Elliott Parker: Nevada’s tax structure must be broader-based, more stable and efficient

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“Taxes are what we pay for civilized society,” Oliver Wendell Holmes wrote in 1927, but what taxes do the least harm?

Taxes need to be assessed on defined, measurable activities, difficult to evade, transparent, inexpensive to collect and fair, so people in similar situations are taxed at similar rates, and people with a greater ability to pay shoulder more of the burden. Some taxes are assessed on those who most directly benefit from the good provided. A tax system should not be too sensitive to economic fluctuations, and should collect adequate revenues.

Every tax discourages the activity taxed. While we may want to discourage some activities, such as drinking or smoking, we do not want to create disincentives for working, hiring or investing. Taxes are usually more efficient if we apply low rates to many things rather than high rates to only a few things. When specific industries or activities are taxed, the “Ramsey Rule” recommends taxing those sectors where buyers or sellers have few alternatives.

Nevada’s obsolete tax system gets the majority of its general fund revenue from sales taxes on tangible goods and a tax on the gross gaming win. A tax on gasoline goes to the highway fund, and federal funds help with Medicaid. Local governments rely on property taxes, a portion of sales taxes, and monies from the state for education and social services. This structure worked when we had a monopoly on casino gambling, but now we need to modernize our tax structure by looking at other alternatives.

Business taxes often have the advantage of being more politically popular, but in general, they are passed on to owners, workers or consumers, so the distinction between individual and business taxes is not as clear as it seems. If a tax is exported to owners from out-of-state, the tax may be more popular.

Income taxes are easy to collect and more fair, but our state constitution prohibits an income tax on individuals, and many wealthy people moved to Nevada because of this. Corporate income taxes are constitutionally possible, and Nevada is one of only a handful of states without them. But, other states have been reducing their rates to attract investment, and these taxes tend to fall just when you need the revenue most.

Property taxes are easy to collect and relatively fair, and Nevada’s rates are lower than many other states’. However, they are very sensitive to long-term changes in property values, and somewhat slow to recover.

Nevada has relatively high sales taxes on tangible goods. Sales taxes are more regressive, as people with lower incomes pay a higher share of income. There are also many exclusions we could reconsider. Groceries are excluded, including soft drinks and many prepared foods. Most services are excluded, even though our economy is service-based. We do charge taxes on casinos, hotels, restaurants and rental cars, because people from out of state pay more of these taxes.

We now have a modified business tax assessed on a firm’s payroll. Because this discriminates against hiring relative to capital investment, a value-added tax is more efficient and fair. Other states have franchise taxes or gross receipts taxes, which have their own problems.

With the fewest public employees per capita and many taxes targeted to visitors from out-of-state, Nevada has one of the lowest tax burdens in the nation. We need to revamp our tax structure to replace our falling revenues with something broader-based, more stable and more efficient.

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