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Task Force proposes 'Sin Tax' Hikes, Amusement Tax

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Nevada

Task Force Proposes 'Sin Tax' Hikes, Amusement Tax

by Michael Coyne, Bucknell University,
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The Nevada Governor's Task Force on Tax Policy has tentatively endorsed a series of tax increases and a new amusement tax, levies designed to address Nevada's estimated \$360 million revenue shortfall for fiscal 2004.

The task force is to make its final recommendations to Gov. Kenny Guinn (R) and legislators by November 15. The Legislature will consider the recommendations in its 2003 biennial session, but given the currently projected shortfall it is likely that many, if not all, of the task force recommendations will be adopted.

The tax increases endorsed by the task force were raising the cigarette excise tax from 35 cents per pack to 70 cents per pack, increasing alcoholic beverage taxes by approximately 70 percent, hiking property tax rates to \$3.74 per \$100 of assessed valuation, and changing the tax on slot machine tax route operators from a per-machine flat fee to a percentage of gross receipts. A new broad-based amusement tax of 6.5 percent was also endorsed. The most controversial proposed new tax discussed was a new business gross receipts tax of 0.25 percent, with small businesses exempted. This tax has not yet been endorsed by the task force and will be addressed at future meetings.

The proposed cigarette tax increase to 70 cents per pack would leave Nevada's levy in the middle among its neighboring states. Arizona, Utah, and Idaho have lower per-pack rates at 58 cents, 69.5 cents, and 28 cents, respectively. California has a higher rate, at 87 cents per pack, and while Oregon currently charges 68 cents per pack, voters recently decided to raise the rate to \$1.28 per pack. A number of groups, notably the Progressive Leadership Alliance of Nevada, have been advocating the cigarette tax increase as a "win-win" situation that would increase tax revenues (\$61 million for the next fiscal year) while at the same time reducing teenage smoking. However, it is unclear if this estimate includes an allowance for an increase in illegally procured cigarettes. States that have been raising their cigarette taxes have begun to experience increases in black-market cigarette sales. For example, after New York's recent increases in cigarette taxes, illegal and Internet cigarette sales may be costing New York State and New York City up to \$200 million per year in lost revenue, according to a *New York Daily News* special report dated September 23.

The alcoholic beverage tax increase would be Nevada's first since 1983; it is projected to raise approximately \$14 million for fiscal 2004. Beer would be taxed at about 15 cents per gallon, up from the current 9 cents per gallon. Hard liquor would be increased from the current \$2.05 per gallon to \$3.50 per gallon. Nevada's neighbors charge similar rates per gallon; California currently charges \$3.30, and Arizona \$3. Liquor

sales in Oregon, Idaho, and Utah are state-controlled and generate revenue through taxes, fees, and net liquor profits. If the proposed alcoholic beverages tax were adopted, Nevada's rate would be somewhat higher than California's and Arizona's. It is unclear if there would be any tax base erosion in Nevada.

For fiscal 2004, the property tax rate increase of 10 cents per \$100 of assessed valuation would be expected to bring in approximately \$62 million, while the slot machine route tax switch to gross receipts from a flat fee would bring in about \$12 million. The new broad-based entertainment tax is expected to generate about \$94 million in fiscal 2004.

The fiscal 2004 total for the task force's proposed tax increases outlined above is \$243 million, still more than \$100 million shy of the projected \$360 million fiscal 2004 fiscal deficit. An additional \$21 million is expected from better collection methods and timing changes in existing taxes. However, these changes still leave a shortfall of approximately \$80 million. Consequently, it is likely that a new tax on business gross receipts will receive serious consideration. Other ideas suggested have included extending the existing sales tax to services, adopting a new state lottery, and creating a traditional business income tax. Nevada's state constitution prohibits a personal income tax, so it not likely lawmakers will want to tackle the process of amending the constitution to implement a personal income tax.

The task force will meet again in Carson City on October 2. There is also a tentative meeting scheduled for October 16 in Las Vegas. The next few months — as the task force settles on final recommendations to the governor and the Nevada legislative session's February 3 start nears — should prove very interesting. Tax increases are coming for Nevada; it is only the form of the increases that remains for determination. ☆