


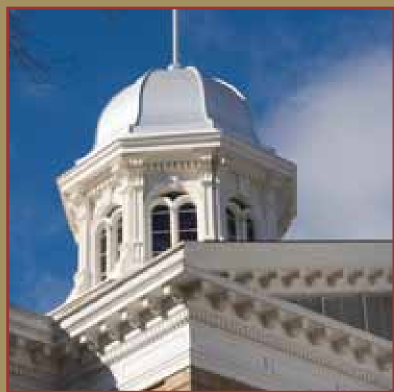


BRIDGING THE GAP

EXTENDED ONLINE EDITION

Building a Sound Tax System for the Silver State

May 2011

PLAN
Progressive Leadership Alliance of Nevada
www.planevada.org

PLAN Staff

Northern Nevada

Joe Edson, Technology/Systems Director
Bob Fulkerson, State Director
Jan Gilbert, Northern Nevada Coordinator
Rosa Molina, Financial Director
Mario DelaRosa, Community Organizer
Stacey Shinn, Intern
Elvira Diaz, Organizer

Southern Nevada

Michael Ginsburg, Southern Nevada Director
Launce Rake, Communications Director
Howard Watts III, Director of Field Operations
Ikaika Regidor, UNLV MSW Practicum Student
Laura Martin, Organizer

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Bridging the Gap: Building a Sound Tax System for the Silver State

Written by David Shreve, Ph.D.

Edited by Stephen Tchudi, Ph.D.

Layout and design by Taylor Johnson

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FOR A ONE-WAY ROMANCE**

— Mark Knopfler, Sands of Nevada

Introduction

"Lady Luck" is not a Revenue Policy

Much like the rest of the nation's fifty states, Nevada is faced with an unprecedented revenue crisis. With high unemployment and the worst recession in generations, Nevada is paralyzed by its upside-down tax system. The state can't pay for vital services it has traditionally provided in education, health care and social services, police and fire protection, nor can it maintain its infrastructure. In the past, Nevada has coped with crises with unique diffidence, tying itself to Lady Luck, to fate and happenstance, and to the vain hope that one can build a civilized place without civilized building blocks. Ignoring all the precepts of sound and sustainable policy, the state has imposed its highest tax rates on its poorest citizens and has built a tax structure that cannot possibly keep pace with the needs of an ambitious, expanding population.

Nevada's deeply flawed tax structure:

- depends largely on Lady Luck and the fortunes of the casino industry to float the state's vital services.
- doesn't do much to create a steady and stable flow of revenue.
- gives away the state's natural resources.
- stifles real investment in favor of trickle-down pipe dreams.
- assumes that growth will somehow pay for itself.
- pretends that visitors will not only pay for the charms of a place they love to visit but will support its infrastructure, education system, and social services too.

Former U.S. Senate Finance Committee chair Russell Long once said that the American tax policy ethos could be described as, "Don't tax you; don't tax me; tax that man behind the tree." Sadly, Nevada embraces Long's disparaging maxim with notable relish and fateful results. With its hand-to-mouth, hope-for-the-best approach to taxes, the "Battle Born" state barely reports for duty.

The Silver State Tax Structure
Upside Down and Gasping for Air

While none of the fifty states has a truly sound, progressive tax structure that would enable it to keep pace with the needs of growing, increasingly civilized population, Nevada's structure lies near the bottom of this regressive, unproductive, and economy-stifling constellation of state tax systems. With the nation's fastest growing population from the 1940s to 2003, an overreliance on gaming revenue that peaked in the late 1970s, and a K-12 student population that rose approximately 40 percent in the last decade, Nevada has found itself increasingly in a position where this kind of deficient tax structure creates unparalleled economic and social problems.

As the graph (on the next page) reveals in stark detail how the Nevada tax structure is upside-down, imposing higher effective rates on lower incomes. This kind of structure, embraced to some extent by all other states, hampers the state's economy and the general welfare of its citizens in the following ways:

- Because revenue tied to such a structure grows about one-third less rapidly than that of a moderately progressive structure (based on a graduated income tax), higher effective rates must be imposed on a greater number of citizens to obtain a given amount of minimum revenue.

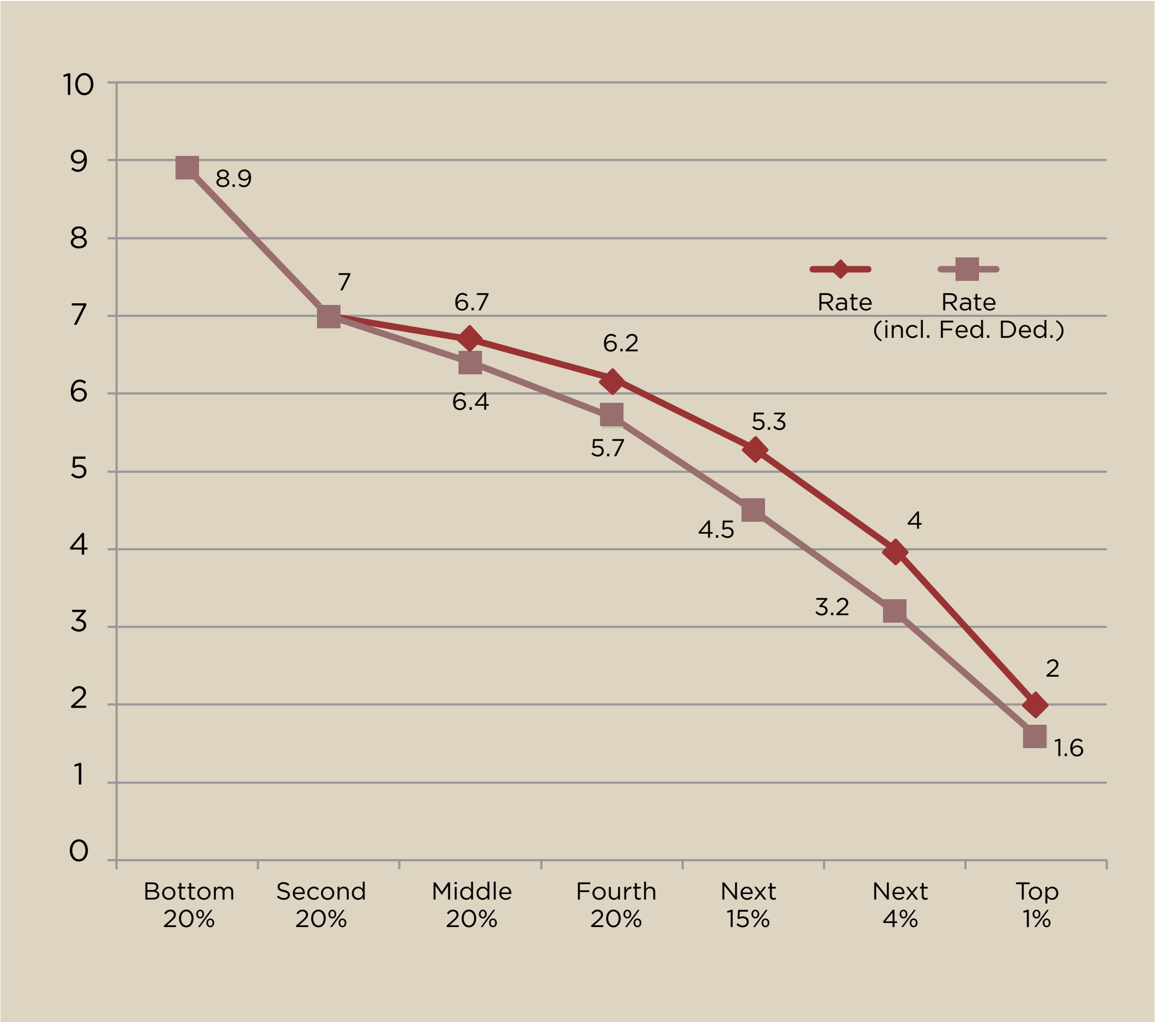
- Because this kind of structure also draws relatively more income away from citizens who spend greater proportions of their total income, compared to a more progressive structure that does the opposite, it dampens overall consumer demand, economic activity, and the related incentive to undertake private investment.

- Because it depresses public and private investment, this kind of structure places the state within a vicious cycle, by which each form of depressed investment hampers the potential growth and resurgence of the other. A wholly unnecessary economic paralysis ensues, in which public and private actors feel constrained by "limits" they often consider beyond their control but which they have actually and quite astonishingly introduced and intentionally solidified.

With such a deficient, upside-down structure, it is no accident that Nevada, a state blessed with great natural and financial resources, has in fifteen years slipped from 7th to 14th in per capita income among all states (and from 17th to 20th in median household income), or that it currently has the nation's highest unemployment rate. Though a state's fiscal policy is never the only factor behind its relative economic success or failure, and although investment bubbles and extractive industry windfalls, for example, can certainly mask significant weakness, sound tax structures have always formed the backbone of sound and stable state economies, especially in the long term when the public and private investment they trigger and sustain always pays off handsomely. Nevada has fallen behind precisely because it has resisted sound public finance and because it has continually shirked much of the basic fiscal responsibility that any prosperous, civilized people require. Nevada will fall further still if it continues to pretend that its population is yet small enough, that its one-time gaming monopoly will somehow return fully enough, or that another "better" real estate investment bubble will be good enough to carry it through the next century.

Effective Tax Rates by Income Category

Nevada, FY 2007 (Sales, Property and Income Taxes)

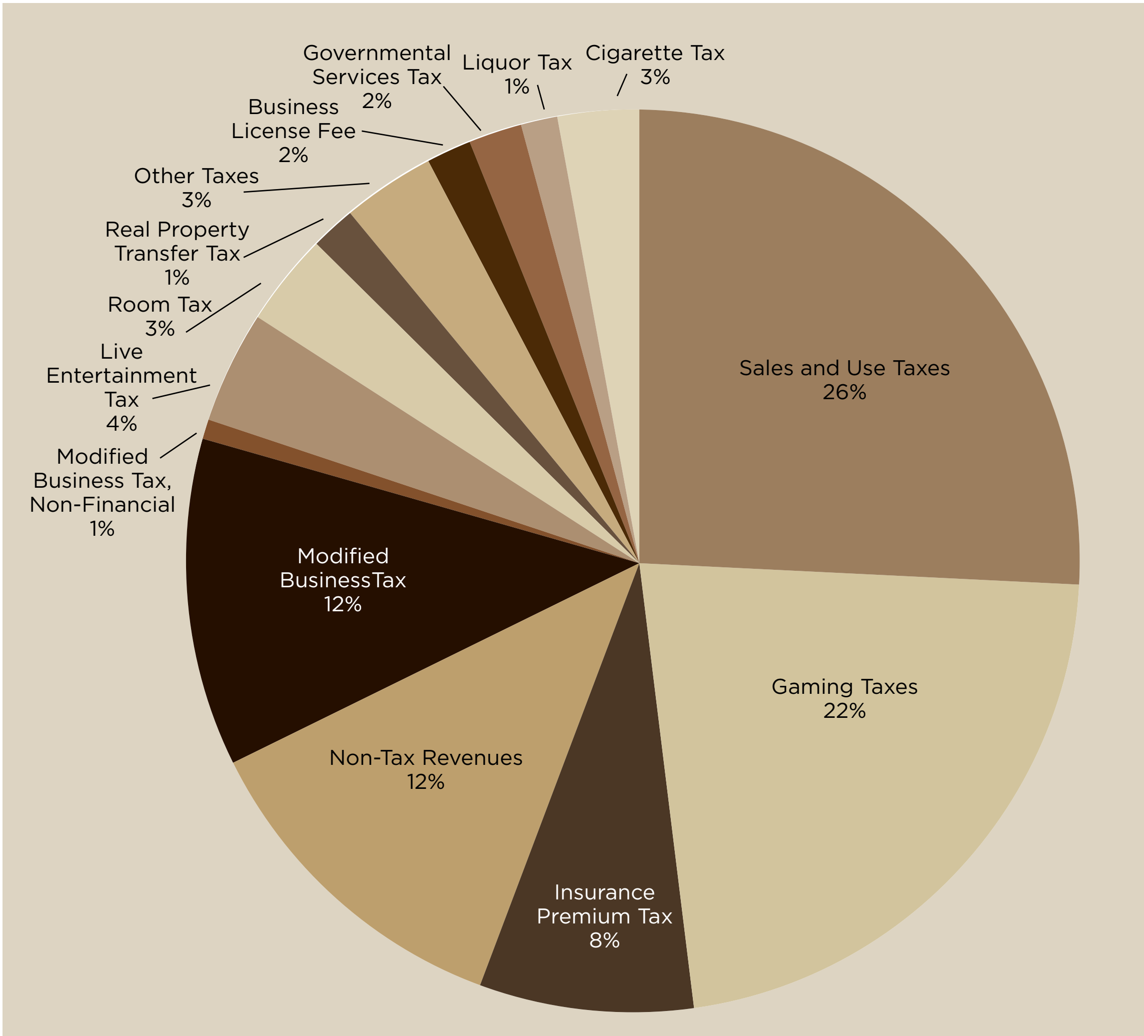


Source, Institute of Taxation and Economic Policy, Who Pays, 3rd edition, November 2009.

What This Graph Tells Us

- Because there's less income on the left side (by definition), where the effective rate is the highest, one could invert the tax incidence and obtain ***much more revenue*** with ***lower effective rates*** for more Nevada taxpayers
- A tax is a tax is a tax… Since all taxes are ultimately derived from income, what matters most (in terms of their revenue effect *and* their economic effect) is the amount of the given tax ***relative to income***

General Fund Revenue by Source
2009–2011 Biennium



Source: Legislative Commission's Budget Subcommittee Executive Budget Overview, Nevada Department of Administration, 25 January 2011, p. 23

What Is To Be Done?

For taxes and budgets, myriad policy paths are possible. The Progressive Leadership Alliance places these in four broad categories:

1) The Foolish and Counterproductive

2) The Finger-in-the-Dike, Head-in-the-Sand Approach

3) The Modest, Get-On-the-Right-Path Approach

4) The Short- and Long-Range Optimum

PLAN firmly believes that the state has too long cast its lot with debilitating options 1 or 2 and that it must now move boldly and democratically to employ the much more promising third and fourth options.

Option #1
The Foolish and Counterproductive

This disastrous course begins by ignoring economic history and by clinging to five economic policy myths:

- **Myth #1: Increased tax revenue necessarily means increased tax rates.** Regressive structures like Nevada's guarantee, for example, that minimum revenue needs can be met only with higher than necessary rates for many Nevadans and by imposing increasingly higher rates with each passing year.
- **Myth #2: Austerity is the same thing as frugality.** Cutting to the bone and wielding the axe is not the same as thoughtfully economizing government activities. In fact, adequate budgets often deliver real economies of scale, while savage cuts to personnel and services often decreases efficiency. Off-budget privatization often increases inefficiency and only makes it less obvious by placing it out of sight.
- **Myth #3: Publically supported jobs don't qualify as real jobs.** In fact, cutting spending by firing teachers and other public workers destroys local economies as well as state revenues.
- **Myth #4: Public borrowing only places a greater burden on future generations.** Rather, it can create assets from which these generations will earn their future incomes.
- **Myth #5: You cannot raise taxes in a recession.** Taxes revenues can be raised in ways that bolster the economy, especially if done with progressive increases that recognize ability-to-pay. Nobel-winning economists agree, and several states have shown, that revenues can be raised in ways that bolster the economy, especially if done with increases that recognize ability-to-pay.

What does Nevada look like when these myths are accepted?

Our governor and legislative leaders:

- Proceed by pronouncing that they have decided to make "difficult" decisions in trying times (Stiff upper lip recommended.)
- Pretend that imposing further cuts on an already eviscerated budget will not add even more "pro-cyclical momentum" (economist-speak for driving the car further into the mine shaft).
- Balance the budget solely by imposing the "necessary" cuts.
- Take a bow, pretending to have "rescued" the state.
- The state burns down; people die in streets; infrastructure collapses; businesses, entrepreneurs, and people seeking education flee.

Option #2
The Finger-in-the-Dike, Head-in-the-Sand Approach

The dubious principles of this approach cause the state to adopt a number of measures that are unwise in the long run, but appear to be acceptable due to their relatively low political visibility. A typical state, resorting to this approach, will:

- Seek federal aid, both transparent and obscure, temporary and permanent; keep fingers crossed that it will get its fair share of Federal funds and that Federal budget cuts don't cripple the state.
- Borrow from trust funds (public pension funds mostly).
- Defer maintenance of public infrastructure.
- Privatize, placing public responsibilities off-budget (where, even if they end up costing more, the costs and inefficiencies will remain hidden).
- Push added fiscal responsibility down to local governments (and, if in a sanctimonious, self-righteous mood, claim to be bringing government and fiscal responsibility "closer to the people").
- Raise revenue through hidden "taxes": increased tuition at public colleges; more roadway tolls; increased traffic fines and collections; gaming, lodging, and rental car taxes, always looking for every opportunity to raise fees in the name of no-new-taxes.
- Close the budget gap by passively accepting budget cuts, reminding everyone, in a flourish of illogical stoicism, that "since Nevada households are tightening their belts…"

What does Nevada look like under this head-in-the-sand approach in operation?

- The budget is "balanced" through smoke and mirrors.
- The least wealthy people bear the brunt of increased fees, tuition, and hidden taxes.
- The state fails to solve its long-term budget woes.
- Nobody knows who is paying a "fair share."
- The entire state goes into decay as roads fall apart, public education and services suffer, and a spider web of hidden taxes fails to sustain necessary public investments and services.

Option #3
The Modest, Get-On-The-Right-Path Approach

The Progressive Leadership Alliance of Nevada declares that we can invest much more adequately in our state and encourage a much more widespread prosperity by raising new revenue in the broadest, most transparent fashion, in sufficient quantity to close most of the prevailing budget gap.

PLAN specifically recommends three much-needed adjustments to the present tax structure:

1. Replace the Modified Business Tax with a Traditional and Graduated Corporate Income Tax.
2. Extend the state and local option sales taxes to additional service categories.
3. Reform and expand mining taxation.

Working mostly within the existing tax structure, but with an eye for tax incidence and equity across the entire structure, raise as much of this new revenue as possible (or swap new revenue for old revenue) so that the state's upside-down structure is made at least *a little less inverted*. Because progressive revenue streams grow faster than regressive ones, and because a more equitable structure will always promote greater aggregate demand for goods and services than a less equitable one, even revenue-neutral swaps represent a small step in the right direction.

Because much of the prevailing revenue gap was spawned by the national recession and the implosion of housing markets and allied industries, part of this gap can be closed without structural change, as policies elsewhere and returning confidence restore more normal levels of economic activity. It would be appropriate, then, in the face of political pressure to do nothing, to close part of the revenue gap with temporary measures. Some of these can be derided as "gimmicks" or "raids," for example, borrowing from pension funds (see appendix A for a discussion of these strategies).

As the economy returns to normal conditions (with a necessary boost from sound public policy), these stop-gap measures can be replaced easily with normal revenue growth. And if the correction of the inverted structure and the progressive swaps, noted above, are undertaken in sufficient measure, this revenue replacement action will occur all the more responsively and completely.

Recognize that the temporary measures noted above are available in diminishing quantity as recessions wear on. Even within this largely modest and politically cautious approach, in other words, the need for permanent new revenue becomes more critical and has to be given higher priority in the latter stages of a long recession.

Option #3 in Nevada
What Might it Look Like

- Replace the Modified Business Tax with a Traditional and Graduated Corporate Income Tax
- Extend the state and local option sales taxes to additional service categories
- Reform and expand state severance taxation
- How much should (or could) be raised in this manner?

Modified Business Tax Revenue
FY 2010: $385 million

Est. FY 2010 Revenue, Associated w/ a 5% Flat Corporate Income Tax,
No Exemption:
$662 million (= new revenue of $277 million)

Est. FY 2010 Revenue, Associated w/ a 5% Flat corporate Income Tax,
$250K Exemption:
$ 497 million (= new revenue of $112 million)

Est. FY 2010 Revenue, Associated w/ a 5% Flat Corporate Income Tax,
$500K Exemption:
$483 million (= new revenue of $98 million)

Est. FY 2010 Revenue, Associated w/ a Two-Rate (5%‹$250K; 7%›$250K)
Corporate Income Tax, No Exemption :
$861 million (= new revenue of $476 million)

Source: David Shreve, Ph.D., Charlottesville, VA

1) Replace the Modified Business Tax with a Traditional and Graduated Corporate Income Tax

As the chart on the previous page reveals, a no-exemption 5% corporate income tax would raise an estimated $277 million in additional revenue, compared to the existing Modified Business Tax. A two-tiered CIT, with 5 and 7% marginal rates and bracket shift at $250K in taxable income, would raise an estimated $476 million in additional revenue. Though the revenue advantage would be modest—especially in the first case—a shift to a conventional corporate income tax would confer additional economic benefits by placing a greater percentage of state business taxation on a fairer, more responsive, ability-to-pay footing. Compared to the current, payroll-based Modified Business Tax, this would generally shift more of the tax incidence away from workers and to the affected companies, and would also tax more lightly those companies with smaller, more precarious profit margins. If the temporary need for revenue is great enough, instead of replacing it completely, the Modified Business Tax could be phased out in two or three steps, stretched out over two or three years.

It is also worth noting that, unlike a personal income tax with which the actual tax incidence is very clear and uniformly graduated, the incidence of corporate income tax is both less clear and much more uneven. Most consensus estimates, for example, indicate that the highest percentage of corporate income taxes actually fall on individuals with modest incomes (in the second quintile, when ranked by income. Moreover, because increasing amounts of business income are realized as personal income and because "beggar-thy-neighbor" state corporate income tax competition has become increasingly predominant, the state corporate income tax is very likely to be a less responsive or stable revenue source in future years.

Corporate Income Tax Rates
(as of 2010) for Nevada's Neighboring States

State	Corporate Income Tax Rate(s)	First Adopted
California	8.84%	1929
Oregon	6.6% < $250K; 7.9% > $250K*	1929
Arizona	6.968%	1933
Utah	5%	1931
Idaho	7.6%	1931
New Mexico	4.8% < $500K; $500K < 6.4% < $1m; $1m < 7.6%	1933
Colorado	4.63%	1937
Montana	6.75%	1917

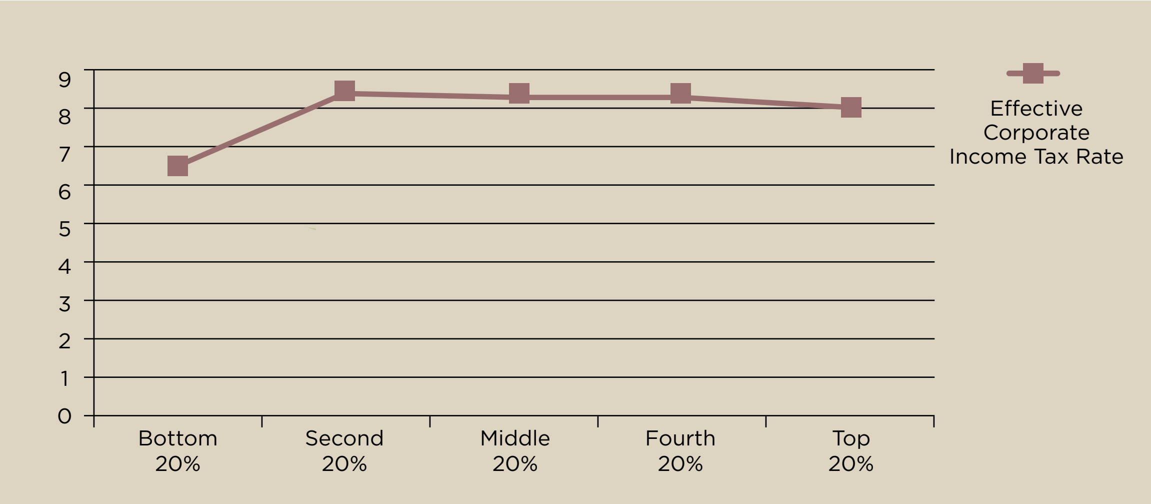
* Oregon upper bracket (7.9%) is in effect only for tax liabilities in calendar years 2009 and 2010

Source: Institute of Taxation and Economic Policy, Who Pays, 3rd edition, November 2009.

2) Extend the state and local option sales taxes to additional service categories

In most states, particularly the 41 with broad-based income taxes, any attempt to obtain additional revenue by extending the reach of the state general sales tax (into currently untaxed services) will raise revenue at the expense of structural soundness, especially in the long term, since this would increase the weight of a regressive tax vehicle (even in its now improved, somewhat less regressive form) while decreasing the weight of the sounder and more efficient progressive

Effective Corporate Income Tax Rate
by Income Class, U.S. State Average, 1991–2004



Source: Gerald Prante and Andrew Chamberlain, "Who Pays and Who Receives Government Spending? An Analysis of Federal, State, and Local Tax and Spending Distributions, 1991-2004," Tax Foundation Working Paper, No. 1, March 2007.

income tax vehicle. Since there are, among the 41 noted above, 7 states with flat income taxes and an additional 15 with *essentially* flat income taxes (antiquated, poorly adjusted bracket structures), this effect would be less prominent in these cases but it would still take place and vary according to the relative amount of new revenue associated with the change (See Appendix B, for an example of how this would play out in Colorado).

In a no-income tax state such as Nevada, however, already heavily reliant upon regressive, poorly performing sales taxes, the expansion of the general sales tax into services could potentially confer ***net benefits*** of no small extent, especially if the change is designed not as a permanent fix but solely as a temporary, stop-gap means to shore up declining or slow-growing state revenue. Such expanded sales taxes will perform far less well as a permanent fix simply because they cannot in any form keep pace with the needs of even a static set of typical public purchases, normally comprised of extensive education and health care expenditures, where unavoidable service sector cost increases cannot very easily be offset by technological or capital-intensive productivity enhancements. In the long run, therefore, these sales taxes purchase this static bundle of public goods only by being implemented at steadily rising rates, with increasing weight relative to other, more progressive (or less regressive) vehicles within the state's tax structure.

Because Nevada's three-tiered gaming tax functions much like an income tax for a not insignificant part of the state economy (where the estimated in-state incidence of the gaming tax is approximately 20 percent)[1], Nevada would be subject to at least part of the negative structural effect described above. It is also true, however, that the *spending* effect related to the additional revenue raised even in this manner normally carries positive economic benefits sufficient to outweigh by a small margin the negative economic effects associated with the increased regressivity of the new tax structure. It's always worth remembering what this reveals: that ***new revenue is better than***

1 Bernard Malamud, "Nevada's Gaming Tax: Measuring Resident Burden and Incidence," working paper, April 2006.

Estimated Revenue Effect of Expanded General Sales Tax (applied to "feasibly taxable" services)[2]

Est. Purchases of Feasibly Taxable Services	Sales Tax Rate (excl. Local Option)	Max. Revenue from Taxing Services	FY 2010 General Sales Tax Revenue	Revenue from Services as % of Current Sales Tax Revenue
$11.565 billion	**6.85%**	**$792,213,000**	**$2,567,513,409**	**30.8**

no new revenue, but that a sales tax can only be "improved" in very small and often negligible ways, and that there clearly exist better, more economically sound ways in which to increase state tax revenue (See "Optimum" option #4).

Estimated maximum revenue from Nevada sales taxation of services: $792,213,000[2]

3) Reform and expand mining taxation

PLAN believes that the **Nevada Net Proceeds of Minerals Tax** is assessed incorrectly and injudiciously.

A corporate income tax, imposed partly to account for a basic cost of public services and partly to tax some of the income that might otherwise be sheltered without it, should include broad deductions, tied comprehensively to the costs associated with the generation of the taxable income.

A severance or natural resources tax, on the other hand, is imposed not as a proxy for a corporate income tax but as a way to account for two externalities or costs not tied in any uniform or direct way to the income, gross or net, of the business entity that extracts the resource for profit: **1)** pollution, as a general nuisance and public health hazard; and **2)** the depletion of a non-renewable resource that should be recognized in part as an endowment to be "used' democratically by the affected state and her citizens. As Louisiana delegate Harry Sneed noted at the 1919 National Tax Association conference, "The theory of this tax is that for every pound of sulphur removed from Louisiana the state is that much poorer, for every pound of salt removed the state is that much poorer, and so on down the line…"[3]

PLAN contends that the Nevada Net Proceeds of Minerals Tax is a severance tax that has, incorrectly, come to be enforced as if it were, instead, a special corporate income tax. As such, this tax ought to be administered *without broad deductions*, since the determination of **accountable** income is not really the object of its most equitable assessment. The relevant costs or externalities are a function of the gross value rather than the net value, and the tax ought to be administered at the appropriate rate (or graduated set of rates) on just such a basis. As PLAN has noted previously, however, in most other states that impose severance taxes, they are typically imposed at the wellhead or the mine-mouth and the producers do not conventionally have to absorb processing costs. Recognizing the peculiar processing costs associated

2 "Feasibly taxable services" excludes housing, health care, education, transit, legal, funeral, and certain banking and insurance services. Model adopted from FY 2007 analysis of an expanded general sales tax by Michael Mazerov, "Sales Taxation of Services: Options and Issues," presented at State Fiscal Policy Conference, Center on Budget and Policy Priorities, 10 December 2009.

3 Harry Sneed, "Round Table," Proceedings of the National Tax Association, 12th Annual Conference, Chicago Illinois, June 17-19, 1919, p. 151.

"THAT THOSE WHO PROFIT UNDER A GOVERNMENT AND A GIVEN SOCIAL AND ECONOMIC ORDER SHALL CONTRIBUTE TOWARD THE SUPPORT OF GOVERNMENT IN ACCORDANCE WITH THEIR RESPECTIVE ABILITIES CANNOT BE QUESTIONED."

—New York Governor
Franklin D. Roosevelt,
January 1932

with the state's gold and silver mines, on which the large majority of the Nevada NPOM tax is levied (87.8% in FY 2010), PLAN recommends a revised Net Proceeds of Minerals Tax that accounts partly for this cost, fairly unique to Nevada's gold mining operations. The cost of transporting the ore to the processing facilities, the cost of processing, and possibly the cost of transportation to the point of sale could reasonably be retained as deductible expenses under a revised NPOM tax. Under guidelines recommended by PLAN, the reported taxable value of the state's mineral production would rise from approximately 25 percent of gross value, as it is under the current assessment law, to approximately 75 percent, after the removal of all but the uniquely qualified deductions noted above.

Additional revenue associated with revised NPOM (FY 2010 Gross Value, Net Value ≈ 75% of Gross Value): **$197 million**

Sum of Option #3 Recommended Changes

Corporate Income Tax as Substitute for Current Modified Business Tax:	$98-476 million
Expanded General Sales Tax (to include "feasibly taxed services"):	$792 million
Revised Net Proceeds of Minerals Tax:	$197 million
Total:	**$1.087–1.465 billion**

Source: David Shreve, Ph.D., Charlottesville, VA

Option #4
The Short- and Long-Range Optimum

"WHENEVER THE EXPENSES OF ANY YEAR EXCEED THE INCOME, THE LEGISLATURE SHALL PROVIDE FOR LEVYING A TAX SUFFICIENT, WITH OTHER SOURCES OF INCOME, TO PAY THE DEFICIENCY, AS WELL AS THE ESTIMATED EXPENSES OF SUCH ENSUING YEAR OR TWO YEARS."

—Article 9, Section 2, Subsection 1, Nevada State Constitution

"THE SUBJECTS OF EVERY STATE OUGHT TO CONTRIBUTE TOWARDS THE SUPPORT OF GOVERNMENT, AS NEARLY AS POSSIBLE, IN PROPORTION TO THEIR RESPECTIVE ABILITIES; THAT IS, IN PROPORTION TO THE REVENUE WHICH THEY RESPECTIVELY ENJOY UNDER THE PROTECTION OF THE STATE."

—Adam Smith, The Wealth of Nations, Book V (1776)

PLAN argues that if the Silver State is serious about tax reform and seeks a tax structure that will **a)** obtain the maximum revenue with the lowest tax rates for the greatest number of state taxpayers; **b)** conform to the basic principles of taxation, as summarized by Adam Smith, and many successors, and **c)** underwrite and encourage a greater and more broadly shared prosperity, marked by almost limitless opportunity, it must consider a wholesale restructuring of its outdated, regressive tax system.

Adam Smith's maxims of sound taxation, enunciated in the late 18th century, remain a useful set of policy guidelines:

1. The cost of collection must be low relative to the yield
2. The timing and amount to be paid must be certain to the payer
3. The means and timing of payment must be convenient to the payer
4. Taxes should be levied according to ability to pay

Though any state may choose to maintain minor forms of taxation that do not readily conform to these principles (a tobacco tax to curtail tobacco use, for example; a very modest property tax to account partly for an otherwise far too mobile tax base; or a modest exportable tax that can be confined to localities or well-defined regions frequented by tourists or seasonal residents), the backbone of a tax structure that conforms to Smith's maxims and which also satisfies the first and third objectives noted above is a *graduated income tax*.

Prohibited in Nevada by a constitutional amendment ratified in 1988, a modest personal income tax could supplant most other taxes currently imposed by the state of Nevada, raise enough money to close the existing budget gap and more, and still deliver lower effective tax rates for many if not most Nevadans.

Using the average effective income tax rate in Virginia (5.26%), a state with a very moderately graduated income tax structure, and a modest-to-low level of exemptions and deductions (equal to 4% of personal income), a new Nevada state income tax would yield annual income tax revenues of approximately $5.15 billion.

Combined with the recommended Corporate Income Tax in Option #3, yielding as much as $476 million, the recommended Net Proceeds of Minerals Tax also recommended in Option #3, yielding an estimated $366 million, and the current or reduced Gaming Tax, yielding $335 million (at rates 50% of current rates) the hypothetical personal income tax outlined above would generate approximately $6.33 billion in annual tax revenue.

Adopting such a structure, Nevada could eliminate **a)** its three principal state-level sales taxes (General Sales and Use Tax; Local School Support Tax; and City/County Relief Tax); **b)** its Local Option Sales Taxes; **c)** the Centrally Assessed Property Tax; **d)** the Insurance Premium Tax; and **e)** all other excise taxes, and still raise over $1 billion more than current collections—all under *current* economic conditions. Collectively, this reformed tax structure would also impose lower effective tax rates on approximately 35 to 40 percent of the Silver State's taxpayers.

And because income tax revenues associated with moderately graduated income tax vehicles typically grow approximately 1½ times as fast as any other major tax vehicle, the return of moderate prosperity would, under such a reformed structure, **a)** deliver additional revenues sufficient to expand public investment considerably above the ongoing rate of inflation or population growth, **b)** make room for a partial reduction of lower bracket income tax rates or any of the other taxes left intact, **c)** allow for increased aid to localities in order to augment services and roll back local property tax rates, or **d)** a combination of any of these.

As the reformed structure allows for the exercise of tax reduction options **b)** and **c)**, noted above, the percentage of taxpayers with effective rates lower than that which prevails under the current structure would soon exceed the estimated 35 to 40 percent.

"THERE ARE TWO IDEAS OF GOVERNMENT. THERE ARE THOSE WHO BELIEVE THAT IF YOU JUST LEGISLATE TO MAKE THE WELL-TO-DO PROSPEROUS, THEIR PROSPERITY WILL LEAK THROUGH ON THOSE BELOW. THE DEMOCRATIC IDEA HAS BEEN THAT IF YOU LEGISLATE TO MAKE THE MASSES PROSPEROUS, THEIR PROSPERITY WILL FIND ITS WAY UP AND THROUGH EVERY CLASS THAT RESTS UPON IT."

—William Jennings Bryan, Democratic Convention speech, 1896. In the 1896 presidential contest, Bryan received an as yet unsurpassed 81.21% of the Nevada popular vote

Taking Action

For the Governor and Legislature

The Progressive Leadership Alliance of Nevada calls on our elected officials to engage in substantial, sustained, and nonpartisan efforts to resolve Nevada's budget crisis in the short and long run while maintaining, sustaining, and enhancing the quality of life for all Nevadans. This document has presented courses of action that can meet those criteria. PLAN fully recognizes that in a political arena, elected officials sometimes feel hampered in their efforts to "do the right thing." We believe, however, that the time has come for Nevada's leaders to build a sound tax foundation for an effective fiscal policy, without partisan or political motivation. Our research has revealed a number of options and pathways that can work for the Silver State. If elected officials recognize the unique resources and problems of Nevada, and look beyond the policy myths that lock us into an unsound and unproductive tax structure, they can find ways to create fiscal stability and a healthier and more prosperous state.

For Nevada Residents

The Progressive Leadership Alliance of Nevada urges residents to become fully engaged in issues of sustainable taxation and to present their opinions forcefully to elected officials. Tax laws are complex; the political paths to tax reform are equally complex. Nevertheless, concerned citizens can learn about those laws and possible solutions and advise their elected officials. This document is designed with those citizens in mind. The time is past for voters to relegate tax decisions solely to Nevada legislators or to despair over the complexity of the issues and resort to simplistic "bumper sticker" thinking and sloganeering. For citizens not to become involved is, quite simply, taxation without representation. PLAN believes that the citizens of Nevada have the energy, intelligence, commitment, and compassion to demand and participate in tax reform that can make the Silver State a national leader in sustainable taxation and quality of life.

Appendix A
The Basics of Public Pension Policy and Economics

- **There is no public pension financing crisis.**

  1. State and Local government pensions represent less than 4% of all S&L spending.

  2. Aggregate 30-year funding levels are still higher now than they were at the beginning of the 1990s.

  3. Aggregate 30-year funding levels are higher than the 80% standard judged adequate for private entities that can go out of business. It is entirely appropriate **to apply a much lower standard to governments that cannot go out of business.**

  4. Prefunding public pensions, in general, began only in the 1970s; in the 1950s and 1960s, broad public pension benefits were financed easily on a pay-as-you-go basis.

     Using the lowest-funded state as an example (Illinois, where the advantage would be the **smallest**), if we returned immediately to the same pay-as-you-go basis, pension funding for the current benefits structure would enable a diversion of **4 to 8.5%** of total state spending through 2022, **2.5 to 7%** from 2023-24, **-0.8 to +3.7%** from 2025-26, and **-1 to +3.5%** from 2027-43 (based on pension fund returns from a low of 5% to a high of 8%, the latter being equal to the recent 25-yr. annual average return). Assuming a smaller 5% annual return to pension funds, this cost reduction/diversion to other spending would prevail until **2043**. Moreover, investing these dollars in state and local budgets for schools, health care, and transportation during this 13 to 32-year cost-reduction period, would generate sufficient extra economic activity, jobs, income, and tax revenue to more than pay for the small level of extra costs (an expenditure increase approximately equal to **1.5 to 4.5%** of total state budgets) that comes sometime in the **2025-2043 period.** The best way to balance the potential trade-offs here would be to let funding levels drop during periods of less-than-full-employment (when returns and interest rates are lower) and to let them rise gradually during periods of full employment.

- It is **economically wise to let 30-year funding levels drop during recessions.** Since interest rates and investment returns decline during these periods, economic activity is enhanced by temporarily contributing less to retirement funds and by using this revenue, instead, to fund public programs, which have a multiplier that outpaces the pension fund investment returns and which speed much more money back into consumer demand, investment and job creation.

- **However modest it is, a real economic problem emerges, usually during periods of high employment, when 30-year pension funding**

levels are often too high (2001, for example, when they were slightly above 100% in the aggregate).

- Even if states, foolishly, wanted to **close completely their unfunded accrued (30-year) pension liabilities,** the infamous "trillion-dollar gap," cited by the Pew Center on the States, amounts to a mere $300 per household per year, three-quarters of which is covered—as it is now—by employee contributions and investment earnings. The remaining $75 per household per year, for which governments would be responsible, can be covered by very modest tax reform, a very small uptick in economic activity, or statistical error in the 30-year forecast.

- **Shifting to Defined Contributions (DC), or Hybrid plans that include DC features, delivers benefits at a considerably higher cost** (approx. 47% more for a pure DC plan, due to increased costs tied **to 3 things: 1)** the lack of longevity risk pooling; **2)** a less balanced investment portfolio; and **3)** a lower investment return/fee ratio)

- **Public pension "costs" are not really "costs."** Because average benefits represent a low-middle-class standard-of-living, this implies that most benefits payments are rapidly spent, moving back into the economy where they generate jobs, income, and additional revenue. Especially in bad times, they are always a **superior economy-enhancing investment.**

- **For the last year in which we have sufficient data (2006), Virginia's 157,900 public (state and local) pension recipients received a total of $2.7 billion in pension benefits, of which $2.54 billion was paid by in-state plans.** The average annual benefit was $17,128. Because this annual benefit is as modest as it is, ensuring that much of the pension income is spent quickly, it generates significant levels of added economic activity, jobs, and income, estimated at approximately 23,700 jobs and 3.6 billion in annual economic output.

- **To cut public pension benefits solely because private pension benefits have undergone significant erosion is very much like vandalizing your neighbor's house because it is more attractive or comfortable than yours.** And because decent public pension benefits redound to the benefit of all due to their undeniable economy-enhancing effects, it's actually even worse, like vandalizing your neighbor's house and having part of the rubble fall into and damage your own.

"THE TENDENCY OF TAXATION IS TO CREATE A CLASS OF PERSONS WHO DO NOT LABOR, TO TAKE FROM THOSE WHO DO LABOR THE PRODUCE OF THAT LABOR, AND TO GIVE IT TO THOSE WHO DO NOT LABOR"

—William Cobbett
(Pseudonym Peter Porcupine, English popular journalist, champion of traditional rural England against the Industrial Revolution, 1763-1835)

Appendix B
Example of Extended sales tax in Colorado

Working from an FY 2007 base of approximately $806 million it can be estimated that taxing "all feasibly taxed services" would create a sales tax base in which these new tax revenues would represent about 36% of the total, newly expanded sales tax base, putting it on an exact par with what would be expected, on average, nationwide. Drawing on the model used by Michael Mazerov in his 2009 study of sales tax on services, "all feasibly taxed services" excluded housing, health care, education, transit, legal services, funeral services and "certain" (unspecified) banking and insurance services.[4] Mazerov also warns against taxing "Business to Business" services, due to the potential for "pyramiding" (where it's imposed at several levels—production and final sales), the way in which this would "hide" the real tax and make it susceptible to artificial future overreliance, and the way in which this would introduce a competitive interstate disadvantage. This second factor—teeing it up for artificial future overreliance, is an often overlooked liability of sales taxes on services **in general.** Once we "reform" this regressive vehicle, in other words, then it's increasingly likely that it will be called upon for all or most future tax increases. And since it can **never** alter the regressive character of the sales tax vehicle very much, what this does is guarantee that our future tax structure will be more regressive than it's ever been.

There's only one scenario, in which taxing services—with carefully drawn exemptions, including B2B—is a progressive, useful thing to do:

When there's no chance that you'll get new revenue **any other way**, except for an increase in the general sales tax rate. Indeed, it is a preferred alternative to a general rate increase, where a proper analysis would compare the new expanded sales tax (with some services included) **not** to the old structure, but to the hypothetical new structure with a high general sales tax rate (in CO, something like a 3.9% rate which would give you an additional $760m, fairly close to the expected $806m from the expanded sales tax)

And so, it is conceivably useful in a purely **defensive** effort. Yet, even here, since the higher general sales tax rate is likely to repulse further expansion in this regard, while the seemingly more harmless lower rate (with services taxed) will not, you could very well be positioning yourself for ongoing increased regressivity, folded in with some budget cuts, for regressive vehicles like either one of these **always** grow too slowly to keep pace with the needs of a modern state (About 1.5 times slower than a moderately progressive income tax, for example). The really tiny advantage of the expanded base versus the increased general rate is that you're more likely to get increased future tax rates (**general** rates, afterward, in this case) than budget cuts. Even though the economic advantage here is quite small, and certainly far too dilute to bank a progressive movement on, it is there, in the **short run**. But this makes sense only if you **never** want to use any other source for reform (better income tax, etc.), for the implementation of a broadened sales tax will increase the likelihood that you will only use the sales tax from that point on. If you can't get income tax reform now, in other words, it will be harder still to get it in the future under a broadened sales tax "reform." And

4 Michael Mazerov, "Sales Taxation of Services: Options and Issues," presented at State Fiscal Policy Conference, Center on Budget and Policy Priorities, 10 December 2009.

continued expansion of rates in the post-"reform" period would likely imply a structure even less able to withstand budget cutting (due to its increased drag on the economy and sluggish upside elasticity).

Illustration of the Potential Regressivity "Trap" of Extending sales tax to Services

If we assume, for illustrative purposes, that the Colorado income tax is similar in its distribution* to the one in Oklahoma, then here's the way it would play out in Colorado:

Current Structure (Income and Sales tax ratio only):

Sales Tax: $1.95b [30.8%]

Income Tax: $4.38b [69.2%]

Proposed Structure (w/ Sales tax on Services):

Sales Tax: 2.756b [38.6%]

Income Tax: 4.38b [61.4%]

Therefore, using the estimated Suits index figures from the Oklahoma tax structure:

Oklahoma Income Tax Suits Index: +.120

Oklahoma Sales Tax Suits Index (current): -.158

Oklahoma Sales Tax Suits Index (new): -.153

...you'd get:

Current Suits Index: .308 X -.158 + .692 X +.120 = +.0343

New Suits Index: .386 X -.153 + .614 X +.120 = +.0141

...and so, you'd end up (after expanding the sales tax into services and holding everything else the same) a sales/income tax portion of your state revenue structure (excluding excises and fees and fed. funds, of course) that would be approximately 2.43 times as regressive as it was beforehand.

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* In distributional terms, they are close, with Colorado's flat tax not too far from Oklahoma's essentially flat tax (where their top rate of 5.5% kicks in at a low $8,700 for individuals, making their other 6 brackets almost meaningless). The big difference between the CO & OK is the higher general sales tax rate in OK.

Appendix C*

What is the cost to produce an ounce of gold? Depends on the audience.

(*courtesy of the Las Vegas Gleaner)

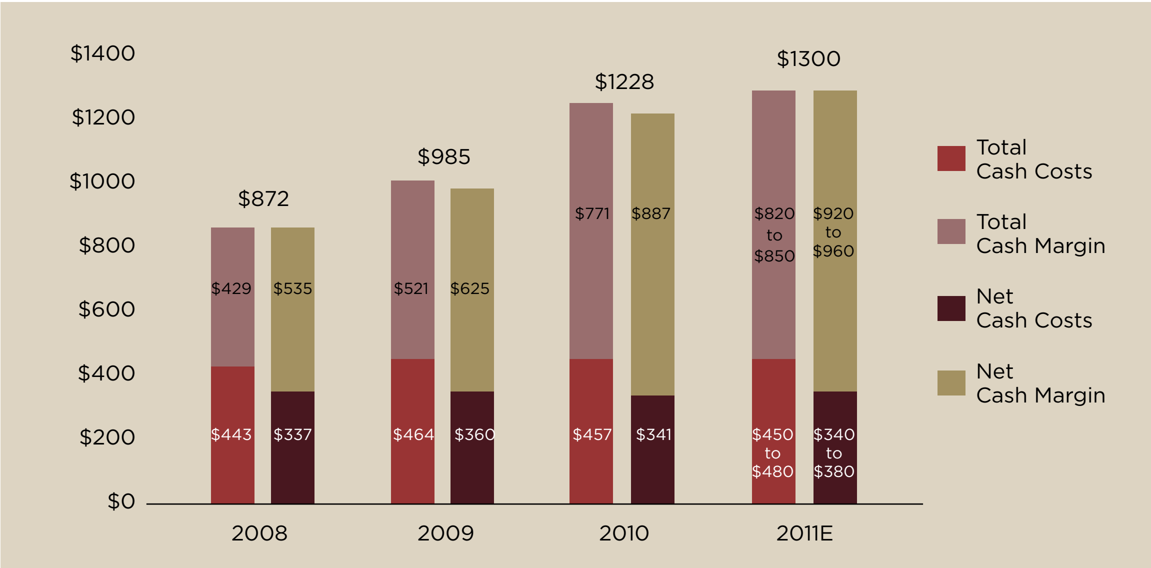
The fourth quarter was yet another record-setter and net income for the year was a smashing $3.27 billion on sales of $10.9 billion, Barrick Gold Corp. announced in its 2010 annual report. Investors are cautioned, however, that Barrick will have to spend from 10 to 20 percent more than originally expected to develop new multi-billion-dollar projects in the Dominican Republic and on the Chile-Argentina border.

Speaking of costs

At its Goldstrike mine, historically Barrick's largest Nevada operation, the company reported total fourth quarter cash costs of $490 per ounce, or 40 percent of the 2010 average gold price of $1,224. At Cortez Hills, where production skyrocketed in 2010, Barrick reported a total cash cost of $329 per ounce – 26 percent of average gold price. Mine-specific data released later this year will report "expenses essential for extracting, processing and getting the minerals to market," as the industry describes them – costs that are claimed as deductions to erase taxable value and that reduce Nevada mining taxes to a barely negligible portion of state general fund revenue.

Those costs reported to the state will greatly exceed the costs Barrick reports to investors. There is absolutely no chance – none – that Barrick will report deductions

Total and Net Cash Margins per ounce



As this chart from Barrick's annual report illustrates, in recent years the company's total cash costs (to say nothing of net costs) have come nowhere near 70 percent, and haven't exceeded 50 percent since 2008.

of a mere 40 percent at Goldstrike, let alone 26 percent at Cortez. (In 2009, Barrick claimed deductions totalling 60 percent of value at Goldstrike and a whopping 78 percent at Cortez). About 70 percent of the value of all the gold produced in Nevada in 2009 was deducted as costs. In other words, it wasn't taxed. Over the last decade, deductions totaled about 76 percent of value.

Obviously there are variations in cost categories and other accounting procedures that can easily explain why, when it comes to how much it costs to produce an ounce of gold, the mining industry tells its investors one thing and the Nevada Department of Taxation another.

But varied accounting procedures don't explain whether that discrepancy is justified, or why the state should quietly accept revenue-killing cost calculations that would make investors cringe and that allow tens of millions of dollars to bleed from the state to reward Barrick's investors and finance Barrick's projects abroad.

Those determinations must be made by legislators and the governor.

"REMEMBER, PEOPLE WILL JUDGE YOU BY YOUR ACTIONS, NOT YOUR INTENTIONS. YOU MAY HAVE A HEART OF GOLD — BUT SO DOES A HARD-BOILED EGG."

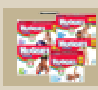
—Anonymous. Thinkexist.com

Appendix D
National retailer comparisons in Nevada and neighboring States

Despite the absence of a corporate income tax, prices at the Nevada locations of national retailers are the same, or in some cases even more, than those in neighboring states with corporate income taxes.

Walmart
Save money. Live better.

Prices current as of March 1, 2011

	CORPORATE TAX RATE	0%	0%	8.84%	6.6%	7.6%
	ITEM DESCRIPTION	PRICE STATE				
		RENO NV	LAS VEGAS NV	ROSEVILLE CA	MEDFORD OR	BOISE ID
	Bounty 8 roll paper towels 2 ply 52 sheets	$8.88	$8.87	$8.87	N/A	N/A
	Northern Quilted toilet paper 24 rolls	$12.94	$12.94	$12.94	$12.94	N/A
	Tide 52 loads 100 fl.oz.	$11.97	$11.97	$11.97	$11.97	N/A
	Huggies #3 diapers 16-28lbs. 124 ct	$25.00	$25.00	$25.00	$18.97	N/A
	Boys Wrangler Loose Fit 5 star Jeans	$15.00	$12.94	$12.98	$12.94	N/A
	Boys Rustler Wrangler Relaxed Jeans	$9.00	$9.00	$8.92	N/A	N/A
	Mr. Coffee Coffeemaker 12 cup Red	$16.00	$17.88	$16.00	N/A	$16.99
	Oster Large Digital Toaster Oven	$79.88	$79.88	$79.88	$79.88	$79.88

Appendix E*

Mining gold tax free 2000-2009

(*courtesy of the Las Vegas Gleaner)

Year	Mines reporting gross value	Mines reporting zero taxable value	Gross production value at mines reporting zero taxable value ($ million)
2009	24	7	110.5
2008	22	5	281.3
2007	25	7	365.5
2006	27	8	183.7
2005	28	11	802.9
2004	29	15	403.1
2003	25	10	573.6
2002	28	15	639.7
2001	30	17	711
2000	31	16	245.9
TOTAL	**269**	**111** (40% of producing mines)	**4317.2**

Source: Nevada Tax Department Net Proceeds annual bulletins, 2000-2009

Appendix F*

Barrick and Newmont - hard facts

(*courtesy of the Las Vegas Gleaner)

BARRICK

NEWMONT

2010 gold production (000s ounces)[1]

Barrick:

Nevada	2840
South America	2120
Australia/Pacific	1939
Africa	564

Newmont:

Nevada	1735
Australia	1690
Indonesia	737
Africa	545

Proven and probable gold reserves (000s ounces)[2]

Barrick:

Nevada	39296
Chile	26299
Argentina	20213
Australia/Pacific	15568
Africa	12513

Newmont:

Nevada	28510
Australia	27960
Africa	16790
South America	11830
Indonesia	4500

Record financial performance in 2010[3]

$10.9 billion	**Sales**	$9.5 billion
$3.3 billion	**Net income**	$3.1 billion
$4 billion	**Year-end cash**	$4 billion
$436 million	**Shareholder dividends**	$708 million

Source1: Barrick Fourth Quarter report; Newmont 2010 earnings release p10.
Source2: Barrick 2010 annual report p140; Newmont 2010 reserves release p5.
Source3: 2010 corporate annual reports

IN THE PAST, NEVADA HAS COPED WITH CRISES WITH UNIQUE DIFFIDENCE, TYING ITSELF TO LADY LUCK, TO FATE AND HAPPENSTANCE, AND TO THE VAIN HOPE THAT ONE CAN BUILD A CIVILIZED PLACE WITHOUT CIVILIZED BUILDING BLOCKS. IGNORING ALL THE PRECEPTS OF SOUND AND SUSTAINABLE POLICY, THE STATE HAS IMPOSED ITS HIGHEST TAX RATES ON ITS POOREST CITIZENS AND HAS BUILT A TAX STRUCTURE THAT CANNOT POSSIBLY KEEP PACE WITH THE NEEDS OF AN AMBITIOUS, EXPANDING POPULATION.

—David Shreve

Reno Office
821 Riverside Drive | Reno | NV 89503
(775) 348.7557

Las Vegas Office
708 S. Sixth Street | Las Vegas | NV 89101
(702) 791.1965

Washoe Valley Office
6185 Franktown Road | Carson City | NV 89704
(775) 882.3440