

FEDERAL RESERVE NOTE  
FA 95944734 F

# LOCAL GOVERNMENTS AND A NEVADA SERVICES TAX

A PRELIMINARY REVIEW AND ANALYSIS

THIS NOTE IS LEGAL TENDER  
FOR ALL DEBTS, PUBLIC AND PRIVATE  
*Anna Escobedo Cabral*  
Treasurer of the United States  
SERIES  
2009  
FRANKLIN

APPLIED  
ANALYSIS 



Fact:

Nevada's Sales Tax Was Designed  
in Mid-1950's, a Time When  
Nevada's Economy Looked Very  
Different than it Does Today

# Brief History of the Nevada Sales Tax

**1955**

State sales tax established at 2 percent

**1969**

Basic city-county relief tax established at 0.5 percent

**1981**

Local school support tax increased to 1.5 percent; Supplemental city-county relief tax established at 1.75 percent

**1981-2005**

Various local option sales taxes authorized for varying purposes in specific counties

**1967**

Local school support tax established at 1 percent

**1979**

Sales tax on food eliminated

**1991**

Local school support tax increased to 2.25 percent

**2009**

Local school support tax increased to 2.6 percent; Combined sales tax rate reaches as high as 8.1 percent in Clark County

Source: Applied Analysis, based on data reported by the Nevada Department of Taxation and Nevada Taxpayers Association.

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A PRELIMINARY REVIEW AND ANALYSIS

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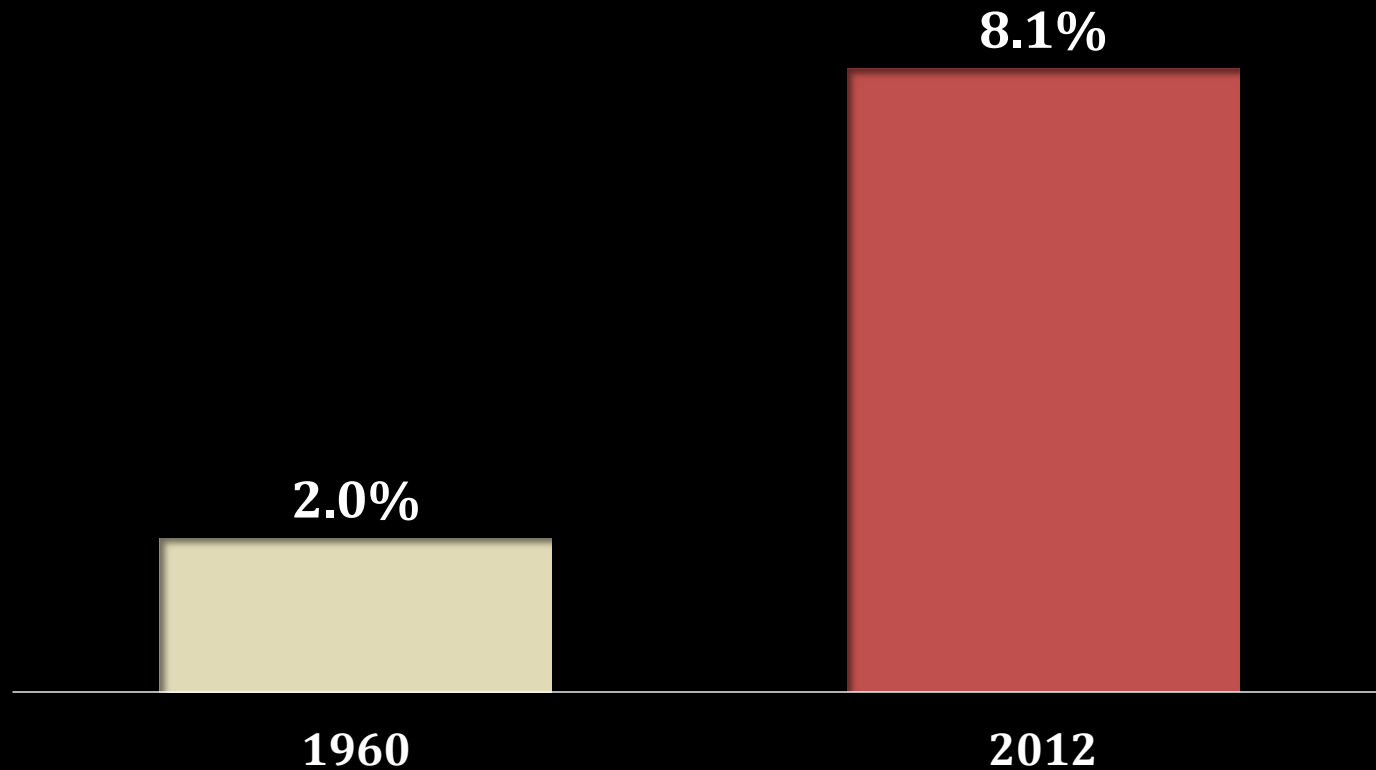
## 1960

- ❖ State Population: 280,000
- ❖ Statewide Employment: 100,800
- ❖ State Government Employment: 3,200
- ❖ State Spending: \$60 million, \$25 million in the General Fund
- ❖ Sales and Use Tax and Gaming Taxes Account for 75% of general fund revenues
- ❖ State is running a surplus
- ❖ Education accounts for 68% of general fund spending
- ❖ Nevada still using cash basis accounting
- ❖ Great Depression and WWII economic cycles remain considerations
- ❖ Dwight Eisenhower is president of the US
- ❖ Cassius Clay (who later took the name Muhammad Ali) wins his first professional fight



# Nevada Sales Tax Rate

## Highest Combined Rate, 1960 vs. 2012



Source: Applied Analysis, based on data reported by the Nevada Department of Taxation.

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A PRELIMINARY REVIEW AND ANALYSIS

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# Retail Sales Tax Allocation

(of combined 8.10% Clark County rate)



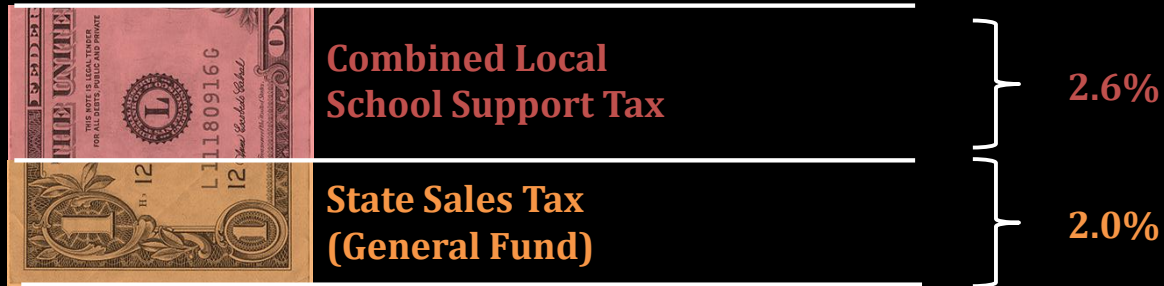
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A PRELIMINARY REVIEW AND ANALYSIS

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(of combined 8.10% Clark County rate)



**Combined Local  
School Support Tax**

**State Sales Tax  
(General Fund)**

**4.6%**

Source: Applied Analysis, based on data reported by the Nevada Department of Taxation.

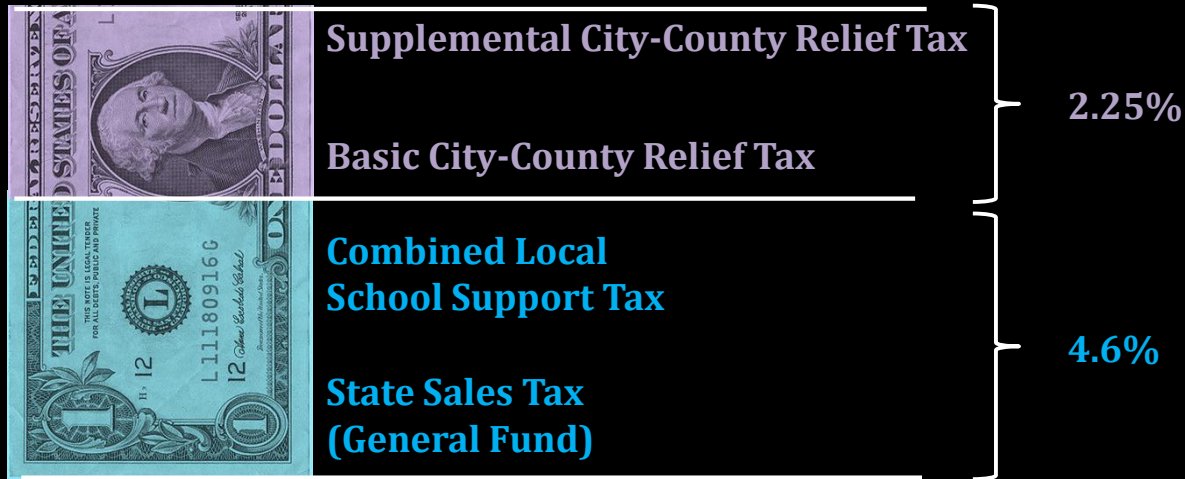
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# Retail Sales Tax Allocation

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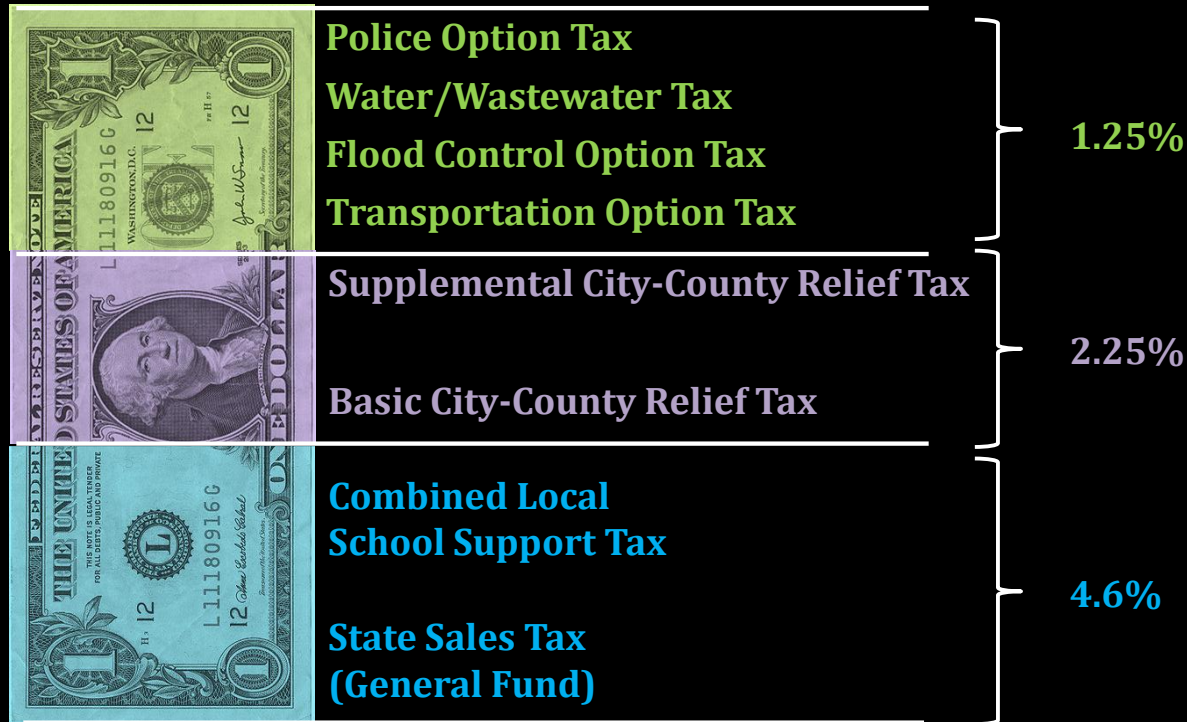
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A PRELIMINARY REVIEW AND ANALYSIS

APPLIED ANALYSIS

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(of combined 8.10% Clark County rate)



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A PRELIMINARY REVIEW AND ANALYSIS



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# Retail Sales Tax Allocation

(of combined 8.10% Clark County rate)



- Police Option Tax
- Water/Wastewater Tax
- Flood Control Option Tax
- Transportation Option Tax
- Supplemental City-County Relief Tax
- Basic City-County Relief Tax
- Combined Local School Support Tax
- State Sales Tax (General Fund)

8.1%

Source: Applied Analysis, based on data reported by the Nevada Department of Taxation.

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A PRELIMINARY REVIEW AND ANALYSIS

APPLIED ANALYSIS



Fact:

Nevada's State and Local Governments Remain Very Dependent on Sales Tax Collections

# Comparative State and Local Tax Revenue Distribution

## Nevada vs. US Averages 2009

Revenue Source	Nevada	US Average	Higher/ Lower
Property	23.2%	22.6%	<b>Slightly Higher</b>
General sales	19.7%	15.5%	<b>Significantly Higher</b>
Motor fuel	2.5%	2.0%	<b>Slightly Higher</b>
Alcoholic beverage	0.2%	0.3%	<b>About the Same</b>
Tobacco products	0.8%	0.9%	<b>About the Same</b>
Public utilities	1.8%	1.5%	<b>Slightly Higher</b>
Other selective sales	9.6%	2.8%	<b>Significantly Higher</b>
Individual income	0.0%	14.4%	<b>Significantly Lower</b>
Corporate income	0.0%	2.5%	<b>Significantly Lower</b>
Motor vehicle license	1.1%	1.1%	<b>About the Same</b>
Other taxes	7.8%	4.0%	<b>Significantly Higher</b>

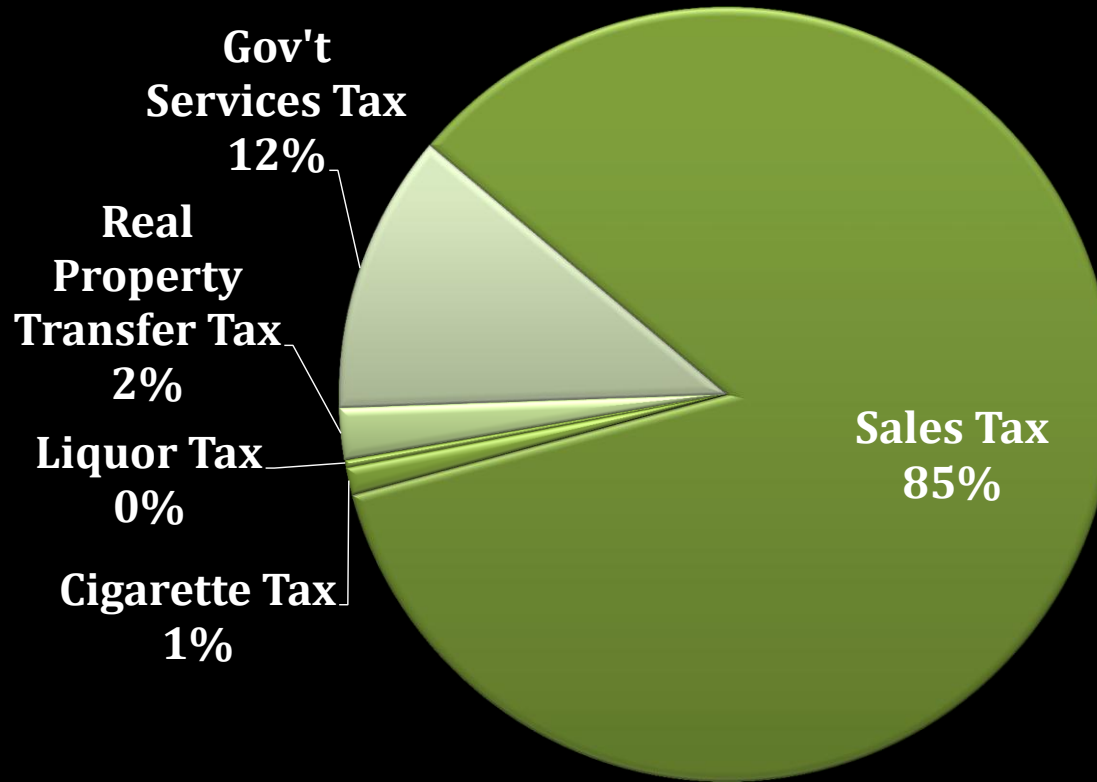
Source: U.S. Census of Governments.

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A PRELIMINARY REVIEW AND ANALYSIS

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# Nevada Consolidated Tax Distribution

Fiscal Year 2010-2011



Source: Nevada Department of Taxation, Consolidated Tax Summary 2010-2011.

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A PRELIMINARY REVIEW AND ANALYSIS

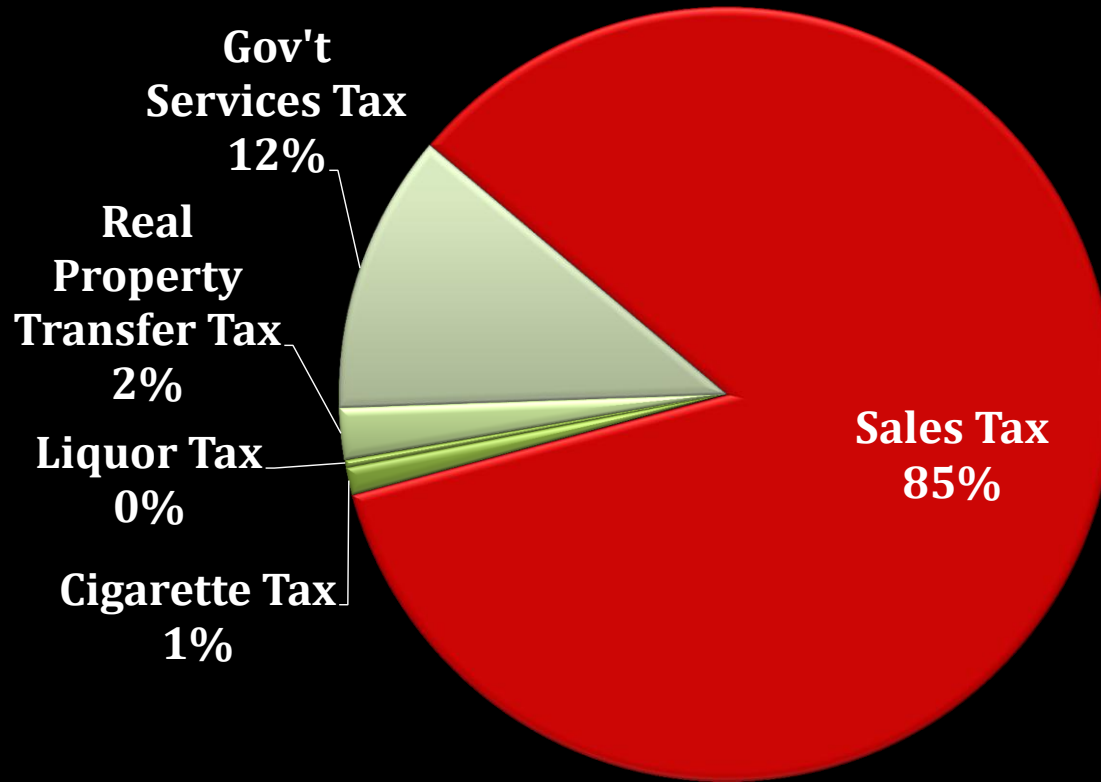
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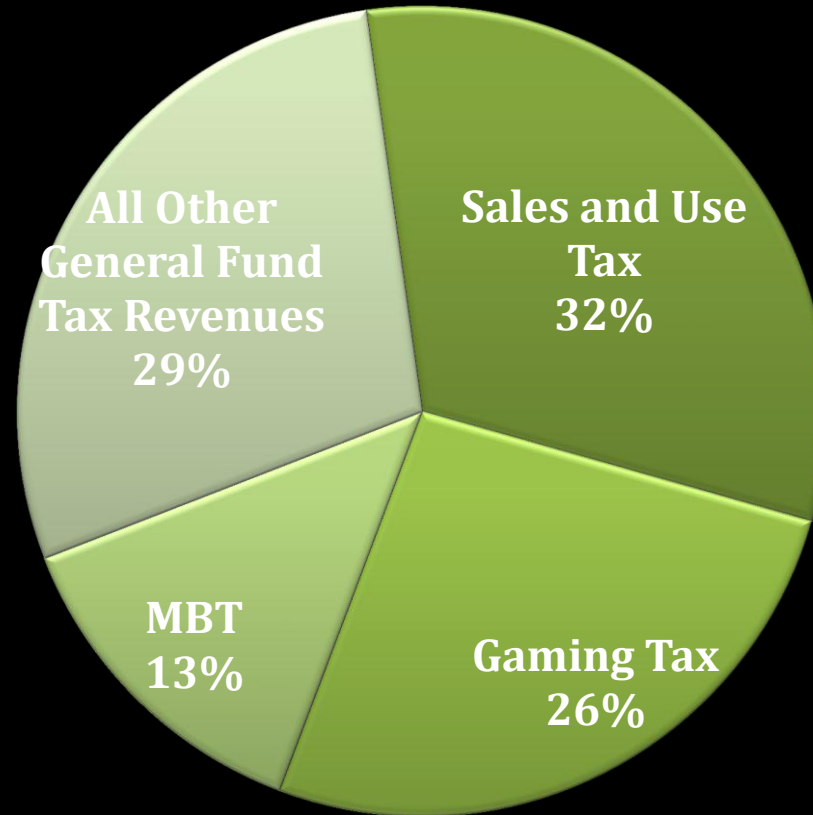
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# Nevada State General Fund Tax Revenues

Fiscal Years 2011-2013



Source: Economic Forum General Fund Revenues Forecast 2011-2013.

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A PRELIMINARY REVIEW AND ANALYSIS

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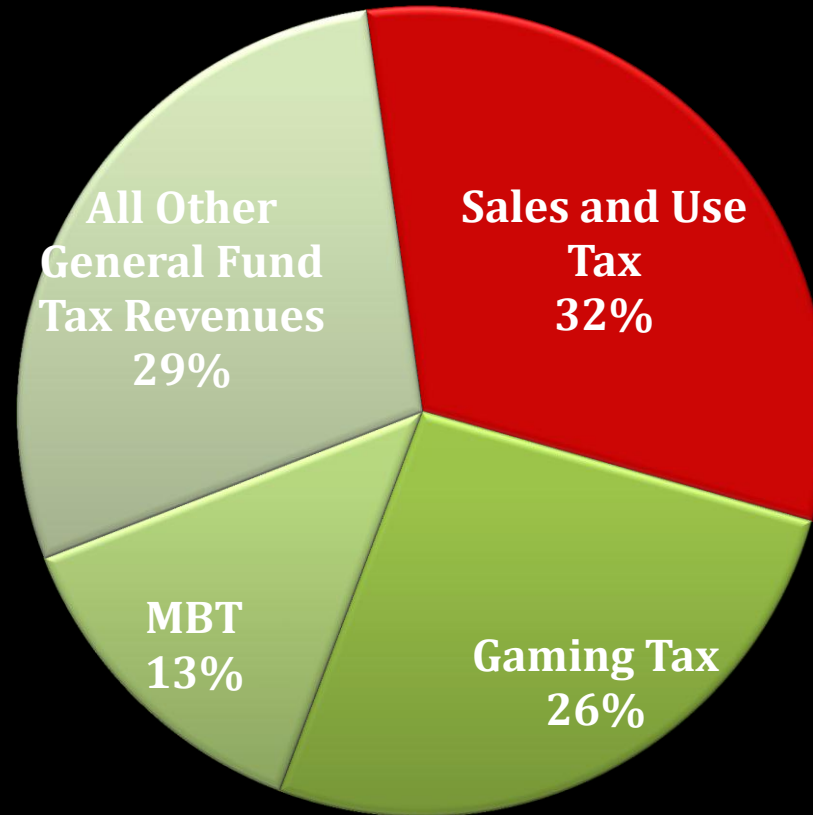
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Source: Economic Forum General Fund Revenues Forecast 2011-2013.

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A PRELIMINARY REVIEW AND ANALYSIS

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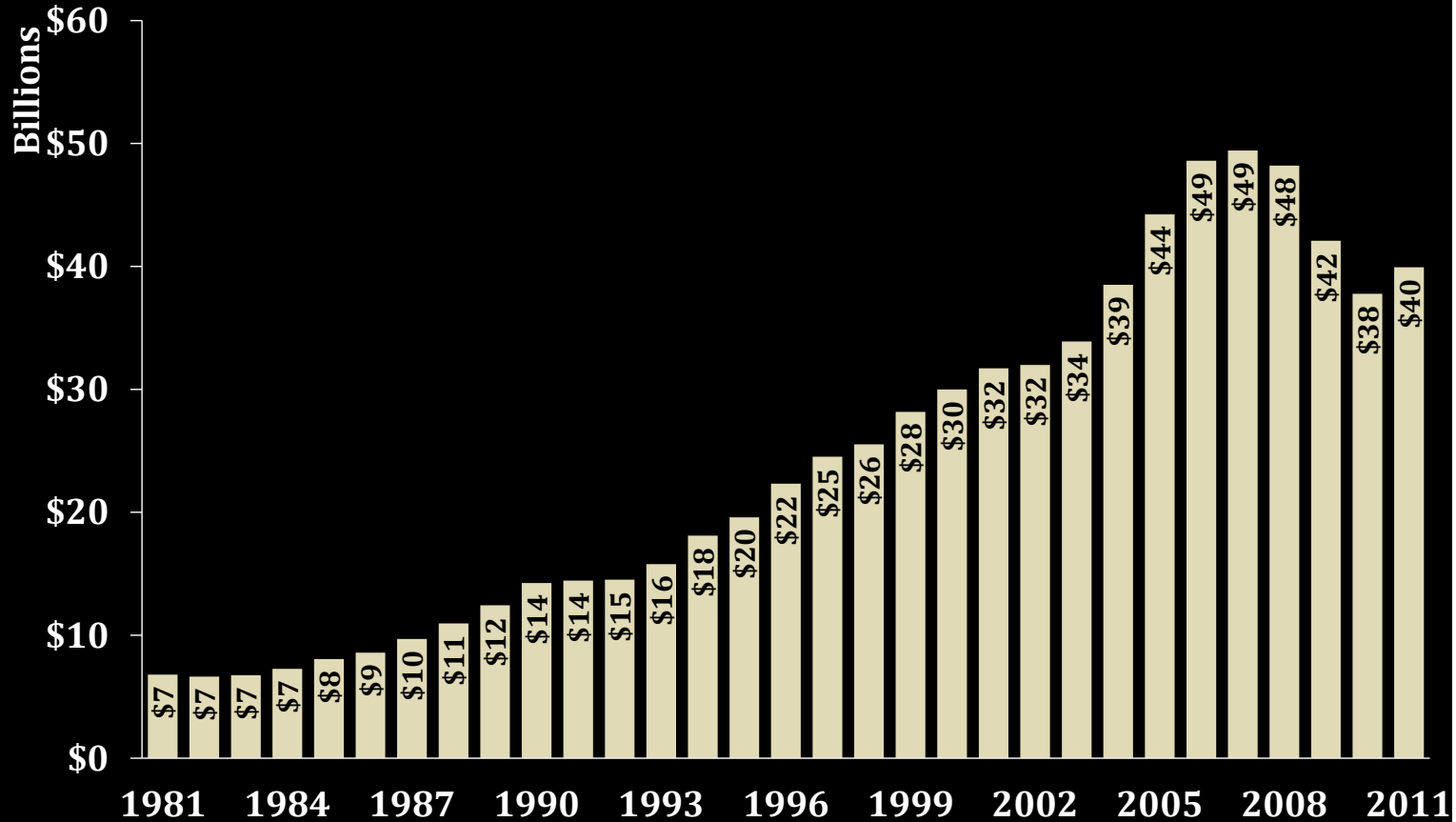


**Fact:**

Nevada's Sales Tax Base is  
Likely to Erode Over Time

# Nevada Taxable Retail Sales

FY 1981 – FY 2011



Source: Applied Analysis, based on data reported by the Nevada Department of Taxation.

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A PRELIMINARY REVIEW AND ANALYSIS

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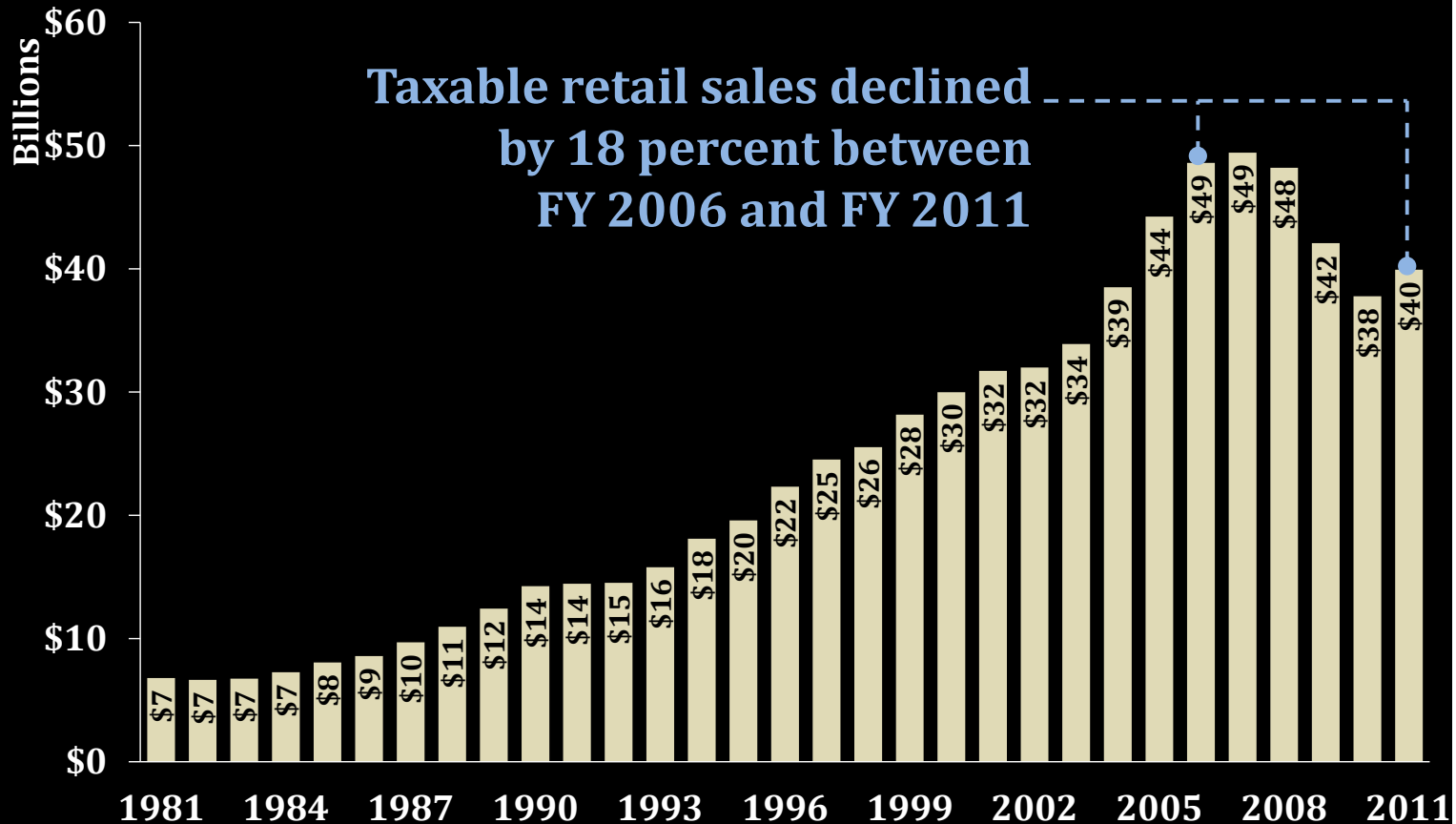


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FY 1981 – FY 2011



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A PRELIMINARY REVIEW AND ANALYSIS

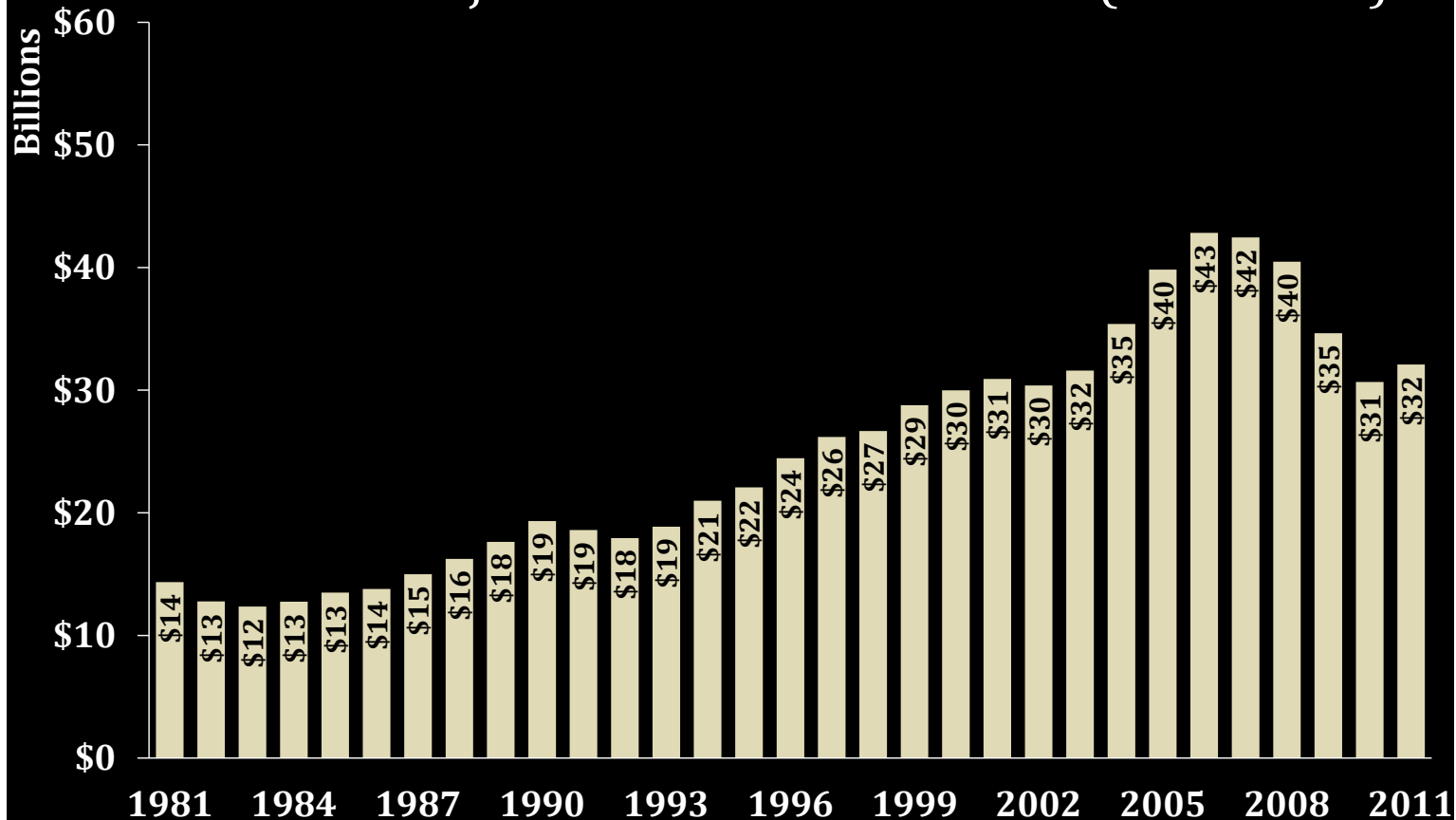


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# Nevada Taxable Retail Sales

Inflation Adjusted FY 1981 – FY 2011 (2000=100)



Source: Applied Analysis, based on data reported by the Nevada Department of Taxation.

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A PRELIMINARY REVIEW AND ANALYSIS

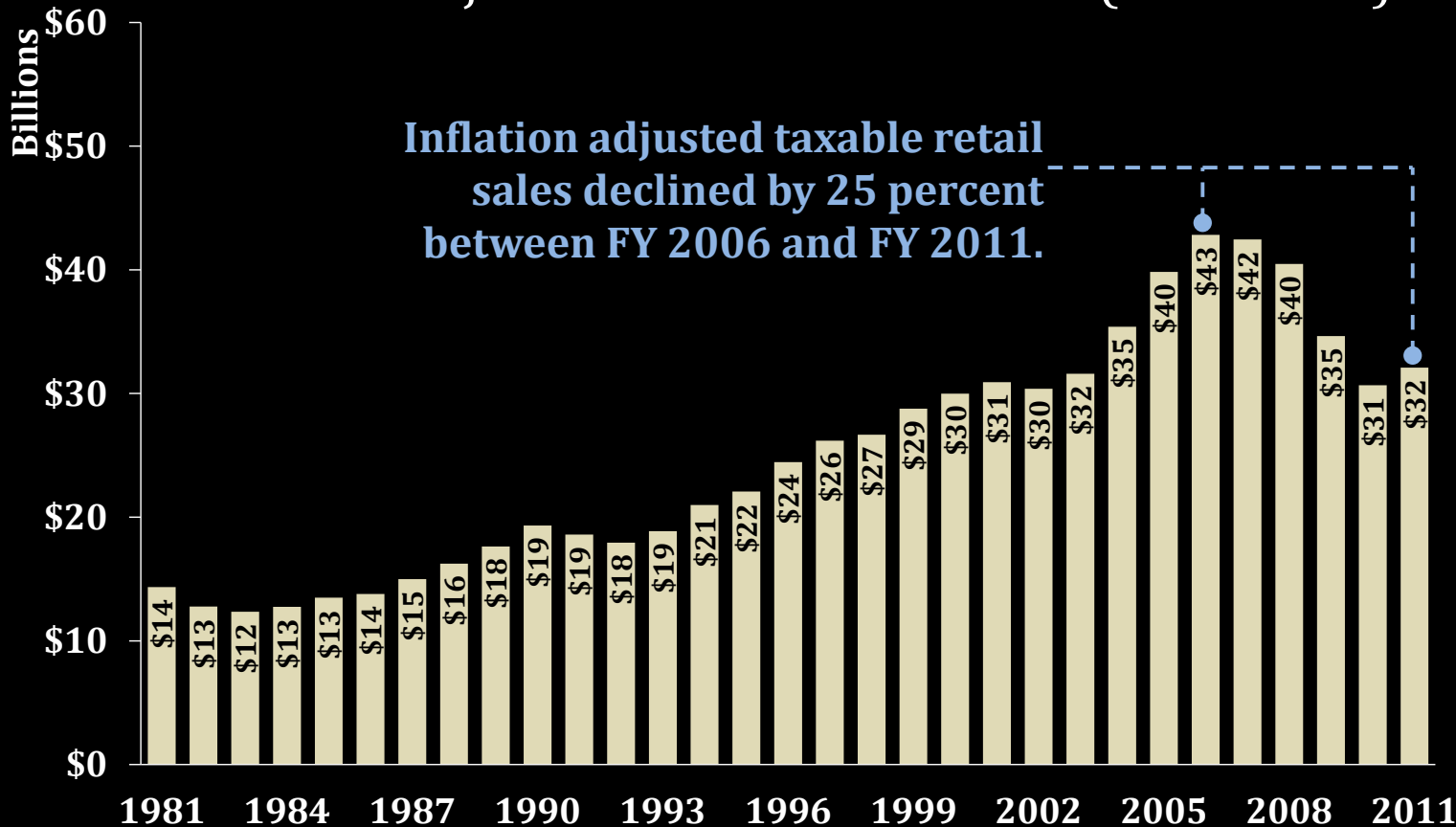
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A PRELIMINARY REVIEW AND ANALYSIS

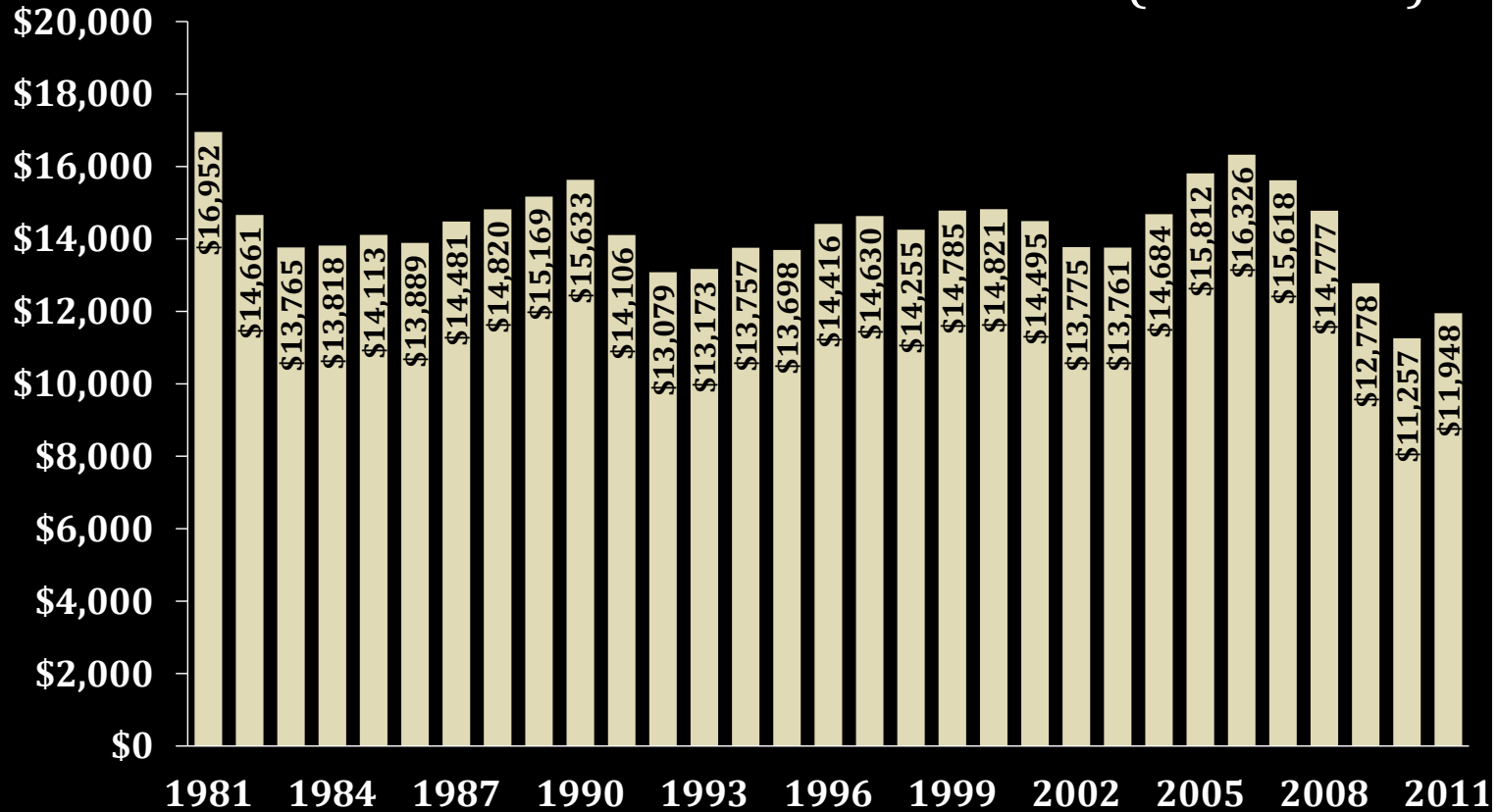
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# Nevada Taxable Retail Sales

## Inflation Adjusted per Capita FY 1981 – FY 2011 (2000=100)



Source: Applied Analysis, based on data reported by the Nevada Department of Taxation.

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A PRELIMINARY REVIEW AND ANALYSIS

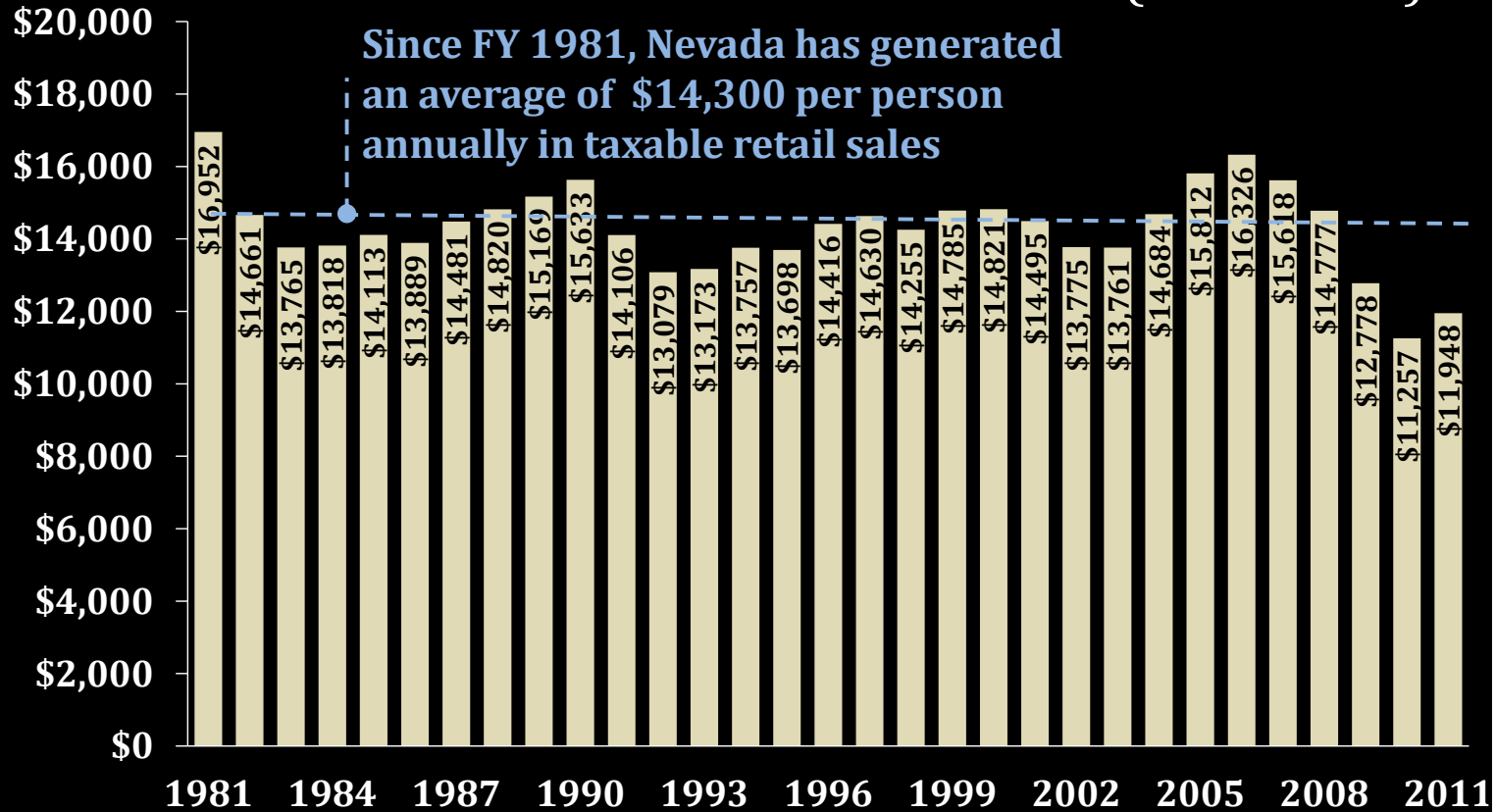


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A PRELIMINARY REVIEW AND ANALYSIS



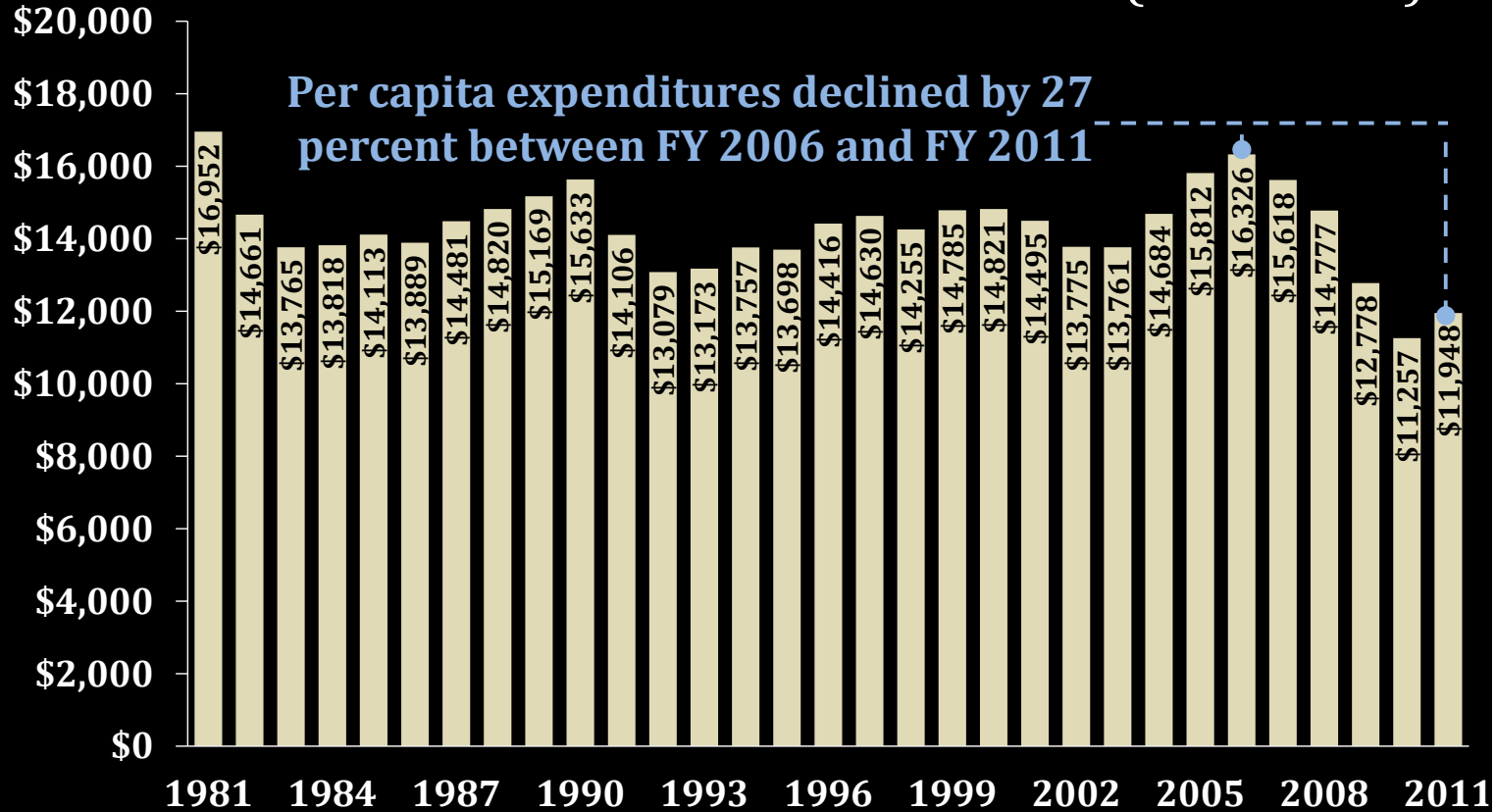
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# Why?

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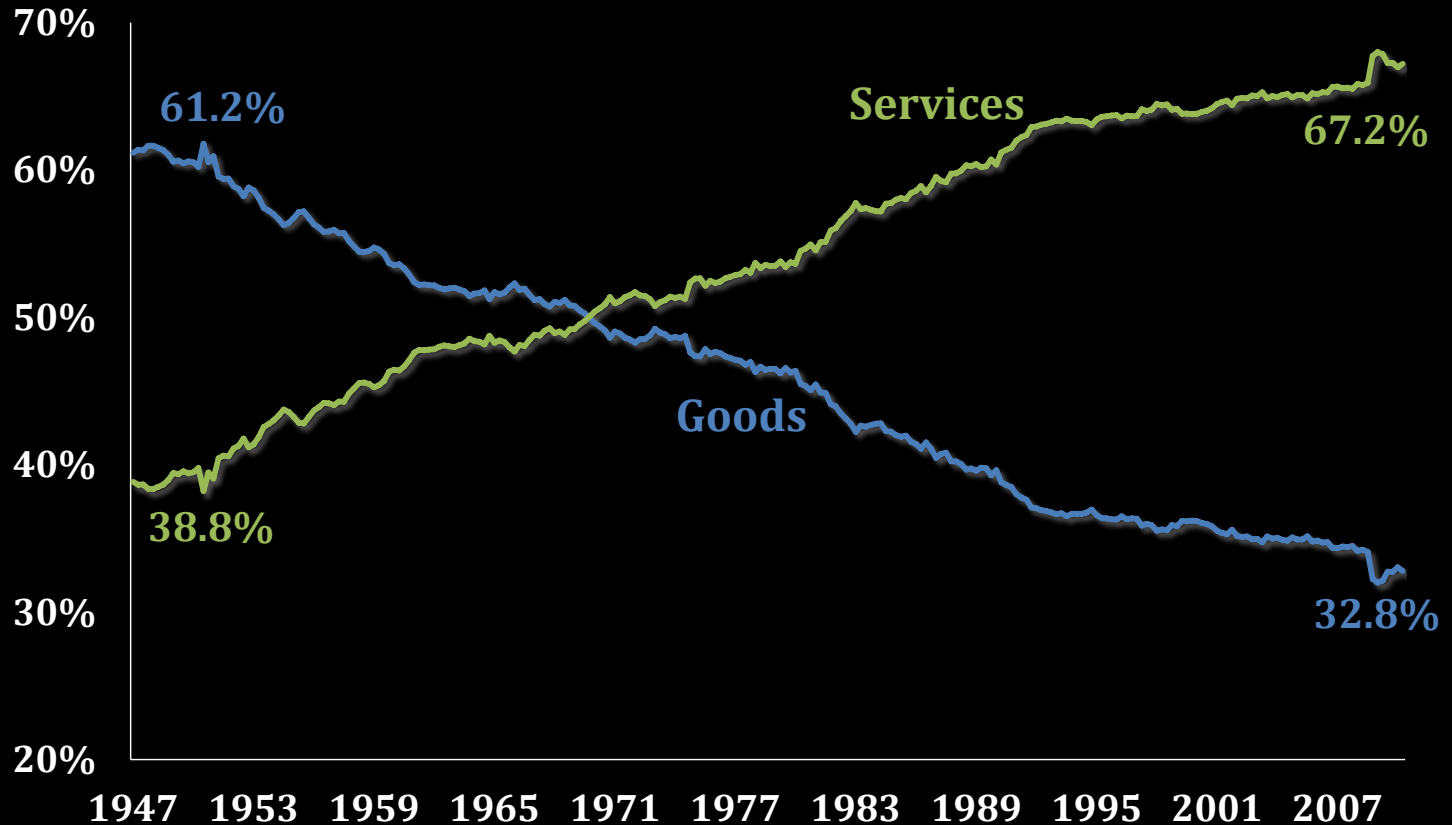
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# 1. We Spend Our Money Differently

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A PRELIMINARY REVIEW AND ANALYSIS

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# Personal Consumption Expenditures by Major Type of Product, Q1 1947 – Q2 2010



Source: Applied Analysis, based on data reported by the United State Bureau of Economic Analysis.

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A PRELIMINARY REVIEW AND ANALYSIS

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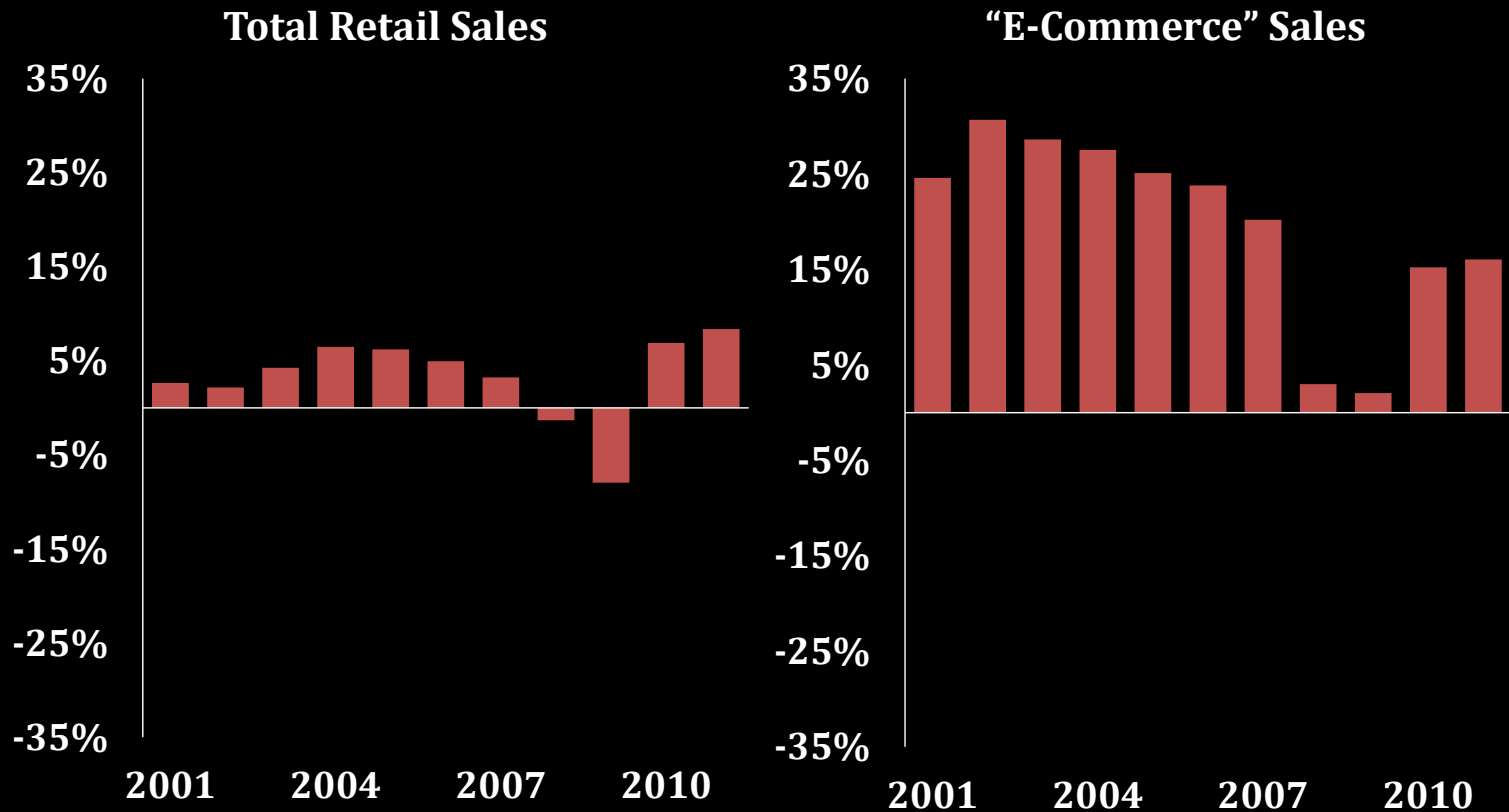
**2. The Internet is Capturing a Greater Share of Total Retail Sales**

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A PRELIMINARY REVIEW AND ANALYSIS

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# Growth in Internet-Based Sales in the U.S.

## Annual Growth Rates (Not Seasonally Adjusted)



Source: Applied Analysis, based on data reported by the U.S. Census Bureau.

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**1. We Spend Our Money Differently**

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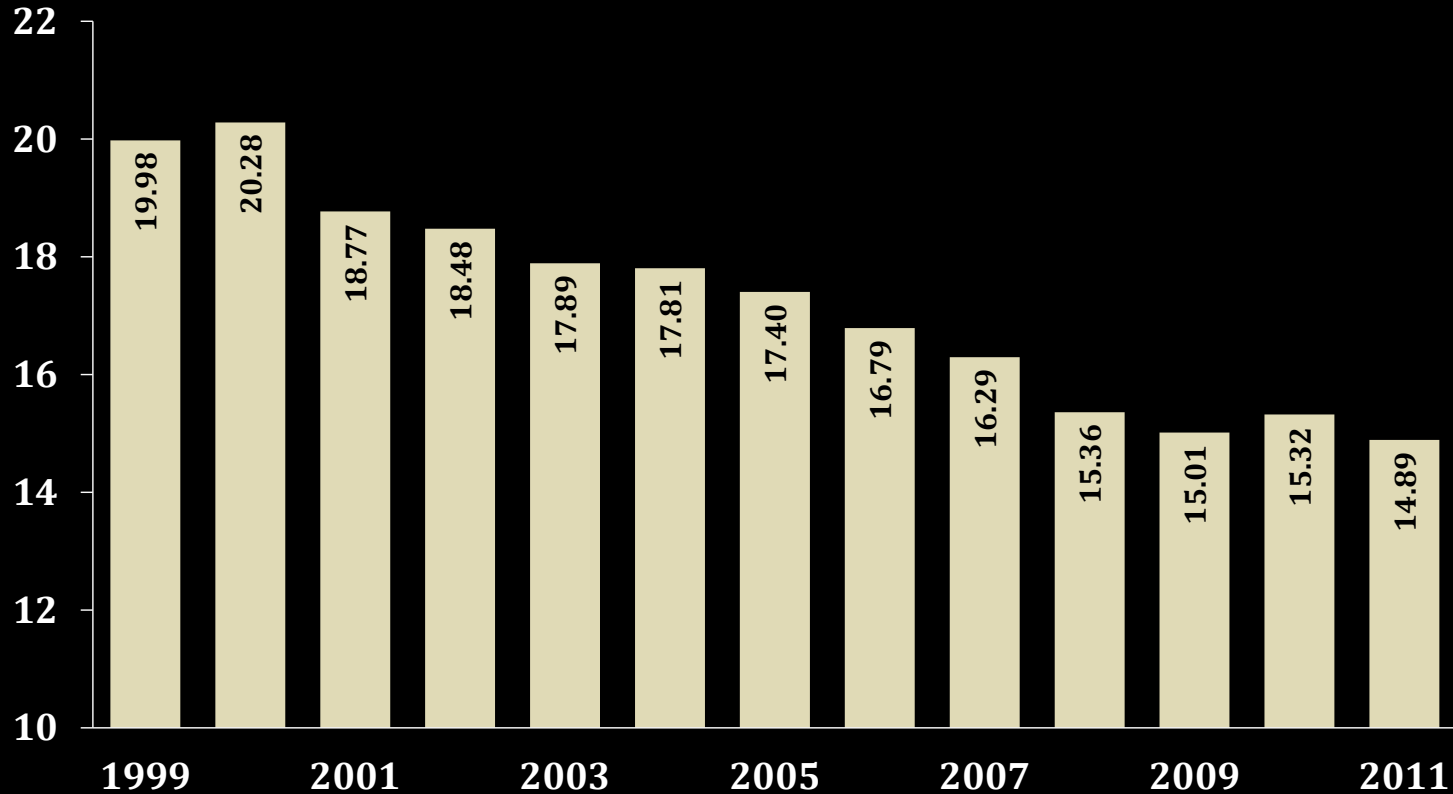
**3. Nevada's Economy is Diversifying Away From Tourism**

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A PRELIMINARY REVIEW AND ANALYSIS

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# Nevada Visitors per Capita

Annual Series



Source: Applied Analysis, based on data reported by the LVCVA and Reno-Sparks Convention and Visitors Authority.

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A PRELIMINARY REVIEW AND ANALYSIS



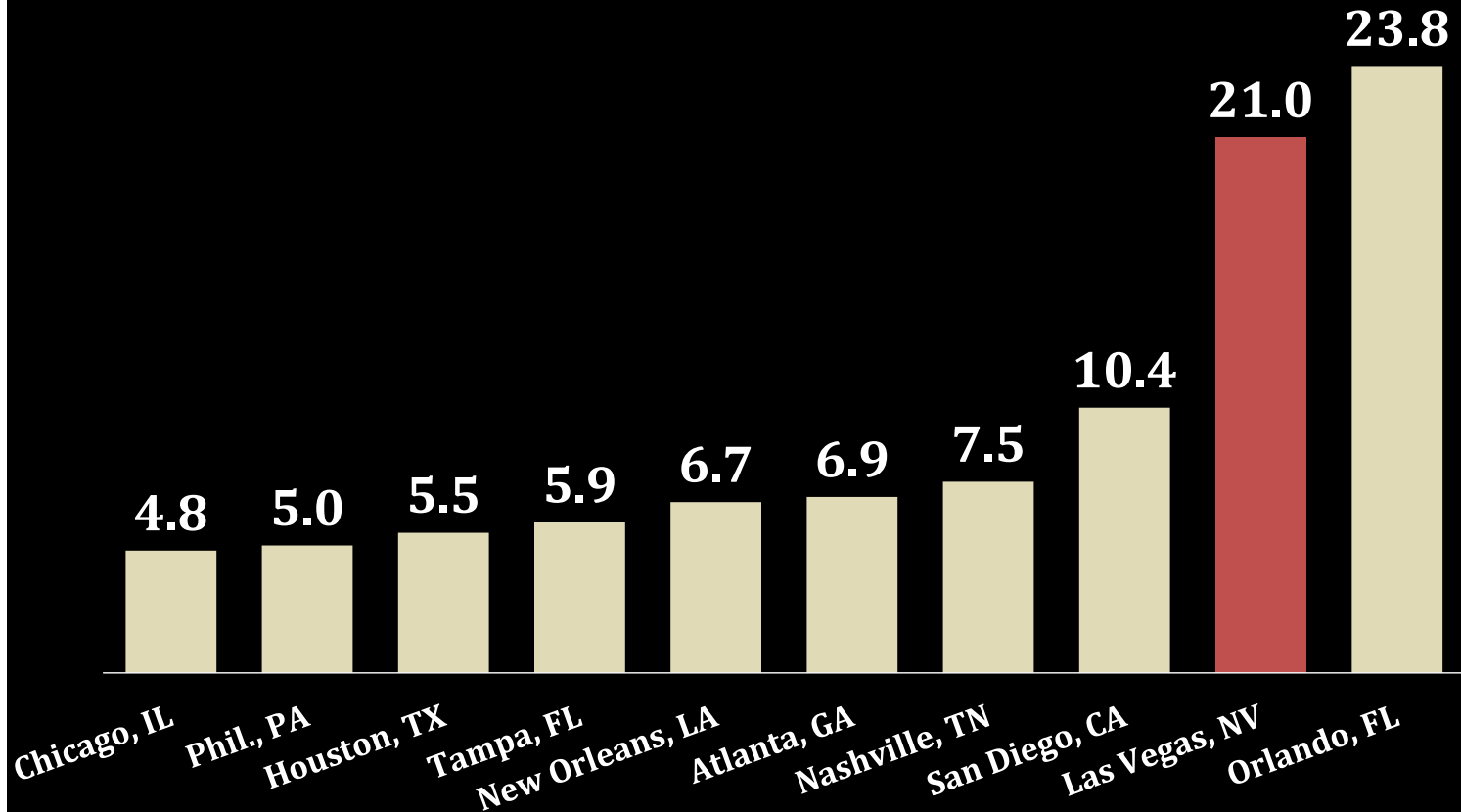
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# Visitors per Capita

Top 10 U.S. Visitors Destinations with Population over 1 million



Source: Applied Analysis, based on data reported by the U.S. Census Bureau and various tourism boards (data as of 2008).

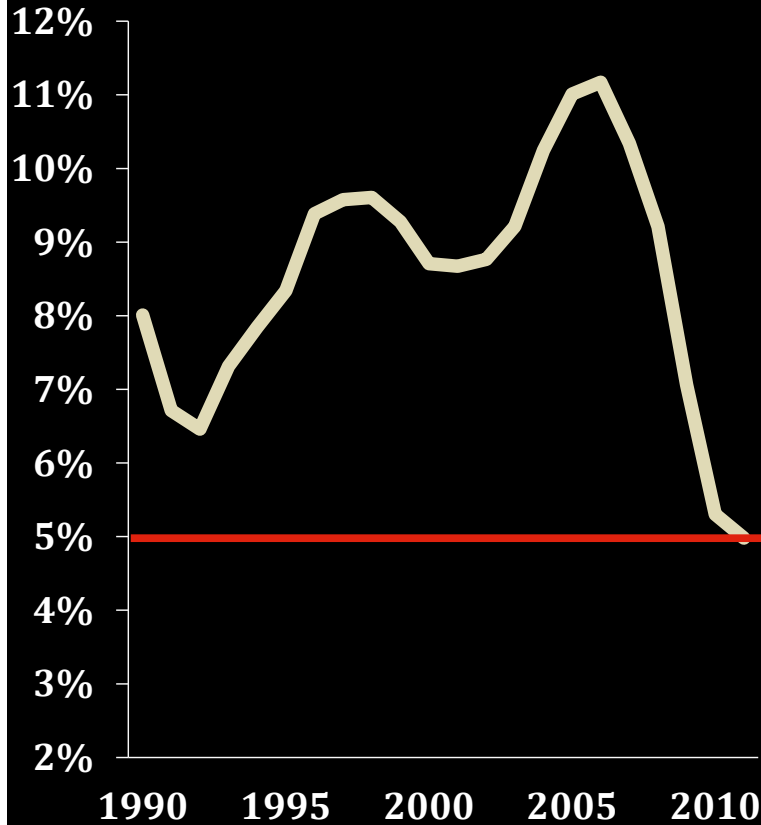
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A PRELIMINARY REVIEW AND ANALYSIS

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- 1. We Spend Our Money Differently**
- 2. The Internet is Capturing a Greater Share of Total Retail Sales**
- 3. Nevada's Economy is Diversifying Away From Tourism**
- 4. Less Construction Activity**

# Nevada Construction Employment

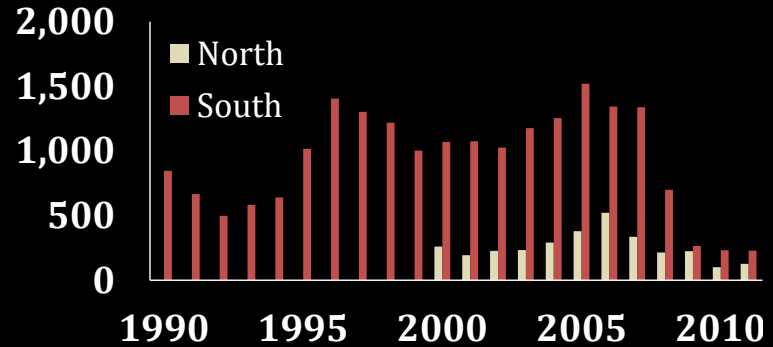
as a Percentage of Total Employment (1990-2011)



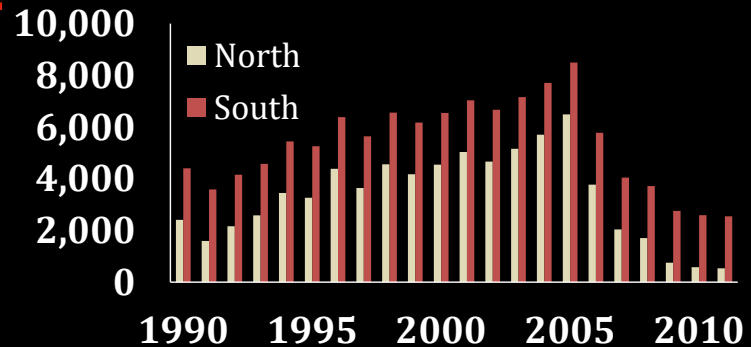
Source: Applied Analysis, based on data from the Nevada Department of Training and Rehabilitation

# Nevada Annual Units Permitted

## Commercial



## Residential



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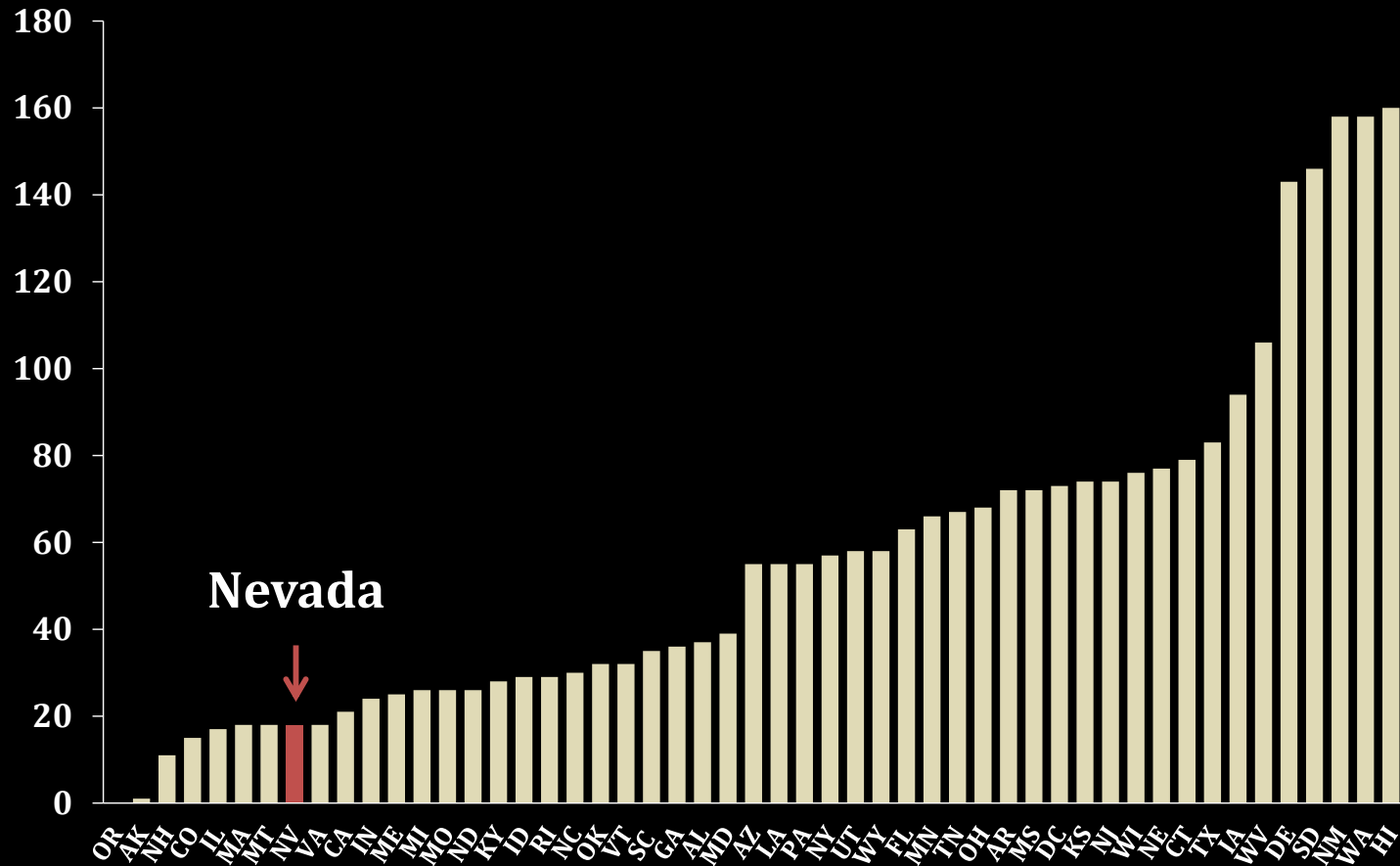
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Fact:

Nevada Has a Comparably  
Narrow Sales Tax Base

# Number of Services Taxed by State



Source: Applied Analysis, based on data reported by the Federation of Tax Administrators (March 2010, latest available).

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A PRELIMINARY REVIEW AND ANALYSIS

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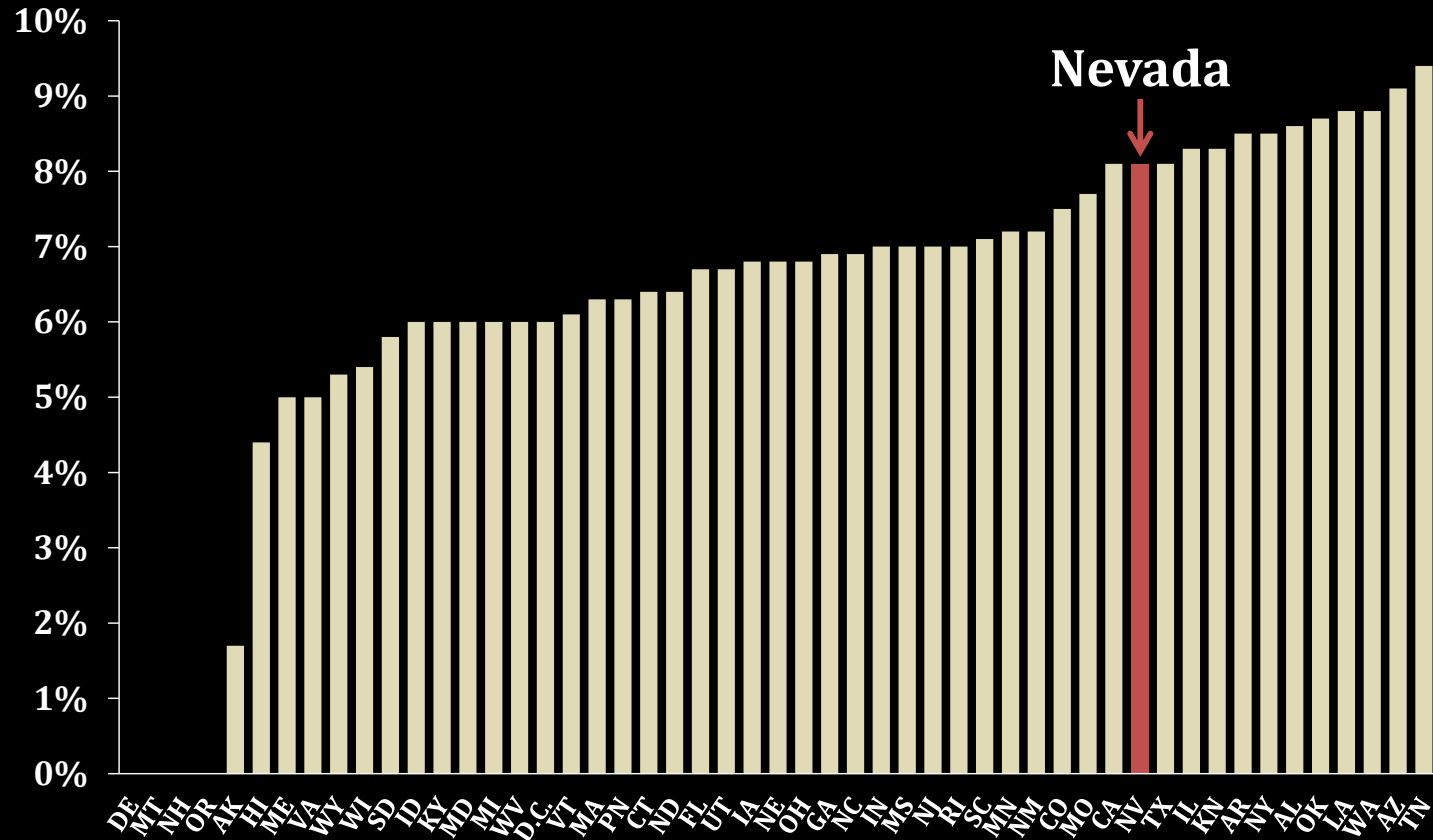


Fact:

Nevada Has a Comparably  
High Sales Tax Rate

# Avg. Combined Sales Tax Rates by State

As of July 1, 2011



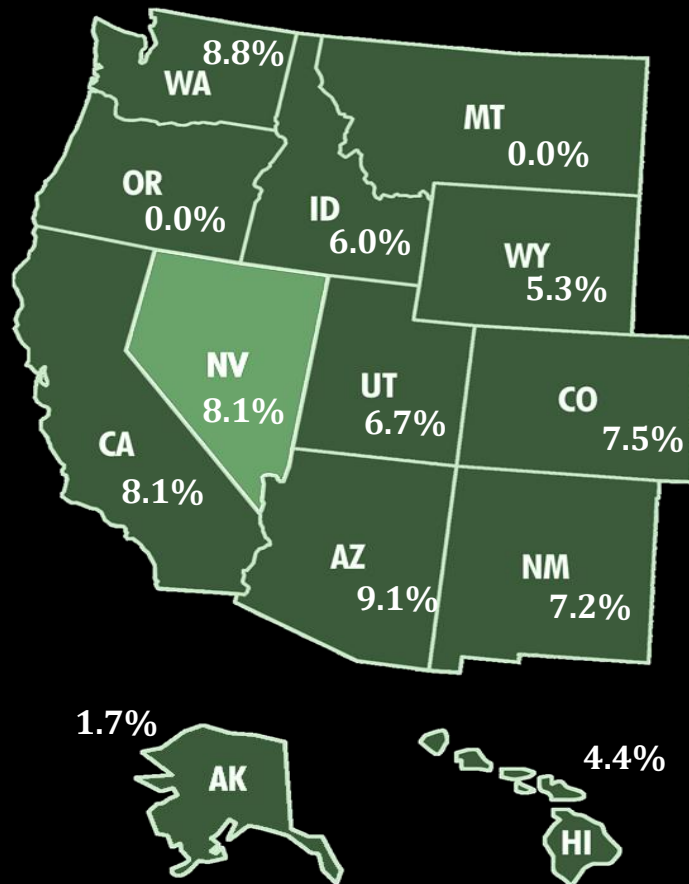
Source: Tax Foundation.

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A PRELIMINARY REVIEW AND ANALYSIS

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## Western Region – Avg. Combined Sales Tax Rates As of July 1, 2011

Source: Tax Foundation.

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A PRELIMINARY REVIEW AND ANALYSIS

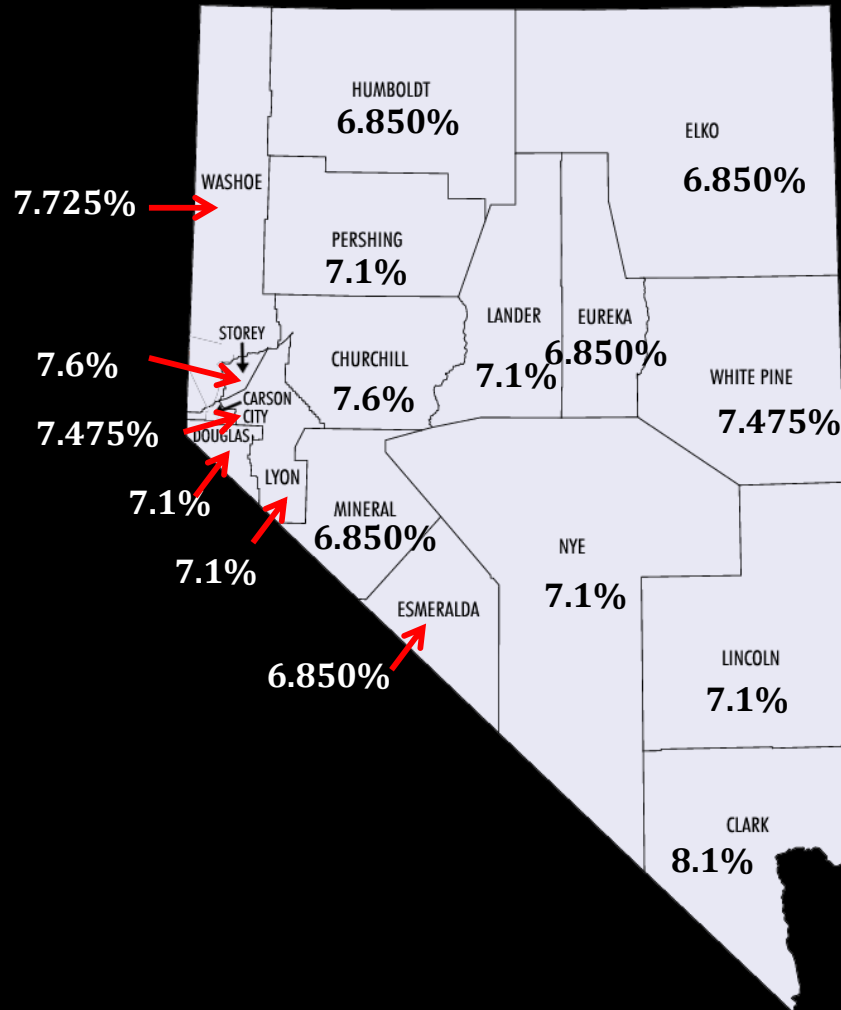
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# Nevada Sales & Use Tax Rates by County



Source: Nevada Department of Taxation.

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# So What is The Alternative?

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A PRELIMINARY REVIEW AND ANALYSIS

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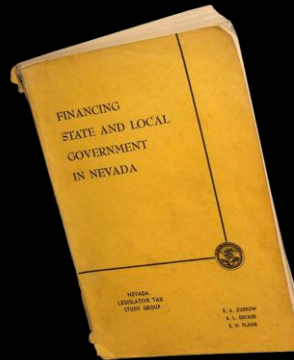
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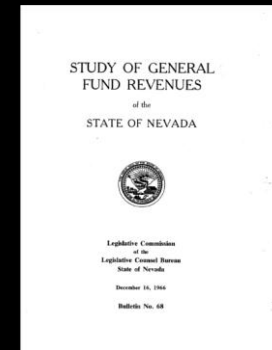
**Challenges with  
the State's  
revenue system  
have been well  
documented**

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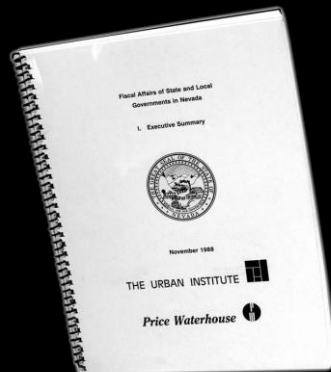
**Zubrow  
Report, 1960**



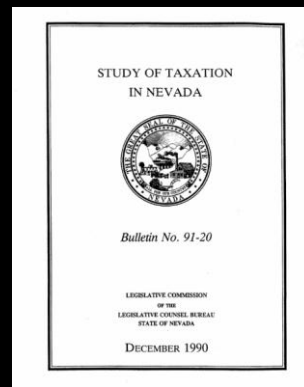
**Lybrand  
Report, 1966**



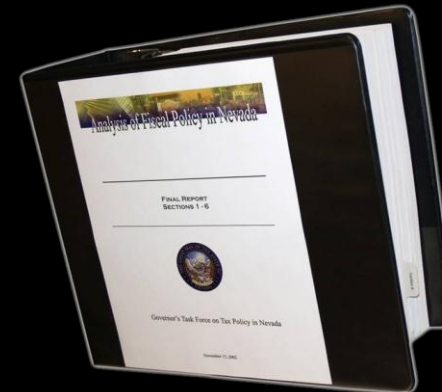
**Price Waterhouse  
ULI, 1988**



**Legislative  
Commission, 1990**



**Governor's Task  
Force, 2002**



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A PRELIMINARY REVIEW AND ANALYSIS**

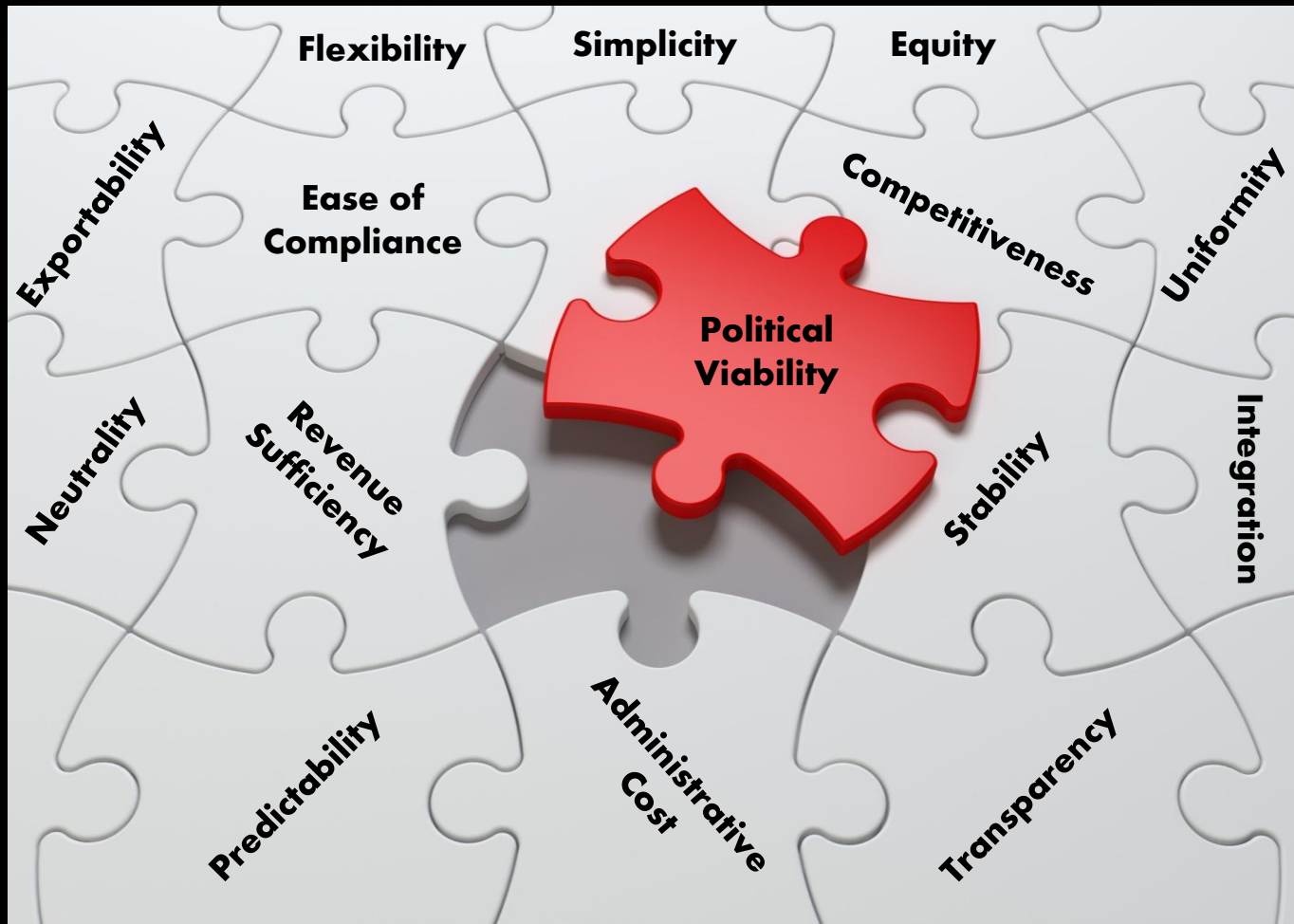
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A PRELIMINARY REVIEW AND ANALYSIS



# Tax Neutral Reform Strategy

## Part I

Expanding the  
Tax Base by  
Creating a Nevada  
Services Tax

## Part II

Lower Nevada's  
Existing State and  
Local Sales Tax  
Rate(s)

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A PRELIMINARY REVIEW AND ANALYSIS

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## Nevada's Current Tax Base is Approximately \$40 Billion

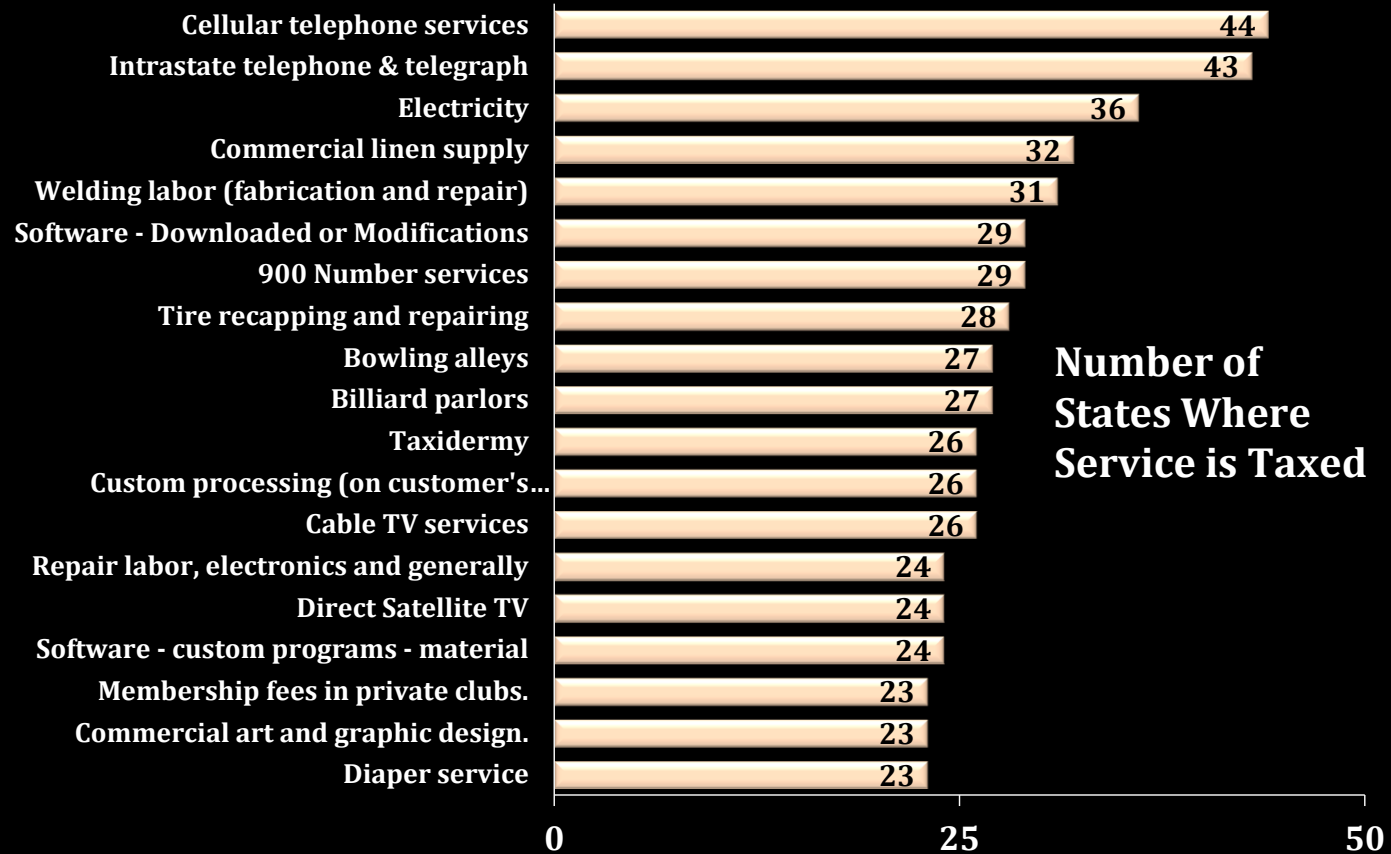
### Major Sources

- (1) Auto Sales
- (2) Eating and Drinking
- (3) General Merchandise



**Items Not Current Subject  
to Nevada's Sales and Use  
Tax Total Approximately  
\$87 Billion**

# Most Common Services Subject to Sales Tax in Other States But Exempt in Nevada



Source: Applied Analysis, based on data reported by the Federation of Tax Administrators (March 2010, latest available).

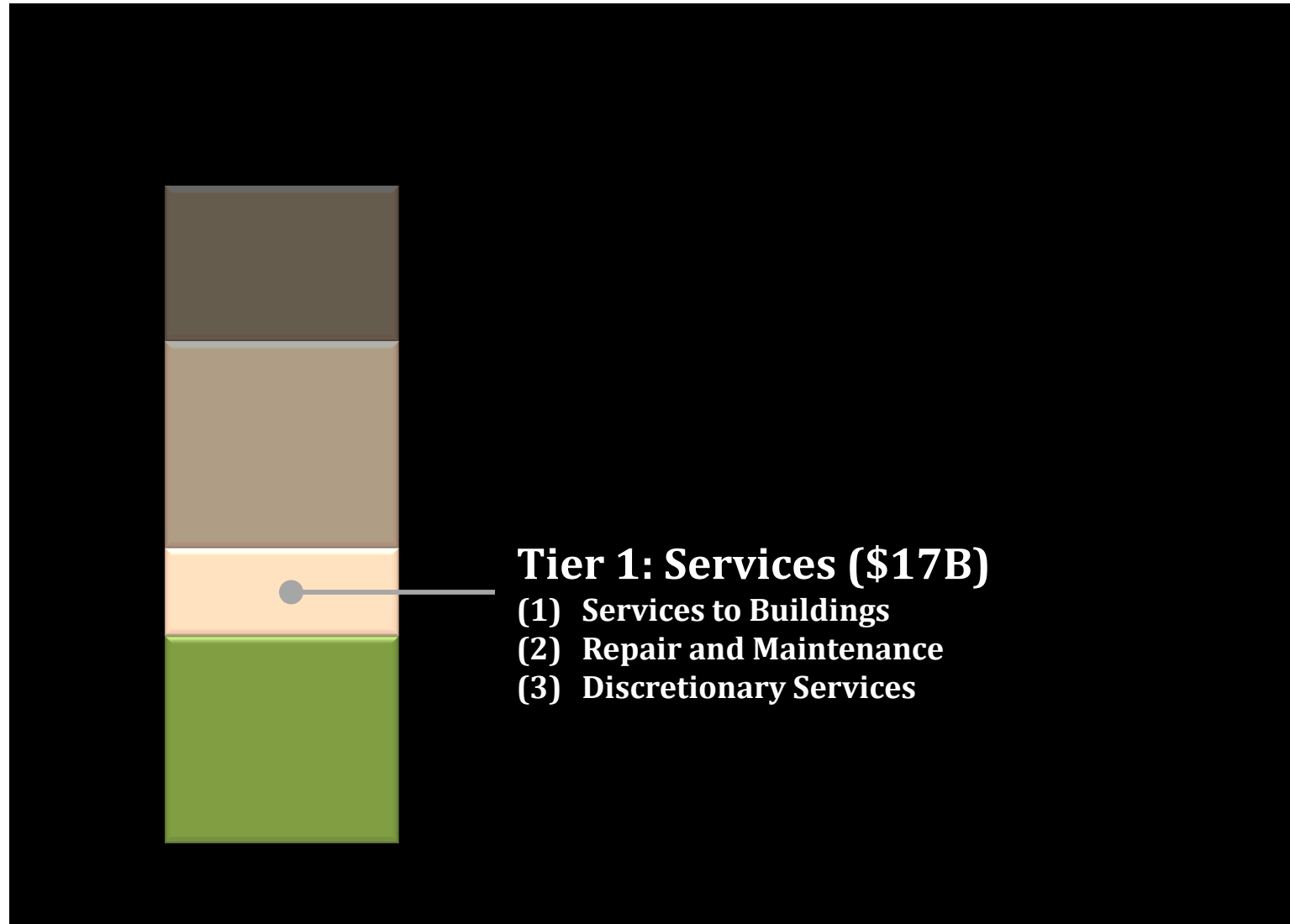
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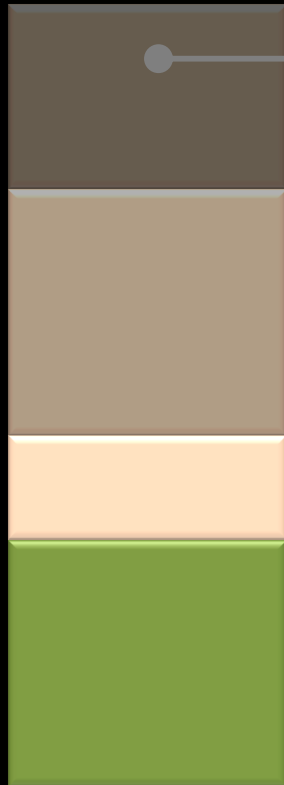
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### **Tier 3: Services (\$30B)**

- (1) Education Services**
- (2) Health Care Services**
- (3) Child Care Services**
- (4) Home Leasing**

# How Might a Process Work?

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A PRELIMINARY REVIEW AND ANALYSIS

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## Step #1

2013

State of Nevada Creates  
*The Nevada Services Tax* at a  
Rate of 3%

**Requires a two-thirds vote**  
**Does not identify specific items to be taxes**  
**Establishes a maximum base increase (\$10B)**  
**Effective date July 1, 2015**

## Step #2

2013

State Creates The Nevada  
Services Tax Base Study  
Committee

**Made up of legislators, local government  
representatives and private stakeholders**  
**Charged with identifying services**  
**Report to legislature not later than June 30, 2014**

## Step #3

2014

State Receives Report,  
Department of Taxation  
Prepare for Administration

**Services businesses are identified**  
**Services businesses are provided notice**  
**NDOT systems updated**  
**NDOT prepared to begin process July 1, 2015**

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## Step #4

2015

Nevada State Legislature  
Ratifies/Amends  
Identified Services

**Requires a two-thirds vote?**  
**Identifies specific items to be taxes**  
**Expands the tax base**  
**Effective date remains July 1, 2015**

## Step #5

2016

First Full Year of Nevada  
Services Tax Collections

**NDOT administers, collects and distributes**  
**Proceeds distributed to state, schools and local**  
**governments in proportion to their share of Sales**  
**and Use Tax distributions**

## Step #6

2017

Sales and Use Tax Rates  
(LSST and Local Relief  
Taxes) Are Reduced

**Revenue generating capacity established**  
**Rates reduced to ensure transition is tax neutral**  
**Any excess funds diverted to Rainy Day/Reserve**  
**Funds or to one-time capital programs**

**LOCAL GOVERNMENTS AND A NEVADA SERVICES TAX**  
A PRELIMINARY REVIEW AND ANALYSIS

APPLIED  
ANALYSIS 

# What Would the New Sales Tax Rates Be?

## Assumes

- 3% Services Rate
- \$10B Services Base
- \$300M Annual Yield

	Current	New
Carson City	7.475%	6.725%
Clark	8.100%	7.350%
Churchill	7.600%	6.850%
Douglas	7.100%	6.350%
Elko	6.850%	6.100%
Esmerelda	6.850%	6.100%
Eureka	6.850%	6.100%
Humboldt	6.850%	6.100%
Lander	7.100%	6.350%
Lincoln	7.100%	6.350%
Lyon	7.100%	6.350%
Mineral	6.850%	6.100%
Nye	7.100%	6.350%
Pershing	7.100%	6.350%
Storey	7.600%	6.850%
Washoe	7.725%	6.975%
White Pine	7.475%	6.725%

# Areas of Concern

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2. Determining what services will be a challenge politically
3. Some will want to use the strategy to generate additional resources for programs
4. Requires a two-thirds vote, even if it is tax neutral
5. **Should be considered as part of a broader legislative agenda**

FEDERAL RESERVE NOTE  
FA 95944734 F

# LOCAL GOVERNMENTS AND A NEVADA SERVICES TAX

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February 2, 2012

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