

# One Hundred Third Legislature - First Session - 2013

## Introducer's Statement of Intent

### LB81

---

**Chairperson: Senator Galen Hadley**

**Committee: Revenue**

**Date of Hearing: February 20, 2013**

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

Currently a dollar earned by a "C" (ordinary) corporation is generally taxed at the federal level at 34% plus 7.81% at the state level for a corporate tax of 41.81 cents. Generally, when the remaining 58.19 cents is distributed out to the shareholders, the federal tax will be approximately 33% (15% to 20% in the case of "qualifying dividends") and 6.84% at the state level. This results in an additional 12.7 to 23 cents in tax at the shareholder level.

Thus, in general terms, of the original dollar earned 54.51 to 64.41 cents is taxed away.

LB81 proposes to eliminate the double taxation of corporate dividends by putting "C" (ordinary) corporations on a level playing field with "S" corporations, partnerships, and limited liability companies. It would also put return on capital paid as interest (currently deductible) on a level playing field with return on capital paid as dividends (currently not deductible). The bill leaves open for committee discussions the percentage of deductibility.

Nationally, it is recognized by leaders of both parties that America's corporate tax rate is too high for a number of reasons. Nebraska's double taxation of dividends and, unlike the federal tax system, its treatment of corporate dividends and capital gains as ordinary income creates a tax system that taxes over half to two thirds of earnings exasperating the high federal corporate tax. The double taxation causes ordinary corporations to choose not to pay dividends to investors who may be counting on dividends in their retirement, to spend corporate profits on unreasonably high executive compensation, and to choose debt over equity financing, among other things.

As we embark on a conversation about fairness and wisdom in the tax system, the double taxation of the dividends is appropriately part of the discussion.

**Principal Introducer:** \_\_\_\_\_

**Senator Paul Schumacher**