



The Nevada Policy Research Institute

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NPRI tax study calls for systemic reform: eliminate MBT and insurance premium tax, broaden and lower sales tax

LAS VEGAS — A new study from the Nevada Policy Research Institute details how a series of revenue-neutral reforms to Nevada's tax structure and budgeting process would broaden and stabilize Nevada's tax base while protecting citizens from onerous taxation and putting the Silver State on sound fiscal footing well into the future.

The study, titled "One Sound State, Once Again: Comprehensive fiscal reforms to again make Nevada strong, prosperous and free," was authored by NPRI fiscal policy analyst Geoffrey Lawrence, who outlines a strategy that would allow Nevada's lawmakers to address the state's fiscal challenges while still protecting taxpayers.

The study's release comes while the Interim Finance Committee of the Nevada Legislature awaits the release of its own tax study, being conducted by Moody's Analytics. Lawmakers have directed Moody's to examine proposals for a broad-based business tax, which most likely would take the form of a corporate income tax, given statements made in support of such a tax by IFC Chairman and Senate Majority Leader Steven Horsford during the 2009 regular legislative session.

While the stated purpose behind such a tax would be to stabilize and broaden Nevada's tax base, the NPRI study reveals that the corporate income tax is actually one of the least stable tax instruments available to state governments, and is significantly less stable than any tax instrument currently employed in Nevada. Adding a corporate income tax would therefore make the state's tax structure more, not less, volatile.

Instead, the NPRI study proposes:

- eliminating the modified business and insurance premium taxes,
- broadening the sales tax base,
- lowering the statewide sales tax rate to 3.5 percent and
- providing a direct tax refund to all Nevadans for presumed consumption up to the federal poverty line.

“Broadening and stabilizing Nevada’s tax system is a worthy and important goal,” said Lawrence. “Unfortunately, for years politicians have used those words to justify raising taxes on Nevada’s citizens, and the Interim Finance Committee’s forthcoming study is likely to be just the latest attempt. The proposals in ‘One Sound State, Once Again,’ however, would instead stabilize and broaden Nevada’s tax base without further burdening Nevada’s taxpayers, and would also strengthen our economy by eliminating the job-killing modified business tax.”

Lawrence applied four chief principles in producing his recommendations: reducing tax volatility; ensuring economic efficiency by minimizing tax-induced distortions in economic behavior; minimizing compliance costs through simplicity; and ensuring vertical and horizontal tax equity. The result, he said, is a proposal that broadens, stabilizes and simplifies Nevada’s tax structure while vastly decreasing the level of government interference in the marketplace.

The study also calls for reforms to the state’s budgeting process.

“Reforming the tax structure alone won’t be enough to prevent future budgetary challenges like the one Nevada currently faces,” said Lawrence. “Therefore, this study also calls for the implementation of a priority-based budgeting approach, as well as mandatory limits on government spending increases. Such provisions, had they been in place, would have allowed Nevada to avoid its current fiscal predicament, and if enacted now would allow us to avoid such situations in the future.”

Steven Miller, vice president for policy at NPRI, said that adopting the recommendations in “One Sound State, Once Again” would help the Silver State reclaim its heritage as a haven from excessive taxation and government interference.

“At one time, Nevada’s tax structure and economic health made it the envy of the entire country,” said Miller. “This proposal would allow Nevada to start down the road toward regaining that status.”

An executive summary of the study is available online at <http://npri.org/publications/one-sound-state-once-again>. The full study can be downloaded at http://npri.org/docLib/20100601_One_Sound_State_Once_Again.pdf.

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