ELKO DAILY FREE PRESS

Nevada's tax and spending changes play poorly on national stage

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October 13, 2016

Every two years, the Cato Institute in Washington, D.C., ranks the recent changes in state fiscal policies to give readers an understanding of the trends prevailing in each state. Last week, Cato released its newest Fiscal Report Card, and Nevada fares poorly.

Of the 50 states plus Washington, D.C., Nevada ranks 47th due to its unfavorable shifts in tax rates and spending in the last legislative session.

Study author Chris Edwards notes that large unfunded liabilities for public-employee pensions and ballooning Medicaid costs are putting upward pressure on state budgets.

“Yet,” says Edwards, “global economic competition demands that states improve their investment climates by cutting tax rates, particularly on businesses, entrepreneurs, and skilled workers.” Indeed, the dynamism and entrepreneurship that make an economy and society flourish function best in an environment of taxes and regulations lower than Nevada’s.

In the past two years, several states have met this challenge by reining in costs and have even cut taxes. Arizona, Indiana, Kansas, Maine, New Mexico, New York, North Carolina, North Dakota, Ohio and Oklahoma have all cut individual and corporate income tax rates substantially. Most did so under Republican leadership.

Nevada’s Republican leadership, however, chose to go a different direction. In 2015, Nevada enacted rate hikes for sales taxes, payroll taxes and cigarette taxes and created a new Commerce Tax based on business gross receipts instead of income. Edwards rightly describes this as “the largest package of tax increases in Nevada’s history at more than $600-million per year.”

Cato’s rebuke focuses on the Commerce Tax, which we actively opposed. We led a referendum to repeal it until the politicized state supreme court disqualified it on fallacious grounds. Edwards calls the Commerce Tax “the worst part of the package.”

He continues: “The Commerce Tax is complex, distortionary, and hidden from the general public. As a gross receipts tax, it will hit economic output across industries unevenly, and it will likely spur more lobbying as industries complain that their tax burdens are higher than other industries. Imposing the tax was a major policy blunder."

He further notes this tax was enacted on the heels of voters' overwhelming rejection of a very similar proposal. "The Commerce Tax," he says, "was imposed to increase funding for education. [Gov. Brian] Sandoval and the legislature had been directly rebuked by the public in 2014 for their effort to impose a new tax for education. In a November 2014 ballot, Nevada voters overwhelming rejected by a 79–21 margin the adoption of a new franchise tax to fund education."

Further, we offered the legislature a mechanism to fund Sandoval's prime education priorities mainly by requiring all government employees to contribute toward their own pensions on a matching basis with taxpayers. So, the Commerce Tax was never essential.

Last year's massive tax hikes weren't the only issue of concern regarding Nevada. Cato also expresses great concern over the state's strategy of raising taxes broadly and then offering special deals to politically connected firms.

The previous edition of Cato's Report Card details how this approach severely dampens economic growth. Awarding special breaks or subsidies to particular firms signals state support for those firms and thus deters investment and entrepreneurial activity among non-recipients of state preferences. Now Nevada has become the leading cautionary tale for this approach:

"Consider Nevada's recent tax policy. Governor Brian Sandoval imposed a huge $600-million per year tax increase on businesses, including higher license fees, an increase in the state's Modified Business Tax, and the imposition of a new Commerce Tax. At the same time, Sandoval has been eagerly handing out narrow tax breaks to Tesla, Amazon, data center companies, and other favored businesses. So Nevada's tax policy entails large increases for all businesses, but special breaks for companies favored by the politicians. That is a prescription for corruption, not long-term economic growth."

We want our children and all Nevada's children to grow up in a land of opportunity and continually expanding horizons. We want to protect their future ability to achieve financial and professional success without begging permission from a narcissistic and morally corrupt political establishment.

That's why we have been and will continue to be champions of limited government, fiscal discipline and real education reform.