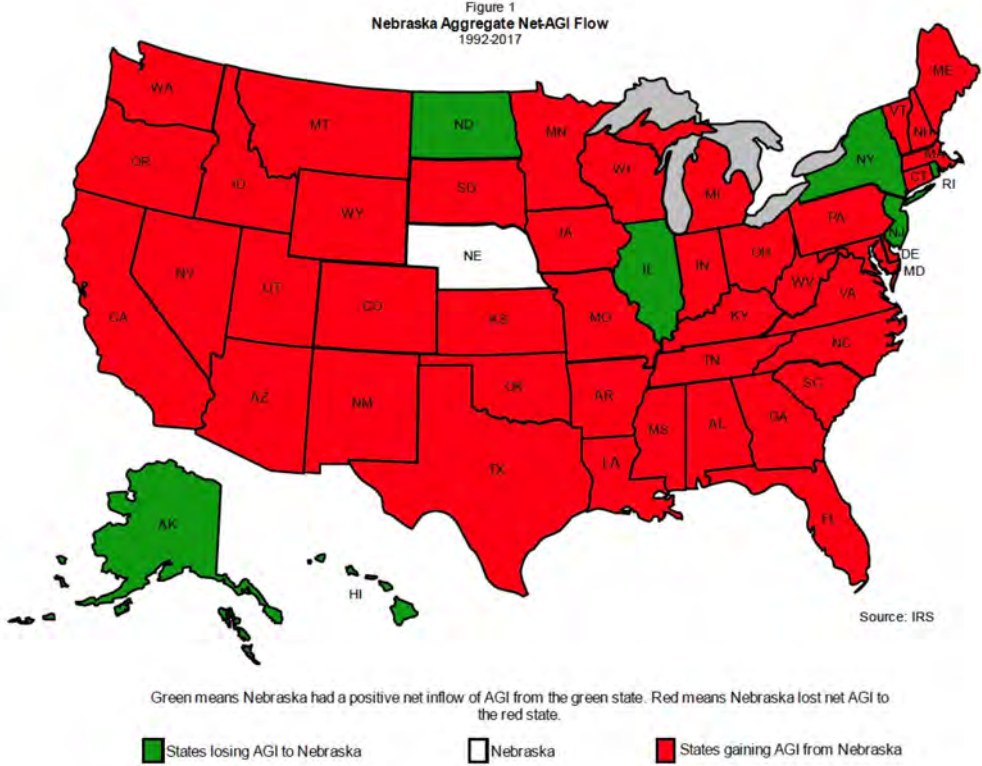


The EPIC Consumption Tax

The Elimination of Property, Income & Corporate
Taxes

Nebraska's Failed Tax System.



Analysis of Nebraska's Tax System

The Nebraska State Constitution currently allows for six different kinds of taxes:

1. The Personal Income Tax.
2. The Corporate Income Tax.
3. The Property Tax.
4. The Inheritance Tax.
5. The State Sales Tax.
6. The Excise Tax.

According to the Tax Foundation Nebraska ranks as follows:

1. The Inheritance Tax.
 - Currently 1-18%; rank 1.
2. Corporate Income Tax.
 - Currently, 7.81%; rank 16.

According to WalletHub Nebraska ranks as follows:

1. The Personal Income Tax Burden.
 - Currently 2.3%; rank 26
2. The Property Tax Burden.
 - Currently 3.77%; rank 10.
3. The Sales & Excise Tax Burden.
 - Currently 2.94%; rank 36

A Constitutional Amendment

- The Ballot Language: *“No taxes other than retail consumption taxes and excise taxes shall be imposed on the people of Nebraska.”*
- The consumption tax would take effect on January 1, 2024.

Ten Principles of Tax Policy

Dan Pilla, Nationally Known Tax Attorney
and Taxpayer Advocate

Principle	Current NE Tax System	EPIC
1. Simplicity	No	Yes
2. Noninvasiveness	No	Yes
3. Efficiency	No	Yes
4. Stability	Somewhat	Yes
5. Visibility	No	Yes
6. Neutrality	No	Yes
7. Economic Growth	Selective	Yes
8. Broad-based	Many Exemptions	Yes
9. Equality	No	Yes
10. Constitutionality	Depends	Yes

Consumption Tax vs. Sales Tax

The Consumption Tax:

1. Taxes an item only once.
2. No tax on used items.
3. Taxes all retail services.
4. No exemptions
5. No tax on business inputs.
6. Comes with a pre-bate to cover tax up to the federal poverty rate, so that those living at or below the federal poverty rate are rendered harmless.

The Sales Tax:

1. Taxes an item every time it sells.
2. Taxes used items.
3. Taxes some services.
4. Too many exemptions.
5. No tax on business inputs.
6. No pre-bate, so those living at or below the federal poverty rate must still pay the tax on used and new goods.

The Consumption Tax Rate

- In August 2021 the Beacon Hill Institute completed a dynamic study of the consumption tax for the State of Nebraska.
- The Beacon Hill Institute concluded that a consumption tax with a rate of 8.97% could be imposed and be revenue neutral.
- Nebraska needs to collect \$10.9 billion in revenues in order to be revenue neutral – this includes local and county budgets.
- According to the dynamic study, a consumption tax with a rate of 8.97% would generate the \$10.9 billion in revenue we need to run the state as well as all local and county governments in the State.
- *“The revenue neutral consumption tax rates required to replace existing revenue, while including a pre-bate, starts at 8.97 percent in (FY) 2024 and falls to 8.12 percent in (FY) 2028.”*

— Burke, William F. and David G. Tuerck of the Beacon Hill Institute, *The Fiscal & Economic Effects of the EPIC Consumption Tax in Nebraska*, August 25, 2021, p. 3.

Calculating the Effective EPIC Consumption Tax Rate

A. Family Size	B. Poverty Level	C. Median Gross Income	D. Income after Federal Taxes	E. Median Gross Income Effective Rate	F. Income after Federal Taxes + 20% non-consumables	G. Annual EPIC Pre-bate	H. The Effective EPIC Tax Rate
1	\$12,800	\$48,796	\$39,036	3.39%	\$31,228	\$1,148	5.30%
2	\$17,420	\$68,061	\$54,448	3.45%	\$43,559	\$1,562	5.39%
3	\$21,960	\$77,274	\$61,819	4.99%	\$49,455	\$1,970	4.99%
4	\$26,500	\$93,746	\$74,996	5.01%	\$59,997	\$2,377	5.01%

The effective rate per family size is calculated as follows: $(F \times 8.97\% - G) / F = H$.

How the EPIC Consumption Tax Benefits Those with Low Income?

- A Case Study: A single man who makes \$12,800 per year.
- Under the Current Tax System:
 - If this man spends 2% of his gross income goes to sales tax, then he will pay \$256 per year in sales taxes.
 - Adjusted Annual Income: $\$12,800 - 256 = \$12,544$
- Under the Consumption Tax:
 - Effective Consumption Tax Rate: 0.0% + Fed. Income Tax Rate: 0.0%
 - The consumption tax paid would be \$269.
 - His pre-bate would be $\$1,148 - \$269 = \$879$.
 - Adjusted Annual Income: $\$12,800 + \$879 = \$13,679$.

Purchasing a New \$50,000 Car in Lincoln for a Family of Four who Makes \$64,000 per Year.

Under the current tax system:

1. 7.5% sales tax = \$3,750 +
2. \$ 900 motor vehicle tax +
 - Year 2 = \$810
 - Year 3 = \$720
 - Year 4 = \$630
 - Year 5 = \$540
 - Year 6 = \$459
 - Year 7 = \$378
 - Year 8 = \$297
 - Year 9 = \$216
 - Year 10 = \$135

9 year total = \$4,185

1. The math: $\$3,750 + \$900 + \$4,185 = \$8,835$

Total Tax Burden: \$8,835

Under the consumption tax

1. The consumption tax rate is 8.97%.
2. However, after the pre-bate, this family of four has an effective consumption tax rate of only 6.4%.
3. The math: $\$50,000 \times .064 = \$3,200$.

Total tax burden: \$3,200



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Purchasing a new \$200,000 home in Lincoln for a family of four who makes \$64,000 per year.

Under the current tax system:

1. The new property is subject to the real estate tax at 2.01% which amounts to \$4,000 per year. This is an annual tax they will pay for as long as they own the home. This means their monthly payments will increase by \$333 per month.
2. A 30 year mortgage loan at a 4% interest rate results in a monthly payment of \$954.
3. The Math: $\$954 + \$333 = \$1,287$
4. Monthly payment = \$1,287
5. \$4,000 annual property taxes compounded at 2% over 30 years totals more than \$163,000!

Under the consumption tax:

1. The consumption tax rate = 8.97%
2. The contractor will not pay consumption tax on materials because this is a business-to-business transaction. So, this lowers the price of the new home to \$191,000.
3. After the pre-bate this family of four has an effective consumption tax rate of only 7.95%.
4. The Math: $\$191,000 \times .0795 = \$15,105$.
5. A 30 year mortgage loan for \$206,105 at a 4% interest rate results in a monthly payment of \$983.98.
6. Under the consumption tax this family of four would be able to purchase a \$250,000 home with a lesser monthly payment (\$1,193.54) than what the current tax system allows!

How the Pre-bate Works

1. The pre-bate is a monthly allowance which applies to every resident living in Nebraska.
2. A person designated by the family as the head of the household applies with the Department of Revenue (DOR).
3. At the beginning of each month the DOR deposits the pre-bate into the family's bank account or onto a smartcard.
4. The amount of the pre-bate is determined by two factors:
 - The number of individuals living in the household.
 - The federal poverty rate.
5. The federal poverty rate for a family of four is \$26,500 per year. So, the monthly pre-bate would be calculated as follows:
 - $\$26,500 \times 0.897 / 12 = \198.08 per month

The Consumption Tax Calculator



EPIC REFORM = EPIC SAVINGS

What Do You Pay Annually Now?

A. Property Taxes	\$4,000
B. State Income Tax	\$5,000
C. Pers. Property	\$0
D. Sales Tax (2% of take-home)	\$1,600
E. Vehicle	\$700
<hr/>	
Total Current Taxes	\$11,300

Under EPIC Reform you will pay:

Property Taxes	\$0
Income Taxes	\$0
Pers. Property	\$0
Sales Tax	\$0
Vehicle	\$0
F. Consumption Tax	\$3,600
<hr/>	
Total EPIC Tax	\$3,600

Estimated Annual savings \$7,700

Estimated Ten Year Savings \$77,000

What About Border Bleed?

Iowa

- The Situation: An Omaha gamer wonders if purchasing an HP Omen Obelisk Gaming System computer would be cheaper in Iowa than in Nebraska. So, he visits an electronics store in Council Bluffs to compare the price.
1. The retail cost of the computer in Iowa is \$1,600. Buried within the \$1,600 price tag of the computer are hidden taxes, such as real estate taxes and income taxes totaling \$80. So, the cost of the computer without these hidden taxes would be only \$1,520.
 2. After the 7% sales tax is applied, however, the final price of the computer in Iowa is \$1,712.

Nebraska

- The Situation: The same gamer visits an electronics store in Omaha in order to compare the price of an HP Obelisk Gaming System computer.
1. Since there are no hidden taxes, the same computer retails in Omaha for only \$1,520.
 2. Even if we apply the full consumption tax rate of 8.97%, the final cost of the computer in Omaha is only \$1,656.
 3. Buying the computer in Omaha results in a savings of \$56 .

Why would anyone shop in Iowa?

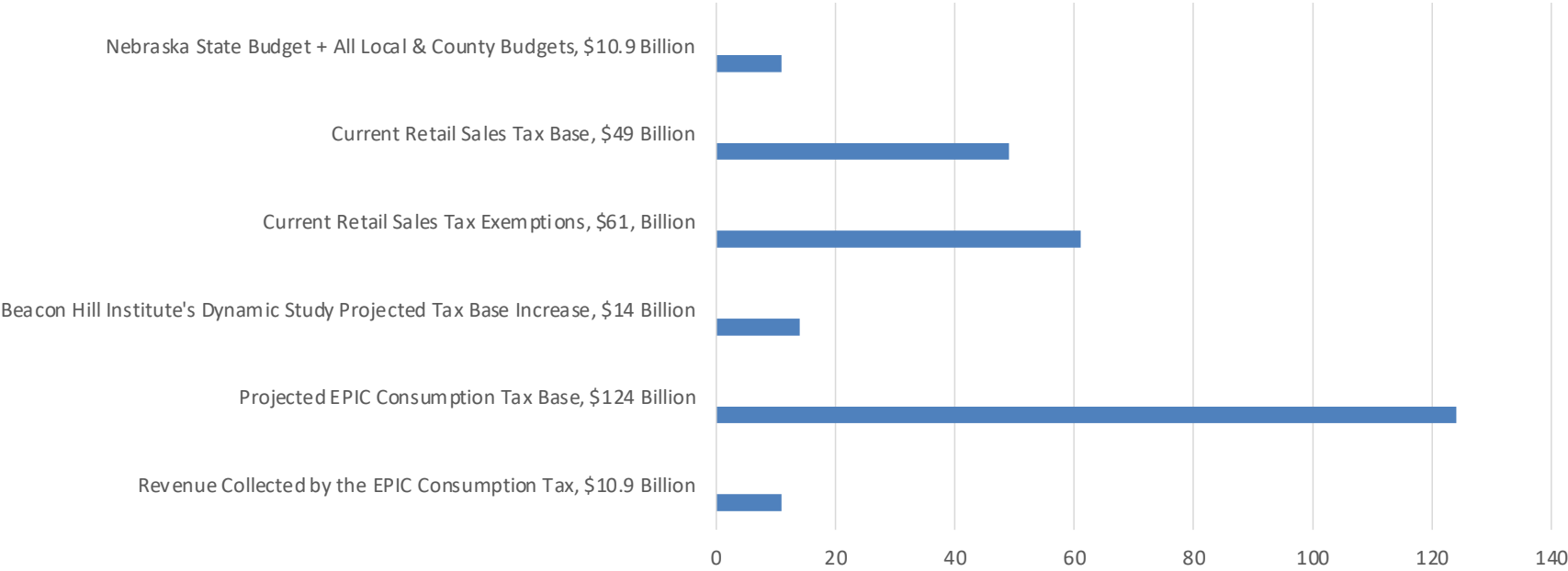
What Effects Will the EPIC Consumption Tax Have on Nebraska's Economy?

Economic Effects	FY2024	FY2028
Population Change	1.63%	2.03%
Personal Consumption	1.40%	3.86%
Net Employment (jobs)	38,254	48,579
Investments (\$, billions)	7.601	6.618
Real Disposable Income (\$, billions)	7.662	10.356
State Real Gross Domestic Product (\$, billions)	18.682	26.952

Source: Burke, William F. & David G. Tuerck. *The Fiscal & Economic Effects of the Proposed EPIC Consumption Tax in Nebraska*. The Beacon Hill Institute for Public Policy Research. August 25, 2021; p. 4.

Is the EPIC Consumption Tax Revenue Neutral with a Rate of 8.97%?

Who Pays for the EPIC Consumption Tax?



Is the EPIC Consumption Tax Right for Nebraska?

“It is a signal advantage of taxes on articles of consumption, that they contain in their own nature a security against excess.”

- Alexander Hamilton, *Federalist Paper #21*, December 12, 1787.

“Many people want the government to protect the consumer. A much more urgent problem is to protect the consumer from the government.”

- Milton Friedman, *An Economist's Protest: Columns in Political Economy*, 1966; p. 107.

“You're doing the right thing with your tax reform and I'm totally on board.”

- Art Laffer, Email to Sen. Steve Erdman, August 4, 2021.

Now What?

- Two Ways to pass the consumption tax constitutional amendment:
 - Option A: Get 30 YES votes in the Legislature.
 - Option B: Petition drive garnering 166,000 voter signatures.
- For more information, or to use the EPIC Tax calculator, or to download the Beacon Hill Institute's dynamic study of Nebraska's EPIC Consumption Tax please visit our website at:

www.epictax.org