

Is Nevada a High-Tax State?
Facts and Figures on Nevada
State and Local Revenues
Second Edition

Institute on Taxation and Economic Policy
June 2008

Executive Summary

Legislators and advocates in Nevada often debate whether the state's taxes are "too high" or "too low" based on a simplistic and misleading view of tax data. In February of 2007, ITEP released a report that put Nevada's tax system in a comparative context, and found that the truth about Nevada tax levels was more complicated than the simple pronouncements of anti-tax advocates. Since the report's release, two years of additional data has become available to allow an updated assessment of how Nevada's tax system stacks up. As Nevadans confront the prospect of budget deficits for fiscal year 2009, ITEP is pleased to provide an updated answer to the question: "Nevada taxes: How High?"

The updated report shows that in 2006, Nevada taxes overall took a smaller share of statewide personal income than the national average.

The report also shows that Nevada's tax system is notable for its extreme imbalance in its reliance on different types of tax. Nevada is one of only nine states with no broad-based tax on personal income, and makes up for this by imposing sales and excise taxes that are among the highest in the nation. Nevada also relies more heavily than almost any other state on sales tax revenues.

Nevada's tax system is also notable for a second, more troubling source of imbalance: upper-income Nevadans experience Nevada as a low-tax state—but the reality is far different for lower-income working families. The poorest Nevadans pay four times more of their income in state and local taxes than the wealthiest Nevada families must pay—and actually face a tax load that is fourth highest in the nation, on average.

There has been growing concern about the rapid growth of local property taxes throughout the state. The report suggests that efforts to curb the growth of Nevada taxes should focus on improving the fairness of the state's tax structure. A key component of a fairness-enhancing reform could be the use of a property tax "circuit breaker" credit.

Notwithstanding the state's below-average tax levels, Nevada policymakers are missing an important opportunity to make the state's taxes even lower. By not levying a personal income tax, the state fails to take full advantage of the ability to write off certain state taxes on federal income tax forms.

Nevadans are acutely sensitive to questions about the state’s tax levels. Even after Nevada lawmakers pushed through property tax caps in 2005, the public has remained intensely interested in options for reforming the state’s property and business taxes. As state revenue forecasters project ongoing budget deficits for the remainder of this decade, however, lawmakers may ultimately find that the most immediate priority is finding the best option for raising additional tax revenues

But little critical attention has been paid to the question of just how high Nevada taxes are right now—and how that might change under various reform proposals.

This report aims to help inform the tax and spending debate by taking a close look at trends in Nevada state and local taxes. The report gives special attention to the dramatically different tax rates paid by poor and wealthy Nevadans. The report also highlights the distinction between overall tax levels and the levels of specific Nevada taxes, and also discusses the critical difference between the taxes paid to the state of Nevada and the taxes actually paid by Nevada residents.

Nevada Taxes: Below Average By Any Measure

The most frequently cited measure of a state’s overall tax level is total state and local tax collections expressed as a share of some measure of a state’s economy. Much of the comparative data presented is from the Census Bureau and Bureau of Economic Analysis, the most recent data available is for fiscal year 2006. The chart below shows how Nevada stacks up by these various measures.

Total State & Local Taxes in 2006: Three Measures

	% of		Per		% of	
	Pers. Inc.	Rank	Capita	Rank	GSP	Rank
Arizona	10.6%	37	\$ 3,234	38	8.8%	34
California	11.8%	13	\$ 4,491	9	9.7%	20
Idaho	10.7%	32	\$ 3,070	45	9.5%	24
Oregon	10.4%	38	\$ 3,351	34	8.6%	37
Nevada	10.4%	39	\$ 3,913	20	8.3%	41
Utah	11.3%	20	\$ 3,248	36	8.9%	33
ALL STATES	11.3%		\$ 3,985		9.4%	

- Expressed as a share of statewide Gross State Product (a measure of all the economic activity in the state), Nevada’s taxes were 8.3 percent in 2006, 41st highest nationally and 12 percent below the national average.

Addendum: Nevada Compared to National Average

	-7.4%	-1.8%	-12.1%
--	--------------	--------------	---------------

SOURCE: Bureau of Economic Analysis; Bureau of the Census

- As a share of statewide personal income, Nevada taxes were 10.4 percent, 39th highest nationally and more than 7 percent below the national average.
- On a per capita basis, Nevada taxes were \$3,913 in 2006, 7 percent below the national average, and were 25th highest nationally.

Which of these statistics tell the most accurate story? Measuring taxes on a per-capita basis is probably the least useful approach, because per capita tax levels depend primarily on how wealthy a state’s residents are. To see this, imagine that a rich state (Connecticut) and a poor state (Mississippi) imposed exactly the same income tax rules. On a per capita

basis, Connecticut’s income tax would look higher because its residents are richer and pay more income tax. And Mississippi would look like a “low income tax” state simply because its residents are poorer—even though its income tax rules were exactly the same as Connecticut’s.

For this reason, analysts typically look at tax-level measures that take into account the ability of a state’s residents to pay the tax. Expressing taxes as a share of personal income relates overall tax levels most directly to the ability of a state’s residents to pay them, while measuring taxes as a share of Gross State Product shows the tax load on all economic activities in the state, including the impact on tourists and out-of-state businesses. But by any of these measures, it’s fair to say that Nevada taxes as they affect Nevada residents appear to be substantially below the national average overall.

Nevada Taxes as a % of Personal Income in 2006								
	Personal		Sales & Gross		Property		Other	
	Income Tax	Rank	Receipts Taxes	Rank	Taxes	Rank	Taxes	Rank
Arizona	1.7%	39	4.9%	10	2.9%	31	1.0%	44
California	3.7%	5	3.7%	29	2.7%	36	1.7%	15
Idaho	2.9%	17	3.6%	34	2.9%	30	1.3%	25
Oregon	4.7%	2	0.9%	50	3.1%	25	1.8%	12
Nevada	—	44	6.1%	4	2.7%	35	1.6%	16
Utah	3.1%	15	4.5%	13	2.6%	38	1.1%	36
All States	2.5%		3.9%		3.4%		1.5%	
Addendum: Nevada Compared to National Average	-100%		+58%		-21%		+10%	

Source: Bureau of Economic Analysis; Bureau of the Census

Tax-by-Tax Variation in 2006

While Nevada taxes are below average overall, there is wide variation in the levels of particular Nevada taxes: some taxes are quite low, while others are unusually high. In particular:

- Nevada is one of only nine states without a broad based income tax, which obviously means that the state’s income tax is the lowest in the nation.
- Nevada’s sales and excise taxes, by contrast, are fourth highest in the nation. At 6.1 percent of personal income, Nevada’s consumption taxes were almost 60 percent above the national average in fiscal year 2006.
- Nevada property taxes were 21 percent below the national average in 2006, and ranked 35th highest nationally.
- Nevada was 16th highest, and 10 percent above the national average, in its reliance on all other taxes.

In other words, Nevada’s tax system does not rely evenly on the “big three” taxes (income, sales and property) that typically make up the bulk of state and local tax collections.

Instead, Nevada makes up for the absence of an income tax by imposing above-average sales taxes.

Minor Nevada Taxes as a % of Personal Income in 2006												
	License Taxes		Corporate Income Tax		Severance Taxes		Estate Taxes		Doc. & Transfer Taxes		Taxes NEC	
		Rank		Rank		Rank		Rank		Rank		Rank
Arizona	0.4%	40	0.5%	23	0.0%	20	0.0%	34	—	44	0.0%	19
California	0.8%	8	0.7%	7	0.0%	30	0.0%	49	0.1%	19	0.1%	11
Idaho	0.8%	7	0.5%	22	0.0%	25	0.0%	38	—	44	0.0%	24
Oregon	1.0%	3	0.4%	29	0.0%	23	0.1%	11	0.0%	33	0.2%	4
Nevada	1.3%	2	—	49	0.0%	16	0.0%	32	0.2%	8	0.1%	10
Utah	0.4%	39	0.5%	18	0.1%	12	0.0%	26	—	44	0.1%	13
All States	0.6%		0.5%		0.1%		0.0%		0.2%		0.1%	
Addendum: Nevada Compared to National Average												
	+120%		-100%		-53%		-85%		+18%		+13%	

Source: Bureau of Economic Analysis; Bureau of the Census

As noted above, when we leave aside the “big three” tax sources of sales and excise taxes, property taxes and personal income taxes, the level of the remaining “minor” taxes was collectively more than 10 percent higher in Nevada than in most other states in fiscal year 2006. As the chart above shows, this total once again conceals wide variation in the levels of specific types of Nevada taxes. Most notably, Nevada’s corporate income tax is obviously lowest in the nation, as Nevada is one of only a handful of states with no corporate income tax. Meanwhile, Nevada’s reliance on “license taxes” is second highest in the nation, reflecting the state’s use of other types of business tax in lieu of the corporate tax.

Like every other state, Nevada divides its taxing responsibilities between the state government and local government. But focusing solely on state or local taxes doesn’t dramatically change the state’s ranking. As the chart at right shows, Nevada’s local taxes are 30th highest in the nation, while Nevada’s state-level taxes are only 32th highest in the nation. Heavy reliance on local taxes is problematic because local tax bases are much more inequitably distributed, with low-income areas less able to fund core services such as education and transportation.

Nevada State and Local Taxes as a Share of Income						
	State Only		Local Only		State and Local	
		Rank		Rank		Rank
Arizona	6.3%	37	4.3%	25	10.6%	37
California	8.0%	12	3.8%	31	11.8%	13
Idaho	7.5%	18	3.2%	39	10.7%	32
Oregon	6.4%	36	4.1%	27	10.4%	38
Nevada	6.6%	32	3.9%	30	10.4%	39
Utah	7.5%	17	3.9%	29	11.3%	20
ALL STATES	6.7%		4.5%		11.3%	
Addendum: Nevada as a % of National Average						
	-2%		-15%		-7%	

SOURCE: Bureau of Economic Analysis, Bureau of the Census

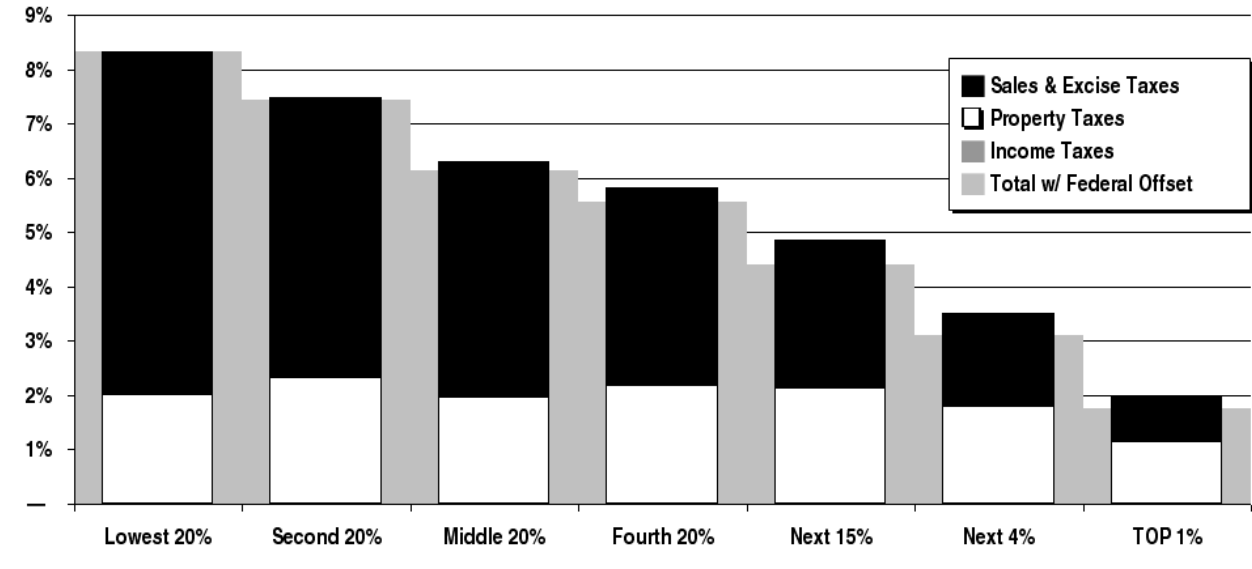
Many Nevada Taxes Are “Exported”

The main problem with the aggregate tax comparisons presented so far is that they don’t tell us whether specific groups of taxpayers experience Nevada as a low-tax or high-tax state. Taxes can affect different taxpayers very differently depending on their income level and other factors.

A second, especially important problem with aggregate tax comparisons is that they include all taxes collected in the state, regardless of whether state residents actually pay those taxes. For example, because of the importance of tourism to Nevada’s economy, an especially large percentage of Nevada tax revenues come from out of state visitors. In addition, much of the taxes paid by businesses to the state of Nevada do not ultimately come out of the pockets of Nevada residents at all, but are instead “exported” to non-Nevadans.

Nevada State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Tax Fairness in Nevada: The Poor Pay More

The Nevada state and local tax structure is *regressive*—that is, it requires low- and middle-income Nevadans to pay higher shares of their incomes in taxes than the wealthiest taxpayers have to pay. In other words, Nevada’s tax laws actually redistribute income away from ordinary families and towards the richest Nevadans. A January 2003 report by the Institute on Taxation and Economic Policy¹ found that:

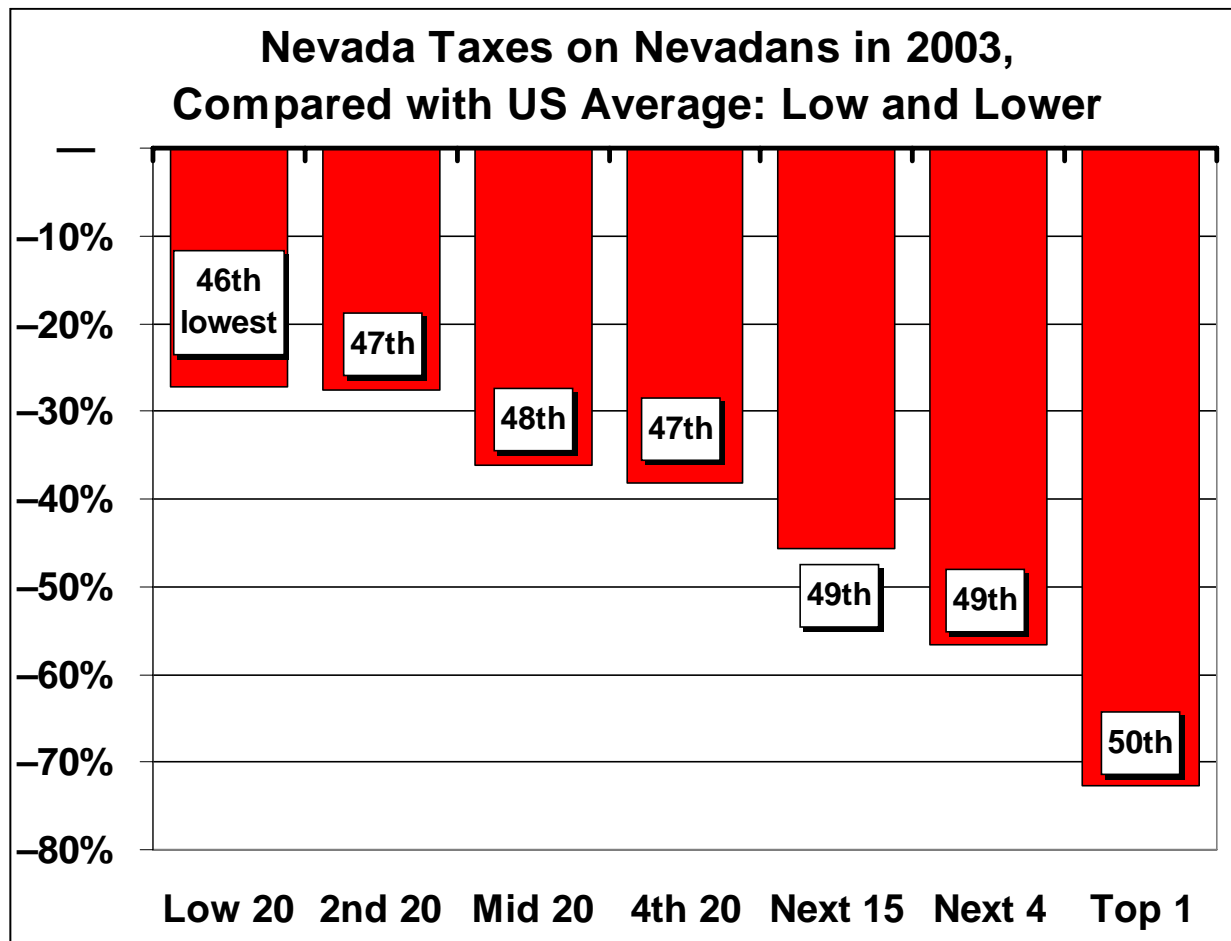
- The poorest twenty percent of Nevadans paid, on average, 8.3 percent of their income in Nevada taxes, while the wealthiest one percent of taxpayers paid only 6.3 percent of their income in state and local taxes.
- After taking into account the deductibility of state taxes on federal tax forms, the effective tax rate on the wealthiest 1 percent of taxpayers was an average of 1.8 percent—less than a quarter of the tax burden on the very poorest Nevadans.

¹*Who Pays? A Distributional Analysis of the Tax Systems in All 50 States.* McIntyre, Denk, Francis, Gardner, Hsu and Sims (Institute on Taxation and Economic Policy, 2003). The findings of this study do not reflect tax increases, reductions, or other tax changes (including either tax increases or tax cuts) enacted after 2002. Recent tax changes imposed do not impact this report’s basic findings.

- According to ITEP's January 2003 report, Nevada has one of the ten most unfair tax systems in the nation.

The ITEP report also showed that the Nevada tax system became even more unfair as a result of tax changes enacted in the 1990s. Growth in property taxes has made the Nevada tax system more regressive in 2002 than it was in 1989.

- Each Nevada income group paid more of their income in state and local taxes in 2002 than the same group did in 1989—but the poorest 80 percent of Nevadans experienced the biggest tax increase as a share of income.
- The wealthiest 20 percent of non-elderly Nevada taxpayers—those earning more than \$67,000 in 2002—saw a much smaller increase in their effective tax rate over this same period.



Nevada is a Low-Tax State—But Only If You're Wealthy

The results of the *Who Pays* report also allow us to compare the overall levels of taxes on state residents across the nation—which gives us more useful information than the Census data presented previously. As the following chart shows, the state and local taxes paid by Nevadans at every income level are among the lowest in the nation:

The taxes paid by the poorest 20 percent of Nevadans were 46th lowest in the nation, and were 25 percent below the national average as a share of income.

- By the same measure, the Nevada state and local taxes paid by middle-income Nevadans were 48th highest in the nation, 36 percent below the national average.
- At the other end of the income spectrum, the taxes paid by the wealthiest 1 percent of Nevadans were just 50th highest, almost 75 percent below the national average.
- In other words, only one state—Wyoming—required its wealthiest taxpayers to pay less of their income in state and local taxes than did Nevada. By comparison to the aggregate Census data presented above, the more detailed *Who Pays* report tells a dramatically different story about Nevada’s “low tax” legacy. Despite the state’s low tax ranking, many low- and middle-income Nevadans actually experience Nevada as a high tax state—and only the wealthiest residents of the Sunshine state truly enjoy the benefits of Nevada’s low-tax status.

Recent Changes and Future Opportunities

This report reveals that despite Nevada’s overall below-average tax rankings, the cost of funding Nevada public services falls disproportionately on the very poorest Nevada families. One reason for this is Nevada’s property tax. Property taxes as a share of personal income have been swiftly increasing in the past decade. In 1994, Nevada property taxes were 2.2 percent of personal income and 39th highest in the country. In 2004, Nevada property taxes had increased to 2.9 percent of income, 33rd highest in the nation. Attempting to deal with rapidly increasing property taxes, Governor Guinn in 2005 signed legislation that capped property tax increases to 3 percent annually on primary residences and assessed value at either 8 percent or the average percent of change in assessed valuation within a county over the past ten years, whichever is less.

However, if tax relief for fixed-income homeowners and renters is the goal, assessment caps are among the least effective tax strategies available. Caps give tax breaks to anyone whose home value increases rapidly, reserving the biggest tax breaks for those (typically wealthy) homeowners whose home values grow fastest, and provide nothing at all for low-income homeowners whose assessed values are stagnant. This makes assessment caps very expensive and very poorly targeted.

Legislators should be applauded for trying to curb a growing reliance on property taxes. Yet, there are other policy avenues available like a property tax circuit breaker which are much less expensive than “across the board” property tax breaks—and the benefits are targeted to taxpayers for whom property taxes are most burdensome.

Circuit breakers protect taxpayers from property tax “overload” like an electric circuit breaker: when a property tax bill exceeds a certain percent of a taxpayer’s income, a circuit breaker reduces property taxes in excess of the “overload” level.

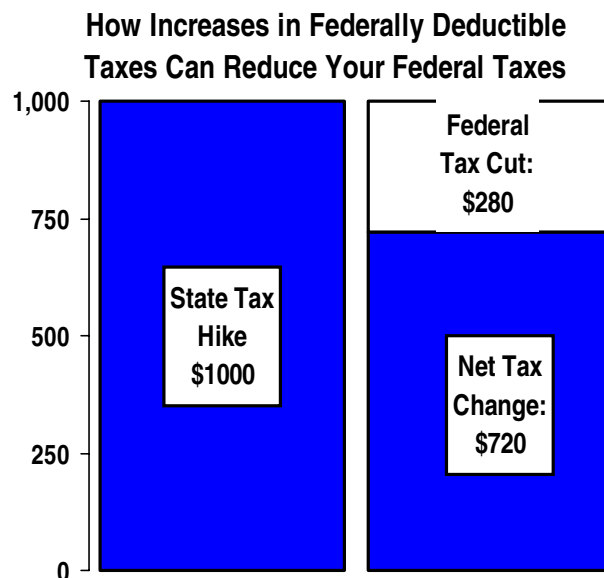
The “Federal Offset”: A Missed Opportunity to Reduce Nevada Taxes

The importance of Nevada’s tourism industry ensures that out-of-state visitors pay an unusually large share of the cost of funding Nevada public services. Yet the Nevada tax system is also unusual in that it fails to take advantage of another opportunity to export the cost of funding public services—the ability to write off state income taxes on federal tax returns. Residents of any state who itemize deductions on their federal tax returns are allowed to deduct the state and local income taxes and property taxes they pay—which directly reduces their federal taxable income and their federal tax bill. Sales and excise taxes, by contrast, are generally not deductible on federal tax forms.² Thus, for every dollar in income or property taxes paid to a state or local government, taxpayers who itemize get a offsetting federal tax cut of up to 35 cents, depending on which federal tax bracket they are in. This is commonly known as the “federal offset.”

The chart below shows this effect. Suppose that under a hypothetical Nevada income tax, an itemizing Nevada taxpayer in the 28 percent federal tax bracket is subject to a \$1,000 state income tax hike. Her federal itemized deductions will increase by \$1,000 as a result—which means that \$1,000 less of her income will be subject to federal income tax. Since this last \$1,000 of income was originally taxed at 28 percent, this person’s federal income taxes will go down by \$280 (28 percent of \$1,000). So the state of Nevada receives the full \$1,000—but only \$720 comes out of the wallet of the Nevada taxpayer. The remaining \$280 is effectively paid to the state of Nevada by the federal government. This “federal offset” amounts to a federal subsidy for states that rely on personal income taxes, through which the federal government effectively helps a state’s itemizers to pay their state income taxes.

The federal offset has clear implications for proposals to increase state income and property taxes. When state income taxes go up, part of that tax hike will not come out of state residents’ wallets at all, but instead will be paid by the federal government in the form of federal tax cuts for Nevada itemizers. Because the federal offset is most useful for wealthy taxpayers who are more likely to itemize, the state can maximize its “bang for the buck” from state income tax hikes by targeting these tax hikes to the wealthy Nevadans who will enjoy the largest federal tax cuts as a result.

The federal offset is not limited to the income taxes paid by individuals. Corporations can export up to 35 percent of their state



²Federal legislation passed in 2004 allowed a temporary tax deduction for itemizers (mostly living in states without an income tax) who pay more sales tax than income tax. This optional deduction was only available in 2004 and 2005.

corporate income taxes to the federal government. This means that by not levying a corporate income tax, Nevada lawmakers are passing up a chance to export part of the state's business tax burden to the federal government in the form of lower federal corporate income taxes for Nevada businesses.

Federal deductibility means that the differences in tax levels between income-tax and non-income-tax states are never really as large as they appear to be. Federal deductibility is a good deal for states like California and Oregon that rely heavily on income taxes, because it allows states with progressive income taxes to export part of their tax to the federal government. Conversely, the federal offset is an especially *bad* deal for non-income tax states like Nevada, because the state is unable to take advantage of the federal offset's matching grant for state income taxes.

The general inapplicability of the federal offset to sales and excise taxes makes these regressive taxes a bad deal for Nevada residents, since virtually every dollar of a sales tax hike that is paid initially by state residents will ultimately come out of their pockets.

Conclusion

Measured as a share of statewide personal income, Nevada taxes are actually below average overall. But as this report has shown, the simplest measures of Nevada tax levels can actually conceal more than they reveal about the actual taxes paid by Nevada families at different income levels. When the actual incidence of Nevada state and local taxes on Nevada taxpayers is accounted for, the state's taxes are clearly among the lowest in the nation—but only for the wealthiest Nevadans. In fact, low-income Nevadans experience Nevada as a high-tax state—and pay much more of their income in state and local taxes than the wealthiest Nevadans must pay. Efforts to reform the state's tax structure should focus on remedying this basic inequity.

APPENDIX : ITEP TAX MODEL METHODOLOGY

The Institute on Taxation & Economic Policy has engaged in research on tax issues since 1980, with a focus on the distributional consequences of current law and proposed changes. ITEP's research is frequently used by other groups in their work, and ITEP is frequently consulted by government estimators in performing their official analyses. ITEP has built a microsimulation model of the tax systems of the U.S. government and of all 50 states and the District of Columbia.

What the ITEP Model Does

The ITEP model is a tool for calculating the yield and incidence, by income group, of federal, state and local taxes. It calculates revenue yield for current tax law and proposed changes. Separate incidence analyses can be done for categories of taxpayers specified by marital status, the presence of children and age.

The ITEP model relies on one of the largest databases of tax returns and supplementary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections.

The ITEP model's federal tax calculations are very similar to those produced by the Joint Committee on Taxation, the U.S. Treasury and the Congressional Budget Office (although each of these models differs as to how the results are presented). The ITEP model, however, adds state-by-state estimating capabilities not found in those government models.

Below is an outline of each area of the ITEP model and its capabilities:

The Personal Income Tax Model analyzes the revenue and incidence of current federal and state personal income taxes and amendment options including changes in:

- rates—including special rates on capital gains,
- inclusion or exclusion of various types of income,
- inclusion or exclusion of all federal and state adjustments,
- exemptions and standard deductions,
- itemized deductions and deduction phase-outs, and
- credits, such as earned-income and child-care\ credits.

The Consumption Tax Model analyzes the yield and incidence of current sales and excise taxes. It also has the capacity to analyze the revenue and incidence implications of a broad range of base and rate changes in consumption taxes. There are more than 250 base items available to amend in the model.

The Property Tax Model analyzes revenue yield and incidence of current state and local property taxes. It can also analyze the revenue and incidence impacts of statewide policy changes in property tax—including the effect of circuit breakers, homestead exemptions, and rate and assessment caps.

The Corporate Income Tax Model analyzes revenue yield and incidence of current corporate income tax law, possible rate changes and certain base changes.

Local taxes: The model can analyze the statewide revenue and incidence of aggregate local taxes (not, however, broken down by individual localities).

Data Sources

The ITEP model is a “microsimulation model.” That is, it works on a very large stratified sample of tax returns and other data, aged to the year being analyzed. This is the same kind of tax model used by the U.S. Treasury Department, the congressional Joint Committee on Taxation and the Congressional Budget Office. The ITEP model uses the following micro-data sets and aggregate data:

Micro-Data Sets:

IRS Individual Public Use Tax File, Level III Sample; IRS Individual Public Use Tax File; Current Population Survey; Consumer Expenditure Survey; U.S. Census, 1990.

Partial List of Aggregated Data Sources:

Miscellaneous IRS data; Congressional Budget Office and Joint Committee on Taxation forecasts; other economic data (Commerce Department, WEFA, etc.); state tax department data; data on overall levels of consumption for specific goods (Commerce Department, Census of Services, etc.); state specific consumption and consumption tax data (Census data, Government Finances, etc.); state specific property tax data (Govt. Finances, etc.); American Housing Survey 1990; 1990 Census of Population Housing; etc.

A more detailed description of the ITEP Microsimulation Tax Model can be found on ITEP’s website at www.itepnet.org.