

three states whose state income taxes piggyback federal tax liability. All the rest of the states either have no income tax, 7 states, stand alone tax systems, 12 states, or they dovetail into some other part of the federal tax return, whether it be federal adjusted gross income...whether it be federal gross income, federal adjusted gross income, or federal taxable income. There are three states, though, that dovetail into the federal tax return on tax liability, Nebraska, Rhode Island, and Vermont. Now in 1981 the United States Congress began to mess around with our tax base. For federal policy reasons the United States Congress reduced federal tax rates and substantially altered the definition of federal taxable income and substantially altered the definition of deductions against that income. The ultimate effect of that alteration is that Congress changed our tax base. You didn't change it, and I didn't change it, the Governor of this state didn't change it, but Congress did. Well it did that also for Rhode Island, and it did it also for Vermont. I mean we three states took the greatest hit, so to speak, as a result of the congressional change. So what we have been doing since that time, legislatively, is we have literally been playing catch up with those congressional base changes. And we have had to go through the wrenching experience, literally, of changing our tax rates simply so we can generate as much revenue with the new rates as we generated in 1981 with the old tax law and the old rates. We are playing catch up. And we're still playing catch up today. I have a bunch of documents on my desk, which I may pass out as the time goes on, to indicate how bad it is. Our analysts tell us that the appropriate state income tax rate, to simply be held harmless from where we were in 1981, is 21 percent, not 19 but 21 percent. In any event LB 1142 does one basic thing, it says our State Tax Commissioner, Donna Karnes, or whoever her successor will be has the lawful authority to alter the state's income tax rate either upward or downward, either upward or downward to reflect changes in federal law. And the purpose of that alteration is to provide some flexibility in this system so that the Nebraska Legislature does not have to deal, year in and year out, with base change decisions made by the federal level and not by us. The second thing that the bill does, the bill's got to have a starting point. If you're going to have a hold harmless bill you literally have to have a point from which you begin to be held harmless. LB 1142 says that the tax commissioner is permitted to make those kinds of rate adjustments, taking into consideration the amount of revenues that current law would generate when applying a tax rate of 20.91 percent. Okay? Why the 20.91 percent? That is the