$75,001-\$100,000 income (%)	4.99	5.95
\$100,001-\$150,000 income (%)	5.71	6.62
\$150,001 income and up (%)	5.85	6.39

Table 9 displays the results of imposing a revenue-neutral consumption tax rate of **7.40** percent in FY 2024 and of **6.66** percent in FY 2028. NE-STAMP estimates that:

- Real disposable income per capita for the income group of less than \$10,000 would increase on average .49 percent in FY 2024 and 1.23 percent in FY 2028;
- Real disposable income per capita for the income group between \$10,001 and \$25,000 would increase on average 1.11 percent in FY 2024 and 1.92 percent in FY 2028;
- Real disposable income per capita for the income group between \$25,001 and \$50,000 would increase on average 1.45 percent in FY 2024 and 2.20 percent in FY 2028;
- Real disposable income per capita for the income group between \$50,001 and \$75,000 would increase on average 3.82 percent in FY 2024 and 4.65 percent in FY 2028.
- Real disposable income per capita for the income group between \$75,001 and \$100,000 would increase on average 4.99 percent in FY 2024 and 5.95 percent in FY 2028.
- Real disposable income per capita for the income group between \$100,001 and \$150,000 would increase on average 5.71 percent in FY 2024 and 6.62 percent in FY 2028; and
- Real disposable income per capita for the income group \$150,000 and up would increase on average 5.85 percent in FY 2024 and 6.39 percent in FY 2028.

SUMMARY

Table 10 displays the required revenue-neutral broad-based consumption tax rate in FY 2024 and FY 2028 to replace the desired state and local revenue.

Table 10: Desired Revenue to be Replaced and the Required Consumption Tax Rate

State and local taxes to be replaced	FY 2024	FY 2028
Individual income tax, corporate income tax, all property taxes, state sales and use taxes, including a prebate.	8.97%	8.12%
Individual income tax, corporate income tax, all property taxes, state sales and use taxes, including a prebate and including automobiles sales in the tax base.	8.88%	8.04%
Individual income tax, corporate income tax, all property taxes, state sales and use taxes, excluding a prebate.	7.40%	6.66%

NE-STAMP estimates that a consumption tax rate of **8.97** percent in FY 2024 and **8.12** percent in FY 2028 is required to replace state taxes on income, the state sales and use tax, and all property taxes while allowing for enough revenue to cover the prebate.

Including automobiles sales and the prebate, NE-STAMP estimates that a consumption tax rate of **8.88** percent in FY 2024 and **8.04** percent in FY 2028 is required to replace state taxes on income, the state sales and use tax, and all property taxes.

Excluding the prebate, NE-STAMP estimates that a consumption tax rate of **7.40** percent in FY 2024 and **6.66** percent in FY 2028 will allow Nebraska to replace state taxes on income, the state sales and use tax, and all property taxes.

CONCLUSION

Tax policies matter significantly for their effects on a state's ability to provide an environment conducive to economic growth.⁹

Public finance economists recognize that that taxes impose an excess burden or deadweight loss on the economy. Any move toward tax reform must consider the fact that higher tax rates reduce the tax base and increase this dead loss. The goal of a viable tax system should be to ensure not only fairness but also efficiency.

The argument that a consumption tax is superior to an income tax has a long history. The reason is that an income tax taxes saving twice, once when income is earned and saved and again when the taxpayer gets a return on his saving. The state can eliminate this discrimination by taxing households on what they consume rather than what they earn. A consumption tax is pro-saving, pro-investment, and therefore pro-growth.

Replacing all state taxes on income (including the inheritance tax), the state sales and use tax, and all local property taxes with a revenue-neutral consumption tax would generate billions of dollars in investment, real disposable incomes, and state Gross Domestic Product. Moreover, the consumption tax would create tens of thousands of jobs. Excluding the prebate, the Nebraska consumption tax rate of 7.40 percent in FY 2024 would rank 18th in the nation in combined state and local sales taxes.¹⁰

This analysis shows that all income groups would gain under a revenue-neutral consumption tax. There are few policy prospects in the state that offer such large benefits to so many people. Moreover, the economic well-being of Nebraska households in all income groups would, on average, increase under a consumption tax. The consumption tax exemption on used goods will be an

⁹ Pavel A. Yakovlev, *State Economic Prosperity and Taxation*, Working Paper 14-19, Mercatus Center, George Mason University, (July 2014), <http://mercatus.org/sites/default/files/Yakovlev-State-Economic-Prosperity.pdf>.

¹⁰ The Tax Foundation, "State and Local Sales Tax Rankings, (January 6, 2021), <https://taxfoundation.org/2021-sales-taxes/>

additional economic boost to low and middle-income citizens who purchase a significant amount of used goods. NE-STAMP shows that the Nebraska EPIC Consumption Tax Act offers reform that has considerable benefits for people in all income classes.

Nebraska ranks first nationwide for its unemployment rate of 2.5 percent.¹¹ Nebraska's employment outlook, combined with the newly created private sector jobs under the EPIC Consumption Tax Act, should allow for state and county employees whose jobs have been eliminated to quickly find work.

Our analysis addresses the major concern over imposing a consumption tax, specifically the regressivity of the tax. In regard to border leakage, stores on the border of Nebraska would keep prices from rising by reducing costs. The model shows that there would be no reduction in statewide consumption (while also showing a slight increase in tax revenues.) Another concern regarding consumption taxes is an increase in fraud (i.e people evading the tax.) The EPIC Consumption Tax Act would utilize the fraud detection and elimination tactics currently utilized by the state of Nebraska to alleviate this issue.

¹¹ The Bureau of Labor Statistics, Midwest Information Office, (Accessed August 21, 2021), <https://www.bls.gov/regions/midwest/nebraska.htm>

METHODOLOGY

Estimating the prebate

First, BHI estimated the prebate as defined in the proposed EPIC Consumption Tax Act. The prebate is based on the federal poverty guidelines adjusted to remove any marriage penalty. The size of the monthly prebate is set at the amount of consumption tax that a given household would pay over the course of the month, were its members to consume goods and services at the federal poverty level. Table 11 displays the details of the prebate calculation for 2024.

Table 11: Computing the Prebate for FY 2024

I. Single Households

Household Size	Poverty Line	Number of households	Prebate Base Reduction (\$)
1	12,760	227,574	2,903,846,678
2	17,240	43,405	748,304,270
3	21,720	6,250	135,760,716
4	26,200	2,753	72,130,944
5	30,680	666	20,439,162
6	35,160	213	7,484,580
7 or more	39,640	57	2,247,252
Subtotal, Single Households		280,775	3,890,213,603

II. Married Households

2	17,240	236,146	5,129,081,645
3	21,720	96,501	2,528,329,308
4	26,200	89,844	2,756,415,028
5	30,680	47,005	1,652,703,286
6	35,160	21,930	869,290,913
7 or more	39,640	12,120	534,727,261
Subtotal, Married Household		503,940	13,470,547,441
Total		784,677	17,360,761,044

*Totals may not add due to rounding.

The U.S. Department of Health and Human Services publishes the poverty guidelines by household size for the 48 contingent states.¹² The U.S. Census Bureau provides estimates of the number of Nebraska households by family size.¹³ Using these figures, we estimate the prebate will reduce the tax base by \$17.360 billion in FY 2024. For the dynamic analysis presented here, we 2024 use a CAGR to obtain our estimate of \$20.671 billion in FY 2028.

Estimating the Nebraska Consumption Tax Base

The Nebraska consumption tax would replace state tax revenues raised by the state individual income tax, the state corporate income tax, all local property taxes, and state sales and use taxes. We estimate the static tax revenue to be replaced by the Nebraska consumption tax to be \$10.931 billion in FY 2024 and \$12.046 billion in 2028, as displayed in Table 1.

In other words, the Nebraska consumption tax must raise this amount of revenue to be considered a revenue-neutral tax change.

As proposed, the EPIC Consumption Tax Act would exclude some components of GDP, such as investment and some state government spending. Also, the EPIC Consumption Tax Act calls for the prebate (see above) that excludes from the tax base all consumption spending up to the national poverty line. We account for these changes by following the same method in calculating the Nebraska consumption tax base. Table 12 displays the calculation of the consumption tax base and the calculation of the Nebraska consumption tax rate while including the prebate.

¹² U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 2021 Poverty Guidelines, <https://aspe.hhs.gov/poverty-guidelines>.

¹³ U.S. Department of Commerce, U.S. Census Bureau, Table B11016: Household Type by Household Size, Nebraska, http://factfinder.census.gov/faces/tables/services/jsf/pages/productview.xhtml?pid=ACS_13_5YR_B11016&prodType=table.

Table 12: The Calculation of the Nebraska Consumption Tax Rate (\$, millions)

Tax Base*	FY 2024	FY 2028
Personal consumption	103,896	123,711
State and local government consumption	9,535	11,354
State and local government salaries and wages	8,374	9,971
New homes sales	5,808	6,916
Gross tax base	127,613	151,952
Prebate	-17,360	-20,671
Tax base (excluding revenues to be covered)	110,253	131,281
Adjustment for administrative fee (0.25%)	-278	-331
Net tax base	109,975	130,950
Tax revenue (to be replaced)	10,931	12,046
Static rate	9.94%	9.19%
Dynamic rate	8.97%	8.12%

*The dynamic estimate is provided by the NE-STAMP model.

We calculate the tax base using data from the Bureau of Economic Analysis (BEA) which provides detailed data sets for state and local economies. The BEA data includes Nebraska specific data for household consumption, government consumption, and national data for spending on new structures.¹⁴ We use data from the U.S. Census Bureau and National Multi-Family Housing Council to estimate the portion of the national data attributable to Nebraska.

The BEA provides comprehensive household consumption data.¹⁵ However, we exclude spending on education, imputed rent, and all used goods from private consumption and add back in the sale of new homes and dwellings.

We estimate the personal consumption base for Nebraska in CY 2019 and grow the BEA data to 2028 using the CAGR for each sector. Then we take one-quarter from CY 2023 and three-quarters from CY 2024 to produce our estimate for FY 2024 of \$103.896 billion. We use the same method to obtain our estimate of \$123.711 billion in FY 2028.

¹⁴ The Bureau of Economic Analysis, Regional Data, Nebraska, SAEXP1 Total personal consumption expenditures (PCE) by state, SAINC7N Wages and Salaries by NAICS Industry, Table 5.4.5. Private Fixed Investment in Structures by Type
<https://apps.bea.gov/iTable/iTable.cfm?0=4&isuri=1&reqid=70&step=30&1=32510&2=12&3=32000>

¹⁵ Personal Consumption Expenditures, Nebraska <https://www.bea.gov/data/consumer-spending/state>

The consumption tax base includes the sale of new homes, home improvements, and related commissions. BEA estimates national data for spending on new single-family and multi-family housing, manufactured homes, home improvements, and real estate brokers and commissions. We estimate the portion of the national data attributed to Nebraska. We estimate Nebraska's share of these items in FY 2018 to be \$4.131 billion. We use the CAGR to grow these figures to obtain our estimate of \$6.916 billion in FY 2028, listed in line 4 of Table 12.

The U.S. Census Bureau provides data for state and local government consumption spending.¹⁶ We grow the 2018 Nebraska state and local government spending data (the latest available) through FY 2028 using the same method as with private consumption spending. We estimate Nebraska state and local government spending to be \$11.354 billion in FY 2028, listed in line 2 of Table 12.

Another component of the consumption tax base is state and local government spending on salaries and wages. Using the same growth method as above, we grow the 2018 state and local government spending on salaries and wages to obtain our estimate of \$9.971 billion in FY 2028, listed in line 3 of Table 12. We then add together the estimates from above to obtain our gross Nebraska consumption tax base of \$151.952 billion in FY 2028.

The EPIC Consumption Tax Plan includes an administrative fee of 0.25 percent of the tax base to be paid to vendors and states for collecting the tax. We calculate the administrative fee as a percentage of the net tax base. We calculate an administrative fee of \$331 million in FY 2028. Last, we subtract the prebate and administrative fee from the gross consumption tax base to obtain the net consumption tax base of \$130.950 billion in FY 2028. We then divide the tax revenue to be replaced (\$12.046 billion in FY 2028) by the net consumption tax base to obtain the static consumption tax rate of 9.19 percent in FY 2028.

¹⁶ 2018 State & Local Government Finance Historical Datasets and Tables, Nebraska
<https://www.census.gov/data/datasets.html>

The STAMP Model

To identify the economic effects of the tax and understand how they operate through a state's economy, BHI customized its STAMP (State Tax Analysis Modeling Program) model for Nebraska (NE-STAMP).¹⁷ NE-STAMP is a five-year dynamic CGE (computable general equilibrium) model that has been programmed to simulate changes in taxes, costs (general and sector specific) and other economic inputs. As such, it provides a mathematical description of the economic relationships among producers, households, governments and the rest of the world.¹⁸

A CGE tax model is a computerized method of accounting for the economic effects of tax policy changes. A CGE model is specified in terms of supply and demand for each economic variable included in the model, where the quantity supplied or demanded of each variable depends on the price of each variable. Tax policy changes are shown to affect economic activity through their effects on the prices of outputs and of the factors of production (principally, labor and capital) that enter into those outputs.

A CGE model is in "equilibrium," in the sense that supply is assumed to equal demand for the individual markets in the model. For this to be true, prices are allowed to adjust within the model (i.e., they are "endogenous"). For instance, if the demand for labor rises, while the supply remains unchanged, then the wage rate must rise to bring the labor market into equilibrium. A CGE model quantifies this effect.

¹⁷ Ibid, 1.

¹⁸ For a clear introduction to CGE tax models, see John B. Shoven and John Whalley, "Applied General-Equilibrium Models of Taxation and International Trade: An Introduction and Survey," *Journal of Economic Literature* 22 (September, 1984): 1008. Shoven and Whalley have also written a useful book on the practice of CGE modeling entitled *Applying General Equilibrium* (Cambridge: Cambridge University Press, 1992). See also Roberta Piermartini and Robert Teh *Demystifying Modelling Methods for Trade Policy* (Geneva, Switzerland: World Trade Organization, 2005) http://www.wto.org/english/res_e/booksp_e/discussion_papers10_e.pdf (accessed August 12, 2021).

Finally, a CGE model is numerically specified (“computable”), which is to say it incorporates parameters that are believed to be descriptive of the actual relationships between quantities and prices. It produces estimates of changes in quantities (such as employment, the capital stock, gross state product and personal consumption expenditures) that result from changes in prices (such as the price of labor or the cost of capital) arising from changes in tax policy (such as the substitution of an income tax for a sales tax).

Because it consists of a large number of interrelated equations, a CGE model ordinarily requires the application of a nonlinear computational algorithm, typically some variation on Newton’s method. STAMP requires the development and application of a sophisticated computer program for the solution of its equations.

In order to simulate the effects of the consumption tax, BHI adjusted the NE-STAMP model to incorporate the new consumption tax. BHI accomplished this by adding the tax and then by changing the current sales tax base to a new broad-based consumption tax base. Finally, BHI had to incorporate the prebate into the model. BHI allowed for the prebate to be paid to all people for their consumption up to the poverty level on an annual basis.



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The Beacon Hill Institute focuses on federal, state and local economic policies as they affect citizens and businesses. The Institute conducts research and educational programs to provide timely, concise and readable analyses that help voters, policymakers and opinion leaders understand today's leading public policy issues.

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