# FINANCING STATE AND LOCAL GOVERNMENT IN NEVADA



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Nevada Legislative Tax Study Group
1960

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# LETTER OF TRANSMITTAL

October 15, 1960

Senator Farrell L. Seevers
Chairman, Legislative Commission
State Capitol
Carson City, Nevada

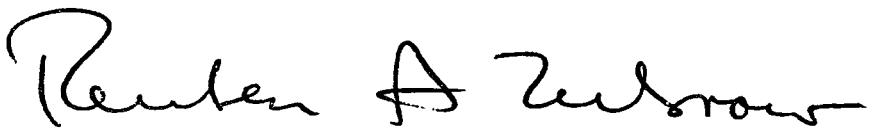
Dear Senator Seevers:

On behalf of the Nevada Tax Study Group and our Research Associates I take pleasure in transmitting this report which includes a summary of the staff's findings and recommendations in the final chapter. In accord with the 1959 Act which provides for the study of the fiscal affairs of state and local governments in Nevada, we have limited our recommendations to existent sources of revenue and have included "an analysis of possible new revenue sources."

This report presents a thorough and critical overall review of the methods used in financing state and local government in Nevada. As in other states of the West, Nevada's rapid postwar economic development and population growth have intensified the need for public services, with resulting changes in governmental revenue requirements. Under these conditions the maintenance of a tax structure which will be equitable and productive becomes increasingly important. It is hoped that this study will prove to be of timely use as a guide to fiscal policy.

I also wish to express the appreciation of the staff for the opportunity which has been afforded us to work independently in our research effort. The conclusions represent the unanimous judgment of the Nevada Tax Study Group based upon the wealth of evidence presented in this study.

Respectfully submitted,



*Project Director*

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# CHAPTER I

## THE ECONOMY OF NEVADA

Public expenditure and revenue policies of governmental units in Nevada are conditioned by the State's economic resources and population structure, as well as by the social philosophy and aspirations of its citizens. The kinds and amounts of public services provided on the state and local levels primarily reflect the economic and social needs of the community. Similarly, the general level of governmental revenues, and the apportionment of the tax burden must reasonably conform to the community's resource base and pattern of income distribution. It has been aptly said that "a tax program, like a suit of clothes, must be tailored to fit the wearer." It is also recognized that in a complex pluralistic society such as ours, composed of a variety of overlapping self-interest groups, fiscal policy decisions inevitably will be subject to conflicting value judgments. However, under our form of government it is expected that such differences will be resolved by the operation of a democratic political process.

How well the State's fiscal system has fitted the contours of the economy and the needs of the people is one of the principal questions dealt with in the succeeding chapters of the study. The objective of this chapter is to provide a comprehensive review of the major characteristics of the State's economy. As such, it will serve as a frame of reference for the subsequent analysis and appraisal of the expenditure and tax policies of Nevada's state and local units of government.

### General Features

Nevada lies at the west-central edge of the Great Basin area bounded on the west by the Sierra Nevadas and on the east by the Rocky Mountains and the Colorado Plateau. It is one of the eight "mountain states" of the nation.[1] Most of its total area of some 111,000 square miles lies at elevations between 5,000 and 10,000 feet above sea level. It is a dry land; approximately 1 percent is represented by lakes and streams. Climatically, it is characterized as semi-arid, with annual rainfall averaging less than 20 inches per year and an average growing

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[1]The "Mountain Division" is a standard area classification used by the U. S. Bureau of the Census and includes Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah and Wyoming. In this and subsequent chapters when these states are joined with California, Oregon and Washington, the consolidated group of 11 states are designated as the Western States or region.

season of less than 4 months.[2] Most of the land has a high alkali content and is classified as the brown and gray soils of arid regions. Throughout the State mountainous soils generally are thin, scanty, and non-productive. Equally incapable of supporting agriculture are extensive salt flats and dry lakes which result from the semi-arid climate and a mountainous topography that causes streams to drain into sinks and lakes wholly within the State. Water is probably Nevada's most scarce and precious natural resource. These are the State's broad physical characteristics that have limited and shaped its economic development over the years.

In common with other Western States, the economy of Nevada historically has rested heavily on mining and agriculture. Yet the peculiar physical attributes of Nevada, coupled with the fact that six-sevenths of its total land area is owned by the federal government,[3] have imposed limits on its agricultural development not generally shared by its neighbors. The rugged topography and large federal land holdings are used predominantly for pasturage. On the relatively small acreage used for crops, scant rainfall practically precludes cultivation without irrigation; and even with irrigation there remains the problem of soil alkalinity for many areas. Thus, in 1954, less than one-eighth of the State's total land area was represented by farms; and of the total farm acreage approximately 90 percent was in pasturage and less than 5 percent in harvested crops. In brief, the physical character of the State combined with an extensive public domain has resulted in only about 1 percent of Nevada's total land area being put into harvested and unharvested cropland.[4]

In some respects, however, Nevada's economy and governmental problems are similar to those of the other states in the region.

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[2]Although Nevada technically is not a desert, it should be noted that semi-aridity presents its own problems. As expressed in a classic study on climate: "In a desert, you know what to expect of the climate and plan accordingly. The same is true of humid regions. Men have been fooled by the semi-arid regions because they are sometimes humid, sometimes desert, and sometimes a cross between the two." U. S. Department of Agriculture, Climate and Man (Washington: Government Printing Office, 1941), p. 177.

[3]U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States: 1959, p. 184. In 1958, the federal government owned 60.5 million acres, or 86.7 percent of Nevada's total land area. In no other state does the federal government own as large a percentage of a state's total acreage. About five-sixths of the public domain in Nevada is used for grazing livestock.

[4]U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States: 1959.

Population is necessarily sparse because of the natural environment. Nevada has the lowest population density in the nation, but its rate of total population growth since 1950 was greater than that of any other state. Relative to the rest of the country, the Western States during the past decade experienced a substantial increase in the total amount of personal income received; and Nevada's personal income on a per capita basis continues to be one of the highest in the nation. Although in the past mining and agriculture were Nevada's two basic primary industries, their relative importance has declined drastically with the further development of trade and the service industries since the end of World War II.

Nevada's sparse population and relatively long distances from major product and labor areas practically precluded the development of heavy goods industries producing for national markets. But by the same token, the locational factor has stimulated the growth of local trade and service industries, notably in the case of tourism and gambling which draw upon the population centers of California. Moreover, the long distances between most trading regions within Nevada have caused these local areas to become more independent in providing necessary business and public services. As a result, small business and local government are characteristic and important in Nevada. Although the principal areas of the State are essentially rural, the overwhelming majority of the population is contained in the State's two urban counties--Clark and Washoe. And it was in this urban setting that the major growth in population, employment and income has taken place in recent years. In short, the State's economic and governmental development has been and probably will continue to be affected by the density and distribution of its population, as well as by its locational and physical features.

The cost and financing implications of the above for Nevada's taxing jurisdictions should be apparent. A geographically large mountainous state, a sparse population, and the need for complete governmental services--protection, utilities, schools, and a variety of other public facilities, including a highway system which must be constructed and maintained over difficult terrain--tend to produce comparatively high unit costs of operation and correspondingly high per capita tax burdens for the citizens of the State.

## Population

Nevada has been characterized as the "fastest growing state in the Union" as a result of its phenomenal 75 percent increase in population during the past decade. But the 1950 base was extremely small--about one-tenth of 1 percent of the nation's total population. By 1959 the State's estimated population of 280,000 and density of 2.5 per square mile were the lowest in continental United States. Since 1920 Nevada's rate of population increase per decade has exceeded that of the United States as a whole. This partly reflects its share of the post-war population boom in the West. However, Nevada's rate of population increase also has consistently exceeded that of the Mountain

States group as a whole. Since both the Mountain and Pacific regions are expanding at rates significantly above that for the nation, it is evident that Nevada is centered geographically in the heart of the most rapidly populating section of the country.

Estimates of the annual changes in the Nevada population since 1950 are shown in Table 1.1.

Table 1.1

Population of Nevada, 1950-1959

| Year | Population | % increase per year | Year | Population | % increase per year |
|---|---|---|---|---|---|
| 1950 | 160,083 | - | 1955 | 245,000 | 14.7 |
| 1951 | 169,000 | 5.6 | 1956 | 256,000 | 4.5 |
| 1952 | 182,000 | 8.0 | 1957 | 267,000 | 4.1 |
| 1953 | 198,000 | 8.8 | 1958 | 272,000 | 1.9 |
| 1954 | 218,000 | 10.1 | 1959 | 280,000 | 2.9 |

Source: U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-25, No. 208.

The data show that Nevada's greatest annual rates of growth occurred during the first half of the decade. Between 1955 and 1959 the population increased at a declining rate, except for the moderate upturn in 1959. The predominant source of Nevada's expanding population has clearly been the migration of persons from other states. Of the total population increase of approximately 110,000 for the period of 1950-58, more than 80,000 or almost three-fourths of the total increase, represented net migration and only 30,000 was due to the natural increase of births over deaths.[5]

## Distribution of Population

The distribution of Nevada's population by urban and rural residence is shown in Table 1.2. An uninterrupted growth in urbanization has continued in Nevada since 1910. After a moderation in the depression decade of the 1930's, urbanization increased markedly during the war and immediate post-war years. By 1950 urban population exceeded rural for the first time in the State's history.

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[5]U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-25, No. 208, December, 1959.

Table 1.2

Urban and Rural Population of Nevada, Years 1900-1950

| Year | Number | | | Percent | |
|---|---|---|---|---|---|
| | Urban | Rural | Total | Urban | Rural |
| 1900 | 7,195 | 35,104 | 42,335 | 17.0 | 83.0 |
| 1910 | 13,367 | 68,508 | 81,875 | 16.3 | 83.7 |
| 1920 | 15,254 | 62,153 | 77,407 | 19.7 | 80.3 |
| 1930 | 34,464 | 56,594 | 91,058 | 37.8 | 62.2 |
| 1940 | 43,291 | 66,956 | 110,247 | 39.3 | 60.7 |
| 1950 | 84,079 | 76,004 | 160,083 | 52.5 | 47.5 |
| 1950[a] | 91,625 | 68,458 | 160,083 | 57.2 | 42.8 |

[a]Based on new definition which classifies as urban an unincorporated place of 2,500 or more.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Population, Vol. II, "Characteristics of the Population," Part 28, p. 28-4; Current Population Reports, Series P-25, No. 148, November 18, 1956, No. 210, December 27, 1959.

The distribution of the Nevada population by counties is shown in Table 1.3. It is apparent that Washoe and Clark counties dominate the State, accounting for almost three-fourths of the total population in 1959. With the exception of Elko, no other county contained as much as 4 percent of the State's population. Moreover, it will be noted that the rate of growth for Clark county since 1950 was more than twice that of the State as a whole and approximately two and one-half times that of Washoe county. The disproportionate rate of growth among the counties is further evidenced by the fact that 4 counties experienced an increase of less than 20 percent and 4 actually lost population. The concentration of Nevada's population is further evidenced by city data. The five largest urban centers are located in Clark and Washoe counties. Reno and Las Vegas are both about four times the size of the next largest city in the State. Together, they accounted for almost two-fifths of the State's total population.

## Age Structure

The age structure of the Nevada population has undergone significant changes since 1950 as a result both of the heavy migration and the generally higher birth rates experienced in the United States since World War II. In general the tendency has been for the average age of the Nevada population to fall--that is, there are now proportionately more children and young adults, and proportionately fewer persons 45 years and older than in 1950. Table 1.4 shows the distribution of population by broad age groups for Nevada, the Mountain States, Pacific States and the United States in 1957.

Table 1.3

Population of Nevada, by Counties, 1959

| County | Number | Percent distribution | Percent change since 1950 |
|---|---|---|---|
| Churchill | 8,000 | 2.9 | 29.8 |
| Clark | 122,000 | 43.6 | 152.6 |
| Douglas | 2,600 | 0.9 | 28.1 |
| Elko | 14,450 | 5.2 | 24.0 |
| Esmeralda | 500 | .2 | -18.6 |
| Eureka | 750 | .3 | -16.3 |
| Humboldt | 5,500 | 2.0 | 13.7 |
| Lander | 2,000 | .7 | 8.1 |
| Lincoln | 3,400 | 1.2 | -11.4 |
| Lyon | 5,000 | 1.8 | 35.9 |
| Mineral | 8,450 | 3.0 | 52.0 |
| Nye | 3,500 | 1.2 | 12.9 |
| Ormsby | 6,500 | 2.3 | 55.8 |
| Pershing | 3,750 | 1.3 | 20.9 |
| Storey | 700 | .2 | 4.3 |
| Washoe | 83,500 | 29.8 | 66.3 |
| White Pine | 9,400 | 3.4 | - .3 |
| Total | 280,000 | 100.0 | 74.9 |

Source: Estimates provided by U. S. Department of Commerce, Reno Field Office.

Table 1.4

Civilian Population, Nevada, Mountain States, Pacific States, and United States, by Age Groups, 1957

| Age Group | Nevada | Mountain States | Pacific States | United States |
|---|---|---|---|---|
| A. Percentage distribution by age groups: | | | | |
| Under 5 years | 13.9 | 13.4 | 11.7 | 11.4 |
| 5 - 17 years | 23.3 | 26.4 | 23.1 | 23.9 |
| 18 - 44 years | 38.0 | 35.0 | 35.8 | 35.5 |
| 45 - 64 years | 19.7 | 17.7 | 20.7 | 20.5 |
| 65 and over | 5.1 | 7.5 | 8.7 | 8.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| B. Percentage increase 1957 over 1950: | | | | |
| Under 5 years | 107.2 | 32.6 | 37.2 | 18.5 |
| 5 - 17 years | 95.9 | 40.3 | 59.1 | 31.4 |
| 18 - 44 years | 46.0 | 9.7 | 10.4 | - 0.5 |
| 45 - 64 years | 48.3 | 19.9 | 21.4 | 12.7 |
| 65 and over | 18.0 | 29.9 | 26.7 | 21.0 |
| Total | 60.7 | 22.9 | 25.9 | 12.5 |

Source: U. S. Department of Commerce, Bureau of the Census, Population Reports, Series P-25, No. 194.

The data show that 75 percent of Nevada's total population in 1957 was under 45 years of age in contrast to the national figure of 70 percent. It will be noted that for the age groups "under 5" and "18 to 44" the Nevada percentages were higher than that for the Mountain States, Pacific States, and the United States. At the other end of the distribution, only 5 percent of Nevada's population was 65 or over. Nevada's unique pattern of distribution is further evidenced by the percentage increase for each of the age categories since 1950. The rate of growth of the "under 5" age group was significantly greater than that for the region and the nation. In contrast, the only age group in Nevada which had a below average rate of increase was the "65 and over" category. With regard to the "18 to 44" group, the number of persons actually declined for the United States, while in Nevada it increased by 46 percent--a rate considerably higher than that experienced in either the Mountain or Pacific regions during this period.

The broad economic and political fact of these data is that a younger population needs and consumes different things from an older one. The implication is that the state and localities increasingly will be called upon to provide a different group and composition of public goods than in the past. For example, it is apparent that the rapid rate of increase in the age groups under 18 years creates immediate pressure on the public school system and institutions of higher learning to provide educational facilities. The relatively smaller percent of the population and the slower rate of increase in the population over 65 years bear directly on the old-age assistance program in Nevada. Nor do these data lend support to a belief that Nevada's present tax structure has necessarily encouraged the migration of older persons to the State. To date migration appears to have involved primarily persons and families under 45 years, probably more in response to income and employment opportunities than to specific tax benefits to be derived from residence in the State.

## Education

A meaningful account of the population should attempt an appraisal of the character of the group, particularly as revealed by the education criterion. This is shown on a comparative basis in Table 1.5. In 1950, Nevada residents over 25 years of age on the average had completed about 11.4 years of school, and of all persons surveyed in Nevada, about 7.6 percent had completed four or more years of college. In both cases this represents a higher level of educational achievement than the averages for the nation as a whole and the Western States. A third measure of the relative educational level of the State is provided by the record of the Selective Service showing the percent of draftees failing the mental test given in 1954. By this measure, Nevada was slightly lower than the national average, but showed the highest proportion of failures among the Western States.

Table 1.5

Educational Level of the Population in Western States, and the United States, 1950 and 1954

| State | Median school years completed by persons 25 years old and over, 1950 | | Percent of persons with 4 or more years of college, 1950 | | Percent failed Selective Service Mental Test, 1954 | |
|---|---|---|---|---|---|---|
| Utah | 12.0 | (1) | 7.8 | (3) | 3.0 | (2) |
| California | 11.6 | (2) | 8.4 | (1) | 11.0 | (8) |
| Nevada | 11.4 | (3) | 7.6 | (5) | 16.7 | (11) |
| Washington | 11.0 | (4) | 7.4 | (6) | 4.6 | (6) |
| Wyoming | 10.9 | (5) | 7.3 | (7) | 3.2 | (4) |
| Colorado | 10.7 | (6) | 8.3 | (2) | 5.7 | (7) |
| Oregon | 10.7 | (7) | 6.8 | (9) | 2.5 | (1) |
| Idaho | 10.5 | (8) | 5.6 | (11) | 4.3 | (5) |
| Montana | 10.1 | (9) | 6.2 | (10) | 3.1 | (3) |
| Arizona | 9.9 | (10) | 7.7 | (4) | 12.4 | (9) |
| New Mexico | 9.3 | (11) | 7.1 | (8) | 14.1 | (10) |
| Western States | 10.7 | | 7.4 | | 4.6 | |
| United States | 9.3 | | 6.2 | | 16.9 | |

Source: U. S. Department of Commerce, Bureau of the Census, Census of Population, 1950, Vol. II, Parts 3-50, Table 65, and Statistical Abstract of the United States, 1955, Table 273, p. 230.

## Population Projections

The Bureau of the Census in 1957 prepared state population projections for 1970 based on stated assumptions regarding the components of population change. These were developed as four separate series contingent upon specific estimates made with regard to future rates of births, deaths, and net migration.[6] The four population projections for 1970 are shown for Nevada, the Mountain States, and the United States in Table 1.6.

Recent population estimates for Nevada and the United States for 1959 indicate that Series I appears to be the most valid. On the basis of this series, Nevada's population in 1970 will be in excess of 450,000, an increase of more than 90 percent over 1955. This compares with an estimated increase of 44 percent for the Mountain region and 27 percent for the nation over the same period. In short, it is apparent that both in terms of past population trends and projections

[6]See U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-25, No. 160, for detailed description of the specific assumptions underlying each series.

Table 1.6

Population Projections for 1970

| | Nevada | | Mountain States | | United States | |
|---|---|---|---|---|---|---|
| | Number (000) | % over 1955 | Number (000) | % over 1955 | Number (000) | % over 1955 |
| Series I | 453 | 92.8 | 8,562 | 44.4 | 208,300 | 26.8 |
| Series II | 395 | 68.1 | 8,192 | 38.1 | 203,700 | 24.0 |
| Series III | 375 | 59.6 | 8,078 | 36.2 | 203,700 | 24.0 |
| Series IV | 360 | 53.2 | 7,719 | 30.1 | 195,400 | 18.9 |

Source: U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-25, No. 160.

into the next decade, Nevada's population growth has been and will continue at rates above those prevailing for both the West and the United States.

## The Performance of the Nevada Economy

The physical resources and the characteristics of the population set the general limits within which the economy must operate. The two measures most frequently used in assessing its performance are income and employment.

### Nevada Income

One of the best indicators of economic activity on the state level is provided by the annual amount of personal income received by the residents of a state.[7] It broadly measures the amount of income individuals receive from wages, interest, rents and profits. Table 1.7 presents personal income data for Nevada and the United States since 1929. In 1958 Nevada personal income amounted to $686 million, which was approximately 2/10 of 1 percent of total personal income in the United States. Between 1950 and 1958 Nevada personal income in

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[7]Personal income by states, as defined by the U. S. Department of Commerce, includes all wages and salaries received, income from property ownership (profits, interest and rents), and sundry transfer payments such as pensions and veterans benefits. Incomes earned in the state by non-residents and retained corporate earnings are excluded; resident income received from out-of-state sources is included. However, it should be noted that these data if combined for all states do not equal "Gross National Product" or "National Income,"--the other two widely used measures of economic activity which are not available on a state or regional basis.

Table 1.7

Personal Incomes in the United States and Nevada, for Selected Years, 1929-1958

| Year | Current Dollars: Total (millions) U. S. | Current Dollars: Total (millions) Nev. | Current Dollars: Per Capita U. S. | Current Dollars: Per Capita Nev. | Current Dollars: Per Capita Nev./U.S. percent | Personal Income 1958 Dollars: U. S. (billions) | Personal Income 1958 Dollars: Nevada (millions) |
|---|---|---|---|---|---|---|---|
| 1929 | $ 85,661 | $ 79 | $ 703 | $ 878 | 1.25 | $144.4 | $133.1 |
| 1933 | 47,122 | 48 | 375 | 500 | 1.33 | 105.2 | 107.2 |
| 1939 | 72,753 | 90 | 556 | 841 | 1.51 | 151.4 | 187.1 |
| 1943 | 148,409 | 227 | 1,102 | 1,493 | 1.35 | 247.7 | 378.8 |
| 1946 | 176,701 | 249 | 1,249 | 1,717 | 1.33 | 260.1 | 368.7 |
| 1950 | 225,473 | 314 | 1,491 | 1,938 | 1.30 | 270.9 | 377.2 |
| 1951 | 252,960 | 369 | 1,649 | 2,171 | 1.32 | 281.5 | 410.5 |
| 1952 | 269,050 | 428 | 1,727 | 2,339 | 1.35 | 292.8 | 465.7 |
| 1953 | 283,140 | 462 | 1,788 | 2,357 | 1.32 | 305.6 | 498.8 |
| 1954 | 285,339 | 506 | 1,767 | 2,387 | 1.35 | 306.9 | 544.3 |
| 1955 | 306,598 | 572 | 1,847 | 2,434 | 1.32 | 330.7 | 617.6 |
| 1956 | 330,380 | 605 | 1,975 | 2,382 | 1.21 | 351.1 | 643.0 |
| 1957 | 347,911 | 647 | 2,043 | 2,469 | 1.25 | 357.4 | 664.7 |
| 1958 | 356,328 | 686 | 2,057 | 2,569 | 1.25 | 356.3 | 686.0 |

Source: U. S. Department of Commerce, Personal Income by States Since 1929, 1956; and, Survey of Current Business, 1956-1959.

current dollars more than doubled, while that of the United States rose by approximately three-fifths. However, part of these gains were due to the price inflation of the period, and if the gross current dollar figures are corrected for this factor, the relative size of gains are reduced, but still remain substantial. In terms of 1958 dollars, Nevada personal income rose by over 80 percent between 1950 and 1958, while that of the United States increased by approximately 28 percent.

When personal income is computed on a per capita basis, Nevada's comparative position is shown to be well above the national average. In 1958, the State's per capita income was one of the highest in the nation--$2,569, as compared to a national figure of $2,057. When the State's per capita income is expressed as a ratio of the national per capita figure, it appears that Nevada's personal income has been from one-fourth to one-half greater than the national average since 1929. Also, the comparative data presented in Table 1.8 show that Nevada has consistently enjoyed the highest per capita income of any Western State during the past decade.

## Per Capita Income by Counties

Although Nevada's per capita income in 1958 was the highest in the West, there were significant variations between the counties of the State, as shown in Table 1.9. Clark and Washoe counties together

Table 1.8

Per Capita Personal Income, Western States, 1950-1958

| State | 1950 | 1958 | % Increase 1950-1958 |
|---|---|---|---|
| Arizona | $1,297 | $1,932 | 49.0 |
| California | 1,848 | 2,559 | 38.9 |
| Colorado | 1,446 | 2,047 | 41.6 |
| Idaho | 1,279 | 1,701 | 33.0 |
| Montana | 1,606 | 1,920 | 19.6 |
| Nevada | 1,938 | 2,569 | 32.5 |
| New Mexico | 1,163 | 1,838 | 58.0 |
| Oregon | 1,602 | 2,006 | 25.2 |
| Utah | 1,283 | 1,753 | 36.5 |
| Washington | 1,671 | 2,160 | 29.3 |
| Wyoming | 1,629 | 2,088 | 28.3 |
| Western Average | $1,524 | $2,052 | 34.6 |
| United States | $1,491 | $2,057 | 37.9 |

Source: U. S. Department of Commerce, Survey of Current Business, Annual numbers.

Table 1.9

Personal Income, Nevada Counties, 1958

| County | Personal income (thousands) | Percent distribution | Per capita |
|---|---|---|---|
| Churchill | $ 16,054 | 2.3 | $2,007 |
| Clark | 304,909 | 44.4 | 2,606 |
| Douglas | 16,842 | 2.5 | 7,018 |
| Elko | 31,249 | 4.6 | 2,193 |
| Esmeralda | 1,266 | .2 | 2,532 |
| Eureka | 2,527 | .4 | 3,369 |
| Humboldt | 13,174 | 1.9 | 2,395 |
| Lander | 3,946 | .6 | 1,973 |
| Lincoln | 5,738 | .8 | 1,551 |
| Lyon | 12,902 | 1.9 | 2,580 |
| Mineral | 8,373 | 1.2 | 985 |
| Nye | 10,606 | 1.5 | 3,314 |
| Ormsby | 13,245 | 1.9 | 2,171 |
| Pershing | 9,337 | 1.4 | 2,524 |
| Storey | 1,703 | .2 | 2,433 |
| Washoe | 209,043 | 30.5 | 2,646 |
| White Pine | 26,093 | 3.8 | 2,690 |
| Total | $686,000 | 100.0 | $2,541 |

Source: Bureau of Business and Economic Research, University of Nevada.

accounted for approximately 75 percent of the personal income in the State. Elko residents received about 5 percent and White Pine residents received nearly 4 percent. With the exception of these, no other county received as much as 3 percent of the total personal income in Nevada. Per capita income in 1958 ranged from a high of $7,018 in Douglas county to a low of $985 in Mineral county. On this basis seven counties exceeded the State average while ten counties were below. There appears to be no significant relationship of per capita income to the county's regional location in the State, density of population, or degree of urbanization.

## Personal Income by Broad Industry Groups

Personal income data also provide an insight into the character of the Nevada economy when they are analyzed by type of income-generating activity. Table 1.10 shows that in 1958 wages contributed over

Table 1.10

Nevada Personal Income by Major Sources
1929, 1950 and 1958

| | Millions of dollars | | | Percentage distribution | | |
|---|---|---|---|---|---|---|
| | 1929 | 1950 | 1958 | 1929 | 1950 | 1958 |
| Personal Income, Total[a] | 79 | 314 | 686 | 100.0 | 100.0 | 100.0 |
| Wage and Salary Income | 52 | 194 | 481 | 65.7 | 61.8 | 70.1 |
| Farms | 6 | 8 | 8 | 7.6 | 2.5 | 1.2 |
| Mining | 11 | 11 | 17 | 13.9 | 3.5 | 2.5 |
| Contract Construction | 1 | 18 | 44 | 1.3 | 5.7 | 6.4 |
| Manufacturing | 2 | 12 | 26 | 2.5 | 3.8 | 3.8 |
| Wholesale & Retail Trade | 7 | 33 | 83 | 8.9 | 10.5 | 12.1 |
| Finance, Ins., Real Estate | 1 | 4 | 11 | 1.3 | 1.3 | 1.6 |
| Trans., Comm. & Pub. Util. | 12 | 28 | 46 | 15.2 | 8.9 | 6.7 |
| Services | 6 | 40 | 139 | 7.6 | 12.8 | 20.3 |
| Amusement & Recreation | 3 | 18 | 61 | 3.8 | 5.7 | 8.9 |
| Other Industries | 3 | 22 | 78 | 3.8 | 7.1 | 11.4 |
| Government | 7 | 41 | 107 | 8.9 | 12.8 | 15.6 |
| Other Labor Income | 1 | 4 | 14 | 1.3 | 1.3 | 2.0 |
| Proprietors Income | 12 | 60 | 94 | 15.2 | 19.1 | 13.7 |
| Farm | 2 | 25 | 24 | 2.5 | 8.0 | 3.5 |
| Non-Farm | 10 | 35 | 70 | 12.7 | 11.1 | 10.2 |
| Property Income | 13 | 45 | 75 | 16.5 | 14.3 | 10.9 |
| Transfer Payments | 1 | 15 | 36 | 1.3 | 4.8 | 5.2 |
| Personal Contributions for Social Insurance | b | -4 | -13 | - | -1.3 | -1.9 |

[a]Individual items may not total due to rounding.
[b]Less than $500,000.

Source: U. S. Department of Commerce, Personal Income by States Since 1929, Supplement to Survey of Current Business, 1956; and Survey of Current Business, 1959.

70 percent of the total amount of personal income received by Nevada residents, while property income and transfer payments contributed about 25 and 5 percent, respectively. In the wage category it will be noted that services currently account for over 20 percent, followed closely in order by government with 16 percent, and trade with 12 percent. On the other hand, agriculture represented less than 5 percent, and mining only accounted for 2.5 percent of the State's total personal income. Thus, the three industry groups generating the largest total amounts of income in Nevada since 1950 have been services, government, and wholesale and retail trade. In terms of long run trends, in 1958 service wage disbursements accounted for almost 3 times as much income as agriculture and mining combined; whereas in 1929 agriculture and mining were more than 3 times as much as service income.

## Stability of Income

The percentage change in personal income during periods of general economic fluctuation provides a rough index of the stability of the Nevada economy. Table 1.11 shows the relative change in Nevada's income compared with that for the West and the nation since 1929. Although Nevada has generally experienced greater relative increases in income during periods of recovery and prosperity, it has not been affected as seriously as either the Western region or the rest of the country during periods of contraction or retarded income growth. However, since Nevada's economy has become increasingly dependent on the service industries related to tourism, future economic fluctuations on the national level will tend to have a greater impact on Nevada's economy than in the past.

Table 1.11

Percent Change in Personal Income, Nevada, Mountain States, Pacific States and United States, Selected Years, 1929-1958

| | Nevada | Mountain States | Pacific States | United States |
|---|---|---|---|---|
| 1929-1933 Depression | -39.3 | -45.3 | -42.8 | -45.0 |
| 1933-1940 Recovery | 106.2 | 85.1 | 83.3 | 66.6 |
| 1940-1945 World War II | 135.3 | 123.1 | 162.4 | 109.6 |
| 1945-1948 Post-war Recovery | 17.2 | 32.2 | 16.7 | 26.0 |
| 1948-1949 Recession | 1.1 | 1.7 | 1.0 | -1.0 |
| 1950-1953 Korean War | 47.1 | 21.7 | 32.4 | 25.6 |
| 1953-1954 Recession | 10.0 | 0.3 | -2.6 | 0.8 |
| 1954-1957 Recovery | 27.4 | 26.4 | 37.3 | 21.9 |
| 1957-1958 Recession | 6.0 | 4.2 | 3.8 | 2.4 |

Source: Derived from U. S. Department of Commerce, Personal Income by States Since 1929, 1956; and Survey of Current Business, 1957-1959.

## The Distribution of Income

The level and stability of state income are two important elements in the appraisal of the performance of the economy and a third significant feature is the distribution of income. Individual income distribution data for the State are not available, but federal income tax returns for 1957 provide a reasonable approximation of the State's income distribution.[8] Table 1.12 summarizes the distribution of adjusted gross income and number of returns by income classes for Nevada and the United States. For the United States almost 64 percent of the taxpayers reported adjusted gross incomes below $5,000; in Nevada only about 55 percent. On the other hand, only 17 percent of the taxpayers in the United States had incomes in excess of $7,000 while in Nevada the same income group represented almost 25 percent. The arithmetic mean for Nevada's adjusted gross income was $5,345, compared to the national average of $4,685. The median figure for Nevada fell between $7,000 and $8,000; for the United States, between $6,000 and $7,000. These data are not inconsistent with the earlier finding regarding the relatively high per capita personal incomes enjoyed by Nevadans.

Table 1.12

Adjusted Gross Income by Income Classes,
Nevada and United States, 1957

| Adjusted gross income class | Nevada | | United States | |
|---|---|---|---|---|
| | % of returns | % of adj. gross income | % of returns | % of adj. gross income |
| Under $ 3,000 | 30.7 | 7.9 | 37.6 | 12.1 |
| $ 3,000 - $ 5,000 | 24.0 | 17.8 | 26.3 | 22.3 |
| $ 5,000 - $ 7,000 | 20.8 | 23.0 | 18.9 | 23.6 |
| $ 7,000 - $10,000 | 16.7 | 24.7 | 11.1 | 19.4 |
| $10,000 - $25,000 | 6.8 | 17.2 | 5.0 | 14.5 |
| $25,000 and over | 1.0 | 9.4 | 1.0 | 8.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: U. S. Treasury Department, Internal Revenue Service, Statistics of Income: Individual Income Tax Returns for 1957, 1959, pp. 20 and 55.

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[8]Adjusted gross income reported on tax returns differs from personal income in that it does not include the following: employer contributions to social insurance; non-taxable military pay and allowances; income in kind and imputed income; imputed rent on owner-occupied dwellings, imputed and accrued interest, income of non-profit organizations; and transfer payments. It does include the following exclusions from personal income: personal contributions for social insurance; certain net capital gains; and annuities.

A comparison of the population and the civilian labor force of Nevada and the United States for selected years is shown in Table 1.13.

Table 1.13

Population and Labor Force, Nevada and United States, Selected Years 1930-1959

| | Nevada | | | United States | | |
|---|---|---|---|---|---|---|
| | Total Population (000) | Civilian Labor Force (000) | Labor Force as % of Population | Total Population (000) | Civilian Labor Force (000) | Labor Force as % of Population |
| 1930 | 91.1 | 42.8 | 47.1 | 138,439 | 45,480 | 32.1 |
| 1940 | 110.2 | 47.8 | 43.4 | 150,622 | 47,520 | 31.5 |
| 1950 | 160.1 | 68.2 | 42.6 | 154,233 | 59,957 | 38.2 |
| 1959 | 280.0 | 100.1 | 35.8 | 176,400 | 65,000 | 36.8 |

Source: Department of Employment Security, State of Nevada; U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Population Estimates, Series P-25, No. 187; U. S. Department of Labor, Monthly Labor Review; U. S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States; and University of Nevada, Bureau of Business and Economic Research, Nevada Business Review, January, 1959-January, 1960.

By 1959 the civilian labor forces in Nevada and the United States were approximately 36 percent of the respective populations. Despite the similarity of the State and national ratios, they have been moving in opposite directions over time. Whereas Nevada's percent has been falling consistently since 1930, that for the country as a whole has been rising, with the exception of a minor decrease in 1959. Nevada's labor force in 1959 actually represented a smaller proportion of the population than was true for the nation as a whole.

It is equally important to compare the total population with the level of employment as well as with the size of the labor force. This is shown for both Nevada and the United States in Table 1.14.

Table 1.14

Population and Employment Nevada and United States, Years, 1950 and 1959

| | 1950 | 1959 | Percent increase 1959 over 1950 |
|---|---|---|---|
| Nevada (thousands) | | | |
| Total population | 160.1 | 280.0 | 74.9 |
| Total employment | 63.6 | 100.1 | 57.1 |
| United States (millions) | | | |
| Total population | 150.7 | 176.4 | 15.0 |
| Total employment | 56.2 | 65.0 | 15.7 |

Source: U. S. Department of Commerce, Bureau of the Census, U. S. Census of Population, 1950, Vol. II; Statistical Abstract of the United States, 1959; Current Population Reports, Series P-25, No. 208; University of Nevada, Bureau of Business and Economic Research, Nevada Business Review, January, 1959-January, 1960.

Nevada employment during 1959 represented a gain of over 36,000 since 1950, an increase of more than 57 percent. Over the same period, the State's population increased by 75 percent. The faster rate of growth in population reflects the fact, noted earlier, that the age categories of the Nevada population experiencing the fastest rate of growth during the 1950's have been those under 18 years, largely unemployable. The United States has experienced almost equal rates of growth in population and employment since 1950, about 15 percent.

## Employment, 1950-1959

Detailed census data on the industry grouping of the labor force are available only every decade. However, the Bureau of Labor Statistics and the Nevada Employment Security Department compile data pertaining to the non-agricultural labor force.[9] If estimated agricultural employment figures are added to the non-agricultural employment data, it is possible to present a reasonable description of total Nevada employment situations in 1958. Table 1.15 presents the distribution of employment by major industry groups based on such data.

Table 1.15

Nevada Employment by Major Industry Groups, 1950-1959

| Industry Group | 1950 | | 1959 | | % Increase 1950-1959 |
|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | |
| Agriculture | 6,800 | 11.2 | 7,200 | 7.2 | 5.9 |
| Mining | 3,024 | 5.0 | 2,842 | 2.8 | -6.0 |
| Contract Construction | 5,022 | 8.3 | 6,825 | 6.8 | 35.9 |
| Manufacturing | 3,024 | 5.0 | 5,300 | 5.3 | 75.3 |
| Trans.,Comm.,& Pub.Util. | 7,992 | 13.1 | 9,117 | 9.0 | 14.1 |
| Wholesale and Retail Trade | 10,692 | 18.0 | 19,566 | 19.3 | 83.0 |
| Fin.,Ins.,& Real Estate | 1,026 | 1.5 | 2,917 | 2.9 | 184.3 |
| Services and Miscellaneous | 11,988 | 19.7 | 29,249 | 29.0 | 144.0 |
| Government | 10,962 | 18.0 | 17,842 | 17.7 | 62.8 |
| Total | 60,800 | 100.0 | 100,858 | 100.0 | 65.9 |

Source: Derived from U. S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January, 1960; Bureau of Labor Statistics, Western Employment Trends, August, 1959; University of Nevada, Bureau of Business and Economic Research, Business Review; U. S. Department of Commerce, Bureau of the Census, Census of Population, 1950; and Nevada Employment Security Department, "Estimated Non-Agricultural Employment in Nevada," monthly numbers, 1959.

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[9]Bureau of Labor Statistics data do not include agricultural employment; they use somewhat different industry classifications, notably in services and government; and they are usually annual averages, whereas the Bureau of the Census data apply to a given day of the census year.

It is clear that the post-war changes in Nevada's economy have continued into the decade of the 1950's. Services, government, and wholesale and retail trade were the dominant employers in 1958, with almost two-thirds of all employees. In contrast, the goods-producing industries employed less than one-quarter of the total. Mining was the only group which continued to show an absolute decline, while employment in services more than doubled and experienced one of the highest rates of growth among the industry groups.

## Nevada and United States Employment Patterns, 1950-1958

The breakdown of employment by major industry groups permits comparison with other economic units. Table 1.16 shows the percent of total employment involved in each industry group for the United States and Nevada. From such a comparison it is possible to ascertain those industries in which Nevada specializes and those in which Nevada depends on the outside economy. Thus, if a Nevada industry group has a greater percent of total employment than that group for the United States, in a broad sense that industry may be regarded as an "export" industry which is responsible for generating the income necessary to purchase the goods "imported" in other Nevada industry groups whose degree of specialization is less than the national figures. By dividing the percent of total employment in a Nevada

Table 1.16

Percent of Employed Workers in Major Industry Groups, Nevada and United States, 1950 and 1958

| Industry Group | 1950 | | Ratio | 1958 | | Ratio |
|---|---|---|---|---|---|---|
| | Nev. | U.S. | Nev./U.S. | Nev. | U.S. | Nev./U.S. |
| Mining | 5.2 | 1.7 | 3.06 | 3.2 | 1.3 | 2.46 |
| Services | 26.8 | 18.0 | 1.49 | 27.0 | 11.4 | 2.37 |
| Construction | 8.6 | 6.1 | 1.41 | 7.4 | 4.8 | 1.54 |
| Trans.,Comm.,& Pub.Util. | 11.6 | 7.8 | 1.49 | 9.1 | 6.9 | 1.32 |
| Government | 7.4 | 4.4 | 1.77 | 18.3 | 14.0 | 1.30 |
| Trade | 19.9 | 18.8 | 1.06 | 19.5 | 19.8 | 0.98 |
| Agriculture | 10.7 | 12.4 | 0.86 | 7.7 | 10.4 | 0.74 |
| Fin.,Ins.,& Real Estate | 2.5 | 3.4 | 0.74 | 2.8 | 4.2 | 0.67 |
| Manufacturing | 5.1 | 25.9 | 0.19 | 5.0 | 27.4 | 0.18 |
| | 100.0 | 100.0 | - | 100.0 | 100.0 | - |

Source: U. S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January, 1960; Bureau of Labor Statistics, Western Employment Trends, 1947-1958, August, 1959; University of Nevada, Bureau of Business and Economic Research, Business Review, monthly numbers 1958, and January, 1959; U. S. Department of Commerce, Bureau of the Census, Census of Population, 1950.

industry group by the comparable percent for the United States, an "index of local specialization" can be constructed. If the index is greater than 1, that industry is a Nevada specialty; if less than 1, the industry is of below-average specialization. Mining is shown to be still the most highly locally specialized industry, despite its steadily declining importance in Nevada. Not surprisingly, services is a heavily local specialty, and became more specialized between 1950 and 1958. In 1950 government was the second most highly specialized group, but despite a large absolute increase between 1950 and 1958, the ratio declined. Wholesale and retail trade, though a proportionately large Nevada employer, was slightly below average specialization. Agriculture was also below the national average, and manufacturing continued to be the least specialized industry in Nevada.

## Employment Patterns in Nevada and Other Western States

A comparison of the percent distribution of Nevada non-agricultural employment by industry groups in 1958 with that of other Western States is presented in Table 1.17. The most striking divergences between Nevada and her Western neighbors are in the services and manufacturing categories. Nevada's proportion of employment in services is more than double that of the Western States' average and of every single state in the group. In contrast, manufacturing in Nevada, despite its sizable percentage gains during the post-war period, was below that of every other state in the region. With regard to employment in the remaining categories, the Nevada pattern closely parallels the averages for the West.

Table 1.17

Percent of Employees in Non-Agricultural Establishments by Broad Industry Groups, Western States, 1958

| State | Mining | Contract construction | Mfg. | Trans. and pub. util. | Whsle. and retail trade | Fin., ins., real estate | Serv. and misc. | Govt. | Total |
|---|---|---|---|---|---|---|---|---|---|
| Ariz. | 5.7 | 9.5 | 14.2 | 7.7 | 25.8 | 4.1 | 13.1 | 20.6 | 100.0 |
| Calif. | a | 6.3 | 26.4 | 7.8 | 22.6 | 4.9 | 13.5 | 17.6 | 100.0 |
| Colo. | 3.1 | 6.7 | 15.6 | 9.3 | 25.7 | 4.7 | 13.5 | 21.2 | 100.0 |
| Idaho | 2.6 | 7.3 | 16.9 | 10.1 | 25.0 | 3.5 | 13.3 | 21.1 | 100.0 |
| Mont. | 5.5 | 7.6 | 12.2 | 11.8 | 25.0 | 3.7 | 13.9 | 20.2 | 100.0 |
| Nev. | 3.4 | 8.0 | 5.4 | 9.9 | 21.2 | 3.1 | 29.2 | 19.8 | 100.0 |
| N. M. | 6.9 | 9.2 | 10.1 | 9.0 | 22.4 | 3.8 | 12.7 | 25.7 | 100.0 |
| Ore. | a | 4.9 | 28.2 | 9.4 | 22.5 | 3.8 | 12.1 | 19.0 | 100.0 |
| Utah | 6.1 | 6.3 | 15.2 | 9.2 | 22.1 | 4.2 | 11.5 | 24.0 | 100.0 |
| Wash. | a | 5.6 | 27.5 | 7.7 | 23.0 | 4.4 | 11.9 | 19.7 | 100.0 |
| Wyo. | 9.1 | 7.7 | 7.4 | 14.2 | 22.8 | 2.1 | 13.0 | 23.2 | 100.0 |
| Ave. | 5.3 | 7.2 | 16.3 | 9.6 | 23.5 | 3.8 | 14.3 | 21.1 | 100.0 |

[a]Less than .1 percent.

Source: U. S. Department of Labor, Bureau of Labor Statistics, Western Employment Trends, 1947-1958, 1959.

## Selected Nevada Industry Groups

The foregoing analysis considered the general aspects of the Nevada economy in terms of the broad general dimensions of resources, income, and employment for the State as a whole. In this section five industry groups--services, trade, manufacturing, agriculture, and mining--are examined more closely since it is in these categories that the Nevada economy places greatest dependence or shows the greatest divergences from the economic pattern of the other Western States and the country as a whole.

### Services

The service trades, as noted above, have increasingly dominated the Nevada economy since World War II. Employment and personal income generated by services between the census years 1940 and 1950 increased more than twice as fast as the rise in overall income and employment for the State. Moreover, the intercensal data for the years 1947 and 1958 generally confirm the continuation of this rate of growth into the nineteen-fifties. This is the broad picture of the role played by services in the State's economy. Detailed data on the relative importance and growth of specific types of "selected services" provided by Nevada business firms[10] are equally relevant to the analysis.

Based on the most recent Census of Business statistics published by the U. S. Department of Commerce, the distribution of the number of establishments, receipts, employment and payrolls for the service industries in Nevada, classified by selected types of firms, is presented in Table 1.18.

Several notable features stand out. With a total employment of about 25,000 workers in 1958, these selected services accounted for more than one-quarter of all employed workers in Nevada. The largest number of service establishments was represented by hotels, motels and tourist camps, followed closely by personal services. Together, these comprised about three-fifths of all service establishments. By all other measures, however, gaming and miscellaneous recreation was the most significant category in the group, providing almost one-half of all services receipts and employment, and more than one-half of all services payrolls. Since there were 305 firms in this category, about one-eighth of the total, the gaming industry is characterized by relatively large firms compared with other service industries in Nevada. The two

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[10]The "selective services" category is considerably narrower than the classification of services used in the preceding section in that it is limited to services provided by essentially profit-seeking business firms. It, therefore, excludes medical and health services, legal services, educational services, museums and art galleries, non-profit membership organizations, private households, miscellaneous services and public administration.

Table 1.18

Nevada Selected Services, Classified by Types of Business, 1958

| Type of business | Number of firms | Receipts (thousands) | Number of employees | Payrolls (thousands) |
|---|---|---|---|---|
| A. Distribution by type of firm: | | | | |
| Amusements[a] | 54 | $ 3,787 | 454 | $ 869 |
| Auto repair group[b] | 229 | 9,368 | 556 | 2,265 |
| Business services | 268 | 12,038 | 884 | 4,563 |
| Gaming and misc. recreation[c] | 305 | 131,509 | 11,119 | 52,018 |
| Hotels, motels, etc.[d] | 736 | 102,926 | 9,656 | 34,841 |
| Misc. repair group[e] | 223 | 3,892 | 173 | 678 |
| Personal services[f] | 722 | 17,211 | 1,858 | 5,969 |
| Totals | 2,527 | $280,731 | 24,700 | $101,203 |
| B. Percent distribution by type of business: | | | | |
| Amusements | 2.1 | 1.3 | 1.8 | 1.0 |
| Auto repair group | 9.1 | 3.3 | 2.3 | 2.2 |
| Business services | 10.6 | 4.3 | 3.6 | 4.5 |
| Gaming and misc. recreation | 11.7 | 46.9 | 45.0 | 51.3 |
| Hotels, motels, etc. | 29.1 | 36.7 | 39.1 | 34.4 |
| Misc. repair group | 8.8 | 1.4 | .7 | .7 |
| Personal services | 28.6 | 6.1 | 7.5 | 5.9 |
| Totals | 100.0 | 100.0 | 100.0 | 100.0 |
| C. Percent increase of 1958 over 1954: | | | | |
| Amusements | -14.3 | -52.6 | 5.1 | 2.2 |
| Auto repair group | 33.1 | 65.8 | 67.5 | 72.3 |
| Business services | 25.2 | 171.8 | 147.6 | 283.4 |
| Gaming and misc. recreation | 54.8 | 59.3 | 47.5 | 65.4 |
| Hotels, motels, etc. | 19.2 | 68.9 | 69.9 | 77.5 |
| Misc. repair group | 87.4 | 104.1 | 124.7 | 136.2 |
| Personal services | 45.6 | 41.4 | 23.5 | 35.3 |
| Totals | 34.6 | 63.1 | 54.5 | 70.7 |

[a]Includes motion picture theatres, billiards, pool, bowling.
[b]Includes repairs, storage and parking, auto and truck rental service.
[c]Primarily gaming casinos.
[d]Includes hotels, motels, motor courts, tourist camps.
[e]Includes watch, jewelry, furniture and miscellaneous repairs.
[f]Includes barber and beauty shops, funeral services, shoe repairs, laundry, dry cleaners, and miscellaneous personal services.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business: 1954, Vol. VI, Part II; and 1958 Census of Business, Selected Services, Nevada, Preliminary Report, December, 1959.

services groups most closely related to the tourist trade--lodging and gaming--together accounted for approximately five-sixths of all service receipts, employment and payrolls.

Nevada's service industries continued to increase by every measure between 1954 and 1958--payrolls by 71 percent, receipts by 63 percent, employment by 55 percent and number of firms by 35 percent. Only one category showed a decline by any measure--amusements other than gaming. The largest rates of gain came in business services and miscellaneous repairs, both of which, however, are relatively small components of the total Nevada services picture. The largest groups--gaming and lodgings--both registered substantial gains; gaming by approximately one-half in all categories, and lodging by more than two-thirds in every category except number of firms.

Table 1.19 shows the absolute data on number of firms, receipts, employment, and payrolls in services by counties. It is apparent that Clark and Washoe counties are overwhelmingly the State's specialists, between them accounting for almost four-fifths of the service firms in

Table 1.19

Nevada Selected Services, Classified by Counties, 1958

| County | Number of firms | Receipts (thousands) | Number of employees | Payrolls (thousands) |
|---|---|---|---|---|
| Churchill | 64 | $ 928 | 91 | $ 178 |
| Clark | 1,001 | 160,929 | 13,788 | 55,717 |
| Douglas | 47 | 16,745 | 1,304 | 6,927 |
| Elko | 117 | 8,364 | 899 | 2,757 |
| Esmeralda | 3 | 63 | a | a |
| Eureka | 13 | 172 | 5 | 17 |
| Humboldt | 48 | 2,283 | 245 | 833 |
| Lander | 19 | 416 | 23 | 88 |
| Lincoln | 23 | 205 | 16 | 23 |
| Lyon | 34 | 337 | 31 | 42 |
| Mineral | 43 | 1,380 | 139 | 524 |
| Nye | 35 | 2,396 | 214 | 1,457 |
| Ormsby | 67 | 3,300 | 317 | 1,165 |
| Pershing | 37 | 893 | 105 | 239 |
| Storey | 20 | 239 | a | a |
| Washoe | 900 | 80,566 | 7,120 | 30,768 |
| White Pine | 56 | 1,515 | 395 | 435 |
| Totals | 2,527 | $280,731 | 24,700 | $101,203 |

[a]Withheld to avoid disclosure.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business: 1954, Vol. VI, Part II; and Census of Business, 1958, Selected Services, Nevada, Preliminary Report, December, 1959.

the State, and likewise dominating the other measures. The relative positions of counties in terms of percentage distribution and rates of growth are shown in Table 1.20. Clark county is clearly the outstanding county, contributing well over one-half of all receipts, employees and payrolls in 1958. Washoe county contributed about three-tenths in the above categories. Between them Clark and Washoe contained three-quarters of all service firms and produced about five-sixths of all service receipts, employment and payrolls. Between them, they accounted for about seven-tenths of the State's population. If, to this already imposing total, are added the figures for Douglas county, the geographic specialization becomes even more pronounced. These three counties together account for approximately nine-tenths of all service receipts, payrolls, and employment, and three-quarters of all firms.

The counties experiencing growth rates greater than 100 percent in most measures--Douglas, Nye, and Ormsby--are all contiguous to California. Douglas county's phenomenal growth rates (as much as a thousand-fold in services employment) reflect the Lake Tahoe development, as do in part those of Ormsby county. Clark and Washoe counties also have experienced substantial increases over the four years, with Washoe growth rates uniformly exceeding those of Clark. Where declines occurred, they uniformly involved counties whose relative position was very small at the outset.

Table 1.21 contains data on services in selected cities in Nevada in 1958. Las Vegas and Reno are of about equal importance, each containing slightly more than one-quarter of the State's services, using all measures. No other city shows more than 4 percent by any measure. Rates of growth also are revealing. Although Las Vegas was of slightly greater relative importance in most measures, Reno's growth rate has been greater since 1954 in all but receipts. Sparks and Carson City have shown the fastest rates of increase of all Nevada cities, though each remained relatively small in the State as a whole. Ely and Winnemucca were the only cities to register declines; Ely in every measure except employees. Winnemucca's position cannot be more fully appraised because of lack of data.

## Wholesale and Retail Trade

Wholesale and retail trade have played an important role in the Nevada economy, both historically and at present. Since 1940 it has consistently ranked second behind the service trades in terms of employment, and in 1958 accounted for about one-eighth of the State's total personal income. The Nevada retail trade position is summarized for 1958 in Table 1.22. Measured by number of establishments, eating and drinking places predominated. The next two largest groups in order were gasoline service stations and food stores. Measured by sales, food stores ranked first, followed by the automotive group and gasoline service stations; measured by employment, eating and drinking places ranked first, followed by food stores, general merchandise stores, and gasoline service stations. These four groups together furnished employment to three-fifths of all retail trade employees.

Table 1.20

Nevada Selected Services, Percentage Distribution and Rate of Change, Classified by Counties, 1958

| Counties | Firms | Receipts | Employees | Payrolls |
|---|---|---|---|---|
| A. Percentage distribution by counties: | | | | |
| Churchill | 2.5 | 0.3 | 0.4 | 0.2 |
| Clark | 39.6 | 57.3 | 55.8 | 55.1 |
| Douglas | 1.9 | 6.0 | 5.3 | 6.8 |
| Elko | 4.6 | 3.0 | 3.6 | 2.7 |
| Esmeralda | a | a | b | b |
| Eureka | a | 0.1 | a | a |
| Humboldt | 1.9 | 0.8 | 1.0 | 0.8 |
| Lander | 0.7 | 0.1 | 0.1 | 0.1 |
| Lincoln | 0.9 | a | a | a |
| Lyon | 1.3 | a | 0.1 | a |
| Mineral | 1.7 | 0.5 | 0.6 | 0.5 |
| Nye | 1.4 | 0.9 | 0.9 | 1.4 |
| Ormsby | 2.7 | 1.2 | 1.3 | 1.2 |
| Pershing | 1.5 | 0.3 | 0.4 | 0.2 |
| Storey | 0.8 | 0.1 | b | b |
| Washoe | 35.6 | 28.7 | 28.8 | 30.4 |
| White Pine | 2.2 | 0.5 | 1.6 | 0.4 |
| Totals[c] | 100.0 | 100.0 | 100.0 | 100.0 |
| B. Percent increase of 1958 over 1954: | | | | |
| Churchill | 48.8 | -6.9 | 19.7 | -19.8 |
| Clark | 36.4 | 53.9 | 42.7 | 52.6 |
| Douglas | 11.9 | 569.0 | 1178.4 | 747.9 |
| Elko | 39.3 | 69.1 | 58.6 | 80.0 |
| Esmeralda | -50.0 | 57.5 | b | b |
| Eureka | 85.7 | 87.0 | - | - |
| Humboldt | -11.1 | 9.3 | -21.2 | 1.6 |
| Lander | 72.7 | -11.1 | -46.5 | -21.4 |
| Lincoln | 53.3 | 13.9 | -11.1 | 35.3 |
| Lyon | -17.1 | -23.1 | 82.3 | -2.3 |
| Mineral | 87.0 | 26.4 | 8.6 | 27.2 |
| Nye | 25.0 | 229.6 | 125.3 | 291.7 |
| Ormsby | 109.4 | 96.8 | 138.3 | 136.3 |
| Pershing | -9.8 | 17.8 | 29.6 | 41.4 |
| Storey | 150.0 | 139.0 | b | b |
| Washoe | 41.3 | 62.3 | 56.5 | 77.4 |
| White Pine | -22.2 | 29.3 | 91.7 | 3.3 |
| Totals | 34.6 | 63.1 | 54.5 | 70.7 |

[a]Less than 1/10 of 1 percent.
[b]Withheld to avoid disclosure.
[c]Sum of items may not equal total because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business: 1954, Vol. VI, Part II; and Census of Business, 1958, Selected Services, Nevada, Preliminary Report, December, 1959.

Table 1.21

Nevada Selected Services, Percentage Distribution and Rate of Change, Classified by Selected Cities,[a] 1958

| Cities | Firms | Receipts | Employees | Payrolls |
|---|---|---|---|---|
| | A. Percentage distribution by cities: | | | |
| Carson City | 2.1 | 1.1 | 1.3 | 1.1 |
| Elko | 2.1 | 2.1 | 2.7 | 2.2 |
| Ely | 1.4 | 0.4 | 1.3 | 0.3 |
| Las Vegas | 28.5 | 26.8 | 27.5 | 27.1 |
| North Las Vegas | 2.8 | 0.4 | 0.2 | 0.2 |
| Reno | 28.7 | 25.3 | 25.8 | 26.8 |
| Sparks | 3.7 | 1.5 | 1.5 | 1.6 |
| Winnemucca | 1.4 | 0.8 | 1.0 | 0.8 |
| All others[b] | 29.3 | 41.6 | 38.7 | 39.9 |
| Totals | 100.0 | 100.0 | 100.0 | 100.0 |
| | B. Percent increase of 1958 over 1954: | | | |
| Carson City | 116.0 | 105.1 | 143.0 | 142.5 |
| Elko | 10.4 | 48.1 | 37.0 | 82.6 |
| Ely | -35.7 | -15.6 | 108.7 | -5.1 |
| Las Vegas | 46.9 | 65.8 | 40.7 | 58.0 |
| North Las Vegas | 54.3 | 32.2 | 2.0 | 5.9 |
| Reno | 48.9 | 55.6 | 47.7 | 64.9 |
| Sparks | 46.9 | 165.5 | 192.1 | 441.0 |
| Winnemucca | -32.1 | c | c | c |
| All others[b] | 21.2 | 67.7 | 69.1 | 81.9 |
| Totals | 34.7 | 63.1 | 54.5 | 70.7 |

[a]Cities of more than 2,500 inhabitants.
[b]Includes all other cities, towns and non-urban jurisdictions.
[c]Withheld to avoid disclosure.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business: 1954, Vol. VI, Part II; and 1958 Census of Business, Selected Services, Nevada, Preliminary Report, December, 1959.

In general, it is clear that retail trade grew much more slowly than services between 1954 and 1958. The most important single feature of these data is the absolute decline in eating and drinking places, using all measures. This is particularly significant in view of its overall relative importance. Despite large gains in tourist-connected services such as gaming and lodging, retail trade in eating and drinking places contracted. An examination of Table 1.23 reveals that the counties suffering declines in retail sales were those not closely related to tourism. Lumber, building materials, and hardware stores also suffered absolute declines in employment and sales, though these were less severe than the decline in eating and drinking places.

Table 1.22

Nevada Retail Trade Classified by Types of Business, 1958

| Type of Business | Number of firms | Sales (thousands) | Number of employees |
|---|---|---|---|
| **A. Distribution by type of business:** | | | |
| Apparel and accessory stores | 219 | $ 27,285 | 1,153 |
| Automotive group | 178 | 66,079 | 1,347 |
| Drug and proprietary stores | 104 | 22,321 | 921 |
| Eating and drinking places | 700 | 35,978 | 3,208 |
| Food stores | 301 | 92,802 | 2,059 |
| Furniture, home appliances, etc. | 140 | 16,366 | 560 |
| Gasoline service stations | 448 | 43,763 | 1,418 |
| General merchandise stores | 99 | 34,741 | 1,595 |
| Lumber, bldg. materials, hdwe., etc. | 122 | 19,408 | 503 |
| Other retail store & non-store dealers | 549 | 34,524 | 1,115 |
| Totals | 2,860 | $394,267 | 13,879 |
| **B. Percentage distribution by type:** | | | |
| Apparel and accessory stores | 7.7 | 6.9 | 8.3 |
| Automotive group | 6.2 | 16.8 | 9.7 |
| Drug and proprietary stores | 3.6 | 5.7 | 6.6 |
| Eating and drinking places | 24.5 | 9.1 | 23.1 |
| Food stores | 10.5 | 23.5 | 14.8 |
| Furniture, home appliances, etc. | 4.9 | 4.2 | 4.0 |
| Gasoline service stations | 15.7 | 11.1 | 10.2 |
| General merchandise stores | 3.5 | 9.1 | 11.5 |
| Lumber, bldg. materials, hdwe., etc. | 4.3 | 4.9 | 3.6 |
| Other retail store & non-store dealers | 19.2 | 8.8 | 8.0 |
| Totals[a] | 100.0 | 100.0 | 100.0 |
| **C. Percent increase of 1958 over 1954:** | | | |
| Apparel and accessory stores | 9.5 | 32.4 | 36.3 |
| Automotive group | 14.1 | 14.1 | .8 |
| Drug and proprietary stores | 9.5 | 31.1 | 30.5 |
| Eating and drinking places | -11.9 | -9.8 | -9.3 |
| Food stores | -2.0 | 40.6 | 50.6 |
| Furniture, home appliances, etc. | 17.6 | 13.3 | 10.9 |
| Gasoline service stations | 28.4 | 30.8 | 22.3 |
| General merchandise stores | -10.0 | 15.4 | 12.4 |
| Lumber, bldg. materials, hdwe., etc. | 4.3 | -5.4 | -6.7 |
| Other retail store & non-store dealers | b | b | b |
| Totals | 5.3 | 19.5 | 12.2 |

[a]Sum of items may not equal total because of rounding.
[b]Comparable data not available for 1954.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business: 1954, Vol. II, Part 2, "Retail Trade - Area Statistics," p. 28-5; Census of Business, 1948, Vol. I, Part 1, "Retail Trade," p. 4.126; 1958 Census of Business, Retail Trade, Nevada, Preliminary Report, October, 1959.

Table 1.23 shows the comparative position of individual counties on the basis of the percentage distribution and percentage increases in retail trade since 1954. As is to be expected, Clark and Washoe counties dominated these data and, in general, the sales pattern by counties paralleled that of the population. For example, Clark county had about 43 percent of the State's population and almost the identical percent in retail sales and employment. Washoe county stood slightly higher proportionally in sales and employment, but still the deviation was not significant. Between them Clark and Washoe counties accounted for more than three-fourths of total retail sales and employment, and the size of firms in these counties was larger than the State average. With the exception of Nye county, the largest gains between 1954 and 1958 were found in Clark and Washoe counties by all measures. Decreases occurred in the number of establishments in ten counties; in

Table 1.23

Nevada Retail Trade, Percentage Distribution and Rate of Change, Classified by Counties, 1958

| | Firms | | Sales | | Employees | |
|---|---|---|---|---|---|---|
| County | % distrib. | % increase over 1954 | % distrib. | % increase over 1954 | % distrib. | % increase over 1954 |
| Churchill | 3.3 | 8.1 | 2.7 | 4.4 | 2.3 | -9.0 |
| Clark | 34.1 | 15.7 | 42.9 | 30.5 | 42.6 | 23.2 |
| Douglas | 1.7 | -7.7 | 1.0 | 22.8 | 0.9 | .8 |
| Elko | 7.4 | -2.8 | 4.9 | 4.6 | 5.1 | 8.4 |
| Esmeralda | 0.3 | -40.0 | a | -11.0 | b | b |
| Eureka | 0.6 | -18.2 | 0.1 | -3.9 | b | b |
| Humboldt | 3.7 | 1.9 | 2.2 | -6.0 | 2.2 | 4.0 |
| Lander | 1.2 | -16.7 | 0.5 | -10.6 | 0.5 | 9.4 |
| Lincoln | 1.8 | -5.5 | 0.7 | -18.3 | 0.7 | -21.6 |
| Lyon | 2.9 | -1.2 | 1.7 | 32.4 | 1.4 | 21.5 |
| Mineral | 2.8 | -4.8 | 1.6 | 3.5 | 1.4 | -17.4 |
| Nye | 2.4 | 22.8 | 1.3 | 40.8 | 1.4 | 50.0 |
| Ormsby | 2.6 | -15.7 | 2.4 | 52.5 | 2.2 | b |
| Pershing | 1.9 | -16.9 | 1.4 | -1.0 | 1.3 | 14.6 |
| Storey | 1.2 | 9.7 | 0.2 | -6.1 | 0.3 | 50.0 |
| Washoe | 27.8 | 5.4 | 33.4 | 20.7 | 35.7 | 9.0 |
| White Pine | 4.4 | 4.1 | 2.8 | -21.5 | 2.5 | -32.6 |
| Total[c] | 100.0 | 5.3 | 100.0 | 19.5 | 100.0 | 12.2 |

[a]Less than 1/10 of 1 percent.
[b]Withheld to avoid disclosure.
[c]Sum of items may not equal total because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business, 1954, Vol. II, Part 2, "Retail Trade - Area Statistics," pp. 28-6, 28-7; 1958 Census of Business, Retail Trade, Nevada, Preliminary Report, October, 1959.

sales volume in eight counties; and in employment in four counties. In the case of White Pine the decline in employment amounted to almost 33 percent.

Data for retail trade by selected cities are found in Table 1.24. Las Vegas is the most important retail trading center in the State, accounting for about one-third of total sales and employment followed by Reno. Between them they represent more than one-half of the State's sales and almost two-thirds of all retail employment. All cities except Ely and Winnemucca showed increased sales and employment since 1954. Sparks registered the largest percentage gains, though its share in total retail was only about 4 percent. Both of the State's largest cities enjoyed increases, Las Vegas exceeding Reno substantially. Carson City showed considerable increase in sales and employment, though the number of establishments declined.

Although wholesale trade has not been considered a major employer in Nevada, it provided almost as many jobs as did mining in 1958. The most important type of operation in the State has been merchant wholesaling, accounting for approximately seven-tenths of all firms and sales, and about five-sixths of wholesale employment.[11]

Table 1.24

Nevada Retail Trade, Percentage Distribution and Rate of Change, Classified by Selected Cities,[a] 1958

| | Firms | | Sales | | Employees | |
|---|---|---|---|---|---|---|
| Cities | % Distrib. | % increase over 1954 | % Distrib. | % increase over 1954 | % Distrib. | % increase over 1954 |
| Carson City | 2.3 | -21.7 | 2.1 | 35.6 | 1.8 | 19.4 |
| Elko | 4.8 | 7.9 | 3.6 | 1.9 | 3.3 | 12.7 |
| Ely | 2.8 | -4.8 | 2.1 | -27.3 | 1.9 | -35.4 |
| Las Vegas | 22.8 | 17.0 | 34.7 | 27.7 | 33.4 | 23.7 |
| No.Las Vegas | 1.9 | -10.2 | 1.9 | 18.3 | 1.7 | 15.8 |
| Reno | 21.1 | 2.5 | 29.5 | 16.5 | 31.2 | 5.0 |
| Sparks | 4.0 | 26.4 | 3.2 | 82.7 | 3.7 | 66.1 |
| Winnemucca | 2.6 | -8.7 | 1.9 | -8.4 | 1.8 | -9.3 |
| All other[b] | 37.7 | 3.3 | 21.0 | 18.1 | 21.2 | 12.2 |
| Totals | 100.0 | 5.3 | 100.0 | 19.5 | 100.0 | 12.2 |

[a]Cities of more than 2,500 inhabitants.
[b]Includes all other cities and towns.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Business, 1954, Vol. II, Part 2, "Retail Trade - Area Statistics," pp. 28-6, 28-7; 1958 Census of Business, Retail Trade, Nevada, Preliminary Report, October, 1959.

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[11]U. S. Department of Commerce, Bureau of the Census, 1958 Census of Business, Wholesale Trade, Preliminary Area Report, Nevada, January, 1960.

Table 1.25 furnishes a statistical summary of wholesale activities for 1958. By type of operation, the largest number of firms was in petroleum bulk stations, followed by groceries and machinery and equipment. Together these three categories had more than one-half the firms. Measured by sales, petroleum bulk stations were also most important, with more than one-fifth of the total, followed closely by groceries. Beer and wine wholesaling was third by this measure. Groceries furnished the greatest proportion of employment, followed by machinery and equipment, and beer and wine wholesaling. By all measures, grocery wholesaling was the most important category in an industry which is not overwhelmingly dominated by one or two categories, as in the case of Nevada services. A marked expansion in wholesale activity occurred in Nevada since 1954 as evidenced by the 26 percent increase in the number of firms, 37 percent increase in sales receipts, and a 28 percent increase in employment. A major exception to this general pattern of expansion was wholesaling in lumber and construction materials which suffered absolute and relative declines by all measures. Well above the rates of increase for the industry as a whole were machinery and equipment, hardware, plumbing and heating, groceries, and tobacco.

County data on wholesale activities are shown in Table 1.26. Again the dominant position of Clark and Washoe counties is evident. Washoe county alone accounted for about one-half of the total industry, sales and employment; and when combined with Clark, accounted for 85 percent of the total wholesale receipts and 90 percent of the employment. With regard to rates of growth since 1954, Elko and Ormsby counties showed the largest expansion in sales, but their relative position in the State continued to represent less than 6 percent of the State's total wholesale receipts.

Wholesale trade by selected Nevada cities is shown in Table 1.27. Reno is clearly the wholesaling center of the State, with 50 percent of all wholesale employees, 45 percent of all sales, and 32 percent of all firms. Las Vegas has about one-third of the State's wholesale activity. Elko showed substantial growth, more than doubling its sales and employment since 1954.

## Manufacturing

The economic development of the United States has been characterized by the growth of industrialism and the relative decline of agricultural and mining activities. This process has not been uniform for the country as a whole. Manufacturing was originally a specialty of the East, but has moved gradually westward as population, transportation facilities, and markets have developed in what were once sparsely settled areas. As with the Eastern states earlier, this has been accompanied by relative declines in the primary industries. Meanwhile, the East has experienced a decline in manufacturing and a significant expansion of tertiary industries--services, trade and finance. Thus, for the United States as a whole there has been a successive movement from primary to secondary to tertiary industries. In general, the Western States appear to have begun the movement from primary to

Table 1.25

Nevada Wholesale Trade, Classified by Types of Business, 1958

| Type of Business | Number of firms | Sales (millions) | Number of employees |
|---|---|---|---|
| A. Distribution by type of business: | | | |
| Beer, wine, distilled beverages | 25 | $ 27.2 | 248 |
| Electrical goods | 10 | 15.6 | 190 |
| Groceries and related products | 72 | 44.8 | 523 |
| Hardware, plumbing and heating | 19 | 9.7 | 147 |
| Lumber, construction materials | 15 | 8.9 | 111 |
| Machinery equipment | 58 | 17.4 | 375 |
| Motor vehicles, auto equipment | 30 | 12.2 | 208 |
| Petrol-bulk stations, terminals | 92 | 46.9 | 235 |
| Tobacco and products | 7 | 8.8 | 51 |
| Other miscellaneous products[a] | 76 | 19.4 | 565 |
| Totals | 404 | $210.9 | 2,653 |
| B. Percentage distribution by type: | | | |
| Beer, wine, distilled beverages | 6.2 | 12.9 | 9.3 |
| Electrical goods | 2.5 | 7.4 | 7.2 |
| Groceries and related products | 17.8 | 21.2 | 19.7 |
| Hardware, plumbing and heating | 4.7 | 4.6 | 5.5 |
| Lumber, construction materials | 3.7 | 4.2 | 4.2 |
| Machinery equipment | 14.4 | 8.3 | 14.1 |
| Motor vehicles, auto equipment | 7.4 | 5.8 | 7.8 |
| Petrol-bulk stations, terminals | 22.8 | 22.2 | 8.9 |
| Tobacco and products | 1.7 | 4.2 | 1.9 |
| Other miscellaneous products[a] | 18.7 | 9.2 | 21.4 |
| Totals[b] | 100.0 | 100.0 | 100.0 |
| C. Percent increase 1958 over 1954: | | | |
| Beer, wine, distilled beverages | 8.7 | 28.9 | 19.8 |
| Electrical goods | -16.7 | 88.0 | 49.6 |
| Groceries and related products | 63.6 | 61.7 | 38.4 |
| Hardware, plumbing and heating | 90.0 | 64.4 | 48.5 |
| Lumber, construction materials | -48.3 | -39.5 | -63.9 |
| Machinery equipment | 61.1 | 110.3 | 55.0 |
| Motor vehicles, auto equipment | 0.0 | 25.8 | -10.3 |
| Petrol-bulk stations, terminals | 12.2 | 32.5 | 79.4 |
| Tobacco and products | 40.0 | 69.2 | 21.4 |
| Other miscellaneous products | c | c | c |
| Totals | 20.6 | 36.8 | 27.9 |

[a]Includes categories with sales in 1958 less than 2 percent of total for state; categories withheld to avoid disclosure; and miscellaneous others.
[b]Sum of items may not equal total because of rounding.
[c]Comparable data not available for 1954.

Source: U. S. Department of Commerce, Bureau of the Census, 1954 Census of Business, Vol. IV, "Wholesale Trade - Area Statistics," pp. 38-4, 28-5; 1958 Census of Business, Wholesale Trade, Preliminary Area Report, Nevada, January, 1960.

Table 1.26

Nevada Wholesale Trade, Percentage Distribution and Rate of Change, Classified by Counties, 1958

| Counties | Firms | | Sales | | Employees | |
|---|---|---|---|---|---|---|
| | % Distrib. | % increase over 1954 | % Distrib. | % increase over 1954 | % Distrib. | % increase over 1954 |
| Churchill | 3.5 | 16.7 | 2.0 | 0.0 | 1.7 | 91.3 |
| Clark | 34.7 | 29.6 | 36.5 | 32.8 | 35.8 | 25.4 |
| Elko | 6.9 | 47.4 | 4.3 | 130.8 | 2.7 | 118.8 |
| Humboldt | 3.5 | -12.5 | 1.7 | 0.0 | 1.3 | -2.8 |
| Lyon | 2.0 | 14.3 | 1.1 | a | .6 | a |
| Ormsby | 1.5 | -14.3 | 1.4 | 172.7 | .5 | 0.0 |
| Washoe | 37.1 | 21.0 | 48.5 | 42.9 | 54.7 | 28.3 |
| White Pine | 3.7 | 7.1 | 2.0 | 7.7 | 1.8 | 20.0 |
| All others[b] | 7.2 | 3.6 | 2.5 | a | 1.1 | a |
| Totals[c] | 100.0 | 20.6 | 100.0 | 36.8 | 100.0 | 27.9 |

[a]Comparable data for 1954 not available.
[b]Includes counties with sales in 1958 less than 1 percent of total for State and counties withheld to avoid disclosure. No wholesale establishments reported for Esmeralda and Storey counties in 1958.
[c]Sum of items may not equal total due to rounding.

Source: 1958 Census of Business, Wholesale Trade, Preliminary Area Report, Nevada, January, 1960.

Table 1.27

Nevada Wholesale Trade, Percentage Distribution and Rate of Change, Classified by Selected Cities,[a] 1958

| Cities | Firms | | Sales | | Employees | |
|---|---|---|---|---|---|---|
| | % Distrib. | % increase over 1954 | % Distrib. | % increase over 1954 | % Distrib. | % increase over 1954 |
| Elko | 4.7 | 35.7 | 3.1 | 109.7 | 2.5 | 116.7 |
| Las Vegas | 30.0 | 26.0 | 34.2 | 36.6 | 32.5 | 22.6 |
| No.Las Vegas | 1.2 | b | 1.3 | b | 1.5 | b |
| Reno | 32.4 | 13.9 | 44.5 | 44.8 | 49.5 | 23.7 |
| Sparks | 2.7 | 120.0 | 2.7 | b | 3.2 | b |
| All other[c] | 29.0 | 16.2 | 14.2 | b | 10.8 | b |
| Totals | 100.0 | 20.6 | 100.0 | 36.8 | 100.0 | 27.9 |

[a]Cities of more than 5,000 inhabitants.
[b]Comparable data for 1954 not available.
[c]Includes all other cities and towns.

Source: 1958 Census of Business, Wholesale Trade, Preliminary Area Report Nevada, January, 1960.

secondary industries. In the West there has been a steady increase in the proportion of workers employed in the production of manufactured goods in the post-war period. The reverse is true of the rest of the United States, where the greatest growth has come in service-type industries.

It is against this background that the development of Nevada manufacturing is best appraised, for the State departs in significant respects from the Western region. Although value added and employment by manufacturing in Nevada have shown an absolute increase in the post-war period, the proportions of State income and employment generated by manufacturing have declined. During the same period, the fastest growing sectors have been services, finance and banking, and government. Thus, Nevada's development has proceeded directly from primary to tertiary industry.

The development of manufacturing in Nevada during the past half century is presented in Table 1.28. The number of manufacturing firms in the State continually declined from 1909 to 1939, and in the post-war period increased to a high of 206 in 1958. However, there were only 29 more manufacturing firms in Nevada in 1958 than there were in 1909. The number of employees in manufacturing has approximately doubled since 1909 but this industry nevertheless accounted for only about 5 percent of the total employment in the State, as already noted. Value added by manufacturing and payrolls have expanded greatly in the past fifty years due to greater volume per firm, secular inflation, and other factors.

Table 1.28

Nevada Manufacturing, Selected Years, 1909-1958

| Year | Number of firms | Value added (thousands) | Number of employees[a] | Payrolls (thousands) |
|---|---|---|---|---|
| 1909 | 177 | $ 3,521 | 2,513 | $ 2,360 |
| 1919 | 149 | 6,238 | 3,371 | 4,810 |
| 1929 | 123 | 8,065 | 2,564 | 4,299 |
| 1939 | 94 | 11,493 | 1,461 | 2,357 |
| 1947 | 126 | 17,286 | 2,667 | 8,409 |
| 1949 | b | 19,204 | 3,207 | 10,862 |
| 1950 | b | 28,670 | 2,856 | 10,984 |
| 1951 | b | 27,373 | 2,906 | 10,511 |
| 1952 | b | 34,694 | 3,337 | 13,681 |
| 1953 | b | 67,306 | 6,525 | 29,024 |
| 1954 | 177 | 62,672 | 5,717 | 25,301 |
| 1958 | 206 | 69,003 | 4,979 | 26,866 |

[a]Estimated for years 1949-53, inclusive.
[b]Not available.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1954, Vol. III, 1957, pp. 127-33; and Area Reports, Nevada, 1958 Census of Manufactures, February, 1960.

Table 1.29 gives a detailed breakdown of manufacturing in 1954, the most recent year in which published census of manufacture data are available. In 1954, more than one-half of the 177 establishments were in food manufacture and processing, and printing and publishing. However, these two categories furnished only about one-fourth of the jobs in the industry, and slightly less than one-fifth of all of the value added in manufacturing. On the other hand, three firms in the primary metals industry supplied more than a quarter of the employment, and 35 percent of the value added by manufactures. If the stone, glass, and clay products category is combined with primary metals, they account for over 50 percent of total value added and about 44 percent of total manufacturing employment.

Table 1.29

Nevada Manufacturing, Classified by Major Industry Groups, 1954

| Industries | Number of firms | Value added (thousands) | Number of employees |
|---|---|---|---|
| A. Distribution by industry group: | | | |
| Food & kindred products | 57 | $ 7,484 | 826 |
| Lumber & wood products | 20 | 3,462 | 539 |
| Primary metals industries | 3 | 22,158 | 1,555 |
| Printing & publishing | 34 | 4,847 | 634 |
| Stone, clay & glass | 18 | 9,696 | 945 |
| All other industry groups[a] | - | - | - |
| Totals | 177 | $62,672 | 5,717 |
| B. Percentage distribution by industry: | | | |
| Food & kindred products | 32.2 | 11.9 | 14.4 |
| Lumber & wood products | 11.3 | 5.5 | 9.4 |
| Primary metals industries | 1.7 | 35.4 | 27.2 |
| Printing & publishing | 19.2 | 7.7 | 11.1 |
| Stone, clay & glass | 10.2 | 15.5 | 16.5 |
| All other industry groups | 25.5 | 24.0 | 21.4 |
| Totals[b] | 100.0 | 100.0 | 100.0 |

[a]Includes following industry groups for which data were not available or withheld to avoid disclosure: apparel, furniture and fixtures, chemicals, fabricating metals, machinery (except electric), electrical machinery, transportation equipment, and instruments.

[b]Sum of parts may not equal total due to rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1954, Vol. III, 1957, pp. 127-135.

An important characteristic of manufacturing in Nevada, the size of firms as measured by employment, is shown in Table 1.30. It is apparent that Nevada manufacturing is dominated by small scale firms.

Table 1.30

Nevada Manufacturing, Distribution by Employment, 1954

| Class sizes by number of employees | Establishments | |
|---|---|---|
| | Number | Percent |
| 1 to 4 | 79 | 44.6 |
| 5 to 9 | 30 | 16.9 |
| 10 to 19 | 26 | 14.7 |
| 20 to 49 | 20 | 11.2 |
| 50 to 99 | 10 | 5.6 |
| 100 to 249 | 6 | 3.4 |
| 250 to 499 | 5 | 2.8 |
| 500 to 999 | 1 | 0.5 |
| Totals | 177 | 100.0 |

Source: U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1954, Vol. III, 1957, pp. 127-136.

Almost half of all manufacturing firms employ less than five employees and three-quarters employ less then twenty workers. The categories in which the larger firms were found were chemicals; stone, glass and clay products; primary metals; and transportation equipment.

The distribution of Nevada manufacturing by counties is summarized in Table 1.31, which shows again the dominance of Clark and Washoe counties. Combined they accounted for three-fourths of all

Table 1.31

Nevada Manufacturing, Classified by Counties, 1954

| | Firms | | Value added | | Employees | |
|---|---|---|---|---|---|---|
| Counties | Number | % distrib. | Amount (thousands) | % distrib. | Number | % distrib. |
| Churchill | 10 | 5.6 | $ 351 | .6 | 45 | .8 |
| Clark | 59 | 33.3 | 39,169 | 62.5 | 3,109 | 54.4 |
| Douglas | 5 | 2.8 | 637 | 1.0 | 55 | 1.0 |
| Elko | 8 | 4.5 | 212 | .3 | 52 | .9 |
| Washoe | 75 | 42.4 | 13,974 | 22.3 | 1,666 | 29.1 |
| White Pine | 4 | 2.3 | a | a | 530 | 9.3 |
| All others[b] | 16 | 9.1 | a | a | 260 | 4.5 |
| Totals[c] | 177 | 100.0 | $62,672 | 100.0 | 5,717 | 100.0 |

[a]Withheld to avoid disclosure.
[b]Esmeralda, Eureka and Lander reported no manufacturing. Includes counties for which data were withheld to avoid disclosure.
[c]Sum of parts may not equal totals due to rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1954, Vol. III, pp. 127-134.

manufacturing firms and five-sixths of the value added by manufacturing and employment. Two out of every five firms were located in Washoe county, but these were primarily small-scale enterprises, providing less than one-third of all the employment, and only about one-fifth of value added. In contrast, Clark county contained fewer firms which on the average were the largest in the State.

## Agriculture

As noted at the outset of this chapter, the nature and extensiveness of agriculture in Nevada is essentially limited by the State's physical environment. Agriculture has played an important role in the State's economy historically, but in recent years its relative position has declined. Of course, Nevada in this respect has not been unique--this tendency has been apparent in the United States since the turn of the century--but agriculture never has been relatively as important in Nevada as it has been for the nation as a whole. The trend of several basic features of Nevada's agriculture is shown in the Table 1.32.

It will be noted that the number of farms in Nevada has diminished by more than one-fifth since the depression years of the early 1930's. During this same period the average size of Nevada farms almost tripled and the amount of land utilized for farming has more than doubled. Although Nevada's farms and ranches are extremely large, ten times the national average, the farm acreage in 1954 represented less than 12 percent of the State's total land supply and was markedly below the 52 percent ratio for the United States as a whole. Moreover, the data show that the proportion of farm land allocated to pasturage has

Table 1.32

Nevada Farmland, Acreage and Use, Selected Years 1930-1954

| | Number | Farm Acreage | | | Percent of acreage in | |
|---|---|---|---|---|---|---|
| Year | of farms | Total (thousands) | Percent of total land | Average size | Cropland | Total pasturage[a] |
| 1930 | 3,442 | 4,081 | 5.8 | 1,186 | 14.0 | 81.1 |
| 1935 | 3,696 | 3,622 | 5.2 | 980 | 10.5 | 85.1 |
| 1940 | 3,573 | 3,785 | 5.4 | 1,059 | 22.8 | b |
| 1945 | 3,429 | 6,178 | 8.8 | 1,802 | 8.8 | 89.7 |
| 1950 | 3,110 | 7,064 | 10.1 | 2,271 | 8.8 | 91.1 |
| 1954 | 2,857 | 8,231 | 11.7 | 2,881 | 8.2 | 92.8 |
| United States 1954: | | | 51.8 | 242 | 39.7 | 55.9 |

[a]Includes part of cropland devoted to pasturage.
[b]Not available.

Source: U. S. Department of Commerce, Bureau of the Census, 1954 Census of Agriculture, 1956, Vol. I, p. 126.

steadily increased over time with a corresponding relative contraction in cropland. By 1954, more than 90 percent of Nevada's total farm acreage was used for pasturage and less than 10 percent for raising crops. The trend of gross income received in Nevada from these two broad sources of farm activity is shown in Table 1.33.

As is to be expected, cash receipts from livestock marketing constitute the most important single source of farm income in Nevada. In 1959, gross income from this source represented 87 percent of the State's total farm receipts as compared with 55 percent for the United States as a whole. This relatively high proportion of livestock receipts for Nevada has been fairly consistent over the years--ranging from 81 to 89 percent since 1930. It does not appear likely that crops now accounting for about 11 percent of farm receipts, will become more important for Nevada in the future. In the "livestock and products" category, receipts from cattle and calves historically have accounted for about two-thirds of the total, followed by sheep and dairy products. The major crop item has been hay, a large part of which is used as feeder crop. Nevertheless, it accounted for about two-thirds of the total cash receipts from crops. Since 1950, government payments to Nevada farmers have steadily increased from about $.2 million to $1.3 million in 1959. In the latter year, however, they amounted to only 2.4 percent of total farm receipts. As such, they were somewhat above the national average of farm subsidies which in 1959 represented 2 percent of total farm receipts for the United States. The increase in Nevada's gross farm income from $14 million in 1930 to $53 million in 1959--almost threefold--did not match the growth in Nevada's total personal income which increased almost fourfold during the same period, as noted earlier.

Table 1.33

Cash Receipts from Farm Marketing and Government Payments, Nevada, Selected Years 1930-1959
(in millions)

| Year | Total farm receipts | Livestock receipts Amt. | Livestock receipts % | Crop receipts Amt. | Crop receipts % | Government payments Amt. | Government payments % |
|---|---|---|---|---|---|---|---|
| 1930 | $14.2 | $12.1 | 85.2 | $2.1 | 14.8 | - | - |
| 1935 | 10.6 | 9.4 | 88.7 | 1.2 | 11.3 | - | - |
| 1940 | 13.9 | 12.3 | 88.5 | 1.6 | 11.5 | - | - |
| 1945 | 27.8 | 22.6 | 81.3 | 5.2 | 18.7 | - | - |
| 1950 | 48.4 | 42.7 | 88.0 | 5.5 | 11.6 | $ .2 | 0.4 |
| 1954 | 41.8 | 36.1 | 84.4 | 5.7 | 14.6 | .4 | 1.0 |
| 1958 | 53.3 | 46.4 | 87.1 | 6.3 | 11.8 | .6 | 1.1 |
| 1959 | 52.9 | 45.8 | 86.5 | 5.8 | 10.9 | 1.3 | 2.4 |
| Western States 1959 | | - | 44.4 | - | 53.4 | - | 2.1 |
| United States 1959 | | - | 54.8 | - | 43.1 | - | 2.0 |

Source: U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, annual issues; and U. S. Department of Agriculture, "The Farm Income Situation," February, 1960.

Though agriculture has come to play a diminished role in the economy of the State, it remains a significant part of the total activities of many Nevada counties. The extent of its importance by counties can be judged from data presented in Tables 1.34 and 1.35. In 1954 almost 55 percent of the land in Douglas county was in farms, 40 percent in Storey, and 27 percent in Elko. Churchill county had the largest percentage of the State's farms with more than one-fifth of the total, followed by Washoe with about one-sixth. In terms of the value of products sold, Elko was the leading agricultural county with almost one-quarter of the State total. When combined with Churchill and Lyon, these three counties accounted for almost one-half of the total value of farm products produced in the State. Elko also was the leading livestock producer. The value of its livestock products sold in 1954 amounted to $7.7 million, or more than one-fourth of the total for the State. The leading area of crop production was Pershing county, particularly of alfalfa, wheat, corn, barley, and

Table 1.34

Nevada Farms, Number and Acreage, by Counties, 1954

| County | Farms | | Farms as percent of total land | Average size farm (acres) |
|---|---|---|---|---|
| | Number | Percent | | |
| Churchill | 619 | 21.7 | 5.6 | 285 |
| Clark | 210 | 7.4 | .9 | 213 |
| Douglas | 124 | 4.3 | 54.7 | 2,044 |
| Elko | 278 | 9.7 | 27.0 | 10,628 |
| Esmeralda | 22 | .8 | 3.4 | 3,575 |
| Eureka | 36 | 1.3 | 7.3 | 5,395 |
| Humboldt | 113 | 4.0 | 14.1 | 7,770 |
| Lander | 33 | 1.2 | 18.0 | 19,421 |
| Lincoln | 134 | 4.7 | 4.7 | 2,413 |
| Lyon | 327 | 11.4 | 17.0 | 668 |
| Mineral | 53 | 1.9 | 13.7 | 6,196 |
| Nye | 134 | 4.7 | 2.2 | 1,885 |
| Ormsby | 33 | 1.2 | 25.7 | 702 |
| Pershing | 117 | 4.1 | 16.5 | 5,417 |
| Storey | 11 | .4 | 40.2 | 6,128 |
| Washoe | 465 | 16.3 | 22.5 | 1,942 |
| White Pine | 148 | 5.2 | 4.6 | 1,754 |
| Total[a] | 2,857 | 100.0 | 11.7 | 2,881 |

[a]Sum of parts may not equal total due to rounding.

Source: U. S. Department of Commerce, Bureau of the Census, 1954 Census of Agriculture, 1956, Vol. I, p. 142.

potatoes around Lovelock. In 1954 Pershing county crops were valued at almost $1.3 million, or about one-fourth of the State's total. It is evident on the basis of the data in the table that the predominantly agricultural sector of the State lies to the north and west.

Table 1.35

Nevada Farms, Value of Products, by Counties, 1954

| County | Harvested crops | | Livestock | | Total products | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Churchill | $ 852 | 16.9 | $ 3,902 | 13.6 | $ 4,754 | 14.1 |
| Clark | 277 | 5.5 | 1,001 | 3.5 | 1,278 | 3.8 |
| Douglas | 188 | 3.7 | 1,957 | 6.8 | 2,145 | 6.4 |
| Elko | 118 | 2.3 | 7,696 | 26.9 | 7,814 | 23.2 |
| Esmeralda | - | - | 33 | .1 | 33 | .1 |
| Eureka | 6 | .1 | 843 | 2.9 | 849 | 2.5 |
| Humboldt | 90 | 1.8 | 2,265 | 7.9 | 2,355 | 7.0 |
| Lander | 11 | .2 | 949 | 3.3 | 960 | 2.8 |
| Lincoln | 16 | .3 | 620 | 2.2 | 636 | 1.9 |
| Lyon | 1,087 | 21.5 | 2,438 | 8.5 | 3,525 | 10.4 |
| Mineral | 41 | .8 | 103 | .4 | 144 | .4 |
| Nye | 626 | 12.4 | 770 | 2.7 | 1,396 | 4.1 |
| Ormsby | 2 | a | 127 | .4 | 130 | .4 |
| Pershing | 1,253 | 24.8 | 1,451 | 5.1 | 2,704 | 8.0 |
| Storey | 23 | .5 | 116 | .4 | 140 | .4 |
| Washoe | 423 | 8.5 | 2,589 | 9.0 | 3,021 | 9.0 |
| White Pine | 33 | .7 | 1,773 | 6.2 | 1,807 | 5.4 |
| Total[b] | $5,056 | 100.0 | $28,634 | 100.0 | $33,742 | 100.0 |

[a]Less than 1/10 of 1 percent.
[b]Sum of parts may not equal total due to rounding.

Source: U. S. Department of Commerce, Bureau of the Census, 1954 Census of Agriculture, 1956, Vol. 1, p. 142.

## Mining

The mining industry has had an illustrious history in Nevada. It was mining possibilities which first attracted population on a significant scale to the State and also provided the major basis for the State's economic expansion into the twentieth century. As late as 1940, mining furnished almost 6,300 jobs in Nevada, or over 15 percent of the State's total employment. However, since 1940 the industry has declined steadily in its relative importance. As was noted earlier, by 1958, mining employment had fallen to about 2,900. Employment declined by approximately 3,400, or more than 50 percent, between 1940 and 1958. In terms of employment, mining dropped from fourth to

eighth place among industry groups. This decline has continued and by December, 1959, only 2,200 wage and salary earners were employed in the industry. Between 1950 and 1959 the mining industry's contribution to the State's personal income fell from 3.5 percent to 2.5 percent, after having fallen from 12.1 to 3.5 percent in the previous decade, 1940-1950.

Table 1.36 briefly summarizes the value of mineral production in Nevada for selected years since 1937. Measured in terms of value of production, mining in Nevada has been an erratic industry with extreme fluctuations depending on demand for the particular output of the State's mineral product. Immediately after World War II the current dollar value of mineral production fell to 80 percent of the 1937 level. During the next dozen years it steadily increased and was more than three times large than the pre-war base by 1956. Since then the value of output has continuously declined. In 1958 the total value of mineral production was 45 percent below the 1956 peak year and actually was only one-half of the retail sales made in Las Vegas for the same year. Between 1958 and 1959 a further decline was experienced and the value of mineral output stood at only 70 percent above the 1937 level. During this same period both the consumer and wholesale price indexes more than doubled.

Table 1.36

Value of Mineral Production in Nevada,
Selected Years, 1937-1958

| Year | Amount (thousands) | Relatives (1937=100) | Year | Amount (thousands) | Relatives (1937=100) |
|---|---|---|---|---|---|
| 1937 | $ 38,872 | 100.0 | 1952 | $ 64,231 | 165.2 |
| 1940 | 42,591 | 109.5 | 1953 | 73,668 | 189.5 |
| 1943 | 56,525 | 145.4 | 1954 | 89,138 | 229.3 |
| 1945 | 31,307 | 80.5 | 1955 | 113,220 | 291.3 |
| 1948 | 42,503 | 109.3 | 1956 | 126,681 | 325.9 |
| 1949 | 37,372 | 96.1 | 1957 | 86,021 | 221.3 |
| 1950 | 48,499 | 124.8 | 1958 | 68,293 | 175.7 |
| 1951 | 57,674 | 148.4 | 1959[a] | 66,093 | 170.0 |

[a]Preliminary data from Director of Region II, U. S. Bureau of Mines, San Francisco.

Source: U. S. Department of Interior, Bureau of Mines, Minerals Yearbook, annual issues.

Table 1.37 shows the current dollar value of selected minerals produced in Nevada since 1930. The importance of copper to the State's mining industry is evident, having consistently provided about one-half of the value of all mineral production. In 1959, copper was followed by sand and gravel, gold, and iron ore. No other mineral accounted for as much as 5 percent of total production. Sand and gravel, iron ore, and manganese became increasingly important in the late 1950's. These data also illustrate the declining importance of the precious metals--gold accounted for about 6 percent and silver actually less than 1 percent of the total value of mining production in recent years.

Table 1.37

Value of Mineral Production in Nevada, by Major Types, Selected Years 1930-1959

| Mineral | 1930 | 1940 | 1945 | 1954 | 1958 | 1959 |
|---|---|---|---|---|---|---|
| A. Value in current dollars (thousands): | | | | | | |
| Copper | $14,196 | $17,731 | $14,201 | $41,428 | $34,788 | $35,005 |
| Gold | 3,081 | 13,438 | 3,229 | 2,767 | 3,678 | 3,868 |
| Silver | 1,625 | 3,681 | 742 | 507 | 844 | 560 |
| Zinc | 1,400 | 1,491 | 4,935 | 224 | 19 | 57 |
| Lead | 1,153 | 750 | 1,079 | 2,025 | 971 | 405 |
| Gypsum | 977 | 618 | 732 | 2,217 | 2,306 | 2,700 |
| Mercury | 377 | 1,048 | 585 | 1,315 | 1,681 | 1,611 |
| Manganese | 18 | -- | 970 | -- | 7,566 | 2,340 |
| Tungsten | -- | 1,748 | 2,923 | 20,048 | a | a |
| Iron Ore | -- | -- | -- | -- | 3,149 | 3,660 |
| Sand and Gravel | b | b | b | 2,957 | 5,311 | 6,085 |
| Stone | b | b | b | 2,011 | 1,335 | 1,424 |
| All other | 1,248 | 2,066 | 1,911 | 13,639 | a | a |
| Total[c] | $24,075 | $42,571 | $31,307 | $89,138 | $68,293 | $66,093 |
| B. Percentage distribution by type: | | | | | | |
| Copper | 59.0 | 41.7 | 45.4 | 46.5 | 50.1 | 53.0 |
| Gold | 12.8 | 31.6 | 10.3 | 3.1 | 5.4 | 5.6 |
| Silver | 6.7 | 8.6 | 2.4 | .6 | 1.2 | .8 |
| Zinc | 5.7 | 3.5 | 15.8 | .3 | d | a |
| Lead | 4.8 | 1.8 | 3.4 | 2.2 | 1.4 | a |
| Gypsum | 4.1 | 1.5 | 2.3 | 2.5 | 3.4 | 4.1 |
| Mercury | 1.6 | 2.5 | 1.9 | 1.5 | 2.5 | 2.4 |
| Manganese | .1 | -- | 3.1 | -- | 11.1 | 3.5 |
| Tungsten | -- | 4.1 | 9.3 | 22.6 | a | a |
| Iron Ore | -- | -- | -- | -- | 4.6 | 5.5 |
| Sand and Gravel | b | b | b | 3.3 | 7.8 | 9.2 |
| Stone | b | b | b | 2.3 | 2.0 | 2.2 |
| All other | 5.2 | 4.9 | 6.1 | 15.3 | a | a |
| Total[c] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Withheld to avoid disclosure.
[b]Included in "all other" category.
[c]Total includes items withheld to avoid disclosure.
[d]Less than 1/10 of 1 percent.

Source: U. S. Department of Interior, Bureau of Mines, Minerals Yearbook, and U. S. Department of Interior, Bureau of Mines, "Mineral Production in Nevada in 1959," Mineral Industry Surveys, Area Report II-35, December, 1959.

It is evident that the position of the mining industry in the State's economy has steadily declined during the past two decades. Moreover, the development in the near future of significant new technologies or products which would enable mining to recapture its former importance, does not appear likely. Absolute output will probably increase in the future, both in value and physical terms, but such growth is likely to be at a slower rate than for the economy as a whole if the recent past is a reliable index. If so, this will mean a continuing decline in the relative importance of the industry in Nevada.

## The Economy and Public Finance

It is evident that the economy of Nevada has experienced substantial growth and change in recent decades, particularly during the post-war period. The consequences of these economic and demographic developments reach into all aspects of life in the State, not the least of which is the need to formulate and execute appropriate fiscal policies for State and local government. Nevada's population and economic growth provide an enlarged tax base to support socially necessary government services and expenditures. The remarkable expansion of the service and trade industries, particularly gaming and amusements, has meant increased income and employment for Nevadans. But growth in this area also involves increased public regulation, protection and expense. Tourism is a dominant factor in the Nevada economy and an important source of income generation for the residents of the State. Tourism also gives rise to additional public expense and costs because of the need for providing public services and facilities. But tourists are not directly part of the Nevada tax base for many purposes, and the question is raised as to the extent to which they can or should be taxed to support the operation of State and local government. The declining importance of mining and agriculture means hardships for many individuals and areas of the State, and raises serious questions about appropriate tax and spending policies with regard to the industries, areas, and individuals involved. Increased urbanization and the growing concentration of economic and social activities in Clark and Washoe counties also create new problems for State and local government agencies in these areas. They also accent the problems associated with the differing needs and interests of rural and urban groups.

These substantial changes in the economy mean that past experience in the State cannot solely be relied upon to provide the necessary guidelines for present or future policy. What was adequate and equitable for an earlier period may not conform to the general contours of the present or future economy. Wise management of public finance in an expanding economy is more complex than merely finding ways to provide more of the same package of public goods financed in traditional ways. It requires the recognition of the changing needs of the public, the use of new and efficient means of providing public services, and the development of tax programs which are consistent with the pattern and capacity of the State's economy and which are fair and equitable for all industrial and social groups in Nevada.

## CHAPTER II

## TAXATION AND THE LOCATION OF INDUSTRY

State and local taxes are frequently assumed to exert a significant influence on the location of industrial activity. This assumption is evidenced by publicized opposition to particular taxes on the grounds that they deter industry from locating in a certain area; by fear that an existing tax structure will cause migration of industry; and by industrial development organizational activity which uses a "favorable tax climate" as the basis for attracting industry. This view, however, is only one side of a continuing controversy. In opposition, the position has often been taken in professional literature that state and local taxes actually play a very small role in the location of industry. Indicative of this latter viewpoint is the following:

> Governmental representatives should acquaint themselves with something which business has known for a long time, i.e., state and local tax structures are of relatively small importance in orienting or deterring industrial location.[1]

A multitude of factors, both economic and non-economic, play a role in the location of industry.[2] While non-economic factors such as the health of the owner or the desire to be in one's home town may be of some importance in certain cases, it is reasonable to assume that the large majority of business firms will tend to locate at that point where profits are maximized. In this context, it would be difficult if not impossible to compile a complete list of the factors which influence industrial location. Nevertheless, some of the most important items may be categorized as follows:[3]

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[1]John D. Garwood, "Taxes and Industrial Location," National Tax Journal, December, 1952, p. 369.

[2]For example, "How to Pick the Right Plant Site," Modern Industry, December 15, 1949, pp. 42-43, presents a checklist of nearly 200 items to be considered when choosing a plant site.

[3]For a complete discussion of the factors which influence the location of industry see Leslie E. Corbert, The Impact of State and Local Taxes in North Carolina and the Southeastern States (Raleigh: North Carolina Tax Study Commission, 1956); Melvin L. Greenhut, Plant Location in Theory and in Practice (Chapel Hill, North Carolina: The University of North Carolina Press, 1956); Edgar M. Hoover, The Location of Economic Activity (New York: McGraw-Hill Book Company, Inc., 1948); Walter Isard, Location and Space-Economy (London: Chapman and Hall, Ltd., 1956); George T. Renner, "Geography of Industrial Location," Economic Geography, July, 1947; Hermann Schumacher, "Location of Industry," Encyclopedia of the Social Sciences, Volume XIX, pp. 585-93; Wolfgang F. Stolper, "Economic Development, Taxation, and Industrial Location in Michigan," Michigan Tax Study (Lansing, 1959), pp. 63-117; and Leonard C. Yaseen, Plant Location (New York: American Research Council, 1956).

Markets:
- Availability of markets.
- Availability of future markets.

Materials:
- Availability of raw materials.
- Availability of other materials.

Labor:
- Availability of labor.
- Cost of labor.
- Labor force productivity.
- Labor relations history.

Available Site and Plant Facilities:
- Availability of land.
- Availability of industrial fuels.
- Availability of water for industrial use.
- Existing building.
- Existing transportation facilities.

State and Local Considerations:
- Attitude of the community and local and state governments toward business.
- Availability of housing.
- Desirability of living conditions.
- General appearance of community.
- State and local laws and taxes.
- Subsidies and other financial inducements.

Climate:
- Effect on labor force.
- Effect on production.

Of the major factors which influence industrial location, it is generally agreed that the most important one for a large part of industry is ". . .orientation toward the market to which the output of the plant must be delivered."[4] Orientation toward materials and labor supply is also considered to be of major significance.

In contrast to this agreement, there is wide divergence of opinion concerning the importance of state and local taxation. The purpose of this chapter is to present briefly the findings of several major studie as well as analytical considerations regarding this complex question.

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[4]Schumacher, op. cit., p. 586.

## Review of the Studies Which Have Been Conducted

Numerous studies have been undertaken to determine the locational significance of state and local taxation and it is convenient in discussing their findings to group them by the method or approach which was utilized.

### Questionnaire Method

Several studies have been made in which viewpoints of business executives were obtained through the use of questionnaires. An outstanding study using this approach was recently conducted by the Bureau of Business Research at the University of Colorado. Executives of 253 Colorado manufacturing firms established between 1948 and 1957, were personally interviewed and asked to indicate which of 30 selected factors had strongly influenced; had some influence; or had no influence over their choice of an industrial site. In reference to the factor "State and Local Taxes," 87.3 percent of those interviewed said the factor did not enter their choice, 8.7 percent said that state and local taxes had some influence, and only 4.0 percent said that the factor had strongly influenced their choice.[5] The factors used in this study and the importance attached to each are shown in Table 2.1. It can be seen that the factor "State and Local Taxes" was ranked 27th, having been mentioned by only 12.7 percent of the executives interviewed. It is also interesting to note those 26 factors which were considered to be more significant than taxation. As might be expected, the availability of present and future markets constituted the major location factors.

Another study pertinent to the West has been conducted through the use of questionnaires. Officials of 116 manufacturing firms located in Utah and Colorado were personally interviewed and the importance of numerous location factors was discussed. The author concluded from the study that the major factors attracting industry are: (1) markets, (2) materials, (3) labor, (4) available sites and plant facilities, and

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[5]L. J. Crampon and Paul W. DeGood, Jr., Industrial Location Survey (Bureau of Business Research, University of Colorado, 1957). Also summarized in L. J. Crampon, "Factors Influencing the Selection of a Plant Site" (Boulder: Bureau of Business Research, University of Colorado, n.d.).

Table 2.1

Relative Importance of Location Factors
253 Colorado Manufacturing Firms
Established Between 1948 and 1957

| Factor | Percent of responses attributing influence to factor | | |
|---|---|---|---|
| | Strong influence | Some influence | Grand total |
| 1. Availability of markets | 44.3 | 17.0 | 61.3 |
| 2. Availability of future markets | 26.9 | 23.3 | 50.2 |
| 3. Over-all growth of state or area | 27.7 | 20.9 | 48.6 |
| 4. Desirability of living conditions | 26.5 | 17.4 | 43.9 |
| 5. Availability of raw materials | 27.3 | 15.8 | 43.1 |
| 6. Availability of needed labor | 18.2 | 22.1 | 40.3 |
| 7. Land as a site for plant | 22.9 | 16.2 | 39.1 |
| 8. General appearance of community | 17.8 | 21.3 | 39.1 |
| 9. Cost of labor, existing wage rates | 13.8 | 24.9 | 38.7 |
| 10. Existing transportation facilities | 13.8 | 20.9 | 34.7 |
| 11. Existing building for plant | 20.6 | 13.4 | 34.0 |
| 12. Attitude of community toward industry | 13.0 | 19.0 | 32.0 |
| 13. Electric power supply | 11.5 | 19.0 | 30.5 |
| 14. Effect of climate upon production | 12.6 | 17.8 | 30.4 |
| 15. Effect of climate upon labor force | 11.5 | 15.4 | 26.9 |
| 16. Productivity of labor force | 7.5 | 17.8 | 25.3 |
| 17. Employer-labor relations history | 9.5 | 13.0 | 22.5 |
| 18. Water for industrial use | 6.7 | 14.6 | 21.3 |
| 19. Warehousing and storage facilities | 8.3 | 12.6 | 20.9 |
| 20. Industrial fuels - coal, oil, gas | 9.1 | 11.1 | 20.2 |
| 21. Adequacy of industrial zoning | 3.6 | 15.8 | 19.4 |
| 22. Availability of housing | 5.1 | 13.8 | 18.9 |
| 23. Government attitude toward industry | 4.0 | 11.8 | 15.8 |
| 24. Other production materials | 2.4 | 13.0 | 15.4 |
| 25. Local or state laws and regulations | 2.4 | 13.0 | 15.4 |
| 26. Water for domestic use | 5.1 | 9.9 | 15.0 |
| 27. State and local taxes | 4.0 | 8.7 | 12.7 |
| 28. Existence of research facilities | 2.0 | 10.3 | 12.3 |
| 29. Community financial subsidy | 2.0 | 4.7 | 6.7 |
| 30. Objectivity of judicial attitude | 0.0 | 3.2 | 3.2 |

Source: L. J. Crampon and Paul W. DeGood, Jr., Industrial Location Survey, Bureau of Business Research, University of Colorado, 1957, pp. 68-69.

(5) climate.[6] Concerning the importance of taxation it was found that:

> . . .most company officials had no comment to make on the state tax structure. Many owners had no idea as to the extent of their tax burdens and expressed no concern over any particular tax. Officials of fewer than ten firms had any comment to offer as to the taxes as they found them in their new locations.[7]

Although these studies indicate that taxation is a relatively unimportant location factor, the interview technique involves several limitations. A major problem, as is true of all surveys, is that of obtaining a representative sample. This is especially difficult with a survey of manufacturing firms since there are few common characteristics. Another problem inherent in any questionnaire method is that answers given frequently do not reflect the actual motivation behind the decisions. Although it may be contended that taxes are important as a location factor if businessmen think they are important, it would appear that costs will overcome unfounded subjective beliefs in the long run.

Despite such limitations, the margin of error present in these studies does not appear to be sufficient to greatly diminish the validity of the conclusions reached.

## Taxes as Percent of Total Costs Method

This approach assumes that the percent of total business costs accounted for by state and local taxes is indicative of the locational significance of these taxes. Hence, the problem is simply to determine state and local taxes as a percent of total costs. A common method of obtaining this information is to employ a cost questionnaire. In one such study, replies were received from 612 Pennsylvania firms,[8] of which 435 reported that state business taxes[9] were one percent or less of total costs. For the total number of firms, business taxes represented an average of only .55 of one percent of total costs.

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[6]John D. Garwood, "Industrial Migration to the West" (unpublished Ph. D. Thesis, The University of Colorado, Boulder, 1951).

[7]Ibid., p. 190.

[8]Jesse Burkhead and Donald C. Steele, "The Effect of State Taxation on the Migration of Industry," Journal of Business of the University of Chicago, July, 1950.
Contrary to most studies done on the importance of taxes as a location factor, this study was not confined to manufacturing.

[9]"Business taxes" were defined as state corporate income tax and the capital stock tax (for domestic corporations) or the franchise tax (for foreign corporations operating in Pennsylvania).

A more recent study conducted in Minnesota, also employing a questionnaire but including more state taxes, reached similar conclusions.[10] Executives of approximately 600 firms were asked to estimate the percent of total costs represented by state and local taxes. The medians of all industry medians were as follows:[11]

| Type of Tax | Percent |
|---|---|
| Real property | 0.67 |
| Personal property | 0.80 |
| Corporate income | 0.52 |
| Other (state and local) | 0.43 |
| Total | 2.42 |

Although these studies clearly point to the conclusion that tax costs are a small percent of total costs, the inference that taxes therefore play a small part in the location of industry should be made with caution. It would appear that the locational significance of any cost factor would be indicated by the differentials in costs which would be incurred in various localities and not simply by the percent of total costs accounted for by that factor. For example, if labor costs were identical in all locations, labor would exert little influence on industrial location even though it might represent a very large portion of total costs. Similarly, taxes would exert little influence on industrial location if they resulted in identical costs in all areas. Therefore, attempts to determine the locational significance of state and local taxes must center around the differentials in tax liabilities which would be incurred in various localities.

Despite this criticism, even if the costs of state and local taxes were eliminated entirely, the saving would nevertheless be slight and therefore it could be inferred that these taxes are a relatively minor location factor.

### Hypothetical Tax Bill Method

Predicated on the assumption that tax differentials between areas are more significant than absolute costs, several studies have attempted to measure the tax costs that would be incurred by an actual or hypothetical firm if it were placed in alternate locations. When the problem

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[10] Business Executives' Research Committee, Industrial Location and the Minnesota Economy (Minneapolis: University of Minnesota, School of Business Administration, 1954).

A separate part of this study utilizes a correlation approach which is discussed later in this chapter.

[11] Ibid., p. 49.

is approached from this viewpoint, the outstanding significance of the federal corporate income tax is revealed. The burden represented by the tax levels in two areas is substantially different if one compares total tax bills and not simply state and local tax bills. This divergence is due to the federal income tax provision which permits deduction of state and local taxes. Hence, in the case of corporate tax burdens, inclusion of the federal income tax has the effect of diminishing the differential in taxes which would be incurred in various states. For example, if State A collected $10,000 more from a corporation than State B, the additional tax revenues would represent a burden to the corporation of only about $5,000, since the federal government contributes a percent of the additional state and local tax revenues equal to the marginal rate of the federal tax which for most corporations is about 50 percent. Therefore, a comparison of total tax levels is considerably more meaningful than a comparison of state and local taxes alone.

In the best known of studies using the hypothetical tax bill approach, taxes were computed for two corporations alternately placed in cities of 19 states, and for one corporation alternately placed in cities of four states.[12] The state and local tax bills varied substantially although the inclusion of the federal income tax reduced significantly the inequality of the tax bills. The study leads the author to state that ". . .under certain conditions tax considerations may influence the selection of location for some, but by no means all, types of industrial plants."[13] This conclusion is extremely tenuous considering that only three firms were studied--quite a small sample from which to generalize.

In another study using this method, tax bills for three hypothetical firms were computed in 185 communities in 10 states.[14] It was again found that tax bills varied considerably, although the magnitude of the differentials was greatly diminished by the inclusion of the federal income tax.[15]

If tax differentials alone were indicative of the importance of taxes as a location factor, the size of the tax differentials in these studies would indicate that taxes might be of some importance. However, a very serious limitation of this inference is the implicit assumption in the hypothetical tax bill approach that "all other factors are equal"--which obviously is not true. Until these numerous other factors are taken into account, results obtained by this method should be accepted with caution.

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[12]Joe Summers Floyd, Jr., Effects of Taxation on Industrial Location (Chapel Hill, North Carolina: The University of North Carolina Press, 1952).

[13]Ibid., p. 109.

[14]Pennsylvania Economy League, The Relative Tax Cost to Manufacturing Industry: 1957 Revision (Pittsburgh: Regional Industrial Development Corporation, 1957).

[15]Ibid., pp. 34-48.

## Correlation Method

A final approach which has been used to examine the locational importance of taxation involves a correlation technique. This method attempts to correlate the tax burdens with the industrial growth which has taken place in a particular area. One of the first projects undertaken using this method is the frequently quoted study made by G. A. Steiner in 1938.[16] The industrial development index was made up of the percentage changes over a 17-year period of 12 factors, including such indicators as value added by manufacture, per capita income, and population. The tax burden was measured by changes in property tax collections, state and local taxes, and state and local taxes compared with corporate profits. The conclusion reached was that changes in tax burdens were unrelated to the growth of manufacturing.

A less complex study was made in 1954 using the correlation approach.[17] "Tax burdens" were measured by the ratio of state and local taxes to income in the state, and "economic development" was measured by the increase in employment and value added. When these two indices were compared it was found that economic development had occurred most rapidly in those areas where tax burdens were the highest. Thus, it would appear from this study that high taxes not only fail to discourage economic development but actually foster it.

One can readily see that a major problem in the correlation approach is attempting to measure the tax burden and industrial or economic growth. The Steiner Study has been criticized because it fails to ". . .develop valid measures of either the growth of manufacturing activity or the growth of tax loads on manufacturing corporations."[18] The same criticism may be made of the Executives' Research Committee Study.

An attempt to overcome this criticism is reflected in the comprehensive multiple correlation study recently completed by W. R. Thompson and John M. Mattila.[19] The taxation index was composed of state and local taxes as a percent of personal income by states and estimated state and local taxes paid by non-agricultural business per employee by states. Industrial indexes were compiled for 20 separate

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[16]G. A. Steiner, "The Tax System and Industrial Development," Bulletin of the National Tax Association, January, 1938.

[17]Business Executives' Research Committee, op. cit.

[18]Floyd, op. cit., p. 14.

[19]Wilbur R. Thompson and John M. Mattila, An Econometric Model of Postwar State Industrial Development (Detroit: Wayne State University Press, 1959).

industries, as well as a general manufacturing index, relying on employment variations. The authors of this study concluded that, "State and local tax differentials. . .appear to have no measurable effect on interstate differentials in employment growth in any of the twenty manufacturing industry groups."[20]

A limitation of the correlation approach is inferring causality from co-variation, that is, assuming that since two variables move in the same or opposite direction they are causally related. Similarly, it is impossible to isolate the impact of taxation on industrial growth from the many other factors involved.[21] It is tenable, however, to conclude from the above studies that relatively high state and local taxes do not necessarily preclude rapid economic development.

## Analytical Considerations

While the studies discussed above are subject to limitations they do, in total, suggest that state and local taxation is a relatively unimportant factor in the location of industry. In addition, there are several analytical considerations which cast serious doubts on the viewpoint that taxation exerts a significant influence on industrial location.

### Locational Independence

It is obvious that a large part of economic activity takes place in industries which cannot respond to favorable or unfavorable tax structures. Only minor portions of such industries as agriculture, mining, transportation, communications, public utilities, insurance, real estate, construction, and personal services could relocate if they so desired. Another major basic industry which would be in this category is government--federal, state and local. Thus, it would appear that only portions of manufacturing, wholesale trade, and retail trade could respond to changes in tax structures. Moreover, numerous firms in these two industries could hardly be considered locationally independent. For example, many manufacturers are highly restricted by their production processes or the nature of the product they manufacture. Some firms

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[20] Ibid., p. 83.

[21] For a complete discussion of the shortcomings of the aggregative-inferential approach to this problem, see Report of the Minnesota Tax Study Committee (Minneapolis, 1956), p. 119; and Floyd, op. cit., pp. 12-16.

must be near an abundant water supply, power sources, drainage facilities, basic materials, and so forth despite the nature of taxes imposed in the area.

While it is impossible to determine accurately the importance of those firms which possess a high degree of locational freedom, all firms engaged in manufacturing, wholesale trade, and retail trade together accounted for slightly less than 50 percent of the personal income received in the United States in 1958.[22] Therefore, it would appear that considerably more than half of personal income is produced in industries which possess very little locational freedom.

While there may be some firms in some industries which possess a high degree of locational freedom, location decisions are made primarily with regard to the establishment of a branch plant as opposed to relocation of an existing firm or establishment of a new business. When a new business is undertaken, other initiating problems generally receive significantly more consideration than where to locate. While every new firm must, of course, determine a location, extensive research of alternative locations in a wide area is uncommon. The relocation of an existing business firm is infrequent because few businesses earning a reasonable profit will jeopardize it on the chance of making greater profits elsewhere.[23] Equally important is the fact that there are numerous and costly problems in the relocation of a business firm. In addition, a significant amount of income is lost while the move is being made.

The importance of branch plant establishment is evidenced by a National Planning Association study of business firms which had recently begun operations in the southern states. It was found that of 88 new plants examined, 2 were completely new businesses, 3 were relocations, and 84 were branch plant establishments.[24]

From the foregoing, it is clear that only a portion of industry possesses significant locational freedom, and that most location decisions involve the establishment of a branch plant. Therefore, the

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[22]U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 24.

[23]When firms are not making a reasonable profit, there may be a greater inclination to respond to a more favorable tax structure or other inducements such as special tax benefits and other concessions. However, the benefits such a marginal business can contribute to a community would appear to be slight.

[24]Glenn E. McLaughlin and Stefan Robock, Why Industry Moves South, National Planning Association, Committee of the South, 1949, pp. 18-20.

contention that taxation may result in an extensive development of new businesses or wholesale migration of existing businesses appears to be largely unfounded.

Although the above discussion may indicate that state and local taxation is relatively unimportant as a direct location factor, it must logically be conceded that if a small number of firms do in fact respond to favorable tax structures, the location of other firms which are not responsive to taxation may be indirectly influenced.

## Burden of Business Taxation

If state and local taxes are to exert a significant influence on the location of industry, they must actually represent a burden to business. Interstate comparisons of per capita taxes or taxes as a percent of personal income may reveal tentative approximations of aggregate taxes, but they are not pertinent for location analysis. If, for example, a state raises a large portion of its tax revenue from a personal income tax or a residential property tax, this would not represent a burden to business. Thus, for purposes of location analysis, the tax structure is more important than the overall level of taxes.

Of those taxes which do affect business, it is necessary to distinguish between the impact (initial burden) and the incidence (final burden) of any given tax. While business firms may actually pay such levies as the general sales tax and consumption taxes (tobacco, liquor, and so forth), the burden of these taxes is generally borne by the consumer in the form of higher prices.[25] In such cases the business acts only as a tax collector.

Finally there are taxes, such as the corporate income tax, the impact and incidence of which are assumed to rest with business firms. Such taxes, however; may also be passed forward in the form of higher prices or may be passed backward in the form of lower payments to the factors of production or lower prices to suppliers. In addition to absorption, forward and backward shifting, any combination of the three may take place.

Numerous factors play a role in the determination of the incidence of a particular tax. The ability of a firm to shift taxes will depend primarily on the degree to which output and input prices can be modified without affecting the quantities sold or offered.[26] Price level movements, business location, and other factors are also important.

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[25]Although there may be minor exceptions to the forward shifting of such taxes, there are also cases where prices are increased by an amount greater than the tax levied.

[26]Technically termed demand and supply elasticities. For a complete discussion of the complex problem of tax incidence, see Otto von Mering, The Shifting and Incidence of Taxation (Philadelphia: The Blakiston Company, 1942).

Although there is considerable disagreement regarding the precise incidence of a particular tax, it is generally agreed that complete absorption by a firm would be quite rare. It is, however, only the amount of taxes which are absorbed that would exert any influence on industrial location. Moreover, the amount of taxes absorbed by the firm represents only a partial burden because, as mentioned earlier, these taxes are deductible for federal income tax purposes. Thus, for a corporation, only about 50 percent of the state or local tax actually absorbed is in fact a real burden.

From the foregoing, it is clear that state and local taxes represent a significantly smaller burden to business firms than might be assumed,[27] and therefore it is reasonable to contend that these taxes also play a relatively minor role in the location of industrial activity.

## Other Considerations

A frequently overlooked aspect of tax burdens is the level and character of government expenditures. As one tax authority has stated, "Notwithstanding a widespread impression to the contrary, the government does not raise money only for the purpose of dropping it into the bottom of the sea."[28] While high taxes do not necessarily mean that a community is enjoying an adequate level of government services, low taxes invariably indicate the absence of such services. If business firms must provide these services as a consequence, any tax savings may very well be false economy.[29] For example, if a firm must furnish additional police and fire protection, little savings will result from low taxes. Similarly, the ability of a business firm to attract competent personnel will be greatly hindered if adequate schools are not available for the employees' children. While it may often be difficult to relate specific benefits directly to taxes paid, general benefits are basically dependent on the overall level of tax collections in a community or state, and these benefits must be taken into account when discussing comparative tax burdens.

A further consideration is whether it is desirable to promote industrial growth by tax concessions which are not equitable or justified on other grounds. It is questionable if a community should extend special

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[27]This is also shown by the studies discussed earlier, which indicate that state and local taxes represent a very small proportion of the total costs incurred by industry.

[28]Harold M. Groves, Financing Government (fourth edition; New York: Henry Holt and Company, 1954), p. 223.

[29]A good example of the deterrent effect of inadequate government services may be found in "When Low Taxes Repelled an Industry," American City, August, 1950, p. 5.

privileges to a business firm if such action will result in a continuous disproportionate burden on other taxpayers in the area. As stated in a recent tax impact study, "Obviously, if the purpose of fostering economic growth is to build up the industrial tax base, the program would be self-defeating if business were forever exempt from taxes."[30]

## Industrial Location in Nevada

There is little evidence that state and local taxes exert a greater locational influence in Nevada than elsewhere. On the contrary, they appear to play a less important role than in other states. As discussed earlier, only a portion of firms in manufacturing, wholesale trade and retail trade have sufficient freedom to respond to differential tax levels. While all firms in these three industries accounted for approximately 50 percent of the personal income received in the United States in 1958, these same three industries accounted for less than 25 percent of Nevada's personal income in the same period.[31] Thus, a less significant portion of industry in Nevada is locationally independent than for the nation as a whole. This is also evidenced by the analysis presented in Chapter I which clearly shows that the pattern of Nevada's economic development has been characterized by the growth of industries which possess a relatively minor degree of locational freedom--services, amusements, mining, contract construction, and government.

A possible exception to the above general statement is the influence of Nevada's "free port law" which exempts goods in transit from personal property taxation.[32] The locational influence exerted by the existence of this statute is not known, but it would appear to be minor to the overall economy of the State considering the relatively low level of general property assessment. Moreover, "low taxes" alone might exert a minor locational influence in Nevada but as already noted, many other factors would appear to be more significant, such as high transport costs and the relative scarcity of markets, resources, power and water. Similarly, industrial location in Nevada is deterred by the relatively high cost of living and the related high wage rates in the State. The following table shows the average hourly manufacturing wage rates for the eleven Western states in 1959.

It can be seen that Nevada's wage rates were the highest of the eleven Western states. Moreover, Nevada's rates were 20 percent higher

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[30]University of Wisconsin, Tax Study Committee, Wisconsin's State and Local Tax Burden, 1959, pp. 34-35.

[31]U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 24.

[32]Nevada Revised Statutes, 361.160.

than the average for the nation. Considering the significance of wages to industry, it is clear that any minor attraction of "low taxes" would be more than offset by the presence of such high wage rates.

Table 2.2

Average Hourly Earnings, Manufacturing Industries, Western States and United States, November, 1959

| State | Average hourly earnings | Percent of national average |
|---|---|---|
| 1. Nevada | $2.67 | 120 |
| 2. Washington | 2.58 | 116 |
| 3. California | 2.56 | 115 |
| 4. Oregon | 2.53 | 113 |
| 5. Wyoming | 2.43 | 109 |
| 6. Montana | 2.42 | 109 |
| 7. Arizona | 2.41 | 108 |
| 8. Colorado | 2.34 | 105 |
| 9. Utah | 2.27 | 102 |
| 10. Idaho | 2.20 | 99 |
| 11. New Mexico | 2.01 | 90 |
| United States | 2.23 | 100 |

Source: University of Nevada, Bureau of Business and Economic Research, Nevada Business Review, January, 1960.

Another factor which may act as a deterrent to the location of industry in Nevada is the presence of legalized gambling. The significance of this factor is uncertain, but just as it may encourage the development of secondary economic activity and employment, it may also discourage the location of primary industry and other potential residents in the State. While the impact of this unique factor on the location of industry in Nevada is unknown, it cannot be ignored when the desirability of a legalized gambling industry is considered.

In conclusion, the general statement can be made that state and local taxes exert a relatively minor influence on the location of industry. In addition, Nevada's so-called "favorable tax climate" would appear to be largely offset by numerous other factors which are more important to the location of industry in the State.

# CHAPTER III

## STATE EXPENDITURES AND REVENUES

The review of State expenditures and revenues presented in this chapter is designed to serve as general background for the later detailed analysis of the trends and structures of the individual State and local taxes used in Nevada. The revenue data show the absolute and comparative rates at which State taxes have changed and indicate the relative importance of the various revenue sources. Taxation, however, as noted in Chapter VI, cannot be divorced from expenditure policy and and unprecedented growth of State and local taxes during the post-war era essentially reflects the expansion and increased cost of governmental services particularly in the areas of education, highways, and social welfare. It is generally recognized that the rise in public expenditures on the state level basically reflects population growth, secular inflation, rising personal incomes, increased urbanization, and the general industrialization of the American economy. The expenditure data by major functional categories provides an overview of what Nevada residents have obtained in the form of public services for their tax money during the past decade. The statistical data mainly cover the years from 1950 to 1959, inclusive, and generally are presented on a year-to-year comparison basis both in total and per capita terms[1] with appropriate adjustment to reflect the impact of post-war inflation on State finance.

In addition, where feasible, the Nevada data are compared with that of the Western States and the averages for the nation. However, it is important to recognize that in the case of interstate comparisons, differences in per capita expenditures and revenues are in part due to variations in (1) the division of governmental functions between state and local units and (2) the degree local jurisdictions depend upon inter-governmental grants for financing public services. Table 3.1 shows that in the Western region direct state expenditures as a percentage of total state-local spending in 1958 ranged from a high of 53 percent for New Mexico to a low of 27 percent for California. Nevada's State spending ratio of 44 percent was slightly more

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[1]But it should be recognized at the outset that per capita data are merely simple averages which as statistical measures sometimes conceal as much as they reveal. For example, the actual level and distribution of tax burdens among Nevada's citizens ultimately will depend on such factors as the pattern of income distribution, the amount and distribution of federal grants and subventions, the specific types of tax and non-tax revenues used, and the shifting and incidence of State and local taxes, particularly those levies which either directly or indirectly finally come to rest on tourists and other non-residents.

Table 3.1

State Government Percentages of Total State-Local Direct Expenditures and Tax Revenues, Western States, Fiscal Year 1958

| State | State government percentage of: Total state-local direct expenditures | Total state-local tax revenues |
|---|---|---|
| Arizona | 38.3 | 55.2 |
| California | 27.1 | 47.2 |
| Colorado | 32.5 | 48.5 |
| Idaho | 44.2 | 49.8 |
| Montana | 46.4 | 42.0 |
| Nevada | 44.4 | 56.6 |
| New Mexico | 52.8 | 76.6 |
| Oregon | 41.5 | 51.9 |
| Utah | 41.3 | 54.4 |
| Washington | 44.2 | 68.9 |
| Wyoming | 47.9 | 54.0 |
| Western States - Average | 41.9 | 55.0 |
| All States - Average | 34.8 | 49.1 |

Source: U. S. Department of Commerce, Bureau of the Census, Governmental Finances in 1958, Table 21.

than the regional average of 42 percent but considerably above the national average of 35 percent. With regard to state revenues, the ratios ranged from 77 percent for New Mexico to 42 percent for Montana. Nevada's State tax collections as a percentage of combined State-local tax revenues amounted to 57 percent, and as such was somewhat greater than the Western and national averages of 55 and 49 percent, respectively. In brief, Nevada's ratios of State-local expenditures and revenues closely approximate the averages for the Western region but markedly differ from those for the nation as a whole. Moreover, it should be noted that in the summary chapter of this study the State levies are combined with those imposed by the local jurisdictions in order to obtain estimates of the "total tax burden" borne by Nevada residents.

## Expenditure Trends, 1950 - 1959

The rate of growth in the actual dollar amount of State general

expenditures[2] in Nevada during the past decade has been significantly greater than that experienced by the eleven continental Western States as a group,[3] or by the nation as a whole, as shown in Table 3.2. The

Table 3.2

Total State General Expenditures,[a] Nevada, Western States and All States, Fiscal Years, 1950-1959

| | Nevada | | Western States | | All States | |
|---|---|---|---|---|---|---|
| Year | Amount (millions) | Percent increase over 1950 | Amount (millions) | Percent increase over 1950 | Amount (millions) | Percent increase over 1950 |
| 1950 | $22.5 | - | $2,270 | - | $12,270 | - |
| 1951 | 24.6 | 9.3 | 2,427 | 6.9 | 13,023 | 6.1 |
| 1952 | 28.0 | 24.4 | 2,586 | 13.9 | 13,697 | 11.6 |
| 1953 | 27.9 | 24.0 | 2,878 | 26.8 | 14,677 | 19.6 |
| 1954 | 31.6 | 40.4 | 3,104 | 36.7 | 15,787 | 28.6 |
| 1955 | 37.0 | 64.4 | 3,267 | 43.9 | 17,176 | 40.0 |
| 1956 | 43.1 | 91.6 | 3,599 | 58.5 | 18,857 | 53.7 |
| 1957 | 55.3 | 145.8 | 4,125 | 81.7 | 21,085 | 71.8 |
| 1958 | 60.4 | 168.4 | 4,637 | 104.2 | 23,537 | 91.8 |
| 1959 | 65.3 | 190.2 | 5,151 | 126.9 | 26,006 | 111.9 |

[a]Excludes expenditures for debt retirement, state-operated utilities and liquor stores, and insurance trust funds.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1951-1958; and Summary of State Government Finances in 1959.

total amount of State expenditures in Nevada rose from $22.5 million in 1950 to $65.3 million in 1959, an increase of about 190 percent. This was larger than that of any of Nevada's neighboring states in

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[2]In order to maintain interstate comparability in this section which deals with broad expenditure trends the analysis is based on data primarily derived from the U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, annual series. It also should be noted that the category of "general expenditure" for state government excludes outlays for debt retirement, state-operated utilities and liquor stores, and insurance trust funds. Unless otherwise noted, general expenditures include both operating and capital outlays.

[3]As indicated in Chapter I, the "Western region" comprises the states of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

the West. The relative increase for the entire Western region averaged 127 percent, and for the nation it amounted to 112 percent. The other Western States with the next highest rates of increase for the same period were Arizona (174 percent), New Mexico (157 percent) and Wyoming (135 percent); while the states with the smallest relative increases were Montan (109 percent), Washington (95 percent) and Idaho (92 percent). On this basis, California proved to be the median State of the region (133 percent). It may be observed that the rate of increase in Nevada during the first half of the decade was not markedly different from that of the Western States as a group. However, since 1954 State expenditures in Nevada more than doubled while the average for the region rose about 60 percent. As noted, the decade of the 1950's was characterized by rapid population growth, price inflation, and sizable advances in personal income. When these factors are taken into consideration the trend of State expenditures is placed in a more proper perspective.

## Population and Price Factors

It is generally recognized that as the population of a state grows the demand for public services increases accordingly. During the decade of the 1950's, as indicated in Chapter I, Nevada experienced the largest rate of population growth in the nation (75 percent), and this factor alone accounts for a large part of its increased cost of State government. Table 3.3 indicates that when the data are reduced to a per capita basis the general expenditures in

Table 3.3

Per Capita State General Expenditures,[a] Nevada, Western States, and All States, Fiscal Years 1950-1959

| | Nevada | | Western States[b] | | All States | |
|---|---|---|---|---|---|---|
| Year | Per capita amount | % increase over 1950 | Per capita amount | % increase over 1950 | Per capita amount | % increase over 1950 |
| 1950 | $140.63 | -- | $115.28 | -- | $ 81.56 | -- |
| 1951 | 145.56 | 3.5 | 121.79 | 5.6 | 85.36 | 4.7 |
| 1952 | 153.85 | 9.4 | 122.78 | 6.5 | 88.41 | 8.4 |
| 1953 | 140.91 | .2 | 135.07 | 17.2 | 93.20 | 14.3 |
| 1954 | 144.95 | 3.1 | 136.64 | 18.5 | 98.46 | 20.7 |
| 1955 | 151.02 | 7.4 | 139.92 | 21.4 | 105.07 | 28.8 |
| 1956 | 168.36 | 19.7 | 149.08 | 29.3 | 113.30 | 38.9 |
| 1957 | 207.12 | 47.3 | 168.91 | 46.5 | 124.41 | 52.5 |
| 1958 | 221.98 | 57.8 | 188.48 | 63.5 | 136.52 | 67.4 |
| 1959 | 233.24 | 65.9 | 205.10 | 80.5 | 148.16 | 81.7 |

[a]Excludes expenditures for debt retirement, state-operated utilities and liquor stores, and insurance trust funds.
[b]Average of the per capita expenditures of eleven Western States.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1951-1959.

Nevada rose from $140.63 in 1950 to $233.24 in 1959, an increase of almost 66 percent. This was significantly less than the relative increases of approximately 81 percent in the average per capita expenditures for the Western region and 82 percent for the entire nation during the same period. The regional states with the largest percentage increases on a per capita basis were Wyoming (114 percent), and New Mexico (102 percent); and the only State with a relative increase smaller than Nevada's was Washington (64 percent). In other words, although Nevada's per capita expenditures in absolute terms exceeded the regional and national averages in every year, the differential was markedly reduced during the decade. For example, in 1950 Nevada's per capita expenditure exceeded the Western average by 22 percent, whereas by 1959 it was only 14 percent larger. A similar pattern of change relative to the national per capita figures is also evident for the period. In brief, on the basis of the above data, it appears that almost two-thirds of the increase in Nevada's total State general expenditures may be attributed primarily to the unparalleled growth in population experienced during the past ten years.

As is widely understood, another major factor affecting all expenditures made in our economy, public and private, has been the general price inflation of the post-war era. Continuous advances in the price level have meant that governmental units have had to increase their dollar expenditures in order to maintain any given amount of "real" services. Thus, "real expenditures," expressed in dollars of constant purchasing power, simply reflect money or nominal expenditures adjusted for changes in the price level. Although householders and business firms as well as governmental units have all been confronted with inflation, the impact has not been uniform throughout the economy because of differences in the types of expenditures made by broad classes of spending units. The following tabulation is indicative of the price variance between sectors of the economy for the past decade as measured by key price deflators currently in use:[4]

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[4]For consumer and wholesale price indexes see U. S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review; for construction cost index see U. S. Department of Commerce, Business and Defense Service Administration, Construction Review, and Construction Volume and Costs, 1915-1956; and for state and local government expenditure index see U. S. Department of Commerce, Office of Business Economics, U. S. Income and Output, A Supplement to the Survey of Current Business, 1958, and the Economic Report of the President, January, 1960. It should be noted in the case of the latter index, technically named the "implicit price deflators for government purchases of goods and services - state and local," that the government purchases of goods and services category is not fully identical in concept or coverage to the Census Bureau category of government expenditures.

| | Base | 1950 | 1954 | 1959 | Percent increase 1959 over 1950 |
|---|---|---|---|---|---|
| Consumer price index | 47-49=100 | 103 | 115 | 125 | 21 |
| Wholesale price index | 47-49=100 | 103 | 110 | 120 | 16 |
| Construction cost index | 47-49=100 | 107 | 122 | 141 | 32 |
| State and local government cost index | 1954=100 | 84 | 100 | 121 | 44 |

All four indexes are "official" in that they are prepared and published by the federal government. The first two are constructed by the U. S. Department of Labor, Bureau of Labor Statistics, while the latter two are prepared by the U. S. Department of Commerce, the Bureau of the Census and the Office of Business Economics, respectively. It will be noted that the increase in the index of state and local government costs since 1950 has been more than twice as large as that in consumer prices and almost three times as great as the change in wholesale prices. Using this index to adjust for the price factor, Table 3.4 shows the

Table 3.4

Per Capita State General Expenditures,[a] in 1959 Prices,[b] for Nevada, Western States, and All States, Fiscal Years 1950-1959

| | Nevada | | Western States[c] | | All States | |
|---|---|---|---|---|---|---|
| Year | Per capita amount in 1959 prices | Percent increase over 1950 | Per capita amount in 1959 prices | Percent increase over 1950 | Per capita amount in 1959 prices | Percent increase over 1950 |
| 1950 | $203.30 | -- | $166.51 | -- | $117.91 | -- |
| 1951 | 195.26 | -4.0 | 163.38 | -1.9 | 114.51 | -2.9 |
| 1952 | 196.37 | -3.4 | 156.72 | -5.9 | 112.84 | -4.3 |
| 1953 | 174.87 | -14.0 | 167.62 | 0.7 | 115.66 | -1.9 |
| 1954 | 175.39 | -13.7 | 165.33 | -0.7 | 119.14 | 1.0 |
| 1955 | 178.80 | -12.1 | 165.66 | -0.5 | 134.40 | 5.5 |
| 1956 | 187.58 | -7.7 | 166.10 | -0.2 | 126.24 | 7.1 |
| 1957 | 219.45 | 7.9 | 178.97 | 7.5 | 131.82 | 11.8 |
| 1958 | 228.20 | 12.2 | 193.76 | 16.4 | 140.35 | 19.0 |
| 1959 | 233.24 | 14.7 | 205.10 | 23.2 | 148.16 | 25.7 |

[a]Excludes expenditures for debt retirement, state-operated utilities and liquor stores, and insurance trust funds.
[b]Current per capita expenditures adjusted by index of state and local government costs.
[c]Average of per capita expenditures of eleven Western States.

Source: Table 3.3 and U. S. Department of Commerce, Office of Business Economics, U. S. Income and Output, A Supplement to the Survey of Current Business, 1958, and the Economic Report of the President, January, 1960.

"real" per capita state expenditures expressed in 1959 dollars of constant purchasing power. On this price adjusted basis, per capita expenditures in Nevada rose from $203.30 in 1950 to $233.24 in 1959. This amounted to a net increase of about 15 percent in contrast to average increases of approximately 23 and 26 percent in adjusted "real" per capita expenditures for the Western States and the nation as a whole for the same period. If public expenditures, both operating and capital outlays, are assumed to roughly reflect the level of public services provided, then on the basis of the above analysis State services in Nevada were expanded by about 15 percent during the past ten years, i.e., the State on the average provided each resident with approximately one-seventh more of "real" public services in 1959 than in 1950. Moreover, it is noteworthy that the major increases in per capita expenditures and "real" services for both Nevada and the Western States occurred during the last three years of the decade. As a matter of fact, the per capita "real" expenditures in Nevada and the majority of the Western States in every year until 1957 were smaller than in 1950. Thus, the almost doubling of the total amount of dollar expenditures in Nevada from 1950 through 1956 (Table 3.2) actually did not quite compensate for the corresponding rise in population and prices. With due allowance for the limitations of the adjustment techniques used, it appears that about nine-tenths of the increase in Nevada's total State expenditures during the decade of the 1950's can be accounted for by the phenomenal growth in the State's population and the general price inflation of the period.

## Income Factor

Increased personal income realized over the past ten years (Chapter I) also has been one of the more important causal factors for the observed trends of state expenditures. Unlike population growth, or price change, the impact of this factor cannot be isolated per se; yet it is a distinctive force affecting the pattern and levels of public expenditures at the state and local levels of government.[5] The reasoning is that as the economic system continuously develops to higher levels, less of its resources are devoted to primary (extractive) and secondary (manufacturing and fabrication) industry, and more are utilized in tertiary (services) activity. As noted in Chapter I, this analysis is particularly applicable to the Nevada economy which appears to have moved from the first to the third stage without any extensive development of manufacturing during the past century. It is in the area of services that government has its major purpose as well as greatest comparative advantage. Moreover, as total income rises, free income above socially determined minimum standards of living provides the largest source of taxpaying ability.

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[5]See Solomon Fabricant, The Trend of Government Activity in the United States Since 1900 (New York: The National Bureau of Economic Research, 1952), Chapter 6.

This general tendency of increased income inducing increased public expenditures was observed by John R. Commons more than a quarter of a century ago, who stated:

> Governments must have revenues in increasing amounts, not because they are corrupt or inefficient, which can be remedied, but because the social needs of education, ethics, morality, art, liberty, protection of the weak, highways, health, recreation grow faster in an improving civilization than do private needs of foods, luxury, ostentation.[6]

Although this statement was addressed to governments generally, in consideration of the fact that more than three-fourths of federal expenditures for goods and services are related to national defense, it appears to be particularly applicable to state and local taxing jurisdictions. This relationship between the rates of growth in income and state expenditures is confirmed by the income and expenditure data for the 1950's shown in Table 3.5. For example, while per capita personal income for both Nevada and the Western States as a group rose by

Table 3.5

Per Capita Personal Income and State General Expenditures, for Nevada, Western States, and All States, Fiscal Years 1950 and 1958

| | 1950 | 1958 | Ratio of 1958 to 1950 |
|---|---|---|---|
| A. Per capita personal income: | | | |
| Nevada | $1,938.00 | $2,569.00 | 132.6 |
| Western State average | 1,524.00 | 2,052.00 | 134.6 |
| All state average | 1,491.00 | 2,057.00 | 138.0 |
| B. Per capita state expenditures: | | | |
| Nevada | $ 140.63 | $ 221.98 | 157.8 |
| Western State average | 115.28 | 188.48 | 163.5 |
| All state average | 81.56 | 136.52 | 167.4 |
| C. Per capita state expenditures as percent of per capita income: | | | |
| Nevada | 7.3 | 8.6 | 119.0 |
| Western State average | 7.6 | 9.2 | 121.6 |
| All state average | 5.5 | 6.6 | 121.4 |

Source: Table 3.3 and U. S. Department of Commerce, Office of Business Economics, Personal Income by States Since 1929, 1956; and Survey of Current Business, August, 1959.

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[6]John R. Commons, Institutional Economics (New York: The Macmillan Company, 1934), p. 831.

approximately one-third from 1950 through 1958,[7] per capita state expenditures increased by almost two-thirds during the same period. And the changes in average income and expenditures for all states exhibited a similar pattern of growth.

It also should be noted that Nevada's State expenditures when expressed as percentages of personal income were 7.3 percent in 1950 and 8.6 percent in 1958, ratios which were above the national averages but actually somewhat smaller than the corresponding averages for the states comprising the Western region. Equally noteworthy is the fact that the relative changes which occurred in these ratios--an increase of about one-fifth--were almost the same for Nevada, the Western States and the all state averages. In summary, the marked rise in total State expenditures in Nevada during the past decade does not appear to be significantly out of line with that experienced by the other states in the region and the nation as a whole when consideration is given to the corresponding changes which occurred during the period in population, price and income growth.

## Expenditure Patterns, 1950-1959

The major State functions for which the public dollar is spent in Nevada[8] are shown in Tables 3.6 and 3.7. It will be noted that State highway outlays are quantitatively the most important single category, accounting for approximately 45 percent of the State's total expenditures during the past decade. Dollarwise they increased from $8.4 million in 1950 to $26.4 million in 1959, or by almost 214 percent. Nearly

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[7]This represents the latest year for which personal income data are available.

[8]The detailed expenditure data presented in this section are primarily derived from the annual reports of the State Controller and other Nevada administrative agencies. The total annual amounts shown in Table 3.6 are somewhat smaller than the comparable Census figures of Table 3.2 mainly because the University of Nevada, the Colorado River Commission, and the Basic Magnesium Project are treated on a net, rather than a gross basis (e.g., expenditures for the University of Nevada represent only those financed directly by the State and exclude tuition, dormitory revenue, other student fees and subventions which do not pass through the State Controller's accounts). In addition, the Census Bureau classifies the county 1½¢ gas tax as part of state financing, whereas in this study it is treated as local finance since 1¢ of the levy is optional for the counties and only ½¢ is mandatory and distributed on the basis of the federal highway grant formula. At present all counties impose the full 1½¢ county gas tax. It also should be noted that the category of "state general expenditures" excludes outlays for debt retirement, insurance trust funds, and inter-fund and inter-departmental transfers.

Table 3.6

Nevada State General Expenditures
Fiscal Years 1950-1959
(thousands of dollars)

| | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | % increase 1959 over 1950 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| I. Education | $ 3,592 | $ 3,889 | $ 4,374 | $ 4,724 | $ 6,694 | $ 8,166 | $ 9,795 | $13,761 | $14,110 | $15,452 | 330.2 |
| University of Nevada - direct aid[a] | 765 | 773 | 992 | 1,243 | 1,220 | 1,509 | 1,648 | 2,956 | 2,880 | 3,198 | 318.0 |
| Other direct education expenditures | 309 | 425 | 540 | 434 | 609 | 685 | 1,275 | 988 | 1,019 | 1,464 | 373.8 |
| Public school foundation program | 2,273 | 2,415 | 2,558 | 2,719 | 4,572 | 5,601 | 6,487 | 9,339 | 9,709 | 10,402 | 357.6 |
| Other public school aid | 245 | 276 | 284 | 328 | 293 | 371 | 385 | 477 | 502 | 388 | 58.4 |
| II. Highway | 8,424 | 8,600 | 8,379 | 11,237 | 11,456 | 12,813 | 14,908 | 19,688 | 24,151 | 26,425 | 213.7 |
| Direct expenditures | 8,420 | 8,560 | 8,213 | 11,163 | 11,363 | 12,778 | 14,770 | 19,578 | 24,039 | 26,261 | 211.9 |
| Payment to local units[b] | 4 | 40 | 166 | 74 | 93 | 35 | 138 | 110 | 112 | 165 | -- |
| III. Public Welfare | 2,037 | 2,262 | 2,438 | 2,400 | 2,453 | 2,510 | 2,958 | 3,568 | 3,703 | 4,143 | 103.4 |
| Direct categorical public assistance[c] | 1,773 | 1,860 | 1,918 | 1,935 | 1,954 | 1,988 | 2,391 | 2,898 | 2,923 | 3,194 | 80.1 |
| Other welfare and administration | 264 | 402 | 520 | 465 | 499 | 522 | 567 | 670 | 780 | 949 | 259.5 |
| IV. Public Health | 606 | 693 | 1,073 | 1,067 | 1,123 | 1,436 | 1,330 | 2,389 | 2,045 | 2,642 | 336.0 |
| Nevada State Hospital | 250 | 321 | 473 | 482 | 649 | 477 | 576 | 1,132 | 1,240 | 1,129 | 338.4 |
| Other hospital and health services | 356 | 371 | 600 | 577 | 211 | 703 | 333 | 990 | 487 | 1,218 | 242.1 |
| Payment to local units[d] | -- | -- | -- | 8 | 163 | 256 | 421 | 267 | 318 | 294 | -- |
| V. Public Safety and Regulation | 746 | 786 | 759 | 778 | 1,122 | 1,108 | 1,166 | 1,482 | 1,706 | 2,410 | 223.1 |
| Public safety | 631 | 649 | 608 | 613 | 907 | 861 | 908 | 1,125 | 1,313 | 1,980 | 213.8 |
| Regulatory services | 115 | 137 | 151 | 165 | 215 | 247 | 258 | 357 | 393 | 430 | 273.9 |
| VI. Resources, Agriculture & Conservation | 889 | 877 | 1,106 | 1,325 | 1,426 | 2,114 | 2,206 | 2,191 | 2,197 | 2,826 | 217.9 |
| Fish and game | 468 | 460 | 528 | 711 | 717 | 1,355 | 911 | 1,072 | 891 | 1,346 | 187.6 |
| Agriculture | 198 | 206 | 197 | 245 | 357 | 393 | 532 | 477 | 517 | 580 | 192.9 |
| Other direct expenditures[e] | 111 | 97 | 266 | 233 | 200 | 222 | 284 | 436 | 625 | 639 | 475.7 |
| Payment to local units | 112 | 114 | 115 | 136 | 152 | 144 | 479 | 206 | 163 | 261 | 133.0 |
| VII. General Government | 1,553 | 1,837 | 1,754 | 1,798 | 1,996 | 2,550 | 3,039 | 4,023 | 4,297 | 5,170 | 232.9 |
| Direct expenditures | 1,421 | 1,650 | 1,561 | 1,506 | 1,709 | 2,236 | 2,551 | 3,513 | 3,416 | 4,246 | 198.8 |
| Payment to local units | 132 | 187 | 193 | 292 | 287 | 314 | 487 | 509 | 882 | 924 | 600.0 |
| Total State General Expenditures[f] | $17,846 | $18,944 | $19,883 | $23,330 | $26,270 | $30,699 | $35,402 | $47,102 | $52,210 | $59,068 | 231.0 |
| Exhibit: Total Payments to Local Government | $ 2,766 | $ 3,033 | $ 3,316 | $ 3,558 | $ 5,560 | $ 6,722 | $ 8,397 | $10,908 | $11,685 | $12,540 | 353.4 |

[a]Does not include expenditures financed by tuition, dormitory fees, subventions or other revenues which do not pass through State accounts.
[b]Does not include county gas tax distribution.
[c]Includes direct categorical public assistance under Social Security--Aid to Blind, Aid to Dependent Children and Old Age Assistance programs.
[d]Based on Census Bureau Compendium data for federal funds distributed by State in fixed ratio to local expenditures (county) for approved projects, years 1953-1959.
[e]Colorado River Commission expenditures net of cost of power, Basic Magnesium Project expenditures (1950-1954) net of receipts.
[f]Totals may not equal sum of items because of rounding.

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959, and U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finance, 1950-1959.

Table 3.7

Percentage Distribution of State General Expenditures, Nevada, Fiscal Years 1950-1959

| | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 |
|---|---|---|---|---|---|---|---|---|---|---|
| I. Education | 20.1 | 20.5 | 22.0 | 20.2 | 25.5 | 26.6 | 27.7 | 29.2 | 27.0 | 26.2 |
| University of Nevada - direct aid[a] | 4.3 | 4.1 | 5.0 | 5.3 | 4.6 | 4.9 | 4.7 | 6.3 | 5.5 | 5.4 |
| Other direct education expenditures | 1.7 | 2.2 | 2.7 | 1.9 | 2.3 | 2.2 | 3.6 | 2.1 | 2.0 | 2.5 |
| Public school foundation program | 12.7 | 12.7 | 12.9 | 11.7 | 17.4 | 18.2 | 18.3 | 20.0 | 18.6 | 17.6 |
| Other public school aid | 1.4 | 1.5 | 1.4 | 1.4 | 1.1 | 1.2 | 1.1 | 1.0 | 1.0 | 0.7 |
| II. Highway | 47.2 | 45.4 | 42.1 | 48.2 | 43.6 | 41.7 | 42.1 | 41.8 | 46.3 | 44.7 |
| Direct expenditures | 47.2 | 45.2 | 41.3 | 47.8 | 43.3 | 41.6 | 41.7 | 41.6 | 46.0 | 44.5 |
| Payment to local units[b] | -- | 0.2 | 0.8 | 0.3 | 0.4 | 0.1 | 4.0 | 0.2 | 0.2 | 0.3 |
| III. Public Welfare | 11.4 | 11.9 | 12.3 | 10.3 | 9.3 | 8.2 | 8.4 | 7.6 | 7.1 | 7.0 |
| Direct categorical public assistance[c] | 9.9 | 9.8 | 9.6 | 8.3 | 7.4 | 6.5 | 6.8 | 6.2 | 5.6 | 5.4 |
| Other welfare and administration | 1.5 | 2.1 | 2.6 | 2.0 | 1.9 | 1.7 | 1.6 | 1.4 | 1.5 | 1.6 |
| IV. Public Health | 3.4 | 3.7 | 5.4 | 4.6 | 4.3 | 4.7 | 3.8 | 5.1 | 3.9 | 4.5 |
| Nevada State Hospital | 1.4 | 1.7 | 2.4 | 2.1 | 2.5 | 1.6 | 1.6 | 2.4 | 2.4 | 1.9 |
| Other hospital and health services | 2.0 | 2.0 | 3.0 | 2.5 | 0.8 | 2.3 | 0.9 | 2.1 | 0.9 | 2.1 |
| Payment to local units[d] | -- | -- | -- | -- | 0.6 | 0.8 | 1.1 | 0.6 | 0.6 | 0.5 |
| V. Public Safety and Regulation | 4.2 | 4.1 | 3.8 | 3.3 | 4.3 | 3.6 | 3.3 | 3.1 | 3.3 | 4.1 |
| Public Safety | 3.5 | 3.4 | 3.1 | 2.6 | 3.5 | 2.8 | 2.6 | 2.4 | 2.5 | 3.4 |
| Regulatory services | 0.6 | 0.7 | 0.8 | 0.7 | 0.8 | 0.8 | 0.7 | 0.8 | 0.8 | 0.7 |
| VI. Resources, Agr. and Conservation | 5.0 | 4.6 | 5.6 | 5.7 | 5.4 | 6.9 | 6.2 | 4.7 | 4.2 | 4.8 |
| Fish and game | 2.6 | 2.4 | 2.7 | 3.0 | 2.7 | 4.4 | 2.6 | 2.3 | 1.7 | 2.3 |
| Agriculture | 1.1 | 1.1 | 1.0 | 1.1 | 1.4 | 1.3 | 1.5 | 1.0 | 1.0 | 1.0 |
| Other direct expenditures[e] | 0.6 | 0.5 | 1.3 | 1.0 | 0.8 | 0.7 | 0.8 | 0.9 | 1.2 | 1.1 |
| Payment to local units | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 1.4 | 0.4 | 0.3 | 0.4 |
| VII. General Government | 8.7 | 9.7 | 8.8 | 7.7 | 7.6 | 8.3 | 8.6 | 8.5 | 8.2 | 8.8 |
| Direct expenditures | 8.0 | 8.7 | 7.9 | 6.5 | 6.5 | 7.3 | 7.2 | 7.5 | 6.5 | 7.2 |
| Payment to local units | 0.7 | 1.0 | 1.0 | 1.3 | 1.1 | 1.0 | 1.4 | 1.1 | 1.7 | 1.6 |
| Total State General Expenditures[f] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Exhibit: Total Payments to Local Government | 15.5 | 16.0 | 16.7 | 15.3 | 21.2 | 21.9 | 23.7 | 23.2 | 22.4 | 21.1 |

Source and footnotes: Table 3.6.

all of these outlays represented direct State expenditures since the counties impose their own 1½¢ gasoline tax for highway user purposes. Relative to the intergovernmental highway grants made by the other Western States, Nevada's State highway payments to local jurisdictions have been practically insignificant in recent years, amounting to about ½ of 1 percent of total State highway expenditures.

State spending for education ranked next in dollar importance, rising from $3.5 million to $15.4 million, or 330 percent for the ten-year period. On a percentage basis, these outlays increased from 20 percent of the State's total general expenditures in 1950 to almost 30 percent in 1957, but declined to 26 percent by 1959. State educational outlays in Nevada have consisted mainly of State payments to school districts for the implementation of the public schools minimum education foundation program and direct State aid for financing the State's only public institution of higher learning, the University of Nevada. The former program increased from less than $2.3 million in 1950 to $10.4 million in 1959, accounting for approximately two-thirds of the total State educational expenditures made during the decade. Similarly, the State's direct financing contribution to the University of Nevada increased from about $.8 million to $3.2 million, or more than 300 percent, during the same period.

It is important to note that State highway and education expenditures together accounted for more than 70 percent of the total amount of State money spent in 1959, while none of the other major functional categories of expenditures amounted to as much as 10 percent of the total. Specifically, public welfare expenditures which rose from $2.0 million in 1950 to $4.1 million in 1959 showed the smallest rate of growth, and, thus, in the course of the decade they decreased from 11.4 percent to 7.0 percent of the total. These expenditures consisted primarily of direct categorical public assistance payments under the Aid to Blind, Aid to Dependent Children, and Old Age Assistance programs. As a group they increased by only 80 percent during the ten-year period. On the other hand, public health expenditures increased from $.6 million in 1950 to $2.6 million in 1959, and showed the largest rate of increase of any category, 336 percent for the decade. As a percentage of the total, public health expenditures rose from 3.4 percent to 4.5 percent during this period, and the major part of these outlays represented the operating and capital improvement expenditures of the Nevada State Hospital.

The broad categories of spending for public safety and regulation; resources, conservation and agriculture; and general government exhibited about the same rates of increase and their percentage importance relative to total State outlays remained fairly stable throughout the period--approximately 4, 5, and 9 percents, respectively. The operating costs and capital improvements for the Nevada State Prison amounted to more than one-half of the public safety expenditures in 1959, and the State highway patrol accounted for almost one-fourth of the total of these expenditures. Similarly, the cost of the public services provided by the Fish and Game Department averaged about one-half of the total expenditures

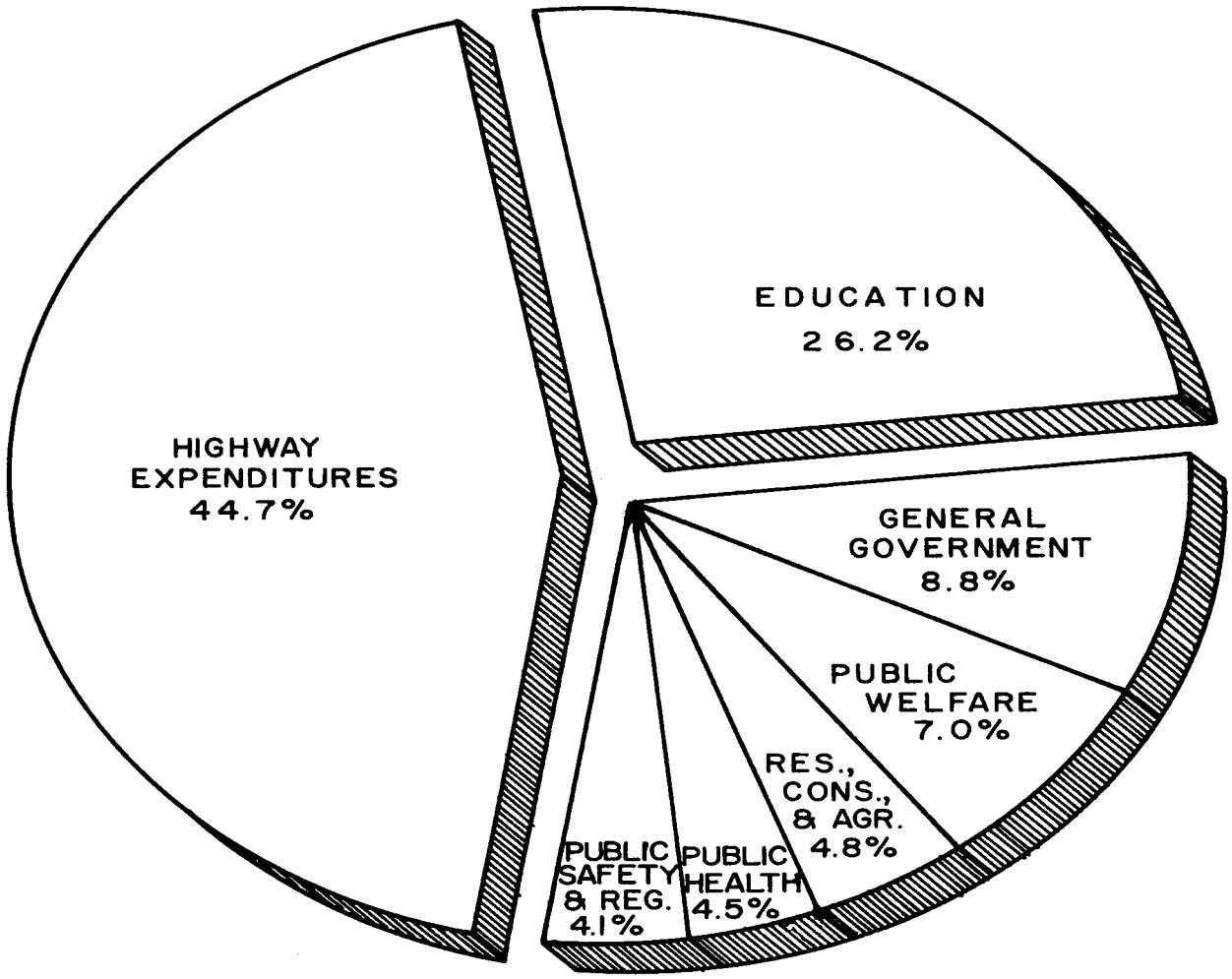
attributed to the resources category, while direct costs of State agricultural services averaged less than one-fourth of the total. Finally, it may be observed that the total amount of State payments made to local units of government included in all of the above functional categories increased considerably during the past decade, from less than $2.8 million in 1950 to more than $12.5 million in 1959, an increase in excess of 350 percent. Of course, this primarily reflects the growth in the State's direct aid to the public school minimum foundation program, the increased amount of federal funds distributed by the State in fixed ratio to local expenditures for hospital construction, and the introduction in 1958 of the 100 percent apportionment of the State's gaming table tax collections among the counties. Expressed as a percentage of total State expenditures, these intergovernmental grants from the State to local jurisdictions (counties, cities and school districts), rose from approximately 15 percent in 1950 to more than 21 percent in 1959. In other words, one out of every five dollars spent by the State takes some form of a grant or subvention to local governments.

To summarize, as shown in Chart 3.1, the State public dollar in Nevada has in recent years been spent for the following broad categories of public service: almost one-half for the construction and maintenance of the State highway system; one-fourth for the direct and indirect support of public schools and higher education; one-sixth for public welfare, health, safety and regulation which categories cover such diverse activities as aid to the aged, blind and dependent children, the State's mental hospital, orphanages, prison and reform schools, highway patrol, and sundry industry and professional regulatory agencies; less than one-tenth for general government which in addition to the usual legislative, judicial and executive functions of State government included the cost of administering the employment security and insurance trust fund programs, and the bulk of non-educational State grants to local jurisdictions; and finally about one-twentieth for all resource development, conservation and agricultural services and grants provided by the State, including the net cost of financing the Colorado River Commission.

As previously indicated, the rather spectacular dollar increase in the total amount of State expenditures since 1950 primarily reflects the growth in State population and general post-war inflation. Adjusting for these factors provides some measure of the "real" increase in expenditures and public services on the State level. Table 3.8 shows the per capita expenditures, in current dollars, by the major functions discussed above. Of course, the relative positions of the categories remain unchanged. In 1959 the per capita State expenditures ranged from a high of $94.37 for highways to a low of $8.61 for public safety and regulation. Although the percentage growth in spending for the decade on this basis is considerably less than that shown in Table 3.6, the variance in the relative amount of increase between these major functions is greater. For example, from 1950 to 1959 per capita education expenditures increased from $22.45 to $55.19, or by almost 146 percent; and public health outlays rose from $3.79 to $9.44, or by 149 percent. In contrast, per capita public welfare expenditures increased from $12.37 to $14.80, or by only 16 percent, during the same

CHART 3.1

PERCENTAGE DISTRIBUTION OF STATE GENERAL EXPENDITURES
NEVADA, FISCAL YEAR 1959




SOURCE: TABLE 3.6

Table 3.8

Per Capita State General Expenditures, Nevada,
Fiscal Years 1950-1959

| Year | Education | Highways | Public welfare | Public health | Public safety & reg. | Res., cons., & agr. | General gov't. | Total State exp. | Exhibit: Total local grants |
|---|---|---|---|---|---|---|---|---|---|
| 1950 | $22.45 | $52.65 | $12.37 | $3.79 | $4.67 | $ 5.56 | $ 9.71 | $111.54 | $17.29 |
| 1951 | 23.01 | 50.89 | 13.38 | 4.10 | 4.65 | 5.19 | 10.87 | 112.09 | 17.95 |
| 1952 | 24.03 | 46.04 | 13.40 | 5.90 | 4.17 | 6.08 | 9.64 | 109.25 | 18.22 |
| 1953 | 23.86 | 56.75 | 12.12 | 5.39 | 3.93 | 6.69 | 9.08 | 117.83 | 17.97 |
| 1954 | 30.71 | 52.55 | 11.25 | 5.15 | 5.15 | 6.54 | 9.16 | 120.50 | 25.50 |
| 1955 | 33.33 | 52.30 | 10.24 | 5.86 | 4.52 | 8.63 | 10.41 | 125.30 | 27.44 |
| 1956 | 38.26 | 58.23 | 11.55 | 5.20 | 4.55 | 8.62 | 11.87 | 138.29 | 32.80 |
| 1957 | 51.54 | 73.74 | 13.36 | 8.95 | 5.50 | 8.21 | 15.07 | 176.41 | 40.85 |
| 1958 | 51.87 | 88.79 | 13.61 | 7.52 | 6.27 | 8.08 | 15.80 | 191.95 | 42.96 |
| 1959 | 55.19 | 94.37 | 14.80 | 9.44 | 8.61 | 10.09 | 18.46 | 210.96 | 44.79 |
| % increase 1959 over 1950 | 145.8 | 79.2 | 16.3 | 149.1 | 84.4 | 81.5 | 90.1 | 89.1 | 159.1 |

Source: Table 3.6.

period. The comparable growth in per capita spending for the other major State functions--general government; public safety and regulation; resources, conservation and agriculture; and highways--varied within a range from 90 to 79 percent for the ten-year period.

Table 3.9 shows the annual "real" per capita expenditures for the decade for each of the major functional categories expressed in 1959 dollars of constant purchasing power. On this price adjusted basis, education and public health expenditures increased by more than 70 percent in the course of the ten-year period. As noted earlier, if the level of public service provided by the State can be roughly equated with the amount of public expenditures, then it appears that the greatest improvement in State services occurred during the past decade in these two important areas, i.e., the State provided the average family with 70 percent more education and public health services in 1959 than in 1950. On the other hand, the improvement in highway; public safety and regulation; and resource, conservation and agriculture service categories only amounted to approximately 25 percent; and "real" public welfare expenditures actually were reduced by about one-fifth during the same period. Also on this basis, it is noteworthy that the per capita total State expenditures rose from $161.24 in 1950 to $210.96 in 1959, an increase of approximately 30 percent; while the per capita State grants to local units of government increased from $24.99 to $47.79, a "real" increase of almost 80 percent for the decade of the 1950's.

## Interstate Expenditure Comparisons, 1950-1959

In the United States today education, highways, public welfare and public health represent the four major functions of state governments as measured by the dollar volume of state expenditures. Table 3.10 compares Nevada's spending in these areas for fiscal year 1959 with that of the other Western States and the nation as a whole.[9] It will be noted that State educational expenditures exceeded total highway expenditures for all states and for the Western region, both inclusive and exclusive of California. In 1959, state education outlays amounted to $8,054 million for the nation and $1,822 million for the region, whereas the corresponding totals for highways were $7,621 million and $1,313 million. In Nevada, however, the relationship was reversed, State education expenditures of $15 million were approximately

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[9] In order to maintain comparability between the states the analysis is based on data derived from the U. S. Bureau of the Census. The total dollar amounts of expenditures reported for Nevada in Table 3.10 differ from those presented in the preceding section since the Census data are on a gross rather than a net basis and the county gas tax is included as an intergovernmental grant from the State to local jurisdictions.

Table 3.9

Per Capita State General Expenditures, 1959 Prices,[a] Nevada, Fiscal Years 1950-1959

| Year | Education | Highways | Public welfare | Public health | Public safety & reg. | Res., Cons., & Agr. | General gov't. | Total State exp. | Exhibit: Total local grants |
|---|---|---|---|---|---|---|---|---|---|
| 1950 | $32.45 | $76.11 | $18.40 | $5.48 | $6.76 | $ 8.04 | $14.04 | $161.24 | $24.99 |
| 1951 | 30.87 | 68.27 | 17.95 | 5.50 | 6.24 | 6.96 | 14.58 | 150.37 | 24.08 |
| 1952 | 30.67 | 58.77 | 17.10 | 7.53 | 5.32 | 7.76 | 12.30 | 139.45 | 23.26 |
| 1953 | 29.61 | 70.43 | 15.04 | 6.69 | 4.88 | 8.30 | 11.27 | 146.23 | 22.30 |
| 1954 | 37.61 | 63.59 | 13.61 | 6.23 | 6.23 | 7.91 | 11.08 | 145.81 | 30.86 |
| 1955 | 39.46 | 61.92 | 12.12 | 6.94 | 5.35 | 10.22 | 12.33 | 148.36 | 32.49 |
| 1956 | 42.63 | 64.88 | 12.87 | 5.79 | 5.07 | 9.60 | 13.23 | 154.08 | 36.55 |
| 1957 | 54.61 | 78.13 | 14.15 | 9.48 | 5.83 | 8.70 | 15.97 | 186.91 | 43.28 |
| 1958 | 53.32 | 91.28 | 13.99 | 7.73 | 6.45 | 8.31 | 16.24 | 197.32 | 44.16 |
| 1959 | 55.19 | 94.37 | 14.80 | 9.44 | 8.61 | 10.09 | 18.46 | 210.96 | 44.79 |
| % increase 1959 over 1950 | 70.1 | 24.0 | -19.6 | 72.3 | 27.6 | 25.5 | 31.5 | 30.8 | 79.2 |

[a]Current per capita expenditures adjusted by Index of State and Local Government Costs, U. S. Department of Commerce, Office of Business Economics, U. S. Income and Output, A Supplement to the Survey of Current Business, 1958; and the Economic Report of the President, January, 1960.

Source: Table 3.6.

Table 3.10

State General Expenditures by Major Functions, Nevada, Western States and All States, Fiscal Year 1959

| | Education | Highways | Public welfare | Public health | All others[a] | Total[b] |
|---|---|---|---|---|---|---|
| | A. Total dollar expenditures (millions): | | | | | |
| Arizona | $ 62.7 | $ 58.4 | $ 21.7 | $ 6.5 | $ 59.7 | $ 209.0 |
| California | 1,097.6 | 611.9 | 384.6 | 187.0 | 606.8 | 2,887.9 |
| Colorado | 82.9 | 89.6 | 70.6 | 27.8 | 39.5 | 310.4 |
| Idaho | 24.4 | 44.7 | 11.0 | 5.1 | 19.8 | 105.0 |
| Montana | 33.5 | 49.1 | 13.1 | 6.7 | 25.2 | 127.6 |
| Nevada | 15.3 | 27.8 | 4.0 | 2.4 | 15.8 | 65.3 |
| New Mexico | 88.7 | 66.2 | 20.6 | 8.5 | 25.1 | 209.1 |
| Oregon | 102.0 | 103.6 | 37.6 | 28.8 | 69.8 | 341.8 |
| Utah | 60.3 | 51.7 | 16.0 | 6.9 | 20.6 | 155.5 |
| Washington | 233.2 | 162.5 | 100.7 | 49.7 | 101.1 | 647.2 |
| Wyoming | 21.5 | 47.4 | 4.5 | 4.3 | 14.9 | 92.6 |
| Western States - Totals | $1,822.1 | $1,312.9 | $ 684.4 | $ 333.7 | $ 998.3 | $ 5,151.4 |
| Exclud.Calif. | 724.5 | 701.0 | 299.8 | 146.7 | 391.5 | 2,263.5 |
| All States - Totals | $8,050.4 | $7,620.9 | $3,217.0 | $2,327.3 | $4,790.5 | $26,006.1 |
| | B. Percentage distribution by functions: | | | | | |
| Arizona | 30.0 | 27.9 | 10.4 | 3.1 | 28.6 | 100.0 |
| California | 38.0 | 21.2 | 13.3 | 6.5 | 21.0 | 100.0 |
| Colorado | 26.7 | 28.9 | 22.7 | 9.0 | 12.7 | 100.0 |
| Idaho | 23.2 | 42.6 | 10.5 | 4.9 | 18.9 | 100.0 |
| Montana | 26.3 | 38.5 | 10.3 | 5.3 | 19.7 | 100.0 |
| Nevada | 23.4 | 42.6 | 6.1 | 3.7 | 24.2 | 100.0 |
| New Mexico | 42.4 | 31.7 | 9.9 | 4.1 | 12.0 | 100.0 |
| Oregon | 29.8 | 30.3 | 11.0 | 8.4 | 20.4 | 100.0 |
| Utah | 38.8 | 33.2 | 10.3 | 4.4 | 13.2 | 100.0 |
| Washington | 36.0 | 25.1 | 15.6 | 7.7 | 15.6 | 100.0 |
| Wyoming | 23.2 | 51.2 | 4.9 | 4.6 | 16.1 | 100.0 |
| Western States - Average | 35.4 | 25.5 | 13.3 | 6.5 | 19.4 | 100.0 |
| Exclud.Calif. | 32.0 | 31.0 | 13.2 | 6.5 | 17.3 | 100.0 |
| All States - Average | 31.0 | 29.3 | 12.4 | 8.9 | 18.4 | 100.0 |

[a]Includes public safety, natural resources, non-highway transportation, housing and community redevelopment, employment security administration, general government, veterans services, interest and miscellaneous unallocable expenditures.

[b]Sum of items may not equal totals because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finance in 1959, May, 1960.

one-half the $28 million total outlay for State highways. In percentage terms the education outlay represented an allocation of 23 percent of the State's total general expenditures and as such was significantly less than the regional ratio of 35 percent (32 percent excluding California) and the national ratio of 31 percent. On this basis Nevada ranked ninth among the Western States, followed by Idaho and Wyoming.

State highway expenditures in 1959, expressed as a percentage of total state spending, ranged from 51 percent in Arizona to 21 percent in California. Nevada and Idaho tied for second position with allocations of almost 43 percent which were considerably higher than the corresponding regional and national averages of 26 and 29 percent. The comparative data reflect the fact that the sparsely populated Western States receive relatively large federal highway grants. For example, in five of the states, including Nevada, these grants in 1959 amounted to more than one-half of their state highway expenditures, whereas for all states they averaged about one-third.[10]

Expenditures for public welfare and other major functions of state government appear to be relatively small when compared with state education and highway outlays that together accounted for almost two-thirds of the total expenditures of all states. Public welfare expenditures nationally ranked third in quantitative importance but represented only one-eighth of the state spending, and the ratio was

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[10]The total amounts of federal highway grants to the Western States in 1959 were as follows:

| | Federal highway grants to states: Amount (millions) | As % of highway expenditures |
|---|---|---|
| Arizona | $ 34.5 | 59.1 |
| California | 203.0 | 33.2 |
| Colorado | 37.6 | 42.0 |
| Idaho | 22.2 | 49.6 |
| Montana | 30.7 | 62.5 |
| Nevada | 15.2 | 54.7 |
| New Mexico | 40.2 | 60.7 |
| Oregon | 39.0 | 37.7 |
| Utah | 25.0 | 48.4 |
| Washington | 62.1 | 38.8 |
| Wyoming | 25.2 | 53.2 |
| Western States | $ 534.7 | 40.2 |
| All States | $2,610.4 | 34.3 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1959, May, 1960.

approximately the same for the Western States as a group. In Nevada these expenditures in 1959 amounted to $4 million, or slightly more than 6 percent of the total general expenditures, and as such the ratio was less than one-half the regional and national averages. Among the Western States Nevada ranked tenth and the percentage allocations to public welfare ranged from less than 5 percent in Wyoming to almost 23 percent in Colorado, the State with one of the most generous old age pension programs in the nation. Similarly, in the area of public health, Nevada ranked low when compared with the other states of the region. Nevada's outlay of $2.4 million in 1959 represented less than 4 percent of its total expenditures and also was roughly one-half the regional and national ratios. Among the Western States the only one with a smaller percentage was Arizona which allocated 3 percent of its spending to public health services.[11]

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[11]Of course, if highway expenditures are abstracted from the picture, Nevada's percentage distribution of general expenditures for major non-highway functions--education, public welfare and public health--will more closely approximate the regional and national averages as shown by the following tabulation:

| | Western States | | | |
|---|---|---|---|---|
| | Nevada | Total | Exclud.Calif. | All States |
| A. Total dollar expenditures (millions): | | | | |
| Education | $15.3 | $1,822.1 | $ 724.5 | $ 8,050.4 |
| Public welfare | 4.0 | 684.4 | 299.8 | 3,217.0 |
| Public health | 2.4 | 333.7 | 146.7 | 2,327.3 |
| All other | 15.8 | 998.3 | 391.5 | 4,790.5 |
| Total non-highway general expenditures | $37.5 | $3,838.5 | $1,562.5 | $18,385.2 |
| B. Percentage distribution: | | | | |
| Education | 40.8 | 47.5 | 46.4 | 43.8 |
| Public welfare | 10.7 | 17.8 | 19.2 | 17.5 |
| Public health | 6.4 | 8.7 | 9.4 | 12.7 |
| All other | 42.1 | 26.0 | 25.1 | 26.1 |
| Total non-highway general expenditures | 100.0 | 100.0 | 100.0 | 100.0 |

Table 3.11 reduces the above comparative expenditure data to a per capita basis. In 1959 the average outlays for the Western States in education, highways and public welfare services were significantly higher than those for the nation, except in the case of public health services. However, the percentage increases in per capita expenditures for the past decade in the West were smaller than the national growth rates for all categories other than highways. Among the Western States per capita expenditures for education in 1959 ranged from $100.85 in New Mexico to $36.72 in Idaho, and Nevada ranked seventh with an outlay of $54.80 which was about one-fifth above the national average but below the regional average of $62.96. In terms of the percentage growth in expenditures since 1950 the situation was reversed. Nevada's 91 percent increase for the period was approximately one-tenth smaller than the national rate, but correspondingly higher than the regional rate. On this basis Nevada ranked fourth in the region and the only three states which more than doubled their per capita state expenditures for education during the ten-year period were California, Colorado and Oregon.

In the highway category, per capita outlays for the Western States in 1959 ranged from $148.58 in Wyoming to $41.80 in California. Nevada's outlay of $99.39 was the second highest in the region and nation. It was almost one-half larger than the Western State average of $70.85 and more than twice as large as the national average of $43.42. However, the relative increase of less than 77 percent in Nevada's per capita highway expenditures for the decade was considerably smaller than that of any other Western State and the comparable regional and national growth rates of more than 142 percent. On this basis, New Mexico and Utah experienced the largest increases in highway expenditures, over 200 percent for the ten-year period.

State public welfare and public health expenditures reveal a pattern which is the opposite of that for highway spending. In 1959, per capita outlays for public welfare among the Western States ranged from $41.99 in Colorado to $14.11 in Wyoming. Nevada's per capita outlay of $14.41 was next to the lowest in the West and relatively small when compared with the regional and national averages of $22.60 and $18.33. On the other hand, the percentage increase in these expenditures during the past decade was markedly greater in Nevada than in the neighboring states. For example, in five Western States per capita spending for public welfare actually declined by 2 to 10 percent since 1950, whereas the 23 percent increase for Nevada was the second highest in the West and well above the 4 percent average increase for the region. Finally, it will be noted that only in the category of public health services did the per capita outlay for the nation in 1959 exceed that of the Western States as a group. Among the latter they ranged from a high of $17.61 in Washington to a low of $5.28 in Arizona, and Nevada ranked eighth with an expenditure of $8.54. This was one-fourth smaller than the regional average of $11.39 and one-third smaller than the national average of $13.26. But it was in this area of state spending that Nevada showed the largest percentage increase--almost 128 percent for the decade. In contrast, the comparable

Table 3.11

Per Capita State General Expenditures, by Major Functions, Nevada, Western States and All States, Fiscal Year 1959

| | Education | Highways | Public welfare | Public health | All others[a] | Total[b] |
|---|---|---|---|---|---|---|
| A. Per capita dollar expenditures (current prices): | | | | | | |
| Arizona | $ 50.88 | $ 47.35 | $17.64 | $ 5.28 | $48.37 | $169.52 |
| California | 74.98 | 41.80 | 26.27 | 12.77 | 41.46 | 197.28 |
| Colorado | 49.27 | 53.26 | 41.99 | 16.52 | 23.49 | 184.53 |
| Idaho | 36.72 | 67.28 | 16.52 | 7.65 | 29.92 | 158.09 |
| Montana | 48.73 | 71.41 | 19.02 | 9.76 | 36.88 | 185.80 |
| Nevada | 54.80 | 99.39 | 14.41 | 8.54 | 56.10 | 233.24 |
| New Mexico | 100.85 | 75.37 | 23.45 | 9.65 | 28.60 | 237.92 |
| Oregon | 57.75 | 58.64 | 21.29 | 16.32 | 39.56 | 193.56 |
| Utah | 68.50 | 58.76 | 18.20 | 7.82 | 23.39 | 176.67 |
| Washington | 82.62 | 57.56 | 35.67 | 17.61 | 35.80 | 229.26 |
| Wyoming | 67.50 | 148.58 | 14.11 | 13.39 | 46.67 | 290.25 |
| Western States Average | $ 62.96 | $ 70.85 | $22.60 | $11.39 | $37.29 | $205.10 |
| All States Average | $ 45.86 | $ 43.42 | $18.33 | $13.26 | $27.29 | $148.16 |
| B. Percentage increase 1959 over 1950: | | | | | | |
| Arizona | 71.3 | 90.0 | -4.3 | 47.5 | 97.1 | 67.5 |
| California | 142.8 | 133.3 | -5.6 | 53.9 | 30.0 | 68.9 |
| Colorado | 112.1 | 109.1 | 16.9 | 123.5 | 91.8 | 77.0 |
| Idaho | 45.1 | 173.3 | -2.0 | -5.4 | 72.3 | 71.4 |
| Montana | 71.4 | 144.1 | -2.8 | 42.3 | 104.2 | 81.9 |
| Nevada | 90.6 | 76.7 | 21.3 | 127.7 | 40.3 | 65.9 |
| New Mexico | 76.0 | 221.5 | 67.0 | 71.1 | 64.7 | 102.0 |
| Oregon | 114.8 | 106.0 | 10.4 | 107.4 | 83.9 | 86.1 |
| Utah | 67.6 | 209.4 | 8.1 | 81.0 | 59.3 | 84.6 |
| Washington | 86.5 | 161.6 | -18.9 | 172.2 | 55.9 | 64.1 |
| Wyoming | 61.0 | 194.1 | 0.1 | 143.5 | 99.7 | 114.4 |
| Western States Average | 83.4 | 142.1 | 4.1 | 84.9 | 68.1 | 80.5 |
| All States Average | 101.5 | 143.8 | 17.0 | 91.3 | 48.4 | 81.7 |

[a]Includes public safety, natural resources, non-highway transportation, housing and community redevelopment, employment security administration, general government, veterans services, interest and miscellaneous unallocable expenditures.

[b]Sum of items may not equal totals because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1959, May, 1960.

rates of growth in public health spending for the nation and region were 91 and 85 percent, and Washington and Wyoming were the only Western States which surpassed Nevada.

Another important type of interstate comparison is based on state expenditures classified by character and object, i.e., by: (1) current operations--compensation of state employees, purchase of supplies and materials, and payments for contractual services other than capital outlays; (2) capital improvements--acquisition of land and buildings, highway and other construction, and purchase of equipment; (3) intergovernmental grants--state payments to and shared taxes with counties, school districts, municipalities and other local jurisdictions; and (4) all others--trust fund payments under social insurance programs; transfers and subsidies such as veterans' bonuses and categorical public assistance, and interest payments on the public debt. State disbursements for debt retirement are excluded from the above categories in order to avoid double counting since the outlays from the borrowed funds were included as expenditures.

Table 3.12 compares Nevada's expenditures classified on the above basis[12] with that of the other Western States and the nation as a whole for the fiscal year 1959. It will be noted that expenditures for current operations generally exceeded those for capital improvements and the other broad categories of State spending. In Nevada they amounted to $24.2 million, or 31 percent of the State's total expenditures for the year. This ratio was only slightly above the 29 percent national average and 28 percent regional average (33 percent excluding California). Among the Western States the current operations ratios ranged from a high of almost 40 percent in Oregon to a low of 24 percent in California, and Nevada proved to be the median State of the group. Nevada's 1959 outlay for capital improvements amounted to $23.5 million, or 30 percent of its total expenditures, and as such was significantly larger than the Western State average of 22 percent (25 percent excluding California) and the national average of 23 percent. On this basis Wyoming ranked first in the region, followed by Montana and Nevada, while the lowest ratios were found in California and Oregon. However, since state highway construction outlays represented approximately three-fourths of the capital improvement expenditures, the ranking of the Western States closely parallels that for highway expenditures shown in Table 3.10. In contrast to the total amounts spent for current operations and capital improvements, the expenditures for state aid and grants to local units of government appear to be relatively small. In Nevada they amounted to $14.2 million in 1959, or 18 percent of the State's total expenditures. As a ratio, this was considerably less than the national and regional averages of 27 and 33 percent (25 percent excluding California), and Nevada ranked last among the Western States.

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[12]The total dollar amounts of expenditures shown in this table will be larger than those reported in Table 3.10 since the Census data classified by major functions excluded expenditures for state-operated utilities and liquor stores and insurance trust funds.

Table 3.12

Total State Expenditures,[a] by Character and Object, Nevada, Western States and All States, Fiscal Year 1959

| | Current operations | Capital outlays | Inter-gov't.grants | All other[b] | Totals[c] |
|---|---|---|---|---|---|
| A. Total dollar expenditures (millions): | | | | | |
| Arizona | $ 68.4 | $ 58.8 | $ 61.3 | $ 39.6 | $ 228.1 |
| California | 834.6 | 683.8 | 1,318.4 | 586.5 | 3,423.3 |
| Colorado | 104.2 | 79.3 | 123.5 | 22.3 | 329.3 |
| Idaho | 47.4 | 32.6 | 23.8 | 22.8 | 126.6 |
| Montana | 58.2 | 49.3 | 17.9 | 33.5 | 158.9 |
| Nevada | 24.2 | 23.5 | 14.2 | 16.6 | 78.5 |
| New Mexico | 64.0 | 58.9 | 67.9 | 24.3 | 215.1 |
| Oregon | 169.4 | 85.6 | 83.0 | 90.0 | 428.9 |
| Utah | 66.5 | 48.5 | 38.0 | 25.0 | 178.0 |
| Washington | 232.5 | 169.3 | 195.3 | 186.5 | 783.3 |
| Wyoming | 32.1 | 44.5 | 22.5 | 5.9 | 105.0 |
| Western States - Totals | $1,701.2 | $1,334.1 | $1,965.8 | $1,053.9 | $ 6,055.0 |
| Exclud.Calif. | 866.6 | 650.3 | 647.4 | 474.4 | 2,631.7 |
| All States - Totals | $8,923.8 | $7,058.7 | $8,539.6 | $6,602.8 | $31,124.9 |
| B. Percentage distribution by character of spending: | | | | | |
| Arizona | 30.0 | 25.8 | 26.9 | 17.4 | 100.0 |
| California | 24.4 | 20.0 | 38.5 | 17.1 | 100.0 |
| Colorado | 31.6 | 24.1 | 37.5 | 6.8 | 100.0 |
| Idaho | 37.4 | 25.8 | 18.8 | 18.0 | 100.0 |
| Montana | 36.6 | 31.0 | 11.3 | 21.1 | 100.0 |
| Nevada | 30.8 | 29.9 | 18.1 | 21.1 | 100.0 |
| New Mexico | 29.8 | 27.4 | 31.6 | 11.3 | 100.0 |
| Oregon | 39.5 | 20.0 | 19.4 | 21.2 | 100.0 |
| Utah | 37.4 | 27.2 | 21.3 | 14.0 | 100.0 |
| Washington | 29.6 | 21.6 | 24.9 | 23.8 | 100.0 |
| Wyoming | 30.6 | 42.4 | 21.4 | 5.6 | 100.0 |
| Western States - Average | 28.1 | 22.0 | 32.5 | 17.4 | 100.0 |
| Exclud.Calif. | 32.9 | 24.7 | 24.6 | 17.8 | 100.0 |
| All States - Average | 28.7 | 22.7 | 27.4 | 21.2 | 100.0 |

[a]Excludes expenditures for debt retirement.
[b]Includes interest payments, direct assistance and subsidies, insurance trust fund benefits and repayments.
[c]Sum of parts may not equal total because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1959, May, 1960.

Table 3.13 reduces the above data to a per capita basis and compares the rates of change between 1950 and 1959 for Nevada, the other Western States and the nation as a whole. Regional per capita expenditures were about one-fourth greater than the national averages for current operations and capital improvements, and almost one-fifth larger in state payments to local jurisdictions. But the relative growth since 1950 in the first two categories of expenditures was smaller for the region than the nation, while the percentage increase in state intergovernmental grants was approximately the same. In 1959, Nevada's per capita expenditure of $86.31 for current operations was above the regional and national averages of $76.31 and $50.84. Among the Western States Nevada ranked third behind Wyoming and Oregon, while Arizona and California had the lowest per capita expenditures for current operations. In terms of the percentage rise for the decade, Nevada's 30 percent increase was the smallest of any of the Western States and the comparable growth rates for the region and nation were 55 and 77 percent. Similarly, Nevada ranked high in capital improvement expenditures for 1959 with a per capita outlay of $84.01 which was almost one-third greater than the regional average of $65.14 and more than twice as large as the national average of $40.21. In this spending category the per capita outlays for the West ranged from $139.46 in Wyoming to $46.71 in California, and Nevada ranked second in the group. Again it will be noted that Nevada's relative position in the region is reversed when the states are compared on the basis of the percentage change in per capita expenditures since 1950. Thus, Nevada's 101 percent increase in capital improvement outlays for the ten-year period was less than two-thirds of the growth rates for the region and nation. Among the Western States Nevada ranked tenth and only exceeded Idaho, while Utah and Washington showed the largest relative increases for the period. Finally, in the area of state intergovernmental grants, Nevada's 1959 per capita expenditure of $50.70 was only slightly above the national average of $48.65 and markedly below the regional average of $57.54. These state grants to local jurisdictions in the West ranged from $90.06 in California to $26.05 in Montana, and Nevada proved to be the median State in the group. On the basis of percentage increases in per capita expenditures for intergovernmental grants Nevada ranked first and its 139 percent increase for the ten-year period since 1950 was almost twice as large as the average growth rates for both the region and the nation as a whole.

In summary, the comparative expenditure data when classified by major functions indicate that Nevada is one of the leading states of the West in highway spending but continues to lag in the areas of education, public welfare and public health services, notwithstanding the fact that the expenditure trends of the past decade have reduced the variance between Nevada and the Western States as a group. When the data are classified by character and object it is evident that on a relative basis Nevada's outlay for current operations generally parallels that of the region; while its expenditures for capital improvements are larger, and for intergovernmental grants significantly smaller, than those made by most of the other Western States.

Table 3.13

Per Capita State Expenditures,[a] by Character and Object, Nevada, Western States and All States, Fiscal Year 1959

| | Current operations | Capital outlays | Inter-gov't.grants | All other[b] | Totals[c] |
|---|---|---|---|---|---|
| A. Per capita dollar expenditures (current dollars): | | | | | |
| Arizona | $ 55.45 | $ 47.71 | $49.71 | $32.10 | $184.97 |
| California | 57.01 | 46.71 | 90.06 | 40.07 | 233.85 |
| Colorado | 61.93 | 47.17 | 73.41 | 13.28 | 195.79 |
| Idaho | 71.32 | 49.09 | 35.82 | 34.44 | 190.67 |
| Montana | 84.75 | 71.82 | 26.05 | 48.63 | 231.25 |
| Nevada | 86.31 | 84.08 | 50.70 | 59.21 | 280.30 |
| New Mexico | 72.79 | 67.03 | 77.22 | 27.72 | 244.76 |
| Oregon | 95.94 | 48.46 | 47.00 | 51.48 | 242.88 |
| Utah | 75.57 | 55.06 | 43.15 | 28.51 | 202.29 |
| Washington | 82.26 | 59.95 | 69.20 | 66.05 | 277.46 |
| Wyoming | 100.59 | 139.46 | 70.60 | 18.46 | 329.11 |
| Western States - Average | $ 76.72 | $ 65.14 | $57.54 | $38.17 | $237.58 |
| All States - Average | $ 50.84 | $ 40.21 | $48.65 | $37.62 | $177.32 |
| B. Percentage increase 1959 over 1950: | | | | | |
| Arizona | 81.0 | 116.7 | 59.5 | 10.0 | 63.7 |
| California | 87.0 | 119.9 | 78.4 | 9.7 | 60.5 |
| Colorado | 87.6 | 173.4 | 36.9 | 133.8 | 78.7 |
| Idaho | 44.8 | 94.0 | 128.4 | 44.8 | 67.3 |
| Montana | 38.8 | 173.6 | 55.8 | 58.0 | 71.6 |
| Nevada | 30.3 | 100.8 | 138.6 | 39.3 | 63.1 |
| New Mexico | 72.9 | 164.6 | 105.2 | 62.3 | 100.4 |
| Oregon | 68.0 | 115.5 | 96.9 | 24.0 | 67.5 |
| Utah | 54.5 | 251.6 | 52.2 | 6.0 | 70.6 |
| Washington | 45.7 | 252.7 | 41.7 | 6.7 | 50.7 |
| Wyoming | 48.6 | 178.0 | 86.8 | 198.2 | 103.6 |
| Western States - Average | 55.4 | 153.8 | 73.2 | 27.3 | 71.9 |
| All States - Average | 70.8 | 169.9 | 73.3 | 35.5 | 76.4 |

[a]Excludes expenditures for debt retirement.
[b]Includes interest payments, direct assistance and subsidies, insurance trust fund benefits and repayments.
[c]Sum of parts may not equal total because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1959, May, 1960.

## Revenue Trends, 1950-1959

The financing of government is characterized by the use of a wide variety of public revenues--taxes, licenses, fees, administrative charges, insurance and trust fund receipts, interest on securities, rentals and sales of government property, fines, escheats, forfeitures, intergovernmental grants and subventions, and finally borrowing. The latter, of course, is not revenue in the ordinary sense. However, it is difficult to draw clearcut lines of demarcation between the myriad types of receipts for at the fringe many of them straddle the traditional categories. For the purposes of this chapter the classifications of the U. S. Census Bureau[13] are mainly followed and state general revenues consist of three broad revenue categories: (1) taxes, which in addition to regular tax levies include licenses and fees; (2) intergovernmental revenues which represent funds received from other governmental units as fiscal aid or as reimbursement for services rendered in the form of grants-in-aid, shared taxes and subventions; and (3) miscellaneous non-tax revenues which cover such receipts as interest, rentals, sales proceeds, fines and escheats, private gifts and other miscellaneous charges not included in the tax and intergovernmental grant categories. On the other hand, receipts derived from: (1) state-operated utilities and liquor stores; (2) contributions to social insurance programs and trust funds; (3) liquidation of investments; and (4) the issue of public debt are excluded from the general revenue categories.

Table 3.14 shows that the rate of growth in the actual dollar amount of State general revenues in Nevada during the past decade was greater than that experienced by the Western States as a group or by the nation as a whole. The total amount of State revenues in Nevada rose from $22.9 million in 1950 to $66.9 million in 1959, an increase of 192 percent. This was larger than that of any other Western State except Arizona which had an increase of over 200 percent. The next highest Western States were Wyoming and New Mexico, while those with the smallest relative increases were Idaho and Wyoming. The respective increases for the region and the nation were 139 and 117 percent. However, when the general revenues for the decade are compared with the data on general expenditures (Table 3.2), it will be noted that in Nevada the total revenues exceeded the total outlays every year except 1952; whereas deficits were incurred in seven of the ten years for the Western States as a group, and in every year for all states combined.

When the revenue data are adjusted for the growth in population, however, the relative increases for Nevada during the decade lagged behind that of the other Western States and all states combined. As shown in Table 3.15, per capita revenues in Nevada rose from $143.13

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[13]See U. S. Department of Commerce, Bureau of the Census, "Definitions of Terms," Compendium of State Government Finances in 1959, May, 1960, pp. 59-67.

Table 3.14

Total State General Revenues,[a] Nevada, Western States, and All States, Fiscal Years 1950-1959

| Year | Nevada | | Western States | | All States | |
|---|---|---|---|---|---|---|
| | Amount (millions) | % increase over 1950 | Amount (millions) | % increase over 1950 | Amount (millions) | % increase over 1950 |
| 1950 | $22.9 | -- | $2,077.5 | -- | $11,264.0 | -- |
| 1951 | 26.1 | 14.0 | 2,380.0 | 14.6 | 12,406.2 | 10.1 |
| 1952 | 27.3 | 19.2 | 2,577.6 | 24.1 | 13,428.9 | 19.2 |
| 1953 | 30.3 | 32.3 | 2,780.7 | 33.8 | 14,511.3 | 28.8 |
| 1954 | 32.2 | 40.6 | 2,968.0 | 42.9 | 15,299.3 | 35.8 |
| 1955 | 37.6 | 64.2 | 3,227.2 | 55.3 | 16,193.7 | 43.8 |
| 1956 | 49.5 | 116.2 | 3,640.3 | 75.2 | 18,389.0 | 63.3 |
| 1957 | 58.0 | 153.3 | 4,178.8 | 101.1 | 20,381.6 | 80.9 |
| 1958 | 66.2 | 189.1 | 4,603.0 | 121.6 | 21,772.4 | 93.3 |
| 1959 | 66.9 | 192.1 | 4,960.9 | 138.8 | 24,448.3 | 117.0 |

[a]Excludes receipts from state-operated utilities and liquor stores, insurance trust funds, sale of securities, and issue of debt.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1951-1959.

Table 3.15

Per Capita State General Revenues,[a] Nevada, Western States, and All States, Fiscal Years 1950-1959

| Year | Nevada | | Western States | | All States | |
|---|---|---|---|---|---|---|
| | Per capita amount | % increase over 1950 | Per capita amount | % increase over 1950 | Per capita amount | % increase over 1950 |
| 1950 | $143.13 | -- | $107.71 | -- | $ 74.87 | -- |
| 1951 | 154.44 | 7.9 | 120.82 | 12.2 | 81.31 | 8.6 |
| 1952 | 150.00 | 4.8 | 126.67 | 17.6 | 86.68 | 15.8 |
| 1953 | 153.03 | 6.9 | 130.45 | 21.1 | 92.15 | 23.1 |
| 1954 | 147.71 | 3.2 | 135.17 | 25.5 | 95.42 | 27.4 |
| 1955 | 153.47 | 7.2 | 138.36 | 28.5 | 99.07 | 32.3 |
| 1956 | 193.36 | 35.1 | 156.77 | 45.5 | 110.49 | 47.6 |
| 1957 | 217.23 | 51.8 | 172.28 | 59.9 | 120.26 | 60.6 |
| 1958 | 239.64 | 67.4 | 187.13 | 73.7 | 126.29 | 68.7 |
| 1959 | 239.10 | 67.1 | 203.94 | 89.3 | 139.29 | 86.0 |

Source and footnote: See Table 3.14.

in 1950 to $239.10 in 1959, an increase of 67 percent which was significantly less than the 89 and 86 percent increases for the region and nation. Among the other Western States the rise in per capita revenues for the decade ranged from 72 percent for Colorado to 144 percent for Wyoming, and on this basis Nevada had the smallest relative increase in the region. Thus, although Nevada's per capita revenues in dollars and cents exceeded the regional and national averages every year, the differentials were markedly reduced during the decade. For example, in 1950 Nevada's per capita State revenue exceeded the Western average by 32 percent, whereas by 1959 it was only 17 percent larger. In brief, it appears that approximately 70 percent of the increase in Nevada's total State general revenues may be attributed to the growth in population experienced during the past decade.

Table 3.16 shows the percentage distribution of total general receipts by major types of revenue for Nevada, the Western region and the nation for fiscal year 1959. It will be noted that Nevada obtained 58 percent of its general revenues from taxes, 34 percent from intergovernmental grants (federal and local), and about 9 percent from charges and miscellaneous non-tax revenues. This distribution closely parallels that for the region and Nevada's proportions of taxes and grants were only slightly above the Western averages for 1959. The two states which showed the greatest divergences from the regional norms were Washington and Wyoming; the former utilized taxes relatively more than any other states, while the latter obtained almost one-half of its general revenues in the form of intergovernmental grants. It is also apparent that the Western States as a group depended less on taxes and considerably more on intergovernmental grants than did the other states of the nation in 1959.

Table 3.16

Percentage Distribution of State General Revenues,[a] by Major Types, Nevada, Western States and All States, Fiscal Year 1959

| | Taxes & licenses | Intergovernmental grants | Misc. non-tax revenues | Total |
|---|---|---|---|---|
| Arizona | 59.3 | 28.7 | 12.0 | 100.0 |
| California | 65.9 | 24.7 | 9.4 | 100.0 |
| Colorado | 58.8 | 28.8 | 12.4 | 100.0 |
| Idaho | 54.2 | 36.0 | 9.7 | 100.0 |
| Montana | 48.2 | 39.4 | 12.4 | 100.0 |
| Nevada | 57.8 | 33.6 | 8.5 | 100.0 |
| New Mexico | 49.2 | 32.1 | 18.6 | 100.0 |
| Oregon | 58.1 | 29.6 | 12.3 | 100.0 |
| Utah | 56.0 | 33.8 | 10.2 | 100.0 |
| Washington | 69.1 | 22.7 | 8.2 | 100.0 |
| Wyoming | 40.0 | 48.0 | 12.0 | 100.0 |
| Western State Average | 56.1 | 32.5 | 11.4 | 100.0 |
| All State Average | 64.8 | 25.6 | 9.6 | 100.0 |

Source and footnote: See Table 3.14.

## Nevada Revenue Patterns, 1950-1959

In surveying state finances it is important to distinguish state receipts from state general revenues. The former is the more inclusive term and it represents the total funds, exclusive of debt issue, paid into the state treasury during the fiscal year. In addition to general revenues, it consists of the receipts for social insurance and other trust funds, as well as the money proceeds derived from the sale or liquidation of state investments (capital accounts). On the other hand, general revenue represents only one category of receipts, but as such it is quantitatively the most important and it includes all taxes (inclusive of licenses and fees), intergovernmental grants to the state from both federal and local jurisdictions, and miscellaneous charges and non-tax revenues.

The total dollar amounts of Nevada's State government receipts for the fiscal years 1950-1959, classified on the above basis, are shown in Table 3.17.[14] It will be noted that although there was some change in the relative importance of each of these three categories during the past decade, on the average about 75 percent of the State's total receipts were represented by general revenues, 20 percent by insurance trust funds, and 5 percent by the capital accounts. As may be expected, approximately three-fifths of the general revenues, in turn, were accounted for by taxes, and nearly all of the remainder by intergovernmental grants. Although there are a wide variety and large number of miscellaneous charges and non-tax revenues, dollarwise they only averaged about 2 percent of the total. With regard to Nevada's three major trust funds--employment security, public employee retirement and workmen's compensation--the latter in 1950 accounted for almost one-half of the State's total trust fund receipts, whereas by the end of the decade each of these programs accounted for approximately one-third of the total.

The data also show that the State's total receipts rose from $24 million in 1950 to $78 million in 1959, an increase of 223 percent. This overall increase for the decade, however, was exceeded by the growth in general revenues, and taxes in particular. The former increased from $18 million to $60 million, or by 233 percent; while taxes

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[14]The detailed receipts and revenue data presented in this section are primarily derived from the annual reports of the State Controller's Office and other Nevada administrative agencies. The total amounts of general revenues shown will be somewhat smaller than the comparable Census figures of Table 3.14 mainly because the Colorado River Commission, the Basic Magnesium Project and the University of Nevada are treated here on a net, rather than a gross basis. Moreover, the county gas tax, included in State highway tax collections by the Census Bureau, is included as part of local finance in this study. The Census data are used in other sections in order to maintain uniformity of classification and treatment of individual items when interstate comparisons are undertaken.

Table 3.17

Nevada State Receipts, General Revenues and Trust Funds,
Fiscal Years 1950-1959

| Fiscal year | Grand total of State receipts[a] | State General Revenues | | | | State Insurance Trust Funds | | | | State capital accounts |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Total general revenue[a] | Taxes and licenses | Inter-gov't. grants | Misc. non-tax revenues | Total trust funds[b] | Employ-ment security | Public employee retirement | Workmen's compen-sation[c] | |
| | | | | A. Dollar amounts (thousands): | | | | | | |
| 1950 | $24,222 | $17,927 | $ 9,798 | $ 7,608 | $521 | $ 4,940 | $1,517 | $1,156 | $2,262 | $1,354 |
| 1951 | 28,071 | 20,282 | 11,595 | 8,058 | 630 | 5,812 | 1,705 | 1,612 | 2,490 | 1,976 |
| 1952 | 28,839 | 20,661 | 12,595 | 7,407 | 660 | 7,616 | 2,278 | 1,849 | 3,481 | 562 |
| 1953 | 34,633 | 25,294 | 14,739 | 9,982 | 573 | 8,864 | 2,867 | 2,051 | 3,930 | 475 |
| 1954 | 36,585 | 25,684 | 15,668 | 9,367 | 650 | 9,428 | 3,190 | 2,359 | 3,872 | 1,472 |
| 1955 | 41,415 | 29,223 | 18,027 | 10,282 | 915 | 11,239 | 3,833 | 2,772 | 4,625[d] | 953 |
| 1956 | 59,171 | 41,601 | 27,295 | 13,585 | 721 | 12,775 | 4,412 | 3,203 | 5,149 | 4,795 |
| 1957 | 67,559 | 50,040 | 33,279 | 15,996 | 764 | 13,431 | 4,412 | 3,757 | 5,250 | 4,088 |
| 1958 | 77,405 | 57,115 | 35,114 | 21,218 | 782 | 13,942 | 4,794 | 4,226 | 4,910 | 6,348 |
| 1959 | 78,249 | 59,765 | 36,469 | 22,382 | 914 | 15,220 | 5,428 | 4,450 | 5,329[d] | 3,264 |
| | | | | B. Percentage distribution: | | | | | | |
| 1950 | 100.0 | 74.0 | 40.5 | 31.4 | 2.2 | 20.4 | 6.3 | 4.8 | 9.3 | 5.6 |
| 1951 | 100.0 | 72.3 | 41.3 | 28.7 | 2.2 | 20.7 | 6.1 | 5.7 | 8.9 | 7.1 |
| 1952 | 100.0 | 71.6 | 43.7 | 25.7 | 2.3 | 26.4 | 7.9 | 6.4 | 12.1 | 1.9 |
| 1953 | 100.0 | 73.0 | 42.6 | 28.8 | 1.7 | 25.6 | 8.3 | 5.9 | 11.3 | 1.4 |
| 1954 | 100.0 | 70.2 | 42.8 | 25.6 | 1.8 | 25.8 | 8.7 | 6.4 | 10.6 | 4.0 |
| 1955 | 100.0 | 70.6 | 43.5 | 24.8 | 2.2 | 27.1 | 9.3 | 6.7 | 11.2 | 2.3 |
| 1956 | 100.0 | 70.3 | 46.1 | 23.0 | 1.2 | 21.6 | 7.5 | 5.4 | 8.7 | 8.1 |
| 1957 | 100.0 | 74.1 | 49.3 | 23.7 | 1.1 | 19.9 | 6.5 | 5.6 | 7.8 | 6.1 |
| 1958 | 100.0 | 73.8 | 45.4 | 27.4 | 1.0 | 18.0 | 6.2 | 5.5 | 6.3 | 8.2 |
| 1959 | 100.0 | 76.4 | 46.6 | 28.6 | 1.2 | 19.5 | 6.9 | 5.7 | 6.8 | 4.2 |
| | | | | C. Percentage increase over 1950: | | | | | | |
| 1951 | 15.9 | 13.1 | 18.3 | 5.9 | 20.9 | 17.6 | 12.4 | 39.4 | 10.1 | 45.9 |
| 1952 | 19.1 | 15.3 | 28.5 | -2.6 | 26.7 | 54.1 | 50.2 | 59.9 | 53.9 | -58.5 |
| 1953 | 43.0 | 41.1 | 50.4 | 31.2 | 10.0 | 79.4 | 89.0 | 77.4 | 73.7 | -64.9 |
| 1954 | 51.0 | 43.3 | 59.9 | 23.1 | 24.8 | 90.8 | 110.3 | 104.1 | 71.2 | 8.7 |
| 1955 | 71.0 | 63.0 | 84.0 | 35.1 | 75.6 | 127.5 | 152.7 | 139.8 | 104.5 | -29.6 |
| 1956 | 144.3 | 132.1 | 178.6 | 78.6 | 38.4 | 158.6 | 190.8 | 177.1 | 127.6 | 254.1 |
| 1957 | 178.9 | 179.1 | 239.7 | 110.3 | 46.6 | 171.8 | 190.8 | 225.0 | 132.1 | 201.9 |
| 1958 | 219.6 | 218.6 | 258.4 | 178.9 | 50.1 | 182.2 | 216.0 | 265.6 | 117.1 | 368.8 |
| 1959 | 223.0 | 233.4 | 272.2 | 194.2 | 75.4 | 208.0 | 357.8 | 284.9 | 135.6 | 141.1 |

[a]Sum of items may not equal totals because of rounding.
[b]Includes small amount of interest on other trust funds.
[c]Nevada Industrial Commission data.
[d]Census Bureau estimates.

Sources: State of Nevada, Annual Reports of the State Controller, 1950-1959; Reports of the Nevada Industrial Commission, 1950-1958; and U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1950-1959.

rose from less than $10 million to more than $36 million, or by 272 percent, during the same ten-year period. On the other hand, the comparable growth in intergovernmental grants and workmen's compensation receipts lagged behind the general increase, although the other two trust funds experienced the largest rates of growth of any category of receipts for the decade.

Table 3.18 shows the trend and composition of intergovernmental grants received by the State during the fiscal years 1950-1959. The combined total of federal and State aid rose from less than $8 million in 1950 to over $22 million in 1959, an increase of 194 percent. Federal grants as a percentage of the total aid received by the State averaged about 90 percent during most of the decade, although in the last two years the ratio was 95 percent. As a percentage of State general revenues they accounted for more than a third of the total for the ten-year period, and in 1959 federal grants represented 36 percent of the $60 million total. Dollarwise the largest federal grants were for highway purposes. These rose from $4 million in 1950 to $15 million in 1959, an increase of almost 250 percent, and for the decade they averaged about two-thirds of the total federal aid received. Next in importance in 1959 were public welfare grants of $2.3 million, followed by federal aid of $1.4 million for the development of natural resources, conservation and agriculture. However, as ratios of total federal aid to the State, both declined considerably in recent years--the public welfare grants from a high of 16.4 percent in 1952 to 10.8 percent in 1959, and the resource grants from 17.7 percent in 1955 to 6.5 percent in 1959. Also, it is noteworthy that the quantitatively least important categories of federal aid were public health and education which amounted to $686,000 and $552,000, respectively in 1959, and as such represented only about 3 percent of the total federal grants received by the State that year.

The State also receives some financial aid from local jurisdictions (primarily counties), but, as already indicated, these have amounted to less than 5 percent of the total intergovernmental grants paid to Nevada in recent years. The most important single item is the State's 25 percent share of the county gaming tax collections which in 1959 amounted to $560,000, or more than one-half of the total local aid.[15] County contributions to the State's Old Age Assistance and Aid to Dependent Children programs were next in importance, amounting to $254,000 and $95,000, respectively, in 1959. The former has steadily declined in the course of the past decade and the Legislature in 1960

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[15]Of course, this county "aid" in 1959 was more than offset by the equal apportionment among the counties of 100 percent of the State's gaming table tax collections of more than $700,000 for the year. In other words, as a result of these two types of intergovernmental grants, the counties on net balance received financial assistance from the State, and the distribution of county gambling tax receipts were significantly altered.

Table 3.18

Intergovernmental Grants Received by State of Nevada
Fiscal Years 1950-1959

| | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 |
|---|---|---|---|---|---|---|---|---|---|---|
| DOLLAR AMOUNTS (THOUSANDS): | | | | | | | | | | |
| Federal Grants and Aid[a] | $6,794 | $7,160 | $6,516 | $9,093 | $8,453 | $ 9,289 | $12,641 | $14,833 | $20,170 | $21,351 |
| Education | 270 | 310 | 322 | 313 | 322 | 376 | 406 | 485 | 577 | 552 |
| Highways | 4,366 | 4,068 | 3,387 | 5,713 | 4,903 | 5,021 | 7,696 | 9,758 | 14,530 | 15,181 |
| Public welfare | 1,004 | 1,161 | 1,071 | 1,087 | 1,309 | 1,244 | 1,547 | 1,681 | 2,242 | 2,313 |
| Health and hospitals | 195 | 263 | 453 | 379 | 381 | 471 | 684 | 664 | 800 | 686 |
| Employment security administration | 506 | 579 | 577 | 578 | 732 | 515 | 744 | 863 | 988 | 1,167 |
| Natural resources & agriculture | 453 | 775 | 679 | 951 | 805 | 1,645 | 1,540 | 1,359 | 959 | 1,385 |
| Miscellaneous federal aid | -- | 4 | 26 | 73 | 1 | 17 | 25 | 23 | 73 | 68 |
| Local Aid | 814 | 898 | 891 | 889 | 914 | 992 | 944 | 1,163 | 1,048 | 1,031 |
| County contribution to A. D. C. | -- | -- | -- | -- | -- | -- | -- | 77 | 89 | 95 |
| County contribution to O. A. A. | 370 | 382 | 384 | 352 | 338 | 343 | 365 | 300 | 279 | 254 |
| County gaming tax (25%) | 308 | 331 | 334 | 367 | 397 | 463 | 358 | 503 | 547 | 560 |
| All others | 136 | 185 | 173 | 170 | 179 | 186 | 221 | 283 | 133 | 122 |
| Total Intergovernmental Grants | $7,608 | $8,058 | $7,407 | $9,982 | $9,367 | $10,281 | $13,585 | $15,996 | $21,218 | $22,382 |
| PERCENTAGE DISTRIBUTIONS: | | | | | | | | | | |
| Federal Grants and Aid[a] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Education | 4.0 | 4.3 | 4.9 | 3.4 | 3.8 | 4.0 | 3.2 | 3.3 | 2.9 | 2.6 |
| Highways | 64.3 | 56.8 | 52.0 | 62.8 | 58.0 | 54.1 | 60.9 | 65.8 | 72.0 | 71.1 |
| Public welfare | 14.8 | 16.2 | 16.4 | 12.0 | 15.5 | 13.4 | 12.2 | 11.3 | 11.1 | 10.8 |
| Health and hospitals | 2.9 | 3.7 | 7.0 | 4.2 | 4.5 | 5.1 | 5.4 | 4.5 | 4.0 | 3.2 |
| Employment security administration | 7.4 | 8.1 | 8.9 | 6.4 | 8.7 | 5.5 | 5.9 | 5.8 | 4.9 | 5.5 |
| Natural resources & agriculture | 6.7 | 10.8 | 10.4 | 10.5 | 9.5 | 17.7 | 12.2 | 9.2 | 4.8 | 6.5 |
| Miscellaneous federal aid | -- | .1 | .4 | .8 | -- | .2 | .2 | .2 | .4 | .3 |
| Local Aid[a] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| County contribution to A. D. C. | -- | -- | -- | -- | -- | -- | -- | 6.6 | 8.5 | 9.2 |
| County contribution to O. A. A. | 45.5 | 42.5 | 43.1 | 39.6 | 37.0 | 34.6 | 38.7 | 25.8 | 26.6 | 24.6 |
| County gaming tax (25%) | 37.8 | 36.9 | 37.5 | 41.3 | 43.4 | 46.7 | 37.9 | 43.3 | 52.2 | 54.3 |
| All others | 16.7 | 20.6 | 19.4 | 19.1 | 19.6 | 18.8 | 23.4 | 24.3 | 12.7 | 11.8 |
| EXHIBIT - Federal grants as percent of: | | | | | | | | | | |
| Total Intergovernmental Revenues | 89.3 | 88.9 | 88.0 | 91.1 | 90.2 | 90.4 | 93.1 | 92.7 | 95.1 | 95.4 |
| Total State General Revenues | 37.9 | 35.3 | 31.5 | 35.9 | 32.9 | 31.8 | 30.4 | 29.6 | 35.3 | 35.7 |

[a]Sum of items may not equal totals because of rounding.

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959.

terminated the requirement of county aid to both these programs. In brief, while local grants to State government have decreased, federal aid has become an increasingly important source of public funds for Nevada and in recent years has constituted more than one-third of the State's general revenues.

Tables 3.19 and 3.20 present a detailed breakdown of the major taxes (inclusive of those labeled licenses and fees) collected in Nevada during fiscal years 1950-1959. Total State tax collections rose from $9.8 million in 1950 to almost $36.5 million in 1959, an actual dollar increase of more than 272 percent for the past decade. However, the distribution pattern remained fairly constant throughout the period, the only significant shift occurred in 1956 with the introduction of the general sales and use tax on the State level. By 1959, this new levy quantitatively represented the most important single source of tax revenues for Nevada, slightly over $11 million, or 30.3 percent of the total State tax revenues for that year.

Next in importance were highway user taxes which increased from $4.2 million in 1950 to slightly less than $11 million in 1959, and also represented 30 percent of the total tax collections. For the period prior to 1956, the first full year the sales tax was utilized, the highway user taxes had averaged about 45 percent of Nevada's total tax revenues. With regard to the individual taxes in this category, the motor fuel excises on a net basis (after refunds and exclusive of the county gas tax) accounted for approximately two-thirds of the total highway levies during the decade. Motor fuel revenues rose from $2.7 million in 1950 to $6.9 million in 1959, an increase of 155 percent. The other major source of highway levies was represented by the common carrier licenses and mileage taxes which accounted for about one-fifth of the highway taxes, but 6 percent of the State's total tax collections. They increased from $.8 million in 1950 to $2.4 million in 1959, or by almost 200 percent. Automobile registrations and title transfer revenues have consistently amounted to less than the motor carrier taxes, but in recent years the differential has been narrowed significantly. For example, in 1955 the latter were 155 percent greater than the total auto license revenues; whereas by 1959, not withstanding the introduction of the mileage tax in 1958, the combined common carrier revenues were only 58 percent above the $1.5 million collected from auto registrations. Revenues from drivers licenses have been dollarwise the least important source of highway user funds, ranging from about $43,000 in 1950 to $181,000 in 1959 and on the average representing approximately ½ of 1 percent of the State' annual tax collections during the past decade.

Gambling taxes are currently the third major source of State revenues in Nevada. They have steadily risen from $1.2 million in 1950 to almost $8 million in 1959, an increase of approximately 560 percent. As a percentage of total State taxes they have increased from 12 percent to almost 22 percent in the ten-year period. When combined with the general sales and highway user levies the three categories accounted for more than 82 percent of Nevada's total tax collections for fiscal year 1959. In sharp contrast with the gambling revenues, cigarette and liquor excises, Nevada's other two levies which are shifted in large

Table 3.19

Nevada State Taxes
Fiscal Years 1950-1959
(thousands of dollars)

| | | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | % increase 1959 over 1950 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I. | Sales and Use Taxes[a] | -- | -- | -- | -- | -- | $ 3 | $ 6,699 | $ 9,922 | $10,304 | $11,057 | -- |
| II. | Highway and User Taxes | $4,157 | $ 4,953 | $ 5,680 | $ 6,679 | $ 7,267 | 7,496 | 8,504 | 9,991 | 10,354 | 10,955 | 163.5 |
| | Motor fuel taxes (net) | 2,699 | 3,109 | 3,582 | 4,188 | 4,580 | 5,019 | 5,890 | 6,159 | 6,721 | 6,885 | 155.1 |
| | Common carrier licenses | 824 | 1,079 | 1,299 | 1,540 | 1,691 | 1,713 | 1,180 | 2,062 | 1,747 | 1,849 | 124.4 |
| | Common carrier mileage tax | -- | -- | -- | -- | -- | -- | -- | -- | 232 | 539 | -- |
| | Auto license & title transfer | 592 | 684 | 747 | 869 | 911 | 673 | 1,280 | 1,612 | 1,490 | 1,502 | 153.7 |
| | Auto drivers licenses | 43 | 81 | 52 | 81 | 84 | 91 | 154 | 159 | 165 | 181 | 320.9 |
| III. | Gambling Taxes | 1,211 | 1,436 | 1,578 | 2,004 | 1,930 | 3,355 | 5,441 | 6,314 | 7,328 | 7,986 | 559.5 |
| | Gross income and table taxes | 1,211 | 1,436 | 1,578 | 2,004 | 1,888 | 3,342 | 5,441 | 6,313 | 7,325 | 7,984 | 559.3 |
| | Investigation & pari-mutuel fees | -- | -- | -- | -- | 41 | 14 | -- | 1 | 3 | 2 | -- |
| IV. | Cigarette Taxes | 746 | 788 | 867 | 960 | 996 | 1,091 | 1,183 | 1,180 | 1,267 | 1,431 | 91.8 |
| | Tax | 742 | 784 | 863 | 957 | 992 | 1,090 | 1,179 | 1,177 | 1,263 | 1,428 | 92.2 |
| | License | 4 | 4 | 3 | 3 | 4 | 2 | 4 | 3 | 3 | 4 | 0.0 |
| V. | Liquor Taxes | 510 | 699 | 612 | 721 | 785 | 854 | 875 | 920 | 926 | 1,052 | 106.3 |
| | Tax | 492 | 680 | 593 | 702 | 769 | 837 | 858 | 901 | 909 | 1,035 | 110.4 |
| | License | 19 | 19 | 19 | 18 | 16 | 17 | 18 | 19 | 17 | 18 | -5.3 |
| VI. | Property Taxes | 1,978 | 2,242 | 2,394 | 2,551 | 2,799 | 3,124 | 2,477 | 2,315 | 2,131 | 1,699 | -14.1 |
| | General | 1,774 | 1,937 | 1,998 | 2,127 | 2,322 | 2,708 | 2,057 | 1,937 | 1,865 | 1,490 | -16.0 |
| | Trust and personal | 167 | 220 | 266 | 312 | 346 | 282 | 316 | 211 | 182 | 169 | 1.2 |
| | Net proceeds of mines | 37 | 85 | 130 | 112 | 131 | 134 | 104 | 167 | 84 | 40 | 8.1 |
| VII. | Other Business and Agr. Taxes | 477 | 759 | 747 | 867 | 979 | 1,150 | 1,218 | 1,489 | 1,497 | 1,587 | 232.7 |
| | Corporation fees | 63 | 309 | 149 | 182 | 217 | 310 | 297 | 455 | 327 | 319 | 406.4 |
| | Insurance premiums | 244 | 264 | 299 | 359 | 436 | 494 | 581 | 616 | 690 | 770 | 215.6 |
| | Insurance license & fees | 55 | 58 | 91 | 89 | 94 | 102 | 112 | 116 | 124 | 125 | 127.3 |
| | Misc. business license & fees | 40 | 45 | 51 | 54 | 63 | 66 | 74 | 77 | 89 | 87 | 117.5 |
| | Agricultural taxes & fees | 75 | 82 | 157 | 183 | 168 | 179 | 154 | 225 | 267 | 286 | 281.3 |
| VIII. | Miscellaneous License & Fees | 719 | 719 | 717 | 958 | 912 | 953 | 897 | 1,147 | 1,307 | 702 | -2.4 |
| | Hunting & fishing licenses | 392 | 448 | 453 | 675 | 623 | 664 | 622 | 772 | 916 | 319 | -18.6 |
| | Marriage licenses | 139 | 151 | 144 | 154 | 151 | 146 | 123 | 167 | 174 | 171 | 23.0 |
| | Civil action fees | 102 | 101 | 106 | 110 | 113 | 120 | 123 | 176 | 176 | 173 | 69.6 |
| | Other licenses & fees | 87 | 19 | 15 | 18 | 25 | 22 | 29 | 32 | 41 | 40 | -54.0 |
| Total State Taxes[b] | | $9,798 | $11,595 | $12,595 | $14,739 | $15,668 | $18,027 | $27,295 | $33,279 | $35,114 | $36,469 | 272.2 |

[a]Includes sales tax permit licenses.
[b]Sum of items may not equal totals because of rounding.

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959.

Table 3.20

Percentage Distribution of Nevada State Taxes
Fiscal Years 1950-1959

| | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 |
|---|---|---|---|---|---|---|---|---|---|---|
| I. Sales and Use Taxes[a] | -- | -- | -- | -- | -- | b | 24.5 | 29.8 | 29.3 | 30.3 |
| II. Highway User Taxes | 42.4 | 42.7 | 45.1 | 45.3 | 46.4 | 41.6 | 31.2 | 30.0 | 29.5 | 30.0 |
| Motor fuel taxes (net) | 27.5 | 26.8 | 28.4 | 28.4 | 29.2 | 27.8 | 21.6 | 18.5 | 19.1 | 18.9 |
| Common carrier licenses | 8.4 | 9.3 | 10.3 | 10.4 | 10.8 | 9.5 | 4.3 | 6.2 | 5.0 | 5.1 |
| Common carrier mileage tax | -- | -- | -- | -- | -- | -- | -- | -- | .7 | 1.5 |
| Auto licenses and title transfer | 6.0 | 5.9 | 5.9 | 5.9 | 5.8 | 3.7 | 4.7 | 4.8 | 4.2 | 4.1 |
| Auto drivers licenses | .4 | .7 | .4 | .5 | .5 | .5 | .6 | .5 | .5 | .5 |
| III. Gambling Taxes | 12.4 | 12.4 | 12.5 | 13.6 | 12.3 | 18.6 | 19.9 | 19.0 | 20.9 | 21.9 |
| Gross income and table taxes | 12.4 | 12.4 | 12.5 | 13.6 | 12.1 | 18.5 | 19.9 | 19.0 | 20.9 | 21.9 |
| Investigation and pari-mutuel fees | -- | -- | -- | -- | .3 | .1 | -- | b | b | b |
| IV. Cigarette Taxes | 7.6 | 6.8 | 6.9 | 6.5 | 6.4 | 6.1 | 4.3 | 3.5 | 3.6 | 3.9 |
| Tax | 7.6 | 6.8 | 6.9 | 6.5 | 6.3 | 6.0 | 4.3 | 3.5 | 3.6 | 3.9 |
| License | b | b | b | b | b | b | b | b | b | b |
| V. Liquor Taxes | 5.2 | 6.0 | 4.9 | 4.9 | 5.0 | 4.7 | 3.2 | 2.8 | 2.6 | 2.9 |
| Tax | 5.0 | 5.9 | 4.7 | 4.8 | 4.9 | 4.6 | 3.1 | 2.7 | 2.6 | 2.8 |
| License | .2 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | b | b |
| VI. Property Taxes | 20.2 | 19.3 | 19.0 | 17.3 | 17.9 | 17.3 | 9.1 | 7.0 | 6.1 | 4.7 |
| General | 18.1 | 16.7 | 15.9 | 14.4 | 14.8 | 15.0 | 7.5 | 5.8 | 5.3 | 4.1 |
| Trust and personal | 1.7 | 1.9 | 2.1 | 2.1 | 2.2 | 1.6 | 1.2 | .6 | .5 | .5 |
| Net proceeds of mines | .4 | .7 | 1.0 | .8 | .8 | .7 | .4 | .5 | .2 | .1 |
| VII. Other Business and Agr. Taxes | 4.9 | 6.5 | 5.9 | 5.9 | 6.2 | 6.4 | 4.5 | 4.5 | 4.3 | 4.4 |
| Corporation licenses and fees | .6 | 2.7 | 1.2 | 1.2 | 1.4 | 1.7 | 1.1 | 1.4 | .9 | .9 |
| Insurance premiums | 2.5 | 2.3 | 2.4 | 2.4 | 2.8 | 2.7 | 2.1 | 1.9 | 2.0 | 2.1 |
| Insurance licenses and fees | .6 | .5 | .7 | .6 | .6 | .6 | .4 | .3 | .4 | .3 |
| Misc. business licenses and fees | .4 | .4 | .4 | .4 | .4 | .4 | .3 | .2 | .3 | .2 |
| Agricultural taxes and fees | .8 | .7 | 1.2 | 1.2 | 1.1 | 1.0 | .6 | .7 | .8 | .8 |
| VIII. Miscellaneous Licenses and Fees | 7.3 | 6.2 | 5.7 | 6.5 | 5.8 | 5.3 | 3.3 | 3.4 | 3.7 | 1.9 |
| Hunting and fishing licenses | 4.0 | 3.9 | 3.6 | 4.6 | 4.0 | 3.7 | 2.3 | 2.3 | 2.6 | .9 |
| Marriage licenses | 1.4 | 1.3 | 1.1 | 1.0 | 1.0 | .8 | .5 | .5 | .5 | .5 |
| Civil action fees | 1.0 | .9 | .8 | .7 | .7 | .7 | .5 | .5 | .5 | .5 |
| Other licenses and fees | .9 | .2 | .1 | .1 | .2 | .1 | .1 | .1 | .1 | .1 |
| Total State Taxes[c] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Includes sales tax permit licenses.
[b]Less than .5 of 1 percent.
[c]Sum of items may not equal totals because of rounding.

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959.

part to non-resident tourists,[16] dollarwise have shown the smallest amount of relative growth of any of the major State taxes; and as percentages of total State tax collections they have significantly decreased during the past decade. Cigarette tax collections rose from about $.7 million in 1950 to $1.4 million in 1959, an increase of less than 100 per cent; and as a ratio of total State tax revenues they declined from 7.6 percent to 3.9 percent in the ten-year period. Similarly, liquor revenues only doubled during the decade, from $.5 million in 1950 to $1 million in 1959, and as a ratio of total tax revenues decreased from 5.2 percent to 2.9 percent. Moreover, it is noteworthy that the actual dollar amount of revenues derived from both cigarette and liquor licensing on the State level in Nevada did not increase during the ten-year period, having been about $23,000 in 1950 and only $22,000 in 1959. As a percentage of total State revenues, such licensing in recent years has provided less than 1/10 of 1 percent of the State's total tax revenues.

Property taxes were the only major type of State tax revenues actually to decrease dollarwise during the period under review, from $2 million in 1950 to $1.7 million in 1959. As a percentage of total revenues the decrease is even more striking, from 20 percent to less than 5 percent. Also, it may be observed that the State property tax on net mining proceeds was comparatively insignificant, amounting to $40,000 in 1959, and as a percentage of total State revenues, this tax during the past decade ranged from a high of 1 percent in 1952 to a low of 1/10 of 1 percent in 1959.

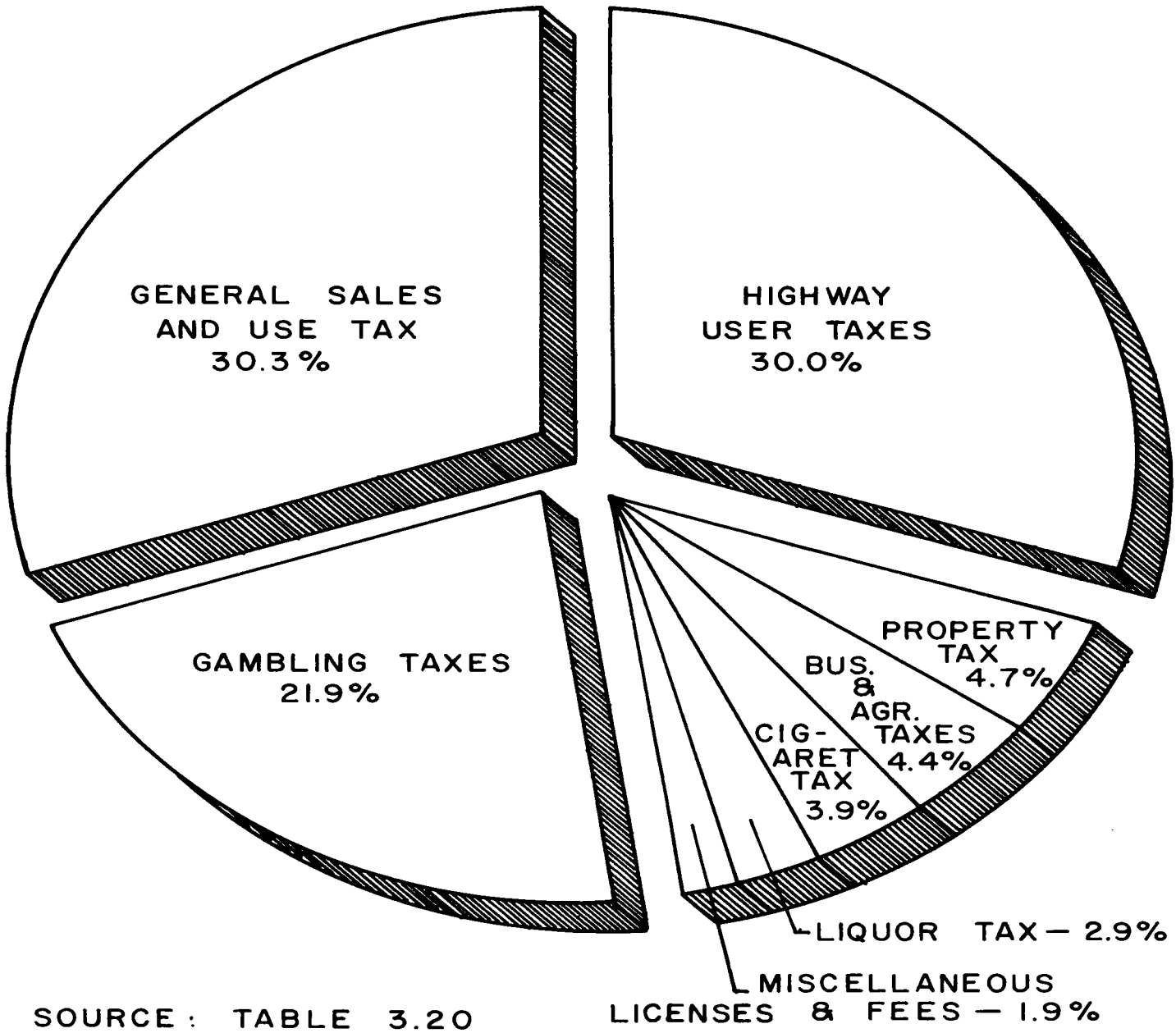
The remaining State tax revenues, primarily business levies and miscellaneous license fees, amounted to less than $2.3 million in 1959, or about 6 percent of the total State collections. The insurance premium and licensing taxes were relatively the most important in this group having increased from $.3 million in 1950 to $.9 million in 1959, or by about 200 percent for the period. Hunting and fishing licenses, agricultural taxes, and corporation fees, each amounted to approximately $.3 million in 1959, or less than 1 percent of the State's total tax collections for that year. In the absence of a State corporate income tax, it may be assumed that the $.3 million in revenues obtained from corporation fees represents the nominal value the State places on the "privileges and benefits" business firms derive from incorporation in Nevada. Finally, it may be noted that marriage licenses and civil action fees (mainly from divorce proceedings), which loom large in the national stereotype of Nevada's State financing, actually have become relatively less important during the past decade, and by 1959 they each accounted for less than 1/2 of 1 percent of total State tax revenues.

To summarize, as shown in Chart 3.2, the State tax dollar in recent years has come from the following major sources of revenue: slightly more than 30 percent from the broadbased general sales and use tax; another 30 percent from all highway user revenues; almost 22 percent

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[16]See Chapters IX, XI, and XII for full discussions of the shifting of gaming, tobacco and liquor taxes, respectively.

# CHART 3.2
## PERCENTAGE DISTRIBUTION OF STATE TAXES
## NEVADA, FISCAL YEAR 1959




SOURCE: TABLE 3.20

from the State's gambling levies; about 7 percent from the excises on cigarettes and liquor; less than 5 percent from the State's share in the general property tax which includes the taxation of the net proceeds of mines and trust and personal property, as well as real property; approximately 4 percent from all other business and agricultural taxes combined, which category includes insurance taxation and business incorporation fees as well as a host of other relatively small levies; and, finally, less than 2 percent from miscellaneous licenses and fees, the most important of which are represented by hunting and fishing licenses and marriage and civil action fees.

As previously indicated, the more than 272 percent increase in total State tax collections for the decade since 1950 primarily reflects Nevada's growth of population and the general price inflation which characterized the period under review. Adjusting for these factors provides a rough measure of the "real" increase in the burden of State taxation. Table 3.21 shows the per capita tax collections, unadjusted for price level changes, by the major categories discussed above. Of course, the relative quantitative importance of each type of tax is unaffected by being reduced to per capita terms. In 1959, the per capita total State tax amounted to $130.25, which was about 113 percent above the 1950 figure of $61.24. In other words, almost three-fifths of the increase in Nevada's total State tax collections for the past decade may be attributed to the growth in population. The per capita collections for 1959, by major individual types, ranged from a high of $39.49 for the sales tax to a low of $3.76 for liquor excises. Highway taxes were next highest with a per capita levy of $39.12, followed by the gambling taxes which amounted to $28.52. In addition to the liquor excises, at the other end of the scale were the State property taxes of $5.67 and the cigarette tax of $5.11. As noted, on this basis the percentage increases in taxes for the decade are considerably less, and the decreases considerably more, than those shown in Table 3.19. For example, property taxes decreased by more than 50 percent, and miscellaneous licenses and fees as a group declined by 44 percent. On the other hand, cigarette and liquor excises increased by only 10 and 18 percent; while gambling showed the largest increase--almost 277 percent for the ten-year period.

The "real" per capita State taxes, expressed in 1959 dollars of constant purchasing power, are presented for the fiscal years 1950-1959 in Table 3.22. It is important to note that in contrast to the expenditure data shown in Table 3.9 which were corrected for price level changes by an index of State and local government costs, the tax data in this section are adjusted by the consumer price index since taxes paid to the State ultimately represent a diminution in the taxpayer's disposable income and purchasing power.[17] When Nevada's tax collections for the ten-year period are placed on this population--price adjusted basis--the State property tax burden declined by almost 60 percent,

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[17]As previously indicated (p. 60), for the decade under review the increase in the consumer price index was less than one-half that shown for the index of state and local governmental costs.

Table 3.21

Per Capita State Taxes, Current Prices, Nevada
Fiscal Years 1950-1959

| Year | Sales taxes[a] | High-way taxes | Gaming taxes | Cigar-ette taxes | Liquor taxes | Prop-erty taxes | Other bus. & agr. taxes | Misc. lic.& fees | Total State taxes[b] |
|---|---|---|---|---|---|---|---|---|---|
| 1950 | -- | $25.98 | $ 7.57 | $4.66 | $3.19 | $12.36 | $2.98 | $4.49 | $ 61.24 |
| 1951 | -- | 29.31 | 8.50 | 4.66 | 4.14 | 13.27 | 4.49 | 4.25 | 68.61 |
| 1952 | -- | 31.21 | 8.67 | 4.76 | 3.36 | 13.15 | 4.10 | 3.94 | 69.20 |
| 1953 | -- | 33.72 | 10.12 | 4.85 | 3.64 | 12.88 | 4.38 | 4.84 | 74.44 |
| 1954 | -- | 33.33 | 8.85 | 4.57 | 3.60 | 12.84 | 4.49 | 4.18 | 71.87 |
| 1955 | c | 30.60 | 13.69 | 4.45 | 3.49 | 12.75 | 4.69 | 3.89 | 73.58 |
| 1956 | $26.17 | 33.22 | 21.25 | 4.62 | 3.42 | 9.68 | 4.76 | 3.50 | 106.62 |
| 1957 | 37.16 | 37.42 | 23.65 | 4.42 | 3.45 | 8.67 | 5.58 | 4.30 | 124.64 |
| 1958 | 37.88 | 38.07 | 26.94 | 4.66 | 3.40 | 7.83 | 5.50 | 4.81 | 129.10 |
| 1959 | 39.49 | 39.12 | 28.52 | 5.11 | 3.76 | 6.07 | 5.67 | 2.51 | 130.25 |
| % increase 1959 over 1950 | -- | 50.6 | 276.8 | 9.7 | 17.9 | -50.9 | 90.3 | -44.1 | 112.7 |

[a]Includes sales tax license permits.
[b]Sum of items may not equal totals because of rounding.
[c]Less than $.10.

Source: Table 3.19.

Table 3.22

Per Capita State Taxes, 1959 Prices,[a] Nevada
Fiscal Years 1950-1959

| Year | Sales taxes[b] | High-way taxes | Gaming taxes | Cigar-ette taxes | Liquor taxes | Prop-erty taxes | Other bus. & agr. taxes | Misc. lic.& fees | Total State taxes[c] |
|---|---|---|---|---|---|---|---|---|---|
| 1950 | -- | $31.49 | $ 9.18 | $5.65 | $3.87 | $14.98 | $3.61 | $5.44 | $ 74.23 |
| 1951 | -- | 32.90 | 9.54 | 5.23 | 4.65 | 14.90 | 5.04 | 4.77 | 77.02 |
| 1952 | -- | 34.26 | 9.52 | 5.23 | 3.69 | 14.44 | 4.50 | 4.33 | 75.97 |
| 1953 | -- | 36.73 | 11.02 | 5.28 | 3.96 | 14.03 | 4.77 | 5.27 | 81.08 |
| 1954 | -- | 36.18 | 9.61 | 4.96 | 3.91 | 13.94 | 4.87 | 4.54 | 78.01 |
| 1955 | d | 33.30 | 14.90 | 4.94 | 3.80 | 13.87 | 5.10 | 4.23 | 80.07 |
| 1956 | $28.06 | 35.62 | 22.79 | 4.95 | 3.67 | 10.38 | 5.10 | 3.75 | 114.33 |
| 1957 | 38.52 | 38.79 | 24.52 | 4.58 | 3.58 | 8.99 | 5.78 | 4.46 | 129.20 |
| 1958 | 38.22 | 38.41 | 27.18 | 4.70 | 3.43 | 7.90 | 5.55 | 4.85 | 130.25 |
| 1959 | 39.49 | 39.12 | 28.52 | 5.11 | 3.76 | 6.07 | 5.67 | 2.51 | 130.25 |
| % increase 1959 over 1950 | -- | 24.2 | 210.7 | -9.6 | -2.8 | -59.5 | 57.1 | -53.9 | 75.5 |

[a]Current per capita taxes adjusted by the Consumer Price Index, U. S. Department of Labor, Bureau of Labor Statistics.

[b]Includes sales tax license permits.

[c]Sum of items may not equal totals because of rounding.

[d]Less than $.10.

Source: Table 3.19.

the miscellaneous licenses and fees as a group by 54 percent, and the nominal increases in cigarette and liquor tax collections actually became respective decreases of 10 and 3 percent. Similarly, the relative increases of 24 percent in highway user levies, 57 percent in the case of the "other business and agricultural tax" category, and 211 percent for gambling taxes are significantly less than the comparable rates of increase shown in Tables 3.19 and 3.20. Also, it is noteworthy that on this basis the per capita total State tax burden rose from $74.23 in 1950 to $130.25 in 1959, an increase of slightly more than 75 percent. In other words, approximately three-fourths of the actual dollar increase in Nevada's total State tax collections during the decade of the 1950's may be attributed to the State's rapid population growth and the general consumer price inflation of the era.

## Interstate Tax Comparisons, 1950-1959

This section compares Nevada's total State tax burdens with that of the other Western States and the nation for the fiscal years 1950 and 1959. In order to assure that the tax revenues of the several states are classified and treated in a uniform manner the analysis is based on Census Bureau data and, as such, the total dollar amount of taxes reported for Nevada in this section will be somewhat larger than those presented in Table 3.19 since the Census data are on a gross, rather than a net basis.[18]

The trends of state tax collections in the West, both in total and per capita terms and the latter adjusted for changes in the consumer price level, are shown in Table 3.23. The total of State tax revenues in Nevada rose from $11 million in 1950 to almost $39 million in 1959, an increase of more than 250 percent for the decade. In contrast, the comparable percentage increases for the region and nation were 117 and 100 percent, respectively. Other Western States with relatively large rates of increase were Arizona (170 percent) and New Mexico (122 percent); while the smallest percentage changes occurred in Oregon, Utah and Nevada, the only three states in the region which did not double their dollar tax collections in the course of the decade. When the data are adjusted to reflect the population and price factors, the 1950 per capita state tax collections in the West ranged from a high of $102.58 in Washington to a low of $61.00 in Montana. Nevada's per capita tax amounted to $83.33 and the State ranked fourth in the region. By 1959 all states had experienced a "real" increase in tax burdens. Washington continued to rank first with per capita collections of $148.06; while the only four states with per capita taxes of less than $100 were Idaho, Montana, Utah and Oregon. On this basis, Nevada had the second highest tax burden in the West, $138.30, which was considerably in excess of the regional and national averages of $112.69 and $90.29. Finally, in terms of the rates of growth in "real"

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[18] See supra, p. 84, footnote 14.

Table 3.23

Comparative State Tax Collections, Totals in Current Prices, Per Capita in 1959 Prices, Nevada, Western States, and All States, Fiscal Years 1950 and 1959

| | Total state tax collections: Current prices (millions) | | | Per capita state tax collections: 1959 prices[a] | | |
|---|---|---|---|---|---|---|
| | 1950 | 1959 | % increase 1959 over 1950 | 1950 | 1959 | % increase 1959 over 1950 |
| Arizona | $ 47.8 | $ 129.2 | 170.3 | $ 76.83 | $104.80 | 36.4 |
| California | 811.2 | 1,812.6 | 113.5 | 92.83 | 123.82 | 33.4 |
| Colorado | 89.4 | 182.8 | 104.5 | 80.93 | 108.65 | 34.3 |
| Idaho | 30.0 | 57.6 | 92.0 | 61.32 | 86.74 | 41.5 |
| Montana | 30.1 | 60.4 | 100.1 | 61.00 | 87.91 | 44.1 |
| Nevada | 11.0 | 38.7 | 251.8 | 83.33 | 138.30 | 66.0 |
| New Mexico | 51.1 | 113.4 | 121.9 | 89.63 | 129.01 | 44.0 |
| Oregon | 99.8 | 176.5 | 76.9 | 79.32 | 99.96 | 26.0 |
| Utah | 43.6 | 83.3 | 91.1 | 76.03 | 94.67 | 24.5 |
| Washington | 201.6 | 418.0 | 107.3 | 102.58 | 148.06 | 44.3 |
| Wyoming | 17.7 | 37.6 | 112.4 | 73.72 | 117.71 | 60.0 |
| Western States | $1,433.3 | $3,110.1 | 117.0 | $ 79.78 | $112.69 | 41.3 |
| All States | $7,929.9 | $15,848.4 | 99.9 | $ 63.89 | $ 90.29 | 41.3 |

[a]Total tax collections for fiscal years are adjusted by July 1 population estimates for end of corresponding fiscal year. Per capita taxes for 1950 are adjusted by the Consumer Price Index, U. S. Department of Labor.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1951 (Appendix Table 1) and 1959.

tax burdens, Nevada actually ranked first among the Western States with a relative increase of 66 percent for the ten-year period, followed by Wyoming with an increase of 60 percent. In contrast, the regional and national averages for the decade were 41 percent, and the smallest increases, about 25 percent, occurred in Utah and Oregon.

As previously indicated, the level of state income is another important factor which should be considered in assessing comparative state tax burdens. Table 3.24 shows per capita state tax collections expressed as a percentage of the per capita personal income received by the residents of the individual Western States for the years 1950

Table 3.24

Per Capita State Tax Collections and State Personal Income, Nevada, Western States and All States, Fiscal Years 1950 and 1958

| | 1950 | | | 1958 | | |
|---|---|---|---|---|---|---|
| | Per capita taxes | Per capita income | Taxes as percent of income | Per capita taxes | Per capita income | Taxes as percent of income |
| Arizona | $63.39 | $1,297 | 4.9 | $ 95.66 | $1,932 | 5.0 |
| California | 76.59 | 1,848 | 4.1 | 117.19 | 2,559 | 4.6 |
| Colorado | 66.77 | 1,446 | 4.6 | 99.95 | 2,047 | 4.9 |
| Idaho | 50.59 | 1,279 | 4.0 | 81.71 | 1,701 | 4.8 |
| Montana | 50.33 | 1,606 | 3.1 | 83.72 | 1,920 | 4.4 |
| Nevada | 68.75 | 1,938 | 3.5 | 135.49 | 2,569 | 5.3 |
| New Mexico | 73.95 | 1,163 | 6.4 | 123.66 | 1,838 | 6.7 |
| Oregon | 65.44 | 1,602 | 4.1 | 105.94 | 2,006 | 5.3 |
| Utah | 62.73 | 1,283 | 4.9 | 92.15 | 1,753 | 5.3 |
| Washington | 84.63 | 1,671 | 5.1 | 135.14 | 2,160 | 6.3 |
| Wyoming | 60.82 | 1,629 | 3.7 | 114.51 | 2,088 | 5.5 |
| Western States | $65.82 | $1,524 | 4.4 | $107.74 | $2,052 | 5.3 |
| All States | $52.71 | $1,491 | 3.5 | $ 86.54 | $2,057 | 4.2 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1951 (Appendix Table 1) and 1959; and Office of Business Economics, Personal Income by States Since 1929, 1956; and Survey of Current Business, August, 1959.

and 1958.[19] It will be noted when interstate comparisons of tax burdens are made in these terms, the ratios for the individual Western States in 1950 ranged from a high of 6.4 percent for New Mexico to a low of 3.1 percent for Montana. Nevada's ratio of 3.5 percent was the next lowest in the West and markedly below the regional average of 4.4 percent, although equivalent to the national average for that year. However, by 1958 the per capita tax collections in every Western State had increased relatively more than the personal income received by residents and, thus, state tax collections for 1958 when expressed as percentages of personal income were correspondingly higher in every state than at the beginning of the decade. Among the Western States New Mexico continued to rank first and Montana last, but Nevada's rank shifted from tenth to fifth position. Its ratio of 5.3 percent was equal to the regional average and above the national average

[19]This represents the latest year for which state personal income data are available.

of 4.2 percent. On this basis the level of total State taxes in Nevada was fairly comparable with that for the Western States as a group. In brief, it is evident that when population, price and income factors are taken into consideration the tax variance between Nevada and the other Western States is considerably reduced, but it is also apparent that the "real" burden of State taxes in Nevada continues to be relatively high when compared with that for the region and the nation.[20]

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[20]Of course, the above analysis does not take into consideration the final incidence of any tax, i.e., the fact that part of Nevada's State tax burden ultimately is borne by tourists and other non-residents. The particular problems of tax shifting and tax incidence related to specific levies are discussed in the chapters of this study which cover each of the major taxes used in Nevada.

## CHAPTER IV

## STATE DEBT

The power to borrow, like the power to tax, is inherent in all sovereign governments and every one of the fifty states in the nation utilizes public debt as a supplementary means of financing government expenditures. Although taxation continues to be the major source of public revenues for all levels of government, an unprecedented increase in the amount of public debt in the United States has occurred over the past two decades. As shown by Table 4.1, the total debt of

Table 4.1

Public Debt by Type of Governmental Units,
Selected Fiscal Years, 1940-1958
(In billions of dollars)

| Year | Federal | State | Local | Total |
|---|---|---|---|---|
| 1940 | $ 43.0 | $ 3.6 | $ 16.7 | $ 63.3 |
| 1946 | 269.4 | 2.3 | 13.6 | 285.3 |
| 1948 | 252.3 | 3.7 | 15.0 | 270.9 |
| 1950 | 257.4 | 5.3 | 18.8 | 281.5 |
| 1952 | 259.1 | 6.9 | 23.2 | 289.2 |
| 1954 | 271.3 | 9.6 | 29.3 | 310.2 |
| 1956 | 272.8 | 12.9 | 36.3 | 322.0 |
| 1958 | 276.4 | 15.4 | 42.8 | 334.6 |
| Percent increase 1958 over 1950 | 542.8 | 327.8 | 156.3 | 428.6 |

Source: U. S. Department of Commerce, Bureau of the Census, Historical Statistics on State and Local Government Finance; Statistical Abstract of the United States; and, Summary of Government Finances in 1958.

all governmental units--federal, state and local--has risen from about $63 billion in 1940 to $335 billion in 1958, an increase of more than 400 percent. Of course, the bulk of this must be attributed to the federal debt which increased more than five-fold during this period, primarily as a result of World War II. In contrast, state debt which quantitatively is the least important type of public debt (less than 5 percent of the total in 1958) actually declined by one-third during the war years, regained its pre-war level by 1948, and then increased by more than 300 percent during the past decade. Local debt generally followed a similar pattern of development since 1940, and although its relative growth was significantly smaller, in absolute terms the total

dollar amount of local debt in recent years has been about three times as large as the total of state debt.

The history of state debt in the United States is closely related to the nation's wars, economic fluctuations and major developments in the field of mass transportation--inland canals, railroads and motor highways. The earliest public debt in America can be traced to the predecessors of state government, the original English colonies which issued "bills of credit" that circulated as money.[1] During the Revolution the newly created states attempted to help finance the war by an "orgy of irresponsible state borrowing" which soon required that the debt be assumed by the federal government. More responsible large-scale borrowing for capital improvements took place during the first half of the 19th century when states became engaged in the construction of canals and the financing of railroads. Total state debt increased ten-fold in the thirty years prior to the Civil War and by 1860 it exceeded a quarter of a billion dollars.

Another upsurge in state deficit financing occurred during the Civil War when both the Union and Confederate states went further into debt in order to recruit and equip their state regiments. In turn, this was followed by the first prolonged period of state debt contraction which set in after hostilities ceased mainly as a result of the cancellation of the Confederate war debt and the subsequent repudiation by the Southern states in the eighties and nineties of a large part of their "carpetbag state debt." By the end of the century the total of state debt was actually smaller than it had been when the Civil War broke out.

State debt rose significantly during the first four decades of the present century, in large part as a result of the advent of the automobile and the extensive construction of state arterial highways throughout the nation. Other contributing factors were population growth, urbanization, and particularly the Great Depression, for the states assumed the major responsibility for providing relief and welfare benefits during the early thirties when state revenues were actually declining. By 1940 total state debt amounted to $3.6 billion, but a marked reduction took place during World War II. Increased economic activity resulted in increased state tax revenues, state capital construction programs were "frozen for the duration," and many states used accumulating surpluses to retire outstanding debt.

The post-war years have been characterized by a continuous growth in state debt, from $2.3 billion in 1946 to $16.9 billion in 1959, a six-fold increase in thirteen years. Although state bonuses paid to returning veterans immediately after the war were largely

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[1]For a detailed history of state debt see B. U. Ratchford, American State Debts (Durham: Duke University Press, 1941).

financed by state borrowing, the largest part of the growth in state debt must be attributed to the backlog of capital improvements deferred by depression and war, the unprecedented rise in population and national income, the public demand for improved educational facilities, and the erosion of the state tax dollar by continuous postwar inflation.

## The Rationale of Public Borrowing

In general terms, governments finance public expenditures by resorting to taxation, borrowing and the creation of money. The latter, actually a form of hidden taxation if it results in price inflation, is a power reserved to the federal government and as such is not available to either state or local jurisdictions. As previously noted, taxation is considered to be the normal means by which state governments secure their revenues and public borrowing is regarded as a supplementary means used primarily to finance capital improvements which yield benefits over relatively long periods of time. In other words, taxation generally concentrates the costs of government in the present, borrowing spreads them over a term of years or postpones them indefinitely into the future.

More basically, taxation and borrowing differ from each other as alternative sources of public revenues in that the former represents a compulsory contribution levied by the state without requiring any direct correspondence between the amount of tax paid and the benefits received by the individual taxpayer; in contrast, the essence of borrowing is that it represents a voluntary exchange transaction between the state and individuals who are promised full repayment of the loan sometime in the future, plus the additional payment of contractual interest. Thus, it is apparent that public borrowing is analogous to the business borrowing which occurs in the private sector of the economy. Moreover, regardless of whether a governmental unit or a private business corporation is involved, the underlying economic principle is the same--if funds from internal sources are not available, capital improvements should be financed by borrowing whenever a project is expected to yield benefits during its useful life which are clearly equal to or greater than the full cost of the borrowing. This is considered to be rational economic behavior for both individuals and governments.[2]

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[2]In Keynesian terms, investment should be undertaken as long as the marginal efficiency of capital (the present discounted value of the expected future stream of services or income) is equal to or exceeds the going money rate of interest. See John Maynard Keynes, The General Theory of Employment, Interest and Money (New York: Harcourt Brace and Co., 1936), p. 248.

The more practical problem, however, is how to determine the benefit-cost values, particularly in the case of public investment in capital improvements such as arterial highways, reclamation projects, schools, hospitals and other public buildings. By their very nature the benefits derived from public services are not subject to the pricing process of the private sector of the economy and, thus, it is practically impossible to measure the full social benefits and social costs which become widely diffused throughout the economy over time. Nevertheless, the above principle of debt financing poses the economically pertinent question that should be asked whenever any public project is under consideration, but it does not provide an operationally useful guide for governmental decision-making. Instead of calculus, the decision to borrow at best can only be based on informed judgment.

In more pragmatic terms, states must pursue financial policies which are socially and politically acceptable as well as economically sound. It is generally recognized that continuous debt financing of current expenditures and recurring short-lived capital improvement merely saddles future taxpayers with costs that should be borne by the present beneficiaries of public services. On the other hand, an austere "pay-as-you-go" policy may deny the community the opportunity of acquiring socially needed long-term capital improvements whose total cost is large relative to the current level of tax revenues; or when such projects are in the main financed out of current tax revenues the policy in effect exploits present taxpayers for the benefit of future taxpayers.

Moreover, it is important to recognize that the apparent saving of interest costs which result from cash financing may be illusory since an inflexible "pay-as-you-go" policy in the long run actually may be more expensive than deficit financing if the construction of needed capital projects is delayed during periods of sustained price inflation solely because of strict adherence to such a policy. Since the end of World War II many states and local jurisdictions discovered that the postponement of a building program in order to save interest charges was significantly more costly than borrowing. Interest rates have climbed during the past decade, but it is equally noteworthy that the U. S. Department of Commerce's index of construction costs for the post-war years has risen steadily from 77 in 1946 to 141 in 1959, an increase of more than 80 percent.[3]

In addition to the financing of long-term capital improvements, it appears that state governments at times borrow funds rather than resort to taxation or other current revenues for the following reasons:

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[3]U. S. Department of Commerce, Business and Defense Service Administration, Construction Volume and Costs, 1915-1956, p. 54; and Construction Review, June, 1960, p. 34.

(1) to obtain working capital on a short-term basis in anticipation of regular tax revenues; (2) to finance irregular expenditures and emergencies; and (3) to refund existing debt. In some governmental jurisdictions the fiscal year and the tax collection year are not properly synchronized so that tax revenues are not due and payable until the fiscal year is several months advanced. This makes it necessary to float short-term loans to meet payroll and other current operating expenditures until the tax monies reach the state treasury. Of course, maintaining working capital reserves of proper proportions would enable state governments to avoid this type of borrowing.[4] During recent years state borrowing for emergency purposes has been rather limited, only appearing in those jurisdictions which have suffered natural disasters such as major floods, tornadoes, fires and earthquakes. On a more general basis, as indicated above, many states during the early years of the Great Depression had to borrow in order to meet relief costs and other economic emergency expenditures. Also, immediately after World War II, some states had to rely upon emergency borrowing in order to pay the adjusted compensation or bonuses voted the veterans of the armed services. Finally, it may be noted that states do not have the type or magnitude of debt which would make it possible for them to engage in refunding operations comparable to those carried out by the federal government. Infrequently states resort to the refinancing of particular bond issues in order to take advantage of changing interest rates, but generally if maturing state bonds were refunded instead of retired it would be indicative that the state was in serious financial difficulties.

## Methods of Capital Financing

Public works projects of state governments are financed by a number of different methods, such as pay-as-you-go, dedicated tax revenues, federal grants in aid, lease purchase and bonded indebtedness. Each of these is subject to pro and con arguments, and decisions as to which to use can only be based on conditions present in the jurisdiction at the time the capital improvement is being proposed. As already noted, the cardinal principle in capital financing is that debt should not be incurred for financing an improvement which has a short-term life, nor for the financing of a long-term construction project unless the life of the project extends beyond the term of the bonds issued for its financing.

The type of public works project to be financed is a primary consideration in the use of pay-as-you-go. There are many capital requirements which are almost as steadily recurrent as operating expenses. These include items of a relatively short life, such as equipment, and the routine extension and replacement of facilities

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[4]See Chapter V, "State Budgetary Processes," for a detailed analysis of surplus and working capital requirements.

which vary little from year to year. These normal, recurring capital expenses should be incorporated in each year's operating budget, and as such would be financed on a pay-as-you-go basis. Where capital improvement projects are of the non-recurring type and it is desired to use pay-as-you-go financing a gradual increase in existing taxes should be scheduled over a number of years until the desired level of revenues is achieved. These revenues for capital financing should be accumulated in a capital construction fund pending appropriation of particular projects by the legislature. Another possibility is that new taxes be introduced for the purpose of providing money on a continuing basis for capital construction projects. Although there may be pressures to earmark the new revenue source for a specific function or agency to the exclusion of others, it is generally considered desirable to place the revenue in a consolidated general capital construction fund available for appropriation for any agency within the government. If on occasion there is insufficient money available in the capital construction fund, tax anticipation warrants may be issued to be redeemed out of future tax revenues. New York, California and Maryland are usually recognized as states which have developed good procedures for financing capital improvements.

New York pioneered in the establishment of a separate capital construction fund which is used for financing practically all capital construction in the State--highways, bridges and public buildings, as well as facilities for parks, conservation, erosion and flood control. The capital construction fund is financed from excess current revenues, earned income of war bonus and mental health bond accounts, and the proceeds of bond issues. The operations of the capital construction fund are segregated from those of the general operating fund and since completion of a construction contract often requires several years, unexpended balances in capital appropriations are reappropriated annually. The total capital construction fund appropriations in force at any one time will greatly exceed annual expenditures from the fund because of the large amount of reappropriations necessary to cover outstanding contract commitments. By means of the annual reappropriation process, changes in projects such as cancellations and overruns or underruns on necessary money are accommodated by an annual legislative review. Moreover, the use of a capital construction fund enables the State to avoid large fluctuations in the general fund which would necessarily occur if expenditures for capital construction projects and operating expenses were intermingled.[5]

California is an example of a State which had to modify its program from complete pay-as-you-go to debt financing. Until 1956, California financed all State structures, including college and university buildings, on a pay-as-you-go basis. Since then, however, it has had to resort to borrowing in order to meet its expanding capital

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[5]New York State Budget Summary, 1958-59, Albany: 1958.

requirements, especially for centers of higher education. Current revenues are used to the fullest extent possible, but a part of the cost of capital construction is met through sales of general obligation bonds. Each year, under a system of priorities, a "hard-core" building program is financed on this basis.[6]

Maryland also has a well-developed capital budgeting procedure that utilizes a combination of pay-as-you-go and general obligation bonds. From 1948 through 1954, in addition to $26 million appropriated from current revenues, the State floated eight different bond issues totaling $88 million for a public works construction fund. Thus, rather than issuing separate bonds for each project, the State has used omnibus bonds which cover a number of projects. For example, a general construction loan of $15 million in 1953 included the financing of 181 different capital projects. The Maryland State Board of Public Works has authority to make minor transfers among projects to cover overruns and underruns, and it can use excess money from a project for the retirement of debt.[7]

Long-term state debt is represented by three broad types of securities: general obligation bonds, revenue bonds, and limited obligation bonds. The most common and economical method of borrowing for long-term capital improvements is through issuance of general obligation bonds guaranteed by general government revenues and secured by the pledge of the "full faith and credit" of the issuing state. As guaranteed debt, these bonds carry the lowest interest rates, but because they generally are subject to constitutional debt limitation the states have relied relatively less upon this type of guaranteed debt during the post-war years. For example, total state long-term debt rose from $2.3 billion in 1946 to $16.4 billion in 1959, an increase of more than 600 percent since the end of World War II, but in 1946 almost 87 percent of the total outstanding long-term state debt was represented by "full faith and credit" obligations, whereas by 1959 the ratio was down to 50 percent. Thus, it would appear that state constitutional debt limitations have been widely circumvented by the use of sundry forms of higher cost non-guaranteed debt. As observed recently by one tax authority:

> Too many states . . . have exercised their ingenuity in recent years in devising borrowing instruments that have enabled them to pay investors from ½ of 1 percent to 1½ percent more than if they had issued bonds with a pledge of their faith and credit. Much of this, but by no means all of it, has been forced evasion . . . of constitutional prohibitions.[8]

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[6]California State Department of Finance, Five-Year Building Program for California State Government, 1959-1964, Sacramento: 1958.

[7]State of Maryland, Department of Public Improvements, Maryland Builds, Baltimore: 1955.

[8]F. L. Bird, Tax Policy, November, 1956, p. 6.

Moreover, on the state level it has generally been contended that debt limits have proven to be rather "crude and superficial methods of controlling expenditures."[9] Such limits, as in Nevada, usually are related to a state's total assessed valuation, but property taxation no longer constitutes an important form of state tax revenue, nor does it represent the major source of funds for retirement of state debt. In brief, the amount of assessed valuation carried on the property tax rolls does not necessarily represent a reliable measure of a state's fiscal capacity.

Aside from general obligation bonds, the most popular method of borrowing to finance capital construction projects in recent years has been the issuance of revenue bonds. These are used to finance construction of a public utility or income-producing enterprise, whose revenues are dedicated to the payment of the interest and the principal of such bonds. Revenue bonds are not general obligations of the state and do not represent a claim upon taxes or other general revenues. Projects usually financed by revenue bonds include toll highways, airports, college dormitories, student unions, water and sewage disposal systems, and other types of income-producing governmental enterprises. In addition to states, these bonds are used by counties, municipalities, ad hoc special districts, corporations and public authorities usually organized for the express purpose of operating projects associated with the bonds. There is always the question as to whether or not the jurisdiction authorizing the bonds is liable if revenue bonds go into default, but obviously there would be no legal obligation--only a moral one or the desire to protect its credit rating. Revenue bond financing provides the possibility that when a facility has been fully amortized the revenues can be used for financing other projects. However, in such instances the charge is usually reduced or eliminated or the funds are channeled into improvements associated with the original facility. Some of the apparent reasons for the popularity of revenue bonds are the following: to circumvent the legal limitations of general obligation bonds; to avoid increases in full faith and credit debt; to finance government-owned utility ventures which should be self-supporting without tax subsidy; to avoid holding popular elections often required with general obligation bond issues; to overcome poor credit ratings; and where special corporations or authorities are established, to finance the construction of projects which the sponsoring government cannot undertake.

Limited obligation bonds have certain tax and non-tax revenues dedicated to the payment of their principal and interest. In almost all instances such bonds are of the "full faith and credit" variety and as such are a contingent liability upon general funds of the treasury of the issuing government although the interest and principal

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[9]W. J. Shultz and C. L. Harris, American Public Finance, Seventh Edition (Englewood Cliffs, N. J.: Prentice-Hall, 1959), p. 514.

payments are normally from receipts produced by special taxes levied for this purpose. These bonds also offer a means of assessing the cost of public improvements of localized benefit upon recipients in a specific area. The most common is the special assessment district bond, through which property improvements are undertaken with borrowed funds to be repaid from revenues produced by a special assessment on the benefited property. As noted, special districts often are created to circumvent taxing or debt limits applicable to states and traditional local jurisdictions, or to avoid general bond elections. Some caution should be exercised in the use of special assessment district bonds in order to prevent an overburdening of certain properties or jurisdictions with unreasonable special debt levies in addition to general obligation levies.

In addition to the above three types of long-term debt, some states have indirectly financed capital construction projects by the use of a lease purchase arrangement. Where bonded debt capacity has been reached and raising taxes or obtaining revenues from the other sources mentioned above are not practical, private investment groups undertake the financing and construction of public improvements for leasing to the state at contracted rental fees. This is a modification of a governmental building authority using revenue bond financing, except that in this case the builders are investing private capital. This method works out to be more expensive for the governmental jurisdiction since the rental fee must cover a fair profit for the lessor as well as the interest costs which generally will be higher than that on an equivalent amount of public debt. The fact that a governmental unit resorts to this type of financing would indicate that there is either a restrictive debt limitation or a maldistribution of tax resources among levels of government within the state. If financing costs of capital construction projects are to be minimized, then governmental units obviously should be permitted to use their own credit to obtain necessary funds by public borrowing.

## Interstate Debt Comparisons

Nevada is unique among the states in having the smallest total state debt in the nation--$2,856,000 of outstanding long-term debt at the end of fiscal year 1959. Even on a per capita basis only four states--Idaho, Nebraska, South Dakota and Wisconsin--had a smaller public debt in 1959. Table 4.2 shows the total and per capita long-term debt outstanding at the end of fiscal years 1950 and 1959 for Nevada, the other Western States and the nation as a whole.

It will be noted that the total long-term debt in Nevada rose from $.8 million in 1950 to $2.9 million in 1959, an increase of 264 percent for the decade. Although above the national average, this percentage increase was markedly smaller than that for the Western States as a group, inclusive and exclusive of California which accounted for two-thirds of the total regional debt. When the data are reduced to a per capita basis Nevada's debt rose from $4.91 in 1950 to $10.20 in

Table 4.2

Total and Per Capita State Long-Term Debt,
Outstanding at the End of Fiscal Years 1950 and 1959

| | Total long-term debt (millions): | | | Per capita long-term debt: | | |
|---|---|---|---|---|---|---|
| | Fiscal 1950 | Fiscal 1959 | % increase '59 over '50 | Fiscal 1950 | Fiscal 1959 | % increase '59 over '50 |
| Arizona | $ 3.5 | $ 12.8 | 261 | $ 4.69 | $ 10.36 | 121 |
| California | 263.4 | 1,712.0 | 550 | 24.87 | 116.95 | 370 |
| Colorado | 13.5 | 59.5 | 341 | 10.09 | 35.39 | 251 |
| Idaho | 0.9 | 6.5 | 628 | 1.51 | 9.80 | 549 |
| Montana | 25.1 | 45.8 | 83 | 41.95 | 66.67 | 59 |
| Nevada | 0.8 | 2.9 | 264 | 4.91 | 10.20 | 108 |
| New Mexico | 29.9 | 50.9 | 70 | 43.25 | 57.94 | 34 |
| Oregon | 36.7 | 283.1 | 671 | 24.07 | 160.30 | 566 |
| Utah | 1.0 | 9.7 | 879 | 1.43 | 11.05 | 673 |
| Washington | 97.7 | 394.1 | 304 | 41.01 | 139.62 | 241 |
| Wyoming | 2.9 | 3.8 | 29 | 10.08 | 11.83 | 17 |
| Western States Total | $ 475.4 | $ 2,581.1 | 443 | $18.90 | $ 57.28 | 203 |
| Excl. Calif. | 212.0 | 869.2 | 310 | 18.30 | 51.32 | 180 |
| All States | $5,150.0 | $16,421.2 | 219 | $34.23 | $ 93.55 | 173 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1950 and 1959.

1959, an increase of 108 percent which was considerably less than the regional and national increases of 203 and 173 percent, respectively. Also in these terms the Nevada debt in 1959 was less than one-fifth the Western States average of $57.28, and less than one-ninth the national average of $93.55. Among the Western States the only one with a smaller per capita debt that year was Idaho ($9.80), while at the other extreme the three Pacific States showed the largest per capita debts--Oregon ($160.30), Washington ($139.62), and California ($116.95). Moreover, the above data do not take into account the price inflation which characterized the past decade. For example, the U. S. Department of Commerce's index of construction costs increased from 107 in 1950 to 141 in 1959. Since the largest part of the state debt was incurred in financing capital improvement projects, if the per capita debt figures were adjusted for the price inflation of the period, the "real" per capita debt in 1959 expressed in dollars of 1950 purchasing power would have been approximately one-fourth smaller than the nominal debt shown in the table. In other words, Nevada's per capita "real" debt for 1959 would have been $7.74 instead of $10.20, and therefore, almost one-half of the increase in State long-term debt should be attributed to the price inflation in building costs which occurred during the ten-year period.

Table 4.3 shows the amount of state long-term debt, classified by type, outstanding at the end of fiscal year 1959 for Nevada, the other Western States and the nation as a whole. It will be noted that Nevada was the only State in the West with a long-term debt consisting solely of guaranteed bonds secured by the "full faith and credit" of the issuing state. Oregon's situation would have been similar except for a relatively small amount of non-guaranteed debt which represented less than 1 percent of its total debt. California's long-term borrowing also was represented mainly by guaranteed securities which accounted for more than 93 percent ot its total debt. On the other hand the majority of Western States have resorted primarily to the use of non-guaranteed issues. These accounted for practically the entire long-term debt of

Table 4.3

State Guaranteed and Non-guaranteed Long-term Debt
Outstanding at the End of Fiscal Year 1959

| | Amount of debt (millions): | | | Percentage distribution: | | |
|---|---|---|---|---|---|---|
| | Full faith & credit[a] | Non-guaranteed[b] | Total long-term | Full faith & credit[a] | Non-guaranteed[b] | Total long-term |
| Arizona | $ c | $ 12.8 | $ 12.8 | 0.1 | 99.9 | 100.0 |
| California | 1,595.1 | 116.9 | 1,712.0 | 93.2 | 6.8 | 100.0 |
| Colorado | -- | 59.5 | 59.5 | -- | 100.0 | 100.0 |
| Idaho | 1.6 | 4.9 | 6.5 | 24.6 | 75.4 | 100.0 |
| Montana | 10.6 | 35.2 | 45.8 | 23.1 | 76.9 | 100.0 |
| Nevada | 2.9 | -- | 2.9 | 100.0 | -- | 100.0 |
| New Mexico | 24.7 | 26.2 | 50.9 | 48.5 | 51.5 | 100.0 |
| Oregon | 283.0 | 0.1 | 283.1 | 100.0 | d | 100.0 |
| Utah | -- | 9.7 | 9.7 | -- | 100.0 | 100.0 |
| Washington | 44.2 | 349.9 | 394.1 | 11.2 | 88.8 | 100.0 |
| Wyoming | -- | 3.8 | 3.8 | -- | 100.0 | 100.0 |
| Western States - | | | | | | |
| Total | $1,962.1 | $ 619.0 | $ 2,581.1 | 76.0 | 24.0 | 100.0 |
| Exclud.Calif. | 367.0 | 502.2 | 869.1 | 42.2 | 57.8 | 100.0 |
| All States | $8,211.4 | $8,209.8 | $16,421.2 | 50.0 | 50.0 | 100.0 |

[a]Includes general obligation and limited obligation bonds, i.e., debt which is initially payable from specified non-tax revenues.
[b]Payable solely from pledged non-tax revenues or from specific non-property taxes.
[c]Less than $50,000.
[d]Less than 1/10 of 1 percent.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1959.

Arizona, Colorado, Utah and Wyoming; and for more than three-fourths of the total debt in the states of Idaho, Montana and Washington. In brief, the data show that the ratio of "full faith and credit" debt for the West was 76 percent, but when California is excluded such debt accounted for only 42 percent of the regional total, a ratio markedly below the 50 percent average for the nation.

The state long-term debt outstanding at the end of fiscal year 1959 also may be classified by major functions such as education, highways, hospitals and "all other," with the latter including public welfare and safety, natural resources development, non-highway transportation and veterans' bonuses. With regard to the latter, the only states in the West to incur debt for this purpose were Montana, Oregon and Washington. The general distribution of state debt by the above functional categories indicates that the pattern of debt in Nevada and the Western States as a group differed considerably from the national pattern, as shown by Table 4.4. This is particularly notable in the case of education and state highway debt, quantitatively the two most important types which together accounted for almost one-half of the total regional debt and approximately two-thirds of the total debt of all states combined. Moreover, every state in the nation in 1959 had some outstanding long-term debt incurred in financing the capital construction programs of its public schools and institutions of higher education; and three-fourths of the states had outstanding state highway debt at the same time.

State educational debt alone, expressed as a percentage of total state debt, amounted to 30 percent for the Western States (27 percent if California is excluded), but averaged only 15 percent for the nation as a whole. Among the states in the region, this type of debt ranged from a high of practically 100 percent for Arizona to a low of 5 percent for Oregon. In Nevada, State debt incurred in financing education accounted for almost 44 percent of the total and the State ranked sixth in the region on this score. In contrast to education, and partly as a result of relatively larger federal grants-in-aid received by the Western States, highway debt accounted for less than 15 percent of the total for the region (30 percent if California is excluded), but more than 51 percent for all states combined. More than half of the Western States, including Nevada, did not have any outstanding long-term state highway debt and among the remaining states in the region this type of debt ranged from almost 55 percent in Colorado to 7 percent in California. With regard to state hospital debt only three Western States--Montana and New Mexico in addition to Nevada--have resorted to long-term borrowing to finance this type of facility and in each case it represented only a small portion of the total state debt.

## State Debt in Nevada

As a State jurisdiction, Nevada is authorized to contract debts for casual deficiencies in revenue and for such purposes specified in the law authorizing the debt. The State Constitution specifically does

Table 4.4

State Long-term Debt, Classified by Major Functions, Outstanding at the End of Fiscal Year 1959

| | Education | Highways | Hospitals | All other[a] | Total[b] |
|---|---|---|---|---|---|
| A. Total amount of long-term debt (millions): | | | | | |
| Arizona | $ 12.8 | $ -- | $ -- | $ c | $ 12.8 |
| California | 542.6 | 121.2 | -- | 1,048.3 | 1,712.0 |
| Colorado | 24.6 | 32.4 | -- | 2.5 | 59.5 |
| Idaho | 4.9 | -- | -- | 1.6 | 6.5 |
| Montana | 19.5 | -- | 3.0 | 23.3 | 45.8 |
| Nevada | 1.2 | -- | .2 | 1.5 | 2.9 |
| New Mexico | 23.2 | 12.6 | .2 | 14.9 | 50.9 |
| Oregon | 14.9 | 69.3 | -- | 198.9 | 283.1 |
| Utah | 5.7 | -- | -- | 4.1 | 9.7 |
| Washington | 126.6 | 150.0 | -- | 117.6 | 394.1 |
| Wyoming | 2.6 | -- | -- | 1.1 | 3.8 |
| Western States Total | $ 778.6 | $ 385.4 | $ 3.4 | $1,413.7 | $ 2,581.1 |
| Western States Exclud.Calif. | 236.0 | 264.3 | 3.4 | 365.4 | 869.1 |
| All States | $2,533.0 | $8,405.4 | $292.1 | $5,190.7 | $16,421.2 |
| B. Percentage distribution: | | | | | |
| Arizona | 99.9 | -- | -- | 0.1 | 100.0 |
| California | 31.7 | 7.1 | -- | 61.2 | 100.0 |
| Colorado | 41.4 | 54.5 | -- | 4.2 | 100.0 |
| Idaho | 75.4 | -- | -- | 24.6 | 100.0 |
| Montana | 42.5 | -- | 6.6 | 50.8 | 100.0 |
| Nevada | 43.5 | -- | 5.8 | 50.8 | 100.0 |
| New Mexico | 45.6 | 24.8 | .4 | 29.3 | 100.0 |
| Oregon | 5.3 | 24.5 | -- | 70.3 | 100.0 |
| Utah | 58.2 | -- | -- | 41.8 | 100.0 |
| Washington | 32.1 | 38.1 | -- | 29.8 | 100.0 |
| Wyoming | 69.9 | -- | -- | 30.1 | 100.0 |
| Western States Total | 30.2 | 14.9 | 0.1 | 54.8 | 100.0 |
| Western States Exclud.Calif. | 27.2 | 30.4 | 0.4 | 42.0 | 100.0 |
| All States | 15.4 | 51.2 | 1.8 | 31.6 | 100.0 |

[a]Includes debt incurred for public welfare, safety, natural resources, non-highway transportation, veterans' bonuses, and other.
[b]Totals may not equal sum of items because of rounding.
[c]Less than $50,000.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1959.

not permit the State to assume the debts of any county, city or other corporation, unless such debts were created to repel invasion, suppress insurrection, or provide for the public defense.[10] The State, as well as its subdivisions, are also prohibited from using public debt for the financing of any private company, association, or corporation, except those formed for educational or charitable purposes. The law incurring the debt must always specify the purposes for the debt and provide for an annual tax and appropriation sufficient to pay the interest semi-annually and the principal within twenty years. Moreover, such appropriations cannot be repealed and the dedicated taxes cannot be postponed or diminished until the principal and interest on the debt have been fully paid.[11]

The State Constitution also limits the total amount of State debt to 1 percent of the State's total assessed valuation for property taxation. Thus, a constitutional amendment is required before debt limits can be exceeded except for the extraordinary circumstances specified in the State Constitution such as to defend the State in time of war, repel invasion, suppress inserrection, provide for the public defense and so forth.[12] However, as is the practice in the other states it appears that the Nevada constitutional debt limits only apply to general or limited obligations secured by the "full faith and credit" of the State and are not applicable to revenue or non-guaranteed debt which might be used to finance self-supporting public enterprises whose revenues were dedicated to the payment of principal and interest on such debt.

Historically, Nevada's State debt has consisted of general obligation bonds subject to constitutional limitation, except for $2.1 million of revenue bonds authorized in 1957 for student housing at the University of Nevada.[13] As already indicated, long-term debt financing in Nevada has been unusually small relative to the experiences of the other Western States and the nation as a whole. The State has not had to explore the use of other borrowing means simply because it has had sufficient revenues on a current basis since the end of World War II to finance all but a relatively small proportion of its total capital outlay

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[10] Constitution of Nevada, Article IX, Section 4.

[11] Ibid., Article IX, Section 3.

[12] Ibid.

[13] Nevada Revised Statutes, Chapter 360. The State Legislature in 1957 authorized the borrowing of $2,102,000 from the Federal Housing and Home Finance Agency for construction of student housing and dining facilities on the Reno campus of the University of Nevada. Similar to the practice followed by colleges and universities throughout the nation, these facilities were financed by means of revenue bonds, which, as noted, are not guaranteed by the "full faith and credit" of the state and are not included in the constitutional debt limit.

expenditures. As shown by Table 4.5, for the thirteen year period from 1947 to 1959 the total issue of State general obligation bonds, consisting wholly of non-highway debt, amounted to $4.1 million, or only 9/10 of 1 percent of the $447 million of total State general expenditures for the period.[14] Of these general expenditures, $139 million were for capital outlays, mainly highway construction, and the $4.1 million of debt issues represented 2.9 percent of this total. Finally, if the long-term borrowing is related to the non-highway capital outlays of $15.5 million for the period, it accounts for 26.4 percent of the total. In short, during the post-war years Nevada financed on a "pay-as-you-go" basis over 97 percent of its total capital improvement programs, and more than 73 percent of its non-highway capital outlays.

Table 4.5

State General Expenditures, Capital Outlays and General Obligation Bonds Issued, Nevada
Fiscal Years 1947 - 1959

| | Total general expenditures[a] | Capital outlay expenditures: Total amount | Highways | All other | Total general obligation bonds issued[b] |
|---|---|---|---|---|---|
| 1947 | $ 15,249 | $ 5,567 | $ 5,507 | $ 168 | $ 475 |
| 1948 | 17,549 | 5,368 | 4,316 | 1,052 | -- |
| 1949 | 19,587 | 6,122 | 5,582 | 540 | 685 |
| 1950 | 21,479 | 6,701 | 6,084 | 617 | -- |
| 1951 | 24,641 | 6,579 | 5,989 | 590 | -- |
| 1952 | 27,953 | 5,990 | 5,440 | 550 | -- |
| 1953 | 27,858 | 8,461 | 7,948 | 513 | 750 |
| 1954 | 31,600 | 8,328 | 7,523 | 805 | -- |
| 1955 | 36,970 | 10,463 | 9,232 | 1,231 | 2,190 |
| 1956 | 43,076 | 11,428 | 11,001 | 427 | c |
| 1957 | 55,324 | 18,810 | 15,371 | 3,439 | -- |
| 1958 | 60,379 | 21,803 | 18,881 | 2,922 | -- |
| 1959 | 65,307 | 23,542 | 20,887 | 2,655 | -- |
| Totals | $446,972 | $139,270 | $123,761 | $15,509 | $4,100 |
| Debt issue as % of | 0.92% | 2.94% | -- | 26.44% | -- |

[a]Gross expenditures (See Chapter III, p. 3-9, footnote 8).
[b]State Controller's Report (non-highway debt).
[c]Issued and retired $565,000 of short-term debt.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1947-1959; and State of Nevada, Annual Report of the State Controller, 1959.

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[14]This is on a gross basis. See p. 3-9, footnote 8, for distinction between gross and net general expenditures in the case of Nevada.

Outstanding debt of Nevada's State government on June 30, 1959 was $2.9 million, all of which was in general obligation bonds held by State trust funds at an annual interest rate of 3 percent and with annual maturities of 20 years from date of issuance as required by law. Table 4.6 shows that the outstanding general obligation debt of the State rose from $775,000 on June 30, 1950 to a high of $3,065,000 in

Table 4.6

Ratio of Outstanding State General Obligation Debt to Assessed Valuation, End of Fiscal Years 1950-1959
(Dollar amounts in thousands)

| Year | Outstanding debt | State assessed valuation | Ratio of debt to valuation | 1% of assessed valuation | Unused debt capacity |
|---|---|---|---|---|---|
| 1950 | $ 775 | $311,940 | .25 | $3,119 | $2,344 |
| 1951 | 955 | 339,591 | .28 | 3,396 | 2,441 |
| 1952 | 960 | 367,803 | .26 | 3,678 | 2,718 |
| 1953 | 895 | 411,166 | .22 | 4,112 | 3,217 |
| 1954 | 1,429 | 478,254 | .30 | 4,783 | 3,354 |
| 1955 | 1,428 | 523,023 | .27 | 5,230 | 3,802 |
| 1956 | 2,938 | 574,947 | .51 | 4,749 | 2,811 |
| 1957 | 3,064 | 582,268 | .53 | 5,823 | 2,759 |
| 1958 | 3,065 | 590,858 | .52 | 5,909 | 2,844 |
| 1959 | 2,856 | 621,871 | .46 | 6,218 | 3,362 |

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959.

1958, and has declined to $2,856,000 on June 30, 1959. During the same period, outstanding debt at the end of the fiscal year, as a percentage of assessed valuation, represented .25 of 1 percent in 1950 and was .46 of 1 percent in 1959. The assessed valuation during this period rose from $311.9 million in 1950 to $621.9 million in 1959, or almost doubled, while outstanding debt increased more than threefold. Even with the large growth in debt, based on the constitutional debt limit of 1 percent of assessed valuation the outstanding debt could have been twice as large as it was in 1959 and still remain within the limit. In other words, at the end of 1959 the State had about $3.4 million in unused debt capacity which will continue to grow by the amounts of annual debt redemptions that are presently in excess of $200,000 a year and the normal increases in assessed valuations.

Table 4.7 shows that debt redemptions rose from $30,000 in 1950 to $209,000 in 1959 as a result of the growth in outstanding long-term debt. During the ten year period, 1950 through 1959, new bond issues exceeded bonds redeemed in all but four of the years with the largest new issues occurring in 1954 and in 1956. Interest costs of $91,000 in 1959 were more than five times what they were in 1950.

Table 4.7

Debt Issued and Redeemed and Interest Cost
Fiscal Years 1950-1959
(Amounts in thousands)

| Year | New issues | Bond redemption | Debt net increase | Interest paid |
|---|---|---|---|---|
| 1950 | $ 200 | $ 30 | $ 170 | $16 |
| 1951 | 240 | 60 | 180 | 23 |
| 1952 | 55 | 50 | 5 | 29 |
| 1953 | 0 | 65 | -65 | 47 |
| 1954 | 620 | 86 | 534 | 41 |
| 1955 | 115 | 116 | -1 | 28 |
| 1956 | 1,660 | 150 | 1,510 | 65 |
| 1957 | 330 | 204 | 126 | 86 |
| 1958 | 215 | 214 | -1 | 89 |
| 1959 | 0 | 209 | -209 | 91 |

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959.

Table 4.8 shows the purposes for which State general obligation debt has been contracted, and it will be observed that of the total of $2,856,000 outstanding on June 30, 1959, the construction of State office buildings in Carson City and Las Vegas accounted for 37.2 percent of the total; the University of Nevada 28.9 percent; school construction 14.6 percent; the State prison 13.5 percent; and the State hospital 5.8 percent. The changing character of expenditures in Nevada is indicated by the trend in State debt when it is considered that in 1950 there was no State debt for educational purposes, while in 1959 this purpose accounted for more than 43 percent of the total debt outstanding. As noted, unlike many other states, Nevada has not utilized borrowing to finance its State highway construction programs which have been maintained on a pay-as-you-go basis. Borrowing has been utilized for State institutions, office buildings and educational purposes, but the major portion of non-highway capital construction projects in recent years has been financed by appropriation from surpluses which have accumulated in the State General Fund.

In summary, it is evident that on the basis of interstate comparisons and the above analysis Nevada has one of the smallest long-term public debts of any state in the nation--both in aggregate and per capita terms. The debt outstanding at the end of June 30, 1959, was in fact less than one-half of the amount constitutionally permitted by the present level of property assessments. The ability of the State to hold the debt internally at a fixed interest rate of 3 percent

Table 4.8

General Obligation Debt, by Major Purpose,
Outstanding at End of Fiscal Years 1950-1959

| Year | University | School const. | Hospital | State prison | Office bldgs. | Total |
|---|---|---|---|---|---|---|
| | | | A. Amounts in thousands: | | | |
| 1950 | 0 | 0 | 0 | $590 | $ 185 | $ 775 |
| 1951 | 0 | 0 | 0 | 560 | 395 | 955 |
| 1952 | 0 | 0 | 0 | 540 | 420 | 960 |
| 1953 | 0 | 0 | 0 | 505 | 390 | 895 |
| 1954 | $125 | 0 | $215 | 475 | 614 | 1,429 |
| 1955 | 135 | 0 | 205 | 445 | 643 | 1,428 |
| 1956 | 810 | $488 | 195 | 488 | 957 | 2,938 |
| 1957 | 920 | 464 | 185 | 454 | 1,041 | 3,064 |
| 1958 | 885 | 440 | 175 | 420 | 1,145 | 3,065 |
| 1959 | 825 | 416 | 165 | 386 | 1,064 | 2,856[a] |
| | | | B. Percentage distribution: | | | |
| 1950 | 0 | 0 | 0 | 76.1 | 23.9 | 100.0 |
| 1951 | 0 | 0 | 0 | 58.6 | 41.4 | 100.0 |
| 1952 | 0 | 0 | 0 | 56.2 | 43.8 | 100.0 |
| 1953 | 0 | 0 | 0 | 56.4 | 43.6 | 100.0 |
| 1954 | 8.7 | 0 | 15.0 | 33.3 | 43.0 | 100.0 |
| 1955 | 9.5 | 0 | 14.3 | 31.1 | 45.1 | 100.0 |
| 1956 | 27.6 | 16.6 | 6.6 | 16.6 | 32.6 | 100.0 |
| 1957 | 30.0 | 15.2 | 6.0 | 14.8 | 34.0 | 100.0 |
| 1958 | 28.9 | 14.4 | 5.7 | 13.7 | 37.3 | 100.0 |
| 1959 | 28.9 | 14.6 | 5.8 | 13.5 | 37.2 | 100.0 |

[a]Does not include $2.1 million of revenue bonds.

Source: State of Nevada, Annual Reports of the State Controller, 1950-1959.

benefits both the State as a borrower and also the State trust fund which has loaned the money. The State has been able to finance more than 97 percent of its total capital outlay since 1947 on a pay-as-you-go basis. With prudent planning and capital budgeting the State should be able to continue substantially on such a basis for a number of years.

# CHAPTER V

## STATE BUDGETARY PROCESSES

The purpose of this chapter is to highlight the importance of financial control and administration at the state level of government, to review presently accepted national standards, and to analyze Nevada's fiscal organization and budgetary processes in consideration of such standards. In view of the unprecedented growth in both the scope and functions of state and local governments, it is generally agreed that effective fiscal operation and control at all levels of government is of utmost importance. State tax collections for all states in 1959 totaled nearly $15.8 billion. Based on past trends, the annual increase will continue to be between $1 and $2 billion. Total state government spending for the same year was about $26 billion. Local governments in the United States accounted for about one-half of the total amount of combined state-local expenditures.[1] Even in the face of present day federal budgets, these are respectable amounts.

### The Nature and Principles of Budgeting

The success or failure of democratic government in part depends upon the relationship between the legislative and executive branches of government. Adequate legislative control must be effected, but it must be legislative control of a responsible executive who has the authority and power to deal with the economic and social problems confronting state government today. As important instruments of both legislative control and executive management, budgets serve as the nexus between these branches of government.

A common feature of all economic activity, whether private or public, is making choices regarding the allocation of resources between their alternative uses. In the private sector of the economy it may be the choice of producing radios or refrigerators, in the public sector the choice of more schools or more highways. However, the nature of the economic activities in each of these spheres can be differentiated from the other on the basis of the criteria used for decision-making, i.e., in terms of the role played by the market. In the private sector economic activities are dominated by the profit-motive and market prices; in the public sector by considerations of the general welfare and the "budgetary principle."

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[1] U. S. Department of Commerce, Bureau of the Census, Summary of State Government Finances in 1959, April, 1960; and Summary of State Government Finances in 1958, August, 1959.

In the public sector there are three major organizational forms. The first is government enterprise which has operations somewhat similar to business firms. It may be merely the producing and selling of documents or it may be as complex as the distribution and sale of water and power. Such enterprise is partially comparable to private enterprise, but its operating decisions are part of public policy, its expenditures are not necessarily limited by revenue, and a cash surplus or "profit" may not be an overriding policy objective. A second form is the trust fund, which is isolated in part from other government operations for a particular purpose. This is represented by such social insurance programs as employee retirement, workmen's compensation, and unemployment compensation. Such a fund's revenues may come from taxes, but its expenditures, other than for administration, are usually transfer payments to legally specified beneficiaries who are not expected to provide goods and services in return. The third form of governmental organization is general government. General government purchases labor, services, materials and equipment, but its revenue is from taxation, fees and miscellaneous non-tax revenue sources. Specific services are not rendered for particular tax or fee payments.[2] Thus, it is apparent that supply and demand in the marketplace and the goal of profit are not the controlling factors which determine the nature and magnitude of activities in the public sector of the economy. As a substitute for the market criterion, the "budget principle" is used. One authority has expressed it as follows:

> The essence of the budget principle is that the services in this sphere are determined not by profit expectation and the willingness of individuals to spend their money for the purchase of such services, but by decisions reached through political and administrative procedures and based on common social objectives.[3]

Decisions as to allocation of public expenditures are determined by an interplay of factors. There is no scientific determination of the proper content of a budget. Struggle and compromise are the very essence of the democratic process and are necessarily reflected in the budget. The budget process serves as a method to channel and balance the conflicting views and to assure that whatever compromise is reached will be carried out. The decisions made are largely political decisions and reflect the balance of power of various economic and special-interest groups. The real test of a budget lies in its ultimate ability to carry out the will of the community for which the budget is prepared. The budget also represents a tool for legislative control of

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[2]Jesse Burkhead, Government Budgeting (New York: John Wiley & Sons, 1956), p. 3.

[3]Gerhard Colm, "Why Public Finance?" Essays in Public Finance and Fiscal Policy (New York: Oxford University Press, 1955), p. 9.

the government, but such control is impossible without adequate budget presentation and management on the executive side. Legislative budget control can become most effective when it operates through a fully developed executive budget and a system of executive management.

The term budget in its broadest sense means a complete financial plan for a governmental or other organizational unit for a specified period of time. Included in the broad aspects of "budgeting" are accounting, auditing, personnel management, purchasing, revenue collection, debt administration, long-range planning and management studies. Each of these in one way or another is involved in the budget process. Thus, organization for fiscal management, regardless of constitutional and statutory delineation, is an interlocking network which requires the close cooperation of individuals charged with related fiscal duties.

Principles of budgeting designed to assure legislative control of the public purse have gradually emerged over the years in the United States. They reflect various aspects of the centuries-old struggle between the executive and legislative branches for democratic control of government. These historical principles, which underlie the modern approach to budgeting may be summarized as follows:

1. Publicity and clarity. The main stages of the budget process, which include the executive recommendation, legislative consideration and action, and budget execution, should be made public. The reports should be simple, clear and understandable by the average citizen.

2. Comprehensiveness. The budget should contain expenditures and revenues on a gross basis, reflecting all governmental activities without exception, and should show the surplus available for debt retirement or the deficit to be met by new revenue legislation or borrowing.

3. Budget Unity. All receipts should be placed in one general fund for financing all expenditures. Earmarking of revenues for specific purposes should be avoided, except in cases of trust accounts or where a special and direct relationship exists between receipts and expenditures, such as in the case of "highway user revenues."

4. Detailed Specification. Receipts and appropriations should be expressed in detailed specifications--a certain sum of money for a certain purpose or agency, and transfer of items should be permitted only in exceptional cases.

5. Prior Authorization. The budget should be submitted, considered, and acted upon in advance of the period during which expenditures are to be made; it should include estimates for all foreseeable needs, thus reducing as far as possible requests for supplemental and deficiency appropriations. Budget execution should stay strictly within the legislative authorization and should be checked by an auditing agency reporting to the legislature.

6. Periodicity. Appropriations should be authorized for a definite period of time. An appropriation not used at the end of the period generally should lapse or be reappropriated with the specific amount and purpose detailed.

7. Accuracy. Obviously, budget estimates should be as accurate as possible, and there should be no "padding" of expenditure estimates or underestimating of revenues to provide hidden reserves.

## The Development of Budgeting in the United States and Nevada

Although the modern budget system has accompanied the development of representative government and the growth of the public sector of the economy, its roots are to be found in the Middle Ages. In Western Europe, during this early period of emerging monarchies budgets as statements of revenues and expenditures were used by kings and their advisers for purposes of administration. In Great Britain the Revolution of 1688 and subsequent Bill of Rights resulted in the acceptance of the principle of "no taxation without representation," i.e., Parliament reserved the right to authorize all expenditures made by the King.[4] The budget system of Great Britain was not fully developed when the American Constitution incorporated the budgetary dicta "that no money shall be drawn from the treasury, but in consequence of appropriations made by law," and "all revenue measures must originate in the House of Representatives."[5] As noted by one authority, budgeting on the federal level in the United States throughout the nineteenth century--from 1789 to 1909--should be characterized as "the period of budgetary disorganization."[6] During the early decades of the Republic the federal government emulated British fiscal practices and the Cabinet officers assumed direct and personal relations with Congress in all financial matters. Cooperation was "ready and easy without formal arrangements, and. . .it was by direct, personal administrative initiative that the government was set in operation."[7] Although executive responsibility was exercised prior to the Civil War, the fiscal leadership gradually shifted to Congress. Early in the nineteenth century the House Ways and Means Committee was established and given both revenue and appropriation authority. In 1865 a separate House Appropriations Committee was created, soon followed by sundry other committees

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[4]Burkhead, op. cit., p. 3.

[5]Constitution of the United States, Article I, Section 9.

[6]Burkhead, op. cit., p. 9. This section relies heavily on this excellent study of the budgetary process.

[7]Henry J. Ford, "Budget Making and the Work of Government," The Annals of the American Academy of Political and Social Sciences, November, 1915, p. 4.

with authority to recommend appropriations. By the turn of the century there were ten such standing committees in the House and eight in the Senate. This period from the end of the Civil War to 1909 was one of "extreme laxity in federal finance." General reform did not get underway until 1909 when President Taft established the Commission on Economy and Efficiency. The report of that commission documented the need for a national budget as a basic instrument of executive fiscal management. However, another decade passed before conditions were "politically" right for enacting the recommendations into law. Finally, in 1921, the federal Budget and Accounting Act established the executive budget as a basic technique of financial management for the federal government.

It is interesting to note that in the United States budgeting reform had its origin in city government. As a result of the activities of such "muckrakers" as Lincoln Steffens and Ida Tarbell, the attention of the public was centered on municipal corruption. In 1906, a private research organization known as the Bureau of Municipal Research was founded in New York City. Its activities were instrumental in establishing a budget system for the city's government. From this beginning the reform movement in municipal finance spread through the nation and similar reform associations appeared in other cities. These groups considered the budget to be a major weapon for instilling responsibility in government. It was believed that a budget system publicizes what government is doing and, thus, helps result in an informed citizenry which will not tolerate "invisible government" responsible to no one. However, the growth of the budget system in American cities was hampered by the relatively inadequate executive powers possessed by most mayors. In cities, the financial authority usually was concentrated in the city council and the adoption of a budget system generally required governmental reorganization, along the lines of mayor-council and city manager-council systems. By the mid-1920's most major American cities had established budget systems and some of the necessary reforms in municipal financial practices. In Nevada the State Legislature in 1917 enacted a local government budget law which required the use of budgets and established other financial responsibilities of local jurisdictions that are still in effect.[8]

During the period when municipal reform was sweeping the nation, the same factors brought about a reform movement aimed at state governments. However, before comprehensive systems of executive budgeting were adopted several states--notably California, New York and Wisconsin--experimented with boards of control. These were somewhat similar to Nevada's present State financial boards and were usually composed of the governor and other elected administrative officers. According to Burkhead, "none of these experiments were successful in establishing the kind of executive leadership and responsibility that is basic to effective budgeting."[9] The first State law authorizing the governor to draft

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[8]Statutes of Nevada, 1917, Chapter 149.

[9]Burkhead, op. cit., p. 23.

a budget for submission to the legislature was enacted in Ohio in 1910. In 1913 six more states passed budgetary laws. It is generally agreed that Maryland in 1916 was the first State to adopt a comprehensive system of executive budget-making. By 1920, forty-four states had made some major improvements in their budgeting systems. Twenty-three of these provided for an executive budget. Nevada adopted a State Budget Act in 1919 which required that the Governor submit a budget to the Legislature, but the act did not provide the staff or administrative reorganization needed to establish a system of executive budgetary leadership. However, in several of the other states the introduction of modern budgeting at this time was accompanied by the "short-ballot" reform. This permitted the administrative structures in these states to be integrated to the extent that elected administrative officials with financial authority, such as State Treasurers, State Controllers, State Auditors, etc., were placed on an appointive basis and made directly responsible to the Governor or his chief budget officer. Finally, three decades after the enactment of Nevada's original budget act, the State established an improved executive budget system with the passage of the State Budget Act of 1949. This statute provided for a State Budget Director and staff, appointed by and responsible to the Governor. But it is important to note that the Budget Act of 1949 did not alter the financial roles of the State Board of Examiners and the State Board of Finance, nor did it affect the financial authority of elected State officers such as the State Treasurer and State Controller whose responsibilities have remained unchanged since the State was first created in 1864.

## State Organization for Financial Management

While all states have characteristics which are common to American government, e.g., three separate and independent branches--legislative, executive and judicial--there are differences in the functions and degree of control exercised by each branch. Financing and operating state governments today requires a well-trained staff of experts in the field of fiscal management. In the interest of efficiency and economy, every revenue dollar should be stretched as far as possible. This is the control feature of the budget process which in a sense limits expenditures. A second feature of the budget process is that of management, with the objective of obtaining the desired results from the governmental services undertaken--that is, to provide an adequate level of public services for the community. While a governor is primarily responsible for these at the policy level, he cannot assume the detailed tasks at the operating level. This means there should be someone in the top echelon of his staff capable of carrying out his policies and the intent of the Legislature. This individual is variously called Director of Finance, Budget Director, Controller, Director of Administration, etc., depending upon the state.

As shown in Table 5.1, in forty-four states the governor has the budget-making authority and he is one of the group with such authority in five of the remaining six states. The budget is usually prepared by

Table 5.1

Financial Responsibilities of State Governments, 1960

| State | A | B | C | D | E | State | A | B | C | D | E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | Yes | Yes | Yes | No | No | Nebraska | Yes | No | No | Yes | No |
| Alaska | Yes | Yes | Yes | No | Yes | Nevada | Yes | Yes | No | Yes | No |
| Arizona | Yes | Yes | Yes | No | No | N. H. | Yes | Yes | No | Yes | Yes |
| Arkansas | No | Yes | Yes | Yes | No | N.Jersey | Yes | Yes | Yes | Yes | Yes |
| Calif. | Yes | No | Yes | Yes | Yes | N.Mexico | Yes | Yes | Yes | Yes | Yes |
| Colorado | Yes | Yes | Yes | Yes | No | New York | Yes | No | Yes | Yes | No |
| Conn. | Yes | Yes | Yes | No | Yes | N. C. | Yes | Yes | No | Yes | Yes |
| Delaware | Yes | Yes | Yes | No | No | N.Dakota | No[a] | Yes | Yes | No[b] | No |
| Florida | No[a] | Yes | Yes | Yes | No | Ohio | Yes | Yes | Yes | Yes | Yes |
| Georgia | Yes | Yes | Yes | Yes | No | Oklahoma | Yes | Yes | Yes | Yes | No |
| Hawaii | Yes | Yes | Yes | No | No | Oregon | Yes | No | Yes | Yes | Yes |
| Idaho | Yes | Yes | Yes | No[b] | No | Pa. | Yes | Yes | Yes | Yes | Yes |
| Illinois | Yes | Yes | Yes | Yes | Yes | R. I. | Yes | No | No | No | Yes |
| Indiana | No[a] | Yes | No | No | No | S. C. | No[a] | Yes | Yes | No[b] | No |
| Iowa | Yes | Yes | No | Yes | No | S.Dakota | Yes | Yes | Yes | No | No |
| Kansas | Yes | Yes | Yes | Yes | Yes | Tenn. | Yes | Yes | Yes | No | Yes |
| Kentucky | Yes | Yes | Yes | Yes | Yes | Texas | Yes | Yes | Yes | Yes | No |
| La. | Yes | Yes | Yes | No | Yes | Utah | Yes | Yes | Yes | Yes | Yes |
| Maine | Yes | Yes | No | No | Yes | Vermont | Yes | Yes | No | No | No |
| Maryland | Yes | No | No | Yes | Yes | Virginia | Yes | Yes | Yes | No | No |
| Mass. | Yes | Yes | Yes | Yes | Yes | Wash. | Yes | Yes | Yes | Yes | Yes |
| Michigan | Yes | Yes | Yes | Yes | Yes | W.Va. | No[a] | No | No | Yes | Yes |
| Minn. | Yes | Yes | Yes | No | Yes | Wisc. | Yes | Yes | Yes | No | Yes |
| Miss. | Yes | Yes | Yes | No[b] | No | Wyo. | Yes | Yes | Yes | Yes | No |
| Missouri | Yes | Yes | Yes | No | Yes | Tot. Yes | 44 | 43 | 39 | 28 | 26 |
| Montana | Yes | Yes | Yes | No | No | Tot. No | 6 | 7 | 11 | 22 | 24 |

A - Governor has budget making authority.

B - Unlimited power of legislature to change budget.

C - Governor has item veto power.

D - Special legislative budget review agency.

E - Utilizes multi-purpose Department of Financial Administration.

[a]Governor is one of group with budget making authority.
[b]But legislators share in budget formulation.

Source: The Council of State Governments, The Book of the States, 1960-61; and Organization, Functions and Operations of State Departments of Administration and Finance, January, 1960.

an executive budget officer or other administrative agency under the direction of the governor. In forty-three states the legislature has the authority to change the budget without limitation. In the other seven states the legislative limitations over budgets vary widely. In thirty-nine states the governor has an item veto with respect to appropriation bills. In all states but three in which the governor has the item veto power, the legislature has unlimited power to change the budget.[10] Moreover, as a counterpart of the executive budget agency, twenty-eight states, including Nevada, in recent years have established special legislative budget review staffs, either under a legislative research agency or as an independent fiscal staff accountable to the legislative committee on appropriations.[11]

Another recent development in the financial organization of states is that of the multi-purpose Department of Administration. Twenty-six states now have adopted some variation of this plan to integrate the several aspects of financial administration into a single department, the head of which is responsible to the governor. In twenty-five of these states, the preparation of the budget is one of the functions of the department. In twenty-two states the department includes the central purchasing agency; in eighteen the central accounting function; in ten the planning for public works; and in four the central personnel agency. In three of the states revenue collection also is part of the function of the department.[12] It is apparent that the purpose of such agencies is to consolidate the various financial management functions in order to achieve unified policies, eliminate duplication of personnel and equipment, and reduce the number of persons the chief executive must deal with in the ordinary housekeeping functions of state government--in effect, to install the "business manager" concept in state government. In summary, it is apparent that in the great majority of the states the budget-making authority resides with the governor, while unlimited power to alter the budget is vested in the state legislature.

## State Financial Organization in Nevada

State government in Nevada today employs over 3,200 people and spends approximately $60 million a year.[13] Although Nevada is one of the smallest States in the Union in terms of employees and expenditures,

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[10]The Council of State Governments, The Book of the States, 1960-61, p. 140.

[11]Ibid., p. 134.

[12]The Council of State Governments, Organization, Functions and Operation of State Departments of Administration and Finance (Chicago: January, 1960), pp. 54-64.

[13]See Chapter III, Table 3.6.

a governmental operation of this magnitude requires a properly functioning and well-developed system of financial administration. The basic organization for fiscal control in Nevada was established in 1864 when the State Constitution provided that elective officials were to have the authority and responsibility over State finances. As noted, since that time there have been a number of statutory changes, the most recent of which occurred in 1949 with the establishment of an executive budget staff for the State. At the same time the position of Legislative Auditor was created to perform a legislative post-audit and other prescribed duties. The Budget Director has statutory authority to serve the Governor fully in the planning and execution of the budget, while the Legislative Auditor serves the Legislature in the appropriation and post-audit phases of the budget process. Several minor changes have occurred since 1949 which clarified administrative details and the budget was shifted from a biennial to an annual basis, but the basic organization for accounting and control has not changed since 1949. However, the organization of State agencies charged with collection of tax revenues has been revised during the past decade, the most recent being the creation of the Department of Motor Vehicles. Chart 5.1 shows the fiscal organization of the State in summary form.

The following outlines the responsibilities of officers and agencies concerned with budget and financial administration at the present time:

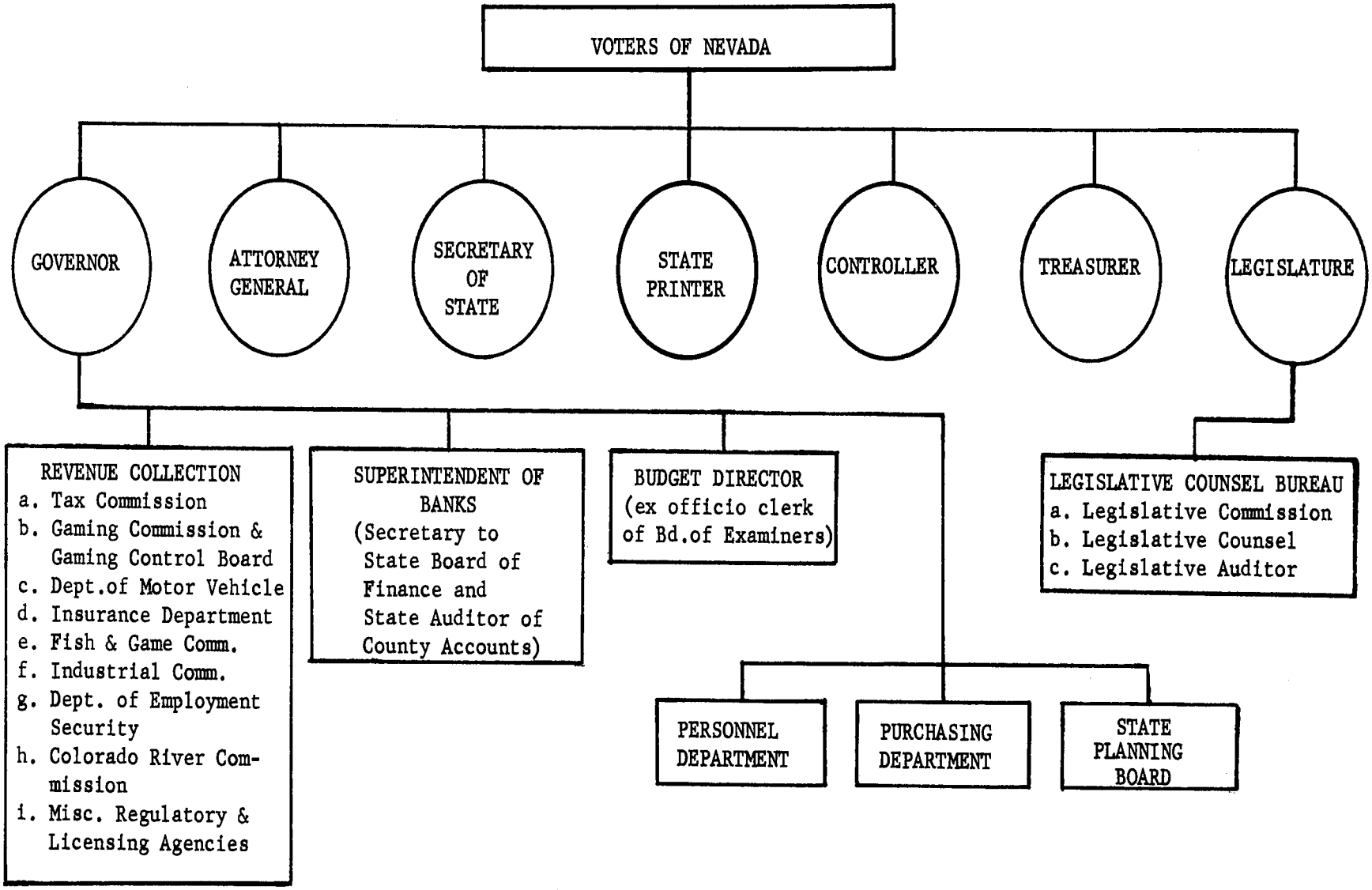
A. The Legislature. Subject to consitutional provisions, the Legislature determines the organization of State agencies, grants them their powers and annually adopts the budget. In order to perform its functions with fuller knowledge and more information than could be obtained by any individual member, the Legislature established the Legislative Counsel Bureau,[14] a research agency composed of the following three divisions: (1) A Legislative Commission, consisting of four senators and four assemblymen, which serves between and during sessions and considers and reports on problems of government assigned by the Legislature as well as other issues of public policy. The Legislative Counsel acts as the non-voting recording secretary of the Commission. (2) A Legislative Counsel who is the executive head of the Legislative Counsel Bureau and directs and supervises its administrative and technical activities. The Legislative Counsel has the authority to gather information concerning State government and the general welfare of the State; examine effects of previously enacted statutes; prepare a legislative program to be presented at each session of the Legislature; and prepare a report and recommendations on the results of his surveys. And (3) a Legislative Auditor who is the State's post-auditor in addition to other assigned duties. The position of State Auditor in the executive branch was eliminated in 1949 with the passage of this law. The authority of the Legislative Auditor is broad enough to enable him to do everything that is necessary to determine the status of financial administration of the State and any of its agencies. However, he is

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[14] Nevada Revised Statutes, Chapter 218.

Chart 5.1

Fiscal Organization
State of Nevada



prohibited from making any recommendations as to sources from which taxes shall be raised. Some of the key duties of the Legislative Auditor are to perform a post-audit of all the financial records of State departments; periodically count the money in the treasury and verify assets, liabilities, revenues and expenditures of the State; employ at his discretion an independent public accountant to audit books of certain State departments; and ascertain the facts and make recommendations to the Legislature concerning the State budget and financial estimates.

B. The Governor. He has a four year term and is vested with the "supreme executive power of the state."[15] He has the primary responsibility of formulating and submitting the budget to the Legislature, and the responsibility for the administration of the budget after legislative passage. In addition, the Governor is chairman of the State Board of Finance, the State Board of Examiners, and the State Highway Board of Directors. As noted, the State Budget Director assists the Governor in his financial responsibilities.

C. State Treasurer. The office of State Treasurer has existed since adoption of the State Constitution in 1864.[16] The Treasurer is elected to a four year term. He is the principal custodian of State money, disburses money only upon warrants drawn by the State Controller, is custodian of and manages securities purchased by State trust funds, and is a member of the State Board of Finance.

D. State Controller. This position also was established by the State Constitution, and the Controller also is elected to a four year term. His primary duty is to keep accounts of the money in the State treasury, i.e., he is the chief accountant of the State and maintains accounting records of receipts, disbursements, appropriations, allotments and claims. In addition, he audits claims approved by the Board of Examiners, draws all warrants upon the treasury, and furnishes reporting forms to county officials "in such form and manner as will best effect the object of the statutes providing for the assessment and collection of the public revenues of the state."[17] The Controller is a member of the State Board of Finance and the State Highway Board of Directors.

E. The State Board of Finance. This Board is composed of the Governor, Controller, Treasurer, and two other members appointed by the Governor for a term of four years. The Superintendent of Banks is the secretary of the Board, and the Attorney General is its legal

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[15] Constitution of the State of Nevada, Article V, Section 1.

[16] Ibid., Article V. Section 19.

[17] Nevada Revised Statutes, Section 227.220.

advisor.[18] The Board of Finance has charge of all investments of moneys and the sale of all securities of the State's permanent school fund. The Board approves investments of the State insurance fund. It also has the power to invest any available moneys in the State treasury other than the State permanent school fund and the State insurance fund in bonds, securities, and loans of the type specified by law. The Board of Finance also must approve resolutions of local units of government before they can borrow money to meet an emergency.[19] The Board also places the insurance carried on property owned by the State.[20]

F. The State Board of Examiners. This Board, established by Constitution, is composed of the Governor, the Secretary of State and the Attorney General, and must hold sessions for the transaction of business at least twice each month.[21] Two members constitute a quorum and the primary duty of the Board is to approve all claims for payment against the State. The Board is furnished required information by the State Controller and the State Treasurer. The State Budget Director is ex officio clerk of the Board and he classifies, lists and pre-audits all such claims before they are acted upon by the Board. Therefore, each money claim against the State should be subjected to a pre-audit by the Budget Director, the Governor, the Secretary of State, and the Attorney General in the first instance, followed by a review pre-audit by the State Controller. Legally, the existence of the Board dilutes the "supreme executive authority" of the Governor, since he has to obtain concurrence in the expenditure of money from at least one other elected official--either the Attorney General or the Secretary of State. In practice, however, the principal pre-audit is made by the Budget Director, and to the extent that he has the confidence of the others involved, claims approved by him are usually cleared without further question. Although the Board of Examiners, as elected officials, originally had an important function to perform, with the establishment of the office of State Budget Director, its statutory duties concerning pre-audit of claims now are of a cursory nature except when claims are referred by the Budget Director or appeals are made of the Budget Director's rejection of a claim. If the Board were abolished, the State Budget Director, as the financial assistant of the Governor, could pre-audit claims and send them through for payment by the Controller. This would centralize the responsibility for this function in the Governor's office. An alternative, used by many states, is to transfer the pre-audit function to the State Controller, thereby centralizing in one office the pre-audit and accounting function.[22]

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[18] Ibid., Section 355.020.

[19] Ibid., Section 354.080 to 430.

[20] Ibid., Section 353.270.

[21] Ibid., Section 353.020.

[22] This alternative is presently being considered by the State Budget Director's office.

Another duty of the Board of Examiners is to administer an "emergency fund" of $100,000 made available by the Legislature. Generally, expenditures from this fund are relatively small and are made to accommodate situations which could not be foreseen at the time of regular appropriation. In many states the sole discretion over the use of such an emergency fund is vested in the governor.

G. Director of the Budget. As already noted, the Director of the Budget is responsible to the Governor and serves as ex officio clerk of the State Board of Examiners. His principal function, of course is the preparation and execution of the budget for the Governor. As previously indicated, with passage of the State Budget Act in 1949, an improved executive budget system was established in Nevada, but the traditional agencies of State Treasurer and State Controller were not altered.

H. State Planning Board. The State Planning Board, established in 1937, has nine members appointed by the Governor. It has a full-time staff and recommends to the Governor and the Legislature the need for and priority of construction, land acquisition, site development and major repairs; and furnishes architectural and engineering services and other planning assistance to State agencies. It also supervises construction of projects authorized and financed by the Legislature. In addition, the Board checks plans for school construction undertaken by school districts and cooperates with other local jurisdictions in coordinating State and local developmental plans. The Board is also authorized to participate in interstate, regional and national planning projects.[23]

I. Revenue Collecting Agencies. The State of Nevada has numerous agencies charged with collection of State revenues. These are summarized below:

(1) The Nevada Tax Commission, established in 1913, is the principal revenue collecting agency of the State. It supervises property tax administration, including public utility assessments and net proceeds of mines. It collects and administers the State gasoline, sales, cigarette and liquor taxes. This agency also has supervisory authority over preparation and approval of local government budgets.

(2) The Gaming Commission and Gaming Control Board operate together. The Commission determines gaming policy, establishes regulations, approves all licenses, collects and accounts for all State

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[23]In addition to the above central staff agencies, the State Personnel Department, Purchasing Department and Printing Office obviously affect the level of State expenditures to the extent that they perform their functions efficiently. The directors of the first two agencies are appointed by the Governor, but Nevada is unique in having since 1866 a State Printer (the head of the Printing Office) popularly elected every four years. It also should be noted that personnel costs are the major portion of the State's operating budget, and that the ratio for Nevada in 1959 was practically the same as the national average of 63 percent for all states. See U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1959, p. 21.

gaming license fees and conducts hearings on complaints; while the latter investigates applicants for gaming licenses, polices existing licensees, and audits the financial reports of gambling licensees.

(3) The Department of Motor Vehicles consists of the Nevada Highway Patrol, a Drivers License Division, a Motor Vehicle Registration Division, a Motor Carrier Division, a Fiscal, Accounting and Auditing Division, and an Automation Division. In the finance area, the principal duties include issuance and collection of fees for drivers' licenses and motor vehicle registrations, the use fuel tax, and license and permit fees from motor carriers.

(4) The Secretary of State serves as corporation commissioner and has the duty of examining and filing articles of incorporation for domestic and foreign corporations. He collects corporation filing and license fees, as well as those received for recording trademarks and names, use of the State seal, searching records, and certifying documents and transactions. The Secretary of State is also a member of the State Board of Examiners.

(5) The Insurance Department has been in existence since 1951. It supervises operations of insurance companies in Nevada, licenses insurance companies and insurance agents, and collects insurance fees and the annual insurance premium tax.

(6) The Fish and Game Commission administers the sale of hunting, fishing, and trappers' licenses, which fees are paid into the State treasury as earmarked funds for fish and game purposes. The Commission designates agents for the sale of licenses and prescribes regulations for the accounting of receipts.

(7) The Nevada Industrial Commission probably has the broadest independent financial powers of any State agency. Its primary function is to administer the workmen's compensation program. All premiums and other funds received by the Commission are placed in the "State Insurance Fund" in the State treasury. All disbursements from the fund are paid by the State Treasurer upon warrants of the Commission signed by one commissioner and countersigned by the auditor or other bonded employee of the Commission. Investment and disposition of reserve funds in the State insurance fund are subject to approval by the State Board of Finance, but the Industrial Commission initiates such actions.

(8) The Department of Employment Security in Nevada, similar to those in other states, administers unemployment compensation under the federal Social Security Act. It was established in 1937 and is financed by a federal grant for administrative purposes. The unemployment benefits are financed by proceeds of the payroll tax on covered employment in Nevada. The Department also operates the State employment service and has other minor duties. Although the Department is financed by a federal grant for administration, it comes under the State executive budget procedure as an integral part of State government operation.

(9) The Colorado River Commission has financial responsibilities for entering into contracts for the sale of Nevada's share of power and water from Hoover Dam Power Plant and Lake Mead. It has numerous other duties regarding water resource and power development for the State. Receipts from sales of power and water are deposited in the State treasury and purchases are on warrant of the State Controller.

(10) Nevada, like other states, has numerous miscellaneous regulatory agencies which are charged with protecting the public interest. Thirteen of these agencies in Nevada deposit their receipts from licenses and other fees in the State treasury and present their claims in the usual manner. However, fifteen other agencies have been allowed to maintain their own bank accounts and write their own checks for services received. Some of those with bank accounts submit budgets, others do not, although the Legislature generally authorizes the amount of their expenditures. All are subject to audit by the Legislative Auditor. The following tabulation classifies these agencies on the basis of whether or not their money is deposited in the State treasury:

Regulatory and licensing boards which deposit receipts in the State treasury:

a. Board of Accountancy
b. Board of Architecture
c. Examiners in Basic Sciences
d. Dairy Commission
e. Hoisting Engineers
f. Medical Examiners
g. Nurse Examiners
h. Dispensing Opticians
i. Physical Therapy Examiners
j. Sheep Commission
k. Predatory Animal Committee
l. Private Detective Board
m. Racing Commission

Regulatory and licensing boards which deposit receipts in private banks:

a. Athletic Commission
b. Barber's Board
c. Board of Chiropody
d. Chiropractic Examiners
e. Contractor's Board
f. Cosmetology Board
g. Dental Examiners
h. Board of Embalmers
i. Liquid Petroleum Gas Board
j. Real Estate Commission
k. Examiners in Optometry
l. Osteopathy Board
m. Pharmacy Board
n. Registered Engineers
o. Veterinary Medical Exam.

Although these agencies are all operating under powers granted by the State of Nevada they obviously are not subject to uniform requirements of financial control and management.

## The Budget Process

The elementary procedures which should be followed in the formulation and execution of a state budget are briefly described in this section. The first order of business in preparing a budget is to establish the budget calendar--the time schedule which should be met in order

to have the budget completed on the date it is to be submitted to the legislature. This requires setting up specific and realistic schedules which should be in accordance with dates specified in the statutes. Strict adherence to the established schedules should be the standard operating procedure in the budget agency if the document is to be prepared on time.

In a true executive budget system the chief executive must assume leadership and express his policy with regard to budget preparation for the coming year. This generally takes the form of a policy letter which should contain information regarding the maximum spending permitted for the budget year; the kinds and types of increases which would be considered favorably; and the expectations for basic economic changes, price level trends, and population increases. It should also contain a statement regarding the economic and social forces in the state which were the basis for the budget policies adopted. In the absence of a policy announcement from the chief executive, or one which gives little or no guidance, it falls upon the central budget office to furnish such information in the initial planning and preparation stage of the budget requests.

A major device available to the budget agency in attempting to achieve a good job of budget planning is the issuance of instructions and standardized forms for the preparation of agencies' budget requests. The forms should be so designed as to make it possible for the agency to indicate the reasons for changing request sums, such as price increases, workload changes, proposed new positions, operating supplies and fixed charges, equipment replacement and additions, and a number of other items necessary to give information which will enhance budget analysis. The budget forms should contain space for comparing the data of the last completed fiscal year, the current fiscal year, and the proposal for the budget year. The forms should be designed so that the agencies can express information in the form most useful to the central budget office and the legislature. There are four basic criteria by which budget data are classified: function, organizational unit, object and program.

Probably the best understood classification is by function. This is the grouping of finances in terms of broad categories of public services performed by the government, such as public welfare, highways, health, education, public safety, general administration, and so forth. Usually this kind of grouping is used to present trend data and provide the interested citizen with a picture of what the budget is to purchase. Second, for those dealing with actual appropriations, the budget data should be classified according to organizational unit. Such a classification provides information on the amounts of money each agency is to receive in comparison with the amounts spent during the previous and current fiscal years. Appropriations are made authorizing organizational units to incur expenditures of given amounts. This classification is a grouping of data by specific agency, i.e., Department of Agriculture, Department of Highways, Department of Welfare, Budget Office, Department of Education, State Treasurer, Secretary of

State, Office of the Governor, and so forth. A third method of classifying budget data is by object. This is in terms of the type of commodity or service to be purchased. The so-called "major" objects, generally found in almost every type of budget presentation, include personal services, operating expenses, and capital outlays. Depending on the jurisdiction, these major categories may be divided into "minor" objects for closer scrutiny of detail. Some typical minor object categories under operating expenses would include traveling expense, public utilities, office supplies, printing and advertising in as much detail as desired.

The object classification enables the legislature to evaluate the rate of growth in spending by categories of expense which are readily understood, and the legislature in turn often appropriates by object, or "line item." However, the attention of the legislature to such detail may obscure from their attention the larger issues of budget review--the programs to be accomplished by each agency and the government as a whole. Notwithstanding this limitation, the object classification has two distinct advantages over the other types of budget classification. The first is accountability of amounts. It does not provide a measure of the accomplishment or progress of an agency, but it does reveal a fairly precise amount planned for spending, and when that limit has been reached, it is quickly discernible. The second advantage is that of personnel or position control. The object classification gives the number of employees in an agency and the proposed cost of their salaries for the coming year. Within limits prescribed, the agency can hire personnel, but a mathematical determination can readily be made when a proposal is presented to exceed the limits of the appropriation for personal services.

Fourth, the modern trend in budgeting is to express the budget in terms of a program to be carried out with the money appropriated. Also called "performance" budgeting, the basic purpose was aptly described by the Hoover Commission in 1949 when it was recommended for adoption by the national government. The Commission described performance budgeting as:

> an approach (which) would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired, such as personal services, supplies, equipment, and so on. These latter objects are, after all, only the means to an end. The all-important thing in budgeting is the work or the service to be accomplished, and what that work or service will cost. Under performance budgeting, attention is centered on the function or activity--on the accomplishment of the purpose--instead of on lists of employees or authorizations of purchases.[24]

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[24]The Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting (Washington, D. C.: 1949), p. 8.

In determining the level of performance of a particular program, costs are considered on a unit basis related to the service output, e.g., the costs for a given number of days of patient care in a state hospital. However, in the case of line item budget presentations, if sufficient detail is required by the central budget office, there will generally be a great deal of performance information available for analysis purposes. Budget forms should require trend data on number of patients, inmates, licenses issued, or other appropriate measures of output volume.

Since World War II, a number of cities have undertaken budgetary reforms along program and performance lines, e.g., Las Vegas, but the states have lagged in this development. Maryland probably has made the greatest progress in program budgeting among the states. Washington recently converted its budget presentation to the program type and California, Connecticut, Illinois, Michigan, Oklahoma and Oregon all have incorporated some performance features in their budgets.[25] The most important single element explaining the interest in performance budgeting is the complexity of modern government. If there are a relatively small number of programs, and if the citizens and legislators are generally familiar with what the government is doing, there is little need for performance budgeting. But modern government is characterized by multi-purpose programs and agencies, and organizational and program lines get badly tangled. In such situations performance reporting and budgeting can make a major contribution.

Following preparation of the budget forms and instructions, a conference should be held with the personnel designated to prepare the agency budgets. At such a conference the chief executive can reiterate the budget policy to be followed, and various questions concerning procedures can be answered by the central budget director. By this means, variations in budget request preparation are kept to a minimum. Of course, sufficient time should be allowed the agencies to adequately prepare their budget requests. This means that the budget forms and instructions should be in the hands of the agency budget personnel at least a month and a half prior to the deadline for submission to the central budget office. When the completed budget request forms are returned to the central budget office, usually about three months before the legislative session, they should be checked by the staff as to mathematical accuracy, completeness, and conformity with the governor's budget policy statement. If changes or reductions are necessary, they should be taken up with the agency concerned by analysts from the central budget office. A meeting of the minds can be arrived at between the budget analyst and the agency concerned in most instances, and the agreement should be in writing and signed by the agency head. In the event the budgeted amount cannot be agreed upon by the central budget office and the agency, a conference with the governor should resolve the issue.

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[25]Burkhead, op. cit., p. 137.

After hearings with the agencies have been completed and final decisions made, the budget document preparation can begin. This should be started early in the period so as to avoid last minute delays in reproduction. Depending on the jurisdiction, the format of the budget document can have varying style. Basically, however, the document should contain the governor's budget message, a comprehensive statement of revenues, agency by agency expenditure detail, and in some instances, as Nevada, the budget bill. In the two-week period prior to the date for presentation of the budget to the legislature, the governor's budget message should be completed. The message should contain a general statement of budget policy, a discussion of estimated revenues, an explanation of changes from existing appropriation levels, and a description of proposed capital construction projects, if any. The budget director usually prepares drafts of the appropriation bills for the use of the legislative committee charged with recommending appropriation amounts to the full legislature. The main budget bill, of course, contains the governor's recommendations for operating expenditures for the next year. A separate bill is usually prepared for capital construction projects since such appropriations are usually for a period longer than one year.

Legislatures generally alter the budget in some manner. As previously noted, in forty-two states the legislature has unlimited power to raise or lower the budget presented by the governor. In some of the other states the legislature cannot increase the operating budget but may lower it. Obviously, if the legislature raises the budget it also has the responsibility for providing revenues to meet the increased expenditures. During deliberations on the budget bills, the appropriations committee, of course, can confer with the executive budget staff and utilize the analyses of the legislative fiscal staff which has independently reviewed the proposed budget. Finally, the appropriations committee will present its version of the budget bills to the entire legislature for its action. Generally amendment of the bills on the floor is avoided. If amendments, not agreed to by the appropriations committee, are permitted at this stage the entire budget process is somewhat negated.

Following passage of the appropriation bills by the legislature, the governor has another chance to review the entire financial program before he signs the bills into law. At this stage there is opportunity to obtain the most up-to-date estimates of revenue and the balance against amounts appropriated can be determined. If the legislature has appropriated more money than is available and has not made provisions for additional revenue during the budget year, the governor may choose to exercise his veto power over some of the items appropriated. This obviously is an executive function since the governor is responsible for the financial soundness of the state during his administration. Moreover, it should be noted that since state governments do not have the power to print money, it is imperative that available revenues equal or exceed current expenditures each year. A substantial cash balance, approximately 10 percent of operating revenues, should be maintained in the General Fund for working capital and to offset a possible decline in tax collections.

In order that the budget be administered in a manner which will accomplish the purposes intended, it is necessary that controls be established by the central budget office. These include work programs, allotments, and staffing patterns (position control). First, the appropriations should be divided into quarterly allotments by the agencies themselves so as to give them an opportunity to express at what point in the fiscal year they intend to spend money appropriated to them. The governor should be in a position to require agencies to set aside reserves of their appropriations to offset any falling off of revenue collections or other situations which may develop during the fiscal year. It should be remembered in this regard that a legislative appropriation is not a mandate to spend, but a maximum amount which can be spent during the appropriation period. If, for any reason, the money does not come into the treasury, it obviously should not be spent, and only by setting aside reserves at the beginning of the fiscal period is there any hope of saving a sufficient amount to offset revenue losses. The agencies also should submit the work program to be financed by the appropriated funds in order to assure that it is consistent with executive and legislative policy. Position control is an important part of budget control. Unless there is a specific number of positions approved at the beginning of the budget year which corresponds with the amount appropriated for personal services, there is no way to assure there will not be more employees than authorized by the approved budget. Therefore, before an employee is hired in the state service, the budget office should verify that an authorized position exists as well as the salary funds.

After allotments of appropriations and staffing patterns are approved, they can be set up on the books of the state accounting office for control purposes during the fiscal year. However, an important consideration for budget administration is whether the accounting is maintained on a cash or accrual basis. The cash basis has been defined as keeping accounts in a manner "whereby revenues and expenses are recorded on the books of account when received and paid, respectively, without regard to the period to which they apply."[26] In contrast, under an accrual system, revenues are recorded as they are earned and expenditures are recorded when the commitments authorizing the specific outlays are actually made. Whereas the relative merits of a cash versus an accrual basis are discussed at length in governmental accounting textbooks, the majority of the states have adopted what may be termed a "modified accrual system"--a cash basis for receipts and an accrual basis for expenditures.[27] This combination system allows receipts (over which the governmental jurisdiction does not have complete control) to be recorded only when received and has the advantage of simplicity. Recording expenditures (over which the governmental jurisdiction does have nearly complete control) on an accrual

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[26]Erick L. Kohler, A Dictionary for Accountants (New York: Prentice Hall, Inc., 1952), p. 78.

[27]Burkhead, op. cit., p. 368.

basis, though slightly more complicated than a cash basis, does enable expenses to be recorded against the applicable period and prevents the obligation of greater amounts than appropriated.

Of course, all purchase orders issued and all payroll claims should be verified as to legality and availability of money before being approved. In this manner of pre-audit, deficit spending is avoided. Finally, it may be observed that it is an accepted practice in business and government to have periodic post-audits of financial transactions. An important purpose of the post-audit is to determine that financial records have been kept accurately and legally. It is a check on the financial management of the state, and is best performed by someone outside the executive branch. In states which do not have an elected state auditor, the post-auditor is usually designated by the legislature. In this manner the legislature and the general public have available an independent analysis of the performance of the administration.

## The Budget Process in Nevada

Current budget procedures in Nevada generally conform to the prevailing practices for an executive budget system. The 1949 Budget Act provides the Executive Budget Director with sufficient authority and power to effectively administer the budget process.[28] The budget preparation and presentation now in use is based on classification of expenditure data by function, object and organizational unit. Uniform budget forms are prescribed by the budget office for preparation by the agencies, which are returned to the budget office by September 1 of each year. The budget office analyzes such requests, makes its suggested changes, and if the agency is not satisfied a hearing with the Governor is scheduled for final determination of the recommended amount. The budget, by law, must be submitted to the Governor not later than the fifth day of the legislative session, and then transmitted to the Legislature not later than the tenth day of the session. The Legislative Auditor receives copies of the expenditure estimates and other pertinent information on or before October 1, which provides his staff with time to analyze the agency requests prior to the session.

After adoption of the budget by the Legislature, not later than June 1 of each year, the head of each department, institution and agency submits to the Governor a work program for the year which is a plan of spending of amounts made available by the Legislature and the amount necessary in each quarter of the fiscal year. These are reviewed by the Budget Director and the Governor, modified if necessary, and after approval by the Governor, become the basis for budgetary accounts in the Controller's office. By agreement, a record of such accounts is supposed to be made available several times each month by the Controller

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[28] Nevada Revised Statutes, Chapter 353.

to the Budget Director so that he has a factual basis as to availability of money in an account before review and pre-audit of claims and for appraisal of rates of spending as to conformity with the budget plan.

It should be noted that unlike the majority of states which utilize a modified accrual basis of accounting, the Nevada State accounting system is on a cash basis. The Nevada statutes do not specify the type of accounting system to be used[29] and the State has continued, with slight modifications, the cash system instituted back in 1864. The cash basis of accounting in Nevada is a significant deterrent to complete compliance with the State Budget Act and the Appropriation Act. The Budget Act provides for quarterly allotments of "appropriations or other funds" and that "all expenditures to be made from the appropriations or other funds from any source whatever shall be made on the basis of such allotments and not otherwise."[30] Typical language in a Nevada appropriation act is: "the following sums are hereby appropriated. . . for the support of the government of the State of Nevada for the fiscal year beginning July 1, 1960, and ending June 30, 1961."[31] Under a cash basis the appropriation is not encumbered or obligated when a purchase order is written, as it would be under the accrual basis. Consequently, an agency may unintentionally not follow its quarterly allotment because merchandise and vendors' statements were not received within the quarter the purchases were budgeted. This problem, coupled with the reported lack of understanding on the part of some agency heads of the use of an allotment procedure, causes a large number of transfers to be made from an agency's reserve to its current quarterly allotment in order to make payment for purchases ordered in previous quarters. The problem could become acute at the end of a fiscal year if the appropriation language were strictly interpreted since it clearly prohibits the payment in one fiscal year of obligations incurred in a previous fiscal year. If this were done vendors who had delivered merchandise and services in good faith might not be paid, and State business would substantially slow down during the last two to three months of each fiscal year. However, the present Board of Examiners has loosely interpreted this provision of the appropriation procedures and has ruled that agencies shall make every reasonable effort to pay 1959-60 obligations during that fiscal year but that claims presented against the 1960-61 appropriation for obligations incurred in 1959-60 shall be honored unless it appears that the claim was withheld to thwart the Budget Act. It is apparent that this pragmatic approach to a cash basis for expenditures, although somewhat workable, leaves much to be desired when

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[29]State law does require a cash basis for local governments. Nevada Revised Statutes, Sections 354.010 and 354.340.

[30]Nevada Revised Statutes, Section 353.215.

[31]Statutes of Nevada, 1960, Chapter 250.

compared with an accrual basis whereby appropriations are actually encumbered when purchases are made.[32]

In general it appears that the present budgetary practices in Nevada, except as noted, conform reasonably well with the basic principles and procedures discussed in the preceding sections. Moreover, the opportunities for exercising responsible executive budgeting have been improved by such recent developments as: (1) the provision of funds for a more adequate budget staff since the success of any fiscal management program, regardless of procedures, essentially depends upon the quality of the personnel administering the program; (2) the adoption of the annual budget system which eliminates the need of preparing estimates 30 to 33 months in advance and the accompanying "budget padding"; (3) the publication of a State administrative manual which clarifies practices and policies for new personnel as well as present administrators and prescribes a set of uniform agency accounts for budgeting and agency record-keeping; and (4) the establishment of "position control" records and procedures by the Budget Office which should provide adequate administrative control over the numbers and types of positions in each agency.

## Nevada Fund Structure

The 1959 report of the State Controller showed that Nevada had 112 "funds" with cash balances on June 30 of that year. These balances, amounting to $26.7 million, represented "cash" on hand, but did not reflect outstanding obligations against such cash. For example, the cash balance in the General Fund was $17.9 million, but when all outstanding obligations against that balance were deducted, the net unappropriated General Fund surplus on June 30, 1959, was $9.5 million. Most of the funds shown are special funds of regulatory agencies; others are suspense and clearing accounts, federal restricted funds, trust funds, and some appear to be balances of unspent appropriations from the General Fund. Despite the large number of small funds, the State has only two major funds--the General Fund and the Highway Fund. Among the other funds accounted for by the Controller's office, the Fish and Game and the Employment Security funds are fairly large relative to the magnitude of the State's operations. As noted, a large fund which does not appear on the Controller's books or in the budget is the State Insurance Fund administered by the Nevada Industrial Commission.

Highway Fund. The Constitution of Nevada dedicates, or "earmarks" the revenues from highway user taxes for construction, maintenance and repair of public highways.[33] The State's share of these revenues is

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[32]It is understood that an analysis of this problem is presently being considered by both the Budget Director and a special accounting problems committee appointed by the Governor.

[33]Constitution of Nevada, Article IX, Section 5.

maintained in a separate State Highway Fund. Federal aid grants for highway purposes are also deposited in the Highway Fund. Appropriations are made from the Highway Fund for costs of collection of highway user taxes and for the highway patrol, and remaining amounts in the Fund are authorized for expenditure on construction, maintenance, and administration of State highways. The chief administrator of the Department of Highways, is the State Highway Engineer, who serves under a Board of Directors consisting of the Governor, the Attorney General and the State Controller. The trends and components of the State Highway Fund from 1955 through estimated 1961 are shown in Table 5.2. Receipts from federal aid for highways have risen from $5 million in 1955 to an estimated $18.5 million in 1961. At the same time receipts from State highway user taxes have risen from $7.7 million in 1955 to nearly $12 million estimated for 1961. The balance in the Highway Fund at the end of the fiscal year in 1955 was $2.6 million. The balance declined to a low of $1 million at the end of fiscal 1959, but is budgeted for an increase to the $2.6 million level at the end of fiscal 1961. This would indicate that the State should be able to meet its federal matching requirements, pay for costs of administration and maintenance, and increase the balance in the Fund by nearly $600,000 during fiscal year 1960-61.

Table 5.3 shows the relationship of federal highway aid to construction costs for Nevada State highways for the period from 1955 through estimated 1961. It will be noted that State expenditures required for matching federal highway aid increased from $3.9 million in 1955 to a high of $5.9 million in 1959. Because of the type of construction planned, State amounts budgeted for 1961 have been reduced to $4.6 million. The ratio of federal aid for financing costs of construction on Nevada's highways increased from 56 percent in 1955 to an estimated 80 percent in 1961. This increase reflects greater emphasis on interstate highways, for which the State matching requirement is only 5 percent of construction costs. In the current fiscal year, and for 1961, there has been a reduction in the "authorized" amounts of federal highway aid because of the shortages in the Federal Highway Trust Fund. In the event Congress increases federal highway aid, larger sums may be required from State sources to meet matching requirements.

Financing maintenance of highways could become a problem if unusually large outlays were required for construction. As shown in Table 5.4, expenditures for highway maintenance rose from $2.4 million in 1955 to $3.4 million in 1959, an increase of almost 42 percent. Since then, the rate of increased maintenance costs has declined and the budgeted amount of $3.8 million for 1961 only represents a 12 percent increase over 1959. The budgeted increase for 1961 over 1960 is $181,000, or 5 percent. Based on the $3.8 million budgeted for 1961 and approximately 4,400 miles of highway to be maintained, the average maintenance cost per mile will approximate $860 a year. In terms of past trends, the indicated annual growth in highway user tax revenues of the State should be sufficient to accommodate maintenance cost increases of the magnitude experienced in the last three years.

Table 5.2

Revenues and Expenditures of State Highway Fund, State of Nevada, 1955-1961
(Amounts in thousands)

| Revenues | 1955 | 1956 | 1957 | 1958 | 1959 | Est. 1960 | Est. 1961 |
|---|---|---|---|---|---|---|---|
| Motor fuel tax - gross | $ 5,219 | $ 6,006 | $ 6,304 | $ 6,132 | $ 6,915 | $ 7,364 | $ 7,843 |
| Motor vehicle registration fees | 571 | 1,171 | 1,228 | 1,247 | 1,332 | 1,418 | 1,510 |
| Motor carrier fees - gross | 1,713 | 1,180 | 2,062 | 2,019 | 2,198 | 2,341 | 2,493 |
| Federal aid grants | 5,021 | 7,696 | 9,758 | 14,530 | 15,181 | 17,589 | 18,588 |
| Other | 199 | 296 | 326 | 284 | 337 | 398 | 415 |
| Total revenues | $12,723 | $16,349 | $19,678 | $24,212 | $25,963 | $29,110 | $30,849 |
| **Expenditures** | | | | | | | |
| Construction[a] | $ 8,950 | $10,673 | $14,079 | $18,667 | $21,046 | $21,411 | $23,204 |
| General maintenance | 2,424 | 2,777 | 2,790 | 3,335 | 3,433 | 3,605 | 3,786 |
| Administration | 342 | 321 | 422 | 581 | 491 | 515 | 541 |
| Other[b] | 678 | 1,038 | 910 | 976 | 773 | 811 | 850 |
| Sub total | $12,394 | $14,809 | $18,201 | $23,559 | $25,743 | $26,342 | $28,381 |
| Revenue collection costs & refunds: | | | | | | | |
| Highway patrol | $ 310 | $ 402 | $ 328 | $ 478 | $ 366 | $ 508 | $ 562 |
| Tax collection | 275 | 427 | 435 | 618 | 369 | 907 | 1,018 |
| Fuel tax refunds | 218 | 220 | 250 | 285 | 229 | 275 | 321 |
| Carrier tax refunds | 8 | 7 | 11 | 14 | 4 | 15 | 15 |
| Sub total | $ 811 | $ 1,056 | $ 1,024 | $ 1,395 | $ 968 | $ 1,705 | $ 1,916 |
| Total Expenditures | $13,205 | $15,865 | $19,225 | $24,954 | $26,711 | $28,047 | $30,297 |
| Highway Fund Balance as of June 30 | $ 2,645 | $ 3,321 | $ 2,641 | $ 1,852 | $ 994 | $ 2,057 | $ 2,608 |

[a]Includes preliminary engineering.

[b]Includes buildings, publications, publicity & information, and miscellaneous supplies and equipment.

Source: State of Nevada, Department of Highways, 21st Biennial Report, Fiscal Year 1957-1958; and Executive Budget for Fiscal Year 1960-1961.

Table 5.3

Nevada State Highways, Cost of Construction and Federal Aid, 1955-1961
(Amounts in thousands)

| Year | Costs of construction | Amount of federal aid | Required State matching expenditures | Federal aid as % of construction costs |
|---|---|---|---|---|
| 1955 | $ 8,950 | $ 5,021 | $3,929 | 56.1 |
| 1956 | 10,673 | 7,696 | 2,977 | 72.1 |
| 1957 | 14,079 | 9,758 | 4,321 | 69.3 |
| 1958 | 18,667 | 14,530 | 4,137 | 77.8 |
| 1959 | 21,046 | 15,181 | 5,865 | 72.1 |
| 1960[a] | 21,411 | 17,589 | 3,822 | 82.1 |
| 1961[a] | 23,204 | 18,588 | 4,616 | 80.1 |

[a]Estimated.

Source: Table 5.2.

Table 5.4

Maintenance Costs of State Highways in Nevada and Average Annual Cost Per Mile, 1955-1961

| Year | Amount (thousands) | Mileage | Average cost per mile |
|---|---|---|---|
| 1955 | $2,407 | 3,953 | $609 |
| 1956 | 2,760 | 4,027 | 685 |
| 1957 | 2,768 | 4,166 | 664 |
| 1958 | 3,310 | 4,304 | 764 |
| 1959 | 3,433 | 4,381 | 783 |
| 1960 | 3,605 | 4,400[a] | 820 |
| 1961 | 3,786 | 4,400[a] | 860 |

[a]Estimated mileage.

Source: State of Nevada, Department of Highways, 21st Biennial Report, Fiscal Year 1957-1958; and Executive Budget for Fiscal Year 1960-1961.

General Fund. For most of the State agencies the crucial fund of the budget is the General Fund. It finances the expenses of the Legislature, the Supreme Court, general government, State institutions, public welfare and health, the university, and State aid to education. In recent

years a number of public building projects have also been financed on a "pay-as-you-go" basis from surpluses which have accumulated in the General Fund.

Table 5.5 shows the actual and estimated revenues and expenditures of the General Fund for the fiscal years 1959-1961. It will be noted that of the appropriations from the Nevada General Fund for the 1960-61 operating budget, education accounted for $21.5 million, or almost 70 percent of the total. The amount appropriated for aid to local schools rose from $11.6 million in 1960 to $15.6 million for 1961, an increase of 34.6 percent. Part of the increase was caused by growth in the number of enrolled students, and part reflects the substitution of General Fund revenues for the money used in the previous year from the balance in the distributive school fund. A substantial increase was also made in welfare appropriation in 1961 as a result of the State's assuming responsibility for that part of the Aid to Dependent Children and Old Age Assistance programs previously financed by the counties. It is important to recognize that these substantial increases were for activities which otherwise would have to be financed by local property taxes. This indicates a policy in State finance to shift from local property taxes to broad-based State taxes and replace the local revenue through a system of grants-in-aid, and/or by State assumption of functions. It appears that school districts and county governments have been the chief beneficiaries of this policy to date, although municipalities have indirectly benefited to a minor degree, i.e., to the extent they were able to pick-up part of the property tax released by the county.

At present, with estimated revenues and expenditures of $31 million for 1961, there should be an unencumbered surplus in the General Fund of over $8 million on June 30, 1961. The capital construction appropriations shown in Table 5.4 for fiscal years 1960 and 1961 were treated in accord with the accounting practice of deducting such amounts from surplus in the years they were made. However, the alternative budgetary procedure for showing such appropriations is to attribute them to the fiscal years in which they are to be spent.

With regard to future financing requirements, it appears that such factors as continued salary increments, price inflation, and an increased volume of governmental service for a larger population will tend to increase the size of the operating budget each year. If the General Fund operating budget increases on the average of 8 percent a year, the growth in revenues from existing sources will probably be sufficient to meet the budget increases. It is likely, however, that in some years specific areas of State spending will exceed 8 percent. Such occurrences, if temporary, can be met by appropriation from the General Fund surplus with restoration being made in subsequent years. Long run programs requiring greater than average growth in spending, as a result of major improvements in public services or increased grants to local jurisdictions, will require additional revenue.

In fiscal years 1959 and 1960 appropriations from the General Fund surplus for building purposes totaled $5.5 million and $5.4 million, respectively. Use of the surplus to finance capital out-lays

Table 5.5

Nevada General Fund, 1958-1961

| | 1958-59 actual | 1959-60 estimated[a] | 1960-61 estimated[b] |
|---|---|---|---|
| **Revenues** | | | |
| Sales and use tax | $11,050,829 | $12,000,000 | $12,500,000 |
| Gambling tax and licenses | 7,557,850 | 8,267,000 | 8,775,000 |
| Property tax | 1,693,058 | 1,741,000 | 1,792,000 |
| Cigarette tax | 1,226,715 | 1,374,000 | 1,470,000 |
| Liquor tax & license | 1,052,338 | 1,150,000 | 1,250,000 |
| Insurance premium tax | 770,282 | 862,000 | 940,000 |
| All other | 1,360,644 | 1,683,400 | 1,682,400 |
| Totals as per budget | $24,711,716 | $27,077,400 | $28,409,400 |
| Added by later estimates and reversions | -- | 2,711,000 | 2,590,600 |
| Revised Total | $24,711,716 | $29,788,400 | $31,000,000 |
| **Expenditures** | | | |
| Education - Total | $14,022,808 | $16,861,583 | $21,467,997 |
| School aid | 10,402,148 | 11,591,600 | 15,607,038 |
| Other education | 1,175,491 | 1,579,630 | 1,746,792 |
| University of Nevada | 2,445,169 | 3,690,353 | 4,114,167 |
| Welfare | 1,365,752 | 1,674,151 | 2,581,185 |
| General government | 1,687,679 | 2,102,508 | 2,288,498 |
| Health | 1,212,594 | 1,626,888 | 1,950,356 |
| Safety | 805,310 | 978,355 | 1,134,951 |
| Conservation, parks, agric. | 671,559 | 966,774 | 994,346 |
| Regulatory services | 226,081 | 320,693 | 369,214 |
| Debt retirement | 299,615 | 258,000 | 245,500 |
| Total operating | $20,291,398 | $24,788,952 | $31,032,047 |
| Other non-recurring | 1,758,007 | 884,167 | 200,000 |
| Capital construction | 5,485,680[a] | 5,378,260[b] | -- |
| Total expenditures | $27,535,085 | $31,051,379 | $31,232,047 |
| Surplus at end of fiscal year | $9,509,511 | $ 8,246,532 | $ 8,014,485 |

[a]Appropriated in the 1959 Legislative Session.
[b]Appropriated in the 1960 Legislative Session.

Source: State of Nevada, Executive Budget for Fiscal Year 1960-1961; and memorandum from Budget Director's Office.

on a "pay-as-you-go" basis, of course, eliminates interest expense and costs of issuing bonds. However, it is apparent that appropriations should not be made without carefully considering the effect on the General Fund surplus level. A common rule used in business is that working capital should at least equal current liabilities. The nature of a business would cause variations in this rule, but ordinarily it is interpreted as sufficient working capital for one month's expenses. Application of this rule to a governmental unit would mean that sufficient working capital should be retained at the end of a fiscal year to at least meet operating expenditures for an average month in the succeeding fiscal year, or one-twelfth of the budget. A more conservative policy, followed in some states, is to retain 10 percent of the operating budget, which, if applied to Nevada's $31 million State General Fund budget for 1961, would be about $3 million. However, it will be noted in Table 5.5 that the estimated surplus for 1961 is $8.0 million or more than 25 percent of the operating budget.

If the surplus continues to be significantly above working capital requirements, an alternative to direct appropriation for capital outlays is to utilize the excess funds for the establishment of a separate Capital Construction Fund. Immediately after World War II, Nevada had such a fund in which treasury surpluses accumulated during the war were placed. However, no continuing source of financing this fund was provided, and when the amounts originally deposited were exhausted, the fund was cancelled. The separation of capital construction financing from operating expenses is still needed in Nevada. The use of a Capital Construction Fund would operate as follows: If working capital to be retained in the General Fund as surplus is fixed at 10 percent of the operating budget, at the end of the fiscal year, and each year thereafter, any money in the General Fund over and above this ratio would be transferred to the Capital Construction Fund. This fund also would be the depository of other capital financing authorized by the Legislature, such as the proceeds of a bond issue covering several proposed projects. By use of such a separate fund, the Legislature, the Governor, the Planning Board and all others concerned would know the extent to which projects could be financed in a given year.

## Conclusions

On the basis of the preceding analysis of the State's fiscal organization and budgetary practices, it appears that consideration should be given to the possible revision of the following features of Nevada's financial administration on the State level.

First and foremost, the division of financial authority and responsibility between the Governor and other elected administrative officials--particularly the State Controller, State Treasurer, Secretary of State and Attorney General--is inconsistent with the constitutional provision vesting "supreme executive power" in the State's chief executive. Moreover, this legal separation of power has resulted in the Board of Examiners becoming a superfluous entity in financial

administration. While it appears that workable cooperation and good liaison exist between these elected officers and the Governor and his appointive staff, it should be recognized that such decentralization of authority is contrary to established principles of effective budget management. This point has been succinctly stated by the authoritative Council of State Governments as follows:

> The way to get unity is to establish a clear administrative hierarchy headed by a popularly elected chief executive--in this case a governor--upon whom the attention of the people can focus and from whom all administrative authority will flow. By making the governor responsible for administration and giving him authority commensurate with his responsibility the twin goals of administrative effectiveness and political responsibility can be achieved.[34]

However, regardless of whether the State Controller is an elective or an appointive official, with regard to the specific function of pre-auditing claims--statutorily the responsibility of the Board of Examiners but actually performed by the Budget Director--it would be desirable that this function be transferred to the State Controller in order to centralize the pre-auditing and accounting functions in one office. If this were done the legislation should be explicit in providing that the State Controller: (1) comply with the applicable provisions of the State Budget Act concerning expenditures; (2) comply with the work programs approved by the Governor; and (3) furnish adequate and timely reports to the Budget Director for proper maintenance of budgetary control.

Another feature is the lack of uniformity in the State procedures with regard to the financial administration of the numerous regulatory and licensing boards of professional and occupational groups. As noted, about half of these boards deposit their receipts in the State treasury and present claims through the usual channels, while the others maintain their own bank accounts and write their own checks. Moreover, among the latter group, some submit budgets while others do not. There does not appear to be any rational basis for the present differential treatment of these agencies. Collectively they do not account for a significant percentage of State expenditures, but they operate under powers granted by the State of Nevada, in the name of the State, and as such all of them should be expected to meet the minimal requirements of sound financial management. A solution to this problem in some states, e.g., Georgia, is the establishment of a single state department which handles all of the routine administrative operations of such agencies, leaving the regulatory functions with the respective licensing boards.

The present State budget does not reflect the administrative operations of the Nevada Industrial Commission. Although an agency

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[34]Council of State Governments, Reorganizing State Governments, 1950.

has independent financing, its administrative operations should be included in the State budget and reviewed annually, even if it were not subjected to appropriation, authorized expenditure or budgetary control. Precedent is found for this in the handling of the Gaming Control Board and Gaming Commission budgets. Nevada's State budget, as well as that of any other state, should be a single, comprehensive document which covers the revenue and expenditures of the State's entire operations for a particular period.

An effective state budgetary system should include "performance" or program budgeting, which reflects in quantitative terms the level and quality of the various public services provided by the State. As such, it can be used as a basis for agency management as well as legislative evaluation of agency appropriation requests. This represents an important recent development in administrative management which is authoritatively recognized to be one of the most effective devices for achieving economy and efficiency in government. While some efforts have been made in recent years to establish work standards and to define program areas for budgetary purposes in Nevada, it is important that a comprehensive program budget be considered one of the major objectives of financial management to be accomplished within the next few years.

Capital budget plans need to be better integrated into the total budget and the financing of projects should be from a separate Capital Construction Fund. The State Budget Director and the manager of the State Planning Board, working together, should develop a fully integrated system of operating and capital budgeting. The Capital Construction Fund should consist of revenues in excess of operating and working capital requirements annually transferred from the General Fund, plus any additional moneys the Legislature makes available from other sources, such as bond issues. Moreover, the Legislature may desire to group a number of projects in a single bond issue, deposit the proceeds in the Capital Construction Fund, and make appropriations therefrom according to project priorities. For obvious reasons, only major projects, e.g., those which cost $10,000 or more, should be part of the capital budget; others should be included in the operating budget. With regard to the working capital requirement, i.e., the surplus maintained in the General Fund, it should be maintained at approximately 10 percent of the total amount represented by the operating budget.

The present cash basis of State accounting should be converted to a modified accrual system--a cash basis for receipts and an accrual basis for expenditures--which would be in line with the practice followed by the majority of the states in the region and nation. In light of the present Nevada statutes it appears this would not necessitate any legislative enactment, and it could be adopted by simply requiring each agency to encumber their budgeted appropriations at the time obligations were incurred rather than when paid. Modified accrual accounting on the State level should be instituted as soon as possible; but, of course, it should be done at the beginning of a fiscal year and only after agency personnel have been trained in this method of

handling their obligations. Such a system would result in expenditures being properly charged to the periods for which they were incurred and it would eliminate the present problems associated with the payment of claims of a previous fiscal year out of current year appropriations.

The accounts maintained by the Controller's Office represent the basic source of fiscal information for the State of Nevada. As such, it is apparent that these accounts should be classified in a meaningful and useful manner, as well as treated consistently over time. State finances are better understood and managed when there is universal agreement on the meaning of the terms, the classification of accounts, and the arrangement of reports. A standard, official glossary of financial terms and account classification should be developed by the State Controller, in cooperation with the Budget Director and Legislative Auditor. In developing such a glossary, emphasis should be placed on the classification of funds and accounts. The following is a suggested classification of fund groups which would permit more effective budgetary control and uniformity in financial reporting:

General fund
Capital construction fund
Special funds--appropriated
Special funds--authorized and budgeted
Federal restricted funds
Trust and agency funds
Suspense and clearing funds
Agency revolving funds
Bond and sinking funds

Within such funds a standard classification of accounts should be consistently maintained. Due to the uses and variation in the fund structure of the State, a completely uniform system of accounts is not practical and, therefore, it is more effective to categorize accounts as follows:

Budgetary accounts
Proprietary and operating accounts
Revenue accounts by fund and by source
Expenditure accounts, classified by local grants and direct State expenditures. The latter should be categorized by function, by program, by activity, and by object.

This standardized classification, used by numerous states, should form the basis for the preparation of financial reports, internal control, and post-audit.

With the exception of the problem areas noted above, the budgetary practices and fiscal control on the State level in Nevada appear to be sound and generally conform with accepted principles of efficient and effective financial management.

# CHAPTER VI

## PRINCIPLES OF TAXATION

A rational analysis of any tax or tax system requires that it be considered within the framework of the state's economic and social structure and be evaluated in terms of generally accepted criteria or principles of good taxation.[1] The overriding objective of fiscal policy, and similarly of all other governmental policies, should be to maximize the general welfare. And more specifically, how to translate broad social ideals into specific guideposts of tax policy. This is one of the formidable tasks which has to be accomplished if taxes are to be levied and apportioned in a socially acceptable manner. In the absence of standards, any existent pattern of taxation would have to be accepted as a mere reflection of the arbitrary whims or predilections of legislators and tax administrators. Without the development of some criteria it would be impossible to evaluate either tax policies or tax structures.

One of the earliest attempts to formulate such criteria is represented by the celebrated maxims of taxation included by Adam Smith in his Wealth of Nations, published in 1776. The first maxim establishes the "ability-to-pay" principle as the test of tax equity, the remaining three are in effect "commonsense rules" of tax administration. Although limited in scope, Smith's criteria have held up remarkably well when account is taken of the revolutionary economic and political changes of the past two centuries. These maxims of taxation were set forth as follows:[2]

> 1. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. . .

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[1]The "principles of taxation" have been variously referred to as standards, ideals, criteria, canons and maxims. As principles for the guidance of social policy they ultimately rest on subjective value judgments. It is in this respect that they differ markedly from the "principles" developed in the physical sciences which allegedly are objective and non-normative in character.

[2]Adam Smith, The Wealth of Nations (New York: Modern Library Edition, 1937), Book V, Chapter II, pp. 777-78. It should be noted that the first canon implies that both the "ability-to-pay" and the "benefits-received" principles of taxation are to be measured by the taxpayer's income (or "revenue" in Smith's terms).

2. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. . .

3. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. . .

4. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state. . .

Ever since Adam Smith gave pride of place to the equity principle, it has continued to be one of the paramount issues of fiscal policy for both the public at large and students of taxation. The importance of achieving a fair distribution of the tax burden has not been exaggerated. Rather, its implication for social justice has become increasingly more apparent with the unprecedented rise in governmental expenditures and revenues in recent years. Notwithstanding the significance of the equity principle, other basic criteria of taxation--such as revenue adequacy and stability, the promotion of economic efficiency in the allocation of resources, ease of administration and compliance--also must be considered. In the following discussion these principles are examined as to their nature, scope and applicability to state and local finance. As such, they provide a basis for the subsequent analysis and appraisal of taxation in Nevada.

## The Revenue Problem

The financial problems of the state as well as of local taxing jurisdictions are two-fold: determining the essential or desirable level of services and consequently costs; and formulating a suitable revenue system to cover these costs. Similarly, there are two approaches to any budget problem: cutting expenditures or increasing revenues.[3] Governmental needs seemingly have been flexible in only one direction--namely upwards--and taxation cannot be divorced from expenditure policy. For example, the growth of federal taxation in the United States may be attributable primarily to the continuous

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[3]The federal government, of course, alone possesses the sovereign power to issue money. It also differs from state and local jurisdictions in that the public debt of the federal government is generally held internally whereas that of the latter is held externally.

increase in the cost of financing war and national security.[4] Similarly, the unprecedented growth of state and local taxes during the post-war era reflects the expansion of governmental expenditures particularly for education, highways and social welfare services.

So long as the majority of individuals who must pay the lion's share of the cost of public functions find it necessary to judge every personal outlay by the standard of what they can afford, state and local governments similarly have a clear-cut responsibility to limit expenditures to a level which does not impinge upon the essential personal and business resources of the private economy. It is an established maxim of government finance that public luxuries should not be provided at the expense of private necessities, although the historical violations of this principle are legend. But it is equally offensive, from a social point of view, for conspicuout consumption of private luxuries to continue unabated, particularly during periods of economic affluence, at the expense of sorely needed public necessities.[5] Moreover, as already noted, the demands for public services on the state and local levels have been greatly intensified during the post-war era as a result of population growth, increased urbanization, new educational challenges, economic development and technological innovations. In short, the basic question of reconciling expenditures and revenues can only be answered by a continuing review of the needs versus the resource relationship, both in the public and private sectors of the economy.

## Consistency of Public Programs and Means of Financing

Assuming that revenue needs have been tailored to the broad limitation of resources, a second major criterion must be considered. The revenue program basically is a means to an end, and that end is the attainment of the objectives of the various economic and social functions which the government performs. These objectives are not comparable to those of private enterprise, rather they look to the welfare of the group as a whole and that of the less fortunately situated members in particular. The financing measures employed obviously should be consistent with the social purposes of the public programs involved. Otherwise, the method of financing may nullify these ends in whole or in part. For example, one of the principal goals of public education is to ensure that educational opportunities

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[4]Federal expenditures for national defense have averaged about 90 percent of the total federal outlays for goods and services purchased since the beginning of World War II, 1940-59 inclusive. See U. S. Department of Commerce, Statistical Abstract of the United States, 1959; and Survey of Current Business, April, 1960.

[5]See John Kenneth Galbraith, The Affluent Society (Boston: Houghton Mifflin Co., 1958), Chapter XVIII.

are available to rich and poor alike and on an equal basis. Quid pro quo or direct benefit financing would clearly defeat this aim by restricting educational advantages to those who could afford to pay the full costs.

## Particular Taxes and the Revenue System as a Whole

In consideration of revenue principles it should be recognized that the effects of a particular tax, although significant, are not conclusive. Each revenue-producing measure must also be evaluated in relation to the system as a whole. Similarly, the revenue system of the state must be considered in the broader context of federal, state and local policies. This is not to suggest that inequitable or discriminatory effects in one quarter may be excused or rationalized by counter-irritants in another, but rather that one must look at the over-all impact of public revenue measures as a basis of arriving at final judgments concerning any particular aspect of policy.

While the preceding statement of certain aspects of the revenue problem has been couched in general terms, its principal application is to the tax system which supplies the great bulk of governmental revenues. The following analysis of principles will be directed specifically to taxation although it is equally applicable to other revenue sources.

## The Nature of a Tax

The financing of government is characterized by the use of myriad forms of public revenues--taxes, licenses, fees, permits, assessments and other administrative charges; interest on securities, sales of government property, rentals from leases, and other business receipts; fines, escheats and forfeitures; private gifts and intergovernmental grants and subventions; and finally borrowing. The latter, of course, is not income in the usual sense. Rigid lines of demarcation, particularly between taxes and licenses and fees, cannot be drawn since at the fringe many of these forms of revenue straddle the categories, e.g., highway user taxes or gaming licenses. Quantitatively, taxes are the most important single form of revenue. Professor Seligman provided the classic definition of a tax as "a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without reference (or with little reference) to special benefits conferred."[6]

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[6]E. R. A. Seligman, Essays in Taxation (New York: Macmillan, 1925), 10th ed., p. 432.

Legally, taxes are based on a variety of specific things and transactions, such as the assessed value of real estate, the sale of liquor, cigarette consumption, the purchase of gasoline; but whether direct or hidden the impact of taxes is always on people. Regardless of the type of tax levied--income, property, general sales, or specific excise--its effect is to leave the person upon whom the incidence of the tax falls with less real income (i.e., with less money income, higher prices on goods and services purchased, or both) than would have been the case in the absence of the tax. In this sense practically all taxes are "income taxes" in that they ultimately must be paid from the economy's real income stream.[7] In other words, the various types of taxation used by the state actually do not represent alternative sources of revenue, but rather different allocations of the tax burden since the patterns of the sundry tax bases and rates by income groups do not parallel each other. In the income sense it is not possible for any particular type of taxing jurisdiction to pre-empt a tax field or resource for its exclusive use.

## General Requirements of a Sound Tax or Tax System

The payment for public services is at best a painful process, and affects directly or indirectly the wellbeing of every individual and the profit position of every business organization. Indirect effects of taxation are reflected in changes in prices and incomes and the volume of production and employment. Thus, the distribution of the costs of government through taxation and other revenue measures is of utmost concern to all segments of the economy.

Government must obviously be concerned with these direct and indirect effects of taxation on individuals, business enterprises and the economy as a whole. At the same time, those responsible for the formulation and administration of tax programs must focus their attention on the direct needs of the particular governmental unit. In general, these needs include the adequacy of existing revenue sources to meet current requirements, an essential element of flexibility in the revenue system and the avoidance of excessive administrative costs.

Students of tax policy, as might be expected, have given varied expression as to the broad standards which should be applied

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[7]An apparent exception is the taxpayer with insufficient current income who lives off his capital by drawing upon past accumulated savings or inherited wealth in order to meet his tax liabilities. In this case the current tax actually is being paid from past income; contrariwise, if paid with borrowed funds it could be considered a charge against future income.

in the formulation of tax policy. However, there is a general consensus on basic criteria. These may be summarily stated as follows: (1) equity in the distribution of tax burdens; (2) productivity; (3) recognition of the rights and problems of the taxpayer; and (4) adaptability of the tax program to the immediate and long-range needs of the economy as a whole. As noted, primary emphasis generally has been given to the equity principle by most tax economists, but each of the requisites is important; they are clearly inter-related; and they must be interpreted in a relative rather than an absolute sense.

## Equity in Taxation - General Considerations

Equity is a universally accepted goal of tax policy, and has many facets. In general, it is concerned with the way in which the costs of government are distributed among individual and institutional taxpayers.[8] As such it necessarily involves a series of social judgments relative to the existing and future economic relationships between individuals, family groups, business enterprises and other private organizations. More specifically, these judgments pertain to: (1) the type of individual and family income distribution pattern which is believed to be desirable and the tax measures best suited to the promotion of this end; (2) the proper role of business enterprises in the financing of governmental services and the most appropriate tax vehicles for obtaining their contribution; and (3) the desired framework of industrial organization and policy and the tax measures most likely to further this result. The foregoing aspects of the equity problem reflect judgments that are essentially positive in character. Equity in taxation also involves certain negative bases of evaluation. For example, it is generally agreed that discrimination is undesirable unless it is purposefully designed to achieve accepted goals of public policy. In the same vein arbitrary or capricious effects should certainly be avoided.

Some students of taxation in discussing the nature and scope of the equity problem have distinguished two major aspects, namely, vertical and horizontal equity. This approach serves to highlight certain major elements of the problem, and merits attention. Vertical equity is defined to include the elements associated with the distribution of individual and family incomes, in other words, the range of income from the lowest to the highest level. Horizontal equity, in turn, has reference to the relationship of individuals or family groups on the same income level and business enterprises of the same type or class. It requires that people in similar economic circumstances be treated taxwise in a similar manner. As

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[8]The actual location of the burden or its economic incidence is the consideration in question. The legal incidence of the tax on the original taxpayer may often differ from actual incidence on the final recipient of the burden due to tax shifting.

observed by Daniel M. Holland,

> . . .some taxpayers because of the particular sources from which their income derives, are in a better position to play the game of tax avoidance than others. A game not open equally to all is unfair. . .[9]

This approach to the explanation of equity is consistent with the first analysis, and may contribute to a better understanding of the over-all problem.

## Basic Approaches to Equity Problem

There is general agreement as to the desirability of equity in taxation and the essential aspects of the equity problem. The crucial questions as to the proper approach or approaches to the distribution of tax burdens, and how they should be implemented are naturally subject to varying interpretations. With respect to the first question, two broad theories concerning the distribution of tax burdens are presently accepted and applied with varying degrees of qualification by tax economists and those responsible for the formulation of tax policy. They are the "ability-to-pay" principle and the "benefits received" standard. These theories, it should be noted, involve different and largely inconsistent ideas of tax equity. While there is undoubtedly a preponderance of opinion favoring the ability-to-pay doctrine, a limited application of the benefits approach in certain areas of governmental financing is generally thought to be desirable.

## Ability-to-Pay Principle of Taxation

The ability-to-pay principle is based upon the broad proposition that those who possess income or wealth should contribute to the support of governmental functions in accord with their respective abilities. The obligation to pay arises as a consequence of one's status in the social group, but the actual determination of who shall pay and in what amount is necessarily an individual matter. The social orientation of the ability principle is fundamental, though perhaps it is not always fully understood. In contrast to the benefit standard under which each person or business concern would pay for the full value of services received, the ability approach recognizes the broad social purposes underlying most public programs and calls for a distribution of costs compatible with these purposes.

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[9]Daniel M. Holland and C. Harry Kahn, Federal Tax Policy for Economic Growth, Papers Submitted by Panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D. C., 1955), p. 317.

From the standpoint of either the individual or family unit the ability principle involves a determination of their current economic status (income and wealth), the minimum demands upon their resources for living and other essential costs, and consequently the actual capacity remaining, if any, to make tax payments.

Ability may also be interpreted in terms of the relative sacrifice occasioned or the utility of the income taken by tax payments. As in the case of the capacity to pay concept, these ideas lead to the conclusion that the ability of individuals to pay taxes, as reflected by income, increases progressively after essential costs or uses of income have been met. Thus, the broad implications of the ability principle in the case of individuals are self-evident: persons whose current resources are barely sufficient to meet absolute living or related costs have no taxpaying ability, and should not be required to make a tax contribution; and those whose resources exceed such minimal needs have taxpaying ability which tends to increase progressively in relation to income.

In the case of corporations, which are income-producing and distributing units, the existence of net income obviously reflects taxpaying ability. As the organization is impersonal and often retains a substantial portion of net earnings within the business the extent of taxpaying ability involved is more difficult to determine. The specific problems encountered are treated in some detail in Chapter XVI.

## Application of Ability Standard

If the ability-to-pay principle is to be meaningful, it must be capable of fair and effective application in the tax system. Does it meet this test? The answer must be in the affirmative, though there are many difficulties to be resolved. Net income, both personal and corporate, is generally accepted as the primary measure of ability. Property holdings or accumulated wealth are also said to reflect taxpaying ability, but in varying degree depending upon the nature of the capital and the income realized. In addition, certain economists support consumption expenditure either as a basic or supplementary standard. However, they are in a distinct minority.[10]

Net income is the most realistic measure of ability because it reflects directly the sum of net receipts currently available for tax payments and meeting personal or other essential needs. Certain minimum requirements of the individual or family group are a condition of survival, and should not be encroached upon by government.

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[10]See Nicholas Kaldor, An Expenditure Tax (London: George Allan & Unwin, Ltd., 1955).

Tax payments from this essential element of income will further impair the productivity of the persons concerned, restrict the market for consumption goods and probably necessitate the extension of social welfare aids. Net income is clearly preferable to gross income as a measure of ability. The latter is either partially or wholly composed of cost elements for which the recipient merely serves as a distributing or transfer agency.

Accumulated wealth or property presents a possible source of tax payment. However, such holdings may or may not reflect current taxpaying ability, and if they do it will vary widely in relation to the types of property, individual properties of the same class and a variety of other factors. Use of property values as a direct measure of ability, therefore, is certain to produce highly variable results and may well have the unfortunate effect of confiscating such values. The latter consequence, needless to say, is the antithesis of that sought for in the general application of the ability principle. The two possible exceptions are property transferred at the death of the owner or gifts made during the lifetime of the owner. Even in these circumstances the transfers would reflect taxpaying ability only to the extent that the sums received were unearned and exceeded the reasonable needs of the beneficiary.

Consumption outlay as a standard of determining taxpaying ability is both unsatisfactory and incomplete. It disregards the relative urgency of the needs being satisfied, and excludes the highly significant and generally productive use of income for saving and investment purposes. Basically, therefore, it involves a negation rather than an application of the ability approach.

In summary, it should be noted that the ability to pay principle of taxation is in accord with prevailing concepts of social justice and meets the test of practicality. Net income affords a reasonable and effective measure of taxpaying ability which may be supplemented by property holdings under certain conditions. The income measure logically is subject to the qualifications that the sum required to meet absolute living or other essential costs does not reflect taxpaying ability, and that the taxpaying ability reflected by income in excess of this amount increases on a progressive basis. At the same time, it should be recognized that the ability principle does not provide a complete and precise guide to all questions of tax policy. For example, it does not answer specifically the practical issue as to the degree of progression which should be applied in the case of personal income nor the relationship which should obtain between personal and corporate tax rates.

## The Benefit Principle of Taxation

The benefit principle of taxation rests upon the broad proposition that governmental services are of benefit to the private

economy and that their cost should be apportioned among individuals and private organizations on the basis of the relative benefits which they enjoy. Basically, the theory provides a justification for taxation and a standard for distributing tax burdens. According to this theory the obligation to pay taxes as well as the measure of the amount to be paid should be determined by the benefits received by the individual or business concern. As everyone is benefitted by public services, it logically follows that everyone should pay.

The general measure of benefits is variously stated as the "value" or "cost" of the services received. In either case cost appears to be the controlling factor. As the costs of particular governmental services are generally known the problem of allocation is one of reducing these costs to a unit of service basis and then determining the units of service received. In other words, government would operate on a basis comparable to that of a huge, private supermarket with the prices clearly marked on each item.

No one will dispute the basic assumption that the benefits conferred by public services justify the imposition of taxes to pay for them. However, the further assumption that the cost of the varied and complex activities of government can and should be calculated and assessed against each person on the basis of the individual benefits derived involves serious shortcomings both theoretical and practical. In the first place, the fundamental concept of the individual's relationship to the government underlying the benefit principle is untenable in modern times. A price or quid pro quo basis of exchange clearly does not exist between the citizen and the state with respect to most public services. The activities of present day democratic governments are commonly in the interests of general or group rather than individual welfare. Even if it were practical, a pure benefit approach would produce absurd results in the case of broad public programs such as national defense, public safety, education, public welfare and aid to agriculture or other industries.

In addition to this inherent fallacy, no reasonable formula has yet been devised for calculating the benefits to the individual from the important programs noted. Many of these services are essentially intangible in character, and an attempt to personalize their benefits is clearly impractical.

In view of the limitations noted, the proper role of benefit financing is necessarily a restricted one. In fact, it is only in those areas where the government actually functions as a private or commercial enterprise that the benefit principle appears to have a wholly logical application. Public utility services and others which are made available on a direct and sometimes voluntary basis clearly fall in this category. Among the major domestic programs

of government today the most significant application of the direct benefit standard is in the financing of roads and streets. Highway users are called upon to pay the bulk of the costs of these facilities, and the owners of urban property bear the primary responsibility for the outlays on city streets. The application of the direct benefit approach in these areas is generally thought to be desirable. However, there are many special problems involved in the determination of relative benefits and in allocating costs. In addition, there are the social limitations arising from the admittedly regressive effects of the taxes employed and the possibility that higher burdens will seriously restrict the use of such facilities by low income groups.

## Productivity and Stability

The primary purpose of taxation is to produce revenue. Specific regulatory or non-fiscal uses of the taxing power are not germaine to this analysis, though it should be recognized that all taxes have an important impact upon individual and group relationships.[11] The problem of productivity is one of meeting immediate as well as future revenue requirements. Specifically, this means that the yield of individual taxes and the entire tax system must be predictable within reasonable limits, and that certain major tax sources be sufficiently flexible in structure and rates to handle the rising costs of government.

It is often suggested that regularity or stability of tax yields is desirable from the standpoint of the governmental unit. While this idea has merit, no tax is perfect in this respect. More significantly, stability of receipts during a period of recession or depression, which is the time when stability would be desired, is probably attainable only at the expense of unduly burdensome or confiscatory effects upon the taxpayer and a heightening of general deflationary influences.

The revenue capabilities of a particular tax are dependent upon a variety of factors including rates, the general definition of the tax base, exemption practices, the efficiency of tax administration and the psychology of taxpayers. Taxes with a restricted base, such as those on very high incomes or exceptionally large estates are necessarily limited in yield regardless of the rates imposed. Similarly, taxes involving excessive costs of administration are generally unsatisfactory from the standpoint of productivity.

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[11] An extended treatment of tax neutrality in terms of the effects of taxation on the allocation of resources and the efficiency of the economy as determined by market standards is presented in Chapter XV of this study.

The adaptability of tax programs to certain basic needs of the economy as a whole is not a new criterion of tax policy; but since the Great Depression of the 1930's it has been given much greater emphasis and more specific formulation. The achievement of domestic economic stability is widely recognized today to be an important goal of government policy. For example, post-war federal legislation has explicitly stated that it "is the continuing policy and responsibility of the federal government. . .to promote maximum employment, production and purchasing power."[12] These, plus price stability and economic growth are all now recognized as major goals of public policy; and fiscal policy, including governmental expenditures, taxation and borrowing, is an accepted instrument for implementing these objectives.

The actual or potential role of taxation is an important one both in curbing inflation and combatting a threat of economic recession or depression. Increases in the rate or level of taxation serve to skim off excess purchasing power in the private economy and thereby reduce inflationary pressures, while tax reduction makes additional funds available for private expenditures thus tending to offset the actual or anticipated decline in spending, income and employment.

At the state and local levels, however, it is apparent that tax policy must be more concerned with developing adequate and stable sources of revenue than with compensating for the ups and downs in general business activity. Nevertheless, state taxes that automatically have a stabilizing effect are to be preferred over those which aggravate the business cycle. During the post-war era the continuous growth of total state and local expenditures, from less than $10 billion in 1946 to over $44 billion in 1959,[13] has been one of the primary factors accounting for the general economic prosperity and stability which has characterized this period. And with state and local taxes constituting more than one-quarter of the nation's total tax bill during the past decade it would appear that all units of government will continue to have some responsibility for pursuing tax policies which do not unnecessarily induce economic instability.

## Principles of Taxation and State Policy

The basic principles of taxation have certain special implications in terms of state and local policy, such as the predominant role of federal taxation, the state's legal and technical problems due to limited jurisdiction and constitutional requirements, and other economic considerations.

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[12]Employment Act of 1946, 79th Congress, 2nd Session, Chap. 33 PL304.

[13]Federal Reserve Bulletin, February, 1960.

The primary position of the federal government in virtually all phases of government financing is axiomatic. In view of the magnitude of its revenue needs the choice of federal tax and other sources of financing clearly is the principal determinant of the nature and effects of public revenue programs. In particular, the emphasis placed upon personal and corporate net income and certain sales or excise taxes serves as a possible model for state action, but also may tend to delimit the scope of state policy. Double or multiple taxation of a given tax base certainly must be considered in appraising the equity and productive potential of a given source. However, it is the latter elements that are important, not the duality of use. The alleged saturation of the net income tax base by high federal and moderate state taxes, for example, is a delusion in the light of the accepted merits of this source. Certainly, the use of less equitable tax forms worsens rather than improves the economic effects of a given level of taxation.

By virtue of their limited jurisdiction and federal or state constitutional limitations the states encounter a myriad of problems, many of which are peculiar to this level of government. The more significant factors contributing to these difficulties are: the interstate and foreign commerce limitation of the federal constitution, the immunity of federal agencies and instrumentalities, the due process requirement of the Fourteenth Amendment (Federal Constitution), specific state constitutional limitations relating to the taxing and borrowing powers, the problem of interstate and federal reciprocity in the granting of tax deductions, exemptions and credits, and the question of uniformity in tax treatment both as to legal concepts and tax burdens. In the formulation of state tax programs the state must also be cognizant of the needs and problems of its local subdivisions.

The nature and magnitude of the state's resources is obviously of basic importance in the formulation of tax programs. Nevada's resources and economy were considered in Chapter I. These resources and the state's economic structure obviously delimit in a broad sense the state's capacity to support governmental programs and consequently the level of taxation. Their character also serves to define within limits the appropriateness of certain tax measures. Finally, the broad aim of promoting a fuller and more effective utilization of existing resources highlights the importance of avoiding unduly burdensome taxation upon any segment of the state's economy.

# CHAPTER VII

# PROPERTY TAXATION

## History of the Property Tax

The property tax is one of the oldest governmental levies of the civilized world. Its origin can be traced back to the beginning of organized society. Ancient Greece and Rome employed it, and it was introduced in Western Europe by the early nation states as a tax on land area rather than value. As individual property rights and market mechanisms became more firmly established, its character was changed to a levy on land and other property values.

Most of the American colonies applied it following the pattern of the English system. However, its nature as well as the date of introduction varied. The New England colonies adopted it first, and the typical tax had a composite base including a head tax, an additional sum related to earning capacity and a levy on land, improvements and certain types of personalty. Flat values for the various types of property were often specified in the tax statute. Largely because of the Dutch influence the Middle colonies successfully resisted the early use of the tax, and except for certain temporary emergencies it was not employed in the South until the period following the Civil War. Large plantation owners generally controlled legislative policy in the Southern colonies, and they exhibited a marked preference for poll, custom, special excise and license taxes.

The property tax generally was the principal source of state and local revenues in the period from 1800 to 1860, and the trend was in the direction of a general tax on all types of property at uniform rates. This development usually was reflected by constitutional provisions requiring "equal and uniform" taxation. However, after the Civil War a new trend toward the classification or special treatment of certain types of property appeared. While this development was impeded by the equality and uniformity clauses in the state constitutions, it gethered momentum in the last two decades of the nineteenth and the early part of the present century. The reversal of policy involved was an outgrowth of three factors: (1) ineffective administration of the tax on many types of personal property; (2) the growing complexity of all forms of property and property rights; and (3) a recognition of differences in the taxpaying capacity of various types of property. In contrast to the uniformity concept of the "general" type of tax, the classified version involved differential treatment of specified types of personalty and/or real estate. Theoretically, at least, the basis of such treatment was variations in the actual or potential income capacity of the property.

Interest in the "classification reform" has waned since the 1920's, and the importance of the property tax as a source of state

revenue has also rapidly declined. The latter situation was, of course, a consequence of the introduction of new forms of taxation--sales, income and highway user taxes on the state level--and a recognition by state legislative bodies of the primary dependence of local governmental units upon this traditional source of financing. A similar development involving the increasing use of sales, income and special excises by cities and counties is now in evidence on the local level.

## Nature and Forms of Property Tax

The property tax in the United States generally is imposed upon the capital value of property. In other words, it is intended to be a tax on wealth rather than income or other incidents related to the productive employment of the property. The legal base of the tax is usually market or sales value, although other bases such as reproduction cost new minus depreciation or income, are sometimes used in the case of special types of property. The property tax is not designed to provide a direct or precise measure of taxpaying ability nor of the special benefits derived by property owners from particular governmental services.

There are two principal forms of property tax employed by American state and local governments, the general property tax and the classified or differentiated tax. The former or general version is comprehensive in scope, applying to all types of property at uniform rates. The intent is to achieve an equal burden on all property regardless of its nature or use. In the case of the classified tax property is grouped into special categories for the purpose of imposing differential burdens based primarily upon the relative taxpaying ability which the property represents. However, administrative considerations have also entered into the establishment of certain classifications.

In practice, the classified tax either involves a partial or comprehensive classification plan. In the former instance, all property is grouped into two categories: (1) real estate or tangible personalty, and (2) intangibles. Under the limited classification type a low mill rate is applied (usually 1 to 10 mills) to various types of intangibles and a uniform rate to all other forms of property. The so-called comprehensive classification plans are characterized by varying number of classes or property ranging from 5 to 21, and a differential burden is imposed on each class. Differential treatment is achieved either by varying the tax rate or the percentage of the value base subject to the tax. About 15 states employ the partial classification type of tax as contrasted to 5 states which have comprehensive classification plans.

The exemption of intangible property and certain types of tangible personal property, usually household and other personal possessions of a non-income producing character, is another important development in property taxation. About one-half of the states now exempt all or specified intangibles and thirty-four states exempt all or a specified value of non-income producing personalty. These changes have been dictated by the administrative problems involved in the assessment of

these forms of property and the limited or questionable taxpaying ability associated with such property. Also, many of the states have adopted special property taxes or various in lieu types of tax in the case of automotive vehicles, the operating property of public utilities and natural resource properties including oil and gas, other minerals and timber lands. In a few jurisdictions, differential treatment also has been applied to other forms of tangible personalty such as merchandise inventories and raw materials. Here again, tax equity and administrative problems have been the principal motivations.

## Significance of Property Tax in State and Local Finance

The property tax has continued to produce an increasing amount of revenue, but its relative importance in the nation's tax structure, as well as in the revenue systems of the states, has declined appreciably in recent decades. It is still the primary tax source for all forms of local government, although new forms of taxation at the municipal level have also reduced its importance to these units.

The general trend of property tax collections, both state and local, from 1902 to 1958 is shown in Table 7.1. Total receipts, state

Table 7.1

Significance of Property Tax in State and Local Finance
Selected Years, 1902-1958

| Year | Total state & local property tax receipts (millions) | State property tax: Total receipts (millions) | State property tax: % of total state tax collections[a] | Local property tax: Total receipts (millions) | Local property tax: % of total local tax collections |
|---|---|---|---|---|---|
| 1902 | $ 706 | $ 82 | 52.6 | $ 624 | 88.6 |
| 1913 | 1,083 | 140 | 46.5 | 943 | 89.7 |
| 1922 | 3,321 | 348 | 36.8 | 2,973 | 96.9 |
| 1932 | 4,676 | 323 | 17.1 | 4,353 | 97.4 |
| 1942 | 4,544 | 271 | 6.9 | 4,273 | 93.0 |
| 1946 | 5,157 | 253 | 5.1 | 4,904 | 92.8 |
| 1950 | 7,367 | 311 | 3.9 | 7,056 | 88.2 |
| 1958 | 13,983 | 533 | 3.6 | 13,450 | 87.2 |

[a]Unemployment compensation levies were excluded from state totals in computing relationship (1942-1958).

Source: U. S. Department of Commerce, Bureau of the Census, Historical Review of State and Local Finances, June, 1948; and Governmental Finances in the United States, 1922, 1950 and 1958.

and local, which amounted to approximately $4,676 million in 1932 declined during the depression decade, but rose to over $7,367 million in 1950. Collections in 1958 totaled $13,983 million, an increase of nearly 90 percent over the receipts in 1950. The declining significance of the tax for state purposes is illustrated by the fact that at the beginning of the century the states obtained more than half of their total tax receipts from this source. Since then the ratio of property tax receipts to total collections has steadily declined and was only 17.1 percent in 1932, 6.9 percent in 1942, 3.9 percent in 1950, and 3.6 percent in 1958. Its relative significance today, as indicated in Table 7.2, varies widely. Nebraska received about 32

Table 7.2

Property Tax Collections for State Purposes, Fiscal Year 1959

| State | Property tax collections: Total (thousands) | Property tax collections: As % of total taxes | State | Property tax collections: Total (thousands) | Property tax collections: As % of total taxes |
|---|---|---|---|---|---|
| Nebraska | $ 25,556 | 31.5 | Florida | $ 14,794 | 3.1 |
| Wyoming | 7,513 | 20.0 | N.Carolina | 9,844 | 2.5 |
| Arizona | 22,150 | 17.1 | Delaware | 1,607 | 2.4 |
| Montana | 6,757 | 11.2 | Miss. | 4,359 | 2.4 |
| Colorado | 12,908 | 7.5 | Maine | 1,539 | 1.9 |
| Kentucky | 15,885 | 7.5 | Utah | 1,514 | 1.8 |
| Wisconsin | 28,159 | 7.4 | Iowa | 4,041 | 1.6 |
| Ohio | 47,612 | 6.5 | Vermont | 349 | .9 |
| Washington | 26,676 | 6.5 | New Jersey | 2,685 | .8 |
| Minnesota | 20,010 | 6.4 | S.Carolina | 950 | .5 |
| California | 114,286 | 6.3 | Georgia | 1,033 | .3 |
| New Mexico | 7,097 | 6.3 | Arkansas | 291 | .2 |
| N. H. | 2,324 | 6.1 | New York | 3,130 | .2 |
| Michigan | 47,249 | 5.9 | Penn. | 1,716 | .2 |
| Alabama | 12,764 | 5.2 | W. Virginia | 274 | .2 |
| Texas | 34,473 | 5.0 | Illinois | 1,111 | .1 |
| Virginia | 13,345 | 4.9 | Mass. | 246 | .1 |
| N.Dakota | 2,678 | 4.6 | Conn. | 13 | a |
| Kansas | 9,011 | 4.5 | Oregon | 24 | a |
| Nevada | 1,720 | 4.4 | S.Dakota | 5 | a |
| Idaho | 2,447 | 4.3 | Tennessee | 9[b] | a |
| Indiana | 15,854 | 4.2 | Oklahoma | 0 | -- |
| Missouri | 11,886 | 4.1 | R. I. | 0 | -- |
| Maryland | 12,076 | 3.8 | | | |
| Louisiana | 14,782 | 3.4 | 48 States | $564,784 | 3.6 |

[a]Less than 1/10 of 1 percent.
[b]Back taxes.

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

percent of its tax revenue from property, whereas 2 states reported no collections and 14 others received nominal sums amounting to less than 1 percent of total tax revenue. Nevada's reliance on the property tax, which produced 4.4 percent of State tax receipts, is above the average for the forty-eight states and below that of the eleven Western States. It should be noted, however, that the State obtained approximately 20 percent of its tax receipts from property in 1950. For the eleven Western States, as shown in Table 7.3, the average ratio in 1959 was 6.6 percent and for the nation as a whole it was 3.6 percent. The decline of the property tax for state purposes is attributable primarily to two factors, the emergence of other major tax forms and the increasing financial pressures at the local level which have resulted in a deliberate policy of relinquishing the source to these units.

Table 7.3

Property Tax Collections for State Purposes, Eleven Western States, Fiscal Year 1959

| State | Property tax collections: Total (thousands) | As % of total taxes |
|---|---|---|
| Arizona | $ 22,150 | 17.1 |
| California | 114,286 | 6.3 |
| Colorado | 12,908 | 7.5 |
| Idaho | 2,447 | 4.3 |
| Montana | 6,757 | 11.2 |
| Nevada | 1,720 | 4.4 |
| New Mexico | 7,097 | 6.3 |
| Oregon | 24 | a |
| Utah | 1,514 | 1.8 |
| Washington | 26,676 | 6.5 |
| Wyoming | 7,513 | 20.0 |
| Western States | $203,092 | 6.6 |

[a]Less than 1/10 of 1 percent.

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

Local governments still rely on the property tax for the bulk of their revenues, although it is losing ground particularly in the case of municipalities. In 1958 locally imposed property taxes produced some $13,450 million or slightly over 87 percent of total local tax receipts. This may be compared with the peak situation (since 1902) of over 97 percent in 1932 and nearly 93 percent in 1942 and 1946. The decline has been attributable largely to the introduction

of new taxes (retail sales, other excise and income taxes) by the cities and towns and to a lesser degree county governments. Municipalities obtained 87 percent of their tax revenues from property taxes in 1942 and 73 percent in 1958.[1]

The share of local tax revenue derived from the property tax in Nevada in 1957 was 79 percent which was well below the national average[2] as well as that of the eleven Western States, as shown in Table 7.4. On an overall basis (aggregate average) the property tax accounted for nearly 90 percent of local tax receipts, and there was only one state in which this source was less important than in Nevada, namely, New Mexico (74.5 percent). In contrast, in Idaho, Oregon and Utah property receipts amounted to over 95 percent of local taxes. The relative position of the property tax for local purposes in Nevada is probably a result primarily of the 5¢ per $1.00 constitutional rate limitation and the low assessment ratios in terms of present values.

Table 7.4

Use of Property Tax by All Local Governments, Eleven Western States and United States, 1957

| State | Total local taxes (millions) | Local property taxes (millions) | Property taxes as % of total taxes |
|---|---|---|---|
| Arizona | $ 76.1 | $ 70.2 | 92.2 |
| California | 166.4 | 144.7 | 87.0 |
| Colorado | 160.6 | 147.2 | 91.7 |
| Idaho | 49.3 | 47.7 | 96.8 |
| Montana | 73.4 | 68.6 | 93.5 |
| Nevada | 24.8 | 19.6 | 79.0 |
| New Mexico | 31.0 | 23.1 | 74.5 |
| Oregon | 155.8 | 148.6 | 95.4 |
| Utah | 59.9 | 57.1 | 95.3 |
| Washington | 157.7 | 128.8 | 81.7 |
| Wyoming | 27.3 | 25.2 | 92.3 |
| Western States | $ 982.3 | $ 880.8 | 89.7 |
| United States | $14,273.0 | $12,371.0 | 86.7 |

Source: U. S. Department of Commerce, Bureau of the Census, State and Local Government Finances, 1957.

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[1]U. S. Department of Commerce, Bureau of the Census, Governmental Revenue in 1950 and Compendium of City Government Finances in 1958.

[2]This is the latest date for which local data by states are available.

There is a marked variation in the relative importance of the property tax for city as compared to other local governments in Nevada. As indicated in Table 7.5 the former only obtained less than one-half of their tax receipts from this source in 1957. Counties on the other hand, derived over 84 percent from the property tax; schools nearly 100 percent; and special districts 100 percent. Thus, the obvious difference in terms of the practice of other states is in the extent of use by municipalities.

Table 7.5

Use of Property Tax by Specific Local Governments in Nevada, 1957

| Type of local government | Total local taxes (millions) | Property tax (millions) | Property taxes as % of total taxes |
|---|---|---|---|
| Cities | $7.6 | $3.6 | 47.8 |
| Counties | 9.0 | 7.6 | 84.4 |
| School districts | 7.9 | 7.8 | 99.9 |
| Special districts | 0.5 | 0.5 | 100.0 |

Source: U. S. Department of Commerce, Bureau of the Census, Government in Nevada, 1957 Census of Governments, 1959.

The combined impact of the property tax upon state and local taxation continues to be highly important. For the 48 states it produced 44.6 percent of total state-local tax revenues, and for the eleven Western States 44.9 percent.[3] Nevada's ratio of 36.3 percent was well below that of both groups of states.[4]

Further evidence of the emphasis placed upon property taxation in Nevada and the other states is afforded by total, state and local property tax collections on a per capita and per $1,000 of personal income basis. This information, as it relates to the eleven Western States and the average for the United States, is presented in Table 7.6. Per capita collections in Nevada amounted to $83.13, and were slightly above the eleven Western State average of $82.18 and substantially above that for the United States of $75.46. On the other hand, in terms of the burden per $1,000 of personal income, Nevada's total of $33.66 is significantly lower than the average for the eleven Western States, $41,43, and is also under that for the United States of $37.22. High per capita incomes relative to most of the Western States are the obvious factor in the differential results of the second measure.

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[3]U. S. Department of Commerce, Bureau of the Census, State and Local Government Finances in 1957.

[4]Ibid.

Table 7.6

Property Tax Collections, State and Local,
Per Capita and $1,000 Personal Income,
Eleven Western States, 1957

| State | Property tax collections: Per capita | Per $1,000 personal income |
|---|---|---|
| Arizona | $ 78.77 | $42.71 |
| California | 112.01 | 44.25 |
| Colorado | 95.76 | 47.69 |
| Idaho | 77.61 | 48.00 |
| Montana | 109.63 | 58.24 |
| Nevada | 83.13 | 33.66 |
| New Mexico | 36.38 | 21.14 |
| Oregon | 85.26 | 43.90 |
| Utah | 71.12 | 41.43 |
| Washington | 55.70 | 26.20 |
| Wyoming | 98.66 | 48.56 |
| Western States (mean) | $ 82.18 | $41.43 |
| United States (aggregate) | $ 75.46 | $37.22 |

Source: U. S. Department of Commerce, Bureau of the Census, State and Local Government Finances in 1957.

The interest of state governments in the property tax is much broader than its revenue implications for state purposes. The structure of the tax is prescribed by state constitutional and statutory provisions. The states generally exercise significant controls over its administration, and they usually administer directly the tax on certain special types of property. Finally, the states are being called upon to shoulder greater responsibility for the financing of local services through tax sharing and grants-in-aid. In view of these considerations they are virtually compelled to assume continuing responsibility for the effective and equitable use of the tax.

## Rationale of Property Taxation

As evidenced by its long and checkered career, property taxation has enjoyed substantial support both on theoretical and practical grounds. At the same time, the equity of the tax and deficiencies in its administration have been subject to severe criticism. Some thirty

years ago, one of the leading students of American taxation stated that:

> The general property tax was one of the worst taxes known to the civilized world and so flagrantly inequitable that its retention could be explained only through ignorance and inertia.[5]

The theoretical justification of property taxes rests mainly upon the benefits received and the ability to pay principles. From the standpoint of benefits received, it is alleged that the property owner is the direct beneficiary of many governmental services as well as a continuing rise in the value of his property resulting from various types of public improvements. In the instance of ability, property ownership is said to involve a distinctive or additional element or taxpaying capacity not reflected by the principal measure--net income. Practical considerations, however, provide the major justification for the retention of and emphasis upon this form of taxation. The productivity of the tax, its traditional role as a primary source of local revenue, its imbedment in the legal structure of local government, its general acceptance, and the rapidly growing revenue needs of local governments are the principal factors involved.

The theoretical merit of property taxation, either as a measure of benefits or taxpaying ability, tends to be obscured by variations in the character of the taxes employed, differences in administrative practice and the confusion concerning the incidence of the tax which varies depending upon the form of tax, the nature of property and its use, and changing economic conditions. A uniform tax on all forms of property obviously has different economic implications than the classified tax which involves a differential burden. The fact that intangible property and certain types of tangible personal property usually escape taxation also complicates the problem.

## Property Taxes as a Measure of Benefits Received

The benefit principle has two primary facets as applied to the general and classified property taxes. First, it is evident that certain public services such as police and fire protection and the legal arrangements for maintaining property rights are of general benefit to property owners. Needless to say, the cost of these services is substantial and though the benefits involved are not limited to property owners, the protection they receive is of major significance. The other type of special benefit accruing to the owners of property arises as a consequence of certain public improvement projects such as streets, street lighting, primary and storm sewage systems and

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[5]Edwin A. Seligman, Essays in Taxation, 10th Edition (New York: The Macmillan Co., 1925), p. 62.

parks and recreational facilities. These improvements are commonly thought to increase property values directly. Consequencly, all or a major part of their cost is usually assessed against the property owners either through the special assessment device or the property tax.

The limitations of property ownership as a measure of general and special benefits are also evident. Actually, it is not possible to determine precisely the total incidence of benefits from particular governmental services. For example, what part of the total benefits derived from police and fire protection should be assigned to property owners? Persons who own little or no taxable property also share directly and indirectly in the protection provided. Similarly, the social gains from various types of public improvements are also very widely dispersed. The difficulty, if not impossibility, of objectively measuring benefits is apparent. Moreover, property ownership as a measure of benefits involves at least the implicit assumption that the burden of the tax will remain on the property owner. However, in the case of business and rental property, taxes are usually shifted in whole or part to the consumer or renter. Finally, it should be emphasized that property ownership as well as other measures of special benefits are often inconsistent with the ability standard.

## Ability Bases of Property Taxation

The assumption that the ability principle provides a substantial justification for property taxation rests basically upon the notion that wealth in any form contributes to the individual's capacity to pay taxes. In particular, there is said to be a significant relationship between the amount of wealth that the individual owns and income. Although this relationship is apparent in the instance of income producing property, the taxpaying ability reflected by income is not necessarily proportional to capital values for different properties. Furthermore, many forms of property do not produce a cash or material income. These factors obviously tend to limit and to distort the usefulness of property as a measure of taxpaying ability, and inefficient and inequitable assessment practices greatly heighten the basic inequities involved. As all or a substantial part of the tax burden on income property is usually shifted, the ability basis of property taxation is subject to further qualification.

There are several special circumstances under which property ownership may evidence unique or additional taxpaying ability. These situations include the accumulation of personal fortunes in the form of non-income property and the general appreciation in real property values occasioned by broad economic trends. Vast personal possessions do not produce cash income but they do make possible highly luxurious or conspicuous consumption. Some tax economists also

suggest that the psychic income derived from such property is a proper object of taxation. The tendency for property values (real estate) to rise in a progressive society is an accepted fact. Such values are often a result of social rather than individual action, and the advocates of the single tax contend that they are the proper subject of heavy tax burdens. This view is subject to qualification on two grounds. In the first place the gains involved tend to be capitalized as a consequence of relatively frequent sales transactions. Secondly, they are often illusory in that they may not be realized and may actually disappear as a consequence of negative social influences which produce declining values. Thus, the special ownership situations cited are of limited and in some cases of questionable significance. They obviously represent only a partial rationale for the property tax under the conditions noted. In brief, both the benefit and ability principles provide incomplete if not inadequate justification for the imposition of property taxes.

## Practical Aspects of Property Taxation

The most significant elements of strength of property taxation as well as its most serious shortcomings are attributable to practical considerations. The continued use of the property tax, particularly on the local level, may be readily explained. The property tax is a traditional institution and is so inextricably linked with the entire legal and financial fabric of local government that its abolition would necessitate revolutionary changes. From a financial standpoint, as previously indicated, the property tax produces the lion's share of local revenues. In fact, in most local units other than cities, it is the only significant form of locally-imposed tax. Revenues have also exhibited a high degree of stability which is a matter of major concern to these jurisdictions. While new tax sources are being introduced by cities and counties, they have in no case served as a replacement for the property tax. Finally, the property tax, with all of its deficiencies, is generally accepted by the people as a necessary evil.

The operative deficiencies of the property tax, associated chiefly with the assessment process, are well known. Although the valuation of property for tax purposes involves many difficult and complex problems, the administration of the tax has traditionally been left to local units. This policy, in turn, has often resulted in incompetent and inadequate personnel, antiquated and ineffective methods of property appraisal, and unnecessary duplication of administrative units. The typical assessment process is inequitable and the escape of certain types of property from taxation is also characteristic. While most states have been consistent in their efforts to improve administration, the results generally have fallen far short of an acceptable solution.

## History of Property Tax in Nevada

### Early Developments 1863-1918

The early history of the property tax in Nevada was characterized by a continuing struggle between the mining and other economic interests, primarily agricultural. The first Constitutional Convention of 1863 provided for the taxation of mining properties on an equal and uniform basis. This provision which was strongly opposed by the mining representatives in the Convention, is thought to have been primarily responsible for the popular defeat of the Constitution.[6] Another factor undoubtedly was a rather widespread feeling that the territory was not ready for statehood.

The second Constitutional Convention of 1864 directed its attention almost solely to Article X of the first Constitution dealing with the subject of taxation. This Convention acceded to the views of the mining interests and specifically exempted unpatented mines and mining claims from the property tax. The revised Artible X also specified that mines and mining claims should be taxed only on proceeds. It did not define proceeds nor was a rate of taxation indicated. The taxt of Article X which has remained unchanged in its essential aspects was as follows:

> The Legislature shall provide by law for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, real, personal or possessory, except mines and mining claims, the proceeds of which alone shall be taxed, and also excepting such property as may be exempted by law for municipal, educational, literary, scientific, religious or charitable purposes.

It should be emphasized that this basic article on taxation incorporated the broad principle of equality and uniformity for property taxation, and left to the State Legislature the formulation of policies to ensure the just valuation of property and the definition of specific exemptions within the broad types of organization indicated.

Local responsibility and control were predominant during the early period of property taxation. The State generally relied on the efforts of county assessors, the effect of the Constitutional and statutory provisions, the honesty of the property owner and a statutory system of rewards and penalties to insure effective and equitable

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[6]Romanzo Adams, Taxation in Nevada, A History (Carson City: 1918), Chapters II, III and IV.

enforcement of the property tax. While this policy was typical of the early history of property taxation in other states, the results were highly unsatisfactory. Low level assessment on a highly variable and inequitable basis was the general rule.

The first attempt of the State to deal with these problems was made in 1891. A State Board of Assessors and Equalization, composed of the Governor, the Attorney General and the State Treasurer, was established and given authority to assess railroad property, to raise county assessments on a horizontal basis, and to raise assessments by particular class or individual parcel of property. While the accomplishments of the ex officio Board were necessarily limited, a substantial increase in assessed values did occur. However, the agency was abolished in 1893. A second attempt to establish State supervision and control over property assessment was initiated in 1901. The State Board of Assessors composed of all of the county assessors was established, and the law specifically required the Board to value public utilities and livestock. However, this Board also proved to be generally ineffective and the Legislature became increasingly concerned with the inequitable administration of the property tax. The Nevada Citizens' Economy and Taxation Committee in 1913 brought matters to a head with a report which indicated that there were extreme differentials in assessments between types of property in individual counties; that discrepancies existed with respect to properties of the same class; that small homes in towns were usually discriminated against as compared to larger residences; that assessors frequently permitted self-assessment of property; and that there was reason to believe that only one-third of the livestock was getting on the tax rolls. The Tax Commission with broad powers over the administration of State revenues, including the property tax, was established in 1913, the year that the study was published.

Under the 1913 legislation the Tax Commission was composed of three members, but the membership was changed in 1915 and again in 1917. In the latter year it consisted of the Governor, one railroad commissioner, and five appointive members representing the various major property owning interests in the State. The Commission was given broad powers to advise, assist and direct county assessors in the administration of the property tax, and to equalize property assessments. In particular, it was authorized to establish uniform rules for assessing various types of property and uniform forms and reports for assessors and other officials concerned with the collection of property taxes and to place unassessed property on the tax rolls. The Commission was specifically directed to assess railroad and other public utility property, livestock, and the net proceeds of mines, and it began assessing the shares of stock of banks under its general powers in 1914. The full cash value basis of assessment was also instituted, and members

of the Commission were to sit with the county assessors as a State Board of Equalization. The early accomplishments of the Commission were very substantial--during the first eight years of its operations assessed valuations more than doubled--and Professor Adams of the State University concluded that "the Tax Commission is the most effective agency for securing equal and uniform assessments that the state has evolved up to the present time."[7] Also during this period several significant changes in the property tax law were adopted by the Legislature--a law was enacted which spelled out in further detail the functions and powers of the Tax Commission, specific statutory limits on the tax rates imposed by cities and counties were established, and a limited property tax exemption for veterans was instituted.

## Early Development of the Proceeds of Mines Tax

Prior to statehood, the Territorial government first sought to exempt mineral properties. Due to the preponderance of such property in the State and the need for revenues, this policy was abandoned after one year. A gross proceeds of mines tax was adopted in 1862 providing for a 12¢ per $100 territorial tax and not over 18¢ per $100 county tax. These rates, it should be noted, were much lower than those in effect for other types of property. Two years later, in 1864, mines and mining claims were brought under the general property tax. This action was contested in the courts but the uniformity rule was upheld.

The first State Legislature continued the proceeds tax and provided for the deduction of $20 a ton for costs of transportation and reduction of ores processed by regular methods and a $40 deduction for those extracted by the Freiburg process. Inclusion of the cost deductions, though arbitrarily determined, incorporated the principle of a net proceeds tax. The tax was then applied to 3/4 of the remaining value. The 1864 law also provided for a $1.00 rate which was approximately 1/3 that imposed on other property, and in 1867 the Supreme Court declared the differential rate to be contrary to the uniformity requirement of the Constitution. Under this first State proceeds of mines tax, collections from the proceeds of mines amounted to about $30,000 or 1/10 of 1 percent of the value of the bullion extracted.

In 1871 a somewhat more realistic approach to the valuation of mineral ores was adopted. This legislation provided for the deduction from the value of the ore of actual costs of transportation, reduction and mining. However, it also established maximum percentage limitations on such deductions ranging from 90 to 50 percent of the value of the bullion, and the practical effect of this provision was that the

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[7] Ibid., p. 68.

large operators with low costs, often below 50 percent, tended to be favored.[8] The maximum percentage limits were repealed in 1885.

After the turn of the century, there were several changes in the State law which contributed to better enforcement of the proceeds of mines tax. In 1905 the office of State License and Bullion Tax Agent was established, and this official actively assisted in its administration. Following the creation of the Tax Commission in 1913, this agency instituted a greatly improved valuation procedure. In the early years, however, the valuation of net proceeds was assessed at less than 100 percent (70 percent in 1915).

The effect of early policies with respect to the taxation of the proceeds of mines obviously was a relatively low tax burden for this type of property. It was estimated that mining properties paid less than 15 percent of total State property taxes through 1908 and in the 10 years from 1908 to 1918 they paid approximately 8 percent. Comparing the property tax on agricultural to that on mining property, the former paid 23.7 percent of total property taxes and the latter 15 percent in 1916. At the same time, 14 percent more workers were employed in the mining industry and the gross value of the mineral product was two times that of agriculture.

## Major Developments in Property Taxation in Recent Decades

The changes in the property tax since the end of World War I have been largely concerned with the clarification and extension of earlier provisions of the property tax laws. However, several notable developments, both of a general and specific nature, have taken place. These changes relate principally to (1) the powers, functions and procedures of the Tax Commission, (2) other general policies and depression measures, (3) the specific aspects of exemption policy, and (4) protections extended to the taxpayer with reference to delinquent taxes and rights of appeal from the decisions of administrative officers.

The powers, functions and procedures of the Tax Commission relating to the administration of property taxes generally have undergone substantial revision. The more important changes in the powers

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[8]An interesting sidelight on public policy during this period is afforded by the case of the famous Virginia and Truckee Railroad. This railroad, which was promoted by the large mine operators to transport their products, was given a grant of $300,000 from public funds obtained by bond issues and all property except mining property was taxed to meet the interest and principal on the debt.

and responsibilities of the Commission since 1917 may be summarized as follows:

1929 - Given authority to change assessed valuations following the actions of the State Board of Equalization;
1935 - Charged with the responsibility of administering the 5¢ per $1.00 limitation on property tax rates;
1939 - Authorized to classify and value land for tax purposes;
1945 - Assigned the valuation of motor vehicles;
1947 - Valuation Division established under the Tax Commission with broad advisory and mandatory powers to improve and equalize property assessments (abolished in 1951);
1953 - Division of Assessment Standards established with advisory powers similar to those of the previous agency;
1955 - Division of Assessment Standards required to make an annual study and report on county assessment ratios;
1957 - Commission authorized to value mobile homes.

The principal change in general property tax policy during the period under consideration was the establishment in 1936 by Constitutional amendment of a 5¢ per $1.00 limitation on all property taxes. This limitation probably provided some protection to property owners during the depression period. In recent years, however, it has proved to be an obstacle to the financing of local government services in certain rapidly growing urban areas. Direct relief was also extended to property owners in the early years of the depression (1931-1933) by suspending the interest and penalties on delinquent taxes. In 1939 the composition of the State Board of Equalization was changed to include only the members of the State Tax Commission.

Inauguration of the assessment ratio study plan in 1955 represented a highly important milestone in the development of State policy in both the property tax and local aid areas. The results of the assessment ratio study are utilized as a significant factor in the allocation of State aid for the public schools. Each county is required to impose a 70¢ per $100 tax for school purposes and the county ratios are utilized to establish a hypothetical equalized level of county taxation above which State aid is extended. The assessment ratio plan is considered in detail in a later section of the chapter.

Exemption policies under the property tax have undergone a series of modifications in virtually every session of the State Legislature since 1917. The exemption for property of war veterans was revised in 1921; there was a general restatement of exemption policy in 1923; the property of veterans' organizations and University of Nevada fraternities was extended exemption privileges in 1925 and 1937, respectively; general revisions and restatements of exemption policy were made in 1945 and 1953; and in 1955 exemption privileges were extended to various youth groups and to the property of non-profit theater groups.

While there have been frequent changes in the property tax law designed to protect the rights of taxpayers, two broad amendments may be noted. In 1927 the procedures concerning delinquent taxes were thoroughly revised, and in 1933 the right of taxpayers to appeal to the courts from decisions of administrative officers was clearly defined.

The foregoing summary of the history of the property tax in Nevada reveals the typical pattern of policy development, moving from complete local control and responsibility for administration to increasing state supervision and control. Nevada, however, compared with other states vests greater power in a state agency, the Tax Commission, for direct state valuation and assessment. In fact, the Commission as a whole and the Assessment Standards Division are key agencies in the operation of the property tax system. After many years of controversy the taxation of mining properties issue appears to have been resolved. Equalization insofar as local assessment practice is concerned is the principal remaining problem, though significant progress has been made in recent years.

## Structure of Property Tax in Nevada

### Legal Basis of Property Tax

The State Constitution establishes the broad basis of property taxation and lays down the general rule of uniformity and equality in the assessment and taxation of property with the one exception of unpatented mines and mining claims. The exemption of intangibles and the general basis for other types of exemptions is set forth in Article X, Section 1. The types of intangible property subject to exemption include "shares of stock (except shares of stock in banking corporations), bonds, mortgages, notes, bank deposits, book accounts and credits, and securities and choses in action of like character." These types of intangibles "are deemed to represent interest in property already assessed and taxed either in Nevada or elsewhere. . . ." The constitutional authorization with respect to exemption of other property by the State Legislature specifies property used for "municipal, educational, literary, scientific or other charitable purposes." Article X, Section 2, states that property tax levies for all public purposes including debt "shall not exceed 5¢ on $1.00 of assessed valuation." In addition to these general provisions, Article VIII, Section 2 requires that the property of corporations shall be subject to taxation on the same basis as that of individuals, except that which may fall within the categories of exempted property established by the Legislature. It also should be noted that the power of the State to tax property has been delegated by statute to local subdivisions with certain limitations. City councils in cities incorporated under general law may levy such taxes up to 3 percent of their asessed valuations. Six cities incorporated under special laws have no limitations and three others have lower limits ranging from $1.25 to $2.00. The Board of County Commissioners acts for unincorporated towns (a 1½ percent limitation) and other local units.

### Property Tax Exemptions

The constitutional provisions with respect to exemptions noted above specifically require the exclusion of unpatented mineral property and intangibles, but only authorize other exemptions within the broad classes of use indicated at the discretion of the Legislature. The types of exemption which have been established by legislative action fall generally into three categories: (1) governmental property; (2) private non-profit institutional property; and (3) certain special activities or groups of property owners.

Governmental Property. Generally speaking, all federal, state and local governmental property is subject to exemption. In the case of federal property, the law specifies that all property not taxable under the Constitution and laws of the United States is excluded. Private possessory interests in federal property, however, are subject to taxation. All property owned by the State of Nevada is exempt, with

the exception of certain lands acquired by the State Fish and Game Commission on which payments in lieu of taxes are required. A blanket exemption is extended the property of all local subdivisions, and it has been determined that the use of part of city-owned property for income purposes does not invalidate the exemption.

Private Non-Profit Institutional Property. Generally speaking, the exemption of private, non-profit institutional property under the Constitution has been liberally interpreted by the Legislature. The exemption privilege for this type of organization is incorporated in a number of specific statutory provisions, as well as a general clause pertaining to all other "charitable, religious or educational corporations and associations." Those specifically exempt include churches and other religious organizations, parsonages owned by churches, private schools, fraternal and benevolent orders and lodges (personal property only), cemeteries which do not make a charge for burial plots, fraternities of the University of Nevada, veterans' organizations, voluntary fire departments, non-commercial theaters, banks (personal property only), incorporated farm bureaus, and various types of youth organizations. In all of these cases the property must be used for the purpose indicated and on a non-profit basis. For the institutions noted other than private schools, churches, banks and cemeteries, the exemption accorded is limited to $5,000 of assessed value. The general exemption extended to property of corporations used for charitable, religious or educational purposes is further restricted to organizations which do not pay dividends, which derive their funds in whole or in part from public donations and which use such funds for the specified purposes including aid to indigent persons of all races and colors. It should be noted that this exemption provision has been interpreted to include hospitals and asylums.

Special Activities or Groups of Taxpayers. There are two particular activities or uses of property accorded exemption privileges, namely, drainage ditches and canals and the land on which they are situated and personal property in transit through the State. Under the latter provision, known as the "free port" law, property moving in interstate commerce which is temporarily stored in the State, and it may be assembled or repackaged for shipment, is not subject to taxation. If such property becomes co-mingled with property destined for Nevada, or if the property involved is owned by a resident of Nevada, the exemption does not apply.

Particular groups of taxpayers extended exemption privileges under the Nevada law include veterans[9] who have served 90 days or more

[9]To qualify for this exemption, veterans must have been residents of the State for more than three years immediately preceding the claim.

of active duty in the armed forces in time of war or from June 1, 1950 to January 31, 1955, or are still serving in such capacity (up to $1,000 of assessed valuation); resident widows and orphans (up to $1,000 of assessed value); and totally blind persons who are residents of Nevada (up to $3,000).

Exemptions in Other States. The exemption policies under the Nevada law generally include the major types and uses of property which are found in the great majority of the other states. However, there are a number of special exemptions frequently allowed by other jurisdictions which are not permitted in Nevada. In terms of the frequency of exemption the principal exclusions from the property tax base of all the states are as follows:[10]

1. All personal property, 4 states; limited amount, 34 states;
2. Intangibles, either all or specified forms, one-half of the states;
3. Veterans' property, limited in amount and in some instances to disabled or aged veterans, nearly one-half of the states;
4. Farm products, in the hands of the farmer or in the form of growing crops, in less than one-half of the states;
5. Homesteads, both urban and rural, in 16 states;
6. Agricultural machinery of a specified value, in one-fourth of the states;
7. Mechanics' tools, in less than one-fourth of the jurisdictions;
8. The property of deaf, blind or mentally incompetent persons, in 10 states;
9. Industrial or manufacturing businesses, usually limited to a given number of years and in other respects, in 8 states;
10. Certain types of manufactured products, in 5 states.

The special types of exemption not permitted in Nevada include: personal property of a non-income producing character, farm products, homesteads, agricultural machinery and industrial or manufacturing properties. The personal property exemption in particular is one that is becoming increasingly popular, both by reason of the difficulties involved in the assessment of the property and the limited taxpaying ability which it represents. Insofar as farm products are concerned, the question of legal status is probably not significant as this form of property is seldom assessed for tax purposes. Exemption of homesteads, which has a significant impact on the tax base, has been avoided in Nevada. Similarly, in the case of other special groups or industries, except veterans, the exemption privilege has been withheld. This policy is to be commended as special groups (other than dependent classes) or industry exemptions simply serve to raise the tax burden of non-privileged taxpayers and to reduce the revenue potential of the tax. Although the point is not crucial, they also tend to add to the administrative problem.

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[10]Information on exemption practice in other states taken from Commerce Clearing House, State Tax Guide: All States, December 31, 1959.

## The Basis of Assessment

The Nevada law requires assessment of all property, unless otherwise specified,[11] at its full cash value.[12] Cash value is defined as the price that the property would bring if taken in payment of a just debt from a solvent debtor. The courts have further interpreted the meaning of the full cash value rule as the price a willing seller and buyer would arrive at in a free market situation. As there is no specific provision to the contrary, it is quite clear that the law contemplates 100 percent assessment at the present cash value of the property. Needless to say, there is no similarity between the statutory requirement and actual practice.

The general standard of value in Nevada is comparable to that used in the great majority of the other states. Some 26 jurisdictions specify "market or cash" value, 17 "full" and/or "true" value, 3 "actual value" and the others certain equally general concepts such as "fair value," "just value" or plain "value."[13] Generally speaking, the other states also require assessment at 100 percent. There are 8 states, however, that use a fixed percentage of value less than 100 percent, and 5 jurisdictions that employ a comprehensive classification system with varying assessment ratios for different classes of property.[14] Only one of the Western States--Montana--has the comprehensive classification plan.

## Bases of Valuation for State Assessed Property

The State Tax Commission is required by law to value and/or assess certain key types of property. These include: land, livestock, public utilities, bank stock, motor vehicles, and the net proceeds of mines.

Rural Land. While the statutes require the Tax Commission to classify and value land for assessment purposes, the Commission in practice has limited its role to rural land. Other than a $1.25 legal minimum for patented lands,[15] the Commission has full authority to determine the number and type of classifications and the values placed upon

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[11]The specific bases of valuing different types of property are not stated in the Nevada statutes except for the net proceeds of mines and the minimum valuations placed on patented mines and lands.

[12]Nevada Revised Statutes, 361.225.

[13]Commerce Clearing House, State Tax Guide: All States, December, 1959.

[14]Ibid.

[15]Nevada Revised Statutes, 361.230.

each class. In general, the Commission seeks to determine the production or income potential of a working farm or ranch property, and purchases for special purposes to avoid taxes or ranches operated as "dude" or "show places" are excluded. In the valuations presently employed (1959) the Commission has established 16 classifications of rural land.[16] No valuation has been determined for so-called special land located adjacent to urban or other higher use purposes. The stated intent of the Commission is to value rural land at 35 percent of its present value. Urban land, it should be noted, is assessed by the county assessors, and the county assessors also apply the classifications and valuations of rural land established by the Commission to the property in their jurisdictions.

Livestock. As in the instance of land, there is no specific statutory provision concerning the basis of valuing livestock.[17] In view of this deficiency the Tax Commission seeks to value livestock on the basis of a 3-year average of market values at the local markets of Elko and Fallon.[18] The result is intended to approximate 35 percent of these local market values.

Public Utilities. The statutes require the Tax Commission to value the physical property and franchises of interstate and intercounty public utilities on a collective or unit basis.[19] The utilities involved include railroads; sleeping car companies; private car line companies; express companies; airlines; electric light and power; gas and gas pipeline; telephone and telegraph; water, radio and television; and common, contract and private motor carriers. The Commission is further required to apportion the unit or system values of such utilities to the State and then to the counties, usually on a "unit mile" basis. While certain approaches to the valuation of public utilities are indicated in the statutes, the Commission has power to adopt and revise valuation formulas at its discretion. For each of the above classes of public utilities the Commission has devised specific valuation formulas which have the status of law. In the case of railroads, express car companies, airlines, electric power and gas companies, and telephone and gelegraph companies, complex three-factor formulas based on such factors as net investment, capitalized income, and the market value of securities, are utilized. Once the apportioned values of the

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[16] Report of the Nevada Tax Commission, 1958-1959, pp. 11-12.

[17] Nevada Revised Statutes, 361.325.

[18] See Report of the Nevada Tax Commission, op. cit., p. 13, for specific valuations.

[19] Nevada Revised Statutes, 361.320.

utility properties are arrived at, they are assessed at a uniform 35 percent of such values.

Bank Stock. In the case of the capital stock of banks, the law requires that it be assessed at its full cash value on May 1, less the value of the real property of the bank and mortgage and trust deeds, which are separately assessed and taxed. The statutes further stipulate that bank stock shall be taxed at the same rate as that imposed on other moneyed capital.[20]

Motor Vehicles. Private passenger cars and others which do not fall under the carrier classification, are also valued by the Tax Commission.[21] In the case of new vehicles the valuation is fixed at 35 percent of the retail price including the cost of freight and accessories. For used passenger cars, the valuation is determined by the average Blue Book retail price and the assessment is 35 percent of such price. Used trucks and commercial vehicles are also assessed at 35 percent of the average retail price. New mobile homes are treated in the same manner as new vehicles, and used mobile homes are assessed at 35 percent of market value or 50 percent of cash value if market data are not available. While the valuation of motor vehicles is determined by the Tax Commission, the actual assessment is made by the State Motor Vehicle Department and the county assessors of the respective counties.

Net Proceeds of Mines.[22] As previously noted, these are valued and assessed by the State Tax Commission and the law spells out in detail the procedure that shall be followed. The value of gross yields of each mine is determined on a semi-annual basis and specified costs are deducted to arrive at the net proceeds.[23] The assessed valuations of the net proceeds are allocated to the counties on the basis of the location of the mining property, and the proceeds are taxed at the same rate as other property.

From the foregoing list of properties valued and/or assessed by the Tax Commission, it is quite evident that the State plays a major role in the assessment process in Nevada. Although public utilities, either specified types or all, are state assessed in some forty-three jurisdictions and certain mineral properties are state assessed in a

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[20]Nevada Revised Statutes, 367.030.

[21]See Tax Commission Resolution (May 26, 1958), and Report of the Nevada Tax Commission, 1958-1959, p. 14.

[22]See Chapter XIII, Severance Taxation, for a discussion of the taxation of mining in Nevada.

[23]Nevada Revised Statutes, 362.100 and 362.120.

substantial minority of states,[24] the Nevada provision for the State valuation of land (only rural land in practice) and livestock is unique.[25] Vesting of the state valuation and assessment responsibility in the Tax Commission or other general revenue agency of the state is in accord with the practice of the majority of other jurisdictions.[26] However, some ten states place this function in a state property equalization board or other property assessment agency. It should also be noted that all of the Western States provide for state assessment of certain types of public utility property, and seven of the Western States, including Nevada, have instituted state assessment in the case of certain mineral properties.

## Bases of Valuation for Locally Assessed Property

County assessors are responsible for the valuation and assessment of all other forms of property including urban land and improvements, rural improvements, merchandise inventories, other tangible personal property, real property of banks, intra-county public utilities,[27] and mines. Technically, the rural land, livestock, and certain motor vehicles valued by the Tax Commission are also locally assessed.

The statutes require the county assessor between July 1 and December 31 of each year to "ascertain by diligent inquiry and examination all real and personal property in his county subject to taxation and also the names of all persons, corporations, associations, companies, or firms owning the same. . . ."[28] The assessor must then "determine the full cash value of all such property and shall then list and assess the same. . ." to the owners.[29] Except for a few other statutory restrictions, the specific basis of assessment for property assessed by county assessors is not defined in the law. Such legal basis as exists for the assessment of particular types of property is provided by recommendations of the Tax Commission which are set forth in the Assessors' Manual or other releases prepared by the Assessment Standards Division of the Commission.

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[24] Commerce Clearing House, op. cit.

[25] Except for Maryland where all property is State assessed.

[26] Commerce Clearing House, op. cit.

[27] In practice the Tax Commission recommends the valuations for most intra-county utilities and they are generally followed by the assessor.

[28] Nevada Revised Statutes, 361.260.

[29] Ibid.

The specific bases of assessment for locally assessed property, except for statutory requirements, are obviously not binding upon the county assessors. The extent to which they adhere to the recommended bases varies widely from one jurisdiction to another. This uncertainty concerning the specific standards of assessment also appears to be characteristic of the practice in most of the other states. Considering the situation in the eleven Western States, Oregon is the only jurisdiction in which the property tax law defines in some detail the bases of assessment which shall be followed by county assessors.[30]

The Nevada property tax law does not indicate a specific period of time in which property assessed by the county assessors shall be re-appraised. While an assessed value must be determined each year, the complete re-appraisal of real estate is left to the discretion of the individual assessor subject to the advice of the Tax Commission. On the other hand, the property valued by the Tax Commission is re-valued annually in accord with the provisions of the law. Thus, there is one rule for State appraised property and, in effect, no requirement with respect to locally appraised property.

Review and Equalization

There are three agencies that have the responsibility for the review and equalization of assessed valuations, namely, the county boards of equalization, the State Board of Equalization, and the State Tax Commission. The county boards of equalization are composed of one member of the Board of Trustees of the school district, one from each city (if no city, one representing unincorporated towns), and the members of the Board of County Commissioners. This ex officio county agency is required to hold annual hearings during the month of January, and has authority to add to or reduce any assessment and to pla ce omitted property on the county tax rolls. Taxpayers who wish to have their local assessments reviewed must go the county board first, unless the alleged over-assessment was not known until after the county board adjourned. In both instances the taxpayer may then take his case to the State Board of Equalization.

The State Board of Equalization consists of the members of the State Tax Commission, and has full authority to equalize assessed valuations upon the complaint of taxpayers or on its own initiative. This power extends to a complete review of the tax rolls, and assessments may be raised or lowered or equalized in accord with the statutory requirement for full cash value assessment of all property. The State Board must notify the county auditor of any changes made in the assessments. Taxpayers may appeal their assessment to the courts only after they have submitted their complaints to the county and state boards of equalization.

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[30]New law applicable in 1961.

The State Tax Commission at present does not have the authority under the law to raise or lower or equalize assessments after the State Board of Equalization has adjourned.

## Assessed Valuations and the Property Tax Base

The property tax base as reflected by assessed valuations obviously is a major element in determining the yield of the property tax--past, present and future. Actual assessed valuations and also the ratio of assessment which these valuations represent in the various counties are also the principal factor influencing the burden of tax upon individual property owners and groups of property owners. In addition to these broad implications the trend of assessed valuations for the different types of property constitute a key to the changing character of the State's economy. The distribution of such values by counties reveals the areas of rapid growth and relative stability. And finally, the present status of assessed valuations reflects the concentration of wealth and resources as well as the impact of State policy in the tax exemption and equalization areas.

### Trend of Assessed Valuations

The total gross valuations of property by major classes in the period from 1950 to 1959 are shown in Table 7.7. The increase during

Table 7.7

Total Assessed Valuations, by Type of Property, Before Exemptions and Equalization, 1950-1959 (in millions)

| Property classes: | 1950[a] | | 1955[a] | | 1959[b] | | % 1959 over 1950 |
|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | |
| Rural: real | $ 52.2 | 16.7 | $132.1 | 23.7 | $114.5 | 17.3 | 119.3 |
| Rural: personal | 13.0 | 4.2 | 16.2 | 2.9 | 34.5 | 5.2 | 164.6 |
| Urban: real | 81.5 | 26.1 | 175.3 | 31.5 | 260.8 | 39.4 | 220.0 |
| Urban: personal | 31.5 | 10.1 | 57.1 | 10.2 | 48.8 | 7.4 | 55.2 |
| Public utilities | 96.0 | 30.7 | 105.9 | 19.0 | 123.2 | 18.6 | 28.3 |
| Motor vehicles | 21.7 | 7.0 | 42.9[c] | 7.7 | 51.0 | 7.7 | 134.6 |
| Mining | 16.2 | 5.2 | 27.2 | 4.9 | 28.8 | 4.4 | 77.1 |
| Water rights, etc. | .4 | .1 | .4 | .1 | .4 | .1 | -1.3 |
| Totals[d] | $312.5 | 100.0 | $557.1 | 100.0 | $661.9 | 100.0 | 111.8 |

[a]Calendar year.
[b]Fiscal year.
[c]Includes airplanes, other years in public utilities.
[d]Totals may not equal sum of items because of rounding.

Source: Report of the Nevada Tax Commission, 1950-1959.

this period was outstanding, but was most rapid during the years 1950 to 1955 inclusive. Total valuations for the decade rose from $312.5 million in 1950 to $661.9 million in 1959. Percentage-wise, the rise in valuations for the entire period amounted to 112 percent, and there was an increase of 78 percent from 1950 to 1955. There was an extreme differential, however, in the rate of increase for different types of property. Urban real estate exhibited a phenomenal rise of 220 percent; rural personalty increased by 165 percent; motor vehicle and airplane valuations rose by 135 percent; and rural real estate increased by 119 percent. The growth in the valuation of other types of property was well below 100 percent--mining 77 percent, urban personalty 55 percent, and public utilities 28 percent. Significant changes were, of course, apparent in the composition of the tax base. The largest increase comparing the 1950 and 1959 situation, occurred in the case of urban real estate which rose from 26 to 39 percent. There was also a minor but significant gain in rural personalty, from 4 to 5 percent, and a slight increase in the relative importance of motor vehicles and airplanes. Public utility values reflected the principal decline, from 31 to 19 percent of total valuations. Urban personalty also exhibited an important decrease from 10 to 7 percent, and mining showed a decrease from 5 to 4 percent.

The distribution of total State net valuations by counties for the same period is shown in Table 7.8. The data reflect the distribution of the actual tax base after exemptions, equalization and other adjustments. The overall increase in the net base was 99 percent, as compared to the increase of 112 percent in the gross valuations.[31] All counties showed a substantial increase in net valuations, except Lincoln county whose tax base declined by nearly 3 percent. As might be anticipated, there was a marked rise in Clark county of 324 percent. Three other counties, however, exhibited increases of over 100 percent--Lyon, Douglas and Ormsby. In contrast, Washoe and Nye counties showed increases of only 68 and 56 percent, respectively. These changes are also reflected by the proportion of total State net valuations held by particular counties. For example, Clark county's share of the total valuations rose from 19 to 40 percent, while Washoe's dropped from 29 to 24 percent. The only other increases occurred in Douglas and Lyon counties, and they were minor.

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[31]The increase in net valuations is more meaningful as county assessors are not consistent in the reporting of certain exemptions and in the making of other adjustments.

Table 7.8

Net Assessed Valuations by Counties
(After Exemptions and Equalization)
1950-1959[a]
(amounts in millions)

| County | 1950 Amount | 1950 Percent | 1955 Amount | 1955 Percent | 1959 Amount | 1959 Percent | % 1959 over 1950 |
|---|---|---|---|---|---|---|---|
| Churchill | $ 12.0 | 3.8 | $ 13.9 | 2.6 | $ 15.7 | 2.5 | 31.2 |
| Clark | 58.3 | 18.7 | 194.7 | 37.0 | 247.5 | 39.8 | 324.4 |
| Douglas | 5.6 | 1.8 | 6.9 | 1.3 | 12.3 | 2.0 | 121.7 |
| Elko | 42.5 | 13.6 | 47.2 | 9.0 | 50.1 | 8.1 | 17.9 |
| Esmeralda | 1.7 | .5 | 2.1 | .4 | 2.2 | .4 | 32.7 |
| Eureka | 7.0 | 2.2 | 7.3 | 1.4 | 7.0 | 1.1 | 0.7 |
| Humboldt | 17.0 | 5.4 | 21.3 | 4.0 | 21.5 | 3.5 | 27.2 |
| Lander | 6.9 | 2.2 | 7.5 | 1.4 | 7.3 | 1.2 | 5.5 |
| Lincoln | 10.7 | 3.4 | 12.5 | 2.4 | 10.4 | 1.7 | -2.7 |
| Lyon | 9.7 | 3.1 | 24.8 | 4.7 | 22.0 | 3.5 | 126.8 |
| Mineral | 5.4 | 1.8 | 8.4 | 1.6 | 6.7 | 1.1 | 23.3 |
| Nye | 5.4 | 1.7 | 8.1 | 1.5 | 8.5 | 1.4 | 56.3 |
| Ormsby | 4.1 | 1.3 | 5.5 | 1.0 | 8.2 | 1.3 | 101.0 |
| Pershing | 14.3 | 4.6 | 17.9 | 3.4 | 16.3 | 2.6 | 14.3 |
| Storey | 2.2 | .7 | 2.3 | .4 | 3.0 | .5 | 33.8 |
| Washoe | 89.2 | 28.6 | 115.1 | 21.9 | 150.1 | 24.1 | 68.4 |
| White Pine | 20.1 | 6.5 | 30.8 | 5.9 | 33.0 | 5.3 | 63.8 |
| Totals[b] | $312.0 | 100.0 | $526.3 | 100.0 | $621.8 | 100.0 | 99.3 |

[a]Valuations on calendar year 1950 and 1955, fiscal year 1959.
[b]Sum of items may not equal total because of rounding.

Source: Reports of Nevada Tax Commission for respective years.

## Present Valuations

The distribution of total assessed valuations, by type of property before exemption and equalization for fiscal 1958-59 is shown in Table 7.9. It will be noted that total assessments for the State amounted to $661.9 million. Quantitatively, the most important category was urban real estate which amounted to $260.8 million or almost 40 percent of the total. Rural real property was less than one-half of the urban, amounting to $114.5 million or about 17 percent. The third major category consists of public utilities which amounted to $123.2 million or less than 19 percent of the total. In this category, railroads accounted for more than half of the total assessment and actually represented more than 10 percent of the total assessment for the entire State. It is also noteworthy that personalty, both urban and rural, amounted to about $80 million or less than 13 percent of the total, but it is in these categories that some of the most complex and difficult administrative problems exis

Table 7.9

Total Assessed Valuations, by Type of Property, Before Exemptions and Equalization, 1959

| Classes of property | Total[a] (in thousands) | Percent distribution[a] |
|---|---|---|
| Rural: Real | | |
| Private land | $ 59,618 | 9.0 |
| Rural improvements | 51,532 | 7.8 |
| Railroad lands | 3,345 | .5 |
| Total | $114,495 | 17.3 |
| Rural: Personal | | |
| Livestock | $ 14,893 | 2.3 |
| Household effects[b] | 5,153 | .8 |
| Other | 14,476 | 2.2 |
| Total | $ 34,522 | 5.2 |
| Urban: Real | | |
| Urban land | $ 75,160 | 11.4 |
| Urban improvements | 185,614 | 28.0 |
| Total | $260,773 | 39.4 |
| Urban: Personal | | |
| Bank stock | $ 4,763 | .7 |
| Merchandise | 16,438 | 2.5 |
| Household effects[b] | 18,561 | 2.8 |
| Other | 9,044 | 1.4 |
| Total | $ 48,807 | 7.4 |
| Public Utilities | | |
| Railroads | $ 69,030 | 10.4 |
| Other public utilities[c] | 54,131 | 8.2 |
| Total | $123,160 | 18.6 |
| Motor Vehicles | | |
| Autos[d] | $ 45,120 | 6.8 |
| Trailers | 5,835 | .9 |
| Total | $ 50,956 | 7.7 |
| Mining | | |
| Patented claims | $ 3,729 | .6 |
| Improvements & mills | 15,593 | 2.4 |
| Net proceeds | 9,446 | 1.4 |
| Total | $ 28,767 | 4.4 |
| Water rights & pipelines | $ 384 | .1 |
| Grand Total | $661,865 | 100.0 |

[a]Totals may not equal sum of items because of rounding.
[b]Estimated as 10 percent rural and urban improvements, respectively.
[c]Includes airplanes of $235,000 or less than .05 percent.
[d]Includes motorcycles of $134,000 or less than .05 percent.

Source: Report of the Nevada Tax Commission, 1959.

The present distribution of the total gross valuation by broad types of property among the various counties is shown in Table 7.10. The valuations used are before exemption and equalization, as this breakdown is not available on a net valuation basis. Tables 7.11 and 7.12 indicate the percentage distribution of individual county valuations by broad classes of property, and the percentage of the total valuation of the major types of property held by individual counties, respectively.

The data with respect to the composition of the tax base of the individual counties reflect the somewhat surprising predominance of public utility valuation in nine of the rural non-populous counties. In each of these public utility valuations exceeded 25 percent of the total county valuation. In contrast, in Clark and Washoe counties utility valuations represented only 11 and 13 percent, respectively (See Table 7.11). The results noted are attributable to the "unit mile" basis of apportionment of such valuations which applies to all types of public utility property.

Excluding public utilities, rural property (both real and personal), was the major element in the assessed valuations of Churchill, Elko, Eureka, Humboldt, Lander, Lyon, Nye and Pershing counties. Urban real estate and personalty was the principal category of property in Clark, Douglas, Ormsby and Washoe counties. While the motor vehicle valuations were widely distributed, they were the most significant percentage-wise in Mineral, Nye and Ormsby counties. Except for public utilities, mining property was the principal element of county valuations in Esmeralda, White Pine and Storey counties. Water rights and pipeline valuations were a significant element only in Storey county, and bank valuations were relatively the most important in Ormsby county. The proportion of the total valuation of different classes of property held by the individual counties, shown in Table 7.12, again reflects the outstanding position of Clark and Washoe counties in practically all categories.

## Valuations, Exemptions and Adjustments

The general relationship of the gross valuation of property, exemptions and equalization and net valuations by county is shown in Table 7.13. Total exemptions as reported by county assessors in 1959 amounted to almost $40 million, or 6 percent of the gross valuations of about $662 million. The exemption figures presented, however, reflect in large degree estimates of the value of certain types of exempt property which is not actually assessed and placed on the official tax roll. In particular, the amount of exempted governmental property as well as private institutional property seldom represents the actual values of such property. On the other hand, the specific exemptions applying to the property of widows and veterans reflect the actual value of property assessed and subject to exemption. In the case of

Table 7.10

County Assessed Valuations by Type of Property
(Before Exemptions and Equalization)
1958-1959
(Amounts in thousands)

| County | Rural, real | Rural, personal livestock | Urban, real | Urban, personal mdse. | Rails, public util. | Motor vehicles, airplanes | Mining | Water rights, pipelines | Banks | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Churchill | $ 4,868 | $ 1,210 | $ 2,705 | $ 633 | $ 5,318 | $ 1,300 | $ 251 | -- | $ 96 | $ 16,381 |
| Clark | 56,422 | 8,563 | 136,966 | 16,749 | 29,501 | 21,788 | 1,531 | -- | 1,495 | 273,015 |
| Douglas | 3,495 | 887 | 5,258 | 589 | 1,112 | 1,149 | 90 | -- | 68 | 12,648 |
| Elko | 10,763 | 5,770 | 7,850 | 2,559 | 20,928 | 2,590 | 396 | -- | 274 | 51,130 |
| Esmeralda | 205 | 175 | 140 | 33 | 591 | 137 | 1,294 | a | -- | 2,575 |
| Eureka | 1,512 | 955 | 397 | 73 | 3,755 | 214 | 436 | $ 17 | 19 | 7,378 |
| Humboldt | 3,829 | 2,254 | 2,719 | 574 | 9,612 | 1,048 | 2,840 | -- | 106 | 22,982 |
| Lander | 1,372 | 1,039 | 499 | 150 | 3,628 | 366 | 770 | 7 | 39 | 7,870 |
| Lincoln | 758 | 518 | 986 | 233 | 7,321 | 570 | 1,408 | 45 | 37 | 11,876 |
| Lyon | 4,098 | 3,681 | 1,379 | 759 | 4,392 | 1,019 | 4,921 | 1 | 57 | 20,306 |
| Mineral | 130 | 191 | 2,367 | 658 | 2,900 | 902 | 370 | 1 | -- | 7,519 |
| Nye | 1,449 | 1,453 | 1,754 | 163 | 1,138 | 928 | 1,992 | -- | 38 | 8,915 |
| Ormsby | 1,212 | 240 | 5,200 | 1,173 | 681 | 1,124 | 1 | a | 301 | 9,932 |
| Pershing | 3,711 | 862 | 1,766 | 736 | 8,549 | 932 | 935 | 40 | 53 | 17,584 |
| Storey | 460 | 103 | 574 | 113 | 1,025 | 171 | 639 | 238 | -- | 3,323 |
| Washoe | 18,144 | 3,935 | 82,230 | 16,993 | 20,314 | 15,667 | 93 | -- | 1,993 | 159,369 |
| White Pine | 2,067 | 2,687 | 7,983 | 1,856 | 2,160 | 1,286 | 10,800 | 35 | 187 | 29,061 |
| Total[b] | $114,495 | $34,523 | $260,773 | $44,044 | $122,925 | $51,190 | $28,767 | $384 | $4,763 | $661,864 |

[a]Less than $500.
[b]Totals may not equal sum of items due to rounding.

Source: Adapted from Report of the Nevada Tax Commission, 1958-1959, Tables 1-4, inclusive.

Table 7.11

Percentage Distribution of Individual County Valuations, by Type of Property, 1958-1959

| County | Rural, real | Rural, personal livestock | Urban, real | Urban, personal mdse. | Rails, public util. | Motor vehicles, airplanes | Mining | Water rights, pipelines | Banks | Total[a] |
|---|---|---|---|---|---|---|---|---|---|---|
| Churchill | 29.7 | 7.4 | 16.5 | 3.9 | 32.5 | 7.9 | 1.5 | -- | .6 | 100.0 |
| Clark | 20.7 | 3.1 | 50.2 | 6.1 | 10.8 | 8.0 | .6 | -- | .5 | 100.0 |
| Douglas | 27.6 | 7.0 | 41.6 | 4.7 | 8.8 | 9.1 | .7 | -- | .5 | 100.0 |
| Elko | 21.1 | 11.3 | 15.4 | 5.0 | 40.9 | 5.1 | .8 | -- | .5 | 100.0 |
| Esmeralda | 8.0 | 6.8 | 5.4 | 1.3 | 23.0 | 5.3 | 50.3 | b | -- | 100.0 |
| Eureka | 20.5 | 12.9 | 5.4 | 1.0 | 50.9 | 2.9 | 5.9 | .2 | .3 | 100.0 |
| Humboldt | 16.7 | 9.8 | 11.8 | 2.5 | 41.8 | 4.6 | 12.4 | -- | .5 | 100.0 |
| Lander | 17.4 | 13.2 | 6.3 | 1.9 | 46.1 | 4.7 | 9.8 | .1 | .5 | 100.0 |
| Lincoln | 6.4 | 4.4 | 8.3 | 2.0 | 61.6 | 4.8 | 11.9 | .4 | .3 | 100.0 |
| Lyon | 20.2 | 18.1 | 6.8 | 3.7 | 21.6 | 5.0 | 24.2 | b | .3 | 100.0 |
| Mineral | 1.7 | 2.5 | 31.5 | 8.8 | 38.6 | 12.0 | 4.9 | b | -- | 100.0 |
| Nye | 16.3 | 16.3 | 19.7 | 1.8 | 12.8 | 10.4 | 22.3 | -- | .4 | 100.0 |
| Ormsby | 12.2 | 2.4 | 52.4 | 11.8 | 6.9 | 11.3 | b | b | 3.0 | 100.0 |
| Pershing | 21.1 | 4.9 | 10.0 | 4.2 | 48.6 | 5.3 | 5.3 | .2 | .3 | 100.0 |
| Storey | 13.8 | 3.1 | 17.3 | 3.4 | 30.8 | 5.1 | 19.2 | 7.2 | -- | 100.0 |
| Washoe | 11.4 | 2.5 | 51.6 | 10.7 | 12.7 | 9.8 | .1 | -- | 1.3 | 100.0 |
| White Pine | 7.1 | 9.2 | 27.5 | 6.4 | 7.4 | 4.4 | 37.2 | .1 | .6 | 100.0 |
| Total | 17.3 | 5.2 | 39.4 | 6.7 | 18.6 | 7.7 | 4.3 | .1 | .7 | 100.0 |

[a]Totals may not equal sum of items due to rounding.
[b]Less than .05 percent.

Source: See Table 7.10 (Basic valuations are before exemptions and equalization).

Table 7.12

Percentage of Valuation of Major Types of Property, by Counties, 1958-1959

| County | Rural, real | Rural, personal livestock | Urban, real | Urban, personal mdse. | Rails, public util. | Motor vehicles, airplanes | Mining | Water rights, pipelines | Banks |
|---|---|---|---|---|---|---|---|---|---|
| Churchill | 4.3 | 3.5 | 1.0 | 1.4 | 4.3 | 2.5 | .9 | -- | 2.0 |
| Clark | 49.3 | 24.8 | 52.5 | 38.0 | 24.0 | 42.6 | 5.3 | -- | 31.4 |
| Douglas | 3.1 | 2.6 | 2.0 | 1.3 | .9 | 2.3 | .3 | -- | 1.4 |
| Elko | 9.4 | 16.7 | 3.0 | 5.8 | 17.0 | 5.1 | 1.4 | -- | 5.8 |
| Esmeralda | .2 | .5 | .1 | .1 | .5 | .3 | 4.5 | a | -- |
| Eureka | 1.3 | 2.8 | .2 | .2 | 3.1 | .4 | 1.5 | 4.4 | .4 |
| Humboldt | 3.3 | 6.5 | 1.0 | 1.3 | 7.8 | 2.1 | 9.9 | -- | 2.2 |
| Lander | 1.2 | 3.0 | .2 | .3 | 3.0 | .7 | 2.7 | 1.8 | .8 |
| Lincoln | .7 | 1.5 | .4 | .5 | 6.0 | 1.1 | 4.9 | 11.7 | .8 |
| Lyon | 3.6 | 10.7 | .5 | 1.7 | 3.6 | 2.0 | 17.1 | .3 | 1.2 |
| Mineral | .1 | .6 | .9 | 1.5 | 2.4 | 1.8 | 1.3 | .3 | -- |
| Nye | 1.3 | 4.2 | .7 | .4 | .9 | 1.8 | 6.9 | -- | .8 |
| Ormsby | 1.1 | .7 | 2.0 | 2.7 | .6 | 2.2 | -- | a | 6.3 |
| Pershing | 3.2 | 2.5 | .7 | 1.7 | 7.0 | 1.8 | 3.3 | 10.4 | 1.1 |
| Storey | .4 | .3 | .2 | .3 | .8 | .3 | 2.2 | 62.0 | -- |
| Washoe | 15.9 | 11.4 | 31.5 | 38.6 | 16.5 | 30.6 | .3 | -- | 41.8 |
| White Pine | 1.8 | 7.8 | 3.1 | 4.2 | 1.8 | 2.5 | 37.5 | 9.1 | 3.9 |
| Totals[b] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Less than .05 percent.
[b]Totals may not equal sum of items due to rounding.

Source: See Table 7.10 (Basic valuations are before exemptions and equalization).

Table 7.13

Total Assessed Valuations by Counties; Gross Valuations, Exemptions, Equalization and Net Valuations, 1958-1959
(amounts in thousands)

| County | Gross valuations | Exemptions | Equal. and other adjust. | Net valuations |
|---|---|---|---|---|
| Churchill | $ 16,381 | $ 690 | $ 9 | $ 15,700 |
| Clark | 273,016 | 20,234 | -5,326 | 247,456 |
| Douglas | 12,648 | 322 | 1 | 12,326 |
| Elko | 51,130 | 873 | -198 | 50,060 |
| Esmeralda | 2,575 | 75 | -255 | 2,245 |
| Eureka | 7,377 | 250 | -128 | 7,000 |
| Humboldt | 22,981 | 536 | -940 | 21,505 |
| Lander | 7,869 | 92 | -466 | 7,312 |
| Lincoln | 11,876 | 1,171 | -305 | 10,400 |
| Lyon | 20,306 | 323 | 2,004 | 21,997 |
| Mineral | 7,519 | 771 | -30 | 6,718 |
| Nye | 8,916 | 278 | -182 | 8,455 |
| Ormsby | 9,933 | 1,781 | 52 | 8,205 |
| Pershing | 17,584 | 1,250 | -11 | 16,323 |
| Storey | 3,323 | 344 | -- | 2,979 |
| Washoe | 159,369 | 9,243 | a | 150,126 |
| White Pine | 29,061 | 1,734 | 5,672 | 33,000 |
| Total[b] | $661,864 | $39,966 | $ 103 | $621,807 |

[a]Minus $67.
[b]Totals may not equal sum of items due to rounding.
Source: Nevada Tax Commission, Comparative Statements of the Segregations of the Tax Rolls by Counties and Classes, 1958-1959, and Report of the Nevada Tax Commission, 1958-1959.

veterans the exemption amounted to $20.5 million of which $11.2 represented exempted real property and $9.3 million was exempted personal property.[32] Percentage-wise, these veterans' exemptions accounted for slightly more than 3 percent of the total gross assessed valuation of property. The exemption favoring the property of widows amounted to nearly $3 million, the bulk of which was deducted from the real property roll. This exemption only reduced gross assessed valuations by 1/2 of 1 percent.

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[32]Nevada Tax Commission, Segregation of the Assessment Roll, 1959.

The equalization and other adjustments data presented in Table 7.13 represent equalization actions of the county and State boards of equalization plus various types of adjustments. The latter type of change may involve errors in assessment, adjustment of estimates of the second half year of net proceeds assessments and delayed actions by the Board of County Commissioners. It will be noted that there was some adjustment in the assessed valuations in all counties except Storey county, but in three others the change was less than 1/10 of 1 percent. Increases in assessed valuations were made in five counties, with major changes in two counties, namely, White Pine and Lyon. Decreases in assessed valuations were made in eleven counties, but these reductions were only significant in Esmeralda and Lander counties. In the former the decrease amounted to 10 percent and in the latter, 6 percent. The overall net effect of the equalization and other actions for all counties was an increase in assessed valuations of only $103,000.

## Rates of the Property Tax

Property tax rates in Nevada, as previously indicated, are subject to certain constitutional and statutory limitations. The overall State and local rates must be kept within the 5¢ per $1.00 limit. In the enforcement of this limitation, it is required that all local governments submit their proposed budgets and tax levies to the State Tax Commission for review. If the combined State and local tax rates exceed the specified limit in any jurisdiction, the Tax Commission has the responsibility of making the required adjustments. Such changes are made through a conference of the officials of the units concerned with the Tax Commission, and the county commissioners are notified of the changes effected.

The State levy is fixed by statute and cannot be adjusted. Also, according to an opinion of the Attorney General the school levy (up to the maximum of 1½ percent) if supported by budget data and approved by the Board of Trustees cannot be lowered. The flexibility in terms of downward adjustment of rates, therefore, must be achieved largely through adjustment of city, town, or special district levies. The necessity for Tax Commission action has been very infrequent, only six cases having arisen during the past five years and five involved Reno, Sparks and Washoe county. In several other instances, however, the units concerned have resolved the issue at the local level.

Cities incorporated under general law are subject to a 3 percent of assessed value limit; six cities incorporated under special laws have no limits; and three other special law municipalities have limits ranging from 1.25 to 2 percent. Incorporated towns or communities have a 1½ percent rate limitation. Another special limitation was introduced in 1959 and restricts the rate on motor vehicles to 4 percent of their assessed value. The tax rates of the State, county and selected city, town and district units are shown in Table 7.14. The rate for general State purposes in the fiscal year 1958-59 was $.28 per $100 of assessed valuation. The rates for local units vary widely. Considering the individual unit rates, county levies ranged from a high of $3 per $100 of assessed valuation in Mineral county to a low of $.35 in Douglas county. Rates for school purposes

Table 7.14

Property Tax Rates; County, School, Selected Municipal and District, State, and Totals for Cities and Towns, by Counties, Fiscal Year 1958-1959
Dollars per $100. of Assessed Valuation

| Counties | County | School | City, Town, District[a] | Other District | State | Total by Districts |
|---|---|---|---|---|---|---|
| Churchill | $2.069 | $1.881 | -- | -- | $.28 | $4.23 |
| Fallon City | 2.069 | 1.881 | $ .77 | -- | .28 | 5.00 |
| Clark | | | | | | |
| General County | .95 | 1.590 | -- | -- | .28 | 2.82 |
| Henderson City | .95 | 1.590 | 1.66 | $ .52 | .28 | 5.00 |
| Las Vegas City | .95 | 1.590 | 1.78 | -- | .28 | 4.60 |
| Douglas | | | | | | |
| General County | .35 | 1.58 | -- | -- | .28 | 2.21 |
| Gardnerville Town | .35 | 1.58 | .75 | .05 | .28 | 3.01 |
| Elko | | | | | | |
| General County | 1.05 | 1.33 | -- | -- | .28 | 2.66 |
| Elko City | 1.05 | 1.33 | 2.00 | .25 | .28 | 4.91 |
| Esmeralda, All | 2.45 | 1.50 | -- | -- | .28 | 4.23 |
| Eureka | | | | | | |
| General County | .84 | 1.20 | -- | -- | .28 | 2.32 |
| Eureka Town | .84 | 1.20 | 1.10 | -- | .28 | 3.42 |
| Humboldt | | | | | | |
| General County | .8563 | 1.4973 | -- | -- | .28 | 2.6336 |
| Winnemucca City | .8563 | 1.4973 | 2.3664 | -- | .28 | 5.00 |
| Lander | | | | | | |
| General County | 1.72 | 1.50 | -- | -- | .28 | 3.50 |
| Austin Town | 1.72 | 1.50 | 1.50 | -- | .28 | 5.00 |
| Battle Mt. Town | 1.72 | 1.50 | 1.50 | -- | .28 | 5.00 |
| Lincoln | | | | | | |
| General County | 1.34 | 1.62 | -- | -- | .28 | 3.24 |
| Alamo Town | 1.34 | 1.62 | -- | -- | .28 | 3.24 |
| Caliente City | 1.34 | 1.62 | 1.385 | .375 | .28 | 5.00 |

Table 7.14 (continued)

| Counties | County | School | City, Town, District[a] | Other District | State | Total by Districts |
|---|---|---|---|---|---|---|
| Lyon | | | | | | |
| General County | $1.16 | $1.88 | -- | -- | $.28 | $3.32 |
| Yerington City | 1.16 | 1.88 | $1.58 | $.10 | .28 | 5.00 |
| Silver Springs | 1.16 | 1.88 | 1.63 | .05 | .28 | 5.00 |
| Mineral | | | | | | |
| General County | 3.00 | 1.18 | -- | -- | .28 | 4.46 |
| All towns | 3.00 | 1.18 | .54 | -- | .28 | 5.00 |
| Nye | | | | | | |
| General County | 2.06 | 1.56 | -- | -- | .28 | 3.90 |
| All towns & districts | 2.06 | 1.56 | 1.10 | -- | .28 | 5.00 |
| Ormsby | | | | | | |
| General county | 1.515 | 1.825 | -- | -- | .28 | 3.62 |
| Carson City | 1.515 | 1.825 | 1.38 | -- | .28 | 5.00 |
| Pershing | | | | | | |
| General County | .97 | 1.36 | -- | -- | .28 | 2.61 |
| Lovelock City | .97 | 1.36 | 2.10 | .29 | .28 | 5.00 |
| Consolidated Dist. 1. | .97 | 1.36 | .29 | -- | .28 | 2.80 |
| Storey | | | | | | |
| General County | 1.61 | 1.40 | -- | -- | .28 | 3.29 |
| Gold Hill Town | 1.61 | 1.40 | 1.71 | --- | .28 | 5.00 |
| Washoe | | | | | | |
| General County | 1.502 | 1.888 | 1.33 | -- | .28 | 3.67 |
| Reno & Sparks | 1.502 | 1.888 | 1.33 | -- | .28 | 5.00 |
| White Pine | | | | | | |
| General County | 1.60 | 1.72 | -- | -- | .28 | 3.60 |
| Ely & East Ely | 1.60 | 1.72 | 1.40 | -- | .28 | 5.00 |

[a]Cities and towns selected usually represent the larger municipalities with the highest total levies.

Source: Data taken from table prepared by the Nevada Tax Commission.

varied from $1.888 in Washoe county to $1.18 in Mineral county. Rates for city purposes ranged from a maximum of $2.3664 in Winnemucca to $.77 in Fallon; and town rates in active places varied from a low of $.05 and $.21 in Overton and Dayton to a high of $1.80 in Carlin. Special district rates varied from $1.78 in the Las Vegas City Sanitation District, to $.05 in Gardnerville Town, Minden and Silver Springs.

Indicating the number of local units whose combined property levies fall within a given range, 3 general county levies and 39 other unit levies were in the $4 to $5 per $100 of assessed valuation class; and 14 general county rates and the rates of 50 other local units were below $4 per $100 of assessed valuation. The great majority of the local units with rates below $4 per $100, fell within the $3 to $4 range. Only 27 out of 106 of the local governmental units imposed the maximum rate of $5 per $100, and 24 of these units were cities and towns. Of course, property tax rates constitute only one component in the determination of the property tax liability. Assessed valuations, and more particularly the relation between assessed valuations and the actual market value of property, must also be considered.

## Property Tax Collections

The general picture concerning property tax collections in all states including Nevada was presented in an earlier section of the chapter. The specific trend of State collections and their importance in the State's tax system from 1950 to 1959 inclusive are shown in Table 7.15. Total State property tax receipts declined from almost

Table 7.15

State Property Tax Collections and Percent of Total State Taxes, 1950-1959

| Year | Total collections (thousands) | Percent of total state tax collections |
|---|---|---|
| 1950 | $1,978 | 20.2 |
| 1951 | 2,242 | 19.3 |
| 1952 | 2,394 | 19.0 |
| 1953 | 2,551 | 17.3 |
| 1954 | 2,799 | 17.9 |
| 1955 | 3,124 | 17.3 |
| 1956 | 2,477 | 9.1 |
| 1957 | 2,315 | 7.0 |
| 1958 | 2,131 | 6.1 |
| 1959 | 1,699 | 4.7 |

Source: Tables 3.19 and 3.20.

$2.0 million in 1950 to $1.7 million in 1959, but collections actually reached a peak of $3.1 million in 1955 and fell in the succeeding years. This development was directly attributable to significant annual increases in assessed valuations and the stability of State rates through June 30, 1955. Sharp decreases in the State general levy from $.69 per $1.00 of assessed valuation in 1955 to $.39 in 1957 and $.28 in 1959 were, of course, only partially offset by continuing rises in assessed valuations in the later years. In percentage terms the property tax has been relegated from a major to a minor role in the State's tax system during the brief period of one decade. While it produced over 20 percent of the State's tax revenues in 1950, it accounted for less than 5 percent in 1959.[33]

The total property tax collections for counties, cities and school districts in 1950 and 1959 are shown in Table 7.16. County

Table 7.16

Local Property Tax Collections in Nevada
Years 1950 and 1959

| | 1950 | 1959 |
|---|---|---|
| A. Amounts (in thousands): | | |
| Counties[a] | $ 4,487 | $10,082 |
| Cities[b] | 1,722 | 3,487 |
| School districts | 3,459 | 8,388 |
| Totals | $ 9,668 | $21,957 |
| B. As percent of total tax collections: | | |
| Counties | 60.6 | 63.2 |
| Cities | 52.1 | 57.7 |
| School districts | 99.4 | 99.6 |
| Totals | 68.2 | 72.2 |
| C. As percent of total general revenues:[c] | | |
| Counties | 44.4 | 38.4 |
| Cities | 35.1 | 33.5 |
| School districts | 53.8 | 41.0 |
| Totals | 45.1 | 38.4 |

[a]Includes towns and special districts.
[b]Includes 16 cities.
[c]Includes intergovernmental grants, excludes receipts from debt issue.

Source: Compiled from County Auditor reports and individual budgets of cities and school districts.

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[33]The 4.7 percent shown in Table 7.15 is slightly higher than the comparable Census percentages shown in Tables 7.2 and 7.3 since the tax study data for Tables 3.19 and 3.20 are net figures while the Census data are gross.

receipts from this source outranked those of the other two units in both years and showed the greatest rate of growth for the decade. Total county collections rose from about $4.5 million in 1950 to $10.1 million in 1959, or by 125 percent. School district receipts closely followed those of the county and increased from $3.5 million in 1950 to $8.4 million in 1959, or by 140 percent. City collections rose from $1.7 million in 1950 to nearly $3.5 million in 1959, a rise of 103 percent. On an overall basis, local collections rose from about $ 9.7 million in 1950 to nearly $22.0 million in 1959, or an aggregate increase of 127 percent. In terms of the significance of the property tax as a source of direct revenue to the three types of local jurisdictions in 1959, county property taxes amounted to about 63 percent of their total tax collections and approximately 38 percent of their total general revenues. The difference, of course, is accounted for by non-tax revenues--grants from other units and miscellaneous charges such as hospital fees, airport concessions, and so forth. In the case of cities, the property tax was relatively less important, averaging less than 58 percent of total city tax collections and only 34 percent of total municipal general revenues. For school districts property taxation is practically the only source of tax revenue but it represented only 41 percent of total school general revenues. In other words, State grants for the educational-foundation program in 1959 constituted more than half of the total school revenues. For all local jurisdictions combined, the property tax accounted for more than 72 percent of the total tax collections on the local level, and more than 38 percent of total general revenues.

## Property Tax Delinquencies

Table 7.17 shows the rates of property tax delinquencies on real estate by individual counties for 1950 and 1958. The aggregate average rate for the entire State increased from 1.55 to 2.64, or by 70 percent since 1950. High delinquency rates have been characteristic in Esmeralda, Nye and Storey counties. Clark county has also had fairly high delinquency rates which increased from 1.44 in 1950 to 4.46 in 1958. In all of these counties, except Clark, mining property is a significant element in the total valuation, and fluctuations in mining activity are the principal reasons for the high delinquency rates.

Table 7.17

Property Tax Delinquency Rates on Real Estate, By Counties, 1950 and 1958

| County | 1950[a] | 1958[b] |
|---|---|---|
| Churchill | 1.40 | 1.23 |
| Clark | 1.44 | 4.46 |
| Douglas | .69 | - |
| Elko | .20 | .10 |
| Esmeralda | 16.20 | 19.74 |
| Eureka | .29 | 1.14 |
| Humboldt | .68 | .07 |
| Lander | - | .74 |
| Lincoln | 1.61 | 1.06 |
| Lyon | 2.50 | .89 |
| Mineral | 2.94 | 2.13 |
| Nye | 6.33 | 5.22 |
| Ormsby | .59 | .94 |
| Pershing | .54 | .30 |
| Storey | 8.73 | 3.31 |
| Washoe | 1.33 | 1.50 |
| White Pine | .77 | 1.70 |
| Average State | 1.55 | 2.64 |

[a]Calendar year.
[b]Fiscal year.

Source: Nevada Tax Commission, Annual Reports, Table No. 7.

## Assessment Practices

The determination of an appropriate standard of assessment and its consistent application by those responsible for property appraisal has always been a fundamental problem in the property tax field. Once present value or the closest possible approximation thereto is established as the general basis of assessment the question of the ratio of assessment may be treated in its proper perspective. While 100 percent valuation is desirable from certain points of view it is not essential to equitable results. Rather, any reasonable ratio uniformly applied will achieve this end. Considering the practical problem which would arise as a consequence of converting the present average assessment ratio in Nevada of approximately 30 percent to 100 percent, fractional assessment is preferred. If the current values standard and a fixed ratio of assessment are to be implemented the general concept must be specifically defined in terms of measures that are practical to apply and that are reasonably consistent in results. Market or sales value

is undoubtedly best for properties subject to relatively frequent market transactions, but for certain types of property and in particular situations, such data are not available. Under such circumstances, replacement cost less depreciation is likely to be most consistent with the market factors and in special instances involving corporate or natural resource property the capitalized net income or market value of outstanding securities may be desirable. Equality of effects is the goal to be sought.

## Frequency of Assessment

The failure of county assessors to re-assess real property and sometimes certain types of personal property within a reasonable period of time has been a major factor contributing to inequitable assessment. Regardless of the reasons for this deficiency, no general approach to assessment will produce satisfactory results unless property is re-appraised at relatively frequent intervals. Assessment on present values obviously requires a minimum time lag between the actual date of assessment and the current values situation. In the case of personal property, re-assessment every year is obviously required due to its fluid character, and is practical with the possible exception of personal household effects.

Three years should provide adequate time for a complete re-appraisal of real estate once a sound, equalized assessment is achieved, and this period is not excessive in terms of maintaining a proximate relationship to current values. This change in existing practice would require the institution of a continuing assessment program with one-third of the property in each county being re-assessed each year. A further advantage of the plan is that it would permit the use of full-time staff with some degree of competence in appraisal work. It should be noted that a similar approach is now followed in many large cities including the City and County of Denver and in certain other states. No serious problems should arise in requiring adherence to the above rules in most counties, as annual re-assessment is required in the case of rural land and livestock. However, a few of the smaller counties may find the proposed plan difficult to implement, but in these cases assistance should be supplied by the Tax Commission through the Division of Assessment Standards.

## Tax Commission Valuation and Assessment

The current practices of the Tax Commission with regard to the valuation and assessment of specific classes of property are discussed below:

Valuation of Farm Land. The classification and valuation of farm land is performed by the members of the Tax Commission. The valuation basis is that of the production or income potential of a

working ranch or farm. Such valuations are determined largely on a subjective basis. The Commission, however, has access to the results of the assessment ratio studies which are based on actual market sales and appraisals; they consult with the staff of the Assessment Standards Division; and, of course, they rely upon the knowledge of certain Commission members who have specialized experience in this field. Also, it should be noted that sales data involving farm and ranch property are often very limited, if not unavailable. Similarly, production and income information of an objective nature is difficult to obtain.

The Assessment Standards Division of the Tax Commission has experimented with an alternative approach to the classification and valuation of farm land which involves the use of federal soil conservation maps to formulate a detailed land classification plan and actual income data to arrive at valuations for each class of land. This approach was utilized in making a series of sample appraisals of farm land in each county of the State in 1958.[34] During 1959 and 1960 the Assessment Standards Division has carried on a pilot study in Douglas and Pershing counties in order to assess the effect of the new system of classification and valuation.[35]

Valuation and Assessment of Livestock. The valuation of livestock by the Tax Commission, insofar as specific data are employed, is based upon an average of stock prices at the local markets in Elko and Fallon. The staff of the Commission prepares the average price data for the use of the Commission members only in the case of stock cattle. The values for other types of livestock are directly determined by the members of the Commission. It should be noted that the market data employed do not cover all types of livestock, the valuations established do not involve any consideration of the varying grades or qualities of livestock, and the Commission has adopted a rule which excludes all cattle under one year of age from assessment. The effects of the present methods of valuing livestock result in valuations based on judgment and the exclusion of a considerable proportion of livestock from assessment.

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[34]This new technique for classifying and valuing rural land was developed in 1958 by Mr. Cyril Bastian, formerly of the Assessment Standards Division. In 1959, as a member of the State Legislature, Mr. Bastian introduced a bill requesting an appropriation for financing the development of soil conservation maps which could be used for assessment purposes, but it was not passed.

[35]The results of this pilot study are discussed in the section dealing with the activities of the Assessment Standards Division.

Valuation and Assessment of Public Utilities. The process of appraising the property of most public utilities is a highly complex and technical one due to the nature of the businesses involved and the predominance in most fields of interstate or inter-county operations. State valuation and assessment of the operating property of such enterprises is the general rule. The scope of the Tax Commission responsibility in Nevada, which includes all types of property of all interstate and inter-county utilities, reflects the maximum degree of State action. Generally speaking, there are two major aspects of the valuation problem to be resolved, namely, the appropriateness of the measures of value employed in arriving at a unit or system valuation, and the fairness of the factors used in allocating a portion of such valuations to the State. A third issue not related to valuation as such is the equity or reasonableness of the basis used in apportioning the State's share of the assessed valuations to individual counties within the State.

The valuation formulas and the basis of allocating valuations to Nevada are those typically used in other states, and are specifically adopted from California's practice. In order to derive valuations in the case of railroads, express car companies, airlines, electric power and gas companies, and telephone and telegraph companies, specific three-factor formulas based on such factors as net investment measured in terms of either reproduction costs new less depreciation or book value less depreciation, capitalization of net operating income, and the market value of corporate securities, are used. Valuations are allocated to Nevada on the basis of formulas involving such factors as track mileage, freight and passenger revenues on a mileage basis, operating revenues, reproduction costs, book value less depreciation, and so forth.

A major issue in public utility valuation for tax purposes relates to the weighting of the factors, particularly in the case of railroads, and the question was brought to a head by the Union Pacific Railroad suit of 1957 which contested the legality of the company's valuation on two principal grounds: that equal weighting of the three factors, reproduction cost new less depreciation, capitalization of net income (five year average) and stock and bond prices, resulted in an excessive valuation; and that use of the 35 percent assessment factor, in view of the lower average assessment ratio for other forms of property, was unreasonable and contrary to the uniformity requirement of the State Constitution. The contention concerning weighting was directed at the emphasis placed upon the reproduction cost new minus depreciation factor which produced a valuation about three times the average of the other two measures. Recognizing some merit in the claim the Commission agreed to a gradual reduction in the emphasis placed upon this factor, and the suit was dropped. The present weighting of this factor is 25 percent, and a further reduction to 20 percent is contemplated. It should be noted that in the case of airlines, the two lowest valuation factors are each weighted at 40 percent and the investment factor used for other utilities is book cost less depreciation. This approach tends to yield a much lower relative valuation figure, particularly in periods of secular inflation. Moreover, the

State's use of a 35 percent ratio for assessing public utilities may reasonably be challenged when the overall statewide assessment ratio for all property in 1959 was only 30.6 percent. And it is important to recognize that the latter ratio (30.6 percent) was significantly affected by the inclusion of the utility and other State-valued property at 35 percent. Thus, the actual differential is obviously greater than is indicated by the average ratios.

As previously noted, the assessed valuations of interstate and inter-county utilities under Nevada law must be apportioned among the counties on a "unit mile" basis. This rule applies to all property, both real and personal, used in providing utility services. In application, this has been done by the use of main and branch line track mileage for railroads; route mileage for trucks and buses; revenue-ton miles (passenger equated) for the airlines; and exchange, toll and airline or micro-wave beam mileage for telephone and telegraph. Although this approach has the advantage of relative simplicity in the instance of certain utilities, the results bear no direct relationship to such obvious considerations as the actual physical location of the property and the extent of use of the facilities involved in providing the service. This was evident in the preceding analysis of the actual distribution of public utility assessed valuations by counties. The continuance of the present policy cannot be defended on any logical grounds associated with the assessment of property for tax purposes. Basically, it robs certain counties of valuations and gives them to other counties that have no reasonable claim thereto. A suggestion that such action is justifiable in terms of providing assistance to jurisdiction with sparse population and resources is also invalid. While State aid to such jurisdictions may well be necessary and desirable, it should be predicated upon the needs-resources relationship, and not mileage across geographically large but sparsely populated counties.

Valuation of Bank Stock. A special formula is used by the Tax Commission in the valuation of the stock of banking institutions. Bank stock is assessed in the county or counties where the bank and its branches are located, and the assessment is automatic. The formula is calculated on the following basis: cash items are added to total bank deposits (average of four periods) and 15 percent of the deposits' total is deducted from the total of the cash items. Any excess of cash resulting is then deducted from the combined total of cash items and deposits. A percentage factor--2 percent in 1959-60--is then applied to the net total to arrive at the tax base. The percentage factor may be changed by the Tax Commission, and in earlier years was as high as 5 percent. Moreover, the real estate and tangible personal property of banks are also assessed, but the resulting tax is credited against that on the shares of the bank. Thus, banks which own their buildings and other tangible personal property have their stock tax reduced by the amount of tax assessable against this property.

In terms of the actual economic effect of this formula, a comparison of the present tax base with that which would result from the capitalization of net income, is revealing. Capitalizing the net income after federal income taxes of all of the Nevada banks at a rate of 6 percent, would yield a total valuation of $50,423,933. If assessed at 35 percent, the resulting hypothetical tax base would be $17,648,376. In contrast, the actual assessment of bank stock based on the above special formula amounted to only $7,567,665, or less than 43 percent of the hypothetical assessment based on capitalization of income. It does not appear that either the method or values obtained by the present special formula used in the valuation of bank stock generally correspond with the State valuation of other types of property.

Valuation and Assessment of Motor Vehicles. The basis of valuing motor vehicles as embodied in a Tax Commission Resolution of May 26, 1958, is retail prices. In the instance of new vehicles use of the full retail price, including freight and accessories, as specified by the dealer results in full conformity with the market value standard. For used motor vehicles, the Blue Book values used are the only general guide to market or sales prices. While these values may vary above or below market prices, they do represent a reasonable approximation of market values. In the case of vehicles not covered by the Blue Book quotations, cost less depreciation is employed, and this approach is also in accord with accepted practice. The depreciation schedule involves a step-reduction through the first four years totaling 62.5 percent, and a diminishing scale thereafter to a minimum of 13 percent for vehicles ten years of age or over. In the case of motor carrier vehicles a net franchise value is then added to 35 percent of the depreciated value to arrive at the unit value for assessment purposes. On the basis of the above it is evident that the level of valuation for motor vehicles closely approaches the constitutional concept of full cash value. In addition, it may be noted that the legislation adopted in 1959 and 1960 requires that the property tax on motor vehicles be collected at the time of registration. The experience of other states has fully demonstrated the superiority of such a policy.

Valuation and Assessment of the Net Proceeds of Mines. The process of determining the value of net proceeds under the present law is extremely complex and the application of the specific provisions necessarily varies depending upon the type of mineral product involved. Certain of the deductions required are also stated in a vague and indefinite manner, so that it is not clear in some instances precisely what costs should be allowed. Special problems have arisen in applying the law to certain non-metallic minerals which are used for a variety of purposes and for which no standard price data are available. The Commission logically has followed the principle that the particular use being made of the product determines its value and in cases where the product goes through a number of processes (some outside the State)

before it reaches the finished form, the Commission has virtually been forced to work back from the price of the finished product to establish the value of the product when it leaves Nevada.[36] It should also be noted that the provisions of the net proceeds of mines law, which were drafted for the metallic mineral industry, are not adaptable to oil production. If an important development occurs in oil production, it will be necessary to modify the provisions of the existing law as applied to oil production, or to adopt a new approach.

In view of the complexities of the valuation procedures required under the present law, it is essential that the reports and records of all mining operators subject to the tax be thoroughly audited. This is the only way that reasonable compliance with the provisions of the law can be assured. Until recent years, however, the Tax Commission, because of limited staff, was not able to undertake any field investigations. During the last five years the Commission has developed a field audit program which is designed to insure the auditing of all companies over a three-year period. It is now apparent that the number of auditors available is insufficient to accomplish this objective. The present audit program has thoroughly demonstrated its productivity. Additional taxes assessed during the three-year period 1957-59 inclusive, amounted to nearly $180,000 of which nearly $133,000 was assessed in 1959. On the basis of each hour of audit time expended an additional tax of $58 was assessed, and each $1.00 expended in audit costs produced over $12.00 in taxes assessed.[37]

From a policy standpoint, even assuming that there is 100 percent enforcement, the net proceeds of mines approach to the taxation of mineral resources obviously results in low level assessment as compared to other forms of property. The net proceeds tax only applies to a fractional element of the annual gross product of the mineral industry and this gross product in turn represents a varying but relatively small proportion of the total value of the mineral resource. The specific impact of the present tax in terms of the gross value of mineral production is shown in Chapter XIII, Severance Taxation, Table 13.4. It will be noted that the total tax paid on the net proceeds of mines from 1950 to 1958 inclusive, as a percentage of the gross value of mineral production, was under 1 percent for the entire period. It reached a maximum of .96 percent in 1955. The most suitable alternative to the net proceeds basis of assessing mines under the property tax is believed to be 35 percent of the gross value of the product. This method would

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[36]The United States Lime Company, a division of Flint-Kote Corporation, is presently contesting in the courts the valuation prescribed by the Commission. Although certain technical points are being raised, the principal issue is the approach being used by the Commission to the valuation of the Nevada product.

[37]Chanslor and Folsom, "Report to the State of Nevada on Tax Audit Programs," November, 1959, pp. 12-13.

have two important advantages over the existing basis. It would result in a tax base more nearly comparable to that employed for other types of state assessed property, and it would greatly simplify the administrative problem. It would also be legal under the present constitutional provisions. If this change is not adopted, a broader approach to the whole problem of mines taxation involving a moderate severance tax on profitable production in addition to the present net proceeds tax, as discussed in Chapter XIII, is thought to be merited.

## County Valuation and Assessment

The traditional policy of vesting primary responsibility for the general assessment of property in the office of the county assessor is the key to most of the serious inequities in property tax administration. Whether he is elected as in Nevada or appointed by County Commissioners as is the case in almost half the states, the results leave much to be desired. The short-comings of the assessor are almost legend--in many instances he lacks the technical competence to adequately discharge his duties and he is subject to political and often personal pressures which make strict adherence to the law most difficult, particularly if he has political aspirations. The alternatives usually suggested are increased state aid and supervision or complete centralization of administration in a state agency. The latter, of course, may alter the nature of the political influence, but it does not necessarily remove it. With regard to state supervision, two possibilities are the establishment by state law of technical qualifications for the position of assessor administered by a state agency such as the Tax Commission,[38] or a provision vesting in the Tax Commission the authority to remove a county assessor who is not adequately performing his duties.

Valuation of Urban Land. Urban land, as previously indicated, is valued and assessed by the county assessors. The general basis of assessment as implied by the full cash value rule of the Constitution and recommended by the Tax Commission, is market or sales value. However, the data obtained by the Assessment Standards Division in compiling assessment ratios indicate an extreme variation in actual assessment practice both in terms of sales data and the results of sample appraisals. These differences are most marked as between counties, but also cover a wide range in certain individual counties. So-called

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[38]This plan is presently employed in Kentucky.

special land, which includes undeveloped urban or lake front property, constitutes an acute problem for local assessors. Generally, an effort is being made to raise the valuation of this land to something approaching its actual market value, but no specific policy has been established by the Legislature or the Tax Commission with regard to such property. A uniform approach should be instituted based on the use of stepped-up percentage factors related to the physical nearness of the property to higher use land and the immediacy of such use. The specific percentages developed would depend upon the nature of the higher use, lake front or urban. Variants of this method are being used in other jurisdictions. With regard to patented mines and mining claims, they are usually assessed at the legal minimum. As unpatented mines and claims are only taxed on their net proceeds this is a reasonable practice and probably reflects the intent of the law.

Valuation of Urban Improvements. The valuation of urban improvements on the basis of replacement costs was recommended in the original Assessors' Manual which contained specific cost data calculated on the basis of 1953 prices. The revised Assessors' Manual, completed in 1959, places greater emphasis upon sales values as they relate to the entire property and represents a combination of market and replacement cost data which will also provide a measure of the value of urban land as a residual factor. However, this approach to valuation has not yet been applied by the county assessors although in several counties special studies are presently being made.

Valuation of Merchandise Inventories. The valuation of merchandise inventories by county assessors is on the basis of individual reports or listings supplied by the owners of such property. These listings are only subject to an office check, as no appraisers are available for physical inspection of inventories. Owners are required to report their inventories on the basis of the cost of the latest physical or book inventory. It should be noted that county assessors do not have the authority to inspect the books or records of business concerns even if this were practical in terms of staff. Assessors, however, may resort to the device of an arbitrary assessment in instances where no listing is supplied or if they regard the inventory reported as being too low. In such an event the owner is under obligation to produce his records if the assessment is thought to be excessive. The value of the inventory as reported by the owner or fixed by the assessor is assessed at 35 percent. The present practices cause substantial under-assessment. Self-appraisal cannot be relied upon to achieve reasonable levels or equality of assessment. If merchandise inventories are to be valued and assessed on an objective basis, it is apparent that county assessors must have the power to examine the books and records of business concerns and sufficient staff to engage in at least a sample checking of actual inventories. Apart from these obvious steps a change in the sales tax law making information on total annual sales data for individual concerns available to county assessors would provide a useful checking device.

The equity of assessing merchandise inventories on a cost basis is frequently questioned on the ground that varying rates of stock turnover occasion extreme variations in the burden of the tax. While the impact of the cost type of inventory tax does tend to favor high rate of turnover concerns and penalize low, there is no alternative basis of assessment that would produce superior results.[39] Moreover, the fluid character of this type of property makes it impossible to achieve equal treatment as compared to fixed and long-life assets.

Valuation of Other Types of Personal Property. As in the case of merchandise inventories, the county assessors depend upon the individual listing and valuation of office furniture and equipment, store fixtures and other business machinery and equipment. The general basis of assessment is cost less depreciation, but the method of handling depreciation varies from one county to another. Washoe county, for example, assesses this form of property at installed cost less ten percent, while some of the other assessors use fixed depreciation tables. No physical inspection or direct appraisal of such property by the staff of the assessors' offices is undertaken, but the assessor may resort to an arbitrary assessment if this is thought to be desirable. Mining improvements and equipment are usually valued and assessed on the cost basis used for tangible personalty other than household or personal possessions. Here again, individual listing or self-appraisal is the general rule. Mine improvements, as in the case of other real estate, should be physically appraised, and if this is done equipment and machinery might well be checked at the same time. Finally, it should be noted that personal or household possessions of a non-income producing character also are not subject to direct appraisal. Several different rule-of-thumb methods are employed including a fixed amount per room, and 10 percent of the value of the residence, and so forth. Individual listing is also relied on by many of the county assessors. These approaches to assessment are obviously unsatisfactory and are certain to produce serious inequities. In view of the administrative difficulties involved, plus the relatively small amount of tax revenue produced by such property, the State should consider exempting personal household effects from property taxation.

## The Assessment Standards Division

The work of the present Assessment Standards Division of the Tax Commission and its predecessor, the Valuation Division, has had a considerable impact on the operation of the State's property tax system. The present organization, which has been in existence since 1953, has carried out a continuing assessment ratio analysis used in

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[39]The annual gross receipts basis of assessment would simply reverse the existing differential effect by favoring the low rate of turnover concerns at the expense of the high turnover firms.

the implementation of the school aid program and has performed specific equalization functions. In addition, it has provided general assistance and guidance to local assessors, but only on an advisory basis.[40] The present assessment ratio plan including the procedures employed in the computation of the individual county ratios and the implications of the results in terms of equalization are considered in the following sections.

While all of the activities of the Assessment Standards Division contribute to the equalization of assessed valuations of property throughout the State, the direct efforts of the Division to promote equalization are of primary significance. These efforts include the making of actual appraisals of various types of real property within individual counties and the provision of assistance to county assessors in undertaking re-appraisals of such property.[41] The principal appraisal work of the original Valuation Division was restricted to Churchill and Clark counties and the Lake Tahoe area, although sample appraisals were made in all counties. The appraisals conducted by the Assessment Standards Division, in some instances with the assistance of the county assessors' offices, during the period from 1953 to 1960 are listed below:

| | |
|---|---|
| Churchill | All commercial and residential buildings in Fallon (1955-57) |
| Clark | All buildings in county; 2,200 residential buildings in Las Vegas (1953-55) |
| Douglas | All urban and rural buildings (1953-55) |
| | All new properties (1955-57) |
| | Land at Lake Tahoe; 135 new properties (1957-59) |
| Elko | All urban land and buildings (1955-57) |
| Humboldt | All land and buildings in Winnemucca (in process 1959-60) |
| Lander | All town lots and new buildings in Battle Mountain (1953-55) |
| Lyon | All urban and rural buildings (1955-57) |
| Mineral | All new properties (1955-57) |
| Ormsby | All new properties (1955-57) |
| | All land and buildings re-appraised (1959-60) |
| Pershing | All urban and rural buildings (1953-55) |
| | All land and buildings re-appraised (1959-60) |
| Washoe | Half of buildings and land in Reno (1953-55) |
| | All buildings and land in Reno and Sparks (1955-57) |

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[40]The Division has prepared an Assessors' Manual (revised in 1959) containing assessment instructions and detailed cost data for most types of locally-assessed property, it has developed uniform appraisal forms to be used by county assessors, and it has held annual training sessions for county assessors in all years except 1959.

[41]The Division has recommended the appropriation by the State Legislature of county equalization matching funds to facilitate the participation of the county assessors' offices in the equalization activities. However, such funds were authorized in only two years, 1953 and 1955.

The Division staff has made appraisals in eleven of the State's seventeen counties. The major emphasis has been upon real estate, particularly urban land and urban and rural buildings. In recent years new properties also have been appraised in a number of counties. However, a complete appraisal of all land and buildings has only been made in two counties--Pershing and Ormsby. In most of the appraisal work the Division was assisted by staff from the county assessors' offices. The limited matching funds provided by the Legislature in two years, 1953 and 1955, have been useful in furthering such cooperative efforts, but have been insufficient to meet the need. Except for the sample appraisals used in the assessment ratio study, the Division provides assistance in appraisal work only upon the request of or with the approval of the county assessor.

As previously indicated, an alternative method of classifying and valuing farm land has been experimented with in Pershing and Douglas counties. In general, the results of this pilot study indicate that the level of assessed values for rural land constitutes 31 percent of appraisal values in Pershing county in contrast to the 32 percent ratio for all rural property shown in the regular assessment ratio report, and 38 percent in Douglas county as compared with the 34 percent ratio reported for rural property in this county. This pilot study also shows considerable variation in the ratios for individual properties. In Pershing county the range was from a low of 16 percent to a high of 107 percent; in Douglas county the ratios ranged from 16 percent to 110 percent. However, the data show a significant concentration of individual property ratios for both counties in the percentage range from 25 to 35 percent. Finally, it should be noted that the above findings are tentative and it will be necessary to relate the appraisal values obtained in the pilot study to the values established for various classes of land by the Tax Commission in order to determine the full implications of this new approach to the appraisal of rural land.

## Assessment Ratio Study Findings

The weighted average State assessment ratio for all types of property and the assessment ratios of individual counties, 1956 to 1960 inclusive, are shown in Table 7.18. For the years 1956 and 1957 these ratios reflect the assessment of real property only; since 1958, State assessed property and appraisal ratios of merchandise inventories have been included at specified legal rates. The weighted statewide and county ratios show a significant upward trend for the period, the former increasing by nearly 16 percent from 1956 to 1960. The rise in the individual county ratios was at a highly variable rate. Ratios in Storey and Douglas counties rose by 79 and 69 percent, respectively; while that of Nye county only increased by 9 percent. In the majority of counties the percentage increase in the average assessment ratio was within the 10 to 20 percent range. Of course, the inclusion of State assessed property at a uniform rate of 35 percent of valuation in 1958 partly accounted for the increase of that year. It also will be noted

Table 7.18

Weighted Statewide and County Assessment Ratios, All Property, 1956-1960

| County | 1956 | 1957 | 1958[a] | 1959[a] | 1960[a] | % increase 1960 over 1956 |
|---|---|---|---|---|---|---|
| Churchill | 22.1 | 26.5 | 27.6 | 28.1 | 29.8 | 34.8 |
| Clark | 28.9 | 27.3 | 31.4 | 33.0 | 33.0 | 14.2 |
| Douglas | 15.8 | 19.1 | 24.9 | 24.2 | 26.7 | 69.0 |
| Elko | 26.7 | 30.7 | 31.9 | 33.0 | 31.7 | 18.7 |
| Esmeralda | 27.1 | 35.0 | 37.2 | 38.2 | 37.6 | 38.7 |
| Eureka | 27.4 | 33.2 | 34.1 | 33.4 | 31.3 | 14.2 |
| Humboldt | 23.5 | 30.6 | 30.4 | 30.3 | 30.9 | 31.5 |
| Lander | 24.4 | 32.1 | 30.9 | 28.4 | 28.4 | 16.4 |
| Lincoln | 30.4 | 32.2 | 34.4 | 33.9 | 33.9 | 11.5 |
| Lyon | 25.0 | 29.1 | 30.7 | 32.2 | 32.1 | 28.4 |
| Mineral | 28.9 | 32.2 | 32.6 | 34.0 | 33.3 | 15.2 |
| Nye | 29.9 | 30.2 | 30.6 | 31.8 | 32.6 | 9.0 |
| Ormsby | 24.4 | 24.6 | 25.6 | 24.8 | 27.6 | 13.1 |
| Pershing | 28.9 | 33.2 | 33.0 | 32.3 | 32.4 | 12.1 |
| Storey | 18.4 | 31.5 | 34.8 | 31.7 | 33.0 | 79.3 |
| Washoe | 23.7 | 25.8 | 26.4 | 26.7 | 26.5 | 11.8 |
| White Pine | 29.4 | 30.3 | 31.6 | 33.6 | 34.6 | 17.7 |
| Statewide | 26.5 | 27.8 | 29.8 | 30.6 | 30.7 | 15.8 |

[a]Includes State assessed property.

Source: State of Nevada, Tax Commission, Division of Assessment Standards, "Report on Assessment Ratio Study," 1956 - 1960.

that there was a marked reduction in the range of variation for individual county ratios over the five-year period. For example, in 1956 the county-wide assessment ratios ranged from a high of 30.4 percent in Lincoln county to a low of 15.8 percent in Douglas county; whereas in 1960 the assessments varied from 37.6 percent in Esmeralda county to 26.5 percent in Washoe county. The decline in the relative differential between the county ratios is also evidenced by the greater degree of concentration in the later year. The distribution in 1956 shows one county with an assessment ratio exceeding 30 percent, nine falling within the 25 to 30 percent range, five in the 20 to 25 percent bracket, and two below 20 percent. In 1960, by contrast, twelve of the counties had assessment ratios of 30 percent or over, and five fell within the 25 to 30 percent range. Although the above ratios are subject to qualification because of certain deficiencies in basic data

and procedures used,[42] the trends shown clearly indicate substantial progress in terms of higher assessment levels as well as greater equalization in the assessed values of property throughout the State.

The sales and appraisal ratios and those used in the computation of county ratios for urban and rural real estate in 1960 are shown on an individual county basis in Table 7.19. An examination of the data reveals important differences both in the level of the assessment ratios for urban and rural property and in the ratios derived from market sales data as opposed to data based on appraisals. In the case of urban property, sales ratios were substantially lower than the appraisal ratios in thirteen of the seventeen counties. For example, the sales ratio was almost 8 percentage points lower in Clark county, 11 percentage points in Douglas county, 8 in Lander and 5 in Pershing. However, the simple averages of the county sales and appraisal ratios for urban real estate only indicate a 1 percentage point difference primarily because of the unusually high sales ratio figures for Esmeralda, Lincoln and Nye counties. It should also be noted that the two types of ratios are given equal weight in computing the urban real estate ratio actually employed in the assessment ratio report. The extent of the variation in the county ratios used for urban property ranged from 21 percent in Lyon county to 42 percent in Esmeralda county. In other words, the latter county was assessing urban real estate at a rate twice as high as the former.

With regard to rural real estate, separate sales and appraisal ratios were computed for only four counties. Due to the lack of adequate data, the "use" ratios for more than one-third of the counties were derived from consolidated sales and appraisal data, and in a few counties the ratios were based solely on appraisal data. The fact that the "use" ratios for rural real estate were generally higher than those for urban property (the difference between the simple averages for county rural and urban real estate was only 2.2 percentage points) may be partly attributed to the greater use made of appraisal data in evaluating rural assessments. However, the variation in the rural ratios between counties ranged from a low of 20 to a high of almost 43 percent, a differential similar to that shown for urban real estate.

Table 7.19 also shows that the combined ratio for both urban and rural real estate was lower than the county ratios for all types of property in fifteen of the counties in 1960. These combined ratios for real estate constitute one of the best measures of local assessment practice since the ratios for all property include State assessed property at the prescribed uniform rate of 35 percent. The simple average of the county ratios for real estate was nearly 3 percentage

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[42]See the appendix to this chapter for an evaluation of the procedures used in the Nevada assessment ratio study.

Table 7.19

Urban and Rural Real Estate Assessment Ratios, by Counties, 1960

| County | Urban real estate | | | Rural real estate | | | Total real estate use ratio | Total property use ratio |
|---|---|---|---|---|---|---|---|---|
| | Sales ratio | Appraisal ratio | Use ratio | Sales ratio | Appraisal ratio | Use ratio | | |
| Churchill | 24.3 | 30.0 | 27.2 | 18.2 | 32.7 | 25.5 | 26.2 | 29.8 |
| Clark | 29.9 | 37.5 | 33.7 | a | a | 37.5 | 32.4 | 33.0 |
| Douglas | 24.4 | 35.0 | 29.7 | a | a | 33.8 | 23.7 | 26.7 |
| Elko | 20.6 | 25.0 | 22.8 | a | a | 32.0 | 27.4 | 31.7 |
| Esmeralda | 51.3 | 33.3 | 42.3 | a | a | 42.5 | 42.5 | 37.6 |
| Eureka | 30.0 | 31.3 | 30.6 | a | a | 27.5 | 25.9 | 31.3 |
| Humboldt | 21.3 | 24.4 | 22.9 | 33.8 | 20.0 | 26.9 | 25.2 | 30.9 |
| Lander | 17.5 | 25.8 | 21.6 | a | a | 20.0 | 20.4 | 28.4 |
| Lincoln | 38.3 | 26.7 | 32.5 | a | a | 30.0 | 30.9 | 33.9 |
| Lyon | 19.1 | 23.0 | 21.0 | 17.5 | 37.9 | 27.7 | 28.4 | 32.1 |
| Mineral[b] | - | - | - | - | - | - | 33.5[b] | 33.3 |
| Nye | 40.6 | 40.0 | 40.3 | a | a | 28.1 | 31.1 | 32.6 |
| Ormsby | 25.1 | 31.3 | 28.2 | a | a | a | 26.1 | 27.6 |
| Pershing | 19.9 | 25.0 | 22.4 | 28.5 | 35.8 | 32.2 | 28.5 | 32.4 |
| Storey | 29.4 | 22.5 | 25.9 | a | a | 33.0 | 29.1 | 33.0 |
| Washoe | 21.3 | 25.0 | 23.1 | a | a | 36.7 | 23.3 | 26.5 |
| White Pine | 33.3 | 36.4 | 34.9 | a | a | 30.0 | 34.2 | 34.6 |
| County avg.[c] | 28.2 | 29.5 | 28.7 | - | - | 30.9 | 28.8 | 31.5 |

[a]Individual sales and appraisal ratios not computed due to insufficient number in sample.
[b]Based on urban sales and appraisal ratios only.
[c]Unweighted.

Source: State of Nevada, Tax Commission, Division of Assessment Standards, "Report on Assessment Ratio Study," 1960.

points below a similar average of the county ratios for all property. The real estate ratios also showed greater variation between counties. Thus, the effect of including State assessed property is readily apparent.

The distribution by percentage classes of the individual sales and appraisal ratios used in computing the above described county assessment ratios is shown in Table 7.20. It will be noted that almost

Table 7.20

Distribution of Individual Real Estate Ratios, by Percentage of Assessment Classes, 1960

| Classes | Urban | | Rural | | Total | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| 9 - 9 | 41 | .6 | 14 | 4.3 | 55 | .7 |
| 10 - 19 | 1,286 | 17.4 | 56 | 17.4 | 1,342 | 17.4 |
| 20 - 29 | 3,602 | 48.7 | 98 | 30.4 | 3,700 | 47.9 |
| 30 - 39 | 1,956 | 26.4 | 82 | 25.5 | 2,038 | 26.4 |
| 40 - 74 | 459 | 6.2 | 70 | 21.7 | 529 | 6.9 |
| 75 & over | 54 | .7 | 2 | .6 | 56 | .7 |
| Total | 7,398 | 100.0 | 322 | 100.0 | 7,720 | 100.0 |

Source: State of Nevada, Tax Commission, Division of Assessment Standards, "Report on Assessment Ratio Study," 1960.

49 percent of the urban property ratios fell within the 20 - 29 percent range, more than 26 percent in the 30 - 39 percentage category, and 17 percent in the 10 - 19 class. Less than 1 percent were in the extreme ranges of less than 10 percent as well as the 75 and over category. Thus, it is evident that three-fourths of the individual urban ratios were concentrated in the range of 20 to 40 percent. With regard to the rural assessment ratios, the distribution generally follows the pattern of the urban ratios although there is a lesser degree of concentration in the central range. Moreover, more than 22 percent of the rural properties used in the assessment ratio study were in the 40 percent and over range in contrast to less than 7 percent of urban ratios in these same classes. Of course, it should be recognized that the rural cases represented only about 4 percent of the total individual ratios used in the 1960 Nevada assessment ratio study.

## Conclusions

The principal problem of property tax administration in Nevada as in other jurisdictions is one of achieving a reasonable degree of equalization in assessed valuations. This problem encompasses all

aspects of the property tax system including constitutional and statutory provisions and their interpretation and application by the State Tax Commission and by county assessors. The shortcomings of the system are reflected in disparities in assessment results between the counties and inequities in assessment relative to different classes of property and individual properties of the same type. However, during the past five years there has been a marked improvement in the level of state-wide assessment. Even on the basis of 1956 data, interstate comparisons of state-wide sales assessment ratios on locally assessed real properties reveal that the Nevada experience compares favorably with that of the other Western States. Table 7.21, based on the U. S. Department of Commerce's recently published Taxable Property Values in the United States, shows sales-assessment ratios by major classes of property for the eleven Western States. The Nevada ratio for residential property of 23.4 percent was greater than the Western State average

Table 7.21

Comparative Sales-Assessment Ratios[a] for Locally Assessed Real Properties, Western States, 1956

| State | Residential property | Acreage and farm property | All types of property[b] |
|---|---|---|---|
| Arizona | 20.1 | 7.8 | 14.6 |
| California | 19.7 | 13.9 | 19.0 |
| Colorado | 28.2 | 20.1 | 25.5 |
| Idaho | 11.1 | 9.6 | 10.1 |
| Montana | 9.2 | 7.0 | 7.9 |
| Nevada | 23.4 | 18.2 | 23.3 |
| New Mexico | 21.6 | 11.9 | 16.7 |
| Oregon | 19.8 | 15.8 | 18.5 |
| Utah | 15.4 | 12.1 | 14.7 |
| Washington | 15.5 | 15.0 | 16.6 |
| Wyoming | 20.3 | 20.6 | 17.8 |
| Average | 18.6 | 13.8 | 16.8 |

[a]Averages weighted by type and size of property.
[b]Also includes vacant lots, commercial and industrial property.

Source: U. S. Department of Commerce, Bureau of the Census, Taxable Property Values in the United States, 1957 Census of Governments, 1959.

of 18.6 percent and was only exceeded by the Colorado ratio. Similarly, with regard to farm acreage and property the Nevada sales-assessment ratio of 18.2 percent was above the regional average but below

that of Colorado and Wyoming. Finally, it may be noted that the Nevada overall ratio for all types of property was only slightly below that of Colorado, which ranked first, and significantly above the average ratio for the Western States. Also the situation in Nevada with regard to equalization may be assumed to be somewhat better than in other jurisdictions partly because of the large measure of valuation and assessment authority vested in the State Tax Commission.

The scope and character of the specific problems that still exist, however, are obviously of central concern. In the first place, existing statutory and constitutional provisions relating to the general standard of value should be clarified, and a uniform fractional rate of assessment should be established and enforced. Secondly, the provisions concerning the specific measures or bases of valuing certain types of property and the frequency of assessment do not appear to be adequate and should be changed to provide a sound and consistent approach to property appraisal. Thirdly, the actual responsibility for the valuation and assessment of property should primarily vest with the professional staff of the Commission and their powers should be extended to include the prescription of uniform assessment procedures and appraisal records for county assessors. Fourthly, the assessment ratio study should be broadened in scope, state-assessed property should not be included in computing average county and state-wide ratios for aid purposes and certain procedures should be modified so that the results will provide an adequate basis for future equalization efforts. Fifthly, the assistance provided by the Assessment Standards Division staff to county assessors in the appraisal field should be strengthened and State aid to county equalization funds should be granted on an annual basis. Finally, the practice of self-appraisal, whether on the State or local level, is an obstacle to the attainment of reasonable or equitable results and should be eliminated as a basic factor in assessing personal and other forms of property. It is recognized that these suggestions are comprehensive, but equalization of assessment is an objective of universal concern to all citizens and there are no short-cut solutions or panaceas.

# Appendix

## An Evaluation of the Nevada Assessment Ratio Study

The inauguration of the assessment ratio plan in 1955 was a highly important development in State policy both in the property tax and State aid fields. While its establishment was directly attributable to the critical need for an equitable basis of distributing State aid to the public schools, it has also contributed to improved administration of the property tax and has significant implications with respect to the problem of equalizing the assessed valuations of property. This analysis will be concerned basically with a description and evaluation of the methods used in computing the assessment ratios.

### Nature, Purpose and General Methods

An assessment ratio study is a means of determining the relationship between the assessed value and the full value of property. The estimate of full value for a given piece of property may be the sales price or the value arrived by appraisal. If the full value of the property is $12,000 and it is assessed at $3,000, the assessment ratio is 25 percent. Assessment ratio studies have been made for many years in several states by both private and governmental agencies, and have become increasingly important since the end of World War II. They are designed to discover variations in levels of assessment from one county to another, from one class of property to another, and within the same class. An assessment ratio study probably provides the best single guide to determining the facts regarding inequities in the assessment process. Moreover, the findings of a study of this kind assist in the diagnosis and help point the way to corrective measures. In line with the practice followed by Nevada and a number of other states, such a study must be on a continuing basis in order to achieve satisfactory results.

As noted, assessment ratio data are used as a guide to the distribution of state funds to local governments when such a distribution involves comparative property valuations. Many governmental programs, jointly financed by state and local governments, involve the requirement that the local unit meet a specified standard of performance before state funds are granted. Education foundation programs in some states require that each county make a specified effort, on an equalized basis, to support its educational system. Once that effort is determined in monetary terms, the state makes up the difference between the local support and the amount guaranteed under the state program.

For example, assume that: (1) the statewide average of property assessment in a state is 25 percent of full value; (2) one county has property with a full market value of $100 million assessed at 30 percent, or $30 million; (3) another county with the same amount of property is assessing at 20 percent, or $20 million; (4) both counties are

imposing a 25 mill tax levy on assessed property values; and (5) the state education foundation program requires a $1 million school budget for each of these two counties. In the absence of any adjustment of the assessed valuations, the county with the 30 percent ratio would have raised $750,000 locally from the 25 mill levy and would have received $250,000 from the state in school support; the second county, with the 20 percent ratio, would have raised $500,000 locally from the 25 mill levy and would have received $500,000 from the state. In contrast, under an equalization program each county would be required to adjust its assessed valuation ratio to the average state ratio of 25 percent, resulting in an assessed valuation of $25 million to be used as the basis of the school levy in each county. Thus, each county would have to raise $625,000 locally for education, and since the school foundation program guaranteed a budget of $1 million, the state would contribute an equal amount to each county--$375,000. This example illustrates the variable assessment ratio method of requiring all school districts to meet a specified standard of performance on an equalized basis. An alternative method of making equalization adjustments is based upon uniform assessment ratios which require actual adjustment of assessments to the same level in all counties. It is apparent that this method of equalizing state aid to education also results in improved administration of the property tax.

A recent report of the Federation of Tax Administrators revealed that assessment ratio studies were being conducted on an annual basis in twenty states and biennially in three others and that another state conducted such a study in 1950 and in 1956.[43] Two of the eleven Western States--California and Oregon--were included in this group of twenty-four states, and since 1957 Nevada and Colorado have been added to the list.

This investigation of assessment ratio methods revealed that only three of the twenty-four states relied exclusively on appraisals in deriving their ratios; twelve used sales data only; and five relied

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[43]Twenty-one of this group of twenty-four states reported the specific uses made of these studies, which were as follows: to allocate state school aid--17 states; to allocate state funds for purposes other than school aid--10 states; to allocate county taxes to districts within the county--8 states; to equalize the tax burden between property assessed and taxed at the state level and the local level--9 states; to equalize the tax burden on property in two or more assessment jurisdictions--11 states; to equalize the tax burden among property classes within local taxing districts--5 states; to set tax rate limits--6 states; and to set debt limits--7 states. Federation of Tax Administrators, Equalization Programs and Other State Supervisory Activities in the Property Tax Field, January, 1957, pp. 10-16.

primarily on sales, limiting the use of appraisals to types of property infrequently sold. The remaining four states used both sales and appraisals in their determination of assessment ratios. Twenty-two states indicated the type of statistical measure used for determining the average assessment ratio, and of these, twelve states used a ratio of aggregates--total assessed value of all properties in the sample divided by their total full value; and three used the arithmetic mean--the sum of the ratios for the properties in the sample divided by the number of items in the sample; seven used a median--the middle ratio when all the ratios are arranged from low to high.

## The Nevada Method

The Nevada assessment ratio for locally assessed real estate is based partly upon sales data and partly upon appraisal data. For most of the counties all available "usable sales" are included in the study. There are a few counties, however, in which the number of real estate sales is large enough to warrant the use of samples. Information on real estate sales is obtained from the deed record. For those counties in which samples of such sales are drawn, a question arises immediately as to the method of sample selection. To cope with the problem of representativeness of the sample as far as the different property types are concerned, including age groups of one-family dwellings, it is understood that the locations of properties sold as taken from the deed record are spotted on a map and that the process of selection and spotting on the map is continued until a satisfactory distribution area-wise is obtained. To secure required information which is not obtainable from the deed record, the Division of Assessment Standards resorts to direct correspondence with buyers or sellers.

The Tax Commission has made appraisals during the past five years of all urban and/or rural properties in some of the counties; and the assessors in these counties then have applied their individual assessment rates to the appraised values. Under these circumstances, the appraisal ratio employed in the analysis is the rate or ratio set by the assessor. In other instances, appraisal ratios are based upon samples chosen in a manner analogous to that described above for the selection of sales samples.

The classes of locally assessed real estate distinguished in the derivation of the real estate ratio are urban, special, and rural. In the averaging of the real estate ratios, whether based upon sales or upon sample appraisals, the median is employed. Generally, the median sales ratio and the median appraisal ratio are determined for each class of property and the two medians are averaged to obtain the ratio to be used as the assessment ratio for said property class. In instances of meager data modifications of this procedure are resorted to; and in other instances, in the absence of sales data, the appraisal ratio is employed.

As previously indicated, such Tax Commission valued property as livestock, motor vehicles, public utilities, banks and net proceeds of mines are assessed at the prescribed rate of 35 percent. To determine the merchandise inventory ratio both assessed value and book value of merchandise are obtained for a selected group of companies in each county. From these data the individual company ratios are computed, and the county-wide merchandise ratio is determined as the average (arithmetic mean) of these individual company ratios.

To obtain the county-wide ratio, the ratio computed or prescribed for each property class is divided into the assessed value for said class to arrive at an estimate of full value. The county-wide ratio is the total assessed value, all classes of property combined, divided by the total of the corresponding estimates of full value. It should be noted in this connection that there are certain classes of property for which ratios are not determined or prescribed in the manner described above and that ratios are imputed to them in the course of the analysis. This is true of patented mine claims, mine improvements and mills,[44] "other" town and country personal property, and water rights and pipelines. The state-wide ratio is obtained by dividing total assessed value of properties of all kinds, all counties combined, by the corresponding total of the estimates of full value.

## An Evaluation of Existing Procedures and Suggested Changes

The Nevada statute requiring the Tax Commission to make the assessment ratio study gives the Commission wide latitude in the choice of methods and procedures to be employed in making the study. It appears from the provisions of the act, that the Commission is free to make any changes in techniques that may be deemed desirable.[45]

Averaging of Sales and Appraisal Ratios. Because wide differences exist in some of the counties between sales and appraisal ratios, the sales ratios being the higher in some instances and the lower in others, an averaging procedure that is kept as nearly uniform as possible from one county to another is strongly recommended. By varying the relative influences of the sales and appraisal data in the averaging process, the size of the derived average ratio can be sharply affected. If appraisal and sales ratios of 20 percent and 30 percent are given weights of 1 and 9, respectively, an average of 29 percent is obtained; and if the weights are reversed, an average of 21 percent results

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[44]White Pine county is an exception, as explained below.

[45]It may be noted that there is no easy answer as to what constitutes the best method or methods to be used for a particular locale under a given set of conditions and that the study as presently conducted represents a praiseworthy effort in many respects.

The procedure actually followed in many instances in the study is one which gives equal weight to the two kinds of data. In the above example, such weighting would yield an average ratio of 25 percent. In some instances the ratios used are based on sales only; in others, they are based on appraisals only; and in still others, instead of deriving median ratios based upon sales and appraisal data and taking the average of the two medians, the two sets of data are consolidated into one distribution; and the ratio used is the median of the consolidated distribution. In one instance in the 1959-1960 study, the median sales ratio and the median appraisal ratio for urban properties were averaged to obtain the urban use ratio and this urban ratio together with a small number of appraisal ratios for rural properties were combined and used as the rural ratio.

While efforts to find methods of deriving individual ratios from meager data are recognized as the major reason for this lack of uniformity, the variations in the procedures used are believed to be so great as to raise questions regarding the validity and comparability of the derived ratios. Accordingly, it is recommended that the procedures employed to derive average ratios for urban, rural, and "special" properties be standardized to a greater extent than they are at the present time. Assuming that the averaging of the two median ratios as described above will be continued, it is believed that medians based upon consolidated distributions of sales and appraisal ratios should not be used, and that in all cases, if at all feasible, there should be a median appraisal ratio to be averaged with a corresponding median sales ratio. When sales data are not sufficient to determine a reasonably dependable sales ratio, they should not be used at all and there does not appear to be any alternative to the sole use of appraisal data in such cases.

Averaging of Inventory Ratios. With reference to merchandise inventories, it is stated in the "Guide" for the study that "while in the field, men will obtain at least 10 percent of all business inventories of all different types of business, excluding automobile agencies." Because the number of cases is a more significant consideration (in terms of reliability of sample results) than the proportion of total cases, it is suggested that emphasis be placed upon the number of cases in the sample rather than upon the proportion of total cases. In this connection, it is noted that the inventory samples used in the 1959-1960 study for approximately one-half of the counties consisted of seven cases or less per county, the number being four for one county and three for another. Because wide variation exists among the ratios for the individual companies in a given county's sample, samples of such size are inadequate for the purpose. A further problem exists with reference to the method of averaging the inventory ratios. In the 1959-1960 study, the average used is the arithmetic mean of the ratios for the individual cases. In Storey county, for example, the ratios for the four individual cases comprising the sample were 17 percent, 92 percent, 29 percent and 12 percent; and the ratio used in the analysis is 37.5 percent, the mean of the four ratios. Because the mean is greatly affected by extremes such as the ratio of 92 percent in this example, the median is

preferable to the mean for this purpose. An alternative procedure for finding average inventory ratios is suggested below.

Imputing of Ratio for One Class of Property to Another. There are certain classes of property for which no ratios are derived, but to which the ratios for other classes are imputed for purposes of analysis. The assessed value of patented mine claims, for example, is included in the assessed value total for rural property; and this total is divided by the rural property ratio to obtain an estimate of the full value of rural property including patented mine claims. Since these figures constitute parts of the county-wide assessed value and full value totals on which the ratios are based, this means that patented mine claims are included (with weighting in the manner indicated) in the computation of the county-wide ratios. With the exception of one county (White Pine) in the 1959-1960 study, the same is true of mine improvements and mills. For White Pine county the ratio used for this class is 35 percent. An analogous situation obtains with respect to Other Urban Property (Personal), Other Rural Property (Personal), and Water Rights and Pipe Lines. The merchandise inventory ratio is used in the derivation of full value estimates for these classes of property.

Because the rural property ratio is believed to have no real applicability to the derivation of significant full value estimates for patented mine claims or for mine improvements and mills, the procedure followed as explained above is believed to be unrealistic and to a degree misleading. The same is true of the imputation of the merchandise ratio to Other Urban Property (Personal), Other Rural Property (Personal), and to Water Rights and Pipe Lines. Accordingly, it is suggested that property classes for which there are no available data for the determination of significant sales or appraisal ratios be excluded from the computation of county-wide or state-wide ratios. This principle is believed to have applicability, likewise, to rural property in Mineral county in the 1959-1960 study wherein the urban ratio based upon both sales and appraisals is used, in the absence of any rural sales or appraisals, for total real estate. Here, it is believed that rural property should be excluded from the computations. However, it is assumed that rural appraisals could have been made and a significant appraisal ratio derived and, hence, a problem of this nature with respect to rural properties need not arise.

Computation of Class Ratios. In a few counties in which the number of property transfers is large, the real estate ratios are based upon samples of the usable sales, a valid practice if the samples are properly selected. Because ratios for such classes as residential, commercial, and industrial in urban areas and farm and non-farm in rural areas are known to differ markedly among themselves in many jurisdictions the problem of insuring representativeness and appropriate weighting of the different classes is one of considerable significance in an assessment ratio study. The staff recognizes the existence of this problem and it is believed, does much to aid in its solution. The procedure followed

as stated above, is understood to be one of placing on a map the locations of properties included in the sample and extending the sample selection to the point that the spotted locations are well distributed over the entire map. There are so many variables involved in a problem of this kind, however, that adequate balancing of all the factors concerned is believed to be almost impossible of accomplishment by such means.

This problem of insuring appropriate weighting for important classes of property is encountered even though the ratios are based upon all usable sales rather than upon samples of them. This is true because the proportions of properties sold within a given period vary from one property class to another. If 10 percent of the properties in Class A change hands, for example, during the period of the study when only 5 percent of all properties combined change hands and if the assessment ratio for Class A is greater than the average assessment ratio for all property classes, Class A would be given too much weight by the Nevada method of deriving the real estate ratio; and the distorting tendency in this instance would be toward the high side. For another class of property, if a below-average ratio and a below-average proportion of properties sold are assumed, the distorting tendency would again be toward the high side. These examples are sufficient perhaps to make clear that there is no assurance or even likelihood that the distorting tendencies in the data for a given county, when haphazard weighting is employed, would offset each other. Accordingly, to control the weighting and thus to increase the accuracy of the real estate ratios, it is believed that important broad classes of real estate should be distinguished in the study.

This distinction is considered desirable for a second reason. An important value to be gained from an assessment ratio study stems from the aid it provides in connection with attempts to equalize assessments within counties. Clearly, knowledge of such disparities as may exist among the ratios for broad classes of property can be used by the assessor as a significant guide to efforts in this direction. If sufficient data are available (for one or more of the property classes) to make possible the derivation of ratios by property age groups, a comparison of such ratios has significance in any re-examination of depreciation rates to be applied in property assessments. It is noted in this connection that the sales ratio for one-family dwellings, 1 to 8 years old, was found in the Colorado study to be markedly higher than that for one-family dwellings over 48 years old.[46]

Possible Extensions of Procedures Presently Employed. No attempt is made here to set forth firm suggestions as to the broad classes of real estate to be distinguished. This will depend to a large extent

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[46]Colorado Legislative Council, Sales Ratio Study, Part One (Research Publication No. 34, December, 1959), p. 32.

upon the number of property transfers in the respective property classes. This means that a decision on this point should be based upon an investigation of volume of transfers by property classes. A possibility, however, is believed to be the following: one-family dwelling, multi-family dwelling, commercial property, industrial property, rural farm property, rural non-farm property, and "special" rural property. In addition, for a few counties, it is believed that it would be feasible and desirable to distinguish from three to five age groups of one-family dwellings. In support of the latter proposal, it is noted that one-family dwellings are commonly built for immediate sale. The result is that the newest group of one-family dwellings will almost certainly be comparatively over-represented in sales with the consequences (if age groups are not distinguished) of over-weighting as outlined above. Of course, if individual ratios for one-family dwellings are to be derived on the basis of an age classification, the weighting should reflect the actual distribution of such properties throughout the respective counties. This, in turn, would require that an inventory of all one-family dwellings be maintained indicating the age of the property as well as other data that would be useful for tax administration. When the decision is made concerning the property classes to be distinguished, the next step is to compile the assessed value data and the assessment ratios accordingly and proceed with the analysis in the usual manner.

Because a high degree of concentration among the ratios for individual property transfers is regarded, other things being equal, as reflecting credit on those who perform the assessment function, appropriate measures of the degree of such concentration are believed to be useful. It is suggested, therefore, that procedures of the Nevada study be further extended to include the computation of appropriate measures of variation in the ratios. The best measure of variation for the purpose is believed to be one which indicates the "spread" of the central group of ratios for a given property class when such ratios are arranged in order from low to high. Specifically, it is suggested that the spread of the middle fifty percent of the ratios for a given property class be used for this purpose. This measure is considered preferable to others because it is easily understood and also because it is affected less than others by the presence of one or two extremely large or extremely small ratios. To derive this measure of variation for all classes of real estate combined, weighting according to "full values" should be employed.

An Alternative Procedure. The median is the average used in the 1959-1960 Nevada study in the derivation of sales and appraisal ratios for the three classes of real estate distinguished. This average is regarded as decidedly preferable to the arithmetic mean for this purpose because the latter is greatly affected by extremely small or extremely large ratios and consequently may be far from typical of all the ratios. On the other hand, the median (determined, as it is, by the size of the middle item in the array or of the two middle items) may tend to be non-typical by reason of chance distribution of the individual ratios.

From another point of view, it may be argued that for properties of a given class, there is a tendency for the ratios for properties of below-average value to fall on one side of the median and for the ratios for properties of above-average value to fall on the other side and that the use of the median ratio is questionable on these grounds. The need to avoid great influence of extremes upon the average to be used is further emphasized by the probable presence among them of ratios based upon transfers which (because of inability to obtain the full facts of sale) were erroneously included in the study. This, incidentally, is another reason for using a measure of variation which is affected but little by the presence of extremes.

The above considerations appear to point to the desirability of using a method of averaging which strikes a compromise between the median and the mean. The proposed compromise, with equal applicability to real estate and inventory ratios, is one which would be based upon the middle 50 percent of the items (whether sales or appraisals) when the ratios are arranged from low to high. Specifically, it is the ratio obtained by dividing total assessed value of the "middle 50 percent" group by the corresponding sales price or appraisal value total.

The analysis from this point is identical to that described above with reference to the possible extension of procedures presently employed in the Nevada study. For the alternative procedure particularly, but also for the proposed extension of present study procedures, it is believed that machine tabulation is much to be preferred over other methods of summarizing and analyzing the data. This procedure has application to the averaging of ratios for properties of each class including merchandise inventories.

Legislation to Aid in Data Collection. In the light of the Colorado experience it is believed that legislation requiring the reporting of the facts of sale to the Tax Commission will greatly facilitate assembly of the sales data. Accordingly, it is recommended that steps be taken to impose the legal requirement that real estate conveyance certificates and, for checking and control purposes, daily record forms summarizing key information from the certificates be filled out and submitted to the Tax Commission. In general, the legislation required should contain a clear statement as to what property transfers should be reported on the real estate conveyance certificates, and the nominal fee to be charged to cover the expenses of administration on both the state and county levels. Submission of the certificate obviously should be mandatory and should contain such basic information as the names and addresses of seller and purchaser; the relationship, if any, between seller and purchaser; the date and nature of the contract; the location and legal description of the property; and finally, the sales price.

From a procedural standpoint it is also essential that the certificate be subscribed to under oath by or on behalf of the purchaser or purchasers; that a daily record listing every certificate and presenting summary information from it shall be kept by the county clerk and recorder; that the certificates and the daily records kept by the clerk and recorder be submitted periodically to the county assessor; that the assessor enter on each certificate received from the clerk and recorder the assessed valuation of the property, both land and improvements and total, the year of the assessment so entered, the class of such property and the appraisal classification and year of construction of the major improvement, if any; and that the assessor file with the Tax Commission a copy of each certificate and daily record and retain in his office a copy of each certificate received.

In conclusion, the assessment ratio study as now conducted by the Division of Assessment Standards of the Nevada Tax Commission is regarded as praiseworthy in many respects. It is believed, however, that significant improvements could be made within the existing framework of the study or by extensions of procedures now employed; and in one respect as outlined above, a substitute procedure is considered preferable to the one now used.

# CHAPTER VIII

## HIGHWAY USER TAXES

Highway or special user taxes are presently the chief source of state tax receipts. They are universally employed, and are the only important example of special benefit financing in the Nation's tax system. These revenues are generally dedicated solely to highway and road purposes, but the burden thrown upon these sources is relatively large and increasing in magnitude each year. The reasons for this development are self-evident. The principal responsibility for administering and financing modern highway and road systems has fallen upon the states, and this country has the most extensive network of rural and urban roads in the world. Furthermore, the number of vehicles, as well as the volume of traffic using these facilities, is growing at a rapid rate. As of 1957 highways and streets totaled almost 3.5 million miles and there were more than 67 million motor vehicles which traveled in excess of 603 billion miles.[1]

### Nature and Development of Highway User Taxes

The special user tax approach pioneered by the states involves two major types of levies, namely, motor fuel and vehicle license or registration taxes. These taxes are employed by all of the states and by a limited number of local jurisdictions. The federal government also taxes motor fuel on a special benefit basis. A third structure type of tax which places a special or additional burden on certain classes of commercial carriers is now used by twenty-nine states. In addition, there are a number of special charges imposed by the states on vehicle owners or operators. They include: operator and chauffeur's licenses; certificate of title or transfer fees; caravan fees; administrative services charges; tolls; and fines for traffic violations. Municipal parking meter charges constitute another minor, but not insignificant, method of extracting revenue from the vehicle owner.

#### Registration Tax

New York initiated the registration of motor vehicles in 1901 and the practice became universal in 1915 with the adoption of the Louisiana law. The original purpose of registration was regulatory, but revenue potentials were soon recognized and utilized. Graduated licenses relating to some physical characteristic of the vehicle such

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[1]U. S. Bureau of Public Roads, Highway Statistics, Summary to 1955 and Highway Statistics, 1959.

as weight, horsepower or capacity were first introduced in 1913, and the concept of the license charge as a special tax on highway use was directly associated with this action. Certain states also incorporated value or age factors which reflected the property tax approach. Recent developments in the use of the registration tax have tended to delineate its function as a member of the special user tax family to one of measuring the impact of different types and weights of vehicles on highway costs. Thus, the tax is regarded as a measurement of "relative damage to the roads" and as a convenient means of assigning certain basic elements of highway cost attributable to the individual vehicle apart from its special characteristics.

### Motor Fuels Tax

The first gasoline tax was introduced by Oregon in 1919, and in the short period of one decade all of the other states had followed suit. The fuel tax quickly assumed its present role as a measure of highway use or vehicle travel. Technical complications arose as new types of fuel and engines were developed, but the problem of coverage has been resolved by extending the tax base to all forms of fuel used to propel motor vehicles on the highways. There is still a question as to the desirability of differential rates for certain of the special fuels now employed.

### Special Carrier Taxes

The third type of special user tax which is imposed on specified types of commercial carriers is a development of the last three decades. The intent of these levies is to impose an additional burden upon property and passenger carriers who use highway facilities for profit-making activities. In earlier years these taxes were regarded as payments for special benefits received, but they are presently defended as a means of assigning the additional elements of highway costs attributable to such vehicles.

## Fiscal Importance of Highway User Taxes

The importance of highway user taxes in the fiscal systems of the states is readily indicated by the fact that they produced revenues of over $4.5 billion in 1959, or nearly 29 percent of total state tax collections, as shown in Table 8.1. The relative significance of combined user tax receipts varied widely from a maximum of 47.7 percent in New Jersey to a low of 17.3 percent in Louisiana. However, twenty-one of the states derived more than one-third of their tax revenue from such sources, as compared to seven that obtained less than one-fourth. The mean average for all states was 28.6 percent. In Nevada highway user taxes accounted for 31.4 percent of the State's tax receipts and the State ranked fifth when compared with the other Western States.

Table 8.1

Total Highway User Tax and License Collections, Fiscal Year 1959

| Rank | State | Collections (millions) | As percent of total state taxes |
|---|---|---|---|
| 1 | New Jersey | $ 161.4 | 47.7 |
| 2 | New Hampshire | 17.8 | 47.1 |
| 3 | Nebraska | 37.8 | 46.6 |
| 4 | South Dakota | 21.3 | 42.3 |
| 5 | Idaho | 23.5 | 41.5 |
| 6 | Iowa | 101.3 | 40.5 |
| 7 | Vermont | 15.3 | 39.4 |
| 8 | Maine | 31.2 | 38.4 |
| 9 | Wyoming | 13.8 | 36.7 |
| 10 | Texas | 249.4 | 36.3 |
| 11 | Oklahoma | 92.5 | 36.1 |
| 12 | North Dakota | 21.1 | 35.9 |
| 13 | Virginia | 96.9 | 35.8 |
| 14 | Florida | 167.9 | 35.6 |
| 15 | Oregon | 62.9 | 35.4 |
| 16 | Indiana | 132.2 | 34.8 |
| 17 | Kentucky | 73.5 | 34.5 |
| 18 | Arkansas | 51.3 | 34.4 |
| 19 | Tennessee | 96.3 | 34.3 |
| 20 | Montana | 20.4 | 33.8 |
| 21 | Ohio | 246.2 | 33.7 |
| 22 | Illinois | 237.9 | 32.0 |
| 23 | North Carolina | 126.1 | 31.7 |
| 24 | Nevada | 12.2 | 31.4 |
| 25 | New Mexico | 35.5 | 31.3 |
| 26 | Utah | 25.7 | 30.9 |
| 27 | Kansas | 59.7 | 30.0 |
| 28 | Minnesota | 94.3 | 30.0 |
| 29 | South Carolina | 57.8 | 29.7 |
| 30 | Colorado | 50.5 | 29.4 |
| 31 | Alabama | 72.6 | 29.3 |
| 32 | Mississippi | 53.1 | 29.0 |
| 33 | Wisconsin | 110.4 | 28.9 |
| 34 | Georgia | 96.9 | 28.7 |
| 35 | Connecticut | 61.3 | 28.0 |
| 36 | Missouri | 81.1 | 28.0 |
| 37 | West Virginia | 45.2 | 28.0 |
| 38 | Pennsylvania | 244.7 | 27.1 |
| 39 | Rhode Island | 21.4 | 27.0 |
| 40 | Michigan | 210.3 | 26.1 |
| 41 | Arizona | 32.7 | 25.3 |
| 42 | California | 440.0 | 24.5 |
| 43 | Maryland | 75.4 | 23.4 |
| 44 | Massachusetts | 99.4 | 20.7 |
| 45 | Washington | 75.3 | 18.3 |
| 46 | Delaware | 12.3 | 18.1 |
| 47 | New York | 281.5 | 17.7 |
| 48 | Louisiana | 74.7 | 17.3 |
| | TOTAL | $4,526.0 | 28.6 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections, 1959.

The contribution of the individual motor fuel and registration taxes to state tax revenues is shown in Tables 8.2 and 8.3, respectively. The motor fuels tax out-produced the registration and other special taxes by more than a 2 to 1 margin, accounting for 19.2 percent of total state tax revenues as compared to 9.4 percent for the other levies. Since World War II, the relative importance of the former tax has gradually increased despite significant rises in the tax burden on commercial carriers in many jurisdictions. There is a marked difference in the relative importance of both types of taxes from state to state. In the case of the motor fuels tax the range in 1959 was from a low of 8.9 percent of total tax revenues in New York to 39.9 percent in Nebraska. The proportion of total revenues derived from this source was below the aggregate average of 19.2 percent in sixteen states and above it in thirty-two. Nevada belonged to the latter category with motor fuel taxes accounting for 22.3 percent of total State tax revenues. A much greater variation existed with respect to registration and operator's license revenues. Their relative importance ranged from 2.2 percent in Alabama to 19.4 percent in New Jersey. Six states, five of which are in the South, obtained less than 5 percent of their tax revenues from this source, while fourteen derived 12 percent or more. Nevada's 9.1 percent rate was slightly below the aggregate average of 9.4 percent.

## Problems and Principles of Special User Tax Financing

The general concept that those who benefit directly from the use of highway and road facilities should bear the primary responsibility for their cost is simple and logical. It also appears to be equitable and desirable. While few have questioned the basic assumptions of such a policy, it does lose some of its apparent logic in actual application. Investigation reveals significant theoretical as well as practical problems. Why single out this governmental function for financing via the direct benefit approach? Is the ability to pay standard of apportioning tax burdens invalid when applied to highways and roads?

If the general question of justification can be resolved satisfactorily, the next problem is to ascertain the extent of the benefits derived by users as compared to other groups. The immediate and primary benefits of highway and road facilities are said to accrue to the user group, but non-users certainly also derive substantial general or indirect benefits. What is the relative importance of the two types of benefits, and does it vary according to the nature of the facility (interstate, state and county roads)? Another related benefit issue arises in the case of city streets which are not a part of the national or state highway network. The bulk of such costs in the past has been borne by another group of "direct beneficiaries," the

Table 8.2
State Motor Fuel Tax Collections, Fiscal Year 1959

| Rank | State | Collections (millions) | As percent of total state taxes |
|---|---|---|---|
| 1 | Nebraska | $ 32.3 | 39.9 |
| 2 | New Hampshire | 11.3 | 29.7 |
| 3 | South Dakota | 14.5 | 28.8 |
| 4 | Kentucky | 60.8 | 28.5 |
| 5 | New Jersey | 95.8 | 28.3 |
| 6 | Maine | 22.2 | 27.4 |
| 7 | Virginia | 74.0 | 27.4 |
| 8 | Montana | 16.4 | 27.2 |
| 9 | Alabama | 67.2 | 27.1 |
| 10 | Tennessee | 72.5 | 25.8 |
| 11 | Indiana | 95.4 | 25.1 |
| 12 | South Carolina | 48.6 | 25.0 |
| 13 | Mississippi | 45.6 | 24.9 |
| 14 | Arkansas | 37.0 | 24.7 |
| 15 | Texas | 169.7 | 24.7 |
| 16 | Florida | 114.1 | 24.2 |
| 17 | Idaho | 13.6 | 24.0 |
| 18 | North Carolina | 95.5 | 24.0 |
| 19 | Georgia | 80.3 | 23.8 |
| 20 | Utah | 19.5 | 23.4 |
| 21 | Nevada | 8.7 | 22.3 |
| 22 | Iowa | 55.5 | 22.2 |
| 23 | Oklahoma | 56.3 | 22.0 |
| 24 | Vermont | 8.2 | 21.2 |
| 25 | Wyoming | 7.9 | 21.0 |
| 26 | Colorado | 35.3 | 20.6 |
| 27 | New Mexico | 23.3 | 20.6 |
| 28 | Oregon | 36.6 | 20.6 |
| 29 | Connecticut | 44.8 | 20.5 |
| 30 | North Dakota | 12.0 | 20.4 |
| 31 | Ohio | 148.8 | 20.4 |
| 32 | Kansas | 38.4 | 19.3 |
| 33 | Illinois | 138.2 | 18.6 |
| 34 | West Virginia | 29.6 | 18.3 |
| 35 | Arizona | 23.4 | 18.1 |
| 36 | Rhode Island | 14.3 | 18.1 |
| 37 | Wisconsin | 69.4 | 18.1 |
| 38 | Pennsylvania | 161.4 | 17.9 |
| 39 | California | 318.3 | 17.6 |
| 40 | Minnesota | 54.1 | 17.3 |
| 41 | Michigan | 138.6 | 17.2 |
| 42 | Maryland | 51.0 | 16.1 |
| 43 | Massachusetts | 73.0 | 15.2 |
| 44 | Missouri | 43.1 | 14.9 |
| 45 | Louisiana | 61.5 | 14.2 |
| 46 | Washington | 58.1 | 14.1 |
| 47 | Delaware | 8.1 | 11.9 |
| 48 | New York | 140.4 | 8.9 |
| | TOTAL | $3,044.6 | 19.2 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

Table 8.3

State Motor Vehicle Registration and License Tax Collections, Fiscal Year 1959

| Rank | State | Collections (millions) | As percent of total state taxes |
|---|---|---|---|
| 1 | New Jersey | $ 65.5 | 19.4 |
| 2 | Iowa | 45.7 | 18.3 |
| 3 | Vermont | 7.1 | 18.2 |
| 4 | New Hampshire | 6.6 | 17.8 |
| 5 | Idaho | 9.9 | 17.5 |
| 6 | Wyoming | 5.9 | 15.7 |
| 7 | North Dakota | 9.1 | 15.5 |
| 8 | Oregon | 26.3 | 14.8 |
| 9 | Oklahoma | 36.2 | 14.1 |
| 10 | South Dakota | 6.8 | 13.5 |
| 11 | Illinois | 99.8 | 13.4 |
| 12 | Ohio | 97.4 | 13.3 |
| 13 | Missouri | 38.0 | 13.1 |
| 14 | Minnesota | 40.2 | 12.8 |
| 15 | Texas | 79.7 | 11.6 |
| 16 | Florida | 53.8 | 11.4 |
| 17 | Maine | 8.9 | 11.0 |
| 18 | Kansas | 21.3 | 10.7 |
| 19 | New Mexico | 12.1 | 10.7 |
| 20 | Wisconsin | 41.0 | 10.7 |
| 21 | Indiana | 36.8 | 9.7 |
| 22 | Arkansas | 14.4 | 9.6 |
| 23 | West Virginia | 15.6 | 9.6 |
| 24 | Pennsylvania | 83.3 | 9.2 |
| 25 | Nevada | 3.5 | 9.1 |
| 26 | Rhode Island | 7.1 | 9.0 |
| 27 | Colorado | 15.2 | 8.9 |
| 28 | Michigan | 71.7 | 8.9 |
| 29 | New York | 141.1 | 8.9 |
| 30 | Tennessee | 23.7 | 8.4 |
| 31 | Virginia | 22.8 | 8.4 |
| 32 | Maryland | 24.5 | 7.7 |
| 33 | North Carolina | 30.5 | 7.7 |
| 34 | Connecticut | 16.5 | 7.5 |
| 35 | Utah | 6.2 | 7.4 |
| 36 | Arizona | 9.3 | 7.2 |
| 37 | California | 125.7 | 6.9 |
| 38 | Nebraska | 5.5 | 6.7 |
| 39 | Montana | 4.0 | 6.6 |
| 40 | Delaware | 4.2 | 6.2 |
| 41 | Kentucky | 12.8 | 6.0 |
| 42 | Massachusetts | 26.4 | 5.5 |
| 43 | Georgia | 16.6 | 4.9 |
| 44 | South Carolina | 9.3 | 4.8 |
| 45 | Washington | 17.2 | 4.2 |
| 46 | Mississippi | 7.5 | 4.1 |
| 47 | Louisiana | 13.3 | 3.1 |
| 48 | Alabama | 5.4 | 2.2 |
| | TOTAL | $1,481.4 | 9.4 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections, 1959.

property owners, usually through the special assessment device. Is this practice, which appears to be inconsistent with the user tax policy, justifiable?

Once the proper scope of user or other benefit bases of financing has been determined, the highly significant problem of calculating relative benefits for the various classes of users must be dealt with. This difficulty is avoided, though somewhat arbitrarily in the case of the property owners' liability for street costs, by using a front foot or total value of property measure. In the case of the user group it is generally assumed that benefits are coincidental with the costs occasioned by each class of users, or that costs constitute the only practical general measure of benefits. Thus, the final step in the implementation of the special user tax approach is the selection of one or more indices of use which will reflect most accurately the cost responsibility of all user classes. Finally, it should be noted that the problems involved in the highway user tax field are not unique. The solutions adopted must necessarily lean heavily on subjective value judgments tempered by a full consideration of practical obstacles.

## Is The Special User Tax Approach Justifiable?

Three broad propositions constitute the principal support of highway user taxation. First, the government, by assuming responsibility for the construction and maintenance of motor transportation facilities, has embarked upon a public service undertaking comparable in many ways to the public utility services usually provided by private enterprise. Cost of service financing, therefore, is assumed to be appropriate and desirable. Second, students of tax policy often assume that a limited application of the benefit principle is desirable. And, third, the user taxes are highly productive and meet the other practical tests of a good tax.

The suggested parallel between the provision of motor transportation facilities and other transportation or public utility services is certainly valid in some degree. However, the generality and diversity of use factors in the case of motor transportation involve broad economic and social implications that differ both in nature and degree. The fact that government has undertaken responsibility for providing these facilities tends to broaden and extend the use pattern as well as the scope and incidence of benefits. Recognizing this effect, a strict cost of service approach to financing becomes inappropriate unless one is prepared to deny use to those who cannot pay their share of the cost and to disregard indirect benefits which are not associated with actual use. Neither of these courses is acceptable from a policy standpoint. The level of user charges must be tempered by a recognition of their social impact, and the significance of indirect benefits logically must be considered in the financing of the facilities involved. Insofar

as users are concerned, the fact that other private modes of transportation have received substantial governmental aid is also relevant.

The case for highway user taxes on practical grounds is generally favorable. Motor fuel and registration taxes are highly productive, effective administration has generally been attained, and costs are not excessive. The time and method of payment is convenient, and taxpayer attitudes are relatively good. On the other hand, the special taxes on commercial carriers, depending largely on the tax base, may present certain problems. Weight-distance levies, which are probably best suited to the purposes of this form of taxation, are not easy to administer, the compliance problem is complex, and there is strong opposition by the carrier group. At the same time, experience has demonstrated that these difficulties can be overcome. In brief, the special user tax approach to highway financing is believed to be sound within the limits suggested. Tax burdens should not be so heavy as to seriously penalize or restrict the use of groups whose ability to pay is limited. Also, non-users who derive substantial general genefits or other types of special benefit should contribute a reasonable proportion of the costs through other forms of taxation.

## Relative Cost Responsibility of User and Non-User Groups

A decision as to the proper share of highway, road and street costs to be borne by user and non-user groups is obviously a difficult matter. While various theoretical proposals have been advanced, they are either unrealistic or fall short of providing the precise guides needed for policy determinations. Current practice, which assigns somewhat more than half the costs to motor vehicle owners appears to be largely fortuitous. Certainly, there is no consensus of opinion concerning a given ratio or even range of responsibility. As a point of departure, it is generally recognized that the provision of good highways and roads and comparable facilities in urban areas are integral parts of the over-all problem. So-called farm-to-market roads serve as feeders to state and national highways in the same sense that streets in residential areas channel traffic into arterials, throughways or freeways. Broad decisions concerning financing, therefore, should be predicated upon the total cost of all facilities. Three proposals for allocating costs between motor vehicle owners and other groups are based on the "added expenditure," "differential benefit," and "predominant use" concepts.

The added expenditure approach suggests that all costs incurred as a consequence of the advent and growth of motor vehicle travel be assigned to this user group. Considering the fact that other uses have virtually disappeared, this proposal would throw the great bulk of the burden on the vehicle owner group. It also conveniently disregards the substantial governmental subsidy extended to other forms of transportation.

The differential benefits idea proposes that costs be allocated in accordance with the ratio of special benefits to motor vehicle owners, which have arisen since the inception of motor vehicle travel, to general benefits not associated with such travel. It arrives at approximately the same result as the added expenditure approach, and is equally unsatisfactory. The basis of the calculation in both cases is a situation that existed over 50 years ago. However, the obvious misconception involved is the idea that highways and streets have significant values which are not a function of use by motor vehicles. Aside from occasional use by pedestrians, bicycles and other foot-propelled devices, which do not require this type of facility, all benefits derive from actual or potential use.

In contrast to the above, the predominant use concept distinguishes two primary purposes of road and street facilities: (1) access to property or local service to residents, and (2) motor vehicle transportation. Once again both purposes are served by use, and the use is predominantly by motor vehicles. While this proposal does not provide a measure of the relative importance of the two uses, it does suggest that the basis of allocating costs among users should be related to the principal use involved for each facility. Thus, the bulk of the cost of access roads and streets would be assigned to the general user, and a substantial part of the cost of other facilities to the commercial user.

The foregoing proposals obviously do not resolve the problem of determining relative benefits and assigning costs between the direct users who own and operate motor vehicles and those who derive general or indirect benefits from such use. These groups, it should now be apparent, are not separable, but over-lapping in character as motor vehicle owners are recipients of both types of benefit. The essential limitation of these approaches, as previously indicated, is to avoid a level of taxation upon certain groups of motor vehicle owners which will substantially curtail their use. In order to ascertain such a maximum, further studies of the economic impact of the taxes employed are needed. Assuming that a reasonable ratio can be established, the next step is to formulate specific techniques for assigning the pre-determined cost responsibilities to the general beneficiaries and the motor vehicle owners.

## How Should the Costs Assigned to General Beneficiaries Be Met?

Considering the broad incidence of the general benefits from highway and street facilities, a broadly-based revenue source is required. The property, general sales or net income taxes, or a combination of two or more of them, are obvious alternatives. Property has borne the brunt of city street and often rural road financing. In the case of streets, particularly those in residential areas, the special assessment device is commonly employed; and for rural roads not in state or national networks a mill levy on property is typical. The charge against property, however, is justified on

the basis of the special benefit enjoyed, through providing convenient access to the owner's property, and thereby increasing its value. Thus, the special assessment or the property tax becomes a means of measuring another form of special benefit, rather than general benefits which accrue to all.

Both of the other major tax forms--sales and net income--have similar limitations as instruments for apportioning costs based upon general benefits. The general or retail sales tax is directed at consumer expenditure, and, though everyone pays, the amount paid is not predicated on benefits received. Net income taxes are highly selective, and are intended to measure ability not benefits. It follows, therefore, that none of the general taxes presently in use provide a realistic and comprehensive measure of general benefits. More significantly, even if such a tax could be developed it would undoubtedly be in serious conflict with the ability to pay principle. Considering the additional fact that the special taxes on motor vehicles are not related to ability, one may reasonably conclude that the remaining element of costs should be met by taxes which have an ability emphasis or at least are not inconsistent with this principle.

## Nature of User Costs and Problem of Allocation

The proper distribution of the highway and street costs assigned to motor vehicle owners among the various types of vehicles is a crucial and certainly the most troublesome problem in this field of taxation. The broad factors generally considered in allocating costs are: (1) the requirement of adequate facilities to accommodate a given number of individual vehicles; (2) the extent of use factor; and (3) the particular aspects of wear and tear on the facilities associated with the total weight of the vehicle (vehicle and load) and its distribution (by axles or tire surface). In other words, there is the "readiness to serve" factor, a function of the number of vehicles; relative use, as reflected in miles traveled; and relative damage, which is attributable primarily to aggregate weight and its distribution. While these elements of the cost problem suggest a basis of differentiating costs, they do not provide the specific measures for determining actual allocations by vehicle groups. It may be suggested that the attempt to distinguish separable cost factors is superficial in that they are all interrelated. While the relationship is self-evident, the breakdown permits greater selection or refinement in the choice of tax bases. Also, the results of this approach are not subject to criticism if the combined impact of the taxes employed is in conformity with reasonable standards of individual and group taxpaying capacity.

The accommodation or "readiness to serve" aspect of cost, as previously indicated, may logically be attributed to the existence of the vehicle. The fact that there are a specified number of vehicles to be accommodated is the primary determinant. Costs of

right of way and certain basic elements of planning and engineering, traffic safety and administrative expense are illustrative of this element. The width requirement for highways and streets is also largely controlled by the number and size of vehicles. The extent of these costs cannot be precisely determined. However, the incremental cost plan of apportioning the burden among vehicle groups does provide a feasible method of assignment, and is considered in the following analysis of specific measures. The type of cost under consideration seems to merit a uniform charge on each type of vehicle, although differences in the size of vehicles would affect such costs in some degree and might be reflected in a higher charge for the large vehicles. In any case, the registration or license tax is an appropriate means of recovering these costs. The relative emphasis to be placed on this element of cost can only be determined by subjective judgment, but it is generally agreed that these costs, and consequently the revenue to be collected, are secondary to the relative use and weight elements.

The relative use of highway and street facilities is commonly thought to be the major factor influencing costs, and fuel consumption is generally regarded as a measure of such relative use. Of course, there are significant variations in mileage per-gallon-of-fuel for vehicles of the same class and as between classes of vehicle, and these differences usually are not reflected in fuel tax policy. The reasons for the uniform rate policy are readily apparent. There are serious administrative problems inherent in a differential rate structure, and the uniform tax per gallon generally results in a higher tax per mile on the heavy vehicles. The bias of the tax, therefore, is in the right direction. Special fuels and types of engine, diesel in particular, present a different problem as mileage per gallon varies substantially for vehicles of the same weight depending upon whether they are powered by combustion or diesel type engines, and use regular or special fuels. Scientific data indicate a substantial miles-per-gallon advantage in the case of special types of fuel used in private passenger cars, and savings of from 30 percent to 70 percent for commercial vehicles equipped with diesel engines.[2] In view of the limited use of special fuels other than diesel, it may be expedient to disregard this element of discrimination. In the case of diesel fuel, however, the degree of variance as well as the importance of the use appear to justify a differential rate.

The relative damage factor, which is commonly thought to be a peculiar function of weight and weight distribution, presents the most difficult and certainly the most controversial aspect of cost analysis and apportionment. As a practical matter, the specific problem is one of determining the element of costs attributable to

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[2]See Report of Highway Planning Committee, Colorado's Highway Needs and Highway Financing, October, 1950, III, pp. 18-23.

these factors, and of establishing a reasonable base or bases for assigning the additional costs. In approaching its solution, one must recognize that the differentials in costs caused by weight and its distribution are also a direct outgrowth of use.

## Special Approaches to Weight and Weight Distribution Cost Problem

Three principal approaches to this cost problem are currently being used: (1) the graduated weight measure, either in aggregate or by axle; (2) the weight and distance or ton-mile basis; and (3) the incremental cost method. Other bases of taxation are being used in the case of commercial carriers including gross receipts and flat fees, but they are obviously not intended to measure relative damage. It should be noted at the outset that any one of the three approaches to distributing the costs involved would produce equitable results if the full facts concerning the relative contribution of the different vehicle groups to such costs were known. Such data, unfortunately, can only be obtained through a series of long-range, controlled use studies made under varying physical conditions. The relatively few pilot investigations that have been conducted serve to confirm the general proposition, which is self-evident, that heavy truck and bus traffic requires higher cost facilities and substantially increases maintenance expense. In view of the deficiency in basic data, any approach will inevitably involve a large measure of subjective judgment.

1. The graduated weight measure is the most simple and also the most widely used. It involves a classification of vehicles by weight categories. The basis of classification should be and usually is gross weight, which may be defined as empty weight plus an assumed maximum load or empty weight plus an average load factor. Further refinement is achieved by relating the total weight to the number of axles thus reflecting the distribution factor. The number of weight classes to be employed is a matter of judgment, and should be based upon engineering data and expert opinion as to meaningful differences in terms of cost. The graduated weight method affords a convenient and understandable approach to the weight and weight distribution aspects of cost. The measure involved is specific and is adaptable to a differential taxing policy. It is also comparatively easy to administer, and both collection and compliance costs are minimized in relation to the other alternatives.

On the other hand, this method involves an average or hypothetical measure of vehicle loads. In other words, it does not reflect actual loads carried. More significantly, it disregards actual use, and the weight factors apart from use are rather meaningless. Of course, this deficiency may not be too important in the case of large commercial carrier operations where vehicle use and loads approach a practical maximum. However, the degree of discrimination against certain small or irregular operations and other types of carriers is likely to be large. This type of

inequity, it should be noted, is merely reversed by extending lower rates to particular classes of carrier, such as all contract or all private. Another fundamental weakness of the graduated weight method is that it does not provide a specific measure of the actual differential tax burden to be imposed upon vehicles in the various weight classifications. Thus, this basic aspect of policy formulation is dependent at best upon admittedly incomplete data as to relative damage, and the result is likely to be very conservative in terms of the share of costs assigned to the heavy commercial vehicles.

2. The weight-distance or ton-mile concepts reflect an obvious extension of the graduated weight basis. In short, they combine the basic weight and use factors. While the two ideas vary in specific application their basic purpose is identical. The weight-distance standard logically would seem to include the ton-mile basis. However, as actually employed in Oregon and several other states, it involves two independent measures of tax liability: (1) the gross vehicle weight or axle weight category which is based on an assumed average or maximum, and (2) the number of miles traveled. Rates per mile are then graduated according to the ascending weight classes. In the case of the ton-mile method the measure is a composite of the actual gross weight and of the vehicle and load mileage traveled; namely, the carriage of one ton a distance of one mile. The principal difference in the nature of the two concepts, therefore, is that actual rather than assumed weight is the basis of the ton-mile calculation. Both the weight-distance and ton-mile approaches are preferable to the graduated weight method as measures of cost. The motor fuels tax does little more than provide a general index of use without regard to the differential aspects of costs resulting from use by the heavy classes of vehicles. Inclusion of an additional use factor, therefore, is highly desirable. The average weight of load assumption involved in the weight-distance method is clearly inferior to the actual load carried basis and will inevitably produce certain inequities. However, it avoids the problem of keeping and verifying individual haul records by vehicle in the case of trucks and buses, which are necessary under the ton-mile plan. Minor variations in load by private passenger cars and small trucks or buses may, of course, be disregarded. This requirement of the ton-mile approach is its principal advantage and at the same time its most serious limitation.

Obtaining and checking mileage data also presents a difficult problem in the instance of certain types of vehicles and operations. In particular, it is not feasible for private passanger cars; it is almost impossible for small irregular private or contract carriers; and it requires special enforcement procedures for regular intrastate and interstate operators. From a practical standpoint the fuel tax provides an adequate measure of use for passenger cars and other small vehicles. Also, in relating over-all burdens by vehicle group, an average mileage may be assumed. Typical weight and mileage assumptions also may be made for the types of private and contract carriers noted, and exemption is a possible but obviously inequitable

alternative. Ports of entry and regular checking by the highway patrol are essential to cope with interstate vehicles, and field inspection is required for all regular route operations. Thus, the weight-distance and ton-mile approaches, particularly the latter, provide methods of differentiating costs attributable to the various classes of vehicles. They also afford specific bases or measures for the imposition of differential tax burdens. However, there is nothing magical about these approaches. The greater damage to highways resulting from use by heavy vehicles may or may not be in proportion to the weight-distance or ton-mile factors. It must be recognized that this basis of vehicle taxation like the others considered is founded upon an assumed relationship; it can neither be established nor disproved with the information presently available.

3. The incremental cost method of allocating user costs has received considerable support on theoretical grounds, and has recently been the subject of exhaustive studies in several states.[3] In general, the incremental cost approach starts with the presumption that costs can be segregated on the basis of number of vehicles, vehicle travel, traffic volume and weight use elements. All costs are assignable on the basis of the particular type of facility and the relative use by different classes of vehicles. This feature is distinctive and is thought to be more realistic than the ton-mile approach which is not concerned with the specific type of facility.

The primary attribute of this method, however, is the way in which construction costs occasioned by weight are calculated. As a first step the cost of a "basic road" to accommodate a typical low weight vehicle, passenger cars and light trucks for example, is determined. Secondly, the additional costs required to construct roads that will handle the traffic of the successive classes of heavier vehicles are then estimated in accord with the best engineering and cost data available. Each vehicle class beyond the first or basic category is then assigned its special element of cost plus a proportionate share of the cost for preceding classes. This method, it should be noted, does not cover maintenance or other non-capital outlays. They still must be apportioned on other bases, or it may be assumed that they are proportional to construction costs. Once the incremental cost relationships have been established by weight groups for different types of

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[3]See Equitable Highway Cost Allocation in North Dakota, Bureau of Business and Economic Research, University of North Dakota, September, 1956; Financing Kentucky's Roads and Streets, Bureau of Business Research, University of Kentucky, 1956; William D. Ross, Financing Highway Improvements in Louisiana, Division of Research, College of Commerce, Louisiana State University, 1955; An Incremental Cost Analysis Based Upon the 10 Year A. S. F. Proposed Highway Program, Public Administration Service (Chicago: 1954); and D. F. Pancoast, Allocation of Highway Costs in Ohio by the Incremental Method, Ohio Department of Highways, 1953.

facilities, the actual costs are calculated for each weight group according to a uniform measure. The measure selected in two of the most recent studies was axle miles.

The incremental cost method, as previously noted, has received considerable support largely on the ground that it is more objective than the other approaches. It undoubtedly would have been more widely used except for the lack of essential data and the complexities of the computational and cost assignment problems. A realistic appraisal of its merit is extremely difficult. The alleged theoretical desirability of the approach hinges upon the fact that it employs a cost accounting technique and actual travel data as a basis of cost allocations. Thus, it appears that a more objective method has been substituted for guesswork. While appearances are not wholly deceptive in this instance, it is axiomatic that the results of any problem-solving technique are no better than the basic assumptions which underlie it. If the incremental cost method is to produce more equitable results, the judgments made must be more realistic and this, in turn, requires improved techniques and/or more adequate data. Does the incremental cost approach meet these tests? The two key questions to be resolved are: (1) the relative proportion of total user costs to be assigned on a per vehicle basis, a use or traffic volume basis and a weight and weight distribution basis; and (2) the specific allocation of weight costs by vehicle groups. The incremental cost method does not contribute directly to a solution of the first question. While travel data for different classes of vehicles are made available, the relative importance of the three basic cost elements still has to be estimated. Needless to say the decision at this point is crucial, and there is no reason to suggest that its validity will be materially affected by use of the incremental cost approach.

The incremental technique of apportioning weight costs appears to be logical and equitable. However, it too is dependent upon certain basic assumptions. The "basic road" concept for an assumed category of "basic vehicles" is hypothetical not actual. More significantly, how are the limits and number of different weight groups to be determined? Adequate facts are not available to ascertain the relative damage to existing highways occasioned by the different classes of vehicles. Are they available to determine differential costs of construction for vehicles in ascending weight classifications? Finally, in view of the fact that existing highways and roads are built to varying standards and specifications, is there any reasonable relationship between the actual ratio of wear and tear by these groups of vehicles on the highway facilities presently available and the differential cost of construction ratio for the theoretical highways employed in the incremental cost analysis? These questions serve to illustrate the dependence of this approach upon judgments that are largely subjective in character and thus the results may be just as arbitrary as those of alternative approaches.

## Conclusions Concerning Cost Allocation Bases

On the basis of the above discussion it appears that none of the methods considered provides answers that are sound and equitable per se. This result is inevitable until the full facts concerning cost responsibility become available through controlled use research. In brief, there are no short-cuts or panaceas. Meanwhile, the weight-distance (axle and ton-mile) or incremental cost methods are defensible, but in either case arbitrary or inequitable effects cannot be wholly avoided. Informed judgment as well as broad policy considerations external to the particular approach may dictate modifications in both cases. Certain of the general policy guides merit special emphasis at this point. The total tax burden assigned to different vehicle groups should be determined and subject to review in terms of avoiding tax loads that will seriously penalize or curtail use by any class of user. The economic impact of user taxes on the owners of private passenger cars and on the competitive position of the motor transportation industry are the specific elements of concern. Another factor merits attention wholly on grounds of expediency. Few if any states, regardless of equity or logic, can afford to impose taxes on any significant group of users that are revolutionary in terms of national or regional average burdens.

# History of Highway User Taxes in Nevada

Nevada entered the highway user tax field at an early date. The first automobile registration law was adopted in 1913 and motor fuels were subjected to taxation in 1923. While the early registration fee was nominal and related to horsepower, Nevada was one of the pioneers in the establishment of a graduated weight basis of licensing in 1919.

## Motor Fuels Tax

The initial legislation of 1923 provided for a 2¢ per gallon tax on gasoline to be administered by the State Tax Commission. Taxes paid on gasoline used in farm equipment, stationary engines, airplanes and boats, and dyeing and cleaning establishments were refundable upon application to the Secretary of State. The first $60,000 of receipts was reserved for use by the State, and the remainder was to be allocated to the counties. As in other states, a series of amendments followed in almost every biennium, increasing rates, changing the distribution of receipts, extending the scope of the definition of taxable fuel or altering exemption and administrative provisions.[4]

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[4]See Ira E. Gunn, Jr., The Tax Structure of Nevada (Reno: Nevada Taxpayers Association, 1955).

Rapidly expanding requirements of the State highway program as well as rural roads and city streets resulted in successive increases in rates and several changes in the distribution of revenues. The rate was raised to 4¢ per gallon in 1925, and 50 percent of the revenue was retained for State purposes. Four years later in 1929 all of the receipts, less refunds, were reserved for State use. Due to local pressures a temporary 1.5¢ tax was added for county purposes (to be shared with cities) in 1947. The counties, however, were given the right to reject this tax. In 1949, 0.5¢ of the 1.5¢ tax was made compulsory, and by the middle of that year all counties had approved the full 1.5¢ tax. The 1949 law also established a new basis of distributing the 0.5¢ tax within the county, and the State Airport Act of the same year reserved unrefunded aviation fuel tax collections for the State Airport Fund. In 1953 the 1.5¢ additional tax which had been retained on a temporary basis was made permanent, and in 1955 the State rate was increased to the present level of 4.5¢ per gallon.

The base of the original gasoline tax was extended in 1935 under a new law taxing the distribution and use of other motor fuels. In 1938, however, the Tax Commission reported that this act was unsatisfactory as a basis for taxing diesel fuel. The 1939 Legislature cooperated by passing a use fuel tax which was aimed primarily at diesel fuel, and provided for a 5¢ per gallon tax. The rate was increased to 5.5¢ in 1951, this legislation was superseded by a special fuels tax law applying to all types of special fuel in 1953; and the rate was raised to 6¢ in 1955 to correspond to that on motor vehicle fuel. While the Tax Commission in 1930 and 1934 had recommended the repeal of all refunds except on aviation fuel and sales to the federal government, the Legislature maintained the original policy of refunding the tax on all non-highway uses with minor adjustments. In 1951 the exemption of sales to the United States armed services was restricted; in 1955 sales to persons who purchased fuel for export were specifically exempted; and in 1957 persons purchasing and using fuel primarily for ranching and farming purposes were permitted a refund on 80 percent of their purchases of taxable fuel. A major change in administration was adopted in 1957, transferring administrative responsibility for both fuel taxes from the Tax Commission to the newly established Motor Vehicle Department. However, this provision did not take effect since the 1959 Legislature compromised the issue by leaving the motor vehicle fuels tax under the State Tax Commission and placing the special fuels tax under the Motor Vehicle Department.

## Registration Tax

Nevada's first motor vehicle registration law, as previously noted, was passed in 1913. This law was primarily a regulatory

measure.[5] The annual fee was nominal, 12.5¢ per horsepower; the act was to be administered by the Secretary of State; and all fees collected were to be transferred to a special "Automobile Road Fund." Four other general registration laws were adopted in the period from 1915 to 1931 inclusive, and there were a series of amendments in each succeeding biennium. Although it has been amended frequently, the 1931 act still provides the basic framework of registration tax policy.

The principal changes in policy from 1915 through 1931 are briefly summarized below:

1915 - A second general law was adopted providing for graduated fees on horsepower, non-resident vehicle licensing after a 30-day grace period, and reporting of all motor vehicles in their jurisdiction by the county assessors;

1917 - Fees collected were to be placed in The Highway Fund, except for 50¢ per vehicle to be retained by the Secretary of State for administrative purposes;

1919 - The basis of licensing was changed to unladen weight with two graduated scales, one for passenger cars and other light vehicles and one for trucks involving higher rates; and the fees collected were to be placed in the Highway Bond Redemption Fund;

1921 - A third general act was enacted which expanded the provisions of the earlier laws and gave non-resident tourists a 3-month grace period from payment of fees;

1923 - Maximum weight limits were established for trucks, and tourists were required to register their stay in the State without fee;

1925 - A more comprehensive basic law was adopted and the task of registering vehicles was transferred from the Secretary of State's office to the county assessors;

1931 - The fifth and final general registration act was adopted in 1931, which combined the previous registration law and the Uniform Vehicle Auto Theft Act, and added various special provisions including registrations for one-half year, the allocation of 50¢ from each registration for support of the Motor Vehicle Department, and the use of the remaining fees to (a) meet principal and interest requirements of the Highway Bond Fund and (b) any excess to be made available to the State Highway Department.

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[5]Nevada Legislative Counsel Bureau, Motor Vehicle Registration Procedures in Nevada, February, 1959.

Since 1931, thirty-nine amendatory laws were adopted. In 1933 private passenger cars were put on a flat fee basis. Rate increases were made in nearly every legislative session throughout the next decade and further rate adjustments were made in 1947 and 1955. The counties were authorized to retain 25¢ of each registration fee to help pay for the costs of registering vehicles for the first time in 1941; this amount was increased to $1.00 in 1949; was changed to 75¢ in 1951; and presently is again $1.00. Non-residents who accepted gainful employment in the State were required to register their vehicles immediately in 1941, but 14 years later all non-residents were permitted to operate their vehicles on out-of-state plates until they expired. In 1951 the Motor Vehicle Commissioner was authorized to enter into reciprocity agreements with other states on non-resident vehicle licensing. Finally, the Interstate Highway Users Fee Apportionment Act was passed in 1955.

Significant changes in the administration of motor vehicle legislation were made in 1949 and 1957. In the former year all motor vehicle functions were placed under the Public Service Commission. This arrangement resulted in growing criticism on the ground that the Commission was neglecting these aspects of its responsibility, and in 1957 a new Department of Motor Vehicles was established. This legislation and certain amendments in 1959 vest the following responsibilities in the Department of Motor Vehicles:

1. General control over registration procedures including a centralization of records, provisions for licensing by mail, the State assessment of the personal property tax on motor vehicles, and the creation of two State registration offices in Clark and Washoe counties;

2. Operation of the highway patrol and safety programs;

3. Administration of the special fuels tax and interstate carrier and operators licensing provisions; and

4. The maintenance and auditing of fiscal accounts related to the above functions.

It does not appear at this point that the entire vehicle registration process will be taken over by the State but the division of responsibility for administration of the motor vehicle fuels tax (Tax Commission) and the special fuels tax (Motor Vehicle Department) reflects a somewhat unusual policy compromise. It should also be noted that all revenues collected by the Department of Motor Vehicles go into the State Highway Fund, and the Legislature appropriates money from this fund to meet the administrative expenses of the Department.

## Special Taxes on Motor Carriers

Special license taxes on certain classes of "motor carriers" were instituted in 1933. In general, these taxes involve: a flat fee

for both power and trailed units; a graduated scale of rates based upon unladen weight for property carrying vehicles; and a flat and/or graduated fee related to seating capacity for carriers of passengers and light express. The special taxes apply primarily to intercity and for hire (common and contract) carriers of persons or property, and are substantially higher than those imposed on other vehicles not used for commercial purposes. In 1955 an optional mileage tax based upon power unit mileage was enacted for interstate carriers. This tax is in lieu of other carrier license and unladen weight fees. Graduated weight fees and certain other special fees were also increased by 10 percent in 1955. The administration of the carrier taxes was originally vested in the Public Service Commission, but was transferred to the newly created Motor Vehicle Department in 1957.

## Motor Fuels Taxes in Nevada

The special purpose of the motor fuels tax in the user tax system is to measure the relative use of highway and street facilities. As previously indicated, the extent of use is thought to be a major determinant of benefits as well as costs. Motor fuels in Nevada are divided into two categories for tax purposes--regular motor vehicle fuel (primarily gasoline) and special fuels which include diesel and certain other liquids such as liquefied petroleum gases. The two taxes applying to these classes of fuel are distinguished as the "motor vehicle fuels tax" and the "special fuels tax." This differentiation, although widely practiced, is not particularly meaningful. Apart from a limited number of states that impose somewhat higher rates on diesel fuel, tax rates as well as other substantive provisions of the laws are usually the same. The historical accident that the "special fuels" were developed at a later date and the fact that the administrative problems are somewhat different are the principal reasons for the special fuels tax approach.

It should be recognized that the motor fuels taxes, as presently applied in most jurisdictions including Nevada, have significant deficiencies. The broad assumption that gallonage of fuel consumed constitutes an accurate measure of highway or road use for all types and weights of vehicles is obviously not in accord with the facts. Secondly, the general practice of applying uniform rates regardless of the nature of vehicle use and types of fuel is questionable. And finally, the proportion of the costs of highway and road facilities recovered through the undifferentiated fuel taxes varies from one state to another, and is not based upon any objective determination of the actual costs attributable to use as opposed to weight factors.

Variations in the mileage per gallon for private passenger cars alone cover an extreme range, with the great majority of such vehicles falling within a 10 to 35 mile spread. In the case of trucks and other heavy vehicles miles per gallon decline sharply

as weight increases. In a given weight class for large trucks and buses, diesel fuel is generally much more economical than gasoline. The actual studies undertaken naturally involve some difference in specific results due to the varying conditions involved. However, the following data taken from the recent North Dakota incremental cost analysis are illustrative:[6]

| Type of Vehicle | Fuel | Gross weight (pounds) | Miles per gallon | Gallons per ton mile |
|---|---|---|---|---|
| Passenger Car | Gasoline | 3,000 | 16.6 | .0323 |
| Truck | Gasoline | 8,000 | 13.8 | .0284 |
| Truck | Gasoline | 24,000 | 7.2 | .0176 |
| Truck | Gasoline | 60,000 | 3.7 | .0111 |
| Truck | Diesel | 60,000 | 5.5 | .0074 |

The basic policy question raised by such evidence is whether a uniform rate policy for all types of users and different types of fuel is justifiable on any grounds. The fact that fuel consumption is greater for the heavier vehicles is believed to be indicative of the greater damage to the roads caused by such vehicles. However, recognition of this general relationship does not resolve the problem of equity. If the fuel tax is to be used as a basis of distributing costs attributable to weight and use, it obviously should be related to some reasonable overall measure of such costs. Also, the aggregate tax burden of each class of vehicle should be related to its total cost responsibility. As noted, the ton mile and incremental cost approaches are commonly thought to be the most acceptable methods of cost allocation. While the uniform rate fuel tax does involve a substantial differential burden based upon weight, fuel consumption and consequently the tax burden does not increase in relation to ton miles. Similar disparities, though to a lesser extent, are evident under the incremental cost measure of responsibility. The estimated distribution of the fuel tax burden in Nevada by classes of vehicles is shown in a later section of this chapter. In view of the obvious inadequacies of the fuel tax as a basis of allocating highly complex weight cost elements it appears inappropriate to employ the tax for this purpose. At the same time, it is obviously unfair to disregard the differential burden of the tax in terms of weight. The differential impact of the uniform rate tax in terms of the type of fuel used is another matter. Diesel-propelled vehicles, as well as those using certain other special fuels, presently enjoy a substantial tax advantage. The extent of the advantage as indicated by controlled use studies generally ranges from 25 to 50 percent, and a differential rate of about 1/3 more than that on regular fuel is indicated.[7]

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[6]North Dakota Cost Allocation Study, op. cit., p. 70.

[7]See Colorado State Highway Planning Committee, op. cit., pp. III-18 to III-23.

The best defense for a uniform tax on fuels is that it constitutes a highly effective or expedient instrument for enforcing a major portion of the highway users' tax responsibilities. Receipts have grown rapidly and are highly stable in terms of changes in the level of economic activity. This form of taxation is also relatively easy to administer, with the exception of the special fuels levy. The problem in the case of special fuels, particularly liquefied petroleum gases, is attributable to the fact that motor vehicle use is an infrequent and relatively unimportant element of total consumption. Finally, public psychology has been surprisingly favorable to the fuels taxes in spite of the rising burden involved.

## Base of Fuels Taxes in Nevada

The taxes on motor fuels and special fuels in Nevada are excises or privilege taxes on dealers, including manufacturers, distributors and importers, and in certain circumstances the users of such fuels. In a general sense both taxes apply to the sale, distribution or use of taxable fuels. "Motor vehicle fuel" is defined as "gasoline and any other inflammable or combustible liquid, by whatever name such liquid may be known or sold, the chief use of which in this state is as a fuel for the propulsion of motor vehicles; but neither kerosene, gas oil or fuel oil shall be considered as motor vehicle fuel."[8] In contrast, "special fuel" is defined as "all combustible gases and liquids suitable for the generation of power for the propulsion of motor vehicles except. . .motor vehicle fuel."[9] The statutes also include a blanket clause to catch any fuel used in motor vehicles not covered by the basic definitions, and more than 25 gallons of fuel imported into the state in the tank of a motor vehicle is taxable.[10] As noted, kerosene, gas oil and fuel oil are specifically excluded from the definition of motor vehicle fuel. However, if they are used to propel a motor vehicle on the highways they would be taxable under the blanket clause. The specific exclusions from the motor vehicle fuel tax are: (a) shipments of fuel in interstate or foreign commerce; (b) fuel exports by a dealer or sales by a dealer to a purchaser for export in bulk lots of 500 gallons or less; (c) fuel sold to the federal government for official use by the armed forces;[11] (d) fuel distributed or delivered to a bonded dealer; and (e) any fuel on which a Nevada excise tax already has been paid.

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[8] Nevada Revised Statutes, 365.060.

[9] Nevada Revised Statutes, 366.060.

[10] Nevada Revised Statutes, 365.200.

[11] Sales to the federal government for other uses are not excluded as the tax is technically on the dealer.

By definition and specific provisions it is clear that the motor vehicle fuel tax in Nevada does not apply to fuels used for purposes other than the propulsion of motor vehicles on the highways. Non-highway uses of fuel are either exempt or if a tax is paid the tax is refundable to the purchaser. As the motor vehicle fuel tax is legally imposed upon the dealer it would appear that he has the option of claiming an exempt sale for non-highway uses or collecting the tax and letting the buyer apply for a refund. In actual practice, however, the normal procedure is to collect the tax and thus put the responsibility for obtaining a refund upon the buyer or user. Under a 1957 amendment, farmers and ranchers using fuel primarily for such purposes are entitled to a refund on 80 percent of their total purchases.

The special fuels tax specifically exempts sales or use of fuel for non-highway purposes, and sales to federal, state or local governments. Although it is not stated specifically in the law, the intent and effect is to also exempt use by governmental units. Use by federal agencies or instrumentalities engaged in regular governmental activities would not be taxable in any event by virtue of the intergovernmental immunity principle. As the liability for payment of the special fuels tax is on the purchaser or user, unless they are unlicensed, the exemption procedure ordinarily applies. If the user is unlicensed, however, the dealer is responsible for collection and payment on taxable uses. The exclusions noted with respect to motor fuel presumably also apply to special fuel.

All claims for refund under either of the fuels taxes must be accompanied by supporting evidence including affidavits, invoices, statements, tax exemption certificates or exportation certificates. Under the blanket provision concerning farm and ranch use it is not necessary to establish the proportion of non-highway use. The claim must be filed within three months in the case of exports and six months in all other instances. If taxes, interest or penalties are illegally or through error paid or collected on special fuel, the taxpayer is given two years to file a claim for refund. As previously noted, the occasion for collection or payment of a tax on non-highway uses of special fuels normally does not arise.

The motor vehicle fuel tax is imposed upon the gallonage of fuel sold, distributed or used by the dealer within the State less the amount exempted and a special dealer's allowance. The allowance is 2 percent of the tax paid, and is to compensate the dealer for the cost of compliance and fuel losses occasioned by evaporation, spillage or other similar causes. This allowance is not available to licensed users of special fuels.

## Comparison of Tax Base in Nevada and Other States

Nevada's policy of granting full exemption or refund rights for all non-highway uses of fuel is in conformity with the special

user theory of the tax as well as the practice of a substantial minority of the states. In the early period of development of the tax this policy was almost universal, but during the last 25 years there has been a growing trend to limit or deny the privilege in the case of certain non-highway uses.[12] With respect to all major uses, 21 jurisdictions still extend exemption or refund privileges. Farm use is exempt in 32 states; construction, commercial or industrial use (in most cases all three) are fully exempt in 30 jurisdictions; and aviation fuel is exempt in 27 states. The policies on refunds and exemptions take several forms including full taxation of all non-highway uses; full taxation of specified uses; denial of exemption or refund on a portion of the tax (often 1¢ per gallon); and taxation of certain uses within a broad use category. For practical purposes two states, Utah and Vermont, tax all significant non-highway uses. Full taxation of specified uses is practiced in 14 states; and fractional taxation of all or specified uses is found in 14 jurisdictions. It should be noted that some of the categories used in describing present practice are overlapping. In general there appears to be a trend among the states to deny in whole or in part the refund or exemption privilege on non-highway uses. The policies of the majority of the Western States conform with those of Nevada. Five states--Arizona, California, Colorado, New Mexico and Washington--exclude all non-highway uses, and two others--Montana and Oregon--only deny a refund of 1¢ of the tax on aviation fuel. The practices of Idaho, Utah and Wyoming, which deny or substantially restrict the scope of such exemptions, represent the exceptions rather than the general rule in this region.

The policy issues involved in the tax treatment of non-highway uses of motor fuel reflect a conflict between theory and equity, on the one hand, and revenue and administrative practicality, on the other. Taxation of such uses increases tax yields, and at the same time eliminates the serious administrative problem of checking and controlling tax refunds. In defense of the practice it is also suggested that the refundable uses are relatively inconsequential; that the costs of preventing evasion are virtually prohibitive; and that the special user tax approach involves other imperfections in addition to the fact that it falls short of meeting the total costs of highways and streets. On the other hand, proponents of exemption contend that non-highway uses are not relatively inconsequential and, therefore, the impact of the tax upon such users should not be disregarded. For example, the uses in question quantitatively average about 5 percent of total consumption in Nevada.[13] And the inequity occasioned by such a policy of taxation is the major concern. Moreover, while it is impossible to achieve perfection in the structure

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[12]Data on existing practice were compiled from Commerce Clearing House, State Tax Guide: All States; and State Tax Reporter, October, 1959.

[13]See Table 8.11.

and application of any tax, the objective of sound public policy is to eliminate or reduce elements of inequity, not to introduce new ones. It is on these grounds that the taxation of non-highway uses of motor fuel is believed to be untenable. Furthermore, the practicality of effective control of the refund problem has been demonstrated. While substantial administrative outlays are required, the total cost of fuel tax enforcement is still relatively low compared to that of other major taxes.

## Rates of Fuels Taxes in Nevada and Other States

Motor vehicle fuel and special fuels are subject to a 6¢ per gallon rate in Nevada. However, the rate on motor fuel is broken down into three parts, 4.5¢ for State purposes and additional taxes of 0.5¢ and 1¢ for county and municipal purposes. Of the combined rate of 1.5¢ for local use 0.5¢ is compulsory and the 1¢ is optional in that the county government may by resolution determine not to impose it. As all counties are using the full 1.5¢ rate the privilege noted is of little practical import. The 6¢ per gallon tax on aviation fuel in Nevada, which is refundable is separately reported as any unrefunded tax goes into the State Airport Fund. Nevada does not impose a differential tax on diesel or other special fuels. The rate policies of all of the states as of January, 1960, are shown in Table 8.4. The most commonly used rate is 6¢ per gallon, which is employed by Nevada and 18 other states and the second most popular rate is 7¢ which is found in 13 jurisdictions, mainly in the South. A 5¢ rate is still used in 10 states. It will be noted that there are 18 states with a rate above 6¢ and only 11 below. The Western States generally impose a 6¢ tax although Arizona, Washington and Wyoming are exceptions. There has been a sharp rise in motor fuel tax rates during the last decade and a half--32 states raised rates from 1945 to 1951, and 35 enacted increases from 1951 through 1959. Only two states, Oklahoma and Pennsylvania, have allowed temporary increases to expire during this period. It will also be noted that two states, Kentucky and Virginia, levy an additional tax of 2¢ per gallon on fuel used by certain types of commercial carriers. This practice reflects the application of a weight-distance or incremental cost measure of relative responsibility which generally leads to higher taxes on the heavier classes of vehicles. Another distinctive practice is found in seven jurisdictions which use a lower than standard rate on aviation fuel. With regard to diesel and certain types of special fuel, eleven states currently levy a higher differential rate which ranges from 1¢ to 3¢ per gallon. Only two of these states, California and Wyoming, are in the Western region. The justification for a differential tax is based upon the greater mileage obtained from diesel and other special fuels. Available evidence indicates a typical fuel saving of from 30 to 50 percent, but there is considerable variation depending upon vehicle type, weight and other factors. If Nevada should adopt a 2¢ differential on diesel fuel, on top of the existing regular rate of 6¢ per gallon, it is estimated the higher rate would increase revenues from special fuels by about one-third, or by approximately $360,000.

Table 8.4

State Motor and Special Fuel Tax Rates
January, 1960

| Rates per gallon gasoline:[a] | Number of states | States |
|---|---|---|
| 7.0¢ | 13 | Alabama, Florida, Kentucky,[b] Louisiana, Maine, Mississippi, Nebraska,[c] New Hampshire,[c] North Carolina, Ohio, South Carolina, Tennessee, West Virginia |
| 6.58¢ | 1 | Oklahoma |
| 6.5¢ | 4 | Arkansas, Georgia, Vermont,[d] Washington |
| 6.0¢ | 19 | California, Colorado, Connecticut, Idaho,[c] Indiana, Iowa, Maryland, Michigan,[c] Montana, Nevada, New Mexico, New York, North Dakota, Oregon, Rhode Island, South Dakota,[c] Utah, Virginia,[b] Wisconsin |
| 5.5¢ | 1 | Massachusetts |
| 5.0¢ | 10 | Alaska, Arizona, Delaware, Illinois, Kansas, Minnesota,[c] New Jersey, Pennsylvania,[c] Texas, Wyoming |
| Differential diesel and other fuels | | |
| 9.0¢ | 2 | Montana, New York |
| 8.0¢ | 2 | Mississippi, Virginia |
| 7.0¢ | 5 | California, Iowa, Kansas, South Dakota, Wyoming |
| 6.5¢ | 1 | Texas |
| 6.0¢ | 1 | Pennsylvania |

[a]Unless indicated otherwise, diesel and other fuel rates same as gasoline.
[b]Additional 2¢ tax on use by commercial carriers.
[c]Lower rate on aviation fuel.
[d]Kerosene and diesel fuel not subject to tax.

Source: Commerce Clearing House, State Tax Guide: All States, January, 1960.

## State Motor and Special Fuel Tax Receipts

The overall picture of motor and special fuel tax collections in Nevada is complicated by several factors. Starting in 1947 the tax collections for county purposes were segregated from the State, and beginning in 1949 use or special fuels collections were separately recorded. To avoid confusion State collections from both types of fuel are considered, followed by detailed breakdowns of the gross receipts, refunds and net collections for the State and local levies. As unrefunded taxes on aviation fuel go into the special State Airport Fund the detail on this portion of the motor fuel tax receipts is also shown separately.

State motor and special fuel tax collections are shown in Table 8.5. Net collections have increased rapidly and continuously, except for a brief period of decline during World War II. During the first decade while rates doubled, revenues increased almost seven-fold. From 1933 to the first post-war year they approximately tripled, amounting to more than $2.1 million in 1946. Since then collections from this source again more than tripled, and by 1959 they exceeded $6.7 million. This remarkable rate of growth, of course, is attributable primarily to the tremendous nation-wide expansion in the number of vehicles and miles traveled. The tax rate of 4¢ per gallon adopted in 1925 was not raised until 1955 and then by only 0.5¢ per gallon. The use and special fuels taxes have played a minor, but significant role in the overall development. Receipts from these sources have grown rapidly since 1946, reaching a peak of over $1 million in 1959, or 16 percent of total fuels tax collections for that year.

The percentage significance of the fuels taxes in the State's total tax structure has fluctuated largely as a result of World War II and basic changes in the State's overall tax program. Prior to the war fuels tax collections reached a peak of 38 percent of total tax receipts in 1939. They fell during the war years because of the severe restrictions imposed on automobile travel, but in the first post-war year of 1946 they attained an all time high of 40 percent of total tax revenues. From 1948 to 1955 they ranged from 28.3 to 31.2 percent, and since the passage of the State retail sales tax in 1955 have averaged about 18 percent of total State tax collections. Apart from further increases in the tax rate, it may be anticipated that this position will be maintained.

Gross motor fuel tax collections and cash refunds are shown in Table 8.6. It will be noted that refunds reached an early peak of 16 percent of gross collections in 1932; declined to less than 6 percent in 1937; and reached a high of 17 percent in 1943. Since then they have declined steadily reaching an all time low of 4 percent in 1959. The reasons for the extreme range of variation are not readily apparent, although several factors have undoubtedly played a significant part. In the depression period a sharp decline in taxable use, particularly tourist travel, was a major influence. During the

Table 8.5

Nevada State Motor Fuel, Use and Special Fuel Tax Collections, 1923-1959

| Year[a] | Net motor fuel tax collections[b] | Gross use and special fuel tax collections[c] | Total motor, use and special fuel tax collections | Fuel tax collections as percent of total state tax collections[d] |
|---|---|---|---|---|
| 1923 | $ 104,995 | | $ 104,995 | |
| 1924 | 154,515 | | 154,515 | |
| 1925 | 301,488 | | 301,488 | |
| 1926 | 400,843 | | 400,843 | |
| 1927 | n.a. | | n.a. | |
| 1928 | n.a. | | n.a. | |
| 1929 | 652,301 | | 652,301 | |
| 1930 | 675,012 | | 675,012 | |
| 1931 | 777,918 | | 777,918 | |
| 1932 | 727,117 | | 727,117 | |
| 1933 | 695,654 | | 695,654 | |
| 1934 | 894,192 | | 894,192 | |
| 1935 | 961,838 | | 961,838 | |
| 1936 | 1,096,787 | | 1,096,787 | |
| 1937 | 1,182,691 | | 1,182,691 | |
| 1938 | 1,198,325 | | 1,198,325 | |
| 1939 | 1,289,797 | $ 65,172 | 1,354,969 | 38.1 |
| 1940 | 1,397,638 | 90,799 | 1,488,437 | 32.5 |
| 1941 | 1,597,250 | 109,684 | 1,706,934 | - |
| 1942 | 1,506,491 | 133,893 | 1,640,384 | 35.3 |
| 1943 | 1,085,543 | 131,473 | 1,217,016 | - |
| 1944 | 1,001,840 | 145,282 | 1,147,122 | 25.5 |
| 1945 | 1,343,427 | 115,730 | 1,459,157 | - |
| 1946 | 1,996,386 | 154,278 | 2,150,664 | 40.0 |
| 1947 | 2,193,905 | 185,539 | 2,379,444 | - |
| 1948 | 2,284,549 | 229,735 | 2,514,284 | 28.8 |
| 1949 | 2,358,168 | 256,471 | 2,614,639 | 29.8 |
| 1950 | 2,673,187 | 331,602 | 3,004,789 | 30.7 |
| 1951 | 2,803,964 | 472,463 | 3,276,427 | 28.3 |
| 1952 | 3,303,588 | 576,397 | 3,879,985 | 30.8 |
| 1953 | 3,724,496 | 727,793 | 4,452,289 | 30.2 |
| 1954 | 3,894,609 | 793,933 | 4,688,542 | 29.9 |
| 1955 | 4,748,235 | 867,452 | 5,615,687 | 31.2 |
| 1956 | 2,164,472 | 437,471 | 2,601,943 | - |
| 1957 | 5,086,472 | 991,615 | 6,078,087 | 18.3 |
| 1958 | 5,338,271 | 1,065,514 | 6,403,785 | 18.2 |
| 1959 | 5,655,069 | 1,085,358 | 6,740,427 | 18.5 |

[a]Calendar years 1923-1955 inclusive; 1956, one-half year, January 1 to June 30; and fiscal years, July 1 to June 30, thereafter.
[b]After refunds for non-highway use.
[c]Tax on use of fuels other than gasoline was called the use fuel tax through 1954, and the special fuels tax in later years.
[d]Census data on total tax collections are employed for the period from 1939-1948 inclusive, and tax and license receipts for the later years compiled from Annual Report of the State Controller, 1949-1959.

Source: Nevada State Tax Commission, Annual Reports, 1923-1959.

Table 8.6

Nevada State Motor Fuel Tax Collections and Refunds, 1923-1959

| Year[a] | Gross collections | Refunds | Refunds as percent of gross collections |
|---|---|---|---|
| 1923 | $ 110,081 | $ 5,086 | 4.6 |
| 1924 | 162,596 | 8,081 | 5.0 |
| 1925 | 318,217 | 16,729 | 5.3 |
| 1926 | 428,744 | 27,901 | 6.5 |
| 1927 | n.a. | n.a. | - |
| 1928 | n.a. | n.a. | - |
| 1929 | 712,507 | 60,206 | 8.5 |
| 1930 | 744,616 | 69,604 | 9.4 |
| 1931 | 905,534 | 127,616 | 14.1 |
| 1932 | 868,091 | 140,974 | 16.2 |
| 1933 | 825,177 | 129,523 | 15.7 |
| 1934 | 988,284 | 94,092 | 9.5 |
| 1935 | 1,048,355 | 86,517 | 8.3 |
| 1936 | 1,182,611 | 85,824 | 7.3 |
| 1937 | 1,253,386 | 70,695 | 5.6 |
| 1938 | 1,275,394 | 77,069 | 6.0 |
| 1939 | 1,384,584 | 94,787 | 6.9 |
| 1940 | 1,501,736 | 104,098 | 6.9 |
| 1941 | 1,721,584 | 124,334 | 7.2 |
| 1942 | 1,732,031 | 225,540 | 13.0 |
| 1943 | 1,307,810 | 222,267 | 17.0 |
| 1944 | 1,167,294 | 165,454 | 14.2 |
| 1945 | 1,496,528 | 153,101 | 10.2 |
| 1946 | 2,159,131 | 162,745 | 7.5 |
| 1947 | 2,370,311 | 176,406 | 7.4 |
| 1948 | 2,490,246 | 205,697 | 8.3 |
| 1949 | 2,537,662 | 179,494 | 7.1 |
| 1950 | 2,824,657 | 151,470 | 5.4 |
| 1951 | 2,294,962 | 170,998 | 7.5 |
| 1952[b] | 3,517,563 | 213,975 | 6.1 |
| 1953 | 3,932,315 | 207,819 | 5.3 |
| 1954 | 4,112,707 | 218,098 | 5.3 |
| 1955 | 4,974,633 | 226,398 | 4.6 |
| 1956 | 2,267,715 | 103,243 | 4.6 |
| 1957 | 5,329,021 | 242,549 | 4.6 |
| 1958 | 5,622,143 | 283,872 | 5.1 |
| 1959 | 5,879,886 | 224,818 | 4.0 |

[a]Calendar years 1923-1955 inclusive; 1956, one-half year January 1 to June 30; and fiscal years, July 1 to June 30, thereafter.

[b]Figures for 1952 reflect a change in accounting procedure from a basis of use to a basis of collection.

Source: Nevada State Tax Commission, Annual Reports, 1923-1959.

war the decrease in taxable uses would also account for at least part of the percentage rise in refunds. The drop in the refund ratio in 1959 is attributable primarily to the fact that most of the avaiation fuel for the last six months of the fiscal year was handled on an exemption basis.

The present level of cash refunds in Nevada is relatively low compared to refunds in other states which average around 7 percent. For example, in Colorado the present ratio of refunds to gross collections is about 11 percent, and this does not include the bulk of aviation fuel which is handled through the exemption procedure. The exclusion of non-highway uses of motor fuel either through exemption or refund procedures presents a clear-cut policy issue. The question as previously indicated is one of equity versus revenue. Exemption of sales of fuel to the federal government is dictated by constitutional immunity. The same practice with respect to state and local government use is a matter of policy. There is obviously no theoretical justification for extending the scope of the motor fuels tax to non-highway uses. The special use or benefit relationship provides the sole justification for a tax of such magnitude upon this product. The fact that non-taxation of other uses creates certain administrative problems and that there is some evasion does not alter the theoretical relationships involved. As noted, refunds in Nevada currently amount to about 4 percent of gross collections and it is estimated that the non-highway uses handled through the exemption procedure added to this figure means a total loss of State revenue of not more than 6 percent of gross motor fuel collections, or about $350,000 for the fiscal year 1959.

The percentage distribution of the motor fuel tax refunds, classified by type of use for selected years from 1933 through 1959, is shown in Table 8.7. With reference to the current situation farming accounted for almost 60 percent of all refunds, aviation ranked second with 16.4 percent, contractors third with 6.6 percent, and mining fourth with 6.5 percent. Other specified uses accounted for about 1 percent, and miscellaneous refunds totaled nearly 10 percent. Over the period indicated the percentage significance of the different uses subject to refund has fluctuated to an extreme degree. During the pre-World War II era, farm and ranch use refunds rose from 5.5 percent in 1933 to about 21 percent in 1941. Following the war they increased sharply to almost 50 percent in 1951 and then declined to a low of 31 percent in 1957. The marked rise in 1959 is attributable in part to the new provision permitting farmers and ranchers to obtain a blanket refund on 80 percent of their motor fuel purchases. Aviation fuel refunds reached a peak of 46 percent in 1945; declined sharply in the early post-war period; climbed to 40 percent in 1957; and then dropped to 16 percent in 1959. It will be noted that these changes were generally the reverse of those encountered on agricultural refunds, and were directly influenced thereby. Refunds to contractors also have been highly unstable, with peaks experienced during the Great Depression, World War II, and the

Table 8.7

Percentage Distribution of Motor Fuel Tax Refunds by Type of Use, Selected Years, 1933-1959

| Year | Farming | Aviation | Contractors | Mining | Light Plants & Commercial | Rails | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|
| 1933 | 5.5 | 21.0 | 56.8 | 9.0 | 4.5 | 2.3 | 1.0 | 100.0 |
| 1935 | 8.0 | 22.3 | 30.6 | 21.0 | 12.2 | 2.2 | 2.9[a] | 100.0 |
| 1937 | 19.0 | 16.8 | 7.0 | 38.4 | 14.0 | 3.1 | 1.9[a] | 100.0 |
| 1939 | 20.8 | 25.5 | 5.8 | 34.7 | 7.3 | 2.1 | 3.9[a] | 100.0 |
| 1941 | 20.9 | 26.5 | 10.1 | 31.6 | 4.6 | 1.4 | 5.0[a] | 100.0 |
| 1943 | 11.3 | 26.1 | 47.8 | 9.8 | 2.4 | 1.3 | 1.4[a] | 100.0 |
| 1945 | 25.0 | 46.3 | 13.4 | 11.0 | 1.9 | 0.8 | 1.6 | 100.0 |
| 1947 | 34.9 | 37.3 | 12.5 | 10.2 | 2.2 | 0.2 | 2.7 | 100.0 |
| 1949 | 46.7 | 21.8 | 11.4 | 10.4 | 1.7 | 0.3 | 7.7 | 100.0 |
| 1951 | 49.5 | 20.3 | 10.8 | 8.2 | 2.5 | 0.1 | 8.7 | 100.0 |
| 1953 | 44.6 | 17.9 | 19.7 | 9.1 | 0.8 | 0.1 | 7.9 | 100.0 |
| 1955 | 34.3 | 34.6 | 14.8 | 8.1 | 0.3 | 0.1 | 7.9 | 100.0 |
| 1957 | 30.9 | 40.1 | 11.2 | 7.2 | 4.0 | 0.1 | 6.5 | 100.0 |
| 1959 | 59.8 | 16.4 | 6.6 | 6.5 | 0.9 | 0.1 | 9.7 | 100.0 |

[a]"Export" and "Federal" categories added.

Source: Nevada State Tax Commission, Annual Reports, 1933-1959.

Korean conflict. Mining refunds have generally decreased throughout the period, reflecting in part the decline of mining activity since the late 1930's. Finally, it is apparent that refunds on non-highway uses of motor fuel obviously do not involve a major erosion of the fuel tax base in Nevada. Inclusion of all exempted uses of motor fuel would substantially increase the existing ratio, but it would still be low in relation to the experience of other states that exclude all non-highway uses. This situation must be attributed to a much higher basic ratio of taxable use, which in turn is a reflection of heavy out-of-state travel on the State's major highways and the distinctive nature of the Nevada economy.

## County Motor Fuel Tax Collections and Refunds

Of the 6¢ per gallon tax on motor fuel in Nevada, as noted, 1.5¢ is levied for county and other local government purposes. Tax collections and refunds since the adoption of the county rate in 1947 are shown in Table 8.8. Net receipts grew rapidly in the first four years as more of the counties accepted the tax, reaching a level of $922,000 in 1950 when it was universally applied. Since then county yields have doubled, to almost $2.0 million, following the upward trend of the State tax yields. Gross collections are credited to the

Table 8.8

County Motor Fuel Tax Collections and Refunds, 1947-1959

| Year[a] | Gross collections | Refunds | Net collections | Refunds as percent of gross collections |
|---|---|---|---|---|
| 1947[b] | $ 163,779 | $12,449 | $ 151,330 | 7.6 |
| 1948[c] | 351,912 | 34,988 | 316,924 | 9.9 |
| 1949[d] | 650,249 | 41,746 | 608,503 | 6.4 |
| 1950 | 978,868 | 57,788 | 922,080 | 5.9 |
| 1951 | 1,113,754 | 65,147 | 1,048,607 | 5.9 |
| 1952 | 1,253,128 | 80,240 | 1,172,888 | 6.4 |
| 1953 | 1,474,602 | 78,235 | 1,396,367 | 5.3 |
| 1954 | 1,542,281 | 81,786 | 1,460,495 | 5.3 |
| 1955 | 1,710,954 | 82,581 | 1,628,373 | 4.8 |
| 1956 | 757,139 | 34,608 | 722,531 | 4.6 |
| 1957 | 1,776,312 | 80,850 | 1,695,462 | 4.6 |
| 1958 | 1,872,107 | 94,631 | 1,777,475 | 5.1 |
| 1959 | 1,959,891 | 74,956 | 1,884,936 | 3.8 |

[a]Calendar years 1947-1955 inclusive; 1956, one-half year January 1, to June 30; and fiscal years, July 1, to June 30, thereafter.
[b]One-half year - five counties: Churchill, Douglas, Lincoln, Mineral and Washoe.
[c]Six counties: Churchill, Douglas, Lincoln, Mineral, Pershing and Washoe.
[d]Same six counties, January 1, to July 31, 1949; 17 counties thereafter.

Source: Nevada Tax Commission, Annual Reports, 1947-1959.

county in which the sales are made, and refunds for non-highway use are handled on an individual county basis. The proportion of refunds to gross collections on a State-wide basis has not been stable, ranging from 6.4 percent in 1949 to 3.8 percent in 1959. Moreover, there also are extreme variations in the refund ratios among the counties.[14] In the fiscal year 1959 they ranged from zero in Storey county to nearly 12 percent in Churchill and Lyon counties. Clark and Washoe counties, which are the most populous, refunded 1.7 and 2.1 percent, respectively, of gross collections. The county variations, of course, are attributable primarily to differences in their basic economic activities.

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[14]Nevada Tax Commission, Annual Report, 1958-1959.

## Aviation Fuel Tax Collections in Nevada

The full 6¢ per gallon rate is collected on aviation fuel in Nevada unless the exemption procedure is employed. While the tax is refundable, gross collections are credited to the State Airport Fund and the unrefundable portion remains in this Fund. Collections and refunds are shown in Table 8.9. Gross collections reached a peak of

Table 8.9

Nevada Fuel Tax Collections and Refunds on Aviation Fuel, 1949-1959

| Year[a] | Gross collections[b] | Cash refunds | Net collections | Refunds as percent of gross collections |
|---|---|---|---|---|
| 1949 | $ 45,074 | $ 23,349 | $21,725 | 51.8 |
| 1950 | 105,848 | 91,207 | 14,641 | 86.2 |
| 1951 | 83,194 | 59,428 | 23,766 | 71.4 |
| 1952 | 79,866 | 58,787 | 21,079 | 73.6 |
| 1953 | 100,415 | 62,299 | 38,116 | 62.0 |
| 1954 | 148,393 | 127,740 | 20,653 | 86.1 |
| 1955 | 195,486 | 163,686 | 31,800 | 83.7 |
| 1956 | 120,149 | 83,979 | 36,170 | 69.9 |
| 1957 | 226,847 | 217,015 | 9,832 | 95.7 |
| 1958 | 141,805 | 82,666 | 59,139 | 58.3 |
| 1959 | 134,457 | 58,789 | 75,668 | 43.7 |

[a]Calendar years 1949-1955 inclusive; 1956, one-half year January 1 to June 30; and fiscal years, July 1 to June 30, thereafter.
[b]Set up as State Airport Fund and transferred from State and County Gasoline tax collections.

Source: Nevada Tax Commission, Annual Reports, 1949-1959.

about $227,000 in 1957 and dropped off to $134,000 in 1959. The proportion refunded generally exceeded two-thirds of the gross tax until 1959. In that year refunds fell to 44 percent of collections, and there was a net credit of nearly $76,000 to the Airport Fund. Thus, it is evident that some of the principal users have decided to forego the refund in view of the policy of earmarking receipts for airport purposes.

## Economic Impact of Motor Fuels Tax on Individual Users

The general public acceptance of the fuel tax as a method of highway financing has apparently led to an attitude of indifference concerning its economic effects upon the individual owners of private passenger cars. While there are no specific data showing the impact

of the fuel tax on the incomes of non-business or individual users, it appears that the flat rate tax has some regressive effect. The results of a California study on the distribution of excise taxes indicated a percentage burden of 0.77 on the under $1,000 income category as compared with 0.72 for those families with annual incomes of $10,000 or more.[15] The burden increased to 1.08 percent on the $3,000 to $4,000 income group, and declined thereafter. Thus, the decreased mileage obtained by heavier cars, greater mileage traveled and ownership of two or three cars commonly associated with rising incomes were not sufficient to offset the higher income factor. Regression was most marked when the medium low income groups were compared with the high income groups. The importance of the fuel tax burden to the typical $5,000 per year income family may be simply illustrated. Such a family normally drives about 10,000 miles per year and pays about $50 fuel tax to the state and $25 to the federal government. This burden may be compared with an estimated state sales tax payment of $68 for the $5,000 to $6,000 income group. Of course, the situation in Nevada is unusual because of the high degree of tourism. Based upon estimates made in the Section 210 Study of highway user taxes by the Highway Planning Survey for the U. S. Bureau of Public Roads in 1956, it appears that about 40 percent of the fuels taxes paid by the private passenger car group was contributed by non-resident owners.[16] Nevertheless, the above regressive tax effect discerned in California probably applies to resident consumption of motor fuels in Nevada. In light of this relationship and the rising rates of federal and state gasoline taxes further attention should be directed to the specific effects of the motor fuels tax on low and medium income groups.

## Motor Vehicle Registration and License Fees in Nevada

The broad purposes of the vehicle registration tax as an element of the special highway user tax structure were considered in an earlier connection. Other than the traditional object of identifying vehicles and vehicle ownership, its principal functions today are to measure the "readiness to serve" aspect of costs and the relative damage to facilities by the different types of vehicles. Weight and its distribution by axles or tire surface are considered to be the chief differential factors, and graduated taxes in relation to weight are the general rule. Registration taxes also are differentiated on the basis of economic use, i.e., commercial (for hire), other private and public. This end, though not associated with the basic purpose of measuring cost responsibility, is incorporated in

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[15] W. H. Hickman, Distribution of the Burden of California Sales and Other Excise Taxes (Sacramento: State Board of Equalization, 1958), p. 13.

[16] An even higher percentage is indicated by the basic data obtained for the published report, Nevada Out of State Visitor Survey, 1958, Nevada Department of Highways Planning Survey, and some increase has probably occurred as a result of greater tourist travel.

all state registration and carrier tax systems. It involves the social judgment that those using public facilities to realize a profit should pay an additional tax for the privilege. The additional burden has also been interpreted as an attempt to equalize in part the motor carriers' competitive advantage of having a roadbed provided at public expense. While this argument calls for the inclusion of all types of business and income-earning uses, in actual practice the higher tax is imposed (with minor exceptions) only on common and contract carriers. A further common departure is to provide farm trucks favored treatment over other private carriers. Differential use factors cannot be the justification for these discrepancies as there is no measure of use involved in the typical registration tax structure. The value of the vehicle is also often reflected in registration tax practice, particularly with respect to private passenger cars. This element obviously is not related to the special benefit goals of the tax. In some states, however, the registration charge may also include a property tax equivalent, and in this instance a value or age factor makes sense. Collection of the property tax as a separate charge at the time of registration, as authorized under the new vehicle registration law in Nevada, is a commonly used and effective method of collecting the property levy.

## Specific Bases of Registration Tax

The specific bases for registering motor vehicles vary as to type of vehicle, vehicle use and user categories. In considering the bases of registration in Nevada and other states, three broad classes of vehicles are generally distinguished: private passenger cars, trucks and buses. Net weight is most widely used by the states as a basis for the registration of private passenger cars, with three or more categories normally employed. However, an increasing number of jurisdictions, including Nevada, are using a uniform flat fee on the ground that the differential in weight for such vehicles is not sufficient to be meaningful from the standpoint of cost responsibility. This basis also simplifies administration and record-keeping. Other bases employed include horsepower, which is not a reliable indicator of weight, and combinations of weight and age or value. Either the present flat fee basis or net weight are considered to be the preferred bases of registration for these vehicles.

Nevada licenses all intercity common, contract and certain private carriers of property on an unladen weight basis plus a flat fee. In addition, these vehicles also pay the regular registration fees. Interstate carriers, however, have the option of paying a mileage tax. The exceptions in the case of private carriers are persons who operate vehicles to carry their own property, and this includes farmers, owners of mines, construction companies moving their own equipment and others where the unladen weight of the vehicle does not exceed 10,000 pounds. In these instances a flat fee is employed. In addition to Nevada, fifteen other states use net

weight as the basis for licensing, but the most widely used basis for the nation is gross weight which is utilized by twenty-eight states. The gross weight factor is variously defined as empty weight plus a maximum load or an assumed average load. This basis is generally preferred since combined vehicle and load are more indicative of cost responsibility. Rated capacity is still employed in a few jurisdictions, although it bears little relationship to actual capacity or loads carried.

Nevada licenses trailers and semi-trailers independently and this is the usual practice in the states using a net weight factor. The gross-weight jurisdictions ordinarily license combinations as single operating units, which is a logical application of the vehicle and load factor. Different bases are sometimes employed in registering farm trucks and/or light trucks with a view to imposing a lower tax burden. This practice is followed by Nevada and 23 other states. A lower tax is also imposed by some 20 states on intra-city vehicles. If the registration tax is to serve the basic function of measuring relative damage or cost responsibility, gross weight per axle is clearly the most appropriate basis of licensing medium or heavy weight trucks. Similarly, combinations should be registered as units rather than by their component parts. In the case of panel and pick-up trucks load is not a highly significant factor, though a uniform base for these and other property-carrying vehicles is desirable. Differential bases of registering trucks (other than panel or pick-up) are discriminatory, and should be avoided. The unladen weight factor used by Nevada overlooks the highly important load element, either actual or average, which is not necessarily proportional to empty vehicle weights. Thus, there is a serious deficiency in the Nevada registration base for such vehicles.

Common and contract carrier buses in Nevada pay the regular passenger car registration fee plus a flat license and an additional charge per seat. This is not in accord with the practices of the majority of other jurisdictions. Nineteen states use a gross weight basis; five states use a combination factor; thirteen, other than Nevada, use seating capacity; eleven use net weight; and only one relies on maximum weight. It is apparent that the Nevada approach to the registration of buses does not adequately reflect weight, particularly the empty weight of the vehicle.

## Registration Tax Rate Schedules

Registration tax rate schedules are highly complex in most jurisdictions and differ widely from one state to another. Variations in basic categories of vehicles and extreme differentials in rates make interstate comparisons difficult, as is evident when an attempt is made to compare the Nevada, California and Utah schedules as shown in Tables 8.10, 8.11 and 8.12, respectively. Private passenger cars in Nevada pay a flat fee of $5.50 which is moderate in

Table 8.10

Nevada Registration Tax Rates, January, 1960

| Class of Vehicle | Rate Charged |
|---|---|
| **A. Registration Fees** | |
| Private passenger cars - not for hire | $ 5.50 |
| Other - all uses | |
| Trucks and trailers - less than 3,900 lbs. unladen | 5.50 |
| Truck trailers, tractors and semi-trailers per 100 lbs. unladen weight | .50 |
| House trailers - used on highways | 5.50 |
| Trailers - 1,000 lbs. or less unladen weight | 2.50 |
| **B. Additional Carrier Licenses and Fees** | |
| Motor carriers of property (intercity common, contract and certain private carriers)[a] | 20.00 |
| Per 100 lbs. unladen weight:[b] | |
| up to 5,000 lbs. | 1.65 |
| 5,001 to 10,000 lbs. | 1.71 |
| 10,001 to 11,000 lbs. | 1.76 |
| 11,001 to 12,000 lbs. | 1.82 |
| 12,001 to 13,000 lbs. | 1.87 |
| 13,001 to 14,000 lbs. | 1.93 |
| 14,001 to 15,000 lbs. | 1.98 |
| 15,001 to 16,000 lbs. | 2.04 |
| 16,001 to 17,000 lbs. | 2.09 |
| 17,001 to 18,000 lbs. | 2.15 |
| 18,001 to 19,000 lbs. | 2.20 |
| 19,001 and over | 2.31 |
| maximum fee | 800.00 |
| Interstate carriers - optional mileage tax per mile in lieu of unladen weight fees | |
| Power unit mileage: | |
| first 75,000 miles | 0.025 |
| next 175,000 miles | 0.020 |
| next 750,000 miles | 0.015 |
| next 1,000,000 miles | 0.0125 |
| over 2,000,000 miles | 0.010 |
| Motor carriers of passengers and light express[c] | 20.00 |
| Up to 500 lbs. | 50.00 |
| each passenger seat up to 10, additional | 10.00 |
| each passenger seat over 10, additional | 12.00 |
| Taxicabs | 25.00 |

[a]Carrier licenses do not apply to private farm, mining or contractor vehicles in which owner is transporting his own property or to intra-city or urban (within 5 miles radius) carriers except of household equipment.

[b]Trucks and trailed units are registered separately.

[c]Does not include private or governmental; all pay $5.50 passenger car fee.

Source: Commerce Clearing House, State Tax Reporter, Nevada, January, 1960.

Table 8.11

California Registration and Carrier Tax Rates, January, 1960

| Class of Vehicle | Rate Charged |
|---|---|
| All vehicles - primary registration[a] | $ 8.00 |
| Electric vehicles - commercial | |
| less than 6,000 lbs. unladen weight | 48.00 |
| 6,000 to 10,000 lbs. unladen weight | 96.00 |
| 10,000 and over | 128.00 |
| Commercial - two axle | |
| 3,000 to 4,000 lbs. unladen weight | 14.00 |
| 4,001 to 5,000 lbs. unladen weight | 27.00 |
| 5,001 to 6,000 lbs. unladen weight | 40.00 |
| 6,001 to 7,000 lbs. unladen weight | 54.00 |
| 7,001 to 8,000 lbs. unladen weight | 67.00 |
| 8,001 to 9,000 lbs. unladen weight | 80.00 |
| 9,001 to 10,000 lbs. unladen weight | 94.00 |
| 10,001 to 11,000 lbs. unladen weight | 107.00 |
| 11,001 to 12,000 lbs. unladen weight | 120.00 |
| 12,001 to 13,000 lbs. unladen weight | 134.00 |
| 13,001 to 14,000 lbs. unladen weight | 147.00 |
| 14,001 and over | 160.00 |
| Commercial, including trailers - three or more axles | |
| 2,000 to 3,000 lbs. unladen weight | 11.00 |
| 3,001 to 4,000 lbs. unladen weight | 20.00 |
| 4,001 to 5,000 lbs. unladen weight | 40.00 |
| 5,001 to 6,000 lbs. unladen weight | 60.00 |
| 6,001 to 7,000 lbs. unladen weight | 80.00 |
| 7,001 to 8,000 lbs. unladen weight | 100.00 |
| 8,001 to 9,000 lbs. unladen weight | 120.00 |
| 9,001 to 10,000 lbs. unladen weight | 140.00 |
| 10,001 to 11,000 lbs. unladen weight | 160.00 |
| 11,001 to 12,000 lbs. unladen weight | 180.00 |
| 12,001 to 13,000 lbs. unladen weight | 200.00 |
| 13,001 to 14,000 lbs. unladen weight | 220.00 |
| 14,001 to 15,000 lbs. unladen weight | 240.00 |
| 15,001 and over | 267.00 |
| For hire carriers, gross receipts tax | 1½ percent |

[a]Station wagons subject to flat fee of $9.00.

Source: Commerce Clearing House, State Tax Reporter, California, January, 1960.

Table 8.12

Utah Registration Tax Rates
January, 1960

| Class of vehicle | Rate Charged |
|---|---|
| Private passenger cars - not for hire | $ 5.00 |
| Vehicle transporting persons for hire or transporting property[a] - gross weight lbs.: | |
| up to 6,000 | 7.50 |
| 6,001 to 9,000 | 15.00 |
| 9,001 to 12,000 | 25.00 |
| 12,001 to 15,000 | 35.00 |
| 15,001 to 18,000 | 50.00 |
| 18,001 to 21,000 | 65.00 |
| 21,001 to 24,000 | 80.00 |
| 24,001 to 27,000 | 100.00 |
| 27,001 to 30,000 | 120.00 |
| 30,001 to 33,000 | 140.00 |
| 33,001 to 36,000 | 160.00 |
| 36,001 to 39,000 | 180.00 |
| 39,001 to 42,000 | 200.00 |
| 42,001 to 45,000 | 225.00 |
| 45,001 to 48,000 | 250.00 |
| 48,001 to 51,000 | 275.00 |
| 51,001 to 54,000 | 300.00 |
| 54,001 to 57,000 | 325.00 |
| 57,001 to 60,000 | 350.00 |
| 60,001 to 63,000 | 375.00 |
| 63,001 to 66,000 | 400.00 |
| 66,001 to 69,000 | 430.00 |
| 69,001 to 72,000 | 460.00 |
| 72,001 to 75,000 | 490.00 |
| 75,001 and over | 520.00 |
| Trailers and semi-trailers not otherwise registered | 5.00 |
| House trailers | 5.00 |
| Operators of 2 or more vehicles in interstate commerce[b] - gross weight lbs.: | |
| up to 25,000 | ½¢ per mile |
| 25,001 to 45,000 | 1¢ per mile |
| 45,001 to 60,000 | 1¼¢ per mile |
| 60,001 and over | 1½¢ per mile |

[a]Combinations are registered as a unit.
[b]May be permitted to pay in lieu of above gross weight tax.

Source: Commerce Clearing House, State Tax Reporter, Utah, January, 1960.

relation to the other jurisdictions employing the uniform charge.[17] This approach, as previously noted, has the advantage of simplicity, but a three-category net weight formula, for example, offers the possibility of obtaining additional revenue from the heavier vehicles. California and Utah also use the flat fee basis of licensing with rates of $5.00 and $8.00, respectively.

Property carrying vehicles in Nevada are divided into two broad classifications for purposes of licensing, namely motor carriers and other or excepted carriers. The first class includes common, contract and private carriers which operate outside the boundaries of cities or within a five-mile radius thereof, with the broad exception of private carriers transporting the products or equipment of the owner. The latter class or excepted group, as noted above, includes vehicles owned by farmers, miners, contractors, and single vehicles of less than 10,000 pounds, unladen weight, used for transporting other property of the owner. Motor carriers pay a flat license of $20.00 per vehicle, both power and trailed units, plus the unladen weight rate which ranges from $1.65 per 100 pounds on vehicles of 5,000 pounds or less to $2.31 per 100 pounds on vehicles weighing over 19,000 pounds. As previously indicated, they also pay the regular registration fees. Trucks and truck-tractors and the trailed units are licensed separately, and there is a maximum limit of $800.00 on the tax for a single unit. The specific amount of tax for trucks and trailers of certain selected unladen weights are as follows:[18]

| Unladen weight (lbs.) | License tax |
|---|---|
| 5,001 to 5,050 | $105.50 |
| 10,001 to 10,050 | 196.00 |
| 15,001 to 15,050 | 326.00 |
| 17,551 to 17,650 | 398.40 |
| 20,001 to 20,050 | 484.30 |
| 22,551 to 22,650 | 544.30 |
| 25,051 to 25,150 | 602.10 |

Interstate carriers of property or passengers have the option of paying the above unladen weight fees or a mileage tax. The latter tax is based upon the total power unit mileage traveled in Nevada regardless of the number of units involved. The rate varies inversely with such mileage, starting at 2.5¢ per mile for the first 75,000 miles and declining to 1¢ per mile for mileage in excess of 2 million. A $5.00 fee is also required for each power unit, but this is regarded

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[17]Motorcycles in Nevada pay a uniform fee of $3.50.

[18]Nevada State Department of Motor Vehicles, Licenses Required by Owners and Operators of Motor Vehicles, 1959.

as an administrative rather than a license charge. Carriers electing to pay the mileage tax must make a down payment of not less than the amount which would be due on the pro rated registration fee basis. Mileage taxes are credited against this advance payment, but it is not refundable. Other trucks and trailers not classified as motor carriers pay a flat fee of $5.50 if the unit is less than 3,900 pounds, unladen weight. Truck trailers, truck tractors and semi-trailers exceeding the above weight are subject to a tax of $.50 per 100 pounds of unladen weight. Thus, there is an extreme differential favoring such vehicles when used by farmers, miners, contractors and most other private business owners to haul their own products or equipment. Intra-city or urban haulers, with the exception of movers of furniture and household effects, are also subject to these nominal rates.

It will be noted that California employs the unladen weight factor and Utah uses gross weight in the licensing of property carrying vehicles. California's rates are lower than those in Nevada and Utah in the case of for hire carriers, but it should be noted that California imposes an additional gross receipts tax of 1.5 percent on commercial carriers. The gross weight basis of registration in Utah is not directly comparable to that of Nevada, but Utah's tax appears to be somewhat lower. While substantial differentials in rates favoring farm and certain other private carriers are found in about one-half of the states, the policy is open to serious question. Recognizing the fact that certain private carrier vehicles are not used continuously or on a near capacity basis may justify preferential treatment, but probably not to the degree found in Nevada and some of the other states. The overall impact of Nevada's highway user tax system on property carrying as well as other classes of vehicles will be examined in the final section of the chapter.

All buses in Nevada except governmental (50¢ fee) pay the $5.50 registration fee for private passenger cars. In addition for hire passenger carriers pay a flat fee of $50 if carrying passengers or light express up to 500 pounds, plus $10 per seat up to 10 seats and $12 per seat for each seat over 10. Private carrier bus operations are not defined in the law, and as a consequence certain private enterprises such as gaming houses which operate their own buses (large and small) are only required to pay the $5.50 fee. This is an obvious discrimination against the regular carriers, and the fact that such use is unregulated (certificates of convenience and necessity not required) adds insult to injury. School buses owned by school districts pay the nominal governmental fee, and others are subject to the fee for private use. Taxicabs are subject to a $25 flat fee. As indicated in Tables 8.11 and 8.12, California licenses buses on an unladen weight basis and Utah employs the gross weight factor. It would appear that Nevada's rates for the for hire group are somewhat lower than those of Utah and higher than those of California. Here again, the gross receipts tax of California must be taken into account. Nominal rates for school buses are the general rule, and appear to be justified in terms of the public policy implications involved.

The Nevada law provides for the adoption of reciprocal arrangements with other states in the licensing of certain vehicles operating on an interstate basis. Since 1955, however, Nevada honors foreign registration plates of private passenger cars until they expire. Under the Interstate Highway Users Fee Apportionment Act (1955) provision is made for apportionment of registration fees regardless of the state of registration in the case of fleet operations (two or more vehicles operating in two or more states that have such legislation). This Act does not apply to carrier regulatory or licensing fees. Fees are dictated by the state of registration, and are apportioned on the basis of the percentage of total fleet mileage represented by mileage within the particular state. The interstate fee apportionment plan is operative in thirteen jurisdictions, including Nevada. It should be noted that registration fees are subject to pro-ration in California, but not in Utah. The mileage tax in Utah as in Nevada is in lieu of the registration fees. Vehicle or fleet owners must obtain approval of the Department of Motor Vehicles to qualify for such treatment, and in the case of apportionment must maintain detailed records of their operation including mileage for audit purposes. There are currently more than 400 accounts involving vehicles subject to pro-rationing or apportionment of fees and about 22,500 vehicle plates and decals were issued in the fiscal year 1959.

Finally, it should be noted that other special licenses and charges on the owners and operators of and dealers in motor vehicles in Nevada include: (1) licenses required of motor convoy carriers; (2) chauffers and operators licenses; (3) manufacturer and dealer plate charges; (4) motor carrier permit and inspection fees; and (5) various special fees including title and change of registration. Motor carrier convoy operations must be licensed either on an annual or single trip basis. The annual license is $500.00 plus a $30.00 plate fee for each vehicle used. The single trip basic fee is $8.25 and each additional one-trip sticker is the same amount. Each motor vehicle driven singly, towed or carried and not covered by a basic license is subject to a fee of $8.25. Non-resident owners or operators of motor carriers, except motor convoy carriers, may elect to pay a one-trip license fee instead of the regular annual licenses. The rate for the one-trip license is 5 percent of the annual fee with a minimum of $3.00 and a maximum of $30.00 per vehicle or vehicle combination. Such one-trip licenses are valid for only 96 hours. Operators' licenses are $2.00 for a one-year license. The fees for the registration of manufacturers' and dealers' vehicles are as follows: single unit vehicles other than motorcycles and trailers - $20.00 for the license and two sets of plates and $5.00 for each additional set of plates; motorcycles - $5.00 for the first plate and $1.00 for each additional; and trailers and semi-trailers - $5.00 for the first plate and $1.00 for each additional plate. The above special fees and licenses, except for the single and emergency trip permits, are relatively unimportant from the standpoint of total highway user revenues.

## Registration Fees, Licenses and Other Motor Vehicle Receipts

The total amounts of revenues collected from registration fees, operators' licenses, and carrier licenses during the past three decades are shown in Table 8.13. Registration receipt records were fragmentary

Table 8.13

Motor Vehicle Registration, Operators License and Carrier License Revenues, Fiscal Years 1930-1959

| Year | Registration tax (thousands) | Operators license (thousands) | Carrier licenses[a] (thousands) | Total receipts (thousands) | As percent of total state taxes |
|---|---|---|---|---|---|
| 1930 | $ 147.5 | | $ 48.3 | $ 195.8 | |
| 1931 | 93.0 | | 36.2 | 129.2 | |
| 1932 | 217.2 | | 65.5 | 282.7 | |
| 1933 | 96.9 | | 71.0 | 167.9 | |
| 1934 | 100.7 | | 148.1 | 248.8 | |
| 1935 | 169.1 | | 163.4 | 332.5 | |
| 1936 | 165.9 | | 221.2 | 387.1 | |
| 1937 | 200.9 | | 200.7 | 401.6 | |
| 1938 | 158.6 | | 201.7 | 360.3 | |
| 1939 | 166.3 | | 218.7 | 385.0 | |
| 1940 | 189.2 | | 258.8 | 448.0 | |
| 1941 | 228.0 | | 306.0 | 534.0 | |
| 1942 | 339.5 | $ 67.6 | 404.4 | 811.5 | |
| 1943 | 318.4 | 18.3 | 388.5 | 725.2 | |
| 1944 | 337.8 | 61.4 | 451.4 | 814.6 | |
| 1945 | 309.6 | 47.9 | 400.4 | 757.9 | |
| 1946 | 342.3 | 32.9 | 472.0 | 847.2 | |
| 1947 | 413.1 | 59.7 | 540.6 | 1,013.4 | |
| 1948 | 422.7 | 44.2 | 635.5 | 1,102.4 | |
| 1949 | 441.9 | 72.0 | 683.2 | 1,197.1 | 13.7 |
| 1950 | 480.1 | 42.6 | 823.6 | 1,346.3 | 13.7 |
| 1951 | 520.4 | 80.8 | 1,078.6 | 1,679.8 | 14.5 |
| 1952 | 674.5 | 51.4 | 1,299.4 | 2,025.3 | 16.1 |
| 1953 | 785.3 | 81.5 | 1,540.4 | 2,407.2 | 16.3 |
| 1954 | 821.1 | 80.0 | 1,690.9 | 2,592.0 | 16.5 |
| 1955 | 570.6[b] | 91.2 | 1,712.5 | 2,374.3 | 13.2 |
| 1956 | 1,170.7 | 153.5 | 1,179.9[b] | 2,504.1 | 9.2 |
| 1957 | 1,228.0 | 159.3 | 2,061.9 | 3,449.2 | 10.4 |
| 1958 | 1,247.1 | 164.8 | 2,019.0 | 3,430.9 | 9.8 |
| 1959 | 1,634.8 | 223.8[c] | 2,196.3 | 4,054.9 | 11.1 |

[a]Includes in lieu mileage tax fees for interstate carriers adopted in 1955.

[b]The drop in collections for these years is a result of the change-over from a calendar to fiscal year basis.

[c]Calendar year receipts.

Source: Nevada State Department of Highways, 21st Biennial Report, 1957-1958; and unpublished highway department data for 1959.

or unavailable during part of the 1920's and carrier licenses were not reported as a distinct revenue source until 1930. Both types of vehicle fees increased significantly during the decade of the 1930's, when total receipts more than doubled, increasing from about $196,000 to $448,000 in 1940. During World War II overall collections remained fairly constant but rose rapidly during the post-war period to a level of $1.3 million in 1950. Since that time receipts have continuously increased and by 1959 they exceeded $4 million. There were two upward adjustments in rates in 1947 and in 1955, but as already indicated the principal reason for the rising revenues was simply the rapid growth in the number of motor vehicles and miles traveled. The percentage significance of these taxes and licenses in Nevada's overall tax structure are shown only for the last decade. In 1954 they accounted for 16.5 percent of total State tax collections; since then their relative importance has declined and in recent years has averaged about 10 percent of the State's total tax revenues. It also will be noted that since the mid-thirties the revenues from carrier licenses have consistently exceeded those derived from registration fees, and by 1959 constituted almost 60 percent of the revenues from these two sources. Operators' licenses have continually been of minor importance revenue-wise and the collections of less than $224,000 from this source in 1959 represented only 5 percent of the total revenues derived from the three types of fees and licenses discussed above.

Recent trends with respect to the number of registrations and fees collected, classified by primary types, are shown in Table 8.14. It should be noted that the commercial grouping includes vehicles licensed as motor carriers--trucks, truck-trailers and buses. For the period from 1949 to 1959, registrations of pleasure cars and commercial vehicles increased by about 120 percent, while those for trailers increased by more than 250 percent. Notwithstanding the rapid growth of the latter, passenger car registrations still accounted for almost three-fourths of the total in 1959. Collections from these fees exhibit a similar pattern of increases for the period under review--for passenger cars it was 144 percent, for commercial vehicles 120 percent, and for trailers 182 percent. The percentage distribution of fees from these three classes of vehicles in 1959 was 54 percent from passenger cars, 39 percent from commercial vehicles and only 7 percent from trailers. In terms of average fees per vehicle in 1959, private passenger cars paid approximately $5.50, commercial vehicles slightly over $14.00, and trailers about $5.60. Considering the magnitude of license charges on "motor carriers" in Nevada, the average registration payment by commercial vehicles appears to be extremely low. This may be explained in part by the practice of certain out-of-state carriers in qualifying vehicles for operation in Nevada that do not actually enter the State. The average registration payments by the other two classes of vehicles obviously are nominal in amount, but this practice may be justified except in the case of heavy trailers not licensed as motor carriers.

Table 8.14

Licenses Issued and Fees Collected, Major Classes of Vehicles, Fiscal Years 1949-1959

| Year | Number of vehicles licensed | | | | Fees collected (thousands) | | | |
|---|---|---|---|---|---|---|---|---|
| | Pleasure | Commercial | Trailers | Total | Pleasure | Commercial | Trailers | Total |
| | A. Absolute values: | | | | | | | |
| 1949 | 52,175 | 14,611 | 4,284 | 71,070 | $260.9 | $207.7 | $ 30.0 | $ 498.6 |
| 1950 | 58,773 | 16,023 | 4,563 | 79,359 | 293.9 | 221.8 | 35.3 | 551.0 |
| 1951 | 64,857 | 18,753 | 5,078 | 88,688 | 324.3 | 263.5 | 43.2 | 631.0 |
| 1952 | 70,360 | 20,894 | 5,874 | 97,128 | 351.8 | 295.4 | 44.8 | 692.0 |
| 1953 | 80,099 | 23,486 | 7,306 | 110,891 | 400.5 | 330.3 | 58.8 | 789.6 |
| 1954 | 86,760 | 25,209 | 8,750 | 120,719 | 464.7 | 378.8 | 82.4 | 925.9 |
| 1955[a] | 165,658 | 47,519 | 15,437 | 228,614 | 679.6 | 568.2 | 126.7 | 1,374.5 |
| 1956[a] | 106,341 | 30,354 | 10,958 | 147,653 | 586.0 | 480.2 | 116.7 | 1,182.9 |
| 1957 | 106,384 | 30,515 | 11,366 | 148,265 | 586.2 | 476.8 | 117.9 | 1,180.9 |
| 1958 | 109,789 | 31,194 | 12,997 | 153,980 | 603.8 | 435.5 | 80.0 | 1,119.3 |
| 1959 | 115,609 | 32,492 | 15,076 | 163,177 | 635.9 | 458.8 | 84.5 | 1,179.2 |
| | B. Percentage distribution: | | | | | | | |
| 1949 | 73.4 | 20.5 | 6.1 | 100.0 | 52.4 | 41.6 | 6.0 | 100.0 |
| 1950 | 74.1 | 20.2 | 5.7 | 100.0 | 53.3 | 40.3 | 6.4 | 100.0 |
| 1951 | 73.1 | 21.2 | 5.7 | 100.0 | 51.3 | 41.8 | 6.8 | 100.0 |
| 1952 | 72.4 | 21.5 | 6.1 | 100.0 | 50.8 | 42.6 | 6.6 | 100.0 |
| 1953 | 72.2 | 21.2 | 6.6 | 100.0 | 50.7 | 41.8 | 7.5 | 100.0 |
| 1954 | 71.9 | 20.9 | 7.2 | 100.0 | 50.2 | 40.9 | 8.9 | 100.0 |
| 1955 | 72.4 | 20.8 | 6.8 | 100.0 | 49.4 | 41.3 | 9.3 | 100.0 |
| 1956 | 72.0 | 20.6 | 7.4 | 100.0 | 49.5 | 40.6 | 9.9 | 100.0 |
| 1957 | 71.7 | 20.6 | 7.7 | 100.0 | 49.6 | 40.4 | 10.0 | 100.0 |
| 1958 | 71.3 | 20.3 | 8.4 | 100.0 | 53.9 | 38.9 | 7.2 | 100.0 |
| 1959 | 70.8 | 20.0 | 9.2 | 100.0 | 53.9 | 38.9 | 7.2 | 100.0 |

[a]Due to changeover from calendar year to fiscal year in 1956, 1955 data reflect about 1½ years of registrations and fees and 1956 about one-half year.

Source: Nevada State Department of Motor Vehicles, Registration Division, Annual Releases, 1959 and 1958; Public Service Commission, Registration Division, Annual Releases, prior years.

The principal types of motor carrier tax and fee collections for the period from 1949 through 1959 are shown in Table 8.15. Total

Table 8.15

Motor Carrier Tax and Fee Collections, 1949-1959

| Year | Mileage tax[a] | Trip and emergency permits | Plate fees | All others[b] | Total |
|---|---|---|---|---|---|
| | | A. Absolute values (thousands): | | | |
| 1949 | - | $124.4 | $ 554.4 | $ 22.3 | $ 701.1 |
| 1950 | - | 239.9 | 613.2 | 50.9 | 904.0 |
| 1951 | - | 312.3 | 748.2 | 84.7 | 1,145.2 |
| 1952 | - | 384.6 | 863.2 | 102.6 | 1,350.4 |
| 1953 | - | 515.1 | 962.7 | 117.5 | 1,595.3 |
| 1954 | - | 484.4 | 1,110.3 | 71.0 | 1,665.7 |
| 1955 | $ 1.0 | 501.7 | 1,184.1 | 78.2 | 1,765.0 |
| 1956 | 730.0 | 526.3 | 781.6[c] | 78.9 | 2,116.8 |
| 1957 | 929.6 | 563.2 | 518.6 | 65.9 | 2,077.3 |
| 1958 | 844.7 | 593.5 | 555.7 | 75.2 | 2,069.1 |
| 1959 | 904.1 | 656.2 | 549.7 | 89.3 | 2,199.3 |
| | | B. Percentage distribution: | | | |
| 1949 | - | 17.7 | 79.0 | 3.3 | 100.0 |
| 1950 | - | 26.5 | 67.8 | 5.7 | 100.0 |
| 1951 | - | 27.3 | 65.3 | 7.4 | 100.0 |
| 1952 | - | 28.5 | 63.9 | 7.6 | 100.0 |
| 1953 | - | 32.3 | 60.3 | 7.4 | 100.0 |
| 1954 | - | 29.1 | 66.6 | 4.3 | 100.0 |
| 1955 | .2 | 28.4 | 67.0 | 4.4 | 100.0 |
| 1956 | 34.5 | 24.9 | 36.9 | 3.7 | 100.0 |
| 1957 | 44.8 | 27.1 | 25.0 | 3.1 | 100.0 |
| 1958 | 40.8 | 28.7 | 26.9 | 3.6 | 100.0 |
| 1959 | 41.1 | 29.8 | 25.0 | 4.1 | 100.0 |

[a]Alternative tax on interstate motor carriers adopted in 1955.
[b]Includes convoy permits and household and special permits in certain of the earlier years.
[c]Decline attributable to fact that major interstate carriers changed to new mileage tax basis of licensing.

Source: Nevada Highway Planning Service, Department of Highways.

receipts during the last eleven years have jumped from $.7 million in 1949 to $2.2 million in 1959, or an increase of more than 200 percent. Since its adoption in 1955 the "in lieu" mileage tax on interstate carriers has been the major source of receipts. It accounted for 41

percent of the total motor carrier tax and fee collections in 1959. In contrast, the single trip and 90-day emergency permits accounted for 30 percent; plate fees, including the flat license charge and graduated unladen weight fees, accounted for another 25 percent; and miscellaneous fees, primarily motor carrier convoy permits, accounted for the remaining 4 percent. The predominance of mileage tax receipts is a reflection of the fact that all of the major interstate carriers which maintain regular service through Nevada have elected this basis of licensing. The importance of single and emergency trip receipts (approximately 36,000 one-trip licenses were issued in 1959) as related to regular plate fees in the last few years is unusual, and indicates a laxness in the requirements for this type of licensing. In other words, it appears that many carriers which should be licensed on a yearly basis were using the one-trip procedure.

## Registration Tax and Carrier Licenses: Policy Issues

Apart from the general burden problem, there are several policy issues involved in Nevada's registration tax and carrier licensing system. Specifically, these include: (1) the basis of licensing large trucks, combinations and buses; (2) the appropriateness of the mileage tax and its declining rate schedule; and (3) the related administrative problem as to the proper location of responsibility for enforcement of the special fuels tax.

In the earlier discussion of the principles of highway user taxation and of registration tax bases it was emphasized that unladen weight or a flat fee are the most acceptable bases of licensing private passenger cars and other light vehicles. Variations in the weight of such vehicles, and consequently the relative damage factor, are not sufficient to justify marked differentials in the licensing charge. On the other hand, heavy trucks and combinations, e.g., weighing in excess of 7,500 pounds, do involve highly significant differential effects on highway costs. These effects are a direct result of four factors: empty weight of the unit, loads carried, distribution of weight by axle, and use. The unladen weight basis employed by Nevada obviously measures only one of these elements, and does not reflect accurately the aspects of weight which are most important quantitatively and in relation to relative damage. Gross weight, preferably on a per axle basis, is the logical answer to this aspect of the problem, and presents no special administrative difficulties if interpreted in terms of a maximum or average load factor. As previously indicated, it is currently the most popular basis of licensing this type of vehicle. The weight factors, however, disregard extent of use which is highly significant both from the standpoint of cost responsibility and the taxpaying capacity of vehicle owners. In particular, use tends to approach a practical maximum in the instance of most for hire carriers and certain private carrier operations. It generally declines significantly in the case of the special types of hauling such as agricultural and mineral products,

particularly if the farmer-rancher or mine owners use their own vehicles. Miles traveled obviously is the appropriate factor for measuring differential use. A single mileage licensing factor, as exemplified by the Nevada optional mileage basis for interstate carriers, however, is equally unacceptable in that it fails to measure differential damage attributable to weight elements. Thus, a two-part formula including gross weight and mileage would approach the ideal basis of licensing, and the ton-mile formula employed by Colorado and several other states for certain types of for hire carriers involves the further refinement of considering actual loads carried.

Recognizing the theoretical merit of the weight-distance or ton-mile basis, there are certain practical limitations involved in both cases. Mileage is a feasible factor in the instance of large operators who engage in regular or continuing hauling activities. It is very difficult if not impractical to check for the small, irregular or wholly local operators. The ton-mile basis is subject to the same limitations plus the additional complexity of checking records of loads actually carried. In view of the theoretical and practical considerations noted it is believed to be desirable to apply the weight-distance basis of licensing for intercity for hire carriers of property. Intercity private carrier operations of a regular nature should also be included. Other property carriers, largely because of administrative difficulties, should be licensed on a gross weight basis. A differential in burden related to average use is justified in the case of certain special private carrier operations. While the deficiencies in the present method of licensing of buses are somewhat less important, the same basis logically should be employed in the licensing of intercity for hire buses. The present optional mileage tax on interstate carriers is unsatisfactory for the reasons noted above. Although it is convenient to apply by virtue of the requirements of interstate fee apportionment, it is not acceptable as a licensing factor and the existence of an alternative basis of licensing inevitably leads to inequities in burden. Furthermore, the declining rate schedule is indefensible in terms of the basic principles of user taxation.

The question as to the proper location of responsibility for administering the special fuels tax cannot be resolved wholly on logical grounds. The tax is obviously related to that on motor vehicle fuels. At the same time, it is imposed upon the user rather than the distributor and the major users fall under the motor carrier classification. In terms of present practice most of the states employ a single administrative agency within the general revenue or taxation department. This factor is obviously not conclusive, though it does suggest a preference for unified administration of the two levies. As a general rule it is believed to be desirable to centralize all major revenue collection functions under a single State agency.

## Additional or Third-Structure Commercial Carrier Taxes

The imposition of additional or third-structure taxes on certain classes of commercial carriers has become increasingly popular during the last three decades. These taxes have taken various forms, and differ markedly in terms of their relationship to other user taxes and their over-all effects. Consequently, there is some confusion as to the nature of the taxes and the terminology employed to describe them. Basically, the so-called special carrier taxes are designed to impose a higher or additional tax burden on certain commercial carriers. In most instances they are limited to "common" and "contract" carriers which operate on an intercity or interstate basis, but there are some exceptions. While the purpose of levying a differential burden on these types of commercial carriers is self-evident, the policy approaches to this end are diverse and complex. The simplest method in terms of the tax structure is to incorporate the additional burden in the registration tax classification and rate schedules. This approach avoids a special or third-structure tax (in addition to registration and fuel taxes), but may not achieve the degree of refinement desired in terms of weight-use factors. Thus, the fact that a state does not impose a special or third-structure tax on for hire carriers does not mean that these carriers are escaping a differential burden. The alternative approach of levying a special tax permits a wide choice of tax bases and tends to highlight the apparent purpose involved. It also should be noted that the use of a special or third-structure tax may be illusory in terms of the relative tax burdens involved. Two elements of current state practice in certain jurisdictions may tend to disguise the real burden situation. In some states, Colorado for example, the registration tax for the vehicles subject to the special levy is nominal in amount, and in others the special tax carriers are subject to the regular registration taxes. Several jurisdictions also have in lieu provisions in their laws which complicate the actual burden situation.

Special or additional taxes on certain commercial carriers are presently employed by 27 states. They vary significantly in scope, the nature of the tax base and rates. With a few exceptions they apply to licensed "for hire" carriers of property and passengers. Generally speaking, they do not include private or intra-city carriers. It should be noted that the 27 taxing states shown in Table 8.16 do not include the jurisdictions which have special taxes on interstate carriers only, e.g., the mileage tax in Nevada, nor those which have special levies in lieu of registration taxes. The "in lieu" tax states, however, are shown separately. Of the 27 states, seven use a mileage base; nine, including Nevada, impose the tax on graduated weight; seven use a gross receipts measure; and four utilize a ton and/or passenger mile basis. Three of the special "in lieu" taxes--Illinois, Maryland and Mississippi--are in place of registration taxes, and each of the typical tax bases is represented.

Table 8.16

Special or Additional State Commercial Carrier Taxes,[a] Classified by Tax Base, January, 1960

| Mileage | Gross receipts | Graduate weight or seating capacity | Ton and/or passenger mile | In lieu of other taxes[b] |
|---|---|---|---|---|
| Alabama | Arizona | Kentucky | Colorado | Florida[c] |
| Idaho | California | Nevada | Oklahoma | Illinois[d] |
| Michigan | Louisiana | N. Dakota[e] | S. Carolina[f] | Maryland[g] |
| New Jersey[h] | Montana | Ohio[i] | Wyoming[j] | Mississippi[k] |
| New York[f] | N. Carolina | Rhode Island | | |
| Ohio[f] | Pennsylvania | S. Carolina | | |
| Oregon | Virginia | S. Dakota | | |
| | | Washington | | |
| | | West Virginia | | |

[a]These taxes are additional levies on licensed for hire carriers of persons and property unless otherwise indicated.
[b]These taxes are in lieu of registration or other taxes as indicated, and apply to one or more categories of licensed vehicles. In lieu features applying only to interstate or unlicensed carriers are excluded.
[c]Mileage (ad valorem or registration).
[d]Mileage - weight (registration).
[e]Property - non-farm.
[f]Property only.
[g]Passenger - mile and graduated chassis weight (registration).
[h]Interstate buses.
[i]Passenger only.
[j]Passenger vehicle tax based on vehicle miles.
[k]Gross receipts, graduated weight or ton-mile (registration).

Source: Commerce Clearing House, State Tax Guide: All States, 1960.

Connecticut's gross receipts tax on common carrier buses is in lieu of all other taxes, and the mileage tax in Florida is in lieu of property taxes. It should be noted that several states including New Mexico, Idaho and Oklahoma, have repealed ton-mile taxes in recent years; and the Utah tax was held to be unconstitutional. The action of the former states may be attributed primarily to administrative problems and strong carrier opposition.

Considering the differences in the nature of special commercial carrier taxes and their relationship to other highway user taxes, rate comparisons are of limited value. The summary of rate schedules under the mileage, gross receipts and ton and passenger mile taxes shown in Table 8.17 indicates some degree of uniformity in burden. In the case

Table 8.17

Special Commercial Carrier Tax Rates
Selected States, January, 1960

| State | Type of carrier | Tax base | Tax rates |
|---|---|---|---|
| | | A. Mileage taxes: | |
| Alabama | Passenger | Graduate (seating capacity) | 1/4 - 1¢ per mile |
| Idaho | Freight | Per axle | 1/4 - 1/3¢ per mile |
| | Passenger & freight (over 16,000 lbs. gross weight)[a] | Graduated (gross weight-mileage) | 4.55-14.10 mills<br>5.25-37.00 mills (gas) |
| Michigan | Passenger | Graduated (seating capacity) | 1-2 mills per mile |
| | Freight | Graduated (mileage) | 3-4 mills (tractors)<br>1-3 mills (trucks) |
| New York | Freight only | Graduated (gross weight) | 6-35 mills per mile(76,000 lbs) |
| Ohio | Trucks and combinations | Graduated (axles) | 1/2 - 2-1/2¢ per mile |
| Oregon | Four categories (A.B.C.D.) | Combined weight | 1.5-48 mills per mile (Class A: Gas) |
| New Jersey | Passenger (interstate) | Vehicle miles | 1/2¢ per mile |

[a]Also farm and non-commercial over 24,000 lbs. gross weight.

(continued)

Table 8.17 (continued)

Special Commercial Carrier Tax Rates
Selected States, January, 1960

| State | Type of carrier | Tax base | Tax rates |
|---|---|---|---|
| | | B. Gross receipts taxes: | |
| Arizona | Passenger | Gross receipts | 2.25 percent |
| | Property | Gross receipts | 2.50 percent |
| California | For hire | Gross receipts | 1.50 percent[b] |
| Louisiana | For hire | Gross receipts | 2.00 percent |
| Montana | Common and contract | Gross operating revenue | 0.50 percent |
| No. Carolina | Passenger | Gross revenue | 1.50 percent |
| | Property | Gross revenue | 6.00 percent |
| Pennsylvania | Intra- and inter-state | Gross receipts | 0.80 percent |
| Virginia | For hire (inter-city) | Gross receipts | 2.00 percent plus 0.20 percent |
| | | C. Ton-mile or passenger-mile taxes: | |
| Colorado | Freight (inter-city) | Ton mile | 0.8 mills for vehicle<br>2.0 mills for load |
| | Passenger (inter-city) | Passenger miles | 1.0 mill |
| Oklahoma | Passenger (inter-city) | Passenger miles | 0.5 mill |
| So. Carolina | Property | Ton miles (load) | 1.0 mill |
| Wyoming | Freight and express[c] | Ton miles | 1.5 mills |

[b]Total taxes and licenses not to exceed 2 percent of gross receipts.

[c]Passenger carriers are subject to a mileage tax of 1-7/10¢ per mile for gas and 2-1/2¢ for other fuels.

Source: Commerce Clearing House, State Tax Guide: All States, 1960.

of the mileage taxes the rates range from 1 to 48 mills, and are graduated on the basis of weight, seating capacity or axles. The rates in Oregon reflect the maximum which may equal or exceed 3¢ per mile (Oregon's schedule goes to 4.8¢ on Class A carriers). It should be noted that motor fuel taxes may be credited against mileage taxes in Oregon. The rates of the gross receipts taxes exhibit less variation, ranging from 1/2 of 1 percent to 2-1/2 percent, with the exception of the 6 percent levy on the gross revenue of property carriers in North Carolina. Montana's rate of 1/2 of 1 percent on the gross operating revenue of common and contract carriers constitutes the minimum levy. Among the four states shown in Table 8.17 using the ton-and/or passenger-mile tax, the Colorado rate on vehicle load of 2 mills is the maximum. Considering their overall effect, however, the Wyoming rates are comparable to those of Colorado. The graduation noted in the instance of mileage taxes is, of course, built-in in the case of the ton- and passenger-mile levies.

Generally speaking, the revenues produced by the special or third structure taxes on commercial carriers are not differentiated from registration receipts in most states. However, collections from third-structure type taxes in 7 states are shown in Table 8.18.

Table 8.18

Special Commercial Carrier Tax Revenues, Selected States, 1958

| State | Type of tax | Revenues (thousands) |
|---|---|---|
| Alabama | Mileage | $ 1,172 |
| California | Gross Receipts | 15,203 |
| Colorado | Ton Passenger mile | 7,204 |
| Michigan | Mileage | 1,335 |
| New York | Mileage (property) | 15,863 |
| Ohio | Mileage (property) | 12,307 |
| Oregon | Mileage | 11,479 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections, 1958.

The largest yields, it will be noted, are derived from the mileage taxes in New York, Ohio and Oregon and the gross receipts tax in California. The California and Oregon taxes apply to for hire carriers generally, while those of New York and Ohio are limited to property carriers. Colorado's experience with the ton and passenger mile taxes has been highly successful from a revenue standpoint, and administrative costs have been kept within reasonable bounds.

Considering the nature of Nevada's economy and the motor transportation industry, as well as the licensing program presently employed,

a new third structure type of tax does not seem to be advisable. If the changes in the bases of licensing previously recommended are adopted, the system will be sufficiently comprehensive and flexible to permit any adjustments in burden that may appear to be desirable.

## Disposition of Highway User Tax Receipts

In Nevada all receipts from license taxes on motor vehicles and excise taxes on motor vehicles fuels are reserved for highway construction, maintenance or repair by Articla IX, Section 5 of the State Constitution. This is interpreted to mean net revenues after the cost of administration has been deducted. Such revenues from the 4.5¢ State motor vehicle fuel tax, the 6¢ State tax on special fuels, the State registration tax and motor carrier taxes and licenses are credited to the State Highway Fund. County assessors who act as agents of the State in the collection of registration taxes in all counties except Washoe and Clark are authorized to retain $1.00 per registration to meet collection costs. Appropriations from the State Highway Fund are then made for highway purposes, for administrative expenses and for purposes of meeting costs of the Revolving Debt Fund. The 1.5¢ county gas tax collections are credited to the County Gas Tax Fund by the State Treasurer, and these monies are allocated to the individual counties by the State Tax Commission. The statutory basis of allocation for the mandatory 1/2¢ per gallon tax involves a four factor formula as follows: 1/4 according to area; 1/4 according to population; 1/4 according to mileage of roads and streets (non-federal aid primary roads); and 1/4 according to the number of miles of vehicle travel on such roads. The 1¢ tax (counties may reject) goes back to the county of origin in which it was collected. County allocations are subject to refunds for non-taxable uses, and the remainder of the receipts from the 1¢ tax is then divided between the county and incorporated cities on the basis of the proportion of the total assessed value of property in the county within the boundaries of the city or cities. All funds received by the county and/or cities must be used for road or street purposes including equipment to be used thereon.[19]

Based upon gross highway user tax collections in the fiscal year 1959 of approximately $13 million, the State retained about $11 million or 84 percent and the counties and cities received approximately $2 million or 16 percent. Other than for the allowance of about $165,000 to the county assessors' offices for collecting the registration tax the entire county and city share was attributable to the 1.5¢ per gallon tax on motor vehicle fuel. Relative to the practice of other states the county-city participation is small. However, the proportion of total mileage for which these units are responsible is also relatively low. It appears there is no "diversion problem" in

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[19]See Table 8.8 for specific data on county receipts.

Nevada, although the administrative expenses of certain regulatory or non-revenue functions (Motor Vehicle Department) are being met from highway user receipts. However, this represents a common practice among the states and it is believed to be sound. Whether these purposes are consistent with the constitutional provision cited above can only be resolved by court decision.

## Highway User Tax and License Burdens in Nevada

The earlier discussion of the theoretical aspects of special user taxation focused attention on the controversial allocation of burden problem. The primary issues from a practical standpoint are to determine how the user tax load should be distributed among various types of vehicles, vehicle weight and use groups, and to select the most appropriate tax measures for implementing this objective. Decisions on the relative burden issue should be predicated upon the broad concepts of relative damage or cost and perhaps nature of use, but the actual evidence concerning the damage factor is incomplete and provides a general rather than specific policy guide. Another major obstacle to sound policy judgments has been the lack of adequate data concerning the specific effect of particular tax measures on various user groups and, more significantly, the over-all impact of user tax policy in individual states. The latter deficiency has prevented interstate comparisons on a comprehensive basis, and the knowledge of user burdens in other states is obviously an important consideration in policy formulation.

In 1955 the Bureau of Public Roads of the United States Department of Commerce initiated an ambitious, nationwide research project designed to clarify the distribution of user tax burdens under existing state laws.[20] The Bureau defined the broad terms of the study and the procedures to be employed, and directed the state highway authorities to make the analysis on the basis of 1956 tax policies. While the details of research methodology are not pertinent to this discussion, scientific sampling procedures were required in the absence of actual data. In general, the study plan called for a breakdown of total user tax and other charges on a uniform gross weight schedule basis. Vehicles were further classified as to: (1) visual groupings (single unit trucks, combinations, buses, etc.); (2) nature of use (for hire, not for hire, farm, other); (3) type of fuel used (gasoline, diesel and other); and (4) number of axles. The number of vehicles in each weight category was indicated, and the average miles traveled for most types of vehicle, use, fuel, axle, and weight categories were presented in separate schedules. In preparing the recently published Colorado Tax Study, individual

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[20]Motor Vehicle Classification, Section 210 Study, Federal Aid Highway Act of 1954.

state reports with usable data were obtained from eight of the Western states, including Nevada, and these reports were employed as the basis of a comprehensive burden analysis.[21] The results of the burden investigation in Colorado and certain specific information obtained from the Nevada Highway Department provide a sound foundation for a similar analysis for Nevada. It should be emphasized, however, that the data in Nevada as well as some of the other states do not permit a complete breakdown of burdens by all types of vehicle and more particularly use categories. The first phase of this analysis will be concerned with the distribution of highway user tax burdens in Nevada and the second with interstate comparisons.

The estimated distribution of the overall highway user tax and license burden in Nevada among the primary vehicle groups is shown in Table 8.19. While the data are for 1956 taxes, there have been no significant changes in the tax structure since that date. The total burden amounted to approximately $11.4 million and more than half of the tax load, 52.3 percent, was borne by the owners of private passenger cars and related type vehicles.[22] This is the typical situation although the percentage is somewhat lower than in many other states. In Colorado, for example, this group paid some 63 percent. An unusual feature of the Nevada picture is the high proportion of fuels taxes assigned to non-residents or tourists. About $2 million, or 40 percent of the total $5 million of fuel taxes contributed by private passenger car owners was estimated to have been paid by such owners.[23] The total tax contribution by private passenger cars was roughly divided on a 2-to-1 ratio between the resident and non-resident owners.

All types of buses contributed an estimated total tax of slightly more than $197,000 or 1.8 percent of the total highway user tax burden. This type of vehicle is broken down into three categories: school, other gas and other diesel. The non-school group, consisting primarily of intercity buses, was responsible for the great bulk of the tax payments of almost $184,000. On an overall basis the 1.8 percent contribution of buses in Nevada may be compared with 1.5 percent in Colorado.

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[21]New Mexico did not supply a report, and those from Montana and Utah were incomplete and not adaptable to a comparative analysis. See Report of the Governor's Tax Study Group, Financing Government in Colorado, 1959, Chapter X, pp. 243-250.

[22]This category also included car trailers, taxis, jeeps and motorcycles.

[23]Data obtained from the recent tourist study indicate an even higher ratio of non-resident payments which is probably attributable in part to the later year (1958 as compared to 1956).

Table 8.19

Distribution of Nevada Highway User Tax Burden,
by Major Classes of Vehicle, 1956

| Type of vehicle | Fuel taxes | Registration fees | Carrier fees | Drivers' licenses | Total tax | Percent of total |
|---|---|---|---|---|---|---|
| Private passenger cars, etc.[a] | | | | | | |
| Nevada owned | $3,008,568 | $ 741,074 | $ 87,394 | $ 83,363 | $ 3,920,399 | 34.5 |
| Foreign[b] | 2,019,903 | - | - | - | 2,019,903 | 17.8 |
| Total | $5,028,471 | $ 741,074 | $ 87,394 | $ 83,363 | $ 5,940,302 | 52.3 |
| Buses | | | | | | |
| School - gas | 13,248 | 78 | - | - | 13,326 | 0.1 |
| Other - gas | 22,416 | 738 | 18,597 | - | 41,751 | 0.4 |
| Other - diesel | 52,026 | 733 | 89,315 | - | 142,074 | 1.3 |
| Total | $ 87,690 | $ 1,549 | $ 107,912 | - | $ 197,151 | 1.8 |
| Trucks and trailers | | | | | | |
| Trucks - gas | 1,181,739 | 355,191 | 382,897 | 23,228 | 1,943,055 | 17.1 |
| Trucks - diesel | 904,286 | 135,080 | 1,558,270 | - | 2,597,636 | 22.9 |
| Pickups - all | 549,588 | 114,395 | 9,366 | - | 673,349 | 5.9 |
| Total | $2,635,613 | $ 604,666 | $1,950,533 | $ 23,228 | $ 5,214,040 | 45.9 |
| Grand total | $7,751,774 | $1,347,289 | $2,145,839 | $106,591 | $11,351,493 | 100.0 |

[a]Includes cars, car trailers, taxis, jeeps and motorcycles.
[b]Includes allocation to foreign, tourist cars.

Source: Nevada Department of Highways, Highway Planning Survey, Section 210 Study, Bureau of Public Roads, U. S. Department of Commerce.

The owners of property-carrying vehicles as a group paid an estimated total tax in excess of $5.2 million in 1956. This amounted to almost 46 percent of the highway user tax burden. The contribution of the property-carrying vehicles is further classified by type of fuel in the case of trucks and a final category was all pickups. Diesel powered units accounted for the largest share--22.9 percent; gasoline trucks--17.1 percent; and all pickups--5.9 percent. It is not possible to differentiate the total burden of such vehicles in terms of commercial and private use. However, it appears that the great bulk of the diesel unit burden is borne by vehicles used for commercial purposes, and a substantial part of the burden on gas powered units is also attributable to this type of use.[24]

Similar results are indicated in an unpublished analysis of the distribution of highway user tax burdens paid by vehicles traveling on "state supported road systems" in 1957. This study by Professor Alden Plumley of the School of Business Administration of the University of Nevada showed that private passenger cars paid about 52 percent of the user taxes.[25] However, a much larger share, 30 percent as compared to 18 percent was attributed to foreign-owned cars. In the case of trucks and combinations (all classes), also, the overall percentage contribution was almost identical, 45.7 as compared to 45.9 percent in the data for 1956. Although the estimated share of user taxes paid by buses in the Plumley analysis was 2.1 percent and that in Table 8.19 (1956 data) was 1.8 percent, the difference is not significant. The Plumley figures indicate that nearly 48 percent of the total tax load contributed by vehicles traveling on the state supported road systems was borne by commercial vehicles. This is an unusually high proportion, and does not appear to be realistic as it virtually excludes any contribution by private vehicles other than passenger cars.

The importance of the different types of user taxes and licenses in the burden of the primary groups of vehicles noted above is shown on a percentage basis in Table 8.20. As would be expected, the fuels taxes constituted nearly 77 percent of the total tax load imposed upon the owners of Nevada private passenger cars and related types of vehicle. Driver license fees allocated to passenger cars and gasoline propelled trucks were nominal, accounting for about 2 percent and 1 percent, respectively. In the case of gas propelled

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[24]The vehicles subject to the motor carrier taxes as previously noted are predominantly common and contract carriers operating on an intercity basis. In Colorado, the for hire vehicles of all classes accounted for only 22 percent of the total user tax burden. See Report of the Governor's Tax Study Group, op. cit., Chapter X.

[25]This study was undertaken for the Nevada Motor Transport Association, Inc., and it is anticipated that the findings will be published in the near future.

Table 8.20

Percentage Distribution of Nevada Highway User Tax Burden, by Major Classes of Vehicle, 1956

| Type of vehicle | Fuel taxes | Registration fees | Carrier fees | Drivers' licenses | Total percent |
|---|---|---|---|---|---|
| Private passenger cars | | | | | |
| Nevada owned | 76.8 | 18.9 | 2.2 | 2.1 | 100.0 |
| Foreign | 100.0 | - | - | - | 100.0 |
| Buses | | | | | |
| Gas (school) | 99.4 | .6 | - | - | 100.0 |
| Gas (non-school) | 53.7 | 1.8 | 44.5 | - | 100.0 |
| Diesel (non-school) | 36.6 | .5 | 62.9 | - | 100.0 |
| Trucks and trailers | | | | | |
| Trucks - gas | 60.8 | 18.3 | 19.7 | 1.2 | 100.0 |
| Trucks - diesel | 34.8 | 5.2 | 60.0 | - | 100.0 |
| Pickups | 81.6 | 17.0 | 1.4 | - | 100.0 |

Source: Nevada Department of Highways, Highway Planning Survey, Section 210 Study, U. S. Department of Commerce, Bureau of Public Roads.

non-school buses, more than half of the total burden, 53.7 percent, was attributable to fuels taxes, 44.5 percent to carrier licenses and, only 1.8 percent to registration fees. This relationship was reversed in the instance of diesel powered buses, the carrier licenses accounting for 62.9 percent of the total, fuels taxes 36.6 percent, and registration fees a nominal 1/2 of 1 percent.

Fuels taxes are a primary element in the user tax burden of gasoline powered trucks, accounting for 60.8 percent of the total. Carrier licenses amounted to 19.7 percent and registration fees 18.3 percent. In the instance of diesel powered trucks the relationship was reversed. Carrier licenses represented 60 percent of the total, the fuels tax 34.8 percent, and registration fees only 5.2 percent. The burden for pickups as would be expected, manifested a distribution pattern similar to that for passenger cars.

## Highway User Tax and License Burdens in Western States

Interstate comparisons of highway user burdens present a difficult problem because of the variations in types of tax bases and rates employed. Individual tax relationships are not particularly meaningful unless they can be adapted to a uniform measure as in the case of the fuels taxes. Even then it is the overall burden, rather than particular components, that is significant. The Bureau of Public Roads Study reports from the

individual states generally provide the basic data needed on total burdens. Once the total taxes and fees paid by a particular type of vehicle, devoted to a given use, consuming a certain type of fuel and with a given number of axles is determined, an average tax per vehicle can be computed. However, the average tax per vehicle basis of comparison is deficient in that it does not take account of differences in average miles traveled. Therefore, the following comparative analysis of user burdens is in terms of costs per mile traveled. As indicated above, the analysis generally covers the eight Western States (including Nevada) for which data were available. However, the data for some states in a few instances were not comparable, and in such cases a smaller number of states was used. It should also be noted that the data for Nevada were available on a detailed basis only for certain major classes of vehicle and use. The approach indicated showing individual weight categories is believed to be preferable to one involving average costs for major classes of vehicles. While the detailed data show certain unusual or non-representative results, they also reflect the broad pattern and the distribution of the items around the average. Averages, on the other hand, obscure particular relationships that are significant, and also simply hide the unusual case situations. The alternative average costs per mile information is available for 1956 and 1957 from computations made by the Highway Department staff and Professor Plumley's study, respectively. The comparative cost data, averaged and on an individual state basis, are presented in Tables 8.21 and 8.22 respectively.

Single Unit Trucks, For Hire--Gas

The user tax costs of single unit "for hire" gas propelled, two axle trucks in Nevada were below the average in the lower weight classes and slightly above average in two of the higher weight classes. In relation to weight, costs exhibited a significant progression up to 16,000 pounds of gross weight and then they declined. A similar pattern was evident in Oregon, but not in the other states. In terms of comparative burdens for the individual states (Table 8.22) the tax load on two-axle trucks in Nevada was substantially less than that in California, Oregon, Washington and Wyoming; it was higher than that in Idaho; and about on a par with that in Arizona and Colorado. For the same type of vehicle and use in the three axle group, the information was limited to two of the heavy weight categories, and in one the Nevada tax was below average and in the other it was substantially above. For this group Nevada's tax burden appeared to be well above that in Arizona, Colorado, California and Idaho, and about the same as that in Oregon and Wyoming.

Single Unit Trucks, Not For Hire--Gas

User tax payments in Nevada for the "not for hire" gas powered, three axle, single unit trucks were substantially below the Western State average except for one of the heavier weight classes which was exactly at the average. Progression in burden relative to weight was

Table 8.21

Comparative User Tax and Other Charges by Type of Vehicle, Western States and Nevada, 1956

| Category by gross weight classes (hundred lbs.) | Average cost per mile in Western States as per sample | Cost per mile in Nevada | Nevada cost as percent of Western States average cost | Number of states in sample |
|---|---|---|---|---|
| | A. Single unit trucks | | | |
| For hire: gas 2 axles (all) | | | | |
| 40 - 49 | $0.008 | $0.006 | 75 | 6 |
| 50 - 59 | 0.009 | 0.006 | 67 | 7 |
| 60 - 79 | 0.011 | 0.007 | 64 | 8 |
| 80 - 99 | 0.013 | 0.010 | 77 | 7 |
| 100 - 119 | 0.018 | 0.012 | 67 | 8 |
| 120 - 139 | 0.015 | 0.012 | 80 | 8 |
| 140 - 159 | 0.017 | 0.016 | 94 | 8 |
| 160 - 179 | 0.017 | 0.018 | 106 | 8 |
| 180 - 199 | 0.016 | 0.016 | 100 | 8 |
| 200 - 219 | 0.017 | 0.019 | 112 | 8 |
| 220 - 239 | 0.018 | 0.018 | 100 | 8 |
| 240 - 259 | 0.020 | 0.016 | 80 | 8 |
| For hire: gas 3 axles | | | | |
| 320 - 359 | 0.031 | 0.027 | 87 | 7 |
| 360 - 399 | 0.031 | 0.043 | 139 | 7 |
| Not for hire: gas - 3 axles | | | | |
| 180 - 199 | 0.016 | 0.014 | 88 | 7 |
| 200 - 219 | 0.018 | 0.011 | 61 | 7 |
| 220 - 239 | 0.021 | 0.014 | 67 | 5 |
| 240 - 259 | 0.023 | 0.016 | 69 | 7 |
| 260 - 279 | 0.026 | 0.018 | 69 | 7 |
| 280 - 299 | 0.026 | 0.023 | 88 | 6 |
| 300 - 319 | 0.024 | 0.022 | 92 | 7 |
| 320 - 359 | 0.020 | 0.020 | 100 | 8 |
| 360 - 399 | 0.029 | 0.025 | 86 | 7 |
| 400 - 449 | 0.031 | 0.027 | 87 | 7 |
| For hire: diesel 3 axles | | | | |
| 320 - 359 | 0.025 | 0.024 | 96 | 6 |
| 360 - 399 | 0.033 | 0.069 | 209 | 6 |
| 400 - 449 | 0.033 | 0.061 | 185 | 7 |

(continued)

Table 8.21 (continued)

Comparative User Tax and Other Charges by Type of Vehicle, Western States and Nevada, 1956

| Category by gross weight classes (hundred lbs.) | Average cost per mile in Western States as per sample | Cost per mile in Nevada | Nevada cost as percent of Western States average cost | Number of states in sample |
|---|---|---|---|---|
| **B. Combinations** | | | | |
| For hire: gas with semi-trailer 3 axles | | | | |
| 280 - 299 | $0.022 | $0.019 | 86 | 6 |
| 300 - 319 | 0.024 | 0.023 | 96 | 7 |
| 320 - 359 | 0.026 | 0.021 | 81 | 7 |
| 360 - 399 | 0.023 | 0.027 | 117 | 8 |
| 400 - 449 | 0.027 | 0.036 | 133 | 8 |
| Not for hire: gas semi-trailer 3 axles | | | | |
| 300 - 319 | 0.021 | 0.046 | 219 | 7 |
| 320 - 359 | 0.023 | 0.032 | 139 | 7 |
| 360 - 399 | 0.019 | 0.031 | 163 | 8 |
| 400 - 449 | 0.021 | 0.036 | 171 | 8 |
| For hire: diesel with semi-trailer 3 axles | | | | |
| 500 - 549 | 0.062 | 0.078 | 126 | 3 |
| 550 - 599 | 0.027 | 0.031 | 115 | 5 |
| For hire: diesel with full trailer 5 axles | | | | |
| 650-- 699 | 0.034 | 0.022 | 65 | 8 |
| 700 and over | 0.029 | 0.030 | 103 | 8 |
| Not for hire: diesel[a] semi-trailer 3 axles | | | | |
| 400 - 449 | 0.013 | 0.028 | 215 | 5 |
| Not for hire: diesel[a] semi-trailer 4 axles | | | | |
| 500 - 549 | 0.026 | 0.012 | 46 | 5 |
| 550 - 599 | 0.014 | 0.017 | 121 | 5 |

[a]Data on 5-axles combinations not comparable.

(continued)

Table 8.21 (continued)

Comparative User Tax and Other Charges by Type of Vehicle, Western States and Nevada, 1956

| Category by gross weight classes (hundred lbs.) | Average cost per mile in Western States as per sample | Cost per mile in Nevada | Nevada cost as percent of Western States average cost | Number of states in sample |
|---|---|---|---|---|
| | | C. Buses | | |
| For hire: gas all weights | $0.028[b] | $0.019[c] | 68 | 3 - 5 |
| For hire: diesel all weights | 0.025[d] | 0.027[c] | 108 | 3 - 5 |
| | | D. Automobiles | | |
| Not for hire: gas 0 - 39 | 0.006 | 0.006 | 100 | 7 |

[b]Average of cost per mile of 13 weight classes.
[c]Average of all weight classes of intercity vehicles.
[d]Average of cost per mile of 5 weight classes.

Source: Nevada Department of Highways, Highway Planning Survey, Section 210 Study, U. S. Department of Commerce, Bureau of Public Roads.

evident throughout. The burden in Nevada was markedly lower than in Oregon, Washington and Wyoming; it was slightly lower than in California; and definitely higher than in Arizona and Colorado.

Single Unit Trucks, For Hire--Diesel

The Nevada user tax burden shown for three heavy weight classes of single unit "for hire" diesel propelled, three axle trucks was approximately twice as large as the Western State average for two of the classes and slightly below the average in the other. These results, however, cannot be considered representative as the mileage estimates, particularly for the last two classes, were very low. Such peculiarities involving one or more weight classes were also evident in the data from other states.

Table 8.22

Special Highway User Tax and Other Charges Per Mile by Type of Vehicle, Eight Western States, 1956

| Registered gross vehicle weight class (hundreds of lbs.) | Cost per mile | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Nevada | Arizona | Calif. | Colo. | Idaho | Oregon | Wash. | Wyo. |
| **I. Single unit trucks** | | | | | | | | |
| **A. For hire: gas--2 axles (all)** | | | | | | | | |
| 40 - 49 | $0.006 | $0.008 | $0.012 | a | $0.007 | $0.009 | a | $0.006 |
| 50 - 59 | 0.006 | 0.004 | 0.013 | a | 0.008 | 0.010 | $0.011 | 0.008 |
| 60 - 69 | 0.007 | 0.009 | 0.014 | $0.005 | 0.010 | 0.019 | 0.014 | 0.009 |
| 70 - 99 | 0.010 | 0.008 | 0.019 | a | 0.009 | 0.008 | 0.017 | 0.017 |
| 100 - 119 | 0.012 | 0.010 | 0.017 | 0.010 | 0.010 | 0.014 | 0.020 | 0.054 |
| 120 - 139 | 0.012 | 0.011 | 0.017 | 0.010 | 0.011 | 0.019 | 0.018 | 0.024 |
| 140 - 159 | 0.016 | 0.011 | 0.018 | 0.016 | 0.012 | 0.026 | 0.019 | 0.018 |
| 160 - 179 | 0.018 | 0.012 | 0.019 | 0.012 | 0.013 | 0.027 | 0.019 | 0.019 |
| 180 - 199 | 0.016 | 0.011 | 0.019 | 0.010 | 0.013 | 0.021 | 0.020 | 0.019 |
| 200 - 219 | 0.019 | 0.011 | 0.019 | 0.012 | 0.014 | 0.022 | 0.019 | 0.019 |
| 220 - 239 | 0.018 | 0.013 | 0.020 | 0.012 | 0.015 | 0.021 | 0.020 | 0.024 |
| 240 - 259 | 0.016 | 0.013 | 0.023 | 0.013 | 0.016 | 0.020 | 0.022 | 0.033 |
| **B. For hire: gas--3 axles (all)** | | | | | | | | |
| 320 - 359 | 0.027 | 0.021 | 0.029 | 0.026 | a | 0.043 | 0.039 | 0.036 |
| 360 - 399 | 0.043 | 0.020 | 0.031 | 0.026 | 0.016 | 0.036 | a | 0.045 |
| **C. Not for hire: gas--3 axles (all)** | | | | | | | | |
| 180 - 199 | 0.014 | 0.008 | 0.019 | 0.006 | 0.025 | 0.022 | 0.020 | a |
| 200 - 219 | 0.011 | 0.020 | 0.021 | 0.004 | 0.015 | 0.031 | 0.026 | a |
| 220 - 239 | 0.014 | a | 0.023 | 0.005 | a | 0.034 | 0.031 | a |
| 240 - 259 | 0.016 | 0.042 | 0.021 | 0.006 | 0.014 | 0.037 | 0.027 | a |
| 260 - 279 | 0.018 | 0.035 | 0.026 | 0.006 | 0.027 | 0.029 | 0.041 | a |
| 280 - 299 | 0.023 | 0.033 | 0.026 | 0.008 | a | 0.033 | 0.034 | a |

(continued)

| | Nevada | Arizona | Calif. | Colo. | Idaho | Oregon | Wash. | Wyo. |
|---|---|---|---|---|---|---|---|---|
| | | | C. Not for hire: gas--3 axles (all) - (continued) | | | | | |
| 300 - 319 | $0.022 | $0.020 | $0.025 | $0.009 | $0.023 | $0.033 | $0.035 | a |
| 320 - 359 | 0.020 | 0.019 | 0.025 | 0.010 | 0.014 | 0.042 | 0.030[b] | $0.084 |
| 360 - 399 | 0.025 | 0.020 | 0.027 | 0.010 | 0.021 | 0.040 | a | 0.059 |
| 400 - 449 | 0.027 | 0.022 | 0.028 | 0.010 | 0.020 | 0.044 | a | 0.069 |
| | | | D. For hire: diesel--3 axles (all) | | | | | |
| 320 - 359 | 0.024 | 0.009 | 0.036 | 0.021 | a | a | 0.024[b] | 0.034 |
| 360 - 399 | 0.069 | 0.011 | 0.037 | 0.023 | 0.008 | a | a | 0.052 |
| 400 - 449 | 0.061 | 0.012 | 0.037 | 0.024 | 0.007 | 0.042 | a | 0.042 |
| | | | II. Combinations | | | | | |
| | | | A. For hire: combinations with semi-trailer--gas--3 axles | | | | | |
| 300 - 319 | 0.023 | 0.018 | 0.024 | 0.021 | 0.027 | 0.026 | 0.026 | a |
| 320 - 359 | 0.021 | 0.032 | 0.024 | 0.022 | 0.017 | 0.039 | 0.024 | a |
| 360 - 399 | 0.027 | 0.023 | 0.024 | 0.023 | 0.009 | 0.036 | 0.020[b] | 0.018 |
| 400 - 449 | 0.036 | 0.022 | 0.024 | 0.025 | 0.009 | 0.049 | 0.025[b] | 0.025 |
| 500 - 549 | a | a | a | 0.029 | 0.006 | a | 0.048[b] | 0.044 |
| 550 - 599 | a | a | a | 0.031 | 0.010 | a | 0.014 | 0.037 |
| | | | B. Not for hire: combinations with full trailer--gas--4 axles | | | | | |
| 600 - 649 | 0.026 | a | a | a | a | 0.055 | 0.025 | a |
| | | | C. For hire: combinations with semi-trailer--diesel--3 axles | | | | | |
| 500 - 549 | 0.078 | a | a | 0.031 | a | 0.077 | a | a |
| 550 - 599 | 0.031 | a | a | 0.030 | 0.004 | a | 0.021 | a |
| | | | D. For hire: combinations with full trailer--diesel--5 axles | | | | | |
| 650 - 699 | 0.022 | 0.020 | 0.032 | 0.033 | 0.009 | 0.058 | 0.022 | 0.081 |
| 700 and over | 0.030 | 0.018 | 0.033 | 0.036 | 0.009 | 0.059 | 0.022 | 0.034 |
| | | | E. Not for hire: combinations with semi-trailer--diesel--3 axles | | | | | |
| 400 - 449 | 0.028 | a | 0.024 | 0.008 | 0.004 | 0.014 | a | a |

(continued)

| | Nevada | Arizona | Calif. | Colo. | Idaho | Oregon | Wash. | Wyo. |
|---|---|---|---|---|---|---|---|---|
| | F. Not for hire: combinations with semi-trailer--diesel--4 axles | | | | | | | |
| 500 - 549 | $0.012 | a | $0.029 | $0.011 | $0.007 | $0.076 | a | a |
| 550 - 599 | 0.017 | a | 0.026 | 0.013 | 0.005 | 0.135 | a | a |
| | III. Buses | | | | | | | |
| | A. For hire--gas | | | | | | | |
| 60 - 79 | | 0.035 | 0.020 | 0.016 | 0.007 | a | 0.010 | a |
| 80 - 99 | | 0.041 | 0.023 | 0.019 | a | a | 0.019 | a |
| 100 - 119 | | 0.069 | 0.026[c] | 0.021 | 0.011 | a | 0.014 | a |
| 120 - 139 | | 0.018 | 0.032[c] | 0.020 | 0.022 | a | 0.017 | a |
| 140 - 159 | $0.019[d] | 0.020 | 0.034[c] | 0.024 | 0.018 | a | 0.018 | a |
| 160 - 179 | | 0.021 | 0.033[c] | 0.025 | 0.029 | a | 0.019 | a |
| 180 - 199 | | 0.074 | 0.038[c] | 0.024 | 0.018 | a | 0.029 | a |
| 200 - 219 | | 0.051 | 0.034 | 0.031 | 0.020 | a | 0.030 | a |
| 220 - 239 | | 0.016 | a | 0.034 | 0.023 | a | 0.026 | a |
| 240 - 259 | | 0.017 | a | 0.044 | 0.023 | a | 0.027 | a |
| 260 - 279 | | 0.021 | a | 0.052 | 0.048 | a | 0.028 | a |
| | B. For hire--diesel | | | | | | | |
| 160 - 179 | | a | 0.084[c] | 0.023 | a | a | 0.003 | a |
| 180 - 199 | | a | 0.137 | 0.019 | a | a | 0.017 | 0.015 |
| 200 - 219 | 0.027[d] | a | 0.142[c] | 0.018 | a | 0.013 | 0.010 | 0.015 |
| 220 - 239 | | a | a | 0.033 | a | 0.020 | 0.014 | 0.017 |
| 240 - 259 | | a | a | 0.014 | a | 0.099 | 0.015 | 0.018 |
| 260 - 279 | | a | a | 0.052 | a | 0.047 | a | 0.018 |
| | IV. Autos | | | | | | | |
| | A. Not for hire: gas | | | | | | | |
| 0 - 39 | 0.006 | 0.004 | 0.006 | 0.006 | a | 0.006 | 0.007 | 0.005 |

[a]Not available.

[b]Weight categories not comparable.

[c]Averages since data are reported in 1000 lb. categories.

[d]Overall average all weights intercity vehicles.

Source: Adapted from Motor Vehicle Classification, Section 210 Study, Federal Aid Highway Act of 1956

Combinations, Gas with Semi-Trailer

Costs in Nevada for the category of "for hire" combination, three axles, were lower than the Western States' averages for the first three classes of lighter weights shown, but significantly higher in the two heavier weight classes. Here gain, the tax burden for this category of vehicles in Nevada showed a marked progression with respect to weight, varying from $0.019 to $0.036 per mile. With regard to the category of "not for hire" combinations, three axles, the costs for all four weight classes in Nevada were markedly higher than the Western States' averages, ranging from 39 to 119 percent above the tax costs for comparable vehicles in the latter group. Only one state, Oregon, exhibited costs that were higher than those of Nevada.

Combinations, For Hire--Diesel with Semi-Trailer

Only two heavy weight classes for this category of "for hire" combinations, three axles, were available for comparative purposes. The data indicated a cost burden of 15 and 26 percent above the Western State average, although only a few states were included in the sample in this instance. The burden for the two classes in Nevada also showed an extreme differential and cannot be considered a general or representative pattern of costs.

Combinations, For Hire--Diesel with Full Trailer

For the category of "for hire" diesel with full trailer, five axle combinations, the data indicate that Nevada's costs represented 65 and 103 percent of the Western State averages for the two classes covered. The Nevada burden was substantially below those in Colorado, Oregon and Wyoming and slightly lower than the California costs. Idaho was the only state whose costs were markedly lower than those in Nevada. Progression of burden in relation to weight in Nevada is indicated, but the evidence in this regard is not conclusive with only two weight classes available.

Combinations, Not For Hire--Diesel with Semi-Trailer

The comparative information for the "not for hire" diesel with semi-trailer combinations, both three and four axles, is limited. Nevada's costs were over twice the average for the one weight class of three axle vehicles, and varied from 46 to 121 percent of the average in the case of the two classes of four axle units. However, data were not available for either of these categories in the cases of Washington and Wyoming.

Buses, For Hire--Gas and Diesel

The average user costs for the "for hire" buses--both gas and diesel--for the Western States represents a simple average of the costs per mile per weight class. The data for the Western States are presented in this form for comparative purposes since only an average cost figure, not broken down by weight classes, was available for Nevada's buses. With regard to the tax costs on gas propelled buses it appears that the Nevada average cost was only 68 percent of the Western average. Examination of the basic cost data of the individual states (Table 8.22) indicates that burdens in Arizona, California, Colorado and Washington were significantly higher than in Nevada, and data for two of the high cost states, Oregon and Wyoming, were not available. Idaho's costs were roughly comparable to those in Nevada. In the case of the "for hire" diesel powered buses the Nevada costs were 8 percent higher than the Western average, but on the basis of the detailed data it is evident that Nevada's costs were below those in California, Colorado and Oregon, and above those in Washington and Wyoming.

Passenger Cars, Not For Hire--Gas

For the highly important category of private passenger cars the Nevada tax burden of 6/10 of 1¢ per mile worked out to be the same as the Western States average. Among the states of this region only Washington had a cost above the average (7/10 of 1¢ per mile), and Wyoming had a burden below (5/10 of 1¢ per mile). Thus, in this category Nevada's highway user taxes are not out of line with the burdens being imposed by the majority of neighboring states in the West.

## Administration and Collection Costs

A newly created State Department of Motor Vehicles was established in 1957 to administer the varied highway user taxes and vehicle licensing programs in Nevada. In the past the regulatory and revenue functions had been divided between the State Tax Commission, the Motor Carrier Division of the State Public Service Commission, and the seventeen county assessors' offices. The move to centralize these functions and responsibilities had been under consideration for several years, and in general was primarily aimed at achieving a more equitable and effective administration of the highway user tax and licensing programs. State control over and actual participation in the vehicle registration and assessment process also was deemed desirable. The original 1957 plan was further modified by the enactment of statutory amendments in 1959 and 1960. However, as a result of all the administrative changes made, particularly the transfer of collection responsibilities and revision of registration procedures, expenses associated with highway user tax administration for the past few years have become somewhat obscured and at this juncture it is difficult to appraise the net effect on costs.

## Fuel Tax Administration

The State Tax Commission was responsible for the collection of both the motor fuel and special fuels tax levies prior to the 1957 reorganization which called for a transfer of the function to the newly created Department of Motor Vehicles. The change, however, was not affected that year and subsequent legislation in 1959 provided that the motor fuel tax be retained in the Tax Commission and only the special fuels tax be shifted to the Motor Carrier Division of the Motor Vehicle Department. Thus, as previously indicated, Nevada is now in the unique position of having two related types of motor fuel taxes administered by two separate State agencies.

The full effect of the above change on administrative expense is unknown, but in the past the collection costs on fuel taxes were relatively small in Nevada, as shown in Table 8.23. During the decade of 1950-1959, inclusive, the direct cost of administering both the motor fuel (State and county) and special fuels taxes averaged approximately 6/10 of 1 percent of the combined revenues derived from these sources. The specific collection cost for each type of fuel levy has not been segregated since 1954, but for the five year period from 1950 through 1954 the administrative costs of the motor fuel tax averaged less than 1/2 of 1 percent of the collections from this source, while costs of the special fuels tax ranged from about 1.8 to 2.4 percent of the special fuels tax revenues. It appears that in the case of the latter the costs were in line with those experienced by other Western States, and the comparatively low collection costs for the motor fuel tax may be attributed primarily to the relatively small number of fuel handlers and distributors in the State.

Table 8.23

Motor and Special Fuel Taxes, Relative Collection Costs, 1950-1959

| Years[a] | Collection costs as a percent of respective gross collections: Motor fuel taxes only[b] | Special fuel taxes only[b] | Total motor and special fuel taxes |
|---|---|---|---|
| 1950 | 0.43 | 2.01 | 0.56 |
| 1951 | 0.37 | 1.80 | 0.53 |
| 1952 | 0.38 | 1.88 | 0.55 |
| 1953 | 0.40 | 1.77 | 0.57 |
| 1954 | 0.44 | 2.39 | 0.69 |
| 1955 | - | - | 0.57 |
| 1956[c] | - | - | - |
| 1957 | - | - | 0.63 |
| 1958 | - | - | 0.61 |
| 1959 | - | - | 0.61 |

[a]Calendar years 1950-1955, fiscal years 1957-1959.
[b]Costs not segregated since 1954.
[c]Cost for full year not calculable due to changeover from calendar to fiscal year basis.

Source: Nevada State Tax Commission, Annual Reports, 1950-1959.

Actually, the problem of motor fuel administration in Nevada is relatively simple since the State has only one oil well and no refining facilities. There are approximately a hundred licensed wholesalers and dealers, some thirty unlicensed motor fuel retail dealers and five unlicensed aviation fuel distributors. The enforcement procedures are limited to a check of licensed dealers' returns against the motor fuel carrier report, the examination and verification of refund returns and occasional outside checks on fuel inventories and carrier operations. However, no external audits are performed on any of the returns or reports filed. While it is improbable that a serious evasion problem exists, enforcement would be strengthened by inaugurating a limited field audit program of dealer and carrier records and refund claims. A regular check should also be made of dealers' stocks, and the motor fuel retail dealers and aviation fuel distributors should be licensed.

## Registration Tax Administration

The administration of the registration tax prior to fiscal year 1960 was handled by the county assessors who received $1.00 per registration. Actual cost data for their services in this area are not available, but assuming the cost approached the compensation, the expense would have approximated $164,000 in fiscal year 1959. In contrast, the Registration Division of the Department of Motor Vehicles had an estimated cost of $264,000 for fiscal year 1960, and a budgeted appropriation of $256,000 for fiscal year 1961. But it should be noted that under the new organization of the Department a substantial proportion of automation and accounting division expenses should be added to the reported registration costs if these data are to be compared with the expenses of earlier periods. Of course, the increased costs in part reflect the initial expenses involved in establishing the new system of registration.

The 1960 act redefined the role of the State in administering the vehicle registration tax. It provided that the registration fee as well as the property tax on the vehicle be centrally assessed, department field offices be established for the actual issuance of plates in Clark and Washoe counties, and county assessors be designated as agents of the Department in the other fifteen counties. With regard to the property tax all vehicles subject to the tax are to be assessed on a uniform basis of 35 percent of market value and at a uniform rate of 4 percent. This central assessment eliminates the inequities which previously resulted from the individual county assessment procedures and the option given the taxpayer of having his vehicle assessed either in connection with the general property tax or when he registered for plates. It appears that this centralized approach to vehicle registration and assessment is a move in the right direction and it should result in increased net revenues for the State if the related administrative costs are not permitted to become excessive.

## Motor Carrier and Operator Licenses Administration

As noted, one of the major changes affected by the reorganization was the transfer of the Motor Carrier Division from the State Public Service Commission to the newly created State Department of Motor Vehicles. The Department also includes a Drivers License Division which has the sole responsibility for administering the motor vehicle operators' licensing program. The expense of administering the motor carrier and operators' licensing programs during the decade ending in 1958 are shown in Table 8.24. Motor carrier licensing and related regulatory activity costs under the Public Service Commission exhibited a broad range of variation from 4 to nearly 11 percent of carrier license and fee collections. However, during the last three years of that administration, 1956-1958 inclusive, they averaged 9.3 percent of receipts and for the entire ten-year period they amounted to about 8 percent of revenues. Considering the nature of the enforcement activities involved, the ratio of administrative expense to collections during the decade were not excessive in light of the experience of the other Western States. For example, these expenses amounted to about 10 percent in Colorado during the same period. With regard to extreme variations in the costs of the operators' licensing program which ranged from about 33 to 133 percent of collections from this source it should be observed that they are not particularly meaningful in view of the two-year license plan and changes in the law. While the aggregate ratio of 79.3 percent for the ten-year period may seem unduly large, it should be

Table 8.24

Cost of Administering Motor Carrier and Operators' Licensing Programs, 1949-1958

| | Motor carrier program: | | Operators' License program: | |
|---|---|---|---|---|
| Years | Annual expenses[a] | Percent of collections | Annual expenses | Percent of collections |
| 1949 | $ 76,219 | 10.9 | $ 67,205 | 93.3 |
| 1950 | 40,926 | 4.5 | 43,866 | 103.0 |
| 1951 | 47,851 | 4.2 | 26,316 | 32.6 |
| 1952 | 89,721 | 6.6 | 68,108 | 132.5 |
| 1953 | 101,661 | 6.4 | 58,245 | 71.5 |
| 1954 | 180,837 | 10.9 | 88,070 | 110.1 |
| 1955 | 116,894 | 6.6 | 73,231 | 80.3 |
| 1956 | 189,926 | 9.0 | 101,464 | 66.1 |
| 1957 | 167,686 | 8.1 | 90,839 | 57.0 |
| 1958 | 221,496 | 10.7 | 157,336 | 95.5 |
| Aggregate Averages | - | 8.0 | - | 79.3 |

[a]Includes supervision of registration tax.

Source: Nevada State Department of Highways, Biennial Report, 1957-1958.

noted that the purpose of this function is control rather than the production of revenue. Moreover, the 1958 costs of $157,000 (the high year for the decade) do not appear to be excessive when compared with estimated expenses of $197,000 for 1960, and a budgeted appropriation of almost $195,000 for 1961, unless a clearly superior regulatory job is currently being done under the new reorganization.

The Motor Carrier Division of the new Department of Motor Vehicles has the primary responsibility for administering all revenue and certain regulatory measures pertaining to motor carriers and the special fuels tax. The former provisions include the so-called plate fees (flat and unladen weight), the optional mileage tax on interstate carriers, proration fees on interstate carriers, and various types of permits including single-trip, emergency and convoy. Transfer of the special fuels tax to this agency as previously indicated was the result of a legislative compromise in 1959. In addition to enforcement activities which it shares with the Highway Patrol field officers, the magnitude of the Division's operations is partly reflected by the volume of returns and reports it processes in connection with motor carrier taxation and licensing. Monthly averages for the current year were estimated to be as follows:

| | |
|---|---|
| Motor convoy licenses | 37 |
| Special fuel dealers reports | 110 |
| Operators' one-trip license reports | 200 |
| Mileage tax reports | 397 |
| Pro-rated registration accounts | 418 |
| Special fuels tax users reports | 1,212 |
| Flat fee company returns | 1,246 |
| Total for average month | 3,620 |

Although the one-trip license reports filed by operators constitute only about 6 percent of the total monthly returns processed, the actual amount of this type of motor carrier licensing which occurs under the present statute appears to be unusually large relative to the issuance of flat fee and mileage plates. For example, in 1959, the Division granted approximately 36,000 one-trip permits to some 200 operators; in contrast, about 3,500 flat fee and 6,500 mileage plates were issued during the same year. The relatively extensive use being made of one-trip licensing in Nevada may represent a tax loophole for a small number of motor carrier operators. From the standpoint of both equity and revenue administrative control over this type of licensing should be tightened even if it requires legislative amendment.

Finally, it should be noted that the administrative expense of the Motor Carrier Division in 1958, the last year it was under the Public Service Commission, amounted to about $221,000. On the other hand, the Division had reported expenses of about $197,000 for fiscal year 1960, and received a budgeted appropriation of only $118,469 for fiscal year 1961. These cost data, however, cannot be considered comparable to those for the earlier years since under the new functional organization of the Department the total expenses, both direct and indirect,

incurred in administering the motor carrier fees, licenses and special fuels tax are not allocated solely to the Motor Carrier Division. To obtain comparable figures would require the inclusion of a considerable portion of the expenses currently attributed to the Fiscal Accounting and Auditing Division (the audit staff of which is concerned almost solely with carrier accounts), the newly created Automation Division, and the Highway Patrol Division, all of which are engaged in different phases of motor carrier administration. It is not possible to make such allocations at this juncture, but a conservative estimate would indicate that total current costs for the Division are roughly twice as large as the 1961 appropriation referred to above. On a percentage of collection basis this would be in the neighborhood of 10 percent, and thus it approximates the ratios achieved under the Public Service Commission during the last few years it had the responsibility of administration in this area.

## Summary: Highway User Tax Burdens in Nevada

A comparative study of highway user tax burdens in Nevada and most of the other Western States based on the best data currently available does not provide all of the answers to the relative burden problem. Recognizing the limitations of the data, the foregoing analysis, however, does establish certain facts essential to intelligent policy formulation. In the first place, the burden of Nevada's tax on single unit, two axle, gas propelled for hire trucks proved to be below average in most weight categories. Furthermore, the burden attained an average level slightly above the third weight quartile and tapered off for the highest weights. The degree of progression in relation to weight also was not as great as in the other states. A similar situation existed in the case of single unit, gas powered, not for hire, three axle trucks. For the heavy weight for hire, gas, three axle trucks, Nevada's costs appeared to be near average or above. The data in the case of diesel powered single unit trucks were very limited, and as previously indicated do not provide an adequate basis of judgment. Secondly, it may be noted that with regard to combinations it appeared that Nevada's costs for the for hire, gas powered semi-trailer units (three axle) as a whole were about average, with a significant graduation on a weight basis. On the other hand, the burden on the same type of unit, not for hire, was markedly above the Western States' average. The latter situation is probably attributable to the fact that most of these vehicles in Nevada are classified as motor carriers, whereas in most of the other states they are subject to nominal private carrier taxes. Aside from the parallel situation in Nevada with regard to the comparative costs for other combinations, i.e., the not for hire units appear to be taxed relatively more than the for hire combinations, a further conclusion is not warranted. Thirdly, it appears on the basis of the very limited data available that the user taxes on for hire, intercity, gas propelled buses in Nevada were substantially below average, while the diesel powered vehicles bore costs somewhat above those prevailing in other Western States. Finally, only in the case of taxes imposed on private passenger cars was the Nevada highway user tax burden equivalent to the average tax cost per mile levied by the Western States as a group.

In conclusion, it should be emphasized that the average burden position for the Western States does not necessarily represent the ideal, nor are deviations therefrom undesirable per se. From a positive standpoint user tax burdens should be related to the basic concepts of weight and use, and differentials in user tax payments should be in accord with the actual variations in the cost responsibility (for road damage) of the different types of vehicles. Nevada's practice of taxing most intercity private carriers on the same basis as for hire is believed to be sound, although the burdens involved are above the Western State average. Similarly, the exclusion of certain irregular use private vehicles, such as farm, from the motor carrier category is probably justified, but the resulting burden differential may well be too great. Intra-city use, if on a regular basis should be taxed more heavily. The pattern of tax burdens for intercity, for hire carriers in Nevada tends to be erratic. In other words, some types of vehicles, such as intercity buses, appear to be under taxed, some are subject to a reasonable burden and others may be over taxed. The degree of graduation in relation to gross weight also appears to be insufficient for certain trucks and combinations. Such results are a logical expectation in view of the methods of licensing employed. Reasonable uniformity of burdens for vehicles of the same weight and use, as well as appropriate differentials based upon weight, can only be assured by appropriate licensing factors consistently applied. A two factor formula, gross weight and distance, as previously indicated, is best suited to these ends.

# CHAPTER IX

## GAMBLING TAXATION

As is widely recognized, Nevada's economy is unique among the states of the nation as a result of its legalized gambling industry. Without attempting to assess the social and moral implications of gambling, it is evident that Nevada's economic welfare has become highly dependent on the multitude of tourists attracted to the State during the post-war years because of the existence of legalized gambling. At the outset it is important to recognize that with a resident population of 280,000, Nevada accommodates approximately 12,000,000 tourists annually.[1] This represents a resident-tourist ratio of more than 1-to-40 which probably is one of the highest state tourist ratios in the entire nation. Of course, the extent to which tourism would have developed in the absence of legalized gambling is speculative. But it is not unreasonable to assume that a large majority of the tourists who visit the State each year are attracted by Nevada's unique gambling industry and entertainment opportunities. The gambling industry alone accounts for about one-tenth of the total employment in the State, and other closely related service industries such as hotels, motels, restaurants, gasoline stations and personal service establishments account for another one-fifth of the total employment. Thus, almost one-third of the employment in Nevada may be attributed to tourism. Viewed in terms of income, approximately one-half of Nevada's personal income is generated by the amusement, trade and service industries of the State, as indicated in Chapter I of this study. Moreover, in addition to the direct economic importance of legalized gambling, the large amount of tourism has desirable secondary and indirect effects on the Nevada economy. While such effects are not quantifiable, they nevertheless appear to be significant. For example, banking, advertising, construction, professional services and other seemingly unrelated industries and occupations are clearly dependent to a large degree on the presence of legalized gambling.

The public sector of Nevada's economy is also significantly affected by the legalized gambling in the State. Contrary to the popular myth held somewhat widely in other parts of the nation, Nevada is not a "one-tax" state, but the gambling industry does provide an important source of governmental revenue on both the State and local levels. Currently gambling taxes represent more than one-fifth of the State's total tax collections and approximately one-sixth of the combined tax collections of city and county governments. Moreover, the revenues derived from numerous other State and local taxes can be attributed in

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[1] State of Nevada, Department of Highways, Nevada Out-of-State Visitor Survey, 1958, 1960.

part to Nevada's tourist population. For example, a sizable proportion of the revenues collected from the highway user, sales, cigarette, and alcoholic beverage taxes is paid by or shifted to non-residents. In brief, legalized gambling today constitutes one of the most important industries in the private sector of the Nevada economy, and provides a substantial tax base for both the State and local units of government.

## History of Gambling in Nevada

Since its beginning as a territory in the mid-nineteenth century, Nevada has traditionally been characterized by legalized gambling. Although intermittently prohibited, gambling has enjoyed a legal status in the State throughout most of the past century. The first of two unsuccessful attempts to abolish gambling in Nevada was made in 1861 when at the original legislative meeting of the Nevada Territory a bill was passed which prohibited all forms of gambling. The severity of this act is evidenced by the specification that operation of a gambling game was considered a felony and betting was a misdemeanor.[2] At the first session of the Legislature of the newly formed State of Nevada in 1864, the territorial act prohibiting gambling was repealed and in its place a State gambling prohibition law was enacted. In 1869, despite the Governor's veto, the Legislature legalized numerous gambling games and imposed the following license fees: $250 per quarter per establishment in counties polling less than 2,000 votes and $400 per quarter in other counties.[3] Half of the revenue was retained by the counties and the remaining half was remitted to the State. Operation of a gambling game in the front room of a saloon, the admission of minors under 17 years of age, and gambling restrictions by cities were prohibited. Thus, after only eight years of prohibition, gambling was again legalized and accepted in Nevada.

Between 1869 and 1907 numerous changes in license rates and gambling regulations were adopted by various legislatures.[4] The major problems were: the portion of a building in which gambling could be conducted; the admission of minors; the population basis of the license fees; the hours during which saloons and gambling halls could operate; the regulation of cheating games; the prohibition of "winning money

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[2]*Laws of the Territory of Nevada, 1861*, p. 53.

[3]*Statutes of Nevada, 1869*, pp. 119-120. For a complete discussion of the controversy over legalized gambling during this period see Ira E. Gunn, Jr., *The Tax Structure of Nevada*, 1954; and Romanze Adams, *Taxation in Nevada, A History*, 1918.

[4]*Statutes of Nevada, 1871*, p. 107; *1875*, pp. 128-29; *1877*, pp. 94-95, pp. 173-74; *1879*, pp. 114-16; *1885*, p. 12; *1889*, p. 71; *1893*, p. 36; *1897*, p. 111; *1903*, p. 97; and, *1905*, p. 72.

from persons who have no right to gamble it away"; and finally, the recognition of "nickel-in-the-slot" machines in 1905. Decreased revenue from gambling licenses resulted in a reapportionment of revenues in 1907 which gave counties all gaming revenues with the exception of those produced by slot machine licenses which were wholly allocated to the State.[5]

In 1909 a law was enacted which prohibited all forms of gambling including any game played for money and any game in which the operator received compensation.[6] Operation of a gambling game was defined as a felony and law enforcement officers were authorized by State law to "break down doors," seize any gambling equipment, and destroy it.

In 1911, Governor Oddie criticized the severity of the act prohibiting gambling.[7] Following the Governor's recommendation, the 1915 Legislature attempted to exempt certain games by stating that nothing in the act was meant to prohibit "social games played only for drinks and cigars. . .or for prizes of a value not to exceed two dollars, nor nickel-in-the-slot machines for the sale of cigars and drinks. . . ."[8] Moreover, games in which the deal changed after each hand were authorized and operators of such games were required to obtain licenses.

Between 1915 and 1931, Nevada's gambling laws were enforced with decreasing effectiveness. One Nevada historian has referred to the period as follows:

> This patchwork law remained in force for sixteen years, during which time it was by all accounts either ignored completely or so feebly enforced as to be worse than useless. Its fatal defect lay in the fact that the games allowed in the licensed houses had little appeal to the gambling public, which accordingly shunned them and patronized instead the numerous undercover resorts that promptly sprang up. As a result, state and local revenues from license fees declined year by year while the illegal houses multiplied. . . .[9]

The 1931 session of the Legislature marked the beginning of modern legalized gambling in Nevada. After much speculation concerning

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[5]Statutes of Nevada, 1907, p. 183.

[6]Statutes of Nevada, 1909, p. 307.

[7]Gunn, op. cit., pp. 19-20.

[8]Statutes of Nevada, 1915, p. 31.

[9]Oscar Lewis, Sagebrush Casinos (Garden City, New York: Doubleday & Company, Inc., 1953), p. 56.

legalized gambling, Assemblyman Tobin of Humboldt county introduced the "wide-open gambling bill." After several open hearings at which considerable opposition was voiced by religious, temperance, and other groups, the Committee on Public Morals reported the bill out and it was passed in the Assembly by a vote of 24 to 11.[10] Several days later the Senate passed the bill by a vote of 13 to 3 and on March 19, 1931, Governor Balzar signed the bill into law.[11]

Passage of legalized gambling in Nevada was due to several factors. A primary reason was the fact that Nevada was characterized by widespread illegal gambling at the time and major dissatisfaction with the lack of regulation. The analogy was frequently drawn between gambling and prohibition which was soon to be repealed. In an editorial on January 27, 1931, the Nevada State Journal referred to the existing gambling law as "a law which is in no way enforced." Equally important is the fact that Nevada's history of the past half century had been characterized by gambling. It was only in 1910 that gambling had been outlawed and even then enforcement was nominal at best. Hence, the legal acceptance of gambling in 1931 did not represent a break with the past, but rather a continuation of the past.

Another major factor which prompted legalized gambling was the hope that it would enhance business which had suffered severely in the nation-wide depression. Another effort to attract business was the Legislature's passage of the six-week divorce bill in 1931 after passage of a liberal divorce bill in Arkansas. Governor Balzar signed the new divorce law on March 19, the same day he signed the new gambling bill. Finally it was recognized that legalized gambling would provide an additional source of tax revenue and needed relief from other taxes. As stated by the Nevada State Journal on January 18, prior to passage of the bill, "There is a strong sentiment, particularly in Southern Nevada, that some state or municipal revenue should be derived from the games which now run on every hand with the apparent sanction of public sentiment." Thus, the 1931 gambling bill established county license fees based on the number of games operated and allocated these revenues to the State, counties and cities.

With the exception of administrative changes and the addition of several State taxes, the 1931 gambling act has not been substantially altered since that time. In 1945 a State licensing requirement and fee was imposed in addition to the county license and the Tax Commission was designated as the administrative agent.[12] In 1955, the Nevada

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[10]Journal of the Assembly, 35th Session, 1931, p. 254.

[11]Journal of the Senate, 35th Session, 1931, p. 230; and Statutes of Nevada, 1931, p. 165.

[12]Statutes of Nevada, 1945, pp. 492-95.

Gaming Control Board was established, which inaugurated a policy designed to eliminate the participation of undesirable elements in Nevada's gambling industry. This policy was further strengthened in 1959 by the passage of a complete gaming control act and the creation of the Gaming Commission.[13] This agency functions as the ultimate licensing authority for all gambling in the State, and its operations are supplemental to the activities of the Gaming Control Board.

An indication of the growth of gambling in Nevada since 1931 may be obtained from Table 9.1 which shows the State's share of the

Table 9.1

Nevada County Gaming Licenses, State Share, Selected Fiscal Years 1932-1959

| Period | Amount (thousands) | Percent increase over previous year | Index 1932=100 |
|---|---|---|---|
| 1932 | $ 69.1 | -- | 100 |
| 1935 | 48.8 | -29.4 | 71 |
| 1938 | 84.2 | 58.0 | 122 |
| 1941 | 103.1 | 81.7 | 149 |
| 1944 | 161.2 | 64.0 | 233 |
| 1947 | 265.7 | 60.7 | 385 |
| 1950 | 308.1 | 86.2 | 446 |
| 1953 | 366.9 | 84.0 | 531 |
| 1956 | 357.9 | -2.5 | 518 |
| 1959 | 560.4 | 63.9 | 812 |

Source: State of Nevada, Annual Report of the State Controller, 1932-1959.

county gaming tax collections by three-year intervals from 1932 through 1959. These revenues are based on the number of games and slot machines operated in Nevada; the rates have not been changed since the tax was initially enacted in 1931; and, the original State share of 25 percent has been in effect over the entire period. It will be noted that the State's share of the county tax increased from $69,000 in 1932 to $560,000 in 1959, an eight-fold increase in the course of 27 years. During the first three years of this recent period of legalized gambling, the worst years of the Great Depression, table tax receipts actually declined by nearly 30 percent. Although a marked recovery occurred by 1938, by the time the United States entered World War II in 1941 receipts were only about 50 percent above the level attained in 1932. The greatest rate of growth occurred between 1947 and 1950, while a minor decline took place between 1953 and 1956. The greatest absolute increase in the State's share of county gambling taxes, more than $200,000, occurred between 1956 and 1959; but in relative terms

[13] Statutes of Nevada, 1955, p. 884; 1959, p. 432.

the 64 percent increase for this period was considerably below the rates of growth experienced in the late 1940's and the early 1950's. Although changes in these county tax revenues do not in themselves reflect the increase in the actual amount of wagering, the more than 800 percent increase in the total number of games and slot machines licensed in Nevada since gambling was legalized in 1931 provides a fairly good measure of the growth of this industry.

## The Nature of the Gambling Industry[14]

Nevada's gambling industry is composed of two separate groups of firms--unrestricted licensees, i.e., those operating more than seven slot machines and/or one or more games such as craps, roulette, twenty-one, keno, chemin de fer, poker and panguingui; and restricted licensees, i.e., those operating seven or fewer slot machines and no games.[15] Casinos and slot machine route operators who have unrestricted licenses generally rely on gambling revenues as their major source of income, although they may be engaged in other related activities such as restaurants and bars. On the other hand, for restricted licensees the income from slot machines represents a secondary source of revenue since they primarily are engaged in the business of operating a restaurant, bar, motel or grocery store. The distribution of the number of firms and revenues for these two types of licensees in Nevada is presented in Table 9.2.

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[14]A major portion of the data pertaining to gambling activities, revenues, and taxes presented in this section and the remainder of this chapter is based on an extensive survey conducted in cooperation with the Nevada Gaming Commission. Quarterly tax data on unrestricted licensees for the four quarters of fiscal 1959 were coded by personnel of the Commission in a manner designed to avoid disclosure of information pertaining to any particular club. These data were then electronically processed, summarized and finally aggregated into the form presented in this chapter. It should be noted that the survey was based on all returns filed by unrestricted licensees during fiscal year 1959, and not on a sample of returns.

[15]In addition, these firms also may be classified as "provisional" or "advance" licensees on the basis of when the Gross Receipts Tax is paid. The former is represented by firms which have not had a full quarter of operations--newly established firms and/or seasonal operators--and who pay their tax on the basis of gross revenues of the period immediately preceding payment. In contrast, the latter pay their tax in advance for the ensuing quarter on the basis of the reported gross winnings of the preceding quarter. Moreover, it should be noted that pari-mutuel betting, race book and race wire information services also are legal in Nevada. Race book income is subject to the Gross Receipts Tax, but at present there are no race tracks operated in the State except for some county-fair racing which is exempt from gambling taxation. The race wire services are taxed separately, but provide less than 1/2 of 1 percent of the State's total gambling tax revenues.

Table 9.2

Nevada Gambling Licensees and Revenues, 1959

| | Number of licensees | Percent distribution |
|---|---|---|
| Licensees: | | |
| Unrestricted[a] | 322 | 32.0 |
| Proprietors | 135 | 13.4 |
| Partnerships | 99 | 9.8 |
| Corporations[b] | 88 | 8.8 |
| Restricted | 688 | 68.1 |
| Total Licensees | 1,010 | 100.0 |

| | Revenue (thousands) | Percent distribution |
|---|---|---|
| Licensees: | | |
| Unrestricted | | |
| Proprietors | $ 8,942 | 5.5 |
| Partnerships | 18,034 | 11.1 |
| Corporations[b] | 130,760 | 80.3 |
| Total Unrestricted[c] | $157,736 | 96.9 |
| Restricted | 5,043 | 3.1 |
| Total Licensees | $162,779 | 100.0 |

[a]Fourth quarter fiscal year 1959.
[b]Includes one "other" category.
[c]Net of adjustment for bad checks.

It will be noted that the gambling industry in Nevada consists of 1,010 licensed firms and individuals who reported gross winnings for tax purposes of almost $163 million for fiscal year 1959. Of these firms, 688, or approximately two-thirds of the total number, represented restricted licensees who as a group accounted for only $5 million of gambling revenue, or slightly more than 3 percent of the total. In contrast, the unrestricted licensees numbering 322, or less than one-third of the total, accounted for almost $158 million of gambling revenue, or practically 97 percent of the total reported winnings. The extent of concentration in this industry is further indicated by the fact that the 88 corporations included in the latter group of

licensees represent less than 9 percent of the total number of gambling firms in the State but account for more than 80 percent of the gross revenues; whereas the combined number of restricted licensees plus the single proprietors who hold unrestricted licenses, amounting to more than 800 firms or 80 percent of all firms, reported less than 9 percent of the total gross revenues. It is evident that the gambling industry in Nevada actually is characterized by two broad categories of firms. One segment is composed of a relatively large number of small establishments--restricted licensees limited to operating seven or fewer slot machines and unrestricted single proprietors who operate on a marginal scale with only a few games and slot machines; while the other segment of the industry is composed of a comparatively few large corporate firms whose extensive operations dominate the industry when measured by both the absolute and relative number of games, slot machines, gross revenues and tax liability.

Table 9.3 shows the number of slot machines and games licensed in Nevada in 1959. Restricted and unrestricted licensees together

Table 9.3

Nevada Gambling Operations and Revenues, 1959

| | Number | Percent distribution |
|---|---|---|
| Gambling Operations: | | |
| Slot machines | 16,067 | - |
| Games[a] | | |
| Table fee games | 1,096 | 92.3 |
| Twenty-One | 571 | 48.1 |
| Craps | 270 | 22.7 |
| Roulette | 132 | 11.1 |
| Keno | 51 | 4.3 |
| Chemin de fer | 6 | .5 |
| Other | 66 | 5.6 |
| Non-table fee games | 92 | 7.7 |
| Poker | 64 | 5.4 |
| Panguingui | 26 | 2.2 |
| Other | 2 | .2 |
| Total Games[b] | 1,188 | 100.0 |

| | Amount (thousands) | Percent distribution |
|---|---|---|
| Gambling Operations: | | |
| Slot machines | $ 55,012 | 33.8 |
| Games | 111,446 | 68.5 |
| Adjustment for bad checks | -3,679 | -2.3 |
| Total revenue[b] | $162,779 | 100.0 |

[a]Fourth quarter fiscal year 1959.

[b]Totals may not equal sum of items due to rounding.

operated 16,067 slot machines and 1,184 table fee and non-table fee games. Table fee games (those subject to the State Table Tax) accounted for over 92 percent of the total games operated in the State, while non-table fee games accounted for the remainder or only about 8 percent. The most popular game, twenty-one, represented 48 percent or nearly half of all the games operated. Craps is the second most popular game accounting for about 23 percent of the total and roulette is third accounting for about 11 percent. Together these three games represented nearly 82 percent of the total number of games operated. Poker and panguingui (pan) are virtually the only non-table fee games operated. With regard to revenues, income from slot machines was about $55 million in 1959, or approximately one-third of the total gambling revenue. Game revenue was more than $111 million or 68.5 percent of the total, and adjustments for bad checks were nearly $4 million or about 2 percent of the total.[16]

The significance of Nevada's gambling industry is illustrated by the employment and payroll data shown in Table 9.4. In 1959, the

Table 9.4

Nevada Gambling Industry,[a]
Employment and Payrolls,
1950-1959

| Year | Annual average employment | Percent over previous year | Annual payroll[b] (thousands) | Percent over previous year |
|---|---|---|---|---|
| 1950 | 3,911 | - | $16,039 | - |
| 1951 | 4,313 | 10.3 | 18,184 | 13.4 |
| 1952 | 4,759 | 10.3 | 21,276 | 17.0 |
| 1953 | 6,021 | 26.5 | 28,390 | 33.4 |
| 1954 | 6,685 | 11.0 | 32,979 | 16.2 |
| 1955 | 8,215 | 22.9 | 41,517 | 25.9 |
| 1956 | 8,156 | -.7 | 41,105 | -1.0 |
| 1957 | 9,044 | 10.9 | 46,162 | 12.3 |
| 1958 | 9,268 | 2.5 | 48,360 | 4.8 |
| 1959 | 10,541 | 13.7 | 56,763 | 17.4 |
| Increase 1959 over 1950 | | 169.5 | - | 253.9 |
| Increase 1955 over 1950 | | 110.0 | - | 158.9 |
| Increase 1959 over 1955 | | 28.3 | - | 38.1 |

[a]Includes several minor recreation services such as sports promoters and commercial operators.
[b]All payrolls, whether subject or not to employment security.

Source: Nevada Employment Security Department, "Employment in Firms Subject to Nevada Unemployment Compensation Law," 1950-59.

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[16]Bad debts are the only statutory deduction for purposes of the State Gross Receipts Tax.

labor force was about 10,500, which was slightly over 10 percent of the total labor force in the State,[17] and payrolls amounted to approximately $57 million, which also was more than 10 percent of the total of wage and salary disbursements in Nevada. The data also show that employment and payrolls in the gambling industry have expanded greatly in the past decade. Between 1950 and 1959, employment increased by nearly 170 percent and payrolls by nearly 254 percent. The largest percentage increase occurred in 1953 when employment increased by 26.5 percent and payrolls increased by 33.4 percent. While the gambling industry is still growing, it is clear that the five-year period from 1950 to 1955 experienced greater growth than the period from 1955 to 1959. During the earlier period employment grew by 110 percent and payrolls by 159 percent, while during the later period employment grew by only 28 percent and payrolls by only 38 percent. Investment data also provide an indication of the significance of the gambling industry. Based on a sample of unrestricted licensees in selected counties, it is estimated that the total assets of gambling establishments in 1956 was between $100 and $150 million.[18] These figures, which are necessarily only approximations because of the limited sample, do not reflect investment in activities often associated with gambling such as hotels and restaurants.

## County Distribution

As is to be expected, Table 9.5 shows that the major portions of both the restricted and unrestricted gambling industry are concentrated in Clark and Washoe counties. Clark county in 1959 accounted for 37 percent of the total licensees and Washoe county accounted for about 29 percent. Thus, together these two counties contain two-thirds of all the licensees in the State. Among the other counties, only Elko county accounted for as much as 5 percent of the total. Slot machines and games show a similar geographical concentration although Clark, Douglas, Elko and Washoe counties contain a larger proportion of slot machines and games than licensees--particularly Douglas. Together, Clark, Douglas and Washoe counties had more than 80 percent of the total number of slot machines and games in the State.

Gambling revenues are similarly concentrated in Clark, Douglas and Washoe counties as shown in Table 9.6. Together these three counties earned 94.3 percent of all the gambling revenues in the State and the geographical distribution of winnings is actually more concentrated than the geographical distribution of licensees. Clark county, for

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[17] University of Nevada, Bureau of Business and Economic Research, Nevada Business Review, January, 1959 - January, 1960.

[18] Based on data prepared by the Nevada Gaming Commission for the Tax Study Group.

Table 9.5

Number of Licensees, Slot Machines, and Games, by County, 1959[a]

| County | Number of licensees: Unrestricted | Restricted | Total | Number of slot machines: Unrestricted | Restricted | Total | Total no. table-fee games |
|---|---|---|---|---|---|---|---|
| | | | A. Actual Number: | | | | |
| Churchill | 11 | 11 | 22 | 104 | 72 | 176 | 21 |
| Clark | 114 | 263 | 377 | 5,053 | 760 | 5,813 | 444 |
| Douglas | 11 | 17 | 28 | 1,060 | 437 | 1,497 | 97 |
| Elko | 26 | 25 | 51 | 698 | 142 | 840 | 46 |
| Esmeralda | - | 4 | 4 | - | 12 | 12 | - |
| Eureka | 1 | 1 | 2 | 3 | 5 | 8 | 1 |
| Humboldt | 13 | 13 | 26 | 167 | 37 | 204 | 24 |
| Lander | 4 | 9 | 13 | 24 | 32 | 56 | 7 |
| Lincoln | 4 | 17 | 21 | 23 | 45 | 68 | 2 |
| Lyon | 4 | 29 | 33 | 73 | 71 | 144 | 5 |
| Mineral | 4 | 18 | 22 | 145 | 44 | 189 | 12 |
| Nye | 14 | 8 | 22 | 149 | 6 | 155 | 24 |
| Ormsby | 9 | 17 | 26 | 228 | 148 | 376 | 27 |
| Pershing | 4 | 16 | 20 | 54 | 86 | 140 | 8 |
| Storey | 8 | 11 | 19 | 101 | 111 | 212 | 1 |
| Washoe | 90 | 200 | 290 | 5,576 | 370 | 5,946 | 370 |
| White Pine | 5 | 29 | 34 | 118 | 113 | 231 | 7 |
| Total | 322 | 688 | 1,010 | 13,576 | 2,491 | 16,067 | 1,096 |
| | | | B. Percent distribution: | | | | |
| Churchill | 3.4 | 1.6 | 2.2 | .8 | 2.9 | 1.1 | 1.9 |
| Clark | 35.4 | 38.2 | 37.3 | 37.2 | 30.5 | 36.2 | 40.5 |
| Douglas | 3.4 | 2.5 | 2.8 | 7.8 | 17.5 | 9.3 | 8.9 |
| Elko | 8.1 | 3.6 | 5.0 | 5.1 | 5.7 | 5.2 | 4.2 |
| Esmeralda | - | .6 | .4 | - | .5 | .1 | - |
| Eureka | .3 | .1 | .2 | b | .2 | b | .1 |
| Humboldt | 4.0 | 1.9 | 2.6 | 1.2 | 1.5 | 1.3 | 2.2 |
| Lander | 1.2 | 1.3 | 1.3 | .2 | 1.3 | .3 | .6 |
| Lincoln | 1.2 | 2.5 | 2.1 | .2 | 1.8 | .4 | .2 |
| Lyon | 1.2 | 4.2 | 3.3 | .5 | 2.9 | .9 | .5 |
| Mineral | 1.2 | 2.6 | 2.2 | 1.1 | 1.8 | 1.2 | 1.1 |
| Nye | 4.3 | 1.2 | 2.2 | 1.1 | .2 | 1.0 | 2.2 |
| Ormsby | 2.8 | 2.5 | 2.6 | 1.7 | 5.9 | 2.3 | 2.5 |
| Pershing | 1.2 | 2.3 | 2.0 | .4 | 3.5 | .9 | .7 |
| Storey | 2.5 | 1.6 | 1.9 | .7 | 4.5 | 1.3 | .1 |
| Washoe | 28.0 | 29.1 | 28.7 | 41.1 | 14.9 | 37.0 | 33.8 |
| White Pine | 1.6 | 4.2 | 3.4 | .9 | 4.5 | 1.4 | .6 |
| Total[c] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Fourth quarter, fiscal year 1959.
[b]Less than .05 percent.
[c]Totals may not equal sum of items due to rounding.

Table 9.6

Nevada Gambling Revenues, by Counties
Fiscal Year, 1959

| County | Total revenue | Unrestricted licensees: Total | Adj. for bad debts | Game revenue | Slot revenue | Restricted licensee revenue | Exhibit: tot.slot revenue |
|---|---|---|---|---|---|---|---|
| | | | A. Dollar amount (in thousands): | | | | |
| Churchill | $ 392 | $ 366 | $ -5 | $ 233 | $ 138 | $ 26 | $ 163 |
| Clark | 91,034 | 87,784 | -2,772 | 69,379 | 21,176 | 3,250 | 24,426 |
| Douglas | 16,885 | 16,834 | -129 | 9,769 | 7,194 | 51 | 7,245 |
| Elko | 3,859 | 3,770 | -99 | 1,898 | 1,971 | 89 | 2,059 |
| Esmeralda | 6 | 0 | 0 | 0 | 0 | 6 | 6 |
| Eureka and Humboldt[a] | 594 | 509 | -4 | 267 | 246 | 84 | 330 |
| Lander | 61 | 28 | 0 | 14 | 14 | 32 | 47 |
| Lincoln | 49 | 24 | 0 | 9 | 15 | 25 | 40 |
| Lyon | 186 | 135 | b | 55 | 79 | 51 | 131 |
| Mineral | 867 | 820 | -6 | 482 | 346 | 47 | 393 |
| Nye | 502 | 458 | -4 | 247 | 216 | 44 | 259 |
| Ormsby | 1,784 | 1,726 | -20 | 755 | 990 | 58 | 1,048 |
| Pershing | 178 | 149 | 0 | 70 | 80 | 29 | 108 |
| Storey | 144 | 122 | b | 10 | 112 | 22 | 133 |
| Washoe | 45,646 | 44,452 | -639 | 28,031 | 17,060 | 1,194 | 18,253 |
| White Pine | 594 | 558 | 0 | 225 | 333 | 36 | 369 |
| Total[c] | $162,779 | $157,736 | $-3,679 | $111,446 | $49,969 | $5,043 | $55,012 |
| | | | B. Percent distribution: | | | | |
| Churchill | .2 | .2 | .1 | .2 | .3 | .5 | .3 |
| Clark | 55.9 | 55.7 | 75.3 | 62.3 | 42.4 | 64.4 | 44.4 |
| Douglas | 10.4 | 10.7 | 3.5 | 8.8 | 14.4 | 1.0 | 13.2 |
| Elko | 2.4 | 2.4 | 2.7 | 1.7 | 3.9 | 1.8 | 3.7 |
| Esmeralda | d | - | - | - | - | .1 | d |
| Eureka and Humboldt | .4 | .3 | .1 | .2 | .5 | 1.7 | .6 |
| Lander | d | d | - | d | d | .6 | .1 |
| Lincoln | d | d | - | d | d | .5 | .1 |
| Lyon | .1 | .1 | d | d | .2 | 1.0 | .2 |
| Mineral | .5 | .5 | .2 | .4 | .7 | .9 | .7 |
| Nye | .3 | .3 | .1 | .2 | .4 | .9 | .5 |
| Ormsby | 1.1 | 1.1 | .5 | .7 | 2.0 | 1.2 | 1.9 |
| Pershing | .1 | .1 | - | .1 | .2 | .6 | .2 |
| Storey | .1 | .1 | d | d | .2 | .4 | .2 |
| Washoe | 28.0 | 28.2 | 17.4 | 25.2 | 34.1 | 23.7 | 33.2 |
| White Pine | .4 | .4 | - | .2 | .7 | .7 | .7 |
| Total[c] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Combined to avoid disclosure.
[b]Less than $500.
[c]Totals may not equal sum of items due to rounding.
[d]Less than .05 percent.

example, contains 37.3 percent of the licensees in the State but accounts for 55.9 percent of the revenues. Similarly, Douglas contains only 2.8 percent of the licensees but accounts for 10.4 percent of the winnings. The pattern of revenues for unrestricted licensees is similar to that for all licensees but the restricted portion of the industry shows a slightly wider dispersion of revenues although restricted licensees in Clark county account for nearly 65 percent of all restricted licensee income in the State. Total slot machine revenue is again more widely dispersed than total gambling revenues, but Clark, Douglas and Washoe counties nevertheless account for over 90 percent of the total slot revenue.

As shown in Table 9.7, the unrestricted licensees in the gambling industry account for the great majority of gambling revenues in the State.

Table 9.7

Percent Distribution of Types of Gambling Revenue, by Counties, Fiscal Year, 1959

| | | Unrestricted Licensees | | | | Restricted | Exhibit: |
|---|---|---|---|---|---|---|---|
| County | Total revenue[a] | Total[a] | Adj. for bad debts | Game revenue | Slot revenue | licensee revenue | tot.slot revenue[a] |
| Churchill | 100.0 | 93.5 | -1.2 | 59.5 | 35.2 | 6.5 | 41.7 |
| Clark | 100.0 | 96.4 | -3.0 | 76.2 | 23.3 | 3.6 | 26.8 |
| Douglas | 100.0 | 99.7 | - .8 | 57.9 | 42.6 | .3 | 42.9 |
| Elko | 100.0 | 97.7 | -2.6 | 49.2 | 51.1 | 2.3 | 53.4 |
| Esmeralda | 100.0 | 0 | 0 | 0 | 0 | 100.0 | 100.0 |
| Eureka and Humboldt | 100.0 | 85.8 | - .6 | 45.0 | 41.5 | 14.2 | 55.6 |
| Lander | 100.0 | 46.8 | 0 | 23.2 | 23.6 | 53.2 | 76.8 |
| Lincoln | 100.0 | 49.1 | 0 | 19.1 | 30.0 | 50.9 | 80.9 |
| Lyon | 100.0 | 72.3 | - .1 | 29.5 | 42.7 | 27.7 | 70.3 |
| Mineral | 100.0 | 94.6 | - .9 | 55.6 | 39.9 | 5.4 | 45.3 |
| Nye | 100.0 | 91.3 | - .9 | 49.2 | 42.9 | 8.7 | 51.6 |
| Ormsby | 100.0 | 96.8 | -1.1 | 42.4 | 55.5 | 3.2 | 58.8 |
| Pershing | 100.0 | 83.8 | 0 | 39.1 | 44.7 | 16.2 | 60.9 |
| Storey | 100.0 | 84.9 | b | 7.3 | 77.7 | 15.1 | 92.8 |
| Washoe | 100.0 | 97.4 | -1.4 | 61.4 | 37.4 | 2.6 | 40.0 |
| White Pine | 100.0 | 93.9 | 0 | 37.8 | 56.1 | 6.1 | 62.2 |
| Total | 100.0 | 96.9 | -2.3 | 68.5 | 30.7 | 3.1 | 33.8 |

[a]Totals may not equal sum of items due to rounding.
[b]Less than -.05 percent.

Source: Based on Table 9.6.

Despite their overall importance, the restricted licensees are proportionately significant in certain counties. It will be noted that in six counties--Esmeralda, Lander, Lincoln, Lyon, Pershing and Storey--the latter accounted for more than 15 percent of the gambling revenues. The variation in the importance of slot machine revenue between counties is also significant. For example, while slot machine revenue is only 26.8 percent of the total revenue in Clark county, it is more than 50 percent of the total revenue in eleven other counties. Considering the overall significance of the unrestricted licensees in the State, it is apparent that major attention should be devoted to this sector of the industry which accounts for 96.9 percent of the revenues, and as discussed later, 97.6 percent of the total State gambling taxes.

## Type of Business Organization

As noted, the unrestricted portion of Nevada's gambling industry is characterized by a large number of proprietorships and partnerships, and a relatively small number of corporations. It is the latter, however, that account for much of the gambling activity in the State. As shown in Table 9.8, corporations accounted for about 64 percent of the

Table 9.8

Selected Gambling Data, Unrestricted Licensees, by Type of Business Organization, 1959

| | Proprietorships | Partnerships | Corporations[a] | Total[b] |
|---|---|---|---|---|
| | | A. Numbers and amounts (amts. in thousands): | | |
| Slot Machines | | | | |
| Number[c] | 1,795 | 3,060 | 8,721 | 13,576 |
| Revenue[d] | $4,191 | $ 6,849 | $38,930 | $ 49,970 |
| Games | | | | |
| Number[c] | 184 | 239 | 765 | 1,188 |
| Revenue[d] | $4,823 | $11,384 | $95,238 | $ 111,446 |
| | | B. Percent distribution: | | |
| Slot Machines | | | | |
| Number | 13.2 | 22.5 | 64.3 | 100.0 |
| Revenue | 8.4 | 13.7 | 77.9 | 100.0 |
| Games | | | | |
| Number | 15.5 | 20.1 | 64.4 | 100.0 |
| Revenue | 4.3 | 10.2 | 85.5 | 100.0 |

[a]Includes one "other" category.
[b]Totals may not equal sum of items due to rounding.
[c]Fourth quarter, fiscal year 1959.
[d]Revenue for fiscal year 1959, without adjustment for bad debts.

slot machines and games operated by unrestricted licensees; nearly 78 percent of the slot machine revenue; and, about 85 percent of the game revenue. It is clear that from a revenue viewpoint the unrestricted gambling sector is the more important and within this sector corporations are the most significant. Thus, the unrestricted corporations, representing less than one-tenth of the total number of firms in the industry and slightly more than one-fourth of the unrestricted licensees, constitute the important income and tax producers of the industry.

## Income Distribution

Gambling casinos in Nevada are, of course, subject to wide variation in the amount of gross revenues earned--ranging from less than $12,000 to over $6 million annually. This dispersion, however, is highly uneven and the unrestricted gambling industry is characterized by a high degree of income concentration. It can be seen from Table 9.9 that revenue-wise the smallest 154 clubs in the State, those with gross income of less than $12,000 in 1959,[19] represented more than 44 percent

Table 9.9

Number of Unrestricted Licensees and Amount of Revenue, by Income Classes, Fiscal 1959

| Income class (thousands) | Unrestricted Licensees: Number[a] | Percent distrib. | Cuml. % distrib. | Gross Receipts: Total (000) | Percent distrib. | Cuml. % distrib. |
|---|---|---|---|---|---|---|
| $ 0 - $ 12 | 154 | 44.1 | 44.1 | $ 692 | .4 | .4 |
| 12 - 60 | 91 | 26.1 | 70.2 | 2,324 | 1.5 | 1.9 |
| 60 - 600 | 54 | 15.5 | 85.7 | 9,421 | 6.0 | 7.9 |
| 600 - 2,000 | 29 | 8.3 | 94.0 | 34,687 | 22.0 | 29.9 |
| 2,000 - 6,000 | 14 | 4.0 | 98.0 | 56,626 | 35.9 | 65.8 |
| 6,000 - up | 7 | 2.0 | 100.0 | 53,986 | 34.2 | 100.0 |
| Total | 349 | 100.0 | - | $157,736 | 100.0 | - |

[a]Number of licensees operating any part of fiscal 1959.

[19]It should be noted that some of these clubs did not operate during the entire year. With regard to this gambling study done in cooperation with the Nevada Gaming Commission, reference to the number of licensees in 1959 is generally the number of licensees operating in the fourth fiscal quarter of 1959. When summarizing annual income and annual taxes, however, it was necessary to include licensees operating during any part of fiscal 1959 because annualized quarterly income classes led to distortion due to the variability of income for certain clubs between quarters. Thus, attention should be directed to the specific tables for notation regarding the period for which the number of licensees was taken.

of the total number of unrestricted licensees, but accounted for only $692,000 of receipts or less than 1/2 of 1 percent of the total gross winnings reported for tax purposes. At the upper end of the income scale only seven clubs reported gross receipts of $6 million or more, and these firms, representing 2 percent of the unrestricted licensees, actually accounted for 34 percent of the total revenues. If the two lowest income groups are combined, 70 percent of the clubs, those earning $60,000 per year, account for less than 2 percent of the gross income. On the other hand, if the two highest income groups are combined then 21 clubs, those earning over $2 million annually, represent only 6 percent of the total number of unrestricted licensees but account for approximately 70 percent of the gross income. In brief, while the number of licensees is highly concentrated in the lower income classes, the reported gross winnings are highly concentrated in the upper income classes.

The relative importance of slot machine and game revenue varies considerably among income classes as shown in Table 9.10. For those clubs earning less than $12,000 annually, slot machine revenue accounts for about 73 percent of the total income, and game revenue accounts for the remainder. At the upper end of the income scale, relative reliance is practically reversed. For those clubs earning more than $6 million annually, game revenue accounts for about 76 percent of the total and slot machine revenue the remainder. Moreover, this shift in the distribution between slot and game revenues is continuous throughout the income range. It is clear that as a club grows in size, as measured by income, a relatively smaller proportion of its income is derived from slot machines and greater reliance is placed on game revenue.

Table 9.10

Gambling Revenue, Unrestricted Licensees, by Income Classes, Fiscal 1959

| Income class (thousands) | Revenue (in thousands) | | | Percent distribution: | | |
|---|---|---|---|---|---|---|
| | Slot | Game | Total[a] | Slot | Game | Total[a] |
| $ 0 - $ 12 | $ 503 | $ 194 | $ 692 | 72.7 | 28.0 | 100.0 |
| 12 - 60 | 1,352 | 1,004 | 2,324 | 58.2 | 43.2 | 100.0 |
| 60 - 600 | 4,857 | 4,667 | 9,421 | 51.6 | 49.5 | 100.0 |
| 600 - 2,000 | 12,207 | 23,078 | 34,687 | 35.2 | 66.5 | 100.0 |
| 2,000 - 6,000 | 16,475 | 41,734 | 56,626 | 29.1 | 73.7 | 100.0 |
| 6,000 - up | 14,576 | 40,768 | 53,986 | 27.0 | 75.5 | 100.0 |
| Total | $49,970 | $111,445 | $157,736 | 31.7 | 70.7 | 100.0 |

[a]Total includes adjustment for bad debts and therefore does not equal sum of slot machine and game revenue.

Table 9.11 indicates the distribution of both slot machine and game revenue by income classes. It should be noted that although the large number of small firms, those with gross winnings of less than $12,000 annually, obtain almost three-fourths of their total revenues from slot operations, they account for only 1 percent of the total slot machine revenues reported and for approximately two-tenths of 1 percent of the total game revenue. In contrast, at the other end of the size scale, the relatively small number of large casinos, those reporting gross receipts of $2 million or more annually, accounted for 62 percent of the total slot machine revenue and 74 percent of the total game revenue notwithstanding the fact that the latter represented approximately three-fourths of their total operations when measured in terms of gross winnings. The average revenue for each class of licensees is also shown in Table 9.11. The wide variation of income is revealed by the fact that the large number of clubs in the lowest income group averaged only $4,500 for the year, while at the other extreme the casinos in the highest income group reported an average income of $7.7 million. On the basis of the preceding data, it is evident that the gambling industry in Nevada, when measured in terms of reported gross winnings, reveals a marked pattern of concentration in both slot machine and game operations.

Table 9.11

Distribution of Revenue and Average Revenue Per Licensee, by Income Classes, Fiscal 1959

| Income Class (thousands) | Revenue: Percent distribution | | | Average revenue per licensee: (thousands) | | |
|---|---|---|---|---|---|---|
| | Slot | Game | Total[a] | Slot | Game | Total[a] |
| $ 0 - $ 12 | 1.0 | .2 | .4 | $ 3.3 | $ 1.3 | $ 4.5 |
| 12 - 60 | 2.7 | .9 | 1.5 | 14.9 | 11.0 | 25.5 |
| 60 - 600 | 9.7 | 4.2 | 6.0 | 89.9 | 86.4 | 174.5 |
| 600 - 2,000 | 24.4 | 20.7 | 22.0 | 420.9 | 795.8 | 1,196.1 |
| 2,000 - 6,000 | 33.0 | 37.4 | 35.9 | 1,176.8 | 2,981.0 | 4,044.7 |
| 6,000 - up | 29.2 | 36.6 | 34.2 | 2,082.3 | 5,824.0 | 7,712.3 |
| Total | 100.0 | 100.0 | 100.0 | $ 143.2 | $ 319.3 | $ 452.0 |

[a]Total includes adjustment for bad debts and therefore does not equal sum of slot machine and game revenue.

Source: Based on Table 9.10.

## Slot Machine and Game Classes

The distribution of licensees by the number of slot machines operated is shown in Table 9.12. It will be noted that 155 clubs, or about 48 percent of the total, operated fewer than 10 slot machines and

Table 9.12

Number of Unrestricted Licensees, Slot Mcahines, and Revenue, by Slot Machine Classes, Fiscal 1959

| Slot class | Total number licensees[a] | Total number slots[a] | Total slot revenue[b] | Total revenue[c] |
|---|---|---|---|---|
| | A. Number and amount (dollars in thousands): | | | |
| 0 - 9 | 155 | 620 | $ 651 | $ 4,016 |
| 10 - 29 | 77 | 1,194 | 1,435 | 2,468 |
| 30 - 99 | 43 | 2,339 | 7,005 | 23,188 |
| 100 - 199 | 33 | 4,329 | 14,992 | 64,672 |
| 200 - 349 | 8 | 2,156 | 13,543 | 35,102 |
| 350 - up | 6 | 2,938 | 12,343 | 28,290 |
| Total | 322 | 13,576 | $49,970 | $157,736 |
| | B. Percent distribution: | | | |
| 0 - 9 | 48.1 | 4.6 | 1.3 | 2.5 |
| 10 - 29 | 23.9 | 8.8 | 2.9 | 1.6 |
| 30 - 99 | 13.4 | 17.2 | 14.0 | 14.7 |
| 100 - 199 | 10.2 | 31.9 | 30.0 | 41.0 |
| 200 - 349 | 2.5 | 15.9 | 27.1 | 22.3 |
| 350 - up | 1.9 | 21.6 | 24.7 | 17.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Fourth quarter, fiscal year 1959.
[b]Fiscal year 1959, unadjusted for bad debts.
[c]Fiscal year 1959, adjusted for bad debts.

6 clubs, or about 2 percent of the total, operated more than 350 machines per club. The largest number of machines, about 32 percent of the total, is operated by clubs containing between 100 and 200 machines. The patter of distribution reveals that the smallest clubs, 48 percent of the licensees, operated less than 5 percent of the slot machines; while the larges clubs, representing less than 2 percent of the total number of unrestrict ed licensees, operated nearly 22 percent of the machines. The concentration of both slot machine and total revenue in the larger clubs, as measured by the number of slot machines operated is also apparent. The smaller clubs reported 1.3 percent of the slot machine revenue, and 2.5 percent of the total gambling revenues, while the larger clubs accounted for nearly 25 percent of the slot machine revenue and 18 percent of the total revenue. Equally noteworthy is the fact that medium sized firms, those with a number of slot machines falling in the "100 to 199" class, although representing only about one-tenth of the unrestricted licensees actually accounted for almost one-third of the total number of slots and slot revenue. In other words, the distribution pattern of the gambling firms on this basis does not fully parallel that obtained by income class

The average number of slot machines within these slot classes varied from 4 in the "0 - 9" class to 490 in the "350 - up" class and the average for all clubs was 42 machines (Table 9.13). The average winnings per slot machine also varied greatly depending on the size of the club as measured by the number of slot machines operated. In the smallest class, revenue per machine averaged only $1,100; while in the largest class, revenue per machine averaged $4,200. It should be noted that clubs operating between 200 and 350 machines showed the greatest average winnings--$6,300 per slot machine. Diminishing average returns appear to have set in when a club operated approximately 350 machines. For all classes in 1959 the average club in the State contained 42 slot machines and reported $4,000 in total revenue for each slot machine operated.

Table 9.13

Average Number of Slot Machines and Revenue, by Slot Machine Classes, Fiscal 1959

| Slot class | Total number of licensees | Average number of slot machines | Average revenue per slot (thousands) |
|---|---|---|---|
| 0 - 9 | 155 | 4.0 | $1.1 |
| 10 - 29 | 77 | 15.5 | 1.2 |
| 30 - 99 | 43 | 54.4 | 3.0 |
| 100 - 199 | 33 | 131.2 | 3.5 |
| 200 - 349 | 8 | 269.5 | 6.3 |
| 350 - up | 6 | 489.7 | 4.2 |
| All classes | 322 | 42.2 | $4.0 |

Another meaningful distribution of the unrestricted licensees is obtained when the firms comprising this segment of the gambling industry are classified on the basis of the number of games operated. As shown in Table 9.14, more than 83 percent of the total number of licensees operated five or fewer table-fee games in 1959, and of these firms, about one-half did not operate any games. In contrast, at the other end of the scale, less than 6 percent of the firms, those with 17 or more games, accounted for almost 41 percent of the total number of games in the industry. This uneven distribution of games is further indicated by the fact that in the "1 - 5" class, 41 percent of the licensees accounted for about 25 percent of the games and in the "26 and over" class, less than 2 percent of the licensees operated over 19 percent of the table-fee games. The total game revenue, of course, also was unevenly distributed throughout the industry when it is classified on this basis. The small amount of game revenue accounted for by those licensees operating no table-fee games is due to the licensing of such games as poker and panguingui which are not subject to the table tax. It will be

Table 9.14

Number of Unrestricted Licensees, Games and Revenue, by Number of Games, Fiscal 1959

| Table-fee game class | Total number licensees[a] | Number of table-fee games[a] | Total game revenue[b] | Total revenue[c] |
|---|---|---|---|---|
| | | A. Number and amounts (dollars in thousands): | | |
| 0 | 136 | 0 | $ 71 | $ 3,361 |
| 1 - 5 | 132 | 278 | 7,420 | 12,003 |
| 6 - 10 | 27 | 241 | 17,400 | 25,863 |
| 11 - 16 | 9 | 129 | 28,663 | 35,814 |
| 17 - 25 | 12 | 237 | 36,534 | 49,514 |
| 26 - up | 6 | 211 | 21,358 | 31,180 |
| Total | 322 | 1,096 | $111,446 | $157,736 |
| | | B. Percent distribution: | | |
| 0 | 42.2 | - | .1 | 2.1 |
| 1 - 5 | 41.0 | 25.4 | 6.7 | 7.6 |
| 6 - 10 | 8.4 | 22.0 | 15.6 | 16.4 |
| 11 - 16 | 2.8 | 11.8 | 25.7 | 22.7 |
| 17 - 25 | 3.7 | 21.6 | 32.8 | 31.4 |
| 26 - up | 1.9 | 19.3 | 19.2 | 19.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Fourth quarter, fiscal year 1959.
[b]Total revenue for table-fee and non-table-fee games, unadjusted for bad debts.
[c]Total revenue adjusted for bad debts.

noted that the licensees operating between 17 and 25 games accounted for the greatest proportion of both game revenue and total revenue. When the total number of restricted licensees whose operations are limited to slot machines are combined with the unrestricted clubs who did not operate any games during 1959, it becomes apparent that only a minority of the total number of gambling establishments in the State are actually engaged in the operation of table gambling--less than one-fifth of the more than one thousand licensees comprising the industry in Nevada.

Moreover, Table 9.15 shows that in this segment of the industry marked variations exist among the clubs with regard to the number of table-fee games operated and the amount of play per game, as measured by reported gross winnings. For example, in 1959 the smallest firms on this score, those with 1 to 5 games and representing more than 41 percent of the total number, only averaged 2.1 games per club and $26,700

Table 9.15

Average Number of Games and Game Revenue, by Game Classes, Fiscal 1959

| Game class | Total number of licensees | Average number of games | Average revenue per game (thousands) |
|---|---|---|---|
| 0 | 136 | 0 | - |
| 1 - 5 | 132 | 2.1 | $ 26.7 |
| 6 - 10 | 27 | 8.9 | 72.2 |
| 11 - 16 | 9 | 14.3 | 222.2 |
| 17 - 25 | 12 | 19.8 | 154.2 |
| 26 - up | 6 | 35.2 | 101.2 |
| All classes | 322 | 3.4 | $101.7 |

Source: Based on Table 9.14.

in gross revenues per game; whereas the largest casinos, those with 26 or more games and representing less than 2 percent of the unrestricted licensees, averaged 35.2 games per club and $101,200 in gross revenues per game. In other words, the largest casinos on the average derived approximately four times as much revenue from each game as the smallest. However, the greatest amount of gross revenue per game was earned by medium-sized establishments--those operating 11 to 16 games. In 1959 they averaged 14.3 games per club and $222,200 per table-fee game, or more than twice as much as the licensees in the largest game class and more than eight times as much as those in the smallest game class. Thus, as in the case of slot machine operations, it appears that diminishing average returns sets in when a club expands its game operations beyond approximately 16 games. Finally, it should be noted that for all clubs operating games in 1959, the average number of table-fee games per club was 3.4, and the average reported gross winnings per game was about $101,700.

Table 9.16 shows the variation in the average revenue per game among clubs which operated the same number of table-fee games during the first quarter of fiscal year 1959, i.e., the average revenue per game classes are based on the dollar amount of gross winnings from table-fee games reported for that quarter of the year. This variation in gross winnings may be assumed to broadly reflect differences in the intensity of play between similar-sized clubs when measured by the number of games operated. On this basis, the most extreme variation was revealed by clubs which operated only one game during the quarter--26 of the 46 clubs in this category had winnings of $1,000 or less; whereas at the other extreme 6 clubs reported winnings of more than $25,000. With regard to the casinos which operated ten games during this quarter, it will be noted that while one of the clubs in this group reported an

Table 9.16

Average Revenue per Game for Clubs with the Same Number of Games, First Quarter, Fiscal year 1959

| Number of games in club[a] | Distribution of number of clubs with average revenue per game of: $ 0 - $999[b] | $1,000- 4,999 | $5,000- 9,999 | $10,000- 24,999 | $25,000 & over | Total number of clubs |
|---|---|---|---|---|---|---|
| | A. Number of clubs in average revenue class: | | | | | |
| 1 | 26 | 10 | 1 | 3 | 6 | 46 |
| 2 | 24 | 12 | 4 | 0 | 0 | 40 |
| 3 | 7 | 10 | 3 | 0 | 0 | 20 |
| 4 | 1 | 4 | 4 | 3 | 0 | 12 |
| 5 | 0 | 1 | 1 | 2 | 1 | 5 |
| 7 | 0 | 1 | 1 | 3 | 2 | 7 |
| 10 | 0 | 1 | 4 | 5 | 4 | 14 |
| | B. Percentage distribution of number of clubs: | | | | | |
| 1 | 56.5 | 21.7 | 2.2 | 6.5 | 13.0 | 100.0 |
| 2 | 60.0 | 30.0 | 10.0 | - | - | 100.0 |
| 3 | 35.0 | 50.0 | 15.0 | - | - | 100.0 |
| 4 | 8.3 | 33.3 | 33.3 | 25.0 | - | 100.0 |
| 5 | - | 20.0 | 20.0 | 40.0 | 20.0 | 100.0 |
| 7 | - | 14.3 | 14.3 | 42.9 | 28.6 | 100.0 |
| 10 | - | 7.1 | 28.6 | 35.7 | 28.6 | 100.0 |

[a]Game classes with less than 5 clubs not used.
[b]Includes clubs which reported losses for the quarter.

average game revenue which fell in the class of $1,000 to $5,000, five others were in the $10,000 to $25,000 class, and four firms showed gross winnings per game of more than $25,000 for this quarter.

## Rationale of Gambling Taxation

Gaming taxation has not been subjected to the extensive study and critical analysis generally accorded the ordinary forms of taxation used by state and local jurisdictions because of its unique nature and limited applicability in the United States today. But the desirability of such a study in the case of Nevada is practically self-evident. The theoretical basis or rationale for the imposition of any particular tax should be carefully considered since it is highly improbable that a tax structure which merely reflects the arbitrary whims of legislators or the interests of particular groups will also work out to be socially equitable and economically sound. Thus, the following discussion attempts to evaluate several theories of taxation that may be offered as a justification or rationale for imposing a special tax on the legalized gambling industry of Nevada.

A frequently offered justification for special taxation of the gambling industry is the viewpoint that legalized gambling carries with it such undesirable aspects as the deterioration of moral values, deterrence of industrial activity, misallocation of resources, and so forth. Moreover, it has been contended that gambling is unproductive, i.e., it does not add to the store of "useful" goods and services. Because of these undesirable features, it is argued that a special tax on this industry is justified. The tenability of this argument dissolves upon closer analysis. The contention that gambling is unproductive abandons the only economic criterion of productiveness--the market place. Since the ultimate determinant of value is the ability of an industry to command a price in the market place--gross winnings in this instance--it is illogical to draw a distinction between gambling and other services, particularly recreation or amusement activities. In addition, if legalized gambling is socially or morally undesirable, it does not logically become justifiable simply because it can produce a certain amount of revenue in taxes. Conversely, if legalized gambling is morally acceptable, it should not be subjected to special taxation on the basis that it is undesirable.

A somewhat more reasonable justification for special taxation of the gambling industry is the view that gambling is a luxury and should therefore bear higher taxes than so-called necessities. This type of reasoning has often been used as the basis for taxation of such commodities as liquor and tobacco. Definitional distinctions between luxuries and necessities, however, are generally manifestations of differences in personal tastes and it therefore becomes somewhat arbitrary to base a tax structure on such differences. Moreover, the luxury argument involves the implicit assumption that the gambling tax burden, in the final analysis, is borne by those who gamble. Despite these limitations, the luxury rationale appears to have some applicability to gambling taxation.

Another viewpoint supporting the imposition of a gambling tax is the "partnership theory" which also has been applied to the corporate income tax. Legalized gambling exists only with the cooperation of the

State, and thus it could be argued that the State is entitled to share in the benefits of the enterprise. If the tax were based on the partnership theory it would logically follow that the tax should be levied on net profits. Moreover, it would be necessary to have a carry-back and carry-over loss provision for tax purposes, since the State should share in the firm's losses as well as gains if it is to be considered a "partner." The use of net profits as the base for a gambling tax involves inherent difficulties discussed below.

A fundamental justification for the imposition of a special tax on gambling is the traditional privilege theory. By legalizing gambling, the State of Nevada is conferring a privilege rarely granted by other governments, and for this reason it may be contended that a special tax is justified. A major problem associated with this theory is measurement of the advantage accruing to the firms because of the privilege. Traditionally, as with the corporate income tax, the most meaningful criterion is considered to be net profits. Determination of true net profits for any industry, however, is inherently difficult. In the case of the gambling industry this problem is especially complex because of the multiplicity of joint-costs and the allocation of overhead costs. It has been argued that basing the tax on gross receipts instead of net profits would represent a reasonable and administratively feasible solution to this problem. The relationship between gross and net profits, however, varies greatly among clubs of similar size as well as among clubs of different size. Nevertheless, if the traditional privilege theory is strictly interpreted and were relied upon as the sole rationale for a gambling tax, it would necessitate the imposition of a selective net income tax on the gambling industry.

It is possible to view gambling taxes merely as another form of licensing fee imposed by the State. Interestingly, the various taxes levied on the gambling industry in Nevada are statutorily referred to as licenses rather than taxes. From this viewpoint the value of the privilege granted to the industry may be arbitrarily determined and assigned by the granting agency. If, after such value has been designated, an applicant chooses to obtain a license it may be assumed that the licensee views the fee as justified in terms of the benefit which he receives. Similar reasoning is found in the imposition of numerous license fees. For example, the privilege of state recognized marriage, operation of an automobile, or hunting and fishing rights are not considered any less valuable by the state if the recipient actually receives little or no benefit from them. Nor does the state impose a lower fee in such cases. It can be seen that this rationale logically leads to the imposition of arbitrarily fixed fees. The major problem of viewing levies on the gambling industry as licenses is that licenses traditionally are not designed to yield revenue which is to be used for general governmental purposes. Such revenue is usually employed for the special benefit of the licensees, as in the case of hunting and fishing licenses, or for regulatory purposes. If it is determined that gambling tax revenues are to be used for general government support, the argument for a "license" viewpoint becomes somewhat untenable since it necessitates high fixed fees which

would result in numerous inequities among gaming establishments. Moreover, such levies simply could not be borne by less profitable, and perhaps smaller establishments and therefore only highly profitable concerns could remain in business.

Gambling taxation has also been rationalized in the form of a cost theory--as a necessary reimbursement to the state to cover direct and indirect costs due to legalized gambling. For example, it has been contended that the extensive development of a gambling industry inevitably results in increased police costs, welfare payments, highway expenditures, and so forth. Since these added governmental expenditures may be traced in part to the gambling industry, it is not unreasonable to expect the industry to pay taxes to cover a portion of such costs. On the other hand, the gambling industry also provides significant economic advantages to the state, particularly in the extent to which it has helped develop a large tourist industry for Nevada. Thus, as with any attempt to allocate taxes on the basis of costs, it is virtually impossible to compute either the real social or monetary costs and benefits involved and assign the proper share to any particular group. If a cost theory were relied upon, the best basis of taxation would probably be the total amount wagered as is done in the taxation of pari-mutuel betting. Casino gambling, however, is basically different from pari-mutuel wagering in that the amount of betting can never be known for the former, since money crosses the table innumerable times in the "course of play." In accord with this theory, the best alternative basis of gambling taxation would be gross receipts which is now used as the major gaming tax imposed in the State.

## The Burden of the Gaming Tax

In discussing the burden of the gambling tax, it is necessary to distinguish between the impact (initial burden) and the incidence (final burden) of the tax. While the impact of the tax rests with the gaming clubs, the incidence may fall elsewhere. The actual burden of the tax may be shifted backward in the form of lower wages or prices to suppliers of goods and services. It may also be shifted forward in the form of higher prices which, in the case of gambling, would be reflected in higher house odds on the games and machines, higher prices in the restaurants and bars, fewer free services, or various other shifting procedures. In addition, any combination of backward shifting, forward shifting, and absorption for the firm may occur, or in other words, the tax burden may be widely diffused.

A basic determinant of the ability to shift a tax backward is the availability of substitute markets for the suppliers and other factors of production. For example, if a firm attempted to shift the burden of a tax to a supplier in the form of decreased prices, the supplier would sell elsewhere if such opportunity existed. Thus, it is only when such opportunities are absent that a tax can successfully

be shifted backward.[20] A similar situation exists with regard to forward shifting. If the "buyer" (the person patronizing a club in the case of gambling) can go elsewhere when a certain club increases prices, through say, less liberal machines, the club will be unable to successfully shift the tax forward. Successful forward shifting could, of course, be accomplished if all clubs increased "prices" simultaneously.

While the actual extent of shifting can never be known, it appears reasonable to assume that little of the gaming tax is shifted backward, part is shifted forward, and the remainder is absorbed by the clubs. Backward shifting seems unlikely because the multiplicity of clubs in the State means that suppliers and the factors of production are able to offer their goods or services to a large number of firms. For example, if a particular club attempted to shift its gaming tax to its employees in the form of lower wages, it would probably find it difficult to retain adequate personnel. Forward shifting of the gaming tax is undoubtedly more common. Gaming patrons are not generally cognizant of the precise house odds on games, and more significantly, even if such information were known, it is unlikely that the pattern of gambling in the State would be greatly affected. On the other hand, the presence of advertising, free services, and entertainment is indicative of an element of competition within the industry and, therefore, it is not unlikely that some clubs absorb part of the gaming tax.

When the gambling tax burden is absorbed by gaming establishments, the nominal burdens are significantly diminished by the federal income tax provision which permits the deduction of state taxes in determining the income tax liability. In the case of corporations, the nominal state tax burden is diminished by approximately one-half since the federal income tax rate for corporations is about 50 percent. In the case of proprietorships or partnerships, the degree to which the tax burden is diminished will vary depending on the federal income tax rate to which they are subject. When the tax is passed forward, it would appear that it is largely paid by middle and upper income groups since these groups account for a large portion of the gambling done in the State. Though only a small amount of the tax may be borne by lower income groups, primarily residents, it is nevertheless possible that the tax has an element of regressivity in the lower income ranges.

## Administrative Considerations

Any tax must be subjected to the test of administrative feasibility since the best tax is indefensible if it cannot be administered

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[20] In technical terms, the extent of backward shifting depends upon the degree of market competition and the substitutability of the factors of production for each other.

efficiently and effectively. Solely in terms of administration, the simplest basis for the gaming tax would be a flat rate for each club or a flat rate for each game employed by a club. Such a basis of taxation would virtually eliminate any evasion, particularly through the technique of underreporting of income. In contrast, one of the most difficult bases of taxation, from an administrative viewpoint, would be net profits. This is true not only for the gaming industry but for other industries subject to net profits taxation. Gross receipts are a more easily administered basis of gambling taxation, but still involve the problem inherent in any income tax--the potential evasion through underreporting of income. While it is important to consider the administrative aspect of a tax, obviously it constitutes only one criterion of a "good" tax and as such it must be tempered by other basic principles of taxation.

## Conclusions

Of the various theoretical arguments discussed, the most tenable are the privilege, partnership and license theories. Strictly interpreted, these approaches would indicate that a proper basis of taxation would be net profits or flat rate taxation although a reasonable compromise would appear to be gross receipts. In terms of administrative ease, fixed license fees would probably be the least complicated basis of taxation. A conclusion which points to the desirability of flat rate taxation must be modified by the apparent decision that gambling tax revenues are to be a source of general government revenue and also the extreme inequities which such a basis of taxation would produce. Although a table tax could be employed which was graduated according to the number of tables licensed, such a system would ignore the great differences in the intensity of play between similar sized clubs as shown by the analysis of the industry in the preceding section. Moreover, the data showed that a consistent relationship between the average receipts per table and the number of tables licensed did not exist--within certain ranges of games the average win per game tended to increase, within other ranges it tended to decline. It is clear, therefore, that in addition to a table tax, net profits or gross receipts should be relied upon as a basis of taxation. Considering the inherent problems and administrative complexity involved in the determination of the former, gross receipts represents a reasonable compromise and is tenable in light of the above theoretical discussion. Thus, in general terms a gambling tax structure similar to the one presently utilized in Nevada appears to be both theoretically rational and administratively feasible. How much reliance should be placed upon each type of tax and how the gambling tax burden should be apportioned, however, is essentially a policy question which should be resolved on the basis of the factual data and analysis presented in this chapter.

## Description and Development of Gaming Taxation in Nevada

Nevada's legalized gambling industry is subject to five types of major taxes imposed by four levels of government, excluding federal income taxes. The taxes imposed by each jurisdiction are as follows:

| | |
|---|---|
| Federal government | Slot Machine Tax |
| State of Nevada | Gross Receipts Tax |
| | State Table Tax |
| Nevada counties | County Table Tax |
| Nevada cities | Gambling licenses |

In addition, the federal government collects a 10 percent wagering tax on certain types of gambling, such as horsebook operation. The State of Nevada also imposes a tax on pari-mutuel betting and a special fee for dispensing race wire information. It should be noted there is some confusion as to the terminology commonly used with regard to the three taxes with which this chapter is primarily concerned--the State Gross Receipts Tax, the State Table Tax, and the County Table Tax. While all these taxes are statutorily referred to as licenses, it is more meaningful and clearer for the purposes of this discussion to refer to them in terms of the above-named taxes.

The federal slot machine tax is levied at a rate of $250 per machine annually. The primary purpose of this tax is not to raise revenue but to disclose areas in which slot machines are operating. Enforcement of local anti-gambling laws is left to local jurisdictions since there is no federal law which prohibits gambling devices. This disclosure technique is meaningless if gambling is not prohibited or existing laws are not enforced. In addition to Nevada, slot machines are taxed by Arkansas, Tennessee, Washington, and several counties in Maryland. There are, of course, illegal gambling operations in other areas of the United States. Where gambling is sanctioned or tolerated by local authorities, the federal slot machine tax is solely a revenue producer. Specific revenue data are not available but it is estimated that the federal slot machine tax was applied to 15,200 machines located in Nevada in 1959.

The total revenues raised by the five major gambling taxes in Nevada during fiscal year 1959 were as follows:[21]

| | Amount | Percent |
|---|---|---|
| Federal Slot Machine Tax | $ 3,800,000 | 24.5 |
| State Gross Receipts Tax | 7,285,585 | 47.0 |
| State Table Tax | 700,275 | 4.5 |
| County Table Tax | 2,602,340 | 16.8 |
| City Gambling Licenses | 1,122,114 | 7.2 |
| Total | $15,510,314 | 100.0 |

[21]Estimated from Nevada Gaming Commission reports; Annual Report of the State Controller, 1959; Annual Report of the County Auditor, Fiscal Year 1959, for each county; and city responses to information requests

It can be seen that the State Gross Receipts Tax is the most important gambling tax imposed in Nevada, accounting for nearly half of the total gambling tax revenues collected in the State. The federal slot machine tax is second only to the State Gross Receipts Tax, accounting for nearly one-fourth of the gambling tax revenues collected in the State. Although the city and county collections represent less than one-fourth of the total, gambling taxes play a major role in the financing of local governments in Nevada.

## State Gambling Taxes

Of the two major gambling taxes imposed by Nevada, the Gross Receipts Tax is the more important levy accounting for slightly more than $7 million annually while the State Table Tax contributes about one-tenth as much or $.7 million annually. Together these taxes represent a sizable portion of the taxes and fees collected in the State although Nevada does not resemble a "one-tax" state. It will be noted from Table 9.17 that revenues from Gross Receipts and Table Taxes

Table 9.17

Nevada State Gambling Tax Revenues
and Total Tax Collections,
Fiscal Years 1950-1959

| Year | Gross receipts tax and table tax revenues | As percent of total tax collections |
|---|---|---|
| 1950 | $1,211,194 | 12.4 |
| 1951 | 1,435,976 | 12.4 |
| 1952 | 1,578,187 | 12.5 |
| 1953 | 2,004,069 | 13.6 |
| 1954 | 1,888,330 | 12.1 |
| 1955 | 3,341,551 | 18.5 |
| 1956 | 5,441,327 | 19.9 |
| 1957 | 6,313,768 | 19.0 |
| 1958 | 7,328,196 | 20.9 |
| 1959 | 7,985,860 | 21.9 |

Source: Compiled from Annual Report of the State Controller, fiscal years 1950-1959.

represented slightly over one-fifth of the total taxes and fees collected in fiscal 1959. Despite the addition of a new major tax source in 1955--the State sales tax--gambling revenues have played an increasing role in State finances. This increased reliance is due in part to the gambling tax rate increase in 1955 but, as the table shows, gambling revenues have played an increasing role on a percentage basis since 1955, with the exception of 1957. In short, gaming tax revenues have increased by more than 550 percent since 1950 when they amounted to only about $1.2 million or 12.4 percent of total taxes and fees collected in that year.

State Gross Receipts Tax. The base of the Gross Receipts Tax is defined as all winnings by a gambling firm from all games and slot machines minus all losses--or in effect, net winnings.[22] No expenses are deductible with the exception of checks which are uncollectable. While it is possible that this deduction may be subject to some abuse, it is nevertheless a reasonable reduction in gross receipts since uncollectable checks are obviously not winnings to the casino. The base of this tax lies between the approach used in pari-mutuel taxation, i.e., gross wagering, and the net profits approach utilized by the federal government for corporate income tax purposes. The nature of the casino gambling is such that there does not appear to be any practical way to base a tax on the total amount wagered. It is also notable that the base of this tax does not permit the deduction of general business expenses as does the federal income tax.

The Gross Receipts Tax is paid quarterly in advance but based on the earnings reported in the previous quarter. For example, the tax paid early in the first quarter would be based on earnings reported in the fourth quarter of the previous year. The rates of the tax are graduated from 3 to 5½ percent depending on the amount reported as follows:[23]

| Gross receipts per quarter | Tax rates (percent) |
|---|---|
| $ 0 - $ 150,000 | 3 |
| 150,000 - 400,000 | 4 |
| 400,000 - 1,000,000 | 5 |
| 1,000,000 - over | 5½ |

These rates are marginal rather than average. For example, if a club reported income of $200,000 in a quarter the tax would be 3 percent of $150,000 ($4,500) plus 4 percent of $50,000 ($2,000), or a total tax of $6,500. As is the case with any marginal rate structure, the average or effective rate is somewhat lower than the marginal rate with the exception of the first bracket. Table 9.18 shows the marginal and effective rates for various income levels. If income in any one quarter exceeds $150,000, it will be noted that the marginal rate exceeds the effective rate. For example, the marginal rate for gross receipts of $200,000 is 4.0 percent but the average rate is only 3.25 percent; and for income of $500,000 the marginal rate is 5.0 percent while the average rate is 3.9 percent. Generally, as the amount of income increases the difference between the marginal and effective rates becomes less significant. At a level of $1,500,000, for example, the difference is 7/10 of 1 percent.

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[22] Nevada Revised Statutes, 463.020.

[23] Nevada Revised Statutes, 463.370.

Table 9.18

Nevada Gross Receipts Tax, Marginal and Average Rates, Selected Quarterly Income Levels

| Net taxable income per quarter | Tax liability | Tax Rates | |
|---|---|---|---|
| | | Marginal | Average |
| $ 150,000 | $ 4,500 | 3.0 | 3.00 |
| 200,000 | 6,500 | 4.0 | 3.25 |
| 300,000 | 10,500 | 4.0 | 3.50 |
| 400,000 | 14,500 | 4.0 | 3.63 |
| 500,000 | 19,500 | 5.0 | 3.90 |
| 600,000 | 24,500 | 5.0 | 4.08 |
| 700,000 | 29,500 | 5.0 | 4.21 |
| 800,000 | 34,500 | 5.0 | 4.31 |
| 900,000 | 39,500 | 5.0 | 4.39 |
| 1,000,000 | 44,500 | 5.0 | 4.45 |
| 1,100,000 | 50,000 | 5.5 | 4.55 |
| 1,200,000 | 55,500 | 5.5 | 4.63 |
| 1,300,000 | 61,000 | 5.5 | 4.69 |
| 1,400,000 | 66,500 | 5.5 | 4.75 |
| 1,500,000 | 72,000 | 5.5 | 4.80 |
| 1,600,000 | 77,500 | 5.5 | 4.84 |
| 1,700,000 | 83,000 | 5.5 | 4.88 |
| 1,800,000 | 88,500 | 5.5 | 4.92 |
| 1,900,000 | 94,000 | 5.5 | 4.95 |
| 2,000,000 | 99,500 | 5.5 | 4.98 |

Source: Compiled from Nevada Revised Statutes, 463.370.

The Gross Receipts tax, when originally enacted in 1945, imposed a flat rate of 1 percent on all revenues exceeding $3,000 quarterly.[24] In 1947, the tax was increased to 2 percent of revenues exceeding $3,000 quarterly.[25] After ten years of flat rate taxation, a graduated structure was adopted in 1955 which provided for the present rate structure ranging from 3 to 5½ percent.[26]

Revenues from the Gross Receipts tax have grown significantly since the tax was adopted in 1945. Table 9.19 shows the revenues collected in the past 15 years and the percentage growth over the preceding

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[24] Statutes of Nevada, 1945, p. 495.

[25] Statutes of Nevada, 1947, p. 734.

[26] Statutes of Nevada, 1955, pp. 760-61.

Table 9.19

Nevada Gross Receipts Tax Revenue
Calendar Years 1945-1959

| Year | Amount | Percent increase over previous year |
|---|---|---|
| 1945[a] | $ 100,792 | - |
| 1946 | 270,143 | 168.0 |
| 1947[b] | 518,632 | 92.0 |
| 1948 | 771,573 | 48.8 |
| 1949 | 812,775 | 5.3 |
| 1950 | 866,219 | 6.6 |
| 1951 | 1,041,390 | 20.2 |
| 1952 | 1,226,901 | 17.8 |
| 1953 | 1,668,897 | 36.0 |
| 1954 | 1,804,035 | 8.1 |
| 1955[c] | 4,065,421 | 125.4 |
| 1956 | 5,312,444 | 30.7 |
| 1957 | 6,105,138 | 14.9 |
| 1958 | 6,429,077 | 5.3 |
| 1959 | 8,268,404 | 28.6 |

[a]Tax initially imposed at 1 percent.
[b]Tax increased to 2 percent.
[c]Tax increased to 3 to 5½ percent.

Source: Nevada Gaming Commission, "State Gambling License Revenue, 1945-1959."

year. In 1945 the tax yield was only $100,792 while in 1959 revenues were nearly $8.3 million. As noted above, a portion of this growth is due to increased tax rates. However, revenues have more than doubled since the last rate increase in 1955. Moreover, revenues in 1959 represented an increase over 1958 of nearly 29 percent. This increase in tax revenues may be primarily attributed to the growth of gambling and tourism in the State. Since the Gross Receipts Tax was adopted in 1945, all revenues have been credited to the General Fund.

State Table Tax. In addition to the Gross Receipts Tax, the State also imposes a tax on the number of games operated by each club. The base of the Table Tax includes such common banking or percentage games as craps, twenty-one, roulette, keno, and faro. Several card games, such as poker, bridge, and panguingui, however, are not subject to the Table Tax. Unlike the Gross Receipts Tax, this tax does not apply to slot machines.

The Table Tax is paid in the form of a license fee which is collected annually. Although the gambling industry is quite seasonal in

some areas, the tax fee is not prorated, i.e., the entire fee is charged although a game may be in operation for less than the full year. Annual rates as reported in statutory form are imposed on a graduated basis as follows:[27]

| | | |
|---|---|---|
| 1 game | $ 100 | |
| 2 games | 200 | |
| 3 games | 400 | |
| 4 games | 750 | |
| 5 games | 1,750 | |
| 6 - 7 games | 3,000 | |
| 8 - 10 games | 6,000 | |
| 11 - 16 games | 1,000 | each |
| over 16 games | 1,000 | each for first 16 games plus $200 for each game over 16. |

The graduation of the rate structure is somewhat misleading when presented in the above statutory form. In order to clearly understand how these rates are applied, it is necessary to show the actual fee which would be collected from a selected number of games, on a total, average, and marginal basis as is done in Table 9.20. It will be noted that the total state license fee charged for table-fee games generally continues to increase as the number of games operated by the individual licensee rises, except in the range of 6 to 7 games and 8 to 10 games. In these instances, if a club licenses a seventh, ninth or tenth game, it does not incur any additional Table Tax. This is more clearly revealed when the statutory rate structure of the State Table Tax is expressed on a marginal or incremental basis, i.e., a schedule which shows the effective tax liability for a licensee when he adds "one more game" to the number already operated. Thus, with the exception of the above cases in which the additional game carried no levy, the incremental or marginal tax on the number of games ranging from 1 through 11 increases from $100 for the first game to $5,000 for the eleventh game. In contrast, the twelfth through the sixteenth game are taxed at a uniform rate of $1,000 each, and for all additional games over 16 the levy is only $200 per game. When the rate structure is expressed in average terms, it will be noted that as the number of games increases the average tax per game generally increases over the lower range; becomes constant at 11 to 16 games; and, decreases significantly when more than 16 games are licensed. In other words the tax, in relation to the technical base, is progressive in the lower range (with minor exceptions), proportional in the middle range, and regressive in the upper range.

The State Table Tax was first imposed in 1947 and compared with the present rates the original rate structure provided for higher rates in the lower ranges and lower rates in the middle and upper ranges. After additional changes in 1949 and 1955, the present rate structure

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[27] Nevada Revised Statutes, 463.380.

Table 9.20

State Table Tax, Tax Fees,
Selected Number of Games

| Number of games | Total fee | Marginal fee | Average fee |
|---|---|---|---|
| 1 | $ 100 | $ 100 | $ 100 |
| 2 | 200 | 100 | 100 |
| 3 | 400 | 200 | 133 |
| 4 | 750 | 350 | 188 |
| 5 | 1,750 | 1,000 | 350 |
| 6 | 3,000 | 1,250 | 500 |
| 7 | 3,000 | 0 | 429 |
| 8 | 6,000 | 3,000 | 750 |
| 9 | 6,000 | 0 | 667 |
| 10 | 6,000 | 0 | 600 |
| 11 | 11,000 | 5,000 | 1,000 |
| 12 | 12,000 | 1,000 | 1,000 |
| 13 | 13,000 | 1,000 | 1,000 |
| 14 | 14,000 | 1,000 | 1,000 |
| 15 | 15,000 | 1,000 | 1,000 |
| 16 | 16,000 | 1,000 | 1,000 |
| 17 | 16,200 | 200 | 953 |
| 18 | 16,400 | 200 | 911 |
| 19 | 16,600 | 200 | 873 |
| 20 | 16,800 | 200 | 840 |
| 30 | 18,800 | - | 627 |
| 40 | 20,800 | - | 520 |
| 50 | 22,800 | - | 456 |

Source: Compiled from Nevada Revised Statutes, 463.380.

was adopted in 1957.[28] It is noteworthy that all revenues from the Table Tax accrued to the General Fund prior to 1957, at which time a provision was enacted which allocates all receipts to the 17 counties in the State. After administrative expenses are deducted, each county receives one-seventeenth of the total Table Tax revenues irrespective of the amount of gambling receipts for which each county may have been responsible. An unusual feature of the present disposition of revenue is that any increase in Table Tax rates will negate the present distribution and all future receipts will accrue to the State General Fund.[29] In 1959, the State collected $688,000 from the Table Tax which was more than twice as much as had been collected in 1948, the first

[28]For a detailed history of Table Tax rates see Statutes of Nevada, 1947, p. 735; Statutes of Nevada, 1949, p. 118; Statutes of Nevada, 1955, pp. 761-62; and, Statutes of Nevada, 1957, pp. 783-84.

[29]Nevada Revised Statutes, 463.320.

full year of operation.[30] Table 9.21 shows that revenues generally increased until 1957; declined in 1958; and increased in 1959 but still remained below the 1957 level. During the 1953-54 recession,

Table 9.21

Nevada Table Tax Revenue,
Calendar Years 1947-1959

| Year | Amount | Percent increase over previous year |
|---|---|---|
| 1947 | $164,395 | - |
| 1948 | 328,000 | 99.5 |
| 1949 | 323,825 | -1.3 |
| 1950 | 361,800 | 11.7 |
| 1951 | 387,000 | 7.0 |
| 1952 | 458,500 | 18.5 |
| 1953 | 469,626 | 2.4 |
| 1954 | 473,000 | .7 |
| 1955 | 660,500 | 39.6 |
| 1956 | 711,550 | 7.7 |
| 1957 | 714,150 | .4 |
| 1958 | 669,100 | -6.3 |
| 1959 | 688,350 | 2.9 |

Source: Nevada Gaming Commission, "State Gambling License Revenue," 1945-1959.

Table Tax revenues increased by only 4/10 of 1 percent and in the 1957-58 recession, revenues actually declined by over 6 percent. Thus, it appears that the gambling industry is affected by fluctuations in general economic activity.

Pari-Mutuel Taxation. Nevada is the only state in which legalized pari-mutuel wagering has not been accompanied by the development of commercial horseracing tracks.[31] The absence of such development is apparently due to the existence of legalized gambling, the small resident population, and the nearness of Nevada to well-known

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[30]In addition to the Gross Receipts Tax and the Table Tax, the State also collects a special fee for dissemination of race horse information. In 1959, this special race wire fee yielded slightly over $30,000. See Nevada Gaming Commission, "State Gambling License Revenue," 1945-1959.

[31]Although pari-mutuel wagering on horseracing is permitted in Nevada, dog racing is prohibited as a public nuisance. See Nevada Revised Statutes, 202.450.

race tracks in California. While there has been no extensive development of commercial tracks in the State, some racing is conducted by State and county fair associations. Such racing, however, is exempted from the pari-mutuel tax although it is subject to the regulations of the State Racing Commission as well as a 1 percent gross wagering tax which is used for support of the Commission. It does not appear advisable to discontinue the exemption of this type of racing due to the extensive administration which would be required.

Nevada's pari-mutuel tax presently amounts to 2 percent of the total money wagered plus an additional 1 percent for support of the Racing Commission.[32] Of the other 24 states which levy a pari-mutuel tax on horseracing, only 3 impose an equal or lower rate and the average for other states is approximately 5½ percent.[33] Moreover, one-third of the states impose an admissions tax which Nevada does not presently levy. Closely related to the pari-mutuel tax rate is the percent take-out allowed the track operator and the disposition of "breaks," i.e., the odd-cents surplus which results from the payment of even multiples, usually 10 cents. Nevada permits a horseracing licensee to deduct 14 percent of the gross amount of money handled in each pari-mutuel pool which he operates. In the other pari-mutuel taxing states, the total take-out permitted averages approximately 14.5 percent. Nevada and eleven other states permit track operators to retain 100 percent of the breakage. The remaining states receive all the breakage or a certain portion, usually 50 percent. In conclusion, it can be seen from the foregoing discussion that Nevada's pari-mutuel tax is quite liberal when compared to other states. Thus, the absence of extensive horseracing in Nevada may be attributed to numerous factors other than the existing pari-mutuel tax structure.

## County Gambling Taxes

The County Table Tax was adopted in 1931 when gambling was again legalized in Nevada. The original rate structure and provision for the disposition of revenues provided for in the 1931 act are still utilized. The County Table Tax is similar to the State Table Tax in that it is based on the number of games operated by each gambling establishment. A major difference, however, is that the county tax base includes slot machines whereas the State tax does not.

The County Table Tax is collected in the form of a quarterly gambling license sold by the sheriff of each county. The more common games such as craps, twenty-one, and roulette are taxed at the rate

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[32] Statutes of Nevada, 1960, Senate Bill No. 96.

[33] National Association of State Racing Commissioners, "Statistical Reports on Horse Racing in the United States for the Year 1959," January, 1960.

of $150 per quarter or $600 per year.[34] Most card games such as poker, bridge and panguingui are taxed at a rate of $75 per quarter or $300 per year; and the license fee for slot machines is $30 per quarter or $120 per year which is less than one-half the federal tax on slot machines. Revenues collected from the County Table Tax by the sheriffs are remitted to the various county treasurers and disposed of as follows: 25 percent to the State; 25 percent to the county; and 50 percent to the respective incorporated cities in which the tax was collected. When a particular gambling establishment is located outside the corporate limits of a city, 75 percent of the total revenues accrue to the county in which the establishment is located. The State share of the county tax is deposited to the General Fund and the county share is deposited to the general fund of each county.[35]

In fiscal 1959 the seventeen counties collected a total of $2,602,340 from the County Table Tax as shown in Table 9.22. Clark and Washoe counties together collected slightly over $2 million which amounted to more than three-fourths of the total. The amount collected for the State was about $572,000; for the counties approximately $1,282,000; and for the cities about $748,000. It should be noted that Nevada towns are financed from county funds and therefore the town's share of the gaming tax is included in the counties' share. The State share is actually less than 25 percent of the total because several counties levy independent gambling taxes in which the State does not share. In these counties, revenues are collected through town or county imposed ordinances. The major county-imposed tax in which the State does not share is the General County Gaming License collected by Clark county which amounted to approximately $250,000 in 1959. In addition, Clark county collects a Fair and Recreation Gaming Tax, 95 percent of which is allocated to the Fair and Recreation Board in that county.[36] The large majority of the counties collect only the Table Tax and with the exception of Clark county, the local ordinances imposed in several other counties yield nominal revenues. In brief, the total revenues derived from gambling taxation on the county level in 1959 accounted for slightly more than 16 percent of total county tax collections for that year.

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[34] Nevada Revised Statutes, 463.380.

[35] Nevada Revised Statutes, 463.320. In 1960, this section was amended to permit county commissioners in counties with more than 1,000 votes "to apportion and allocate all or a portion of such fees to one or more unincorporated cities or towns within the county."

[36] This tax is not to be confused with the Fair and Recreation Room Tax which is imposed on lodgings at varying rates. See Chapter XVIII.

Table 9.22

County Table Tax Collections,
Fiscal 1959

| County | Collected for State | Collected for county[a] | Collected for cities in county | Total |
|---|---|---|---|---|
| Churchill | $ 6,529 | $ 7,699 | $ 11,888 | $ 26,115 |
| Clark | 225,266 | 700,903[b] | 279,810 | 1,205,979 |
| Douglas | 47,003 | 141,008 | --[c] | 188,011 |
| Elko | 31,211 | 57,798[b] | 40,883 | 129,892 |
| Esmeralda | 248 | 758[b] | --[c] | 1,006 |
| Eureka | 371 | 1,113 | --[c] | 1,484 |
| Humboldt | 9,176 | 14,464 | 13,065 | 36,705 |
| Lander | 2,554 | 7,661 | --[c] | 10,215 |
| Lincoln | 2,234 | 4,026 | 2,675 | 8,935 |
| Lyon | 4,039 | 7,039 | 5,078 | 16,156 |
| Mineral | 7,825 | 27,394[b] | --[c] | 35,219 |
| Nye | 9,259 | 17,419 | 10,358 | 37,036 |
| Ormsby | 10,515 | 11,175 | 20,370 | 42,060 |
| Pershing | 4,610 | 15,116 | --[d] | 19,726 |
| Storey | 4,648 | 13,943 | --[c] | 18,591 |
| Washoe | 199,936 | 245,989 | 353,820 | 799,745 |
| White Pine | 6,366 | 8,871 | 10,228 | 25,465 |
| Total | $571,790 | $1,282,376 | $748,175 | $2,602,340 |

[a]Includes amounts collected in towns.
[b]Includes special gambling taxes imposed by county or town ordinances.
[c]Indicates no cities in county.
[d]Amount collected for city of Lovelock not available. Included in county collections.

Source: Annual Report of the County Auditor, Fiscal Year 1959, for each county; and personal replies to information requests.

The State share of the County Table Tax is shown in Table 9.23. It will be noted that the State share in 1959 was $560,000 compared to only $69,000 in 1932, or approximately an eight-fold increase.[37] With the exception of 1935, the amount given the State has increased in every year shown. In 1959, Clark and Washoe counties accounted for nearly 75 percent of the total. With the exception of these counties and Douglas and Elko, no other counties have shown substantial relative growth since

[37]The State share of the County Table Tax as recorded by the State Controller differs slightly from that shown by County Auditors' records because of "time lags" in the transfer of funds from county to State.

Table 9.23

Nevada County Gaming Licenses, State Share
Selected Years, 1932-1959

| County | 1932 | 1935 | 1940 | 1945 | 1950 | 1955 | 1959 |
|---|---|---|---|---|---|---|---|
| | | | A. Amount remitted: | | | | |
| Churchill | $ 2,055 | $ 1,798 | $ 3,176 | $ 7,845 | $ 5,689 | $ 9,257 | $ 6,626 |
| Clark | 15,265 | 11,726 | 16,260 | 53,340 | 95,329 | 178,635 | 220,661 |
| Douglas | 1,564 | 1,032 | 1,506 | 1,959 | 10,179 | 17,760 | 48,750 |
| Elko | 4,769 | 2,859 | 8,111 | 14,040 | 22,931 | 25,496 | 29,925 |
| Esmeralda | 375 | 171 | 1,020 | 821 | 345 | 143 | 232 |
| Eureka | 293 | 64 | 319 | 1,549 | 641 | 983 | 450 |
| Humboldt | 2,005 | 1,796 | 4,549 | 4,669 | 9,769 | 10,050 | 9,278 |
| Lander | 405 | 341 | 952 | 934 | 3,146 | 2,834 | 2,535 |
| Lincoln | 1,350 | 1,241 | 2,145 | 8,264 | 5,147 | 3,610 | 2,312 |
| Lyon | 1,534 | 1,856 | 2,801 | 3,525 | 4,462 | 5,321 | 4,339 |
| Mineral | 817 | 1,170 | 2,734 | 11,898 | 6,596 | 8,380 | 8,388 |
| Nye | 1,238 | 1,353 | 1,987 | 7,537 | 5,550 | 6,390 | 9,469 |
| Ormsby | 1,425 | 1,241 | 3,026 | 4,650 | 7,192 | 8,842 | 9,750 |
| Pershing | 660 | 1,553 | 2,890 | 4,241 | 5,860 | 5,264 | 4,688 |
| Storey | 251 | 881 | 1,520 | 510 | 2,793 | 4,022 | 4,428 |
| Washoe | 31,650 | 16,659 | 33,199 | 53,805 | 112,530 | 164,666 | 192,236 |
| White Pine | 3,454 | 3,082 | 6,998 | 8,806 | 9,903 | 11,799 | 6,366 |
| Total | $69,110 | $48,824 | $93,195 | $188,393 | $308,062 | $463,452 | $560,433 |
| | | | B. Percent of total: | | | | |
| Churchill | 3.0 | 3.7 | 3.4 | 4.2 | 1.9 | 2.0 | 1.2 |
| Clark | 22.1 | 24.0 | 17.5 | 28.3 | 30.9 | 38.5 | 39.4 |
| Douglas | 2.3 | 2.1 | 1.6 | 1.0 | 3.3 | 3.8 | 8.7 |
| Elko | 6.9 | 5.9 | 8.7 | 7.5 | 7.4 | 5.5 | 5.3 |
| Esmeralda | .5 | .4 | 1.1 | .4 | .1 | a | a |
| Eureka | .4 | .1 | .3 | .8 | .2 | .2 | .1 |
| Humboldt | 2.9 | 3.7 | 4.9 | 2.5 | 3.2 | 2.2 | 1.7 |
| Lander | .6 | .7 | 1.0 | .5 | 1.0 | .6 | .5 |
| Lincoln | 2.0 | 2.5 | 2.3 | 4.4 | 1.7 | .8 | .4 |
| Lyon | 2.2 | 3.8 | 3.0 | 1.9 | 1.5 | 1.2 | .8 |
| Mineral | 1.2 | 2.4 | 2.9 | 6.3 | 2.1 | 1.8 | 1.5 |
| Nye | 1.8 | 2.8 | 2.1 | 4.0 | 1.8 | 1.4 | 1.7 |
| Ormsby | 2.1 | 2.5 | 3.3 | 2.5 | 2.3 | 1.9 | 1.7 |
| Pershing | 1.0 | 3.2 | 3.1 | 2.3 | 1.9 | 1.1 | .8 |
| Storey | .4 | 1.8 | 1.6 | .3 | .9 | .9 | .8 |
| Washoe | 45.8 | 34.1 | 35.6 | 28.6 | 36.5 | 35.5 | 34.3 |
| White Pine | 5.0 | 6.3 | 7.5 | 4.7 | 3.2 | 2.6 | 1.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Less than .05 percent.

Source: State of Nevada, Annual Report of the State Controller, 1932-1959.

1932 while most counties have declined on a relative basis, particularly Washoe and White Pine counties. It will be noted, however, that Washoe county now contributes a substantially greater percentage than was true at the end of World War II.

The County Table Tax has provided both State and local government units with substantial revenues since it was enacted in 1931. Prior to adoption of the present State Table Tax allocation, the three-way sharing of the county tax appears to have been a reasonable method of distributing the County Table Tax. As a result of the earmarking and equal dollar distribution of the State Table Tax to the 17 counties in 1957, a portion of county Table Taxes now flows to the State and the State tax flows to the counties. While the distribution of the respective gambling tax revenues received by the counties and the State involve basic policy decisions, there appears to be little logical justification for the present elaborate, complicated, and cumbersome cross flows of gambling table tax revenues between the State and the counties.

## City Gambling Taxes

City gambling license fees are imposed by 15 of the 16 cities in Nevada, the one exception being Gabbs where it is felt that taxation of the city's one casino is not warranted. License fees are levied on the number of slot machines and games operated by each licensee. Table 9.24 shows the rates imposed for each game or slot machine licensed and the amounts collected in 1959. The annual license fee for slot machines ranges from $12 in Fallon and Lovelock to $120 in Las Vegas, averaging about $45 per year for all cities. It will be noted that the cities impose flat rates for each slot machine irrespective of the number licensed with the exception of Las Vegas which imposes a slightly higher rate per machine if five or more machines are licensed. The game fees shown in the table are for the common games of craps, twenty-one, and roulette. Less popular games, such as poker, panguingui, keno, and faro, are generally licensed at somewhat lower rates. It can be seen from the table that both Las Vegas and Reno vary the rate depending on the number of games licensed. In Reno, for example, a casino operating three games is subject to an annual rate of $750 per game while a casino operating twenty games or more is subject to a rate of $1,050 per game. For all cities, rates range from $12 per game in Lovelock to $1,050 per game in Reno. The maximum rate for clubs in Las Vegas of $1,000 per game is slightly lower than the rate imposed in Reno, but as shown in the table, the maximum rate in Las Vegas applies to clubs operating two or more games while the maximum rate in Reno applies to clubs operating twenty or more games. With the exception of five cities--Henderson, Las Vegas, North Las Vegas, Reno and Sparks--the rates imposed are $100 or less for each game per year.

Revenues collected from city gambling taxes vary greatly--from a low of several thousand dollars in smaller cities to more than a

Table 9.24

Nevada City Gaming Licenses, Rates and Revenues, Fiscal 1959

| City | Annual license fee: Slots | Annual license fee: Games[a] | Revenue collected |
|---|---|---|---|
| Caliente | $ 36 | $ 48 | $ 1,726 |
| Carlin | 30 | 60 | 1,000 |
| Carson City | 30 | 60 | 8,808 |
| Elko | 30 | 80 | 11,850 |
| Ely | 30 | 40 | 5,200 |
| Fallon | 12 | 60 | 2,472 |
| Henderson | 80 | 200[b] | 11,650 |
| Las Vegas | 120[c] | 1,000[d] | 570,367 |
| Lovelock | 12 | 12 | 9,114 |
| North Las Vegas | 60 | 200 | 14,757 |
| Reno | 60 | 1,050[e] | 442,005 |
| Sparks | 65 | 200 | 30,716 |
| Wells | 30 | 60 | 3,660 |
| Winnemucca[f] | 30 | 60 | 6,165 |
| Yerington | 40 | 100 | 2,624 |
| Total | - | - | $1,122,114 |

[a]Craps, 21, and roulette.
[b]Craps, $20 per year.
[c]Rate is for 5 slots or more. If fewer than 5 slots operated, rate is $100 per slot.
[d]Rate is for 2 games or more. If 1 game is operated, rate is $600
[e]Rate is for 20 games or more. If fewer than 20 games operated, rates are as follows: 1-3, $750 each; 4-9, $850 each; and 10-19, $950 each.
[f]Calendar 1959.

Source: City Clerks of the above 15 cities.

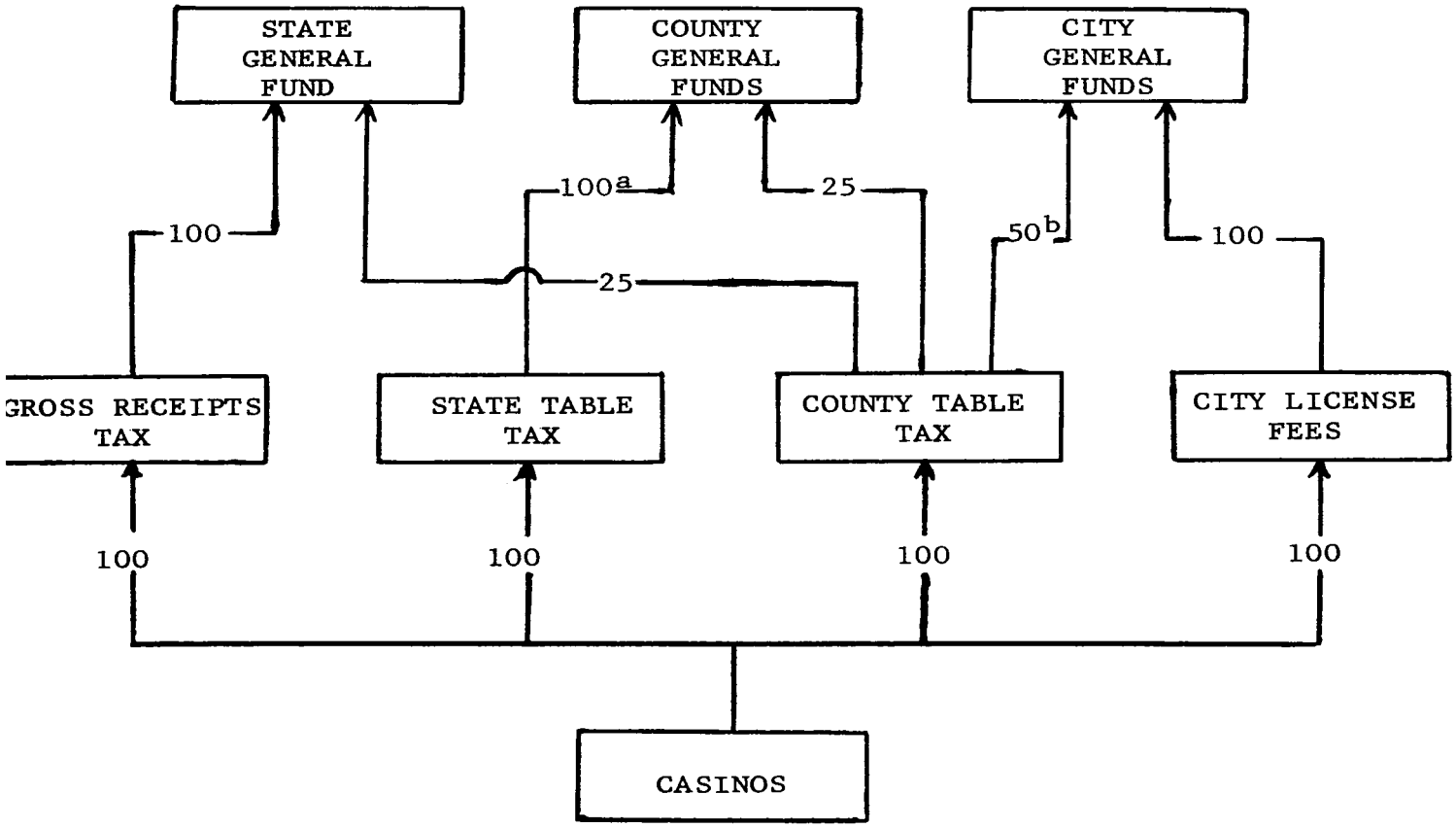
half million dollars in Las Vegas. In total, city imposed gambling fees in 1959 amounted to $1.1 million, or more than 18 percent of their total city tax collections for the year. As discussed previously, the cities also receive 50 percent of the County Table Tax accruing from clubs licensed within their jurisdictions. In 1959, this share for all the cities amounted to approximately $750,000. Thus, it is evident that gambling taxation represents a significant source of revenue for municipal government in Nevada.

## Cross-Sharing of Gambling Tax Revenues

The State and County Table Taxes and the city gambling levies are related in that they represent a major source of local government revenue. The sharing process involving these taxes is illustrated in Chart 9.1 which shows the gambling taxes imposed in Nevada, excluding the federal slot machine tax, and their distribution. It can be seen that the State Gross Receipts Tax accrues wholly to the State General Fund and the city taxes accrue to city funds. In contrast, the State Table Tax is allocated to the counties on an equal basis and the County Table Tax is shared with the State and the cities as shown in the chart. A complexity in the sharing of these taxes is the remitting of the State Table Tax to the counties and the sharing of the County Table Tax with the State. Table 9.25 shows the total County Table Tax collections in 1959, the amounts the counties distributed to the State, the amounts the State distributed to the counties, and the net gain or loss to the counties resulting from this crossflow of revenues. In total the counties distributed about $560,000 to the State, and the State distributed approximately $700,000 to the counties. While the aggregate gain for the 17 counties was only about $140,000, the distribution of the net gains and losses was highly uneven. For the three counties of Clark, Douglas and Washoe, the net result of the crossflow was that they in effect did not share in the State Table Tax distribution and in addition lost $338,000 of their own County Table Tax collections. In contrast, the other 14 counties actually had a net gain of $478,000, of which $338,000 in effect came from Clark, Douglas, and Washoe counties and $140,000 from the State. The net effects of cross-sharing on the counties is shown by the percent distribution of Table Tax revenues before and after sharing. Clark county, for example, collected 46.3 percent of the County Table Tax revenues, but was able to retain only 37.4 percent of the total after cross-sharing of revenues with the State. Similar decreases occurred in Douglas and Washoe counties. It is clear that if the counties retained their own collections, and the State did not share its Table Tax revenues, many counties would suffer relative and absolute declines while those counties in which most of the gambling activity occurs would greatly benefit. While the State Legislature must accept its responsibility to provide local governments with revenues which are commensurate with their responsibilities and duties, an alternative method of sharing, based on such factors as population, needs and resources would appear to be less capricious in its effect than the present method of simply dividing the Table Tax into seventeen equal parts irrespective of the multitude of differences among the various counties.

Chart 9.1

Percent Distribution of
Nevada Gambling Taxes




[a]One-seventeenth to each county.

[b]If casino not located in city or town, county retains 75 percent of tax.

Source: Nevada Revised Statutes, 463.320.

Table 9.25

Apportionment of County and State Table Taxes, by Counties, 1959

| County | Total county table tax collections[a] | Distributed to State | Received from State | Adjusted table tax proceeds[a] | Net gain or loss for county |
|---|---|---|---|---|---|
| | | A. Amount: | | | |
| Churchill | $ 28,936 | $ 6,626 | $ 41,193 | $ 63,503 | $ 34,567 |
| Clark | 1,205,979 | 220,661 | 41,193 | 1,026,511 | -179,468 |
| Douglas | 188,011 | 48,750 | 41,193 | 180,454 | -7,557 |
| Elko | 129,892 | 29,925 | 41,193 | 141,160 | 11,268 |
| Esmeralda | 1,006 | 233 | 41,193 | 41,966 | 40,960 |
| Eureka | 1,484 | 450 | 41,193 | 42,227 | 40,743 |
| Humboldt | 36,705 | 9,278 | 41,193 | 68,620 | 31,915 |
| Lander | 10,215 | 2,535 | 41,193 | 48,873 | 38,658 |
| Lincoln | 8,935 | 2,313 | 41,193 | 47,815 | 38,880 |
| Lyon | 16,156 | 4,339 | 41,193 | 53,010 | 36,854 |
| Mineral | 35,219 | 8,388 | 41,193 | 68,024 | 32,805 |
| Nye | 37,036 | 9,469 | 41,193 | 68,760 | 31,724 |
| Ormsby | 42,060 | 9,750 | 41,193 | 73,503 | 31,443 |
| Pershing | 19,726 | 4,688 | 41,193 | 56,231 | 36,505 |
| Storey | 18,591 | 4,428 | 41,193 | 55,356 | 36,765 |
| Washoe | 799,745 | 192,236 | 41,193 | 648,702 | -151,043 |
| White Pine | 25,465 | 6,366 | 41,193 | 60,292 | 34,827 |
| Total[b] | $2,605,161 | $560,433 | $700,275 | $2,745,003 | $139,842 |
| | | B. Percent distribution: | | | |
| Churchill | 1.1 | 1.2 | 5.9 | 2.3 | |
| Clark | 46.3 | 39.4 | 5.9 | 37.4 | |
| Douglas | 7.2 | 8.7 | 5.9 | 6.6 | |
| Elko | 5.0 | 5.3 | 5.9 | 5.1 | |
| Esmeralda | c | c | 5.9 | 1.5 | |
| Eureka | .1 | .1 | 5.9 | 1.5 | |
| Humboldt | 1.4 | 1.7 | 5.9 | 2.5 | |
| Lander | .4 | .5 | 5.9 | 1.8 | |
| Lincoln | .3 | .4 | 5.9 | 1.7 | |
| Lyon | .6 | .8 | 5.9 | 1.9 | |
| Mineral | 1.4 | 1.5 | 5.9 | 2.5 | |
| Nye | 1.4 | 1.7 | 5.9 | 2.5 | |
| Ormsby | 1.6 | 1.7 | 5.9 | 2.7 | |
| Pershing | .8 | .8 | 5.9 | 2.0 | |
| Storey | .7 | .8 | 5.9 | 2.0 | |
| Washoe | 30.7 | 34.3 | 5.9 | 23.6 | |
| White Pine | 1.0 | 1.1 | 5.9 | 2.2 | |
| Total[b] | 100.0 | 100.0 | 100.0 | 100.0 | |

[a]Includes city share of county table tax.
[b]Totals may not equal sum of items due to rounding.
[c]Less than .05 percent.

Source: Annual Report of the County Auditor, Fiscal Year 1959, for each county; and State of Nevada, Annual Report of the State Controller, 1959.

## State Gaming Tax Revenues

The analysis of tax revenues in this section relies heavily upon gambling tax statistics developed in cooperation with the Nevada Gaming Commission. The data are based on the actual tax returns filed by all unrestricted licensees with the Commission during fiscal year 1959. The reliability of these data is essentially dependent on the validity of the returns and the degree to which income was accurately reported. Obviously, if extensive tax evasion existed, findings based on the data would be seriously distorted. As in the case of any study which relies primarily on self-assessed tax returns, it is highly desirable to ascertain at least the approximate extent of evasion. All federal and state income taxes based on net or gross income are subject to some underreporting. For example, in two widely cited studies it was estimated that about 12 percent of business and professional proprietors' income in the United States was not reported on federal tax returns.[38] However, the relative amount of underreporting was estimated to be lower for wages and salaries, but such income generally is subject to tax withholding and therefore not comparable to Nevada's major gambling tax which is self-assessed. State income taxes also are characterized by income leakages as indicated by another study which estimated that in the case of Colorado's personal income tax an amount equal to approximately 10 to 12 percent of the adjusted gross income was not reported.[39]

In consideration of the above, it is not unreasonable to assume that some underreporting of gross winnings occurs under the present methods of administering and collecting the Gross Receipts Tax in Nevada.[40] While it is impossible to measure the exact amount of gambling receipts which escape taxation, a rough approximation can be obtained by comparing the reported gross receipts from gambling for 1958 with an independent estimate derived from an analysis of the disposition

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[38]Selma F. Goldsmith, "An Appraisal of Basic Data Available for Constructing Income Size Distributions," Studies in Income and Wealth, National Bureau of Economic Research (New York, 1951), Vol. XIII, pp. 266-327; Daniel M. Holland and C. Harry Kahn, "Comparison of Personal and Taxable Income," Federal Tax Policy for Economic Growth, Papers Submitted by Panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D. C., 1955), pp. 313-338.

[39]Reuben A. Zubrow, "The Erosion of a State Income Tax," National Tax Journal, March, 1960, p. 65.

[40]Any significant evasion of other gambling taxes in the State is unlikely since such taxes are based on the actual number of firms, games or slot machines licensed.

of resident and non-resident spending in Nevada for that year.[41] The total amount of personal income received by Nevada residents in 1958 was $686 million, and tourists' expenditures for the same period were estimated to be $440 million.[42] An attempt to account for the disposition of this $1,126 million is shown in the following tabulation which omits amounts spent on gambling.

Table 9.26

Estimated Personal Expenditures and Savings in Nevada, 1958 (amounts in millions)

| | |
|---|---|
| Taxable retail trade | $ 444 |
| Hotels, motels and commercial lodging | 103 |
| Federal, state and local taxes | 102 |
| Gasoline | 46 |
| Personal services | 17 |
| Auto and miscellaneous repair | 14 |
| Telephone and newspapers | 9 |
| Miscellaneous amusement | 5 |
| Housing | 85-90 |
| Heat and utilities | 46-48 |
| Insurance | 17-18 |
| Medical and dental | 17-18 |
| Charitable and religious contributions | 10-11 |
| Savings | 41 |
| Totals (range) | $956-966 |

Source: Adapted and estimated from Annual Report of the State Controller, 1958-59; Commissioner of Internal Revenue, Annual Report 1959, p. 101; Editor and Publisher Market Guide, 1959, pp. 250-253; Nevada Taxpayers Association, Report #31, June, 1958; Nevada Tax Commission, Sales and Use Tax Division, "Taxable Sales, 1958, by Quarters"; Report of the Nevada Tax Commission, 1958-59, p. 6; U. S. Bureau of the Census, 1958 Census of Business, Selected Services; U. S. Bureau of the Census, Statistical Abstract of the United States, 1959, pp. 305 and 371; U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 15.

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[41] The personal income and expenditure data are primarily based on published statistics of the U. S. Department of Commerce, Office of Business Economics and Bureau of the Census; and the Nevada State Tax Commission and the Nevada State Highway Department. Estimates which could not be derived from these sources were approximated on the basis of other indicators and expressed in terms of a range or "zone of reasonableness."

[42] U. S. Department of Commerce, Survey of Current Business, August, 1959, p. 15; and State of Nevada, Department of Highway Planning Survey, Nevada Out-of-State Visitor Survey, 1958, p. 16.

On the basis of individual expenditures estimated for taxable retail sales, miscellaneous non-taxable goods and personal services, housing and utilities, personal taxes and savings, it appears that in 1958 the total expenditures and savings, exclusive of gambling, amounted to between $956 and $966 million. Deducting these figures from the total personal income and tourists' expenditures of $1,126 million results in total gambling expenditures of about $160 to $170 million in 1958. The gaming industry reported for tax purposes $155 million for this period, which would indicate a leakage from the tax base of approximately $5 to $15 million, or an amount in the neighborhood of 3 to 10 percent.[43] Although it is apparent that these data on underreporting are imprecise, they do provide a rough measure of the magnitudes involved. While underreporting may constitute a serious compliance problem with regard to any particular club,[44] it does not appear to be generally so extensive as to invalidate the usefulness of the reported tax returns which represent the best data available for making an analysis of the structure, level and distribution of gambling taxation in Nevada at the present time.

## General Distribution of Gambling Taxes

As already indicated, the restricted sector of the gambling industry accounts for about two-thirds of the total number of licensees, but it is the remaining unrestricted sector that is vastly more significant both in terms of gross winnings and gambling taxes paid. As shown in Table 9.27 the total Gross Receipts Tax and Table Tax combined

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[43]Although this estimate of unreported gross income may appear somewhat reasonable when compared with published estimates of underreporting on federal and state net income taxes, it should be recognized that legalized gambling involves a relatively small number of firms and compared with other industries and occupations is subject to a much greater degree of regulation and surveillance. Of course, the estimated range of underreporting may err either on the high or low side since the U. S. Department of Commerce and the Nevada State Highway Department survey data are not absolutely precise figures. The estimate also may be overstated to the extent that the classified expenditures accounted for above exclude amounts that Nevada residents may have spent outside the State on mail-order goods, vacations and other out-of-state transactions. Similarly, the amount estimated for resident savings, based on the national ratio of personal savings to income, actually may be somewhat larger than shown since Nevada's per capita personal income is substantially above the national level. On the other hand, the presence of legalized gambling in Nevada may tend to reduce the saving-income ratio for residents and thus work out to be a counter-balancing factor to the income effect.

[44]The distribution of the underreporting among individual firms obviously cannot be ascertained by the above method used for estimating the aggregate amount of underreporting.

Table 9.27

State Gambling Tax Revenue, Restricted and Unrestricted Licensees, by Quarters, Fiscal 1959

| Quarter | Gross receipts tax: Unrestricted licensees | Gross receipts tax: Restricted licensees | Gross receipts tax: Total | State table tax | Total gambling taxes |
|---|---|---|---|---|---|
| | | A. Amount (in thousands): | | | |
| First | $1,457 | $ 67 | $1,524 | $ 46 | $1,570 |
| Second | 2,154 | 38 | 2,192 | 14 | 2,206 |
| Third | 1,726 | 20 | 1,746 | 553 | 2,299 |
| Fourth | 1,710 | 67 | 1,777 | 90 | 1,867 |
| Total[a] | $7,048 | $192 | $7,239 | $704 | $7,942 |
| | | B. Percent distribution: | | | |
| First | 92.8 | 4.3 | 97.1 | 2.9 | 100.0 |
| Second | 97.6 | 1.7 | 99.4 | .6 | 100.0 |
| Third | 75.1 | .9 | 75.9 | 24.1 | 100.0 |
| Fourth | 91.6 | 3.6 | 95.2 | 4.8 | 100.0 |
| Total[a] | 88.7 | 2.4 | 91.1 | 8.9 | 100.0 |

[a]Totals may not equal sum of items due to rounding.

yielded more than $7.9 million in revenues to the State during fiscal year 1959. The restricted licensees accounted for only $192,000, or 2.4 percent of the State's total gambling tax collections and, of course, these firms were not subject to the State Table Tax.[45] In contrast, the one-third of the industry making up the unrestricted licensees paid more than $7.7 million, or 97.6 percent of the total State gambling levy. The combined Gross Receipts Tax for both restricted and unrestricted licensees amounted to $7.2 million and accounted for more than 91 percent of the total gambling taxes. It should be noted that the Gross Receipts Tax is collected on a quarterly basis and these tax revenues showed a marked seasonal fluctuation. For example, the tax collections for the second fiscal quarter of 1959

[45]Detailed tax data for the restricted licensees, i.e., those operating seven or fewer slot machines and no games, were not available for this study. However, the absence of these data from the subsequent analysis which is limited to the unrestricted firms does not represent a serious omission since the restricted sector of the industry accounted for only 3.1 percent of the total gross winnings and only 2.4 percent of the total gambling taxes paid to the State in fiscal year 1959.

were more than one-fourth larger than the average of the other three quarters. Since the Gross Receipts Tax is paid in advance and based on the winnings of the preceding quarter, the high collections of the second fiscal quarter actually reflect gaming operations which occurred during the third calendar quarter of the year--the height of the summer tourist trade. In contrast, the Table Tax is an annual levy, but the major part is paid in the third fiscal quarter which accounts for the Gross Receipts Tax amounting to only 76 percent of the total collections during this period.

With regard to county distributions, as is to be expected, the gambling tax collections were highly concentrated in Clark and Washoe counties. As shown in Table 9.28, these two counties alone had more than 200 unrestricted licensees, or more than 63 percent of the total for the State. Of the remaining counties, only five contained between 3 and 8 percent of the firms in this sector of the industry, although no county accounted for less than 1 percent. Compared to the number of firms, gambling revenues were even more concentrated, and clubs in Clark, Douglas and Washoe counties reported nearly 95 percent of the gambling income in the State. Moreover, of the remaining fifteen counties only two--Elko and Ormsby--accounted for more than 1 percent of the total reported gross winnings. The distribution of state gambling tax collections by county followed a similar pattern and Clark, Douglas and Washoe together accounted for almost 96 percent of the total state gambling tax revenues. Table Tax collections were slightly less concentrated, although there were eleven counties which individually did not report as much as 1 percent of the total. It is clear that the State's gambling tax revenues, by any measure, primarily come from Clark and Washoe counties, with Douglas county contributing the major share of the remainder.

## Distribution by Income Classes

A widely used method of appraising an industry's tax burden is based on relating the effective tax paid[46] to net profits. However, since profit data for the gambling industry were not available a

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[46]The effective or real tax burden, in contrast to the nominal or money tax burden, reflects the net increase in a firm's total tax cost resulting from the imposition of any particular tax, i.e., it takes into consideration the shifting of the tax as well as the use of the state gambling taxes, for example, as a deduction against the federal income tax. The following analysis, however, is primarily in terms of the nominal or money tax burden for, as previously indicated, it is practically impossible to ascertain the extent to which gambling taxes are shifted forward to players or absorbed by the firms, and other than for corporations it is not possible to measure the net impact of the federal income tax deductibility provision on gambling tax burdens.

Table 9.28

Number of Unrestricted Licensees, Income, and State Tax Collections, by Counties, Fiscal Year 1959

| Counties | Number of licensees[a] | Total income | Gross receipts tax | Table tax | Total gambling taxes |
|---|---|---|---|---|---|
| | A. Amounts (in thousands except for licensees): | | | | |
| Churchill | 11 | $ 366 | $ 11 | $ 5 | $ 16 |
| Clark | 114 | 87,784 | 4,041 | 344 | 4,386 |
| Douglas | 11 | 16,834 | 783 | 59 | 843 |
| Elko | 26 | 3,770 | 133 | 18 | 151 |
| Esmeralda | 0 | 0 | 0 | 0 | 0 |
| Eureka and Humboldt[b] | 14 | 509 | 16 | 4 | 20 |
| Lander | 4 | 28 | 1 | 1 | 2 |
| Lincoln | 4 | 24 | 1 | c | 1 |
| Lyon | 4 | 135 | 4 | 1 | 5 |
| Mineral | 4 | 820 | 26 | 7 | 33 |
| Nye | 14 | 458 | 14 | 4 | 17 |
| Ormsby | 9 | 1,726 | 61 | 12 | 72 |
| Pershing | 4 | 149 | 4 | 1 | 5 |
| Storey | 8 | 122 | 3 | c | 4 |
| Washoe | 90 | 44,452 | 1,931 | 246 | 2,178 |
| White Pine | 5 | 558 | 17 | 4 | 20 |
| Total[d] | 322 | $157,736 | $7,048 | $704 | $7,754 |
| | B. Percentage Distribution: | | | | |
| Churchill | 3.4 | .2 | .2 | .7 | .2 |
| Clark | 35.4 | 55.7 | 57.3 | 48.8 | 56.6 |
| Douglas | 3.4 | 10.7 | 11.1 | 8.4 | 10.9 |
| Elko | 8.1 | 2.4 | 1.9 | 2.5 | 1.9 |
| Esmeralda | - | - | - | - | - |
| Eureka and Humboldt[b] | 4.3 | .3 | .2 | .6 | .3 |
| Lander | 1.2 | e | e | .1 | e |
| Lincoln | 1.2 | e | e | .1 | e |
| Lyon | 1.2 | .1 | .1 | .1 | .1 |
| Mineral | 1.2 | .5 | .4 | 1.0 | .4 |
| Nye | 4.3 | .3 | .2 | .5 | .2 |
| Ormsby | 2.8 | 1.1 | .9 | 1.6 | .9 |
| Pershing | 1.2 | .1 | .1 | .1 | .1 |
| Storey | 2.5 | .1 | e | e | .1 |
| Washoe | 28.0 | 28.2 | 27.4 | 34.9 | 28.1 |
| White Pine | 1.6 | .4 | .2 | .5 | .3 |
| Total[d] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Licensees operating during fourth quarter, fiscal 1959. [b]Combined to avoid disclosure. [c]Less than $500. [d]Totals may not equal sum of items due to rounding. [e]Less than .05 percent.

meaningful alternative is to analyze the allocation of state gambling taxes on the basis of a gross receipts (income) classification. Table 9.29 shows the distribution of the total number of unrestricted licensees, their total gambling winnings (income), and the amount of Gross Receipts Tax paid, all classified by major income groups. In 1959, the 154

Table 9.29

State Gross Receipts Tax, Unrestricted Licensees by Income Classes, Fiscal Year 1959

| Income class (in thousands) | Number of licensees[a] | Total income | Gross receipts tax | Ratio of gross receipts tax to total income |
|---|---|---|---|---|
| A. Amounts (in thousands, except for licensees): | | | | |
| $ 0 - 12 | 154 | $ 692 | $ 22 | 3.2 |
| 12 - 60 | 91 | 2,324 | 78 | 3.4 |
| 60 - 600 | 54 | 9,421 | 296 | 3.1 |
| 600 - 2,000 | 29 | 34,687 | 1,306 | 3.8 |
| 2,000 - 6,000 | 14 | 56,626 | 2,561 | 4.5 |
| 6,000 and over | 7 | 53,986 | 2,785 | 5.2 |
| Total[b] | 349 | $157,736 | $7,048 | 4.5 |
| B. Percentage distribution: | | | | |
| $ 0 - 12 | 44.1 | .4 | .3 | |
| 12 - 60 | 26.1 | 1.5 | 1.1 | |
| 60 - 600 | 15.5 | 6.0 | 4.2 | |
| 600 - 2,000 | 8.3 | 22.0 | 18.5 | |
| 2,000 - 6,000 | 4.0 | 35.9 | 36.3 | |
| 6,000 and over | 2.0 | 34.2 | 39.5 | |
| Total[b] | 100.0 | 100.0 | 100.0 | |

[a]Number of licensees operating any part of fiscal 1959.
[b]Totals may not equal sum of items due to rounding.

smallest firms, those with gross winnings for the year of less than $12,000, represented 44 percent of the total number of licensees but as a group reported only 4/10 of 1 percent of the total winnings for the year and paid only 3/10 of 1 percent of the total tax. In contrast, the 7 largest casinos in the State, those with gross income of $6,000,000 or more, represented only 2 percent of the firms in the industry but accounted for more than 34 percent of the total reported win and paid almost 40 percent of the total Gross Receipts Tax collected by the State in 1959. Similarly, the three lowest income classes combined, constituting almost 86 percent of the total number of unrestricted licensees, reported less than 8 percent of the income and paid less than 6 percent of the tax; while the three highest income groups, those casinos with gross income in excess of $600,000, representing only 14 percent of the total number of unrestricted firms, reported 92 percent of the gross

winnings and actually paid more than 94 percent of the total Gross Receipts Tax. In other words, the smallest clubs when measured in terms of gross gambling income constitute the bulk of the unrestricted licensees but contribute a relatively small amount of tax revenue to the State, whereas just the opposite holds, of course, for the upper income groups. It also is noteworthy that the lower income groups pay a proportion of the tax which is slightly less than their share of the total income and that the two upper income groups pay a proportion of tax slightly in excess of their relative win, but in general terms the relative tax paid corresponds to the actual distribution of reported income throughout all income classes. The variance in this relationship between reported income and tax liability becomes more evident when the tax is expressed as the percentage of the total winnings of each income class. Thus, the table shows that the ratios ranged from 3.2 percent for the lowest income group to 5.2 percent for the highest, although the percentage for the $60,000 - $600,000 income class was only 3.1 percent. On this basis it appears that the Gross Receipts Tax generally follows the pattern of the actual rate structure except for the deviation shown for the middle income group. Moreover, it should be noted that the variance may be due in part to the fact that the tax revenues are shown on an annual basis when they are actually collected on a quarterly basis with a few casinos making double payments. In brief, the distribution of the reported tax payments is generally consistent with the statutory rate structure, although it must be borne in mind that the latter is expressed in terms of bracket or marginal rates.

The distribution of State Table Tax by income classes is shown in Table 9.30. In this instance the clubs in the lowest income group, 44 percent of the total, accounted for less than 5 percent of the tax collections; while the small number of casinos in the highest income group representing only 2 percent of all firms in this sector of the industry, paid 21 percent of the total State Table Tax. Although the Gross Receipts Tax generally worked out to be progressive, i.e., the amount of tax paid expressed as a percentage of income varied directly with changes in such income, the State Table Tax was essentially regressive particularly between the first and second income classes. As shown in the table, the ratio of the tax paid to total income ranged from 4.8 percent for the lowest income group to 0.3 percent for the highest income group, and thus this part of the gambling tax burden varied inversely with the changing levels of reported gross winnings--firms in the lower income groups paid a relatively higher Table Tax than those in the upper income groups.[47]

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[47]Of course, the unusually high ratio for the first income group may be partly attributed to the fact that the collection data include the licensing of some clubs which began operations late in the fiscal year and were not required to report income until the ensuing fiscal year. The Gaming Commission requires the payment of the Table Tax before a club begins operation, but gross income does not need to be reported until the end of the first quarter of operation when a double payment of the Gross Receipts Tax is required.

Table 9.30

State Table Tax, Unrestricted Licensees, by Income Classes, Fiscal Year 1959

| Income class (in thousands) | Number of licensees[a] | Total income | State table tax | Ratio of table tax to total income |
|---|---|---|---|---|
| A. Amounts (in thousands, except for licensees): | | | | |
| $ 0 - 12 | 154 | $ 692 | $ 33 | 4.8 |
| 12 - 60 | 91 | 2,324 | 19 | .8 |
| 60 - 600 | 54 | 9,421 | 54 | .6 |
| 600 - 2,000 | 29 | 34,687 | 219 | .6 |
| 2,000 - 6,000 | 14 | 56,626 | 231 | .4 |
| 6,000 and over | 7 | 53,986 | 148 | .3 |
| Total[b] | 349 | $157,736 | $704 | .4 |
| B. Percentage distribution: | | | | |
| $ 0 - 12 | 44.1 | .4 | 4.7 | |
| 12 - 60 | 26.1 | 1.5 | 2.6 | |
| 60 - 600 | 15.5 | 6.0 | 7.7 | |
| 600 - 2,000 | 8.3 | 22.0 | 31.2 | |
| 2,000 - 6,000 | 4.0 | 35.9 | 32.8 | |
| 6,000 and over | 2.0 | 34.2 | 21.0 | |
| Total[b] | 100.0 | 100.0 | 100.0 | |

[a]Number of licensees operating any part of fiscal 1959.
[b]Totals may not equal sum of items due to rounding.

Table 9.31 and Charts 9.2 and 9.3 summarize the preceding data and show the combined Gross Receipts Tax and Table Tax collections by income classes for fiscal year 1959. It will be noted that on this basis the distribution of the total tax liability generally corresponds to the income distribution although the lowest and highest income groups accounted for a somewhat greater proportion of tax than income, while the opposite was true for the 50 percent of the firms comprising the middle income classes whose gross winnings ranged from $12,000 to $2,000,000. Moreover, the concentration of revenue and taxes in the upper income groups is again evident. The three upper income groups, which together represent less than 15 percent of the licensees, accounted for about 92 percent of the total income and approximately 94 percent of the total State gambling tax collections. Although the Gross Receipts Tax is essentially progressive and the Table Tax regressive, the total tax burden reveals an uneven pattern. For example, the ratio of total gambling taxes to total reported winnings declines from 8.1 percent for the lowest income group to 3.7 percent for the $6,000 - $600,000 income category; whereas for the upper three income groups the relative tax liability varies directly with income,

Table 9.31

Gross Receipts Tax and Table Tax, Unrestricted Licensees, by Income Classes, Fiscal Year 1959

| Income class (in thousands) | Number of licensees[a] | Total income | Total gross receipts and table taxes[b] | Ratio of total taxes to total income |
|---|---|---|---|---|
| A. Amounts (in thousands, except for licensees): | | | | |
| $ 0 - 12 | 154 | $ 692 | $ 56 | 8.1 |
| 12 - 60 | 91 | 2,324 | 97 | 4.2 |
| 60 - 600 | 54 | 9,421 | 352 | 3.7 |
| 600 - 2,000 | 29 | 34,687 | 1,525 | 4.4 |
| 2,000 - 6,000 | 14 | 56,626 | 2,792 | 4.9 |
| 6,000 and over | 7 | 53,986 | 2,932 | 5.4 |
| Total[c] | 349 | $157,736 | $7,754 | 4.9 |
| B. Percentage distribution: | | | | |
| $ 0 - 12 | 44.1 | .4 | .7 | |
| 12 - 60 | 26.1 | 1.5 | 1.3 | |
| 60 - 600 | 15.5 | 6.0 | 4.5 | |
| 600 - 2,000 | 8.3 | 22.0 | 19.7 | |
| 2,000 - 6,000 | 4.0 | 35.9 | 36.0 | |
| 6,000 and over | 2.0 | 34.2 | 37.8 | |
| Total[c] | 100.0 | 100.0 | 100.0 | |

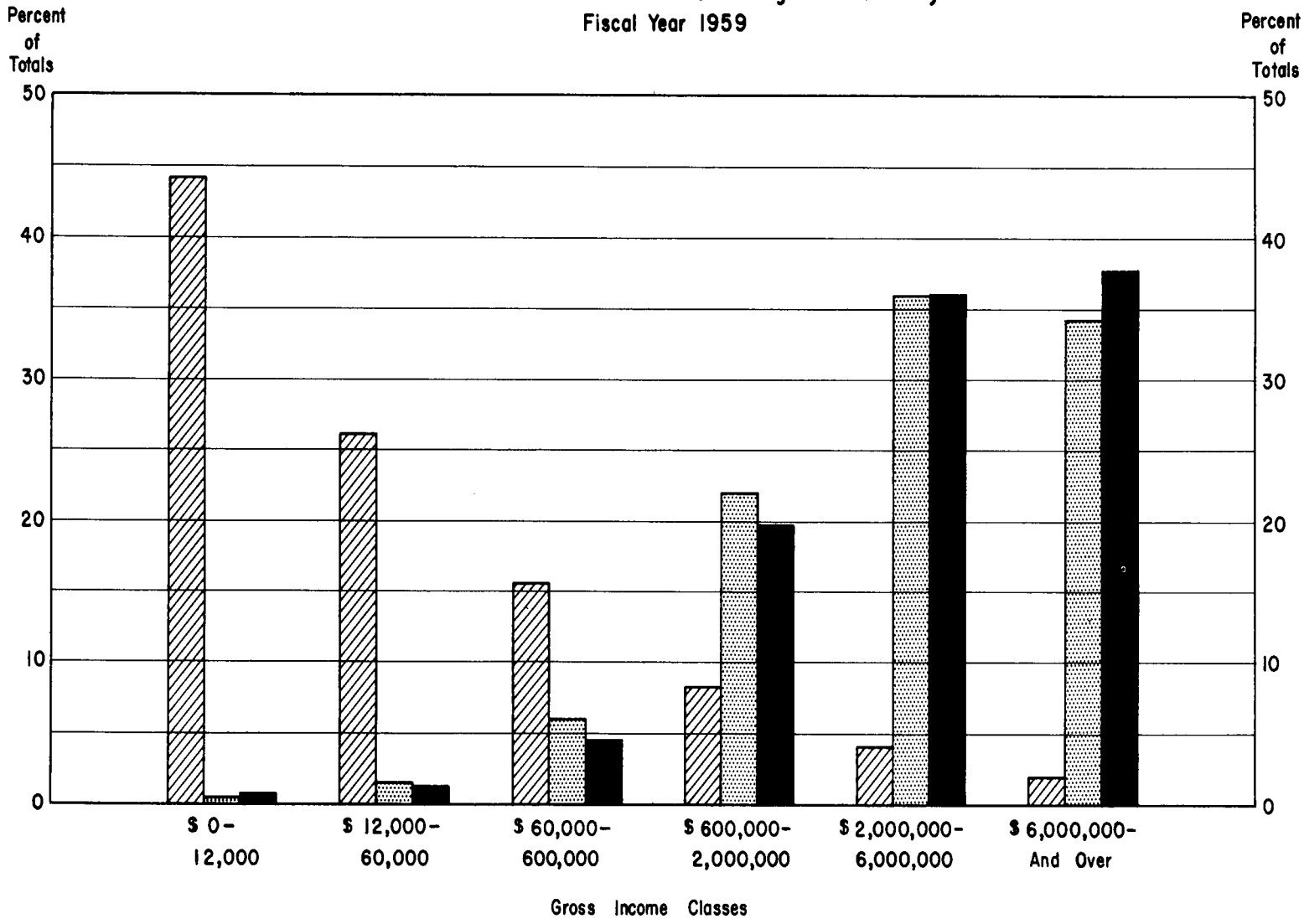
[a]Number of licensees operating any part of fiscal 1959.
[b]Includes small amount of penalties.
[c]Totals may not equal sum of items due to rounding.

rising from 4.4 to 5.4 percent. In other words, the total state gambling tax burden in relation to income was greatest for the smallest firms in the industry, the clubs earning less than $12,000 annually which as a group constituted two-thirds of the total number of unrestricted licensees; while the lightest burden was incurred by the casinos in the $60,000 to $600,000 income class which represented slightly more than 15 percent of the total number of firms in the unrestricted sector of the industry. However, it should be noted that other than for the licensees in the lowest income class, the highest relative tax was paid by the small group of large casinos with reported gross winnings in excess of $6,000,000. On the basis of the above analysis, and as shown in Chart 9.3, it is apparent that the progressive aspects of the Gross Receipts Tax have been largely negated by the State Table Tax, particularly for the lower income classes.

Chart 9.2

## Percentage Distribution of Unrestricted Licensees, Total Income and Total Gambling Tax Liability

Fiscal Year 1959



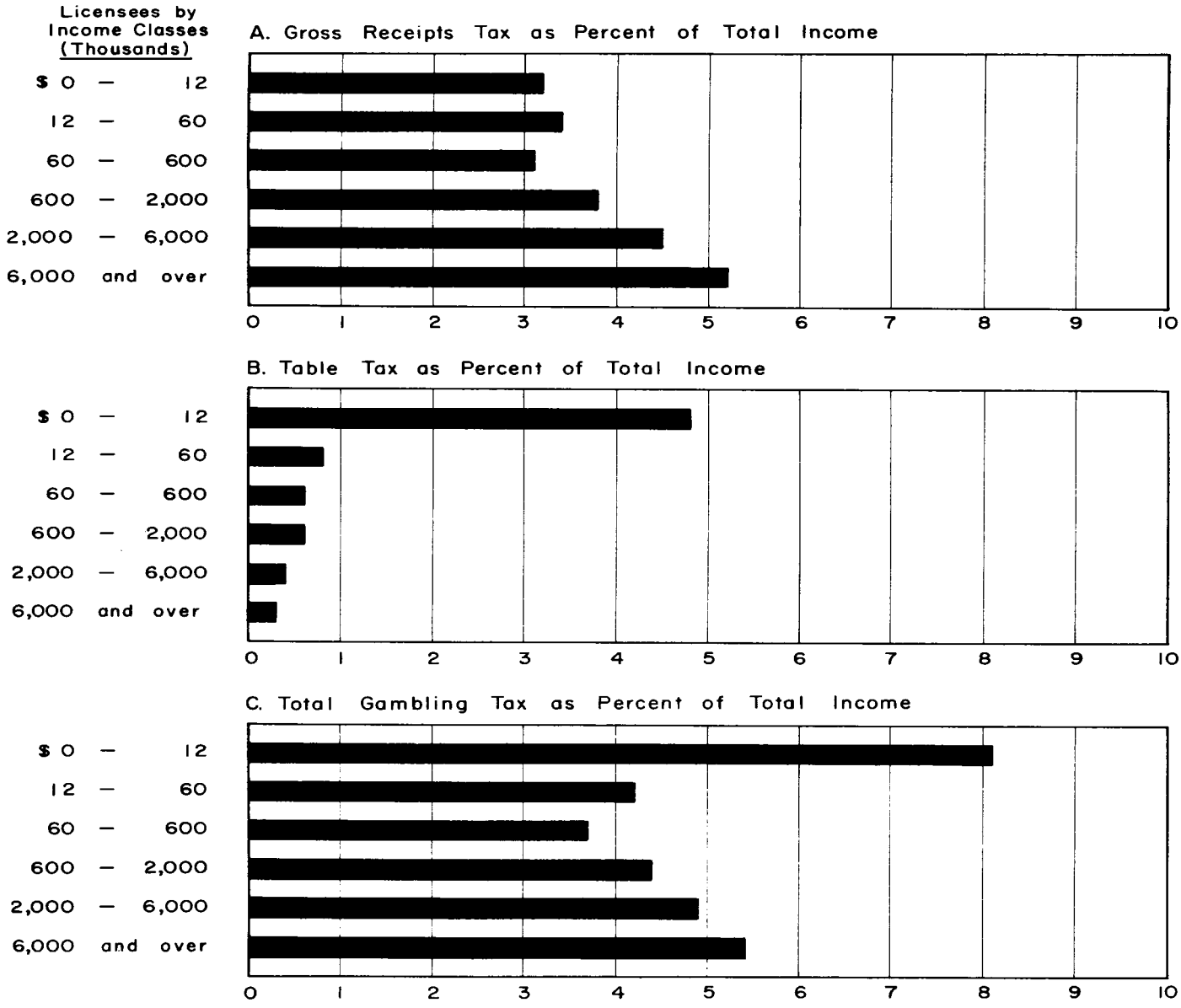

Source : Table 9.31

Chart 9.3

# State Gambling Tax Liability as Percent of Gross Income

## Unrestricted Licensees

### Fiscal Year 1959




Source: Tables 9.29, 9.30, 9.31.

Table 9.32 compares the average total tax paid by licensees in fiscal year 1959, classified by income groups, with the reported average gross winnings per licensee for the same period. On this basis the

Table 9.32

Average Gambling Income and Tax Liability, Unrestricted Licensees, by Income Classes, Fiscal Year 1959

| Income class (in thousands) | Number of licensees[a] | Average total income per licensee[b] | Average total tax per licensee[c] | Ratio of total tax to total income |
|---|---|---|---|---|
| $ 0 - 12 | 154 | $ 4,494 | $ 364 | 8.1 |
| 12 - 60 | 91 | 25,538 | 1,066 | 4.2 |
| 60 - 600 | 54 | 174,467 | 6,519 | 3.7 |
| 600 - 2,000 | 29 | 1,196,103 | 52,586 | 4.4 |
| 2,000 - 6,000 | 14 | 4,044,714 | 199,429 | 4.9 |
| 6,000 and over | 7 | 7,712,268 | 418,857 | 5.4 |
| Total | 349 | $ 451,966 | $ 22,218 | 4.9 |

[a]Number of licensees operating any part of fiscal 1959.
[b]Based on Table 9.9.
[c]Based on Table 9.31.

average gambling tax per club varied from $364 for the 154 licensees comprising the lowest income group (with average revenues of $4,494) to $418,857 per club for the seven casinos in the highest income group (with average revenues of $7,712,268). For all licensees in the unrestricted sector of the industry the average state gambling tax amounted to $22,218, or slightly less than 5 percent of the average reported gross winnings per club of $451,996 for fiscal year 1959. Of course, when the average tax is related to the average gross income and expressed as percentages for each of the six income classes, the ratios of tax burden are identical with those shown in Table 9.31.

## Distribution by Number of Slot Machines

Another basis for analyzing the distribution of the tax burden is to classify the clubs by the number of slot machines operated. Table 9.33 shows that 155 of the unrestricted licensees, or more than 48 percent of the total number of firms in this sector of the industry, operated fewer than 10 slot machines and as a group accounted for only 2.3 percent of the total gambling taxes paid during fiscal year 1959. At the upper end of the scale, less than 2 percent of the casinos, operating 350 or more slot machines, accounted for almost 19 percent of the total tax paid that year. As is to be expected, the distribution of gambling tax collections based on the number of slot machines

Table 9.33

Number of Licensees, Income and Taxes, Unrestricted Licensees, Classified by Number of Slot Machines, Fiscal Year 1959

| Slot class | Licensees[a] | | Total Income | | Total state gambling taxes | |
|---|---|---|---|---|---|---|
| | Number | Percent distrib. | Amount (thousands) | Percent distrib. | Amount (thousands) | Percent distrib. |
| 0 - 9 | 155 | 48.1 | $ 4,016 | 2.5 | $ 176 | 2.3 |
| 10 - 29 | 77 | 23.9 | 2,468 | 1.6 | 98 | 1.3 |
| 30 - 99 | 43 | 13.4 | 23,188 | 14.7 | 1,029 | 13.3 |
| 100 - 199 | 33 | 10.2 | 64,672 | 41.0 | 3,222 | 41.6 |
| 200 - 349 | 8 | 2.5 | 35,102 | 22.3 | 1,771 | 22.8 |
| 350 and over | 6 | 1.9 | 28,290 | 17.9 | 1,458 | 18.8 |
| Total[b] | 322 | 100.0 | $157,736 | 100.0 | $7,754 | 100.0 |

[a]Fourth quarter, fiscal 1959.
[b]Totals may not equal sum of items due to rounding.

closely follows the pattern of income distribution for all categories. It may be further noted that those clubs operating between 100 and 200 machines, about one-tenth of the firms, accounted for the largest share of the tax collections, more than $3.2 million or almost 42 percent of the total; while the three lowest groups consisting of clubs which operate less than 100 slot machines, represented over 85 percent of the licensees but accounted for less than 19 percent of the total gambling revenue and only 17 percent of the combined Gross Receipts and Table Tax collections.

## Distribution by Game Classes

Table 9.34 indicates the licensees, gross winnings and total tax collections classified by the number of table-fee games operated. When the firms are classified on this basis, it is apparent that a large part of the industry is represented by small establishments--268 unrestricted licensees, or 83 percent of the total, operated 5 games or less; while 27 casinos, or 8 percent of the firms, operated 11 games or more. Only 6 casinos, or less than 2 percent of the total, were licensed for 26 or more games. The smallest clubs by this measure, those with 5 or less games, accounted for less than 10 percent of the income and 8 percent of the total tax; in contrast, the handful of clubs in the "26 or more" game category reported approximately 20 percent of the income and tax. Similarly, clubs operating more than 10 games only represented about 8 percent of the licensees but accounted for 74 percent of the total income and over 78 percent of the total tax collections. Although the pattern of tax collections generally follows the distribution of income, it will be noted that for the lowest three classes the proportion of tax

Table 9.34

Number of Licensees, Income and Taxes, Unrestricted Licensees, Classified by Number of Games, Fiscal Year 1959

| Game class | Licensees[a] Number | Licensees[a] Percent distrib. | Total Income Amount (thousands) | Total Income Percent distrib. | Total state gambling taxes Amount (thousands) | Total state gambling taxes Percent distrib. |
|---|---|---|---|---|---|---|
| 0 | 136 | 42.2 | $ 3,361 | 2.1 | $ 106 | 1.4 |
| 1 - 5 | 132 | 41.0 | 12,003 | 7.6 | 473 | 6.1 |
| 6 - 10 | 27 | 8.4 | 25,864 | 16.4 | 1,104 | 14.2 |
| 11 - 16 | 9 | 2.8 | 35,814 | 22.7 | 1,826 | 23.5 |
| 17 - 25 | 12 | 3.7 | 49,514 | 31.4 | 2,633 | 34.0 |
| 26 and over | 6 | 1.9 | 31,180 | 19.8 | 1,612 | 20.8 |
| Total[b] | 322 | 100.0 | $157,736 | 100.0 | $7,754 | 100.0 |

[a]Fourth quarter, fiscal 1959.
[b]Totals may not equal sum of items due to rounding.

paid was slightly less than their respective share of income, while the reverse is true for the three largest categories. The group of clubs making up the "17 to 25" game class accounted for the greatest share of the tax collections--more than $2.6 million or 34 percent of the total.

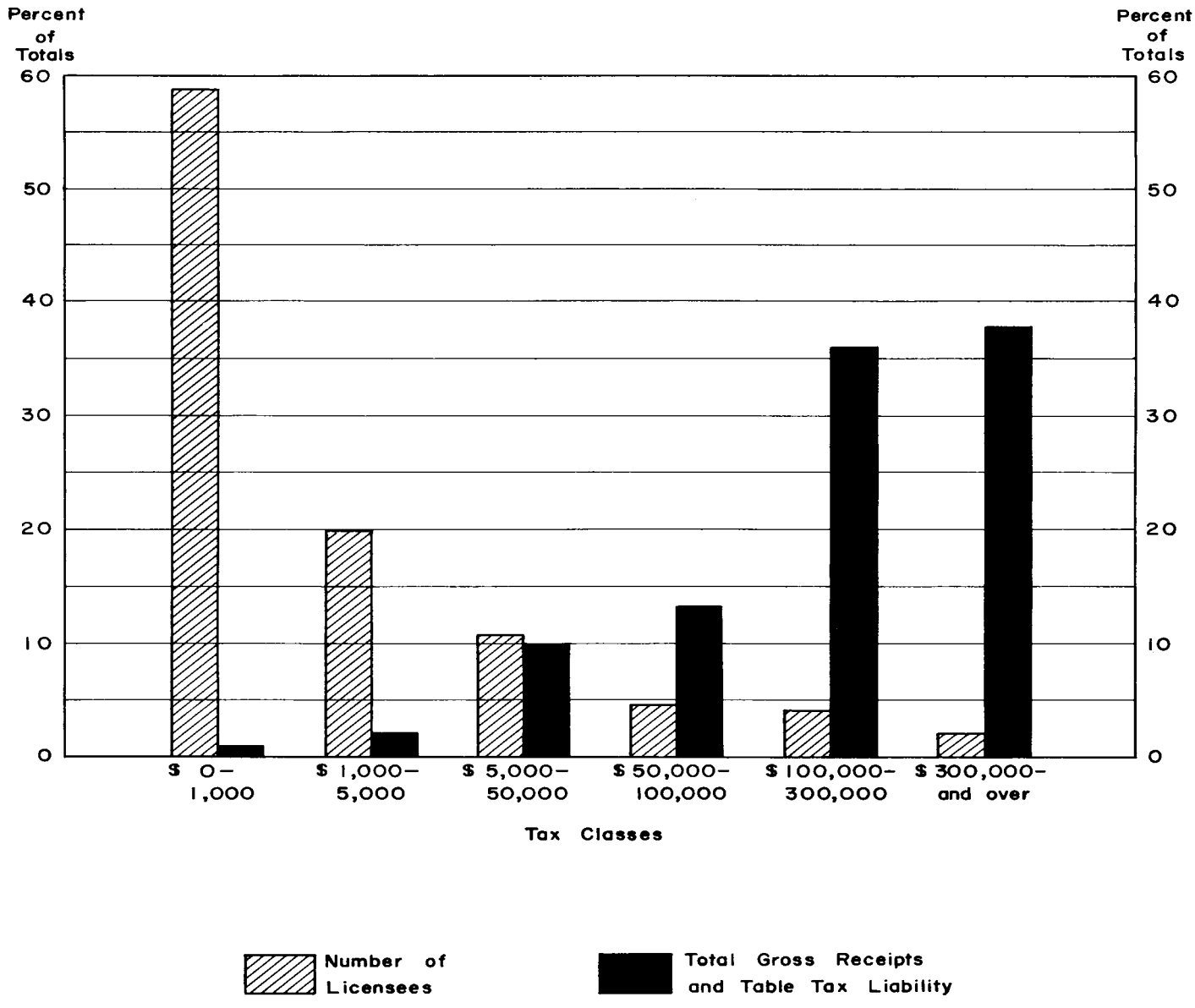
## Distribution by Tax Classes

Chart 9.4 and Table 9.35 show the distribution of the number of licensees, gambling income and gambling tax collections classified by the amount of combined Gross Receipts and Table Tax paid in fiscal year 1959. First, it will be noted that more than 200 clubs, or almost 59 percent of the total number in the unrestricted sector of the industry, paid a combined gambling tax of less than $1,000 each; that when the clubs classified on this basis were cumulated from low to high, 274 licensees, or more than three-fourths of the total number, individually paid a combined tax of $5,000 or less for the year. At the upper end of the scale, there were 7 casinos which paid taxes of over $300,000 each and as a group accounted for 34 percent of the income and almost 38 percent of the tax collections. Although the licensees in the lowest tax class, those having a combined tax liability of $1,000 or less, represented more than half the industry, they nevertheless accounted for only 1 percent of the income and slightly less than 1 percent of the tax revenues. The three lowest classes on this basis, clubs paying less than $50,000 each in taxes, represented 90 percent of the total number of unrestricted licensees but only 15 percent of the income and 13 percent of the tax. In summary, it is apparent that regardless of the basis of size classification, i.e., whether the clubs were measured in terms of gross winnings,

Chart 9.4

## Percentage Distribution of Unrestricted Licensees and Total Gambling Tax Liability

Fiscal Year 1959




Source : Table 9.35

Table 9.35

Number of Licensees, Income and Taxes, Unrestricted Licensees, Classified by Amount of Tax Paid, Fiscal Year 1959

| Tax class (000) | Licensees[a] | | Total Income | | Total state gambling taxes[b] | |
|---|---|---|---|---|---|---|
| | No. | Percent distrib. | Amount (thousands) | Percent distrib. | Amount (thousands) | Percent distrib. |
| $ 0 - 1 | 205 | 58.7 | $ 1,626 | 1.0 | $ 67 | .9 |
| 1 - 5 | 69 | 19.8 | 4,141 | 2.6 | 164 | 2.1 |
| 5 - 50 | 38 | 10.9 | 18,374 | 11.6 | 765 | 9.9 |
| 50 - 100 | 16 | 4.6 | 22,984 | 14.6 | 1,033 | 13.3 |
| 100 - 300 | 14 | 4.0 | 56,626 | 35.9 | 2,792 | 36.0 |
| 300 & over | 7 | 2.0 | 53,986 | 34.2 | 2,932 | 37.8 |
| Total[c] | 349 | 100.0 | $157,736 | 100.0 | $7,754 | 100.0 |

[a]Number of licensees operating during fiscal 1959.
[b]Includes small amount of penalties.
[c]Totals may not equal sum of items due to rounding.

number of slot machines, number of games, or amount of combined tax paid, there is marked concentration of income and tax in a relative handful of large casinos while the overwhelming majority of firms in the unrestricted sector of the industry account for a comparatively small amount of the total gambling income and gambling tax revenues for the State. However, it is equally evident that although the Gross Receipts Tax works out to be slightly progressive in the upper income groups because of the present rate structure, the Table Tax is clearly regressive throughout, resulting in a combined gambling tax burden in terms of gross winnings or income which places a relatively large tax burden on the overwhelming majority of small firms. In short, the distribution of the total gambling tax burden when classified on any of the above bases appears to be uneven, and the State's gambling tax rate structure should be revised in order to achieve a greater degree of equity among the licensees, as well as with regard to the non-gambling sectors of the Nevada economy.

## State Gambling Tax Administration

As noted, the inherent complexity and many of the problems which characterize the administration of income taxation in general, and Nevada's Gross Receipts Tax in particular, may be primarily attributed to the fact that these forms of taxation generally require self-assessment by the taxpayer. There are three primary steps in the administration of such taxes: the taxpayers must be identified, the assessment and returns must be verified, and the tax must be collected. Taxpayer identification in the case of gambling taxation is a relatively

simple procedure since under Nevada's legalized gambling laws a firm must be licensed by the State Gaming Commission in order to operate a gambling establishment. Thus, the Gross Receipts Tax is levied in conjunction with the issuance of each quarterly gaming license and the State Table Tax, although collected annually, also is imposed in conjunction with the quarterly license issued in the first calendar quarter of the year. Obviously, verification is the most difficult step of gambling tax administration. The tax computation and liability is reported on tax forms which serve as the quarterly license applications, and as such are subject to both pre-audit and field audit. Collection of the tax is relatively simple in that the tax is paid in advance but based on the gross receipts of the previous quarter. In the case of a casino starting operations, bonding requirements assure payment of the tax which is not due until the end of the first quarter of operation, at which time taxes for the past quarter and the future quarter are collected. At that time, the bond is returned to the licensee.

## Administrative Procedures

The Gross Receipts Tax and the State Table Tax are administered by the Nevada Gaming Commission in conjunction with the State Gaming Control Board. These two agencies are also responsible for all licensing, regulation, and policing of Nevada's legalized gambling industry. Primary concern is devoted to licensing investigations and procedures in order to keep undesirable elements from entering the gambling industry in Nevada. The Control Board is essentially the "investigative arm" of the Commission--devoting a major portion of its efforts to investigation of gambling license applicants and to the discovery of "hidden interests" as well as cheating in the clubs already licensed.

Procedurally, license applicants first apply to the Gaming Control Board which conducts the investigation, placing emphasis on the background, connections and financial position of the applicant. If license approval is obtained from the Control Board, the application may then be approved or denied by the Gaming Commission. Thus, the Nevada Gaming Commission acts not only as the tax administrative agent for the State but also as the ultimate licensing authority for persons wishing to open a new casino or obtain an interest in an already existing casino.

Prior to July 1, 1959, Nevada's gaming taxes were administered by the Nevada Tax Commission in conjunction with the Nevada Gaming Control Board. Since that time, however, the Gaming Commission has been created and the Board has been significantly expanded. The Gaming Control Board is presently composed of three members appointed by the Governor, salaried, and serving on a full-time basis. Each member, including the chairman, is in charge of one of the three major divisions of the Board--Enforcement, Auditing, and Investigation. The Enforcement Division presently consists of a Chief and nine agents;

the Auditing Division, a Chief and eight auditors; and the Investigation Division is headed by the Chairman of the Gaming Control Board who has nine investigators for this purpose. The primary tax function of the Board is performed by the Auditing Division. While field audits are conducted involving all aspects of a casino's operations, they are primarily concerned with regulation and control, such as the disclosure of "hidden interests" and so forth. Tax considerations are generally secondary, although some verification of tax returns against the books are also carried out at the time of the audit. Investigative and Enforcement agents also check for valid and proper licenses, i.e., correct period, number of slot machines and games in operation.

The Nevada Gaming Commission is more directly concerned with tax administration. The Commission is composed of five members appointed by the Governor and serving on a part-time basis without compensation. An Administrative Secretary is appointed by the Commission and presently employs an assistant, a posting and fiscal officer, and an office staff of five persons. The posting and fiscal officer performs a pre-audit of all applications, assesses any penalties or additional taxes, collects and records all revenues, and remits collections to the State Treasurer.

Regulation and control of Nevada's gambling industry is a complex and costly process. Administration of the State's gambling taxes, however, appears to be relatively simple and the collection costs are considerably less than those for most other levies imposed in Nevada. However, the actual costs which may be attributed solely to the administration of the tax, of course, cannot be ascertained since a large part of the tax administration, as noted, is carried on by the agents of the Control Board in conjunction with their regulatory functions. It has been estimated that the total expenses for both the Gaming Commission and the Control Board for fiscal year 1959-1960 will amount to approximately $375,000, of which amount only about $45,000, or 12 percent of the total, may be attributed directly to tax collection functions.[48] The remainder is primarily due to such regulatory duties as policing, licensing and general control of the industry. Compared with anticipated gambling tax receipts for fiscal 1960 of approximately $10 million, the entire cost for operating both the Gaming Commission and the Control Board for the fiscal year is expected to amount to less than 4 percent of the total collections which is significantly below the maximum of 10 percent of gaming tax revenues permitted for administration by statute.[49] Similarly, the $45,000 estimated as the cost attributable solely to gambling tax collection amounts to only 1/2 of 1 percent of the total gambling tax revenues for

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[48]Estimates based on information provided by the Administrative Secretary of the State Gaming Commission.

[49]Nevada Revised Statutes, 463.330.

the year and, as such, would represent one of the lowest cost-collection ratios for any major tax in the State or nation. Of course, the unusually low collection costs may merely be a reflection of the inherent simplicity of the tax or of administrative efficiency and economy. But on the other hand, it may also result from cursory verification of returns and financial reports, inadequate tax auditing and other related administrative shortcomings.

## Administrative Problem Areas

All gambling tax returns (license applications) are verified for mathematical accuracy and proper tax assessment. Existing licensees are checked quarterly to determine if a new license has been obtained. In cases where no new license has been issued, a minor investigation is conducted, the taxpayer notified, and a penalty assessed. This function is presently performed by the posting and fiscal officer of the Commission. While the Commission is statutorily responsible for collection of the State's gambling taxes, as previously indicated, all auditors are presently employed by the Gaming Control Board. It would appear that the establishment of an office auditing staff, directly responsible to the Commission, is also needed. The primary functions of such a staff would be to audit filed tax returns and financial statements more fully, as well as to assist the posting and fiscal officer with delinquent accounts and other auditing duties discussed below.

The auditing staff employed by the Gaming Control Board performs a field audit of each taxpayer approximately once every eighteen months. While greater audit frequency would probably be desirable, it is equally important that greater emphasis be placed on "surprise" audits. In some cases taxpayers are given notice that their records are to be audited. The purpose of such a procedure is to improve the record keeping of the clubs and assist the owners in presenting the detail required by the auditing staff. While such an objective is reasonable, unannounced audits would also be revealing of actual casino operations.

While not strictly enforced, a regulation of the Gaming Control Act requires that casino operators annually submit financial statements. Although some clubs abide by this regulation, the only financial data provided on a periodic basis by many clubs are the quarterly license applications. Other than for inadequate staff, there appears to be no justification for permitting the continuance of this type of violation. Given the nature of the industry and the Gross Receipts Tax, if good administration is to be achieved it is practically essential that the Commission enforce its own rules and require licensees to submit annually a balance sheet and a profit and loss statement which have been approved by a Certified Public Accountant. Such a procedure would also help improve casino record keeping and thereby allow the present field auditing staff to place greater emphasis on "surprise" audits. Moreover, the office auditing staff suggested above could utilize these financial statements as a means for office auditing of quarterly license applications. Such financial statements, of course, would continue to be statutorily confidential and misuse would be subject to

penalty. The financial statements suggested above would also facilitate research into gambling operations in the State. While some attempt is presently being made by the Commission to collect comparative gambling tax data, such investigation can only be fully effective with the availability of complete financial information. It should be noted that field auditors presently have access to financial statements but there is no requirement with regard to uniform reporting and there is no central collection of financial statements. The annually submitted financial statements also could be used to develop financial ratios which would give tentative indications of any extensive evasion or underreporting. Finally, it may be noted that as more effective cooperation develops between the Internal Revenue Service and the Nevada State Gaming Commission with regard to the exchange of tax information and auditing of returns, the Commission's office auditing staff could serve as the major liaison body between the two agencies. In summary, the newly-established organization to control Nevada's gambling industry has placed considerable emphasis on expansion of control and licensing activities. Gambling taxes are relatively easy to administer but the unusually low cost of collection ratio would suggest that greater emphasis should be placed on the tax collection function in addition to other gaming regulatory activities. Favorable taxpayer compliance is likely to continue only as long as gambling tax administration is known to be strict, equitable, and effective. In addition to evasion and loss of State revenue, the absence of good tax administration inevitably results in an inequitable apportionment of the tax burden.

## Appendix

### Estimates of the Effect of Selected Changes in the State Gambling Tax Structure

On the basis of the detailed 1959 gambling tax data developed for this study, it is possible to estimate the effect on State tax revenues and taxpayer costs of the proposed revisions in the rate structures of both the Gross Receipts Tax and the State Table Tax. In light of the preceding analysis it does not appear that any major or radical departure from the type of gambling taxation currently being used on the State level is required, although the possibility of placing greater reliance on this tax source relative to property and sales taxation is examined in the concluding chapter of this study. The present gambling tax system based on gross income and licensing levies is supported by both practical and theoretical considerations. In effect, it represents a reasonable compromise between the extreme positions of using a highly progressive net profits tax or a straight-across-the-board uniform flat license fee per establishment, game or slot machine without regard for the marked differences in the amount of gross winnings per game which exist among the clubs. Nevertheless, the data in the study indicate that a more equitable distribution of the tax burden and a more rational licensing structure than presently prevails could be achieved if certain revisions of the rate structure were undertaken within the framework of the existing system. Of course, the theoretical number of changes that could be made in the specific detail of the rate structures of either the Gross Receipts Tax or the State Table Tax obviously are virtually infinite. However, only three alternative schedules are developed for the Gross Receipts Tax in this section--low, medium and relatively high income-yielding adjustments--and only one suggested revision of the State Table Tax which could serve as a guide for establishing a more rationally structured licensing system. The impact or effect of these alternative revisions on the various groups of licensees when classified by size, whether measured in terms of gross winnings or number of games operated, may be gauged by applying the percentage change in revenues to the average tax liability actually incurred under the present tax by each class of firms in the unrestricted sector of the industry.

#### Gross Receipts Tax

At the outset it is important to emphasize that the Gross Receipts Tax provides the overwhelming bulk of the total State revenues derived from gambling, more than 91 percent of the total. Table 9.36 shows the distribution of the total tax liability incurred during fiscal year 1959 under the present statutory rate structure of the Gross Receipts Tax, classified on the basis of the reported winnings of all unrestricted licensees for that year. The income classes are based on the present statutory quarterly rates annualized, with the

Table 9.36

Gross Receipts Tax Liability Under Present Tax Rate Structure, Unrestricted Licensees, Fiscal Year 1959

| Tax bracket income class[a] (thousands) | Number of licensees | Total gambling income | Total Gross Receipts Tax liability |
|---|---|---|---|
| A. Amount (thousands, except for licensees): | | | |
| $ 0 - 60 | 245 | $ 3,016.3 | $ 90.5 |
| 60 - 600 | 54 | 9,421.2 | 282.6 |
| 600 - 1,600 | 23 | 24,307.0 | 834.3 |
| 1,600 - 4,000 | 13 | 32,032.6 | 1,315.6 |
| 4,000 and over | 13 | 88,959.3 | 4,304.8 |
| Total[b] | 349 | $157,736.1 | $6,827.8 |
| B. Percentage distribution: | | | |
| $ 0 - 60 | 70.2 | 1.9 | 1.3 |
| 60 - 600 | 15.5 | 6.0 | 4.1 |
| 600 - 1,600 | 6.6 | 15.4 | 12.2 |
| 1,600 - 4,000 | 3.7 | 20.3 | 19.3 |
| 4,000 and over | 4.0 | 56.4 | 63.0 |
| Total[b] | 100.0 | 100.0 | 100.0 |

[a]Annual basis. Statutory rates on quarterly basis. Lowest statutory bracket class "$0 to $150,000" ($0 to $600,000 annually) has been divided into two separate brackets.

[b]Totals may not equal sum of items due to rounding.

lowest statutory bracket class of "$0 to $600,000" ($0 to $150,000 quarterly) split into two brackets of "$0 to $60,000" and "$60,000 to $600,000," respectively. This differentiation of the present lowest tax bracket class is predicated on the preceding analysis which clearly showed that this one statutory class actually contained almost 86 percent of all licensees in the unrestricted sector of the industry, notwithstanding the fact that there were significant differences between the two sub-groups with regard to gaming income and tax burden when a break was made at the $60,000 income level and the Gross Receipts Tax was expressed as a percentage of reported gross gambling winnings.[50] Thus, instead of four statutory income classes, it is suggested that the Gross Receipts Tax rate structure be based on five brackets, with the limits of each class other than the two

[50]See Table 9.29.

lowest remaining the same as currently provided by statute. As is to be expected, the percentage distribution of firms, income and tax liability on this basis follows a pattern similar to that shown previously. The overwhelming majority of firms, those in the lowest tax brackets, accounted for a relatively small proportion of the total income and tax liability; while the relative handful of firms in the highest tax classes were responsible for more than three-fourths of the income and tax. Moreover, it should be noted that the tax liability of $6.8 million for fiscal year 1959, calculated on the basis of the gross winnings reported by all unrestricted licensees, was approximately $200,000 or 3 percent less than the $7.0 million of Gross Receipts Tax actually collected by the State during that year.[51] This difference may be attributed to the double tax payments made by clubs newly established during the fiscal year and the fact that some licensees were not in operation all four quarters of the year. In order to assess the effect of the proposed rate changes, the tax estimates of the revisions will be compared with the tax liability for 1959, rather than the tax collections, so that a consistent basis for the comparison will be maintained.

Table 9.37 shows three alternative Gross Receipts Tax rate structures which differentiate the bracket rates between the two lowest

Table 9.37

Three Alternative Gross Receipts Tax Rate Structures

| Tax bracket income class[a] (thousands) | Present marginal rates | Alternative Rate Structures: "A" (Low) | "B" (Medium) | "C" (High) |
|---|---|---|---|---|
| $ 0 - 60 | 3 | 3 | 3 | 4 |
| 60 - 600 | 3 | 4 | 4 | 5 |
| 600 - 1,600 | 4 | 5 | 5 | 6 |
| 1,600 - 4,000 | 5 | 5.5 | 6 | 7 |
| 4,000 and over | 5.5 | 6 | 7 | 8 |

[a]Annual basis. Statutory rates on quarterly basis. Lowest statutory bracket class "$0 to $150,000" ($0 to $600,000 annually) has been divided into two separate brackets.

classes in every instance. Alternative "A" ranged from 3 to 6 percent and would provide the least amount of additional revenue. The tax rate for the lowest income class, the "$0 to $60,000," would remain at the present minimum rate of 3 percent. Since 245 firms, or more than 70 percent of the 349 unrestricted licensees were in this class on the

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[51]Ibid.

basis of their reported gross winnings for 1959, they would have been wholly unaffected if revision "A" had been in effect during that year. Alternative "B" ranges from 3 to 7 percent and is similar to "A" except that the top two classes are 1 and 1½ percentage points, respectively, above the present rates. Alternative "C" has the highest rate structure, ranging from 4 to 8 percent, and would result in fairly substantial increases in the tax levy for the firms in all income classes, even the lowest.

The respective impacts of the above three rate structures on State revenues and taxpayer cost are compared in Table 9.38. On the

Table 9.38

Estimated Increases in Gross Receipts Tax Revenues from Three Alternative Tax Rate Structures, Based on Reported Gross Income for Fiscal Year 1959

| Tax bracket income class[a] (thousands) | "A" Rates from 3 to 6% | "B" Rates from 3 to 7% | "C" Rates from 4 to 8% |
|---|---|---|---|
| A. Dollar amount increase over 1959 (thousands): | | | |
| $ 0 - 60 | $ 0.0 | $ 0.0 | $ 30.2 |
| 60 - 600 | 59.6 | 59.6 | 156.0 |
| 600 - 1,600 | 229.3 | 229.3 | 472.3 |
| 1,600 - 4,000 | 256.4 | 312.5 | 632.9 |
| 4,000 and over | 548.4 | 1,046.0 | 1,935.6 |
| Total[b] | $1,093.6 | $1,647.4 | $3,227.0 |
| B. Percentage increase over 1959: | | | |
| $ 0 - 60 | 0.0 | 0.0 | 33.3 |
| 60 - 600 | 21.1 | 21.1 | 55.2 |
| 600 - 1,600 | 27.5 | 27.5 | 56.2 |
| 1,600 - 4,000 | 19.5 | 23.8 | 48.1 |
| 4,000 and over | 12.7 | 24.3 | 45.0 |
| Total[b] | 16.0 | 24.1 | 47.3 |

[a]Annual basis. Statutory rates on quarterly basis. Lowest statutory bracket class "$0 to $150,000" ($0 to $600,000 annually) has been divided into two separate brackets.

[b]Totals may not equal sum of items due to rounding.

basis of the 1959 reported gross winnings, it is estimated that schedule "A" would yield about $1.1 million of additional revenue from this source, or 16 percent more than under the present rate structure; schedule "B" about $1.6 million or 24 percent more; and finally, schedule "C" about

$3.2 million or 47 percent more. Of course, the increased tax liability would not be distributed uniformly among the income groups. For example, revisions "A" and "B" would not have resulted in any increase for the more than two-thirds of the licensees who comprise the "new" lowest income group, although under revision "C" these firms would have experienced a one-third increase over their present tax if the schedule had been in effect in 1959. However, the percentage distribution of the increases among the tax classes under each revision generally follows the same pattern, although the relative amount of variance between the groups is the lowest under "A." In this instance, the casinos in the highest tax bracket class, the 4 percent of licensees with reported winnings of more than $4 million, would have had an increase of less than 13 percent in comparison with the more than 27 percent increase for the clubs in the middle tax bracket class. Under schedules "B" and "C," other than for the lowest tax class, the percentage increases for each of the categories is considerably more uniform.

Finally, Table 9.39 compares the allocation of the tax liability for 1959 with the distribution that would have been experienced if any

Table 9.39

Comparison of Estimated Gross Receipts Tax Revenues from Three Alternative Tax Rate Structures Compared with Gross Receipts Tax Liability, Fiscal Year 1959

| Tax bracket income classes[a] (thousands) | Total tax liability (1959) | Estimated total tax liability: "A" Rates from 3 to 6% | "B" Rates from 3 to 7% | "C" Rates from 4 to 8% |
|---|---|---|---|---|
| A. Percentage distribution: | | | | |
| $ 0 - 60 | 1.3 | 1.1 | 1.1 | 1.2 |
| 60 - 600 | 4.1 | 4.3 | 4.0 | 4.4 |
| 600 - 1,600 | 12.2 | 13.4 | 12.5 | 13.0 |
| 1,600 - 4,000 | 19.3 | 19.8 | 19.2 | 19.4 |
| 4,000 and over | 63.0 | 61.3 | 63.1 | 62.1 |
| Total[b] | 100.0 | 100.0 | 100.0 | 100.0 |
| B. Tax liability as percent of total income: | | | | |
| $ 0 - 60 | 3.0 | 3.0 | 3.0 | 4.0 |
| 60 - 600 | 3.0 | 3.6 | 3.6 | 4.7 |
| 600 - 1,600 | 3.4 | 4.4 | 4.4 | 5.4 |
| 1,600 - 4,000 | 4.1 | 4.9 | 5.1 | 6.1 |
| 4,000 and over | 4.8 | 5.5 | 6.0 | 7.0 |
| Total[b] | 4.3 | 5.0 | 5.4 | 6.4 |

[a]Annual basis. Statutory rates on quarterly basis. Lowest statutory bracket class "$0 to $150,000" ($0 to $600,000 annually) has been divided into two separate brackets.

[b]Totals may not equal sum of items due to rounding.

one of the three proposed alternative structures had been in effect that year. It is evident that the relative shares of the total tax for each broad category of clubs are only slightly affected, and in no case would the change have amounted to as much as 2 percentage points from the actual 1959 allocation. In general the lowest and the highest income groups would have their positions slightly improved relative to that of the firms in the middle tax brackets. Perhaps the best measure for appraising the impact of these alternative rate structures is obtained by comparing the ratios of total tax liability to total income under the present rate structure with those which would have prevailed under the three proposed revisions. It will be noted that on this basis in every instance the Gross Receipts Tax works out to be slightly progressive. Under the present tax the ratios range from 3 to 4.8 percent; while under the alternative rate structures the ranges would have been from 3 to 5.5 percent under "A," from 3 to 6 percent under "B," and from 4 to 7 percent under "C." In other words, all three alternatives would slightly increase the degree of progressivity of the tax, and "A" and "B" differ from each other only with regard to the two upper tax brackets. If a revision of the Gross Receipts Tax were undertaken, the choice between these three alternatives in part would be dependent upon the increased revenue needs of the State. In any case, the entire preceding analysis supports the reasonableness of introducing a five-bracket rate structure with the present lower tax class subdivided as in the proposed revisions.

## State Table Tax

The State Table Tax, as noted, accounts for only a small amount of the total gambling tax revenues collected by the State--approximately 9 percent of the total for fiscal year 1959. Table 9.40 shows the distribution of the State Table Tax liability under the present fee structure for unrestricted licensees based on the total number of games licensed for the fourth quarter of fiscal year 1959. Only 186 firms were required to pay the State Table Tax, since 136 of the 322 firms in the unrestricted category did not operate table-fee games during that quarter. The tax bracket game classes used for this analysis generally follow the major breaks in the statutory table tax fees, and it is evident that the average reported gross winnings per game varied significantly between the groups, increasing steadily for the first three classes and then decreasing. The average win per game ranged from $23,241 for the clubs which operated 5 or fewer tables, to $220,643 for the "11 to 16" game category. It is apparent that on the average, the clubs in the latter group had income per game which was approximately ten times as large as that reported for the smallest clubs. Table 9.40 also shows the total State Table Tax liability incurred by these categories of clubs and the average tax paid per game which ranged from $155 for the firms in the "1 - 5" game class to $1,000 per game for those in the "11 - 16" game class.

Table 9.40

State Table Tax Liability Under the Present Tax Rate Structure, Unrestricted Licensees, Based on Games Licensed Fourth Quarter, Fiscal Year 1959

| Tax bracket game classes[a] | Number | | Game income:[b] | | Table tax liability[c] | |
|---|---|---|---|---|---|---|
| | Licensees | Fee games | Total (thousands) | Average per game | Total (thousands) | Average per game |
| 1 - 5 | 132 | 278 | $ 6,461 | $ 23,241 | $ 43 | $ 155 |
| 6 - 10 | 27 | 241 | 16,312 | 67,685 | 144 | 598 |
| 11 - 16 | 9 | 129 | 28,463 | 220,643 | 129 | 1,000 |
| 17 - 25 | 12 | 237 | 36,073 | 152,207 | 201 | 848 |
| 26 and over | 6 | 211 | 25,968 | 123,071 | 119 | 564 |
| Total[d] | 186 | 1,096 | $113,277 | $103,355 | $636 | $ 580 |

[a]Number of games licensed per club. Excludes 136 unrestricted firms not licensed to operate any games during quarter.
[b]Based on income derived solely from games, fourth quarter of fiscal year and annualized.
[c]Computed table tax liability for fiscal year.
[d]Totals may not equal sum of items due to rounding.

Table 9.41 is a comparison of the present rate structure with a suggested revision that is believed to be more rational and equitable. The first two columns show the additional (marginal) fee that is incurred by a club for each additional game licensed. Under the present structure the additional bracket or marginal fee increases from $100 for the first and second games to $1,250 for the sixth game. The seventh game then becomes a "free game" since no additional tax is levied for licensing this game. In other words, under the present rate structure the total cost remains the same whether 6 or 7 games are licensed. In contrast, the eighth game costs an additional $3,000 in table fees and then the ninth and tenth are "free" since the total tax liability remains at $6,000 whether 8, 9 or 10 games are operated. The fee for the eleventh game is then increased to $5,000, with the successive twelfth to sixteenth games each costing an additional $1,000 in fees. Finally, under the present structure, the seventeenth and each successive game require an additional payment of a $200 table fee. This pattern of tax rates, moving up to $1,250 and down to zero, and up and down again, and up to $5,000 and down to $200, is more clearly revealed in Chart 9.5 which compares the present bracket or marginal rates with the proposed rate structure.

The proposed rate structure in general follows the same broad pattern of imposing the highest incremental or additional rates for games in the "11 to 16" category, since as shown in the preceding table (9.40) this group reported the highest average winnings per game. The proposed rate structure also starts at $100 for the first two games and increases to $800 for the fifth game. Each additional game licensed in the "6 to 10" category would be taxed at $1,000, and in the "11 to 16"

Table 9.41

Comparison of Present State Table Tax Rate Structure with Proposed Tax Rate Structure

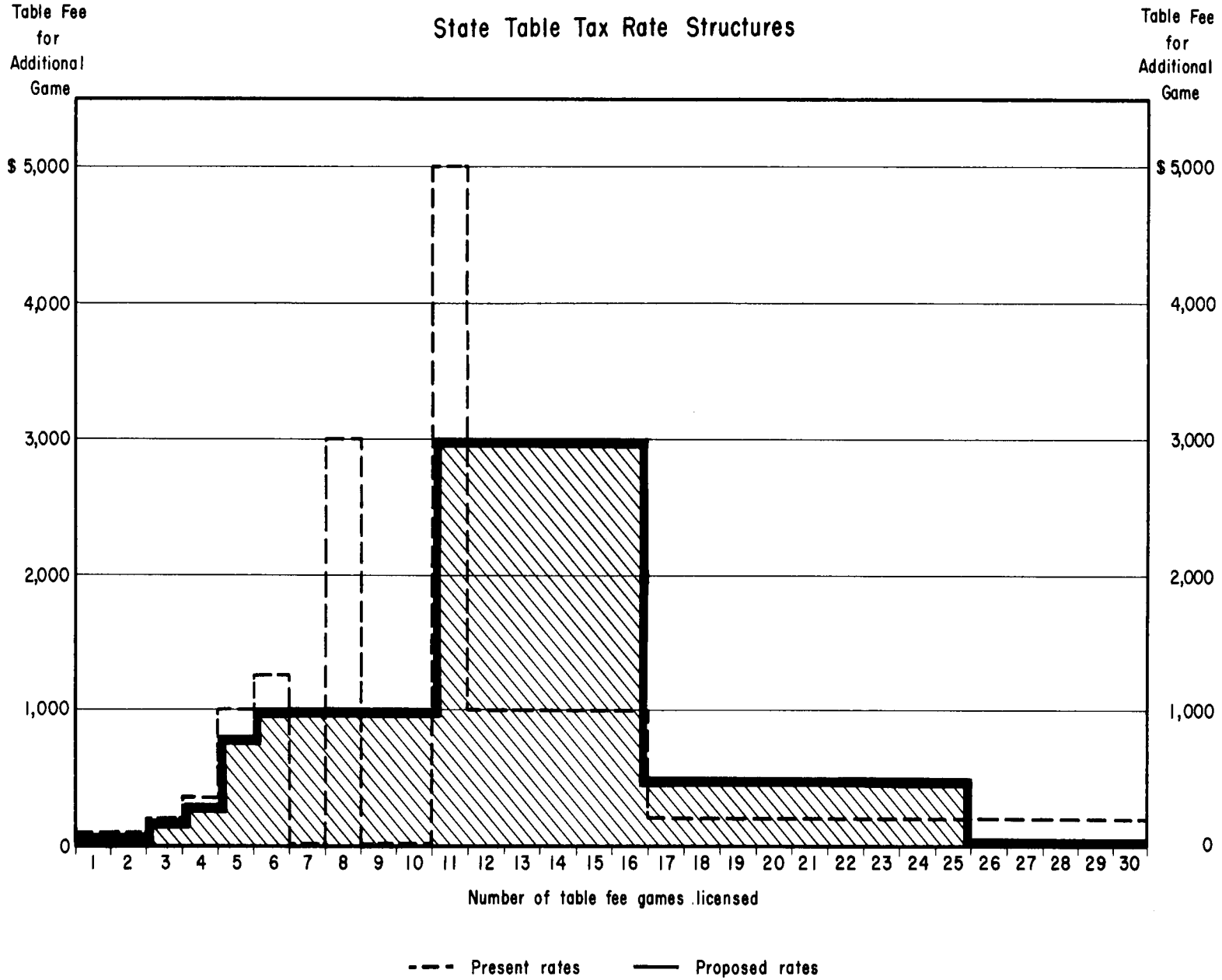
| Number of games | Additional (marginal) fee[a] | | Total fee | |
|---|---|---|---|---|
| | Present | Proposed | Present | Proposed |
| 1 | $ 100 | $ 100 | $ 100 | $ 100 |
| 2 | 100 | 100 | 200 | 200 |
| 3 | 200 | 200 | 400 | 400 |
| 4 | 350 | 300 | 750 | 700 |
| 5 | 1,000 | 800 | 1,750 | 1,500 |
| 6 | 1,250 | 1,000 | 3,000 | 2,500 |
| 7 | 0 | 1,000 | 3,000 | 3,500 |
| 8 | 3,000 | 1,000 | 6,000 | 4,500 |
| 9 | 0 | 1,000 | 6,000 | 5,500 |
| 10 | 0 | 1,000 | 6,000 | 6,500 |
| 11 | 5,000 | 3,000 | 11,000 | 9,500 |
| 12 | 1,000 | 3,000 | 12,000 | 12,500 |
| 13 | 1,000 | 3,000 | 13,000 | 15,500 |
| 14 | 1,000 | 3,000 | 14,000 | 18,500 |
| 15 | 1,000 | 3,000 | 15,000 | 21,500 |
| 16 | 1,000 | 3,000 | 16,000 | 24,500 |
| 17 | 200 | 500 | 16,200 | 25,000 |
| 18 | 200 | 500 | 16,400 | 25,500 |
| 19 | 200 | 500 | 16,600 | 26,000 |
| 20 | 200 | 500 | 16,800 | 26,500 |
| 21 | 200 | 500 | 17,000 | 27,000 |
| 22 | 200 | 500 | 17,200 | 27,500 |
| 23 | 200 | 500 | 17,400 | 28,000 |
| 24 | 200 | 500 | 17,600 | 28,500 |
| 25 | 200 | 500 | 17,800 | 29,000 |
| 26 | 200 | 0 | 18,000 | 29,000 |
| 27 | 200 | 0 | 18,200 | " |
| 28 | 200 | 0 | 18,400 | " |
| 29 | 200 | 0 | 18,600 | " |
| 30 and up | 200 | 0 | 18,800 | " |

[a]Cost of an additional game.

Chart 9.5

## Present and Proposed

## State Table Tax Rate Structures



category at $3,000 per game. The "17 to 25" category would pay a $500 tax for each additional game licensed, but all games above 25 would not be taxed. In other words, the highest total fee paid by any club would be $29,000 which would cover the first 25 games licensed. The latter suggestion is made in consideration of the extreme variances which exist in the number of games operated between casinos in the "26 and over" category and the fact that by increasing the marginal rates on the first 25 games, the total tax for these casinos is actually increased. The last two columns in this table compare the total tax fee under the present and proposed rate structures for clubs licensed to operate different numbers of games. It will be seen that most clubs operating 11 or fewer games would have a slight decrease in tax and those operating 12 or more would incur moderate increases, notwithstanding the cut-off of the tax at 25 games. It is important to note that although the largest increase in incremental rates is proposed for the "11 to 16" category, all clubs operating more than 16 games are also subject to such rates.

The estimated amounts of increase in State Table Tax liability which would result from the proposed rate structure based on the number of games actually licensed to operate during the fourth quarter of fiscal year 1959 are shown in Table 9.42. It will be noted that the smallest clubs, those in the "1 to 5" game category, would have experienced a decrease of about $2,000 in the aggregate, or 5 percent of their present tax liability. The other four remaining tax bracket classes would all have had their table fees increased by varying amounts ranging in the aggregate from $2,500 for the 27 clubs in the "6 to 10" category, to $115,500 for the 12 clubs in the "17 to 25" category. Percentage-wise, these increases range from 2 to 58 percent and would primarily raise the relatively low license fees which are now paid by the largest clubs.

Table 9.42

Estimated Increase in State Table Tax Liability from Proposed Tax Rate Structure, Based on Games Licensed Fourth Quarter, Fiscal Year 1959

| Tax bracket game class | Increase in table tax liability: Total amount | Average per licensee | Percent over present |
|---|---|---|---|
| 1 - 5 | $ -2,350 | $ -18 | -5.4 |
| 6 - 10 | 2,500 | 93 | 1.7 |
| 11 - 16 | 46,500 | 5,167 | 36.0 |
| 17 - 25 | 115,500 | 9,625 | 57.5 |
| 25 and over | 55,000 | 9,167 | 46.2 |
| Total | $217,150 | $1,167 | 34.1 |

Table 9.43 provides the most reasonable basis for assessing the relative fairness of the present and proposed license fee rate structures as measured in terms of the tax as a percent of the actual income derived from the operation of games. Under the present rate structure the regressivity of the tax is evident. Except for the "6 to 10" category, the smallest clubs, those operating 1 to 5 games and representing more than two-thirds of the total number of licensees, on the average are paying a State Table Tax which on a relative basis is about one-half greater than the tax paid by the large casinos operating 11 or more games. In contrast under the proposed rate structure, the relative tax for the licensees in the lowest game class would be slightly reduced, while the clubs in the three highest game classes would have their relative tax raised to levels approximating those of the smallest clubs. Of course, it should be noted that in no instance is the average tax for a class group as much as 1 percent of their total game revenue and the net effect of the revision would be to raise the present overall tax which amounts to 56/100 of 1 percent of the total game income to 75/100 of 1 percent. In short, the suggested State Table Tax, which would increase the fees by about $200,000 on more than $113,000,000 of game income, appears to be a reasonable approach to achieving a more rational licensing tax structure and a greater degree of equity among clubs.

Table 9.43

Present and Proposed Table Tax Liability as Percent of Total Game Income, Based on Games Licensed Fourth Quarter, Fiscal Year 1959

| Tax bracket game class | Table tax liability as percent of game income: Present | Proposed |
|---|---|---|
| 1 - 5 | .67 | .63 |
| 6 - 10 | .88 | .90 |
| 11 - 16 | .45 | .62 |
| 17 - 25 | .56 | .88 |
| 26 and over | .46 | .67 |
| Total | .56 | .75 |

## Conclusions

In order to place these proposals in their proper perspective, it is important to recognize once again that the restricted licensees, those operating seven or fewer slot machines and no games, constitute more than two-thirds of the total firms in the gambling industry and accounted for only 2.4 percent of the total gambling taxes collected by the State in fiscal year 1959. Thus, the unrestricted sector of the industry representing less than one-third of the licensees paid almost 98 percent of the total gambling tax. It was for this reason that the preceding analysis and proposals were limited to the unrestricted sector of the industry. If the Gross Receipts Tax alternatives are combined with the proposed revisions of the State Table Tax, the resulting increases in gambling revenues to the State are estimated to be $1.3 million under alternative "A," $1.9 million under alternative "B," and $3.5 million under "C." As already indicated these estimates represent the amount of increase that would have occurred if any of these revisions had been in effect during 1959. They do not take into consideration the growth which has taken place in the industry since that time. For example, the actual amount of collections reported by the State Gaming Commission was almost $8.0 million for fiscal year 1959, and $9.5 million for 1960, or an increase of 19.4 percent for the one year. Assuming the growth rate for the unrestricted sector was of the same magnitude, the increased taxes accordingly would have been larger by one-fifth in the cases of alternatives "A," "B" and "C."

It is also important to recognize that any increase in the amount of taxes received by the State is not necessarily the real cost of the tax to the licensees, for as already noted, any increase in the State tax may be used by firms as a deduction or offset against their federal income tax. In other words, the real burden of any change in a state tax is measured by the net increase in total tax cost which may be attributed to the imposition of the state tax, i.e., the net amount by which a taxpayer's state and federal tax liability combined exceeds the total tax he would have paid in the absence of any increase in the state tax. However, in order to estimate the "real" or net cost of any state tax increase, it is necessary to know the specific federal rates to which the taxpayer is currently subject. Detailed data are not available for non-corporate firms but in the case of corporations the federal tax rate is approximately 50 percent for all firms.

This study has shown that although one-fourth of the total number of the firms in the unrestricted sector of the gambling industry were corporate enterprises, as a group they accounted for almost 83 percent of the total amount of gross winnings reported in 1959 and more than 85 percent of the total amount of unrestricted gambling tax revenues collected by the State that year. Assuming the proposed tax increases discussed above were apportioned between the non-corporate and corporate firms on a similar basis, the real tax increase for the corporations would have been only about one-half of the nominal amounts shown in the

tables. For example, the combined $1.9 million increase estimated for alternative "B" and the State Table Tax revision would work out to be a real or effective cost of only about $1 million. In other words, the largest part of this tax increase would be paid with "50¢-after-federal-tax" dollars.

In effect, it is important to recognize that more than 40 percent of any proposed increase in Nevada's State gambling taxes would be financed indirectly by the federal government since the increased State tax could be used by the corporate firms in the gambling industry as an allowable deduction against their federal corporate tax liability. To state it in more general terms, because of the federal income tax provision which permits the deduction of state taxes, it is possible for Nevada to shift part of the State's cost of policing and regulating this industry to the rest of the country. This, of course, is not unreasonable in light of the fact that the gambling industry essentially depends upon tourists and others from outside the State.

# CHAPTER X

## RETAIL AND GENERAL SALES TAXES

Retail and general sales taxes are quantitatively the most important single type of tax revenues for the vast majority of state governments. Sales taxes alone accounted for almost one-fourth of the record $16 billion of total state tax collections for the nation as a whole in 1959. Today they are a major source of revenue in thirty-three states, exclusive of Alaska and Hawaii. The popularity of these taxes in general terms may be attributed to the fact that as broad based levies they are highly productive even though their rates are relatively low; and the low rates, in turn, involve relatively small risk of losing population and business to other states.

State sales taxation emerged from obscurity in the early 1930's, although the first modern version of the tax was adopted by West Virginia in 1921 in order to meet a financial emergency. Measured by gross sales the West Virginia tax applied to retailers, extractive industries and several other types of business enterprise. Another general tax with a broader base and higher rates was substituted in 1925 for the original levy. Georgia followed West Virginia in 1929 with the passage of a low rate tax on the gross receipts of retail, wholesale and manufacturing enterprises, but this act was allowed to expire in 1931.

The Great Depression of the early 1920's triggered an avalanche of new adoptions: Kentucky and Mississippi in 1930; Pennsylvania in 1932; Arizona, California, Illinois, Indiana, Michigan, New York, North Carolina, Oklahoma, South Dakota, Utah and Washington in 1933;[1] Iowa and Missouri in 1934; Arkansas, Colorado, Florida, Idaho, Maryland, New Jersey, New Mexico, North Dakota, Ohio and Wyoming in 1935; Louisiana in 1936; and Alabama and Kansas in 1937.

The great majority of the new taxes applied only to gross sales or receipts at the retail level. However, the Arizona, Mississippi, New Mexico, North Carolina and Washington laws covered other specified businesses, and the Indiana levy was unique, being imposed on the gross income of individuals and businesses above certain flat sum exemptions.

Without exception these taxes were a direct outgrowth of financial crises engendered by the depression. The economy of most of these states was preponderantly agricultural, and farm incomes were hit much

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[1]Oregon also adopted a sales tax, but it was killed by a popular referendum vote.

harder than industrial incomes. In all cases property and other tax receipts had fallen sharply, and the maintenance of basic programs such as education and the protection of life and property were endangered. At the same time there were imperative demands for increased relief and other welfare outlays. The sales tax was generally regarded as undesirable because of its regressive impact upon low-income groups, and was only accepted as an essential expedient. However, the force of the equity factor was evidenced by the fact that eight states allowed these emergency levies to expire or repealed them within a two-year period following their adoption.

Since World War II ten more states have joined or re-entered the sales tax fold. In addition to Nevada, five states--Connecticut, Maine, Rhode Island, South Carolina and Tennessee--adopted the tax for the first time. Florida, Georgia, Maryland and Pennsylvania re-established the levy after a lapse of from eight to twenty years. All of the more recently enacted taxes are limited to retail sales and to all intents are permanent measures. The 49th and 50th states, Alaska and Hawaii, both have special types of taxes on gross receipts. The Alaska levy involves a moderate tax on all types of business, and Hawaii imposes two excises, one on consumption and the other on specified non-retail activities.

The popularity of sales taxes today, amply attested by the developments noted, may be attributed to several factors. As already noted, the tax has demonstrated its revenue productivity. Secondly, the exemption of food and other necessities has restricted the base of existing sales taxes in many states so that regressive effects are not as significant as they were assumed to be in earlier years. Finally, a revolutionary increase in the emphasis upon ability to pay taxation by the federal government in the form of progressive net income taxes, as well as extensive use of these taxes by the states, has undoubtedly lessened the concern with this aspect of tax equity.

There has also been a rapid increase in the use of sales taxes by cities and other local units during the last decade. Needless to say, this development has important implications for the states. Continued revenue shortages on the local level will undoubtedly accentuate this trend as well as the pressures for other means of meeting local revenue problems. The states have a definite responsibility to assist their local subdivisions in seeking solutions to their problems, and local sales taxes are at least a partial answer. At the same time, local use of sales taxes tends to delimit the possible use of this source for state purposes. This effect, in turn, may be partially offset by lessened pressures for state aid.

## Types of Sales Taxes

The sales or excise taxes currently imposed by thirty-five states include several broad types of levies. Their general nature and effects identify them with the sales tax family, but there are significant differences in their scope, the description of the tax base and their legal incidence. The scope of sales taxes in terms of the type of business covered varies from that which only applies to retail concerns or transactions, to that which includes virtually every type of business activity (i.e., wholesaling, manufacturing, extractive industries, etc.). Logically, taxes restricted to retail transactions are classified as "retail sales" taxes and those that include transactions involving other concerns as well are usually called "general sales" taxes. In actual practice the latter classification does not tell the full story as some of the levies falling in this category apply only to retail and wholesale transactions while others extend to nearly all forms of business. Another designation often used to differentiate the scope of the tax is based upon the stage or stages in the production and marketing processes which the tax covers. Thus, the tax may be referred to as a "single-" or "multiple-" stage levy. Table 10.1 shows the broad categories of state sales taxes in effect in January, 1960, and the year each state first adopted sales taxation. It will be noted that although all of the thirty-five jurisdictions tax retail sales, in twenty-five of the states the sales tax base was limited solely to this type of commercial activity.

The general description of the tax base provides a second possible basis of classification with three concepts employed, namely "gross sales," "gross receipts," and "gross income." While gross sales is somewhat less inclusive than gross receipts, this distinction disappears when the term "gross receipts from sales" is used. It should be noted that the term gross receipts is often linked with the so-called "privilege" type of tax whose legal incidence is upon the business rather than the consumer. Aside from this relationship these distinctions are of minor import.

On the other hand, the use of the term "gross income" to describe the tax base is an entirely different matter. As defined in the Indiana law, this concept includes virtually all individual, business and professional income with no deductions. The Indiana tax, therefore, must be treated as a distinct type, and is grouped with sales taxes only for purposes of convenience in analysis.

Sales taxes are generally regarded as taxes on consumption for the obvious reason that the burden is usually passed on to the consumer. In practice, however, about one-fourth of the state sales tax laws specifically state that the tax is imposed upon the seller for the

Table 10.1

Date of Tax Legislation and Type of Sales Tax
By States, January, 1960

| State | Year first adopted | Type of Tax: Retail sales | Wholesale sales | Sales of extractive industries | Other |
|---|---|---|---|---|---|
| Alabama | 1937 | X | | | |
| Alaska | n.a. | X | X | X | X |
| Arizona | 1933 | X | X | X | |
| Arkansas | 1935 | X | | | |
| California | 1933 | X | | | |
| Colorado | 1935 | X | | | |
| Connecticut | 1947 | X | | | |
| Florida | 1935 | X | | | |
| Georgia | 1929 | X | | | |
| Hawaii | n.a. | X | X[b] | X[b] | X[b] |
| Illinois | 1933 | X | | | |
| Indiana | 1933 | a | a | a | a |
| Iowa | 1934 | X | | | |
| Kansas | 1937 | X | | | |
| Louisiana | 1936 | X | | | |
| Maine | 1951 | X | | | |
| Maryland | 1935 | X | | | |
| Michigan | 1933 | X | X[b] | X[b] | X[b] |
| Mississippi | 1930 | X | X | | X |
| Missouri | 1934 | X | | | |
| Nevada | 1955 | X | | | |
| New Mexico | 1935 | X | X | X | X |
| North Carolina | 1933 | X | X | | |
| North Dakota | 1935 | X | | | |
| Ohio | 1935 | X | | | |
| Oklahoma | 1933 | X | | | |
| Pennsylvania | 1932 | X | | | |
| Rhode Island | 1947 | X | | | |
| South Carolina | 1951 | X | | | |
| South Dakota | 1933 | X | | | |
| Tennessee | 1947 | X | | | |
| Utah | 1933 | X | | | |
| Washington | 1933 | X | X[b] | X[b] | X[b] |
| West Virginia | 1921 | X | X[b] | X[b] | X[b] |
| Wyoming | 1935 | X | | | |

[a]Gross income tax on individuals and businesses.

[b]These taxes are separate levies based upon gross receipts or gross income.

Source: Commerce Clearing House, State Tax Reporter, January, 1960.

"privilege of doing business in the state." Technically, therefore, these levies are "privilege taxes" in contrast to the majority which are specifically or by implication classed as "consumer taxes." Most of the latter type laws require that the tax be passed on to the buyer, and many prohibit the practice of advertising or by inference claiming that the tax is absorbed.

## Retail versus General Sales Taxes

As noted, twenty-five of the state sales tax structures, including the Nevada tax, are of the single-stage retail type. Nine are general or multiple-stage sales taxes, and the Indiana levy, as previously indicated, is a gross income tax. All of the general sales taxes apply to retail transactions, but the coverage of other businesses varies from state to state. The Alaska, Hawaii, Michigan, New Mexico, Washington, and West Virginia laws are the most inclusive with retail, wholesale, manufacturing, extractive and specified other activities subject to the tax.[2] The North Carolina tax is limited to retailing and wholesaling; the Arizona levy includes retailing, wholesaling and extractive industries, and the Mississippi tax applies to retail, wholesale and other specified activities.

The preponderance of the single-stage retail tax at the state level is significant, and merits special attention. Actually, it is explainable largely on fiscal and administrative grounds. In terms of the dollar volume of sales the tax base is obviously much larger at this level. Also, many of the tax jurisdictions have relatively little manufacturing or natural resource industries other than agriculture. Administratively, every additional type of business taxed tends to add to the enforcement problem. Another consideration that may serve to deter use of the multiple-stage form is "tax pyramiding." If several or all of the stages in the production and marketing of goods are taxed, the consumer is faced with a pyramided burden in the sense that he is paying a tax on a tax. Incidentally, this effect has undoubtedly been an important factor in causing the multiple-stage tax states to impose relatively low rates on wholesaling and manufacturing as compared to retail sales. High rates on natural resource industries, it should be noted, are generally motivated by special considerations associated with severance taxation.

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[2]Laws in each of these jurisdictions, except New Mexico and Alaska, actually involve two taxes, one applying to retail sales and the second to other types of business.

## Rationale of Sales Taxes

The merit of any tax must be appraised in the light of certain accepted standards both theoretical and practical. In the case of retail and general sales taxes practical considerations rather than conformance to theoretical principles provide the primary justification. In other words, such factors as high yields, relative ease of administration, convenience of payment and an apparent lack of acceptable alternatives have assumed a greater weight in policy formation than the adverse effects which the tax is commonly assumed to have upon income distribution.

### Productivity

The general revenue producing capabilities of the retail and general sales taxes are a matter of record. They tap the flow of funds in the economy at strategic points both in terms of volume and its measurability. Consumption expenditure, which constitutes the bulk of total outlays in the nation's economy, is the direct target of the retail tax. Inclusion of sales at other specified levels of production and distribution obviously extends the base in the direction of a gross expenditures levy and at the same time increases the volume of retail outlays. While the impact of the retail tax on consumption expenditures is limited by the commodity emphasis (failure to include most services) and by specific exclusions, deductions and exemptions, the tax base is still very large compared to that of other general tax forms. In 1959, for example, the base of the property tax in Nevada (assessed value after equalization) was $621,000,000 as compared with $614,000,000 of taxable sales for the retail sales and use tax. From the standpoint of administrative determination of taxable sales, also, the problem is much simpler than for a refined concept such as "taxable net income."

Another aspect of the productivity of a tax which is often said to be advantageous is stability. This feature is desired for the reason that expenditure requirements tend to be flexible only in one direction, namely upward. Thus, stability is actually desired only during a down-swing in economic activity. The retail or general sales tax yields are clearly responsive to changes in the dollar volume of business, and yields fluctuate more than those of the property and motor fuels taxes. At the same time, sales tax receipts tend to be somewhat more stable than those from net income taxes. It should, of course, be emphasized that stability of yield during a period of recession or depression is only achieved by inflicting serious hardship on the taxpayer whose ability to pay has declined.

Most forms of tax will produce more revenue by raising rates and/or broadening the base. In the case of the sales tax the mechanics of adjustment as well as the economic issues involved are relatively

simple. The rate is uniform and the effect of an increase on yield can be readily ascertained. Extension or contraction of the tax base involves certain policy problems, but the issues are generally clear-cut.

## Ease of Administration

Retail as well as general sales taxes are commonly assumed to be easy to administer. This assumption, if properly qualified, is not without foundation. Viewed in relation to property taxation it is undoubtedly valid. On the other hand, no tax is easy to administer if the objective sought is to enforce full tax liability and payment by all taxpayers.

The specific problems of sales tax administration are considered in a later section, but effective enforcement requires a comprehensive office and field audit effort by a competent staff. The advantage which the sales tax has, as compared to certain other taxes, is attributable primarily to the relatively small number of taxpayers and tax returns, the relative simplicity and number of the computations involved on the return, and the availability of substantiating evidence or records for checking purposes. The fact that the seller collects the tax and usually passes the burden on to the buyer may tend to lessen the incentive for evasion, but experience has demonstrated the fallacy of relying on this influence.

Direct costs of administering the state retail and general sales taxes usually are lower than for the property and net income taxes, and may provide some substantiation of the relative ease of administration claim. However, this relationship varies significantly from one state to another, and if the vendor's discount is taken into consideration the total expense may equal or exceed that for other taxes.

## Incidence of General or Retail Sales Taxes

The incidence of a tax is obviously the principal consideration in determining its economic effects. In the case of the sales tax it is generally assumed that the bulk of the burden falls upon the consumer of the finished product or service. While this assumption is fully merited, the manner in which the tax is shifted and the exceptions to the rule of shifting should be recognized and their implications understood.

Shifting of the tax to the buyer is normally accomplished by the simple expedient of adding the tax to the price. Under the Nevada sales tax law the retailer is required to collect the tax from the purchaser, and it is illegal for the retailer to advertise that he is absorbing the tax.[3] These requirements may possibly facilitate shifting of the tax on

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[3]However, the act does not specifically prohibit absorption of the tax.

an individual transaction basis, but they are by no means determinative. A business subject to competitive pressures from untaxed concerns, for example, may lower its price before tax so that the total price including tax is equal to that of its competitors. Thus, the burden is actually on the business, though it appears by casual examination to have been shifte Other possible methods of shifting the tax should be noted; namely, securing a lower price from suppliers (backward shifting), and lowering of the quality of the product or reducing the quantitative unit in which it is sold. Backward shifting will probably not be considered unless forward shifting is impossible, and it is unlikely that any appreciable number of business firms would be in a position to influence the supplier price. Likewise, the lowering of quality or quantity are expedients generally not available to the retailer or wholesaler, and involve serious limitations in the case of manufacturers and processors.

The conclusion that retail or general sales taxes are ordinarily passed on to the consumer is based upon theoretical analysis as well as objective empirical evidence. The tax is clearly a cost of doing business; the cost is the same for all businesses within a broad category or class; popular psychology is favorable to shifting--it is expected--and the manner of payment is convenient; and the demand for most of the items taxed is relatively inelastic. Observation of business practice and the views of management reinforce these considerations. The legal requirements of the Nevada law, as previously indicated, also tend to facilitate shifting.

The exceptional situations which may compel the retailer to absorb part or all of the sales tax include: The existence of substantial competition which is not subject to the tax or pays a lower tax; particular services or products produced and sold under monopoly conditions; the "customary price" purchase case; and the possible impact of the bracket arrangement on special types of businesses which would make it impossible for them to collect the full tax due. Effective competition of the "no or lower tax" variety is most likely to arise in the case of retailers located close to the state boundary and in the instance of mail order purchases by residents from out-of-state sources. The borderline competition situation is not serious in Nevada as most of the neighboring states have sales taxes with higher or identical rates (all except Idaho and Oregon), and there are very few concentrations of retail business near the border of the jurisdictions which do not tax retail sales. It is impossible to determine the degree to which mail order competition is increased by buyers seeking to avoid the retail sales tax. It will, of course, depend in large part upon the success of the tax enforcement agency in collecting the applicable sales and use taxes. Assuming that there is some loss of business by certain resident firms, tax absorption is highly improbable. In the first place, the merchant is not likely to be aware of the extent of such buying, and adjustment of prices to meet this limited form of competition would ordinarily be more costly than the loss of trade.

Public utility service which is the principal area of monopoly operation on the retail level is not subject to the tax in Nevada. If

such services were taxed there would be a possibility of tax absorption by high profit concerns, but it is extremely remote. The power to shift is present; regulatory laws anticipate shifting; the sales tax requires it; demand in most cases is inelastic; and actual practice evidences that the tax is shifted.

The customary price situation involving such items as chewing gum, soft drinks and candy bars presents a special shifting problem, particularly if the tax law requires that the tax be collected on the individual transaction. Strong consumer resistance is likely to develop if the price is increased, although this may well be a temporary reaction. The alternative methods of shifting through reducing the quantity of the unit or its quality may be feasible. In fact, both have been tried in response to rising costs in general, and the former approach has proved to be satisfactory within limits. If an increase in price is the only practical way to shift the tax, the further problem of many of the sales of such items falling below the minimum taxable sum must be reckoned with. Where such items are a major element of total taxable sales tax absorption will undoubtedly occur. However, the conditions postulated are obviously very limited in their application, and the rates of retail or general taxes are not high enough to have a major impact on costs.

Particular versions of the bracket system have worked a hardship on certain variety stores. Inflation has eliminated part of the problem and modifications of the brackets will generally assure adequate tax collections for such businesses. In any case there are no serious complaints by these concerns under the present Nevada bracket plan.

In general, the special circumstances which may prevent shifting of the state retail sales tax are even less significant in Nevada than in many other jurisdictions. Consequently, there seems to be little reason to question the premise that the great bulk of the tax burden falls on the consumer, and the inequitable effects of tax absorption in the relatively small number of cases involved do not appear to present a serious problem.

## The Question of Ability and Benefits Received

It is generally believed that the retail and general sales taxes do not conform to accepted principles concerning the equitable distribution of tax burdens. They are thought to violate in greater or lesser degree the basic elements of the ability-to-pay theory, and to constitute at best a rough and inadequate measure of benefits received. These views presume that the bulk of the tax burden falls upon the consumer and this assumption, as noted above, is generally valid.

Net income is commonly accepted as the best measure of taxpaying ability both for individuals and business organizations. There are a few dissenters who hold that individual consumption expenditures are the best guide, but this concept completely disregards the obvious difference

between essential and non-essential outlays whether for consumption or investment. It is equally clear that the limited consumption expenditure base of the sales tax is not directly related to net income. Total consumption outlays are not proportional to net income, and typical inclusions, exclusions and exemptions in the state sales tax laws tend to widen rather than lessen the disparity in most instances. Secondly, there is no exemption related to minimum living costs for an individual or family group. The typical tax base (including food) does not apply to total net income, but the proportion of income taxed declines rather than increases as income rises. In other words, the burden of the tax as related to net income is regressive. Furthermore, this effect tends to be magnified by the greater the number of persons that must be supported by a given income. Finally, the ability principle involves the concept that ability to pay rises faster than income or at a progressive rate.[4] Even with food exempted the retail sales tax only approaches proportionality on the low and medium income levels, and is regressive above this point. Taxation of food makes it regressive throughout all income ranges. Thus, the most serious objection to the retail or general sales taxes is their burdensome effect upon low and medium income groups and that of large families in particular.

It may be argued that the above effects of sales taxes are not significant because they serve to balance or offset in part the steeply progressive impact of the net income taxes. Certainly the merit of any tax should be considered in relation to the tax structure as a whole, and the combined effect of all federal, state and local taxes is the final test. At the same time, it is the component parts that make up the whole, and a more equitable tax should always be preferred over a less equitable form.

Expediency

Retail and general sales taxes are often defended on other grounds both political and economic. They are said to be politically expedient both by virtue of the ease of payment (a series of small amounts) and the fact that the taxpayer is unaware of the total burden involved. These considerations, particularly the former, undoubtedly influence legislative policy. While convenience of tax payment should be considered, it is obviously not a primary criterion of sound tax policy. The second idea might be termed the "sucker theory" of taxation, and has no place in the formulation of a sound tax program.

Another argument frequently employed to support sales as well as other forms of taxation is that there are no acceptable alternatives. Generally speaking, this view reflects a convenient rationalization of the problem. It is suggested that existing revenue sources have already been pushed to the maximum. A new tax, it is assumed, will somehow make the additional burden less onerous. In reality this assumption can only

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[4] See analysis of the economic effects of Nevada, California and Colorado sales taxes in a subsequent section.

be valid if the new tax is more equitable than existing revenue sources. All taxes must be paid ultimately from current income or accumulated capital, and the desirability of a particular tax must be judged in terms of its relative impact on these resources.

## Fiscal Significance of Sales Tax

State retail or general sales taxes are presently the major source of tax revenue in the great majority of states that employ them. As shown in Table 10.2, sales tax receipts in 1959 totaled nearly $3.7 billion or 33.6 percent of the aggregate tax receipts of these jurisdictions.[5] While the relative significance of the tax ranged from about 58 percent in Washington to 17.6 percent in Maryland, twenty-eight of the states obtained more than 25 percent of their revenues from this source. The relative position of the Nevada tax, which produced 28.4 percent of the State's total tax receipts, is well below the thirty-three state average.

Differences in the relative importance of the sales tax are attributable to a variety of factors including the scope of the tax, exemptions and rates as well as the other tax forms employed by each jurisdiction. The pertinent aspects of these policies will be considered in later sections of this chapter.

## Retail Sales Tax in Nevada

The Nevada Retail Sales Tax Act, which is the most recent major addition to the State's tax system, was adopted in 1955. It was upheld by a referendum vote of the people in November, 1956, and the substantial majority favoring the law, more than two-to-one of the vote cast, indicates a high degree of popular acceptance.

The passage of the sales tax was a direct outgrowth of financial pressures engendered by rapid increases in educational costs, the growing needs of state institutions and the necessity of expanding state facilities including land and buildings at the State capital. Greater state aid for primary and secondary schools was undoubtedly a primary factor.

The choice of this form of taxation in preference to the net income tax may be explained on several grounds. Traditionally, the State of Nevada had followed a policy of seeking to attract wealthy residents and business concerns on the basis of low tax burdens and the absence of income and death taxes, in particular. While the merit of the policy may be questioned it probably had some favorable effects. In any case, the wide publicity given to it and its general acceptance had created a genuine obstacle to the introduction of net income and death taxes. Sales taxes were regarded as the lesser of the evils in terms of available tax sources.

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[5]Alaska and Hawaii are not included as they were not states.

Table 10.2

Sales and Use Tax Collections by States, 1959

| State | Sales tax revenues (millions) | Sales tax revenue as a percent of total state tax revenue |
|---|---|---|
| Alabama | $ 78.5 | 31.7 |
| Arizona | 42.5 | 32.9 |
| Arkansas | 50.6 | 33.9 |
| California | 634.1 | 35.0 |
| Colorado | 46.0 | 26.9 |
| Connecticut | 70.1 | 32.1 |
| Florida | 148.1 | 31.4 |
| Georgia | 133.3 | 39.5 |
| Illinois | 308.3 | 41.5 |
| Indiana | 175.2 | 46.1 |
| Iowa | 76.4 | 30.6 |
| Kansas | 72.0 | 36.2 |
| Louisiana | 84.2 | 19.4 |
| Maine | 24.5 | 30.2 |
| Maryland | 55.8 | 17.6 |
| Michigan | 320.5 | 39.8 |
| Mississippi | 66.4 | 36.3 |
| Missouri | 105.0 | 36.3 |
| Nevada | 11.0 | 28.4 |
| New Mexico | 42.2 | 37.2 |
| North Carolina | 81.3 | 20.5 |
| North Dakota | 16.1 | 27.5 |
| Ohio | 230.2 | 31.5 |
| Oklahoma | 54.9 | 21.4 |
| Pennsylvania | 218.6 | 24.3 |
| Rhode Island | 22.0 | 27.9 |
| South Carolina | 58.4 | 30.0 |
| South Dakota | 15.5 | 30.8 |
| Tennessee | 98.3 | 35.0 |
| Utah | 25.7 | 30.9 |
| Washington | 237.2 | 57.6 |
| West Virginia | 79.3 | 49.1 |
| Wyoming | 10.8 | 28.9 |
| Total | $3,693.6 | 33.6 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959, Preliminary Report.

Even in the case of the sales tax there was substantial resistance from influential leaders who opposed any new form of State tax. Final adoption of the retail sales tax in 1955 followed a comprehensive report on this and certain special sales taxes by the Legislative Counsel Bureau in 1948, and several years of legislative debate.[6] The nature of the State's economy, including large ranching and mining holdings, extensive tourism, gambling interests and merchandising activities, was probably also a major contributing factor. In other words, there was no powerful group such as organized labor to fight a sales tax. Finally, it was assumed that a considerable part of the burden of the tax would fall on non-residents. The latter assumption was undoubtedly well-founded as tourists probably account for approximately one-fourth of the State's taxable retail sales.[7]

## General Nature of the Retail Sales Tax Law

The Nevada sales tax is a single-stage retail levy. It is termed a "privilege tax on the retailer measured by gross receipts."[8] However, it should be classified as a consumer-type tax as the law specifies that retailers shall collect from the purchaser a tax equivalent to 2 percent of taxable sales.[9] As previously noted, the seller also is prohibited from advertising that he is absorbing the tax.[10] The Tax Commission is authorized to require the tax to be separately stated on invoices; and a bracket system specifying the amount of tax on the individual transaction is employed.

Basic provisions of the act are copied largely from the California statute, although it differs in the important particular that food is taxable. There have been no statutory changes in the law since its enactment, and the State Attorney General has held that it cannot be amended except by the constitutional process involving a vote of the people. This opinion is based upon a technicality linked with the approval of the law by popular vote, and the question has not been tested in the courts. Numerous regulations interpreting the provisions of the law have been issued by the Tax Commission, and will be included in the following analysis of taxable sales and exemptions.

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[6]Nevada Legislative Counsel Bureau, Survey of Sales Taxes Applicable to Nevada, May, 1948.

[7]See State of Nevada, Department of Highways, Nevada Out-of-State Visitor Survey 1958, 1960.

[8]Nevada Revised Statutes, 372.105.

[9]Nevada Revised Statutes, 372.110.

[10]Nevada Revised Statutes, 372.115.

## Definition of Taxable Sales or Transactions

The determination of taxable sales or transactions under a retail sales tax whether by statute or regulation is by no means a simple matter. Actually, there are three primary elements of the problem of definition to be resolved: (1) the nature of the sale or transaction; (2) the level at which the sale is made or the type of business or person making it; and (3) the use to be made of the product or service involved. A brief review of these points should contribute to a better understanding of the practice under the Nevada law.

In distinguishing a taxable sale or transaction there is a possible choice between the restrictive "closed transaction" concept, the all inclusive "any transfer" provision or an intermediate position. As might be anticipated, the tendency in most recent sales tax provisions is towards the broad "any transfer" type of definition. The Nevada statute follows this trend by distinguishing a "sale" as "any transfer of title or possession, exchange, barter, lease or rental, conditional or otherwise, in any manner or by any means whatsoever, of tangible personal property for a consideration. . . ."[11] Generally, transfers of possession, leases or rentals are included only if found to be in lieu of a transfer of title, exchange or barter by the Tax Commission. However, all transactions where possession is transferred and the title remains in hand of seller until full purchase price is paid, and leases where the property is substantially consumed during the lease period are taxable. Certain other sales or transactions are specifically included by law including the furnishing, preparing or serving of food, meals or drinks; furnishing or distributing tangible personal property for a consideration by social clubs; and transfers to consumers of tangible personal property produced, fabricated, processed, etc., when the purchaser supplied the materials or the property was produced under special order by a customer.[12]

The consumer-type retail sales taxes are obviously intended to apply only to retail transactions, but the nature of the transaction, rather than the business unit involved is the focal point of the tax. In other words, the definition should be in terms of the purpose or use for which the goods are intended, and the sale of products for resale would clearly be excluded. This is the approach under the Nevada law, a "retail sale being defined as "a sale for any purpose other than resale in the regular course of business."[13] The act also specifies that delivery of tangible personal property by the owner or an agent to a consumer or a person for redelivery to a consumer pursuant to a retail sale made by a retailer not

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[11] Nevada Revised Statutes, 372.060.

[12] Nevada Revised Statutes, 372.060.

[13] Nevada Revised Statutes, 372.050.

in business in the State shall be included. Occasional sales (less than two per year)[14] and wholesale sales are excluded. Sales of replacement parts or materials under contracts of sale are taxable by regulation. Further clarification of the concept of a retail sale is provided by the statutory definition of a retailer which is very broad and includes "every person engaged in the business of making sales for storage, use or other consumption or in the business of making sales at auction of tangible personal property. . ."[15] for such purposes.

The provisions of the Nevada law do not cover specifically the case of goods purchased for use in connection with the production, processing or sale of other goods or in connection with the sales of various types of service. By implication, however, it is evident that the purchase of materials or goods which are to be incorporated in a finished product by a manufacturer or processor does not involve the characteristics of a retail transaction. Consequently, the Nevada Tax Commission by special ruling has applied the so-called "physical ingredient" rule excluding such sales. This rule is strictly interpreted, and a substantial element of the materials used must be identifiable in the finished product. It follows, therefore, that sales of other goods, materials, equipment, tools, etc., to be used in connection with manufacturing, processing or service enterprises are generally taxable. These cases are covered by a series of special rulings by the Tax Commission unless they are specifically excluded or exempt by law. No useful purpose would be served by presenting the detailed rulings. However, in connection with sales by service enterprises of products or supplies to consumers the enterprise is considered to be a retailer, and in the case of supplies or products used in performing the service unless such items are separately invoiced to the customer the retailers are regarded as the consumers.

## The Tax Base

It should be emphasized that definitions of taxable sales or transactions under the Nevada law are comprehensive in scope and are based primarily upon the use or uses to be made of the product. The particular definitions of taxable sales and transactions noted obviously provide the general foundation or base for the retail sales tax in Nevada. These concepts, however, are substantially modified by a series of specific provisions which are usually classified as "inclusions," "exclusions" and "exemptions." The actual use of these terms, however, is not uniform from one state to another. The specific effect of the use tax on taxable sales and transactions is examined in a later section.

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[14] Nevada Revised Statutes, 372.055.

[15] Nevada Revised Statutes, 372.055.

The special inclusions, not falling within the general definition relating to taxable sales or transactions, under the Nevada law are strictly limited. Serving of food, meals and drinks, as previously noted, is the principal category, although manufacturing, processing, fabricating, printing, etc., for the special order of a consumer or in cases where the consumer provides the materials is also included. Logically, sales or transfers of real estate, intangible property, and other service activities are not covered.

The Nevada law classifies all commodities, types of transaction and institutions excepted from taxation as exemptions.[16] There are certain allowable deductions from "gross receipts" in the case of the retail concerns or persons liable for collection and payment of the tax, but these will be considered in the analysis of the basis or measure of the tax.

The commodity exemptions by category are as follows:

Farm: Animal life[17] and food products; feed and seeds; plants (animal); and fertilizers (used to produce products for sale).

Special Tax: Motor vehicle fuels; and minerals subject to gross proceeds of mines tax.

Commercial: Containers of various types; labels or name plates; and price or shipping tags.

Educational: Newspapers and periodicals (issued regularly at least every three months).

Other: Food or meals served for students and teachers by schools or parent-teacher associations; gas, electricity and water sold to consumers through mains, lines or pipes; domestic heating fuels and materials; and materials of public works contracts executed prior to July 1, 1955.

The types of transactions exempted are limited to those which the State is prohibited from taxing under the Constitution and laws of the United States, such as direct sales to the federal government or its agencies and instrumentalities, and export sales; those involving occasional sales (two or less); and those involving taxable items, but the individual sale is less than 24 cents in amount.

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[16] All exemptions are set forth in Nevada Revised Statutes, 372.250 to 372.260.

[17] Does not include breeding stock, cats, dogs, mink, etc.

In addition to the exemption of sales to the federal government, all sales to the State of Nevada and its subdivisions, and to non-profit religious, charitable and eleemosynary institutions are non-taxable. Sales by governmental units are also exempt, and sales of products otherwise taxable by non-profit institutions were recently excluded under a special ruling by the Attorney General.

The above provisions relating to non-taxable sales, whether by exclusion or exemption, place the primary responsibility for establishing non-taxable status upon the seller. However, the law authorizes the use of resale certificates by licensed dealers who purchase goods for this purpose. If such a certificate is presented, and is accepted in good faith by the seller, it in effect relieves the seller of this burden-of-proof responsibility.

## Evaluation of Exemption Policy Under Nevada Law

The exemptions allowed under the Nevada law are common to most of the state retail sales tax acts. In total, they represent a very limited encroachment on the tax base. The farm products exemptions are restricted to items intended for human consumption and subject to resale to the final consumer. Seeds, feeds and plants become a part of the finished product, and fertilizer, although it does not become a part of the finished product, is essential to the growing process. Breeding stock, which might be likened to machinery or equipment used in manufacturing or processing operations, is taxable. Of the three major special sales tax items, motor fuel, liquor and tobacco, only motor fuel is exempt. While this action is inconsistent, the moral and health justifications for heavy taxation of liquor and tobacco products obviously do not exist in the case of motor fuels. The exclusion of minerals subject to the gross proceeds of mines tax represents a special dispensation to this form of product.

The things involved under the commercial category of exemptions, containers, labels, price tags, etc., reflect a questionable practice. However, it is one that is widely followed, and the total sales of such items are of minor importance.

The exemption of newspapers and periodicals is thought to serve an educational function by promoting the dissemination of information. In the case of newspapers sold by newsboys or news stands they would ordinarily not be taxed anyway as the price is less than 24 cents.

Food or meals served to students or teachers by the schools or related organizations are usually provided at cost. This activity, in part, at least, is intended to ensure more adequate diets for children whose parents are in poor economic circumstances. The fact that it is also usually conducted on a non-profit basis appears to provide adequate justification for the exemption. The need factor and the impact of the tax on low income groups is, of course, the principal argument for exempting all food products.

The exemption of water, gas and electricity used by commercial and industrial as well as domestic users may be defended on the technical ground that the sellers are service enterprises. However, the distinction is obviously an arbitrary one. If only individual or domestic use was exempt as in the case of heating fuels and materials, the policy would have the further support that these items are necessities and a tax upon them has a regressive effect. The last miscellaneous exemption relating to materials for public works contracts applies to contracts in effect before the sales tax was passed.

A wide variety of considerations, constitutional, policy and administrative, dictate the type of transaction exemptions under the Nevada statute. In addition to direct sales to the federal government, its agencies and instrumentalities, federal constitutional principles restrict, if not prohibit the taxation of interstate and foreign commerce and certain sales made on federal military or Indian reservations. The specific scope of the general exemption is then determined by regulations made in conformity with the latest decisions of the United States Supreme Court.

Generally speaking, neither import nor export transactions which involve the use of an interstate carrier prior to the buyer's taking possession of the goods can be taxed. This prohibition is absolute in the case of exports. With respect to imports, however, activities of the seller in Nevada such as maintenance of a sales agency or a retail or wholesale outlet through which the sale might have been consummated serve to make the transaction taxable directly. Otherwise, out-of-state purchases cannot be taxed directly, but are legally subject to the use tax. Special use tax provisions are considered in a later section of the chapte Sales made on federal lands to private persons are generally subject to the sales tax. Sales made on an Indian reservation to a registered member of the tribal group are the principal exception. It should also be noted that sales of goods, materials and equipment to contractors performing work or services for the federal government are generally not immune from taxation.

The "occasional sales" exemption is the general rule under state sales taxes, and is simply a recognition of the lack of importance of such transactions and the practical problem of enforcing the tax. The limitation of the exemption to two or less transactions in Nevada is understandable, but probably has little effect.

Exemption of transactions in which the amount involved is less than 24 cents is provided for by the bracket plan. While this feature of the bracket system approach to the small sales problem is essential, the sum exempted is somewhat higher than that in many of the other states.

The institutional exemptions of the Nevada law are typical. However, that extended to local governmental units is broader than such provisions in certain of the other states, and that relating to non-profit institutions is somewhat less liberal. In the former instance sales for non-governmental or commercial purposes are sometimes taxed. In the latter, the statutory definition is limited to religious, charitable and eleemosynary institutions, which would seem to exclude educational and

scientific as well as fraternal organizations and social clubs unless their purpose falls within the categories noted. This is, in fact, the interpretation placed upon the provision. While it is desirable to limit the non-profit exemption to bona-fide institutions that promote the public welfare, educational and scientific organizations generally are thought to meet this standard.

## Interstate Comparisons of the Tax Base

An overview of the retail sales tax base in Nevada can best be obtained by direct comparisons with the practice of other states. Apart from the effect of the general definitions of taxable sales or transactions, the major items included and excluded in states employing the tax are discussed below.

The definition of taxable sales or transactions under the Nevada law approaches maximum coverage in terms of customary practice. In the case of sales to non-retail businesses for use or consumption the "physical ingredient" rule or a broader concept is universally applied. Nevada's policy in taxing part of the other direct use items and exempting part is also typical, but the particular goods or materials involved vary from one state to another. The principal exception in Nevada, involving water, gas and electricity, however, is usually not extended to non-domestic users.

Commodities. Table 10.3 provides a detailed interstate comparison of major commodity categories included and excluded from the sales tax bases of thirty-three states currently employing the tax. There are relatively few classes of commodities or specific products exempt from the retail sales taxes that have an important impact on the tax base. They include food (consumed off premises or on premises); medicine; farm products, feed, seed and fertilizer; liquor; motor fuel; and cigarettes. Of these, food is obviously the major item. Nine states exempt food to be consumed off the premises, but only one excludes all restaurant meals. Also, Connecticut exempts meals under $1.00 and Pennsylvania under $0.50. Thus, Nevada's practice of taxing food and meals is in conformity with that of the great majority of states. Most of the jurisdictions which exempt food also exempt prescription drugs, but California and Ohio are exceptions. In addition, North Dakota exempts such drugs and Michigan exempts 50 percent of the price. Farm products, excluding seed and feed and breeding stock, are taxable under specified conditions in only twelve jurisdictions. While Nevada does not exempt farm products as a general category, those produced for human consumption are exempt, and most types of farm crops sold by the farmer fall within the "sale for resale" exclusion. Sales of feed, seed and fertilizer are exempt under all state sales taxes except those of Ohio, Oklahoma and Pennsylvania and the gross income tax in Indiana.

Table 10.3

Application of State Retail and General Sales Taxes to Selected Commodities, January, 1960

| States* | Food | Medicine | Farm Products | Feed, Seed & Fertilizer | Alcoholic Beverages | Cigarettes | Motor Fuel |
|---|---|---|---|---|---|---|---|
| Alabama | T | T | E | E | T[a] | T | E |
| Arizona | T | T | E | E | T | T | E |
| Arkansas | T | T | E | E | T | E | E |
| California | E[b] | T | E | E | T | T | E |
| Colorado | T | T | E | E | E | E | E |
| Connecticut | E[b] | E | E | E | T | E | E |
| Florida | E[b] | E | E | E | T | T | E |
| Georgia | T | T | E | E | T | T | T |
| Illinois | T | T | E | E | T | T | T |
| Indiana | T | T | T | T | T[c] | T[c] | T[c] |
| Iowa | T | T | T | E | E | E | E |
| Kansas | T | T | T | E | E | E | E |
| Louisiana | T | T | E | E | T | T | E |
| Maine | E[b] | E | T | E | E[d] | E | E |
| Maryland | E | E | E | E | T | T | E |
| Michigan | T | E[e] | E[a] | E | T[c] | T | T[c] |
| Mississippi | T | T | E | E | T | T[c] | T[c] |
| Missouri | T | T | T[a] | E | T | T | E |
| Nevada | T | T | E | E | T | T | E |
| New Mexico | T | T | E | E | T | T | E |
| No. Carolina | E[b] | E | E | E | E[f] | T | E |
| No. Dakota | T | E | T[a] | E | E | E | E |
| Ohio | E[b] | T | T[a] | T[a] | T[a] | E | E |
| Oklahoma | T | T | E | T[a] | T[a] | E | E |
| Pennsylvania | E[b] | E | T[a] | T | T[a] | E | E |
| Rhode Island | E[b] | E | E | E | T | E | E |
| So. Carolina | T | T | E | E | T | T | E |
| So. Dakota | T | T | T[a] | E[a] | E | E | E |
| Tennessee | T | T | E | E | T | E | E |
| Utah | T | T | E | E | T[a] | T | E |
| Washington | T | T | T[a] | E | T | T | E |
| W. Virginia | T | T | T | E | T | T | E |
| Wyoming | T | T | T[a] | E | E | E | E |
| No. that tax | 24 | 24 | 12 | 4 | 25 | 19 | 5 |
| No. that exempt | 9 | 9 | 21 | 29 | 8 | 14 | 28 |

*Alaska and Hawaii are excluded because of inadequate data.

[a]With certain exceptions.

[b]Does not apply to meals served by restaurants, etc., except that Connecticut and Pennsylvania exempt meals under $1.00 and $0.50 respectively.

[c]Special excise deductible from gross receipts.

[d]Sold by state liquor stores.

[e]Only 50 percent of the price of prescription drugs.

[f]Except beer and light wines.

Source: Commerce Clearing House, State Tax Guide: All States, and State Tax Reporter, January, 1960.

State practice varies in the case of alcoholic beverages, motor fuel and cigarettes, the products generally subject to substantial special excise taxes on both the federal and state levels. While all three were usually exempt under the earlier laws, there is a marked trend towards the taxation of liquor and cigarettes. Liquor is taxable in twenty-five states; cigarettes in nineteen; and motor fuel in only five. Nevada follows the present trend, and only exempts motor fuel.

Services. Table 10.4 provides a detailed interstate comparison of the major service categories included and excluded from the sales tax bases of the same thirty-three states. The great majority of the states tax one or more types of services, but this is accomplished by specific inclusion. A substantial majority of the states presently tax gas, electric, communications, entertainment and transient lodging services, and in the instance of entertainment and lodging this reflects a change from the earlier practice of exemption. Specifically, twenty-one states tax domestic gas and electric service; twenty-two, motels and hotels; twenty, admissions to entertainment; eighteen, communications; twelve, domestic water; ten, transportation; and six, repairs and installation. Nevada, it will be noted, is one of three states that do not tax any of these services. Other classes of service such as personal, professional and investment are usually exempt. The disposition to exclude important service activities seems to reflect primarily the commodity bias of existing sales taxes, although other factors, such as the existence of special taxes, are operative in particular cases. Nevada's practice in exempting all of the major services is consistent only in preserving the commodity emphasis of the tax.

## Policy Implications of the Sales Tax Base

The taxability of certain commodities and services obviously has important implications in terms of revenue, the equity of the tax and administrative problems. From the standpoint of both revenue and equity, food is a key item. Food purchased for consumption off the premises normally accounts for approximately 20 percent of the retail tax receipts and meals on the premises sales another 5 to 7 percent. At the same time, exemption of food largely relieves the regressive impact of the tax on low as compared to average-income groups. The choice, therefore, is clearcut--revenue versus greater equity. Medicine involves the same conflict of purposes, but the effects are relatively minor.

Sale of farm products by the farmer are usually for resale and such sales logically should be exempt under the retail tax. Direct sales to consumers are inconsequential and difficult to check, but theoretically should be subject to the tax. The feed, seed and fertilizer exemptions, so far as farmers are concerned, are applications of the physical ingredient and direct use rules. They are justifiable in view of the single-stage character of the retail tax. Nevada's practice of exempting these items when they are used in producing products for human consumption is consistent with the policy in the great majority of states.

Table 10.4

Application of State Retail and General Sales Taxes to Selected Services, January 1960

| States* | Gas & Electric Domestic | Water Domestic | Communi-cations | Transpor-tation | Admis-sions | Repair & Instal-lation | Motel & Hotel |
|---|---|---|---|---|---|---|---|
| Alabama | E | E | E | E | T | E | T |
| Arizona | T | T | T | T | T | E | T |
| Arkansas | T | T | T | E | T | E | T |
| California | E | E | E | E | E | E | E |
| Colorado | T | E | T | E | E | E | T |
| Connecticut | E | E | E | E | E | E | T |
| Florida | E | E | E | E | T[a] | E | T |
| Georgia | T | E[b] | T[a] | T | T | E | T |
| Illinois | E | E | E | E | E | E | E |
| Indiana | T | T | T | T | T[a] | T | T |
| Iowa | T | T | T | E | T | T | E |
| Kansas | T | T | T | E | T | E | T |
| Louisiana | E | E | E | T | T | T | T |
| Maine | T | T | E | E | E | E | T |
| Maryland | T | E | E | E | E | E | T |
| Michigan | T | E | T | E | E | E | E |
| Mississippi | T[c] | T[c] | T | T | E | E[a] | T |
| Missouri | T | T | T | T | T | E | T |
| Nevada | E | E | E | E | E | E | E |
| New Mexico | T | E | T | T | T | T | T |
| No. Carolina | E | E | E | E | T | E | T |
| No. Dakota | T | T | T | E | T | E | E |
| Ohio | E | E | E | E | T | E | T |
| Oklahoma | T | E | T | T | T | E | T |
| Pennsylvania | T | T | T | E | E | T[a] | E[d] |
| Rhode Island | T | T | T | E | E | E | E |
| So. Carolina | T[a] | E | E | E | E | E | T |
| So. Dakota | T | T | T | E | T[a] | E | E |
| Tennessee | E | E | E | E | E | E[a] | T |
| Utah | T | E | T | T[a] | T | T | T |
| Washington | E | E | E | E | T | T | T |
| W. Virginia | E | E | E | E | T | E | E |
| Wyoming | T | E | T | T | T | E | E |
| No. that tax | 21 | 12 | 18 | 10 | 20 | 6 | 22 |
| No. that exempt | 12 | 21 | 15 | 23 | 13 | 27 | 11 |

*Alaska and Hawaii are excluded because of inadequate data.
[a]With certain exceptions.
[b]Municipal corporations only.
[c]Except municipally owned.
[d]Has special tax of 4 percent on lodging.

Source: Commerce Clearing House, State Tax Guide: All States, and State Tax Reporter, January, 1960.

Exemption of alcoholic beverages, cigarettes and motor fuel, which are the "big three" in terms of special excise tax receipts, is designed to avoid further "piling on" of tax burdens. The states all impose substantial special taxes on motor fuel and liquor and the great majority tax cigarettes. Considering the heavy federal taxes, the percentage tax burdens range from 60 to 80 percent on hard liquor; 50 to 60 percent on cigarettes; and about 40 percent on motor fuel in many jurisdictions. Nevada's policy of only exempting motor fuel is in line with the current trend, and is profitable from a revenue standpoint. Liquor and tobacco products ordinarily produce from 5 to 7 percent of sales tax receipts. In addition to their productivity, taxation is defended on the ground that the special excise and retail taxes are independent levies and are justified on distinctive grounds. The latter argument involves a "keyhole approach" to the question of equity unless one believes that the moral or health considerations justify a complete disregard of the burden factor.

The commodity bias of most retail and general sales taxes is difficult to explain. Consumer services in general provide as logical a basis of taxation as commodities on both theoretical and revenue grounds. The existence of special taxes on certain utility services or admissions may suggest exemption of these items, and investment services are normally not associated with the consumption process. Apart from these cases in which the reasoning is not conclusive, there are no theoretical bases of exemption other than those that would apply equally to certain basic commodities. Inclusion of the major consumption services even with specific exemptions for activities subject to special taxes would greatly increase the revenue potential in Nevada and most other states. The administrative problem would be extended, but the present difficulty of distinguishing between service and commodity elements of a transaction would be eliminated.

In conclusion, the breadth of the retail sales tax base in Nevada compares favorably with that of other states in the case of commodities, but is significantly restricted by the policy of exempting all major services. The commodity exemptions are those typically found in other states, and the service area obviously affords the primary opportunity for enlarging the base of the Nevada retail tax. The implications involved in changing the form of the tax to a multiple-stage levy are examined in the concluding section of the chapter.

## Basis of the Nevada Retail Sales Tax

The Nevada retail sales tax technically is based upon "gross receipts" rather than gross sales. Gross receipts, however, are defined as the "total amount of the sale or lease or rental price, as the case may be of the retail sales of retailers, valued in money, whether received in money or otherwise. . . ."[18] Thus, the definition has the effect of basing the tax

[18] Nevada Revised Statutes, 372.025.

on the sum received from the individual transaction. No deduction is permitted for cost of goods sold unless the products were purchased for purposes other than resale and have not been used but are resold. The value of trade-ins is included, but in the case of credit sales, if the interest, insurance, financing or other special charges are separately stated, they are excluded.

Special deductions are permitted from gross receipts to cover cash discounts, sale price of returned goods unless required to purchase other goods at a higher price, installation charges, federal retailer's excises (except those on beer, wines and liquors), credits or refunds on defectiv merchandise, transportation charges subsequent to sale, and amount of sal tax on sale if separately stated.[19] These allowances are those ordinaril made in computing taxable sales.

Finally, the retailer is given 2 percent of the tax due as compensation for his costs in collecting and remitting the tax to the state.[20]

## Out-of-State Purchases and the Use Tax

Import transactions or out-of-state purchases by residents of a sales tax jurisdiction cannot be taxed directly unless the seller maintains a retail outlet or sales agency within the state. However, the "immune transactions" are now legally subject to use or compensating levies on the buyer in all of the sales tax states. Washington pioneered this approach in 1935, and most of the other states soon followed her example. Missouri finally made it universal in 1959. These use taxes are incorporated in the sales tax structure, and with certain minor exceptions the provisions are identical to the sales tax.

The Nevada use tax, which follows the general pattern found in other jurisdictions, applies to the "use, storage or consumption" of tangible personal property purchased at retail and not subject to the Nevada sales tax.[21] Use is interpreted as control over the goods. Most of the basic features of the tax are the same as those of the sales tax.

The use tax applies to purchases of tangible personal property fro retailers for storage, use or consumption within the State in cases where the sales tax does not apply. The user or purchaser is liable for payment of the tax unless he obtains a receipt from the retailer showing that the tax has been paid.[22] Retailers maintaining places of business within the state are required to collect the tax on transactions subject to the tax and must give the purchaser a receipt for the tax collected. Out-of-state retailers making sales within the state may register and collect use taxes, but are not required to do so. Purchases of tangible personal property for subsequent export and use outside the state or to

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[19] Nevada Revised Statutes, 372.025.

[20] Nevada Revised Statutes, 372.370.

[21] Nevada Revised Statutes, 372.370 and 372.345.

[22] Nevada Revised Statutes, 372.190.

be incorporated by manufacturing, processing, etc., for such export or use are excluded.[23] The use tax law, however, does not specifically provide for the exemption of items exempted under the sales tax. Nevertheless, there is no general attempt to apply the tax to such goods. Payment of a sales tax in another state generally does not remove liability for the use tax in Nevada.

The use tax serves to close the legal loophole for avoidance insofar as import transactions are concerned. However, enforcement of tax liability is extremely difficult, and there is undoubtedly considerable evasion at best. Another possible effect of the use tax should be noted. While its primary purpose is to ensure payment of a tax on import purchases, it may result in a "double tax" under the terms of the Nevada and certain other state statutes.

## State Sales Tax Rates in Nevada and Other States

The rate of the Nevada retail sales tax is 2 percent, and has not been changed since the adoption of the law in 1955. Most of the state retail sales taxes were originally imposed at this level, but rates have been increased in a large number of states in recent years. The marked trend towards higher rates is reflected by the fact that eight states employing the tax on January 1, 1952 raised rates through 1957 and six more increased their levies in 1958 and 1959.

The rates presently imposed on retail and certain other sales in the retail and general sales tax states are shown in Table 10.5. In the case of retail sales the largest number of jurisdictions, seventeen, employ a 3 percent rate; twelve, 2 percent; two, 4 percent; one, 2.5 percent; and one, 3.5 percent. Alaska has a two-step regressive rate structure on the gross receipts of all types of business with an initial rate of 1/2 of 1 percent and a final rate of 1/4 of 1 percent. Indiana's gross income tax involves a rate of 3/8 of 1 percent on retail concerns.

The rates of the general or special sales taxes on other types of business vary widely. In the instance of wholesale transactions they range from 1/8 of 1 percent in New Mexico to 3/4 of 1 percent in Hawaii. Extractive industries generally are taxed at much higher rates than wholesaling with a maximum rate of 7.85 percent applicable to certain types of production in West Virginia. Washington, which taxes all non-retail businesses at 1/4 of 1 percent is the only exception. The rates on manufacturing enterprises and certain service activities also differ widely as between states and in several jurisdictions as to the character of business involved. The rates of Indiana's gross income tax range from 3/8 of 1 percent to 1.5 percent of all non-retail activities.

The rates of the use taxes are the same as those of the sales taxes with the exception of special types of goods, such as automobiles, in certain states.

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[23] Nevada Revised Statutes, 372.080.

Table 10.5

State Tax Rates on Retail Sales, Other Sales and Gross Income, January, 1960

| State | Retail sales (percent) | Wholesale sales (percent) | Extractive sales (percent) | Manufacturing sales (percent) | Specified services sales (percent) |
|---|---|---|---|---|---|
| Alabama | 3 | -- | -- | -- | -- |
| Alaska | (1/2 of 1% gross receipts over $20,000 to $100,000, 1/4 of 1% gross receipts over $100,000 /all types businesses/) | | | | |
| Arizona | 3 | Range from 1.5 to 3.0 | | Range from 1.5 to 3.0 | |
| Arkansas | 3 | -- | -- | -- | -- |
| California | 3 | -- | -- | -- | -- |
| Colorado | 2 | -- | -- | -- | -- |
| Connecticut | 3 | -- | -- | -- | -- |
| Florida | 3 | -- | -- | -- | -- |
| Georgia | 3 | -- | -- | -- | -- |
| Hawaii | 3.5 | 0.75[b] | 1.00[b] | 1.-2.5[b] | 3.50[b] |
| Illinois | 3[a] | -- | -- | -- | -- |
| Indiana | 3/8 of 1% | 3/8-1.5 | 1.5 | 1.5 | 3/8-1.5 |
| Iowa | 2 | -- | -- | -- | -- |
| Kansas | 2.5 | -- | -- | -- | -- |
| Louisiana | 2 | -- | -- | -- | -- |
| Maine | 3 | -- | -- | -- | -- |
| Maryland | 3 | -- | -- | -- | -- |
| Michigan | 3 | 2 mills to 7-3/4 mills[b] | | 2 mills to 7-3/4 mills[b] | |
| Mississippi | 3 | 0.125 | 3.00 | 3.00 | 1.-3. |
| Missouri | 2 | -- | -- | -- | -- |
| Nevada | 2 | -- | -- | -- | -- |
| New Mexico | 2 | 0.125 | 0.50-2. | 0.25-2. | 2.00 |
| N.Carolina | 3 | -- | -- | -- | -- |
| N.Dakota | 2 | -- | -- | -- | -- |
| Ohio | 3 | -- | -- | -- | -- |
| Oklahoma | 2 | -- | -- | -- | -- |
| Pennsylvania | 4 | -- | -- | -- | -- |
| Rhode Island | 3 | -- | -- | -- | -- |
| S.Carolina | 3 | -- | -- | -- | -- |
| S.Dakota | 2 | -- | -- | -- | -- |
| Tennessee | 3 | -- | -- | -- | -- |
| Utah | 2 | -- | -- | -- | -- |
| Washington | 4[c] | 0.25[b] | 0.25[b] | 0.25[b] | 0.25[b] |
| W.Virginia | 2 | 0.25[b] | 1.35-7.85[b] | 0.40[b] | 0.65-5.2[b] |
| Wyoming | 2 | -- | -- | -- | -- |

[a]2.5 percent after June 30, 1961.
[b]These are separate taxes applying to gross receipts in Hawaii, Michigan and Washington, and gross income in West Virginia.
[c]3-1/3 percent after July 1, 1961.

Source: Commerce Clearing House, State Tax Guide: All States, January, 19

In view of the trend in other states it is quite evident that the retail sales and use tax in Nevada offers an opportunity for substantial increases in State revenues both by raising rates and broadening the base. The desirability of such action, apart from the question of need, will hinge upon such considerations as the economic effects of the tax, the possibility of local use and the relative merit of the alternatives that may be available. These aspects are examined in later sections of the chapter and other parts of this report.

## The Small Sales Problem

The application of the sales tax rate to sales which involve a fractional tax liability of less than 1/2 of 1 cent has always been a troublesome problem. It obviously is most serious in the case of taxes of 1 or 2 percent or less. If the sales involving fractions of a dollar are exempt, a question of equity is raised. Businesses with a large volume of these transactions may also be injured through failure to collect sufficient tax to cover their percentage tax liability on total taxable sales. On the other hand, collection of a full penny tax on the fractional amounts would obviously be discriminatory, and would no doubt result in excess collections by the type of business indicated.

In the early history of the state sales taxes pressure was brought to bear on Congress to mint 1/2 cent pieces, but to no avail. As an alternative some fourteen states resorted to the issuance of tax tokens. They varied in denomination from 1 to 5 mills, in size, and in the types of materials used. Without exception, however, they soon came to be regarded as a nuisance by businessmen and taxpayers alike. Due to heavy losses in circulation, costs of issuing and distributing them also became excessive.

The states that did not use tokens usually resorted to the device of establishing fixed brackets for tax collection, and this plan is now generally employed. It ordinarily involves the stipulation of a minimum fractional sum under fifty cents on which no tax is due, the range under one dollar for a 1 cent tax and the breaking point for collection of additional tax on sums in excess of one dollar. In Nevada with a 2 percent rate, sales amounting to 24 cents or less are exempt; those of 25 through 74 cents pay a 1 cent tax; and those of 75 cents through $1.24 pay a 2 cents tax. Vendors are required to remit a minimum tax of 2 percent on their total taxable gross receipts less a 2 percent allowance for costs of collection. The brackets in Nevada appear to be satisfactory from the standpoint of taxed concerns. However, the amount exempted under the initial bracket as well as the breaking point is relatively high.

## Sales and Use Tax Receipts in Nevada

Retail sales and use tax revenues in Nevada since the adoption of the law in 1955 are shown in Table 10.6.

Table 10.6

Nevada Retail Sales and Use Tax Revenues

| Year | Gross Taxes | Permits | Total Receipts | Percent of Total State Taxes |
|---|---|---|---|---|
| 1955[a] | $ 2,293,868 | $7,226 | $ 2,301,094 | 12.76 |
| 1956[b] | 4,516,701 | 1,028 | 4,517,729 | 16.55 |
| 1957[c] | 9,795,485 | 1,711 | 9,797,196 | 29.45 |
| 1958 | 10,292,481 | 1,109 | 10,293,590 | 29.31 |
| 1959 | 11,048,646 | 2,173 | 11,050,819 | 30.28 |

[a]Collections covered about one quarter

[b]Collections are for the half year, January 1 through June 30.

[c]First full year under new fiscal year basis of reporting.

Source: Nevada State Tax Commission, Annual Reports, for respective years.

Tax collections in 1955 covered approximately one quarter, and amounted to $2,301,094. Due to the change to a fiscal year basis of reporting in 1956 receipts for that year included the half-year period from January 1 to June 30 and totaled $4,517,729. Revenues during the first fiscal year, 1956-1957, amounted to $9,797,196, and there were increases in each of the succeeding years. The collections of $11,050,819 in fiscal 1959 showed a substantial gain over 1957 of $1,253,623 or nearly 13 percent. This rate of increase is undoubtedly attributable primarily to general advances in the State's economy, but probably also reflects the result of strengthened enforcement efforts.

Use tax collections are not segregated from sales in regular reports of the Commission, but a special breakdown of collections for the last quarter of 1958 and the first three quarters of 1959 indicates use tax receipts of $1,134,151 as compared to $10,958,088 for the sales tax. Thus, percentage-wise the use tax accounted for 8.8 percent of total sales and use tax collections. This ratio, it may be noted, is somewhat higher than the typical situation.

For the three full years shown in Table 10.6 the retail sales and use receipts have averaged slightly over 29 percent of total State tax and license revenue. They have closely paralleled the collections from highway user taxes, but in 1959 slightly exceeded such collections. Considering the fact that the highway user revenues are earmarked, the sales tax is the principal source of financing the general functions of State government. Apart from the administrative expense, the revenues collected from Nevada's retail sales and use tax are all dedicated to General Fund purposes.

## Revenue Importance of the Tax in the Western States

The yield of the Nevada sales and use tax as compared to that of the seven other Western States using the levy in 1958 is shown in Table 10.7.

Table 10.7

Retail and General Sales Tax Yield Relationships in Eight Western States, 1958

| States | Sales tax as percent of: Total tax revenues | Personal income | Per capita revenues (dollars) |
|---|---|---|---|
| Washington | 54.8 | 3.54 | $75.28 |
| New Mexico | 37.1 | 2.81 | 48.30 |
| California | 36.1 | 1.92 | 43.43 |
| Arizona | 32.4 | 1.83 | 33.82 |
| Utah | 30.9 | 1.70 | 29.10 |
| Nevada | 28.0 | 1.57 | 39.33 |
| Wyoming | 28.0 | 1.57 | 31.81 |
| Colorado | 26.4 | 1.31 | 29.10 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1958.

It is evident that Nevada ranks below the median of this group of states except in the case of per capita receipts. In brief, Nevada was tied with Wyoming for seventh position in terms of the percentage of total tax receipts derived from the sales tax; fourth in collections per capita; and sixth in the ratio that sales tax revenues bear to total state income payments. The relatively low ratio of sales to total tax revenues is not particularly significant in view of the important differences in sales as well as general tax practices. Washington and California impose higher rates, and Arizona and New Mexico employ general sales as opposed to the retail levies of other states. Among the remaining jurisdictions Nevada's ratio is approximately the average.

A broader thirty-three state comparison of sales tax collections to total revenue shows Nevada in twenty-fifth position or well below the median (Table 10.2) in 1959. The mean average, based on aggregate yields, of 33.6 percent is also well above the ratio in Nevada.

The relatively high ranking of Nevada in terms of per capita collections from the sales tax may be explained primarily on two grounds. In the first place per capita income in Nevada exceeded that in all of the other Western States except California. Secondly, the tourist trade in Nevada contributes a larger proportion of sales tax receipts than in most other states. Similarly, the lower position

of Nevada in relation to the percent of income payments taken by the tax (sixth) is also a reflection of the high per capita income situation.

## Source of Sales Tax Receipts by Type of Business

The source of sales tax collections as to types of business and geographical area is of concern both in policy formulation and administration. Such information is also of value to businessmen and to others interested in general economic trends. From a policy standpoint it is essential to know how the burden of the tax is distributed among various classes of goods and services, and this requires a detailed breakdown of taxable sales or tax collections by type of business.[24] Similarly, in checking tax returns for possible evasion the availability of such data makes it possible to develop typical ratios of taxable to tax-exempt sales for each class of business.

The State Tax Commission has maintained a comprehensive series of taxable sales by class of business and by county since the adoption of the tax. Total taxable sales and the percent of taxable sales by broad categories of business for the period 1956-1959 inclusive are shown in Table 10.8.

The data show that in the four-year period total sales subject to tax increased by 25 percent, with the largest relative increases occurring in the "eating and drinking," "manufacturing, wholesale and construction," "personal services" and "farm implement, farm and garden" sales categories. With regard to the percentage distribution of taxable sales in 1959 it is apparent that food stores and eating and drinking establishments as a broad group far outranked all other classes. However, sales by eating and drinking businesses were substantially higher than for food stores which is just the reverse of the typical relationship. For the four years indicated the percentage of the total taxable sales accounted for by food stores decreased from 17.4 to 15.5 percent, while the share for businesses serving meals and drinks increased from 18.5 to 21 percent. As the typical ratios for food stores are around 18 to 20 percent and for eating and drinking establishments about 6 to 8 percent, the significance of the differential is readily apparent. This is another manifestation of the unique role of tourism in the State's economy. It tends to confirm the estimate already noted that a substantial portion of the burden of the sales tax, approximately one-fourth, is borne by non-residents.

The other principal categories of 1959 taxable sales were:
(a) 16.1 percent for clothing, general merchandise and specialties;
(b) 15.3 percent for manufacturing, wholesaling and construction; and

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[24] The more meaningful breakdown by classes of goods is not available in Nevada or other states.

Table 10.8

Taxable Sales and Percent Distribution by Type of Outlet, Fiscal Years, 1956-1959

A. Total taxable sales by type of outlet (millions)

| | 1956 | 1957 | 1958 | 1959 |
|---|---|---|---|---|
| Food, candy and tobacco | $ 81.4 | $ 79.9 | $ 85.5 | $ 91.1 |
| Eating and drinking | 86.3 | 99.9 | 107.5 | 123.4 |
| Clothing, general merchandise, etc. | 71.3 | 80.7 | 83.8 | 94.4 |
| Mfg., wholesale and construction | 61.1 | 74.0 | 76.9 | 89.8 |
| Autos, supplies and accessories | 73.9 | 71.9 | 69.5 | 76.1 |
| Building materials, hardware, etc. | 20.2 | 17.9 | 19.4 | 22.7 |
| Drug stores | 17.5 | 18.3 | 19.3 | 21.9 |
| Furniture and household appliances | 17.9 | 17.6 | 17.5 | 20.0 |
| Personal services[a] | 8.2 | 9.4 | 10.7 | 12.9 |
| Farm and garden implements | 3.8 | 4.7 | 6.5 | 7.7 |
| Miscellaneous[b] | 26.4 | 29.0 | 23.4 | 26.6 |
| Totals[c] | $468.1 | $503.2 | $519.9 | $586.7 |

B. Percentage distribution by type of outlet

| | | | | |
|---|---|---|---|---|
| Food, candy and tobacco | 17.4 | 15.9 | 16.5 | 15.5 |
| Eating and drinking | 18.4 | 19.8 | 20.7 | 21.0 |
| Clothing, general merchandise, etc. | 15.2 | 16.1 | 16.1 | 16.1 |
| Mfg., wholesale and construction | 13.1 | 14.7 | 14.8 | 15.3 |
| Autos, supplies and accessories | 15.8 | 14.3 | 13.4 | 13.0 |
| Building materials, hardware, etc. | 4.3 | 3.6 | 3.7 | 3.9 |
| Drug stores | 3.7 | 3.6 | 3.7 | 3.7 |
| Furniture and household appliances | 3.8 | 3.5 | 3.4 | 3.4 |
| Personal services[a] | 1.8 | 1.9 | 2.1 | 2.2 |
| Farm and garden implements | .8 | .9 | 1.3 | 1.3 |
| Miscellaneous[b] | 5.7 | 5.8 | 4.5 | 4.5 |
| Totals[c] | 100.0 | 100.0 | 100.0 | 100.0 |

[a]Sales of taxable products by such enterprises.

[b]Principal businesses are mining companies and assay offices; trailers, boats, motorcycles and aircraft supply dealers; and itinerant vendors.

[c]Sum of items may not equal totals because of rounding.

Source: Adapted from special reports of Nevada Tax Commission, Sales and Use Tax Division, 1956-1959 fiscal years.

(c) 13.0 percent for auto, auto supplies and accessories. Although these types of businesses are important sources of sales tax receipts in all retail sales jurisdictions, the ratio for the first grouping in Nevada is substantially below that in most of the other states, and that of the second is substantially higher. These differences, without doubt are a reflection of Nevada's basic economic structure, described in Chapter I, as well as variations in the tax base. It should also be noted that manufacturing, wholesaling and construction during this period increased in relative importance, while the automobile group declined. The other classes of business shown in Table 10.8 are of minor import in the sales tax picture, and do not reflect significant deviations from a typical pattern or changes since 1956.

## Source of Sales Tax Receipts by Counties

The amount and proportion of sales tax collections by Nevada counties for 1959 and 1957 are shown in Table 10.9.

Table 10.9

Sales and Use Tax Collections and Percent of Total by Counties, Fiscal Years, 1959 and 1957

| Counties | Collections 1959 (000) | Collections 1957 (000) | Percent of total 1959 | Percent of total 1957 |
|---|---|---|---|---|
| Churchill | $ 178 | $ 170 | 1.5 | 1.7 |
| Clark | 4,885 | 3,951 | 42.3 | 40.0 |
| Douglas | 208 | 138 | 1.8 | 1.4 |
| Elko | 380 | 334 | 3.3 | 3.4 |
| Esmeralda | 5 | 3 | .0 | .0 |
| Eureka | 11 | 23 | .1 | .2 |
| Humboldt | 154 | 156 | 1.3 | 1.6 |
| Lander | 31 | 39 | .3 | .4 |
| Lincoln | 66 | 85 | .6 | .9 |
| Lyon | 156 | 156 | 1.4 | 1.6 |
| Mineral | 109 | 123 | 1.0 | 1.2 |
| Nye | 93 | 82 | .8 | .8 |
| Ormsby | 169 | 127 | 1.5 | 1.3 |
| Pershing | 79 | 76 | .7 | .8 |
| Storey | 17 | 13 | .1 | .1 |
| Washoe | 3,012 | 2,752 | 26.1 | 27.9 |
| White Pine | 318 | 383 | 2.8 | 3.9 |
| Branches in more than one county | 1,323 | 1,000 | 11.5 | 10.1 |
| Out-of-state | 344 | 270 | 3.0 | 2.7 |
| Totals | $11,537 | $9,881 | 100.0 | 100.0 |

Source: Special reports of The Nevada State Tax Commission, Sales and Use Tax Division.

The above classification is not complete since the collections from firms operating in more than one county could not be segregated and collections from out-of-state firms obviously do not fit into this pattern. These two sources of collections amounted to 11.5 and 3.0 percent of the total, respectively. The remaining 85.6 percent of collections distributed by counties reveals an extreme concentration in two of the seventeen counties. Clark county produced 42.3 and Washoe county 26.1 percent, or a total of 68.4 percent in 1959. Only two other counties contributed more than 2 percent of total receipts in 1959, namely, Elko with 3.3 percent and White Pine with 2.8.

The data for the two years reflect in some degree the trend in economic development throughout the State. Clark county, as might be anticipated registered a gain, as did Douglas and Ormsby. On the other hand, most of the remaining counties experienced relative declines, and absolute declines in tax collections occurred in Eureka, Humboldt, Lander, Lincoln, Mineral and White Pine counties. In particular instances special influences not related to the general trends may account for these changes, and the period involved is obviously not long enough to establish a wholly reliable pattern.

## Economic Effects of Retail Sales and Use Tax

The economic effects of retail sales taxes fall logically into two categories, direct and indirect. Direct effects are primarily a resultant of the incidence of the tax or the ultimate location of the burden. However, the obligations of the retailer to collect and pay the tax are also a direct consequence of the levy. Indirect effects include such factors as changes in consumption patterns and the propensity to consume, the impact of the tax on the level of expenditures or business activity and the possible implications arising from the unequal or discriminating influence of the tax as between different businesses. In analyzing these effects of the tax, its impact upon individual or family incomes, on the one hand, and business enterprises, on the other, will be stressed.

### Impact of the Retail Tax on Individual and Family Incomes

The allegedly unfavorable effect of retail and general sales tax upon the incomes of low and medium income groups is, as previously noted, the primary objection to this form of tax. The extent of its regressive influence and the seriousness of such effects are the chief points at issue. Needless to say the first question can only be answered with reference to a particular tax, the definition of taxable sales and the special inclusions, exclusions and exemptions involved. The problem of analysis is complicated by the lack of complete data on consumer incomes and consumption patterns on a state basis, and no specific information is available on Nevada. However, there have been many studies relating to a hypothetical national tax and actual state taxes in other states. Their results are not conclusive in certain

respects, but assuming a broad based tax, they all indicate a substantial regressive effect upon the very low income groups.[25] One of the most comprehensive and most meaningful state tax burden studies is that recently completed in the neighboring State of California.[26] In view of the similarity in the tax bases (except for food) in the two states and the fact that food was covered in the California investigation the results are generally adaptable to the Nevada situation. The second question concerning the significance of possible regressive influences is obviously a matter of judgment and will be approached from that standpoint.

The basic results of the California study pertinent to the actual or possible impact of the Nevada tax are presented in Table 10.10. In general, the data show the percentage impact of the burden of the 3 percent retail tax on average or base incomes ranging from $814 to $15,103, and the effects of including food purchased for consumption off the premises and utility services in the tax base. The only significant variation in the base of the California and Nevada taxes is, as previously noted, the exemption of food under the California law. The actual amount of tax as well as the level of the percentage burden is, of course, overstated by reason of the 3 percent rate. To simplify the picture concerning the probable impact of the Nevada tax, the adjusted data including and excluding food purchased for consumption off the premises and the 2 percent rate are shown in Table 10.11.

The obvious limitation of this approach to analyzing the distribution of the burden of the Nevada tax is the fact that income and consumption patterns in the two states are not strictly comparable. Also, a relatively larger portion of the tax is borne by non-residents in Nevada than in California. It seems reasonable to assume, however, that the differences are not substantial, and in any case are not

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[25]U. S. Treasury, Division of Tax Research, Considerations Respecting A Federal Retail Sales Tax, Hearings on Revenue Revision, 1943, Ways and Means Committee, 78th Congress, 1st Session, Table 1, p. 1166; James W. McGrew, "Effect of a Food Exemption on the Incidence of a Retail Sales Tax," National Tax Journal, December, 1949, Tables 1 and 2, pp. 365-366; Donald C. Miller, "Sales Tax Progressivity Attributable to a Food Exemption," National Tax Journal, June, 1951, pp. 148-159; and R. A. Musgrave, "The Incidence of the Tax Structure and Its Effects on Consumption," Federal Tax Policy for Economic Growth and Stability, Papers submitted by panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D. C., 1955), pp. 96-113.

[26]William H. Hickman, Distribution of the Burden of California Sales and Other Excises (State Board of Equalization, Division of Research and Statistics, December, 1958).

Table 10.10

Distribution of Burden and Effect of Including Exempted Food and Utilities Under California Sales Tax, 1958

A. Total amount of tax by income base

| Income class | Base income[a] | Under present law[b] | Food included[c] | Food & utilities included |
|---|---|---|---|---|
| Under - $1,000 | $ 814 | $ 19.57 | $ 32.50 | $ 34.42 |
| $ 1,000 - 1,999 | 1,878 | 41.81 | 54.65 | 58.02 |
| 2,000 - 2,999 | 2,743 | 54.70 | 74.98 | 78.78 |
| 3,000 - 3,999 | 3,845 | 77.69 | 104.09 | 108.96 |
| 4,000 - 4,999 | 4,837 | 90.75 | 121.35 | 126.86 |
| 5,000 - 5,999 | 5,822 | 123.55 | 157.63 | 163.47 |
| 6,000 - 7,499 | 6,932 | 157.94 | 197.24 | 204.11 |
| 7,500 - 9,999 | 8,683 | 167.35 | 210.73 | 218.68 |
| 10,000 and over | 15,103 | 277.31 | 314.36 | 322.81 |

B. Relative burden as percent of income base

| Income class | Base income[a] | Under present law[b] | Food included[c] | Food & utilities included |
|---|---|---|---|---|
| Under - $1,000 | $ 814 | 2.40 | 3.99 | 4.23 |
| $ 1,000 - 1,999 | 1,878 | 2.23 | 2.91 | 3.09 |
| 2,000 - 2,999 | 2,743 | 1.99 | 2.73 | 2.87 |
| 3,000 - 3,999 | 3,845 | 2.02 | 2.71 | 2.83 |
| 4,000 - 4,999 | 4,837 | 1.88 | 2.51 | 2.62 |
| 5,000 - 5,999 | 5,822 | 2.12 | 2.71 | 2.81 |
| 6,000 - 7,499 | 6,932 | 2.28 | 2.85 | 2.94 |
| 7,500 - 9,999 | 8,683 | 1.93 | 2.43 | 2.52 |
| 10,000 and over | 15,103 | 1.84 | 2.08 | 2.14 |

[a]Includes money income after tax and non-money income (1950).

[b]Tax rates are for 1958.

[c]Food purchased for consumption off premises which is exempt in California.

Source: Adapted from "Distribution of the Burden of California Sales and Other Excises," William H. Hickman, State Board of Equalization, Division of Research and Statistics, December, 1958, Tables 1, 4, Appendix A-3, A-5 and page 24 footnote 15.

Table 10.11

Estimated Effect of Nevada Retail Sales Tax by Income Levels

A. Total amount of tax by income base

| Income class | Base income | Under present law | Excluding food[a] |
|---|---|---|---|
| Under - $1,000 | $ 814 | $ 21.67 | $ 13.05 |
| $ 1,000 - 1,999 | 1,878 | 36.43 | 27.87 |
| 2,000 - 2,999 | 2,743 | 49.99 | 36.47 |
| 3,000 - 3,999 | 3,845 | 69.39 | 51.79 |
| 4,000 - 4,999 | 4,837 | 80.90 | 60.50 |
| 5,000 - 5,999 | 5,822 | 105.09 | 82.37 |
| 6,000 - 7,499 | 6,932 | 131.49 | 105.29 |
| 7,500 - 9,999 | 8,683 | 140.49 | 111.57 |
| 10,000 and over | 15,103 | 209.57 | 184.87 |

B. Relative burden as percent of income base

| Income class | Base income | Under present law | Excluding food[a] |
|---|---|---|---|
| Under - $1,000 | $ 814 | 2.66 | 1.60 |
| $ 1,000 - 1,999 | 1,878 | 1.94 | 1.49 |
| 2,000 - 2,999 | 2,743 | 1.82 | 1.33 |
| 3,000 - 3,999 | 3,845 | 1.81 | 1.35 |
| 4,000 - 4,999 | 4,837 | 1.67 | 1.25 |
| 5,000 - 5,999 | 5,822 | 1.81 | 1.41 |
| 6,000 - 7,499 | 6,932 | 1.90 | 1.52 |
| 7,500 - 9,999 | 8,683 | 1.62 | 1.29 |
| 10,000 and over | 15,103 | 1.39 | 1.23 |

[a]Only food purchased for consumption off premises.

Source: Adapted from basic data in California Study using 2 percent rate of Nevada tax. See Table 10.10.

sufficient to distort the relative burden situation. The most striking feature of the burden analysis is the regressive impact of the tax upon the very low income groups. Comparing the lowest base income, $814, with the highest, $15,103, the differential is almost two to one. In other words, the relative burden of the tax on those families with the lowest incomes is twice as large as those on families with incomes of $10,000 or more. Except for the $5,822 and $6,932 base incomes the effects are regressive throughout the entire income range. Excluding the lowest income category, however, the degree of regression is moderate.

Another outstanding result of the burden analysis is the key role of food (purchased for consumption off the premises) in determining the economic impact of the tax. As shown in both tables the exemption of

such food products largely relieves but does not entirely eliminate the regressive influence in the low and middle income ranges. The inclusion of utility services (now exempt in both states) as indicated by the basic data in the California study tends to increase the burdensomeness of the tax for the low and medium income categories.

The foregoing analysis is believed to reflect most accurately the probable effect of the Nevada tax on the various income groups. However, the results of a recent investigation of the economic impact of the Colorado retail sales and use tax tends to reinforce the conclusions reached.[27] Two sources of income and consumption data were employed, a Bureau of Census study for the Denver Metropolitan region for 1948[28] and the Life Magazine report of 1957 involving the nation as a whole and the Western region.[29] The impact of the Colorado tax as measured by the two independent sources of basic data was strikingly similar. With respect to money income under $1,000 or an average income of $467 the Census data indicated a percentage burden of 4.34. This category was not shown in the Life study, but comparing the base incomes of $1,621 and $1,500, the percentage burden was 1.55 and 1.73 percent, respectively. In each case, the burden upon this income group was more than twice that on the $10,000 and over category, and with one exception (Census study $4,378 base income) the burden was regressive throughout the entire income range. In brief, all three studies indicate approximately the same magnitude of regressivity for the range from lowest to highest income family groups. However, it should be noted that the analysis in Colorado showed a somewhat higher degree of regressivity than that indicated by the California study. The difference in results is probably attributable to two factors, namely, the inclusion of non-money income and the deduction of personal income taxes from the income base in the latter study. Both of these methods tend to narrow the income gap between the high low categories so far as the average or base income is concerned.

It should be emphasized that the base of the Nevada and Colorado taxes are also very similar. Both tax all types of food and meals, and the rates are identical. Colorado, however, does not tax liquor and tobacco, but does tax public utility services. Inclusion of public utility services in Colorado would, of course, increase the regressive effect, but only in slight degree considering the minor significance of these services in the tax base.

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[27]Report of the Governor's Tax Study Group, Financing Government in Colorado, 1959, Chapter VIII, pp. 197, 198.

[28]U. S. Department of Labor, Monthly Labor Review, Vol. 69 (July-December), 1949.

[29]Alfred Politz Research, Inc., Life Study of Consumer Expenditures. A Background for Marketing Decisions, Vol. I, New York, 1957.

Another relationship is indicated by the data in the Colorado and other state studies, namely, that the burden of the tax is greater for a large family than a small within any particular income range. This effect is a logical expectation in view of the greater living cost requirements of such families for the items subject to the sales tax. Finally, it should be noted that the results of the studies shown are subject to important shortcomings. In the first place, the data employed are incomplete and in particular instances may not be fully representative. Secondly, the cash-income measure employed in these analyses does not produce wholly meaningful results either for the "under $1,000 or $10,000 and over" categories. In the case of the "under $1,000" group very few individuals or families actually live on this amount, and in the latter category which lumps together all incomes of $10,000 or more the results are obviously not representative for very high income receivers.

The regressive effect of the Nevada retail sales tax should be evaluated in terms of accepted principles of equity in taxation, considering its impact upon the entire tax system of the State and the nation. Needless to say, this is a large order. The ability to pay principle, involving a progressive tax burden in relation to net income, is undoubtedly the most widely accepted standard both in terms of theoretical and popular support. Considering the evidence cited, the nature of the tax base and the fact that specific exemptions are not extended to the lower income groups, the sales tax obviously does not conform to this standard. The basic issue, therefore, becomes one of determining whether its unfavorable effects in terms of income and size of family are adequately offset by other elements of the tax structure. Primarily, this is a matter of judging the relative impact of the progressive personal and corporate net income taxes, on the one hand, and the regressive impact of the retail sales and similar levies on the other. As this broad question of balance is dealt with elsewhere in the report further discussion at this point would be repetitious.

## Effect of Retail Sales Tax Upon Business

Generally speaking, the retail sales tax is not regarded as a serious deterrent to business expansion either of established concerns or new enterprises. This view is probably attributable primarily to the fact that the burden is usually shifted to the consumer. Certainly, this is an important consideration to the individual business even though it does not take account of indirect or long-range influences. Other aspects of the tax that may be considered advantageous are: That it applies to all businesses within certain broad categories; the rate is proportional or equal; the amount of the tax varies directly with business volume whereas the property tax base in the case of real property, and consequently receipts, is relatively stable; and the tax is collected on each day's business and is normally remitted on a convenient, monthly basis. In exceptional cases the businessman may also be favorably inclined towards the tax by virtue of excess collections.

The inequities and other unfavorable direct effects of the tax insofar as business is concerned are associated with its incidence and the compliance problem. The special circumstances, as indicated in the discussion of incidence, which make it impractical or undesirable to shift the tax obviously involve an inequitable and discriminatory burden on the businesses affected. The existence of direct competition from concerns not subject to the tax is the most serious situation and it cannot be wholly avoided. Merchants located close to the Idaho and Oregon borders are potentially subject to this pressure, but fortunately there are no cases of large towns in immediate proximity to places of comparable size across the State line. The other states bordering on Nevada all impose a 2 percent or higher retail tax so there is no present reason for concern in these areas. Further exceptions to the rule of shifting generally involve only partial tax absorption and these effects are limited to a fractional element of the total businesses taxed.

In certain analyses of state retail sales taxes considerable stress is placed upon the distribution of tax payments according to the size or other characteristics of the businesses taxed. While this information is interesting and may be useful in some respects, it does not throw any light on the problem of equity or burden as related to the businesses taxed. For example, the fact that businesses reporting total sales in excess of $50,000 per year pay a very high percentage of the total sales tax confirms the importance of such firms in the retail field, but there is no basis for suggesting that they pay too much or too little.

The compliance expense incurred by the taxed concern in collecting the tax, keeping adequate records, filling out and filing tax returns and dealing with questions that arise concerning tax liability and payment is a direct and substantial burden. While compliance costs of varying significance are encountered under all forms of taxation, the role of the retailer or other taxed entity in the case of consumer-type sales tax is somewhat different than that of the ordinary taxpayer. In the first place the legal as well as actual incidence of the tax is upon purchaser or consumer. The businesses whose sales are subject to the tax are acting as tax collectors rather than taxpayers. This situation is not unique as employers have a similar responsibility to withhold personal income taxes. However, the fact that such responsibilities are not unique in the case of the sales tax does not justify a policy of disregarding the costs involved. Secondly, the evidence available indicates that the burden of compliance is somewhat greater than that encountered in other situations where the business is acting as a tax collector rather than a taxpayer.

In an individual case-type study, it was estimated that the average compliance cost for the sales tax was 2.3 percent.[30] This

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[30] James W. Martin, "Costs of Administration: Examples of Compliance Expenses," Bulletin of the National Tax Association, April, 1944, p. 203.

investigation as well as other sources indicate an extreme variation in such costs for different types of business. The highest costs generally arise in those firms which have a large volume of small sales and those in which exempted sales constitute a major portion of total sales. It should be noted that the privilege form of retail or general sales tax presents a different problem in two respects. In this instance the business is the legal subject of the tax, and if the taxed concern is permitted to choose the basis of distributing the tax burden compliance costs will probably be much lower. Thus, the justification for compensating the taxed business is not as strong as for the consumer-type levy.

Nevada and thirteen other sales tax jurisdictions have recognized the compliance cost burden by providing percentage discounts related to the amount of the tax due. The discounts range from 2 to 5 percent, Nevada permitting the minimum. In the remaining states, seven grant a 2 percent, five a 3 percent and Colorado a 5 percent allowance. Several other states provide for special types of allowances, such as $50 of gross sales per month in Michigan. The latter provision is obviously subject to criticism as its benefits are limited primarily to small concerns.

The policy of compensating taxed concerns for special collection service costs is believed to be sound. The amount that should be allowed in the case of the consumer-type retail tax cannot be precisely determined considering the great variation in indicated compliance costs. However, the 2 percent discount under the Nevada law will meet the bulk of compliance costs and that is all that reasonably may be expected.

## Secondary Economic Effects

The indirect or secondary effects of the retail sales tax can be readily identified in general terms, but are difficult if not impossible to measure. Perhaps the most important aspect of these effects is the impact of the tax upon consumer purchasing power and prices. Broadly speaking, the tax increases the price of taxed goods and services thereby reducing consumer capacity to buy in terms of goods, at least in the short-run. As the bulk of the tax burden involved in higher prices tends to fall upon the low and medium income groups the sales tax is commonly assumed to have a significant deflationary influence.

While all taxes tend to involve some deflationary effect on the private economy, the assumption of a marked deflationary effect in the case of the sales tax is highly questionable. The initial rise in prices occasioned by a new tax or increased burden of existing levies actually inflates prices and thereby deflates private purchasing power. Any deflationary impact on prices to which these terms are ordinarily applied will be a resultant of subsequent effects of the tax. To a considerable degree the initial rise in prices provoked by the tax will

be offset by a general round of price and wage increases providing that the economy is in a healthy or expanding state. The expenditure of the sales tax revenue by the government also tends to maintain or increase the flow of funds in the economy unless the receipts are used to retire bank-held debt. Thus, a deflationary influence on prices would only arise if the general rise in wages and prices resulting from these factors was insufficient to maintain consumer purchasing power at the previously existing level. This result would be a certainty if the general economic climate were deflationary, and would force an eventual decline in prices.

The influence of the retail sales tax on prices, therefore, involves both inflationary and deflationary potentials. The balance or net impact will be determined largely by the general state of the economy, and will tend to accentuate rather than counteract the existing trend.

Another aspect of the impact of the retail sales tax on business is its possible effect upon consumption patterns and consequently the relative volume of sales both of taxed and untaxed items. Certain shifts in consumer buying habits especially as between taxed and untaxed goods or services may logically be anticipated. It seems reasonable to assume that the immediate increase in cost of essential goods and services occasioned by the retail tax would be reflected in reduced outlays for non-essentials, both taxed and untaxed. Needless to say, consumer attitudes rather than absolute requirements are controlling. As attitudes vary on particular items the specific character of the probable change in buying habits cannot be ascertained. The shifts that do occur may well be temporary if the secondary effects of the tax tend to offset the initial loss of private purchasing power. In the area of governmental spending, which is made possible by sales tax revenues, it is quite evident that the pattern of consumption differs from that of the individual. Basically, it is non-personal in character and tends to correspond generally to that of private business except that labor and other services generally assume a more significant role.

## Administration

The Nevada retail sales and use tax is administered by the Sales and Use Tax Division of the State Tax Commission. This Division is headed by an Administrator who is directly responsible to the Secretary of the Tax Commission. Of the twenty-three staff members, eighteen are engaged in administrative functions, and five in a clerical or machine operator capacity. The administrative staff in turn consists of: the Administrator; a supervisor of accounts and a legal research assistant who work in the central office; eight senior accountant auditors and one account auditor who are assigned to four field districts; one senior field representative who is stationed in Reno; and five field representatives who are also assigned to the field districts.

## Administrative Costs

The cost of administering the retail sales tax in Nevada is relatively low. Direct expenses during the period from 1956 through 1959 were as follows:

| | Total costs | Percent of collections |
|---|---|---|
| 1956 | $119,019 | 1.30 |
| 1957 | 122,139 | 1.24 |
| 1958 | 134,405 | 1.33 |
| 1959 | 165,274 | 1.50 |

The rise in such expense during the last two years to 1.5 percent in fiscal 1959 is a reflection of an expanded audit program. This program has yielded substantial dividends.

It is difficult to obtain accurate information on administrative costs in many jurisdictions, but the available data indicate that Nevada's costs are close to the median. The weighted average collection costs (according to total collections) for twelve states which accounted for almost two-thirds of total sales and use tax revenue in 1955 was 1.47 percent.[31] Cost ratios varied from a low of 0.85 percent in Michigan to a high of 3.82 percent in Ohio which employs a special collection device of prepaid tax receipts. Otherwise, California's cost of 2.01 percent constituted the maximum in the twelve-state comparison.

The direct costs of administration for the retail and general sales taxes compare very favorably with those of other major tax forms. They are also very reasonable in terms of a commonly accepted hypothetical range for a "good tax," namely, 2 to 5 percent. To be realistic, however, the retailer's discount should be added to state costs. This results in a total cost for Nevada of 3.5 percent. The 2 percent allowance in Nevada is the minimum permitted by the thirteen states that authorize such grants.[32]

The most significant question concerning the cost of administering the sales tax in Nevada and elsewhere is whether the expenditure of funds and effort is sufficient to maximize revenues and to minimize evasion. Low cost may well mean ineffective administration accompanied by heavy revenue losses and serious inequities between taxpayers.

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[31] Clinton V. Oster, State Retail Sales Taxation (Bureau of Business Research, Ohio State University, 1957), p. 94.

[32] Ibid., pp. 94 and 162.

Enforcement Procedures and Results

The Division handles in excess of 9,500 returns per quarter. Of this number approximately 88 percent are quarterly returns and 12 percent monthly. In terms of sales and use tax accounts some 6,800 are in-state and over 650 are out-of-state. There is a considerable turnover in individual accounts. From July 1, 1955 to April 20, 1959 there were 5,515 cancellations out of a total of 12,996 accounts carried. Needless to say, this factor substantially increases the enforcement problem.

The number of audits conducted and recoveries for the three-year period, 1957-1959 inclusive were as follows:[33]

| | Total audits | Additional tax | Penalties & interest | Total |
|---|---|---|---|---|
| 1956 - 1957 | 129 | n.a. | n.a. | $ 30,097 |
| 1957 - 1958 | 175 | $122,863 | $20,371 | 143,234 |
| 1958 - 1959 | 154 | 95,476 | 17,550 | 113,026 |

It will be noted that the largest number of audits and recoveries was made in 1958. In 1959 recoveries declined, but the reasons are not readily apparent as this was only the second year of expanded audit activity. However, several factors undoubtedly contributed to this result including the smaller number of audits performed, shifts in emphasis as to type of concerns audited (only four out-of-state companies and a special effort on close-out audits); and the probability that many of the largest companies in terms of tax liability were audited in the previous year. The importance of the first two influences is indicated by the fact that the recoveries per audit only declined by 10 percent whereas the decline in total recoveries was approximately 21 percent, and that the recoveries per hour of audit time on the nine out-of-state companies in 1958 were nearly twice as much as those for Nevada firms.

The field audit activity is also very productive in terms of cost and man hours expended. Total direct costs in 1959 were estimated at $18,380[34] and therefore the recovery for each dollar expended was $6.15. Estimates for 1958 as might be anticipated showed a much higher recovery ratio of $10.24 for each dollar expended. Nevada's results (1959) were still very favorable compared to those of California (1957) which recovered $1.79 for each dollar expended.[35]

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[33]Data supplied by Sales and Use Tax Division, Nevada State Tax Commission.

[34]Chanslor and Folsom, Certified Public Accountants, Special Report to the Governor on State Tax Audit Programs, November, 1959.

[35]Ibid.

While there are no absolute standards for evaluating the adequacy and effectiveness of the Nevada sales and use tax audit program, there are certain accepted bases of judgment. These factors include the ratio of audit staff to total tax collections; the selectivity and coverage of the audit program; and the productivity of the audits conducted.

The ratio of the total audit staff to tax collections is a very general, but nevertheless basic, indicator. While the data concerning the states that are recognized leaders in sales tax administration is most meaningful in establishing a long range objective, comparisons with the other Western sales tax jurisdictions are also useful in determing a practical range of adequacy.

Selecting California, Ohio and Michigan as leaders in the field, the relative number of auditors per $1,000,000 of tax collections was as follows:[36]

| | |
|---|---|
| California | 1.01 |
| Nevada | .75 |
| Ohio | .59 |
| Michigan | .58 |

In relation to the other Western States some of which are grossly understaffed, Nevada's position is above average. It should be emphasized that California has the most comprehensive audit program of any sales tax jurisdiction as well as the highest ratio of auditors to collections. In addition to an average ratio of audit staff, Ohio employs the special prepaid tax receipt method of collection which is designed to secure the cooperation of the buyer in the collection process. Thus, Nevada's audit staff situation should be regarded as favorable, but a final conclusion must await the results of the expanded enforcement program.

If the full potential of the audit staff is to be attained it is obvious that a systematic approach to field audit investigations must be inaugurated. A selective screening process based upon more careful office checking of returns accompanied by the use of a recognized method of sampling is believed to constitute a minimum requirement. Emphasis upon particular areas of investigation, such as the use tax and large concerns, should be an additional effort based upon a careful analysis of audit results. The saturation method in which all taxpayer's records with sales above a specified minimum are subject to audit over a three to four-year period represents the ideal situation, but California is the only state that approaches it.

No attempt was made to check the competency of the audit staff or the procedures followed in the making of individual audits as an investigation of these technical aspects of the program was recently completed.[37]

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[36]Data supplied by respective state tax collection agencies for the year 1959.

[37]Chanslor and Folsom, op. cit.

This report by the firm of Chanslor and Folsom, Certified Public Accountants, was critical of the sales and use tax audit procedure on individual accounts and merits full consideration as well as corrective action.

The sales and use tax audit program in fiscal 1958 and 1959 was highly productive in terms of the staff time and costs involved. While the probability of a decline in the ratios of productivity for the present enlarged staff has been noted, the improvements suggested in audit procedure should partially offset such a trend. Even with the expanded staff, therefore, the potential productivity should still be relatively high. For example, a 3 to 1 ratio of additional assessments to audit expense is considered to be very good as compared to the 6 to 1 results achieved in Nevada in 1959.

## Future Role of Retail Sales Tax

The retail sales and use taxes offer excellent potentialities for financing future State needs. On the basis of existing provisions and the growth of the State's economy there will be significant annual increases in revenue during the foreseeable future. Changes in the tax base and rates, if they are deemed advisable, obviously should be tempered by considerations of equity. Moreover, it should be noted that the Attorney General's office has ruled that Article XIX of the Constitution limits statutory revision of the sales tax. Accordingly, broadening of the tax base by changing the present law only can be effected by direct popular vote, except in those cases where the commodities or services were not specifically included or exempted in the original sales tax act. State policy also must be cognizant of the implications if local governments are permitted to use this source. The extension of local authority has been proposed, and the two leading cities are presently imposing a tax on hotel and motel services.

The chief possibilities for broadening the Nevada retail sales and use tax base by either alternative are: The inclusion of certain services such as temporary lodging, public utilities, personal services, amusements and automobile and miscellaneous repairs; and the removal of the exemption on motor fuel. Changing the form of the tax to a general levy covering wholesaling, manufacturing and processing and mining, and raising rates are obviously other means of increasing the revenue potential. The principal offsetting change which is often recommended is the exemption of food. The estimated effects of these changes on revenue are presented in Table 10.12.

Insofar as services are concerned the estimates are believed to be conservative as they are based upon sales by enterprise classes (with exception of public utilities) rather than total service sales and the data are for 1958. No official data are available on public utility sales in Nevada, but considering the yield in several other Western States that tax such services the 5 percent estimate appeared

Table 10.12

Estimated Effect of Changes in Tax Base and Rates on Yield of Retail Sales and Use Taxes in Nevada

| | Estimated yield (thousands) | |
|---|---|---|
| Inclusion of services: | | |
| Hotels, motels, camps | $2,059 | |
| Public utilities | 553 | |
| Personal services | 344 | |
| Amusements (other than gambling) | 60 | |
| Auto repairs, garages | 187 | |
| Other repair | 78 | |
| Total | | $3,281 |
| Removal of Motor Fuel Exemption[a] | | 1,011 |
| Imposition of ½ of 1 percent tax on:[b] | | |
| Wholesale sales | $ 844 | |
| Manufacturing, processing, mining | 47 | |
| Total | | 891 |
| Exemption of food purchased for consumption off premises | | -1,787 |
| Total | | $3,396 |

[a]Based on taxable gallonage for fiscal year 1959 of motor fuel and special fuel at assumed prices of 34 cents and 29 cents, respectively.

[b]Based on 80 percent of wholesale sales and 25 percent of estimated manufacturing sales for 1958.

Source: U. S. Department of Commerce, Bureau of the Census, 1958 Census of Business, Selected Services, Preliminary Area Report, Nevada (December, 1959); 1958 Census of Business, Wholesale Trade, Preliminary Area Report, Nevada (January, 1960); Census of Manufacturers, 1954, Vol. III, Area Statistics; Report of the Nevada Tax Commission, 1958-1959; and Table 10.8.

to be reasonable. In the case of amusements only specific non-gambling activities were included because of the heavy special taxes on gambling. The total estimated yield of the service categories is $3,281,000 or more than one-fourth of sales and use tax collections in fiscal 1959.

A tax on lodging (motels, hotels, etc.) as might be anticipated offers by far the greatest revenue potential, with public utilities ranking second.

The revenue estimate for motor fuels is based upon the reported gallonage under the motor fuels and special fuels taxes in fiscal 1959 at an assumed average price of 34 cents and 29 cents per gallon respectively, and the projected yield of $1,011,000 should closely approximate the actual.

Extension of the present retail sales and use tax to include sales by wholesalers, manufacturers and processors and mining is probably a remote possibility, and the revenue potential would obviously vary depending on the inclusiveness of the base and the rates imposed. Out-of-state or export sales would, of course, not be taxable. To afford some indication of possible results, however, certain basic assumptions were made. In the case of wholesaling it was assumed that 80 percent of the 1958 wholesale trade total of $210,936,000 or $168,748,800 represented in-state sales. In the instance of manufacturing and processing only 25 percent of total sales or $23,502,000 was assigned to Nevada. A rate of ½ of 1 percent was employed for both classes of business. The result as indicated in Table 10.12 was an estimated yield of $844,000 from a tax on wholesale sales, and $47,000 from manufacturing, processing and mining.

Exemption of food purchased for consumption off the premises would occasion a revenue loss of approximately $1,787,000 based upon collections for the fiscal year 1959 or slightly over 15 percent of total receipts. This estimate is based upon the actual contribution of "food store" sales to total revenues of 15.2 percent. It is recognized that food products are sold by other classes of business, but it is believed that such sales are at least offset by the non-food items sold by food stores. While the 15 percent factor for food is somewhat lower than the average for other states, the "on premises" sales of food and drink element is several times the typical figure for other jurisdictions.

Proportional effects may be reasonably anticipated from a 2½ percent or 3 percent sales and use tax rate. As related to the 1959 fiscal year's collection the increase in revenue would amount to approximately $2.8 and $5.5 million, respectively.

While the revenue potentialities of broadening the base of the sales and use taxes or increasing rates are excellent, the desirability of such action is another matter. In the case of services there are several general as well as specific factors to be considered. Traditionally, state retail sales and use taxes have had a commodity bias. Generally speaking, however, there are no compelling reasons for excluding the services indicated. Furthermore, in recent years many states have extended the coverage of the tax to include

motel and hotel, amusement and certain other services. The emphasis upon lodging and amusements is understandable both in terms of the productivity of these categories and the burden situation. In the instance of lodging, which is presently taxed by twenty-two states, the bulk of the burden falls on non-residents and is largely restricted to the medium and higher income groups. Although the non-resident factor is not as significant in the case of amusements, such activities are ordinarily classified as luxuries. No serious administrative problems are involved in either instance. Consequently, the support for taxing these services appears to be particularly strong. Public utility services are also a relatively lucrative source. The economic impact in terms of low income groups, however, is unfavorable. Personal and repair services are minor but significant revenue producers. The economic effects are likely to be regressive, and the large number of small firms involved are certain to increase the scope as well as the cost of enforcement activity.

Professional and certain business services, such as investment, banking, and real estate activities have not been included as possible alternatives for broadening the tax base, but the reasons for their exclusion should be noted. Aside from the fact that they are not taxed by other states, a tax on the professions would approach a levy on wage or salary income, it would be very difficult to collect and would undoubtedly encounter strong resistance. Taxation of the special types of business service mentioned also presents many problems, including the existence of distinctive tax measures in several areas.

Withdrawal of the exemption in the case of motor fuel is believed to be unwise. The high level of taxation upon this product at the present time can only be justified in terms of the special use or benefit concepts, and the rising cost of highway, road and street facilities will undoubtedly call for higher taxes in the future. Under these circumstances the imposition of another tax would seem to involve the old adage of adding insult to injury.

Adoption of a general sales tax covering retailing, wholesaling, manufacturing and processing and the mining industries would only result in a moderate increase in yields, assuming that relatively low rates were employed in the case of non-retail activities. There are also several serious objections to this form of tax. In the first place, it has a pyramiding effect upon the burden of the tax. Secondly, the total tax burden involved varies as between types of business and individual enterprises of the same class depending upon the degree of integration which exists in the production and distribution process. Finally, the administrative problem is enhanced through increasing the number of taxpayers and the necessity of distinguishing the nature of the new activities taxed for the purpose of applying differential rates. Considering the fact that the development of manufacturing and processing industry in Nevada is in its infancy, and the weak economic position of most branches of the mining industry, the appropriateness of imposing an additional tax is highly questionable. A tax on wholesaling would be the most productive and probably the least objectionable.

Even here a competitive disadvantage would arise in the case of Nevada firms doing business in California and Utah. Consequently, it does not appear to be advisable to extend the Nevada tax to non-retail activities.

The exemption of food purchased for consumption off the premises would substantially relieve the regressive effect of the sales and use tax on low income groups. The loss of revenue could be made up by extending the sales tax base to hotel, motel and other tourist lodgings which alone would be more than sufficient to offset the loss. Another alternative which would shift the major portion of the tax to non-residents would be to increase gambling tax revenues. Of course the food exemption could also be compensated for by raising the percent sales tax rate but such action would fail to take advantage of the greater equity and shift in burden to non-residents which a tax on lodging or gambling would involve.

Assuming a need for additional taxation, the revenue potential of an increase in sales tax rates has been indicated. With respect to the practice of neighboring states, Arizona and California impose a 3 percent rate, and Utah and New Mexico a 2 percent rate. Compared to the other seven Western States, the significance and burden of the Nevada tax is average or below. Thus, an increase would not be out of line with the practice of other states in the region. The economic impact of the tax is not in conformity with the ability to pay principle, although its effects in this respect could be materially improved by exempting food. The decision to be made, therefore, is whether there are alternative sources which will meet revenue requirements and are more acceptable from the standpoint of equity.

# CHAPTER XI

# TAXATION OF TOBACCO PRODUCTS

## Development and Importance of the Tax

The taxation of tobacco products, particularly cigarettes, represents one of the most widely used excises in the United States today. A special tax is imposed on the consumption of tobacco products by the federal government, the District of Columbia, 45 of the 49 states, numerous municipalities, and a small number of counties. Total tobacco tax collections by all units of government exceed $2 billion annually, the greatest part of which is due to the various taxes on cigarettes.[1]

The extensive use of tobacco taxes may be attributed to several factors. First, the consumption of tobacco products, particularly cigarettes, is generally unresponsive to changes in price and consumer income.[2] For the large majority of smokers there is practically no substitute for cigarettes, therefore an increase in the price of cigarettes resulting from the imposition of a tax will not materially affect the level of consumption or the tobacco tax base. The relative responsiveness of tobacco consumption to changes in income is also significant. When aggregate income declines, as in a recession, consumption of tobacco products may also fall, but significantly less. For example, national income declined 55 percent between 1929 and 1933

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[1]Commissioner of Internal Revenue, Annual Report, 1958, p. 105; U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1958, p. 11; and, Report of the Minnesota Tax Study Committee (Minneapolis, 1956), p. 384.

[2]The percentage change in the responsiveness of consumer demand to changes in price and income, termed price and income elasticity, has been treated extensively in tax literature. The low price elasticity of the total demand for cigarettes, however, does not mean that the demand for any particular brand is also inelastic. For additional discussion, see Frank H. Maier, "Consumer Demand for Cigarettes Estimated from State Data," Journal of Farm Economics, November, 1955; Seymour M. Sackrin and Arthur G. Conover, Tobacco Smoking in the United States in Relation to Income (Marketing Research Report No. 189, U. S. Department of Agriculture, Agricultural Marketing Service, Washington, D. C., 1957); and, Richard Stone, Measurement of Consumer Expenditures and Behavior in the United Kingdom (Cambridge, 1954).

while federal tobacco tax receipts fell by only 7 percent.[3] Thus, the lack of responsiveness of consumption to changes in price results in a lucrative source of revenue, while the unresponsiveness to changes in income results in a stable source of revenue.

Another reason for the extensive taxation of tobacco products is undoubtedly the indirect manner in which they are taxed. Since the tax is generally levied on either the manufacturer or wholesaler, it is "hidden" in the price of the commodity. In addition, the payment of a few cents a day, rather than an equal sum annually has resulted in a certain acceptance of the tax.

Consumption of tobacco products has continually increased in the post-war period with the exception of minor decreases in 1953 and 1954 when the "cancer scare" first occurred.[4] This post-war increase is due primarily to population growth although a significant factor in tobacco consumption is the composition of the population by age groups.

Despite the publicity given to the possible adverse health effects of cigarette consumption, total consumption has continued to increase in recent years. In 1958, for example, consumption increased approximately 7 percent over 1957.[5] The initial fear attached to cigarettes has apparently been largely dissipated by the introduction of filters, which in 1957 accounted for over 40 percent of the cigarette market.[6] The introduction in 1959 of very high filtration cigarettes and recent developments in flavoring techniques may be expected to result in continued increases in consumption.

Although cigarettes represent the major tobacco product consumed, other tobacco products are not insignificant. It has been estimated that of the total smokers in the United States, 12 percent smoke pipes and 9 percent smoke cigars either exclusively or primarily.[7] The extensiveness

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[3]National income declined from $85.1 billion to $46.6 billion while federal tobacco tax receipts declined from $434.4 million to $402.7 million. See U. S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States (Washington, D. C., 1949), p. 12 and p. 302.

[4]Tax Administrators News, May, 1959, p. 50.

[5]Ibid.

[6]Tax Administrators News, January, 1958, p. 5.

[7]Denzel C. Cline, "Tobacco and Alcoholic Beverage Taxation," Michigan Tax Study Staff Papers (Lansing, 1958), p. 437.

of non-cigarette consumption is well illustrated by the manufacture of approximately 6 billion cigars in 1957.[8] Moreover, the taxes levied on other tobacco products have in some cases produced outstanding revenues.

While non-cigarette tobacco consumption is significant in absolute terms, it has not grown as fast as cigarette consumption and has occasionally declined in post-war years. In 1956, for example, when cigarette consumption increased, the consumption of other tobacco products actually declined.[9]

## Development of Federal Tobacco Taxation

The federal government imposes a special excise tax of 8 cents per pack on cigarettes and an ad valorem tax on other tobacco products. The levy is imposed on manufacturers and since they are relatively few in number,[10] the tax is more easily administered than on the state level where it is imposed on the "first handler," usually the wholesaler.

Although the tax is levied on the manufacturer, it is generally passed on to the final consumer in the form of higher prices. While there may be exceptions, it is likely that the tax is not only passed forward in its entirety but that the price increase due to the tax is often greater than the tax. This disparity may be due to "pyramiding" or to the common practice of including cigarettes in a state sales tax base, or both. "Pyramiding" occurs when each seller between the manufacturer and the consumer employs a percentage mark-up system of pricing. In this case, sellers would in effect realize a profit on the initially imposed tax. The probability of this occurrence is decreased in the case of state cigarette taxes because they are generally levied on the wholesaler. If a sales tax is imposed on the retail selling price, the final price will be greater than the initial tax because the base of the sales tax includes the special excise tax.

While tobacco tax collections now play a relatively minor role in the federal tax structure, they accounted for about 20 percent of federal tax collections in the early 1900's.[11] Although tobacco tax collections

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[8]U. S. Treasury Department, Internal Revenue Service, Statistics Relating to the Alcohol and Tobacco Industries, Fiscal Year, 1958, p. 73.

[9]Tax Administrators News, June, 1957, pp. 61-62.

[10]There were slightly less than 1,000 tobacco, cigar and cigarette manufacturers in the United States in 1957, and of this number approximately 700 were cigar manufacturers. Statistics Relating to the Alcohol and Tobacco Industries, op. cit., pp. 63-64.

[11]U. S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States, p. 302.

have decreased in relative importance, they have nevertheless increased significantly in absolute terms from $59 million in 1900 to $1,734 million in 1958.[12]

On June 24, 1959, the federal government abandoned the long time practice of requiring manufacturers to affix federal tobacco revenue stamps to cigarette packages.[13] The tax is now paid by the filing of semi-monthly reports.

## Development of State Tobacco Taxation

Beginning with Kansas in 1909, the number of states using a cigarette tax has continually grown.[14] The last state to adopt the tax was California in 1959, and, including Alaska, there are now 45 states employing the tax. Moreover, increased cigarette taxes represented the most frequently proposed tax changes in governors' legislative messages in 1959,[15] and 14 states increased rates during their legislative sessions.[16] The following tabulation shows the year in which each state adopted the cigarette tax:[17]

| | | | |
|---|---|---|---|
| 1909 | Kansas | 1939 | Massachusetts, New Hampshire, New York, Rhode Island, Wisconsin |
| 1921 | Iowa | 1941 | Illinois, Maine |
| 1923 | Georgia, South Carolina, South Dakota, Utah | 1943 | Florida, New Mexico |
| 1924 | Arkansas | 1945 | Idaho |
| 1925 | North Dakota, Tennessee | 1947 | Indiana, Michigan, Minnesota, Montana, Nebraska, Nevada, West Virginia |
| 1926 | Louisiana | 1948 | New Jersey |
| 1927 | Alabama | 1949 | Delaware |
| 1930 | Mississippi | 1951 | Wyoming |
| 1931 | Texas | 1956 | Missouri |
| 1933 | Arizona, Ohio | 1958 | Maryland |
| 1935 | Connecticut, Oklahoma, Pennsylvania, Washington | 1959 | California |
| 1936 | Kentucky | | |
| 1937 | Vermont | | |

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[12] Ibid., and Commissioner of Internal Revenue, Annual Report 1958, p. 105.

[13] Tax Administrators News, May, 1959, p. 56.

[14] Kansas adopted a cigarette tax in 1909 specifically designed to abolish the consumption of cigarettes. It was repealed in 1927 when a cigarette tax was adopted solely as a revenue measure. See Report of the Minnesota Tax Study, op. cit., p. 383.

[15] Tax Administrators News, February, 1959, p. 19.

[16] Commerce Clearing House, State Tax Guide: All States, pp. 5591-94.

[17] Tax Administrators News, January, 1957, p. 1; Commerce Clearing House, State Tax Review, February 17, 1958, p. 1; and, Commerce Clearing House, State Tax Guide: All States, pp. 5591-94.

In addition to cigarette taxes, 15 states impose a special excise tax on other tobacco products such as cigars and smoking tobacco.

State tobacco tax collections amounted to $616 million in 1958. (Table 11.1) This figure represented 4.1 percent of the total tax collections for the 48 states. Tobacco taxes as a percent of total taxes for all states reached a maximum in 1950 of 5.2 percent, and may be expected to approach this level again with the large number of rate increases enacted in the 1959 legislative sessions.

Table 11.1

Total State Tax Collections, Tobacco Tax Collections, and Number of States Utilizing Tax, Selected Fiscal Years, 1932-1958

| Year | Total tax collections, all states (millions) | Tobacco tax collections (millions) | Tobacco tax collections as percent of total tax collections | Number of states using tobacco tax |
|---|---|---|---|---|
| 1932 | $ 1,890 | $ 19 | 1.0 | 13 |
| 1934 | 1,979 | 25 | 1.3 | 15 |
| 1936 | 2,618 | 44 | 1.7 | 20 |
| 1938 | 3,132 | 55 | 1.8 | 21 |
| 1940 | 3,313 | 97 | 2.9 | 26 |
| 1942 | 3,903 | 130 | 3.3 | 28 |
| 1944 | 4,071 | 159 | 3.9 | 30 |
| 1946 | 4,937 | 198 | 4.0 | 31 |
| 1948 | 6,743 | 337 | 5.0 | 39 |
| 1950 | 7,930 | 414 | 5.2 | 40 |
| 1952 | 9,857 | 449 | 4.6 | 41 |
| 1954 | 11,089 | 464 | 4.2 | 41 |
| 1956 | 13,375 | 515 | 3.9 | 42 |
| 1958 | 14,919 | 616 | 4.1 | 43 |

Source: U. S. Department of Commerce, Bureau of the Census, Historical Statistics on State and Local Government Finances, p. 19; U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1954, 1956, 1958; and, Tax Administrators News, January, 1957, p. 1.

Unlike many state and local taxes, a state cigarette tax is not generally deductible by the consumer for federal income tax purposes.[18]

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[18]Various state taxes are, of course, deductible only if the taxpayer itemizes his deductions, i.e., he does not take the standard deduction.

This is due to the fact that many state taxes, such as sales taxes, are legally levied on the consumer whereas the cigarette tax, with certain exceptions, is levied on the business firm involved. In only 12 states[19] is the cigarette tax levied on the consumer and thus, in these states consumers may deduct the tax,[20] while in all other states they may not. In either case, the business firm deducts the tax as a business expense. This is not to say it is deducted twice in those 12 states where the consumer may deduct the tax, however, because the firm may deduct the tax only if it is shown in receipts. Thus, in only those 12 states is the tax actually deducted at all. Although it may be desirable for the state to impose the tax on consumers, there are significant administrative problems.[21] In addition, for the average smoker the amount which could be saved if the tax were deductible is quite small--about $2.00 annually.[22]

Some states have earmarked part of the revenues from tobacco taxes for various purposes. Washington, for example, increased its cigarette tax and earmarked the additional revenue for the servicing of school construction bonds; Illinois and several other states have attempted to finance a veterans' bonus through additional cigarette taxes.[23]

In several states the cigarette tax is a shared tax, that is, local government units receive a portion of the collections. Nevada counties receive 12.5 percent of the State cigarette tax revenue. Minnesota has a similar arrangement except that local governments receive 25 percent of the collections.[24] An alternative method for local government participation in the cigarette tax is for the state to allow the imposition of a separate local tax. New York City, for example, levies a city tax in addition to the state cigarette tax.

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[19]Connecticut, Florida, Maine, Massachusetts, Mississippi, Nebraska, New Hampshire, New Jersey, Oklahoma, Pennsylvania, Rhode Island and Tennessee. Prentice Hall, Federal Taxes, Vol. 2, 1959, pp. 13135-136.

[20]The consumer may, of course, deduct the tax in any state if the expense is incurred in the course of a business--then it is a business expense.

[21]The Governor of Arkansas recently vetoed a bill placing the tax on consumers because of excessive administrative problems which would be involved. See Tax Administrators News, March, 1959, p. 32.

[22]Assuming the average smoker consumes about 365 packs of cigarettes a year, his annual State cigarette tax would be about $11.00, using Nevada's rate of 3 cents per pack. Thus, if deductions were itemized and a marginal rate of 20 percent were applicable, the taxpayer could save slightly over $2.00 annually.

[23]Tax Administrators News, September, 1957, p. 101.

[24]Report of the Minnesota Tax Study Committee, op. cit., p. 383.

Interstate comparisons of tobacco tax rates and revenues are undertaken in a later section of this chapter.

## Development of Municipal Cigarette Taxes

Municipalities in only 9 states levy an independent cigarette tax. In New Jersey, New York, Tennessee and Virginia, use of the tax is limited to only a few municipalities. Municipal use of the tax is common in Alabama, Maryland, and Missouri, where state taxes are also imposed. Numerous municipalities in Florida impose the tax, but it is an offset against the state tax. While Colorado does not impose a state cigarette tax, approximately 33 municipalities impose levies ranging from 1 to 3 cents per pack.

A major problem associated with independent municipal taxation of cigarettes is that consumers may make purchases outside the taxing jurisdiction. A saving of 20 to 30 cents may be sufficient to induce this type of avoidance. While the extent of avoidance due to this factor is uncertain, there is some evidence to indicate that suburban merchants may enjoy increased sales when a city adopts a cigarette tax and it is not imposed in the suburbs or is imposed at a lower rate.[25]

The yield of municipal cigarette taxes has been estimated at approximately $40 million annually.[26]

## Rationale of the Tax

The traditional rationale for the taxation of tobacco is that consumption is undesirable, from both a social and an individual point of view, and should therefore be discouraged by the imposition of special taxes. Tobacco consumption is considered undesirable from a social viewpoint because it involves a significant social cost in the form of fire losses and other costs, and is considered undesirable from the viewpoint of the individual since it is believed to be detrimental to proper health. While such non-fiscal use of the tax system may be questioned, a more fruitful criticism is that tobacco consumption may very well be undesirable but any sumptuary effect of such a tax is doubtful. It must first be assumed that the tax reaches the consumer

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[25]Suburban merchants of Denver are reported to have experienced increased sales when Denver adopted a cigarette tax. See Colorado Municipal League, Selected Non-Property Revenues of Colorado Cities and Towns (Boulder, Colorado, 1955), p. 11.

[26]Minnesota Tax Study, op. cit., p. 384.

in the form of higher prices, and while this would generally be true, it is possible that due to competitive conditions or other factors, some absorption may occur at various stages in the merchandising chain. Assuming, however, that the tax is wholly borne by the consumer in the form of higher prices, there is still considerable doubt that consumption will be significantly decreased. If higher prices are to discourage consumption of a product, demand for the product must be elastic, that is, the product must have reasonably close substitutes. Although some smokers may be able to substitute other products or services for tobacco, this seems unlikely for the average smoker. Higher tobacco prices may, however, have a certain discouraging effect on the non-smoker who might otherwise acquire the habit though this effect would appear to be minor. If the objective of a tobacco tax is to encourage the consumption of more "desirable" commodities, the attempt could prove abortive because individuals may consume the same amount of tobacco, but the higher price will necessitate curtailed purchase of other goods, perhaps those commodities deemed desirable.

A closely related approach to the sumptuary rationale of tobacco taxation is the contention that tobacco is a luxury and should therefore be subjected to special taxation. Since distinctions between luxuries and necessities seem to be largely personal, the concept of "luxury taxes" has been criticized because it establishes personal taste patterns as the distributive basis of the tax burden.

In terms of equity, the most common indictment made against tobacco taxes is that they are regressive, that is, a higher proportion of income is taken from lower income groups than from higher income groups. Thus, for the person who consumes 20 cigarettes a day, the annual tax in Nevada represents .4 percent of a smoker's income if he earns $3,000 annually, but only .1 percent if he receives $10,000 yearly. This characteristic is, of course, the reverse of the widely accepted principle of ability-to-pay. A possible rejoinder is that although the tax is regressive, it is not as regressive as is often contended. Although empirical estimates of the regressivity of tobacco taxes are hazardous, one author estimates that tobacco taxes are roughly proportional below the $3,000 income level and regressive thereafter.[27] Even if this estimate is reasonable, however, it is difficult to argue that regressivity, in itself undesirable, becomes acceptable simply because it is not extreme. Moreover, equally reliable studies show that tobacco taxes are regressive irrespective of the income level.[28]

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[27]Warren A. Law, "Tobacco Taxation in the Revenue System," National Tax Journal, December, 1953, p. 373.

[28]See Richard A. Musgrave and Darwin W. Daicoff, "Who Pays the Michigan Taxes," Michigan Tax Study Staff Papers, op. cit., pp. 138-39; and, Senate Interim Committee on State and Local Taxation, State and Local Taxes in California: A Comparative Analysis (California Legislature, 1951), p. 345.

Another argument advanced to extenuate the regressivity of the tobacco tax is that diversity is needed in the overall tax structure. Thus, the regressive tobacco tax should be considered in conjunction with the progressive income tax. The implicit assumption of this contention seems to be that the progressivity of the income tax is excessive and should therefore be offset by a regressive tax. Even if it was assumed that the progressiveness of the income tax is excessive, it would nevertheless seem more desirable and logical to decrease directly the progressivity rather than attempt to offset it with a regressive tax.

Although the public may favor progressive taxation, several surveys indicate that the cigarette tax is considered to be a "fair tax."[29] This rather paradoxical position may be difficult to explain but should perhaps be considered when viewing the tobacco tax.

A classic summary of consumption taxes and the equity criterion has been made by Henry C. Simons:

> The plain fact, to one not confused by moralistic distinctions between necessities and luxuries, is simply that taxes like the tobacco taxes are the most effective means available for draining government revenues out from the very bottom of the income scale.[30]

With regard to administrative considerations, the tobacco tax has certain merits. Since the consumer meets the burden of a cigarette tax by paying a few cents each time he purchases a pack of cigarettes, the tax is considered to be relatively "painless" and easy to collect as opposed to collecting an equal amount annually. This reasoning seems to resemble the principle of the "most feathers for the least squawking,"--a questionable principle of taxation. In addition, there may be a tendency for public expenditures to become extravagent if the public is constantly taxed in numerous subtle ways. Nevertheless, convenience of payment has long been a meaningful criterion in measuring the acceptability of a revenue source, and moreover, the manner in which most taxes are collected involves a certain degree of subtlety.

The ease of payment associated with the tobacco tax makes it possible to levy a rate which yields sizable revenues and thus the tobacco tax notably fulfills the "adequacy criterion." It should be noted that

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[29]For a discussion of public attitudes with regard to the tobacco tax, see Hadley Cantril (ed.), Public Opinion (Princeton, 1951), pp. 852-54.

[30]Henry C. Simons, Personal Income Taxation (Chicago, 1938), p. 40

it cannot be logically contended that the cigarette tax will discourage consumption and at the same time produce significant revenues because the objectives are obviously contradictory--the success of one indicating the failure of the other.

Closely related to the adequacy criterion is the criterion of stability. A tax which has a flexible yield, such as the income tax, is often viewed as a favorable factor in federal finance since it tends to act as a "built-in stabilizer" in times of business fluctuations. On the state government level, however, stability would appear to be more desirable since states lack the power and flexibility to maintain existing services which is possessed by the federal government. While there may be some controversy as to the desirability of highly stable sources of revenue for any unit of government, there is little doubt that of the numerous taxes employed, the tobacco tax provides one of the most reliable sources of revenue.

## Tobacco Taxation in Nevada

### General Features of Present Tax

The special excise tax imposed on cigarettes sold or used in Nevada provides for the following rates:[31]

| | |
|---|---|
| Packages containing 20 cigarettes or less | 3 cents per pack |
| Packages containing over 20 cigarettes and not exceeding 30 | 5 cents per pack |
| Packages containing over 30 cigarettes and not exceeding 40 | 6 cents per pack |
| Packages containing over 40 cigarettes and not exceeding 50 | 7 cents per pack |
| Three cents for each additional 20 cigarettes or fraction thereof | |

Since the large majority of cigarettes are sold in packages of 20, this is the most relevant rate. Closely related to the statutory

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[31] Nevada Revised Statutes, 370.170.

rate is the provision which permits wholesalers a five percent discount on stamps or meter impressions purchased.[32] Thus, the actual rate is 2.85 cents per pack compared to the nominal rate of 3 cents per pack, or in effect the dealer is allowed 1.5 cents for each carton of cigarettes he stamps.

The revenues collected from the cigarette tax are deposited to the Cigarette Tax Fund, 87.5 percent of which is allocated to the State General Fund and the remaining 12.5 percent to the counties. The amount which each county receives is determined by the proportion of sales made in the county to the total sales made in the State. This ratio is calculated by the Cigarette and Liquor Tax Division of the Nevada Tax Commission based on reports received from wholesalers showing the quantities of cigarettes shipped into the various counties. Thus, it is implicitly assumed that the point of sale represents the point of final tax incidence

As a supplement to the cigarette excise tax, a cigarette use tax is imposed in Nevada. This yields little revenue at the present time, but was passed several years ago when substantial avoidance occurred through the purchase of cigarettes from out-of-state wholesalers and mail order houses. With the passage of the Federal Jenkins Act in 1949, interstate shippers are now required to notify the state into which shipments are made.[33] Although little revenue is collected by Nevada from the cigarette use tax, and literal enforcement would necessitate searching every vehicle and individual at the State borders, the tax undoubtedly acts as a limited deterrent to extensive avoidance.

With the exception of cigarettes to be exported and cigarettes sold in cases where federal immunity from taxation exists, all cigarettes sold or consumed in the State are subject to either the special excise or the use tax.

The tobacco tax in Nevada has from its inception been confined to cigarettes and thus excludes cigars, smoking tobacco, and other tobacco products.

In Nevada as well as many other states, cigarettes and other tobacco products are included in the base of the general sales tax.[34]

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[32] Nevada Revised Statutes, 370.220.

[33] The National Tobacco Tax Association at its annual meeting in 1956 applauded the curtailment of evasion effected by the Jenkins Act. See Tax Administrators News, March, 1956, p. 31.

[34] A discussion of tobacco tax administration in Nevada and other states will be found in a later section.

## History of the Cigarette Tax in Nevada

The original law imposing a cigarette tax in Nevada was enacted in the 1947 session of the legislature and became effective July 1, 1947.[35] The rate imposed at that time was 2 cents per standard pack of 20 cigarettes with a corresponding levy on larger packages. The discount allowed dealers for complying with the act was 10 percent and all revenues accrued to the General Fund.

Several major changes were made in the 1949 session of the legislature.[36] The rate was raised from 2 to 3 cents for a standard pack of cigarettes, with proportionate increases for packages containing more than 20 cigarettes. The discount rate was lowered from 10 percent to 7 percent and the cigarette tax fund was established, subject to the present allocation of 12.5 percent to the counties and 87.5 percent to the State General Fund.

In 1953 the supplementary use tax was imposed at rates identical to those of the special excise tax.[37]

The final major change was made in 1955 when the discount rate was lowered from 7 percent to 5 percent.[38]

In summary, the only major changes which have been made in Nevada's cigarette tax in recent years have been a reduction in the discount rate and the imposition of a supplementary use tax. During the same time, numerous other states have increased rates--in many cases significantly. For example, of the 41 states imposing a cigarette tax in 1953, 30 had increased their rates by the end of the 1959 legislative sessions--the average increase being about 2 cents per pack or slightly over 60 percent.[39]

## History of Collections

In the twelve years since the Nevada cigarette tax was imposed, collections have increased from about $.5 million in 1948 to approximately

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[35] Statutes of Nevada, 1947, pp. 658-62.

[36] Statutes of Nevada, 1949, pp. 64-65.

[37] Statutes of Nevada, 1953, pp. 208-209, pp. 598-99.

[38] Statutes of Nevada, 1955, p. 360.

[39] Commerce Clearing House, State Tax Guide: All States, pp. 5521-75; and, U. S. Treasury Department, Overlapping Taxes in the United States, 1954, p. 61.

$1.4 million in 1959. (Table 11.2) As a percent of total taxes and fees, however, cigarette tax collections have been less significant in recent years than they were in the early 1950's before the adoption of the sales tax. It will be noted from Table 11.2 that cigarette tax collections represented approximately 6 to 7 percent of total taxes and fees prior to 1956 and since that time they have amounted to less than 4 percent.

Table 11.2

Nevada Cigarette Tax Collections,
Fiscal Years 1948-1959

| Year | Cigarette licenses | Cigarette taxes | Cigarette licenses and taxes | Cigarette licenses and taxes as percent of total taxes and fees |
|---|---|---|---|---|
| 1948[a] | $6,435 | $ 512,150 | $ 518,585 | ---[b] |
| 1949 | 4,215 | 491,549 | 495,764 | 5.7 |
| 1950[c] | 4,113 | 741,976 | 746,089 | 7.6 |
| 1951 | 3,863 | 784,212 | 788,075 | 6.8 |
| 1952 | 3,323 | 863,203 | 866,526 | 6.9 |
| 1953 | 3,103 | 957,203 | 960,306 | 6.5 |
| 1954[d] | 3,975 | 991,635 | 995,610 | 6.4 |
| 1955 | 1,775 | 1,089,541 | 1,091,316 | 6.1 |
| 1956[e] | 3,563 | 1,179,049 | 1,182,612 | 4.3 |
| 1957 | 3,488 | 1,176,879 | 1,180,367 | 3.6 |
| 1958 | 3,450 | 1,263,439 | 1,266,889 | 3.6 |
| 1959 | 3,583 | 1,427,862 | 1,431,445 | 3.9 |

[a]Cigarette tax inaugurated at 2 cents per pack, 10 percent discount.
[b]Tax receipts not classified.
[c]Tax rate increased to 3 cents per pack, discount reduced to 7 percent.
[d]Supplementary use tax imposed.
[e]Discount rate reduced to 5 percent.

Source: Compiled from State of Nevada, Annual Report of the State Controller, 1948-1959; State of Nevada, Session Laws, 1947, 1949, 1953, and 1955.

## Tax Collections by Counties

Since the cigarette tax is largely, if not wholly, passed forward in the form of higher prices, it is not particularly meaningful to segregate actual payments made by wholesalers into county origin. A more useful approach is to determine the quantities of cigarettes sold in each

county, since this essentially represents the proportion of total cigarette taxes paid by each county. Table 11.3 shows, on this basis, the estimated cigarette taxes and license fees attributable to each of the seventeen Nevada counties in fiscal year 1959. It will be noted that Clark and Washoe counties together accounted for 76.8 percent of the collections, and with the exception of Elko county which contributed 4.3 percent of the total, no other county accounted for as much as 3 percent. Thus, Clark county alone represented nearly half of the total collections, Washoe county slightly over one-fourth, while the other fifteen counties in the State accounted for only about one-fourth of the total.

Table 11.3

Nevada Cigarette Tax Collections and License Fees, Estimated by Counties,[a] Fiscal Year 1959

| County | Estimated cigarette tax collections and license fees | Percent of total |
|---|---|---|
| Churchill | $ 29,717 | 2.1 |
| Clark | 681,097 | 47.6 |
| Douglas | 35,386 | 2.5 |
| Elko | 62,096 | 4.3 |
| Esmeralda | 1,404 | .1 |
| Eureka | 2,792 | .2 |
| Humboldt | 28,515 | 2.0 |
| Lander | 6,714 | .5 |
| Lincoln | 5,239 | .4 |
| Lyon | 24,006 | 1.7 |
| Mineral | 24,736 | 1.7 |
| Nye | 15,446 | 1.1 |
| Ormsby | 39,996 | 2.8 |
| Pershing | 14,888 | 1.0 |
| Storey | 1,991 | .1 |
| Washoe | 417,296 | 29.2 |
| White Pine | 40,126 | 2.8 |
| Total | $1,431,445[b] | 100.0 |

[a]Total cigarette tax collections and license fees allocated to counties on the basis of the proportion of total cigarette sales accounted for by the county. Thus, it is assumed that the cigarette tax and license fees are wholly shifted forward.

[b]Actual.

Source: Nevada Tax Commission, Cigarette Tax Division, "Report of Sales of Cigarettes by State Wholesalers," first quarter - fourth quarter, fiscal year 1959.

## Tourism and the Cigarette Tax

While it is somewhat difficult to estimate the proportion of the cigarette tax collections which may be attributed to tourists, an approximation may be obtained by determining the amount residents paid and attributing to tourists the difference between this amount and the amount actually collected. Thus, assuming that Nevada residents consumed a per capita number of cigarettes equal to the national average, the following distribution of the cigarette tax collections in calendar 1958 may be estimated:[40]

| | | |
|---|---|---|
| Accounted for by residents | $ 977,175 | 70.2% |
| Accounted for by tourists | 415,457 | 29.8% |
| Total | $1,392,632 | 100.0% |

The assumption that Nevada residents consume a per capita number of cigarettes equal to the national average does not appear to be unreasonable since Western states are generally below the national average and Eastern states are generally above the national average primarily due to greater urbanization. As a comparison, the per capita consumption in Arizona, based on total tax revenues which do not exclude the tourist factor, was 2,457 in 1958 or somewhat less than the national average of 2,525.[41] Since California has only recently imposed a cigarette tax, precise consumption data are not yet available. However, one estimate of per capita consumption was approximately 2,665, or only slightly above the national average even though the tourist factor was not excluded. Thus, the national average applied to Nevada residents would appear to be reasonable, if not somewhat overstated.[42]

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[40]Civilian population of Nevada times the national average per capita cigarette consumption equals total number of cigarettes consumed by resident population. This figure times the tax rate per cigarette equals the tax collections accounted for by residents. (258,000) x (2,525) x (.0015) = $977,175. Population estimate from U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Population Estimates, Series P-25, No. 189, November 13, 1958, p. 3; national average consumption and total revenue data (which are adjusted to reflect the discount) from National Tobacco Tax Association, Comparative Cigarette Tax Collections for 1958, August, 1959, pp. 6-8.

[41]National Tobacco Tax Association, Comparative Cigarette Tax Collections, op. cit., pp. 6-8. The national average is based on Federal cigarette tax collections.

[42]A smaller consumption estimate would, of course, indicate that residents contribute less of the cigarette tax collections and tourists more.

While the above estimated cigarette tax distribution may be useful, it should be realized that it is based on certain assumptions as well as other estimates, and should therefore be considered as an approximation only.

## Tobacco Taxation by the States

### Nature of Taxes Used

Of the 49 states, Colorado, North Carolina, Oregon, and Virginia are the only states which do not employ a special excise tax on cigarettes. (Table 11.4) The absence of the tax in Colorado is due largely to the long standing constitutional provision which would earmark such revenues for welfare purposes and the widespread use of the tax by municipalities in the State. Oregon voters in general elections have rejected a proposed cigarette tax no less than 5 times in the post-war period.[43] The manufacture of cigarettes and other tobacco products is a major industry in North Carolina and Virginia.

In addition to subjecting cigarettes to a special excise tax, they may also be included in the state's sales tax base. It will be noted from Table 11.4 that of the 34 states which utilize a sales tax, 21 include cigarettes in the base, Nevada included. With the exception of North Carolina, these 21 states also employ a special excise tax on cigarettes. Thus, 20 of the 49 states subject cigarettes to both a special excise tax and a sales tax, including Nevada.

The effective tax rate imposed on cigarettes due to their inclusion in the sales tax base is, of course, substantially lower than the special excise tax rates generally employed. Nevertheless, the sales tax is usually levied on the retail price of the cigarettes which not only includes the federal excise tax but also the state excise tax. Thus, the sales tax in this case is essentially a tax on a tax. For example, in Nevada, the retail price of a carton of cigarettes includes 80 cents in federal excise tax and 30 cents in State excise tax, or a total of $1.10, which yields about 2 cents in State sales tax revenue. Primarily because of this layered tax aspect, 13 of the 34 states which employ a sales tax have excluded cigarettes from the base. While this may be commendable in one regard, it creates certain administrative problems and, of course, decreases the yield of the sales tax. While difficult to estimate, the exclusion of cigarettes from the sales tax base in Nevada would decrease annual sales tax collections by an estimated quarter of a million dollars.[44]

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[43] Tax Administrators News, November, 1956, p. 24.

[44] Total number of cartons sold in fiscal 1959 (4,875,223) times the approximate average sales tax yield of 5 cents on a carton of cigarettes which is estimated by the Sales Tax Division of the Nevada Tax Commission.

Table 11.4

Taxation of Cigarettes by States, 1959

| State[a] | Special excise tax on cigarettes | Cigarettes included in sales tax base |
|---|---|---|
| Alabama | Yes | Yes |
| Alaska | Yes | Yes |
| Arizona | Yes | Yes |
| Arkansas | Yes | No |
| California | Yes | Yes |
| Colorado | No | No |
| Connecticut | Yes | No |
| Delaware | Yes | --[b] |
| Florida | Yes | Yes |
| Georgia | Yes | Yes |
| Idaho | Yes | --[b] |
| Illinois | Yes | Yes |
| Indiana | Yes | Yes[c] |
| Iowa | Yes | Yes |
| Kansas | Yes | No |
| Kentucky | Yes | --[b] |
| Louisiana | Yes | Yes |
| Maine | Yes | No |
| Maryland | Yes | Yes |
| Massachusetts | Yes | --[b] |
| Michigan | Yes | Yes |
| Minnesota | Yes | --[b] |
| Mississippi | Yes | Yes[c] |
| Missouri | Yes | Yes |
| Montana | Yes | --[b] |
| Nebraska | Yes | --[b] |
| Nevada | Yes | Yes |
| New Hampshire | Yes | --[b] |
| New Jersey | Yes | --[b] |
| New Mexico | Yes | Yes |
| New York | Yes | --[b] |
| North Carolina | No | Yes |
| North Dakota | Yes | No |
| Ohio | Yes | No |
| Oklahoma | Yes | No |
| Oregon | No | --[b] |
| Pennsylvania | Yes | No |
| Rhode Island | Yes | No |
| South Carolina | Yes | Yes |
| South Dakota | Yes | No |
| Tennessee | Yes | No |
| Texas | Yes | --[b] |
| Utah | Yes | Yes |
| Vermont | Yes | --[b] |
| Virginia | No | --[b] |
| Washington | Yes | Yes |
| West Virginia | Yes | Yes |
| Wisconsin | Yes | --[b] |
| Wyoming | Yes | No |

[a]Hawaii imposes a special excise on cigarettes and other tobacco products at 20 percent of wholesale value. A 3½ percent general sales tax is also employed.

[b]State has no sales tax or gross receipts tax.

[c]Special excise deductible from gross receipts.

Source: Commerce Clearing House, State Tax Guide: All States, pp. 5521-7[illegible] and pp. 6051-6146.

While cigarettes represent the most significant tobacco product taxed by the states, a special excise tax is imposed by 15 states on other tobacco products such as cigars and smoking tobacco. Table 11.5 lists the states which employ such a tax, the commodities taxed, and in some cases the revenue which was collected from the tax in 1958. It will be noted that 10 of the states tax all non-cigarette tobacco products, while the other states, with the exception of North Dakota which taxes only snuff, tax cigars and certain other tobacco products. The recent popularity of non-cigarette tobacco taxes is evidenced by the fact that 4 of the 15 states adopted the tax in 1959. The adequacy of this form of taxation is apparent from the revenues collected in such states as Mississippi and Louisiana.

In terms of fairness it would appear to be discriminatory to subject cigarette smokers to special taxation and omit consumers of other tobacco products as is done in 30 of the cigarette taxing states. The taxing of other tobacco products, however, is somewhat more difficult to administer. For this reason, other tobacco products, unlike cigarettes, are usually taxed on an ad valorem basis. Primarily because of alleged administrative difficulties and meager yields, several states have adopted a tax on other tobacco products only to repeal it several years later. For example, between 1946 and 1956, five states repealed their tax on other tobacco products.[45] The recent popularity of the tax would tend to qualify these criticisms and as mentioned above, the taxation of other tobacco products is commendable from an equity viewpoint if cigarettes are subjected to special taxation. The failure of states to include other tobacco products under a special excise tax is somewhat mitigated by the inclusion of these products in the sales tax base and the exclusion of cigarettes, as is done in several states.

As discussed in a following section, the imposition of a special excise tax on other tobacco products in Nevada would yield approximately $90,000 if a rate structure similar to that of Arizona or Minnesota were adopted.[46]

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[45] Tax Administrators News, January 1, 1957, p. 1.

[46] Estimated on the basis of per capita yields.

Table 11.5

Non-Cigarette Tobacco Products Taxed, by States, 1959

| State | Product | Revenue (1958 |
|---|---|---|
| Alabama | All non-cigarette tobacco products | $1,147,000 |
| Arizona | All non-cigarette tobacco products | 390,000 |
| Georgia | Cigars | a |
| Louisiana | Cigars and smoking tobacco | 1,330,000 |
| Minnesota | All non-cigarette tobacco products | 1,131,000 |
| Mississippi | All non-cigarette tobacco products | 1,490,000 |
| New Hampshire | All non-cigarette tobacco products | a |
| New York | All non-cigarette tobacco products | b |
| North Dakota | Snuff | a |
| Oklahoma | Cigars, smoking tobacco, and chewing tobacco | 1,187,000 |
| South Carolina | All non-cigarette tobacco products | 971,000 |
| Tennessee | All non-cigarette tobacco products | 689,000 |
| Texas | Cigars, smoking tobacco, and chewing tobacco | b |
| Vermont | All non-cigarette tobacco products | b |
| Washington | All non-cigarette tobacco products | b |

[a]Revenue from cigarette tax and other tobacco products tax not segregated.

[b]Tax imposed during 1959.

Source: National Tobacco Tax Association, Comparative Cigarette Tax Collections, by States for 1958, August, 1959, p. 3; and, Commerce Clearing House, State Tax Guide: All States, pp. 5521-72.

## Interstate Comparison of Rates

The cigarette tax rates employed by the states range from a low of 2 cents per pack in Arizona and Missouri to a high of 8 cents per pack in Louisiana, Montana, and Texas. (Table 11.6) With the exception of New Hampshire where the tax is on an ad valorem basis (15 percent of selling price), specific rates are employed. It will be noted that Nevada's rate of 3 cents per pack is below the national average of 4.7 cents per pack. Of the five states bordering Nevada, Idaho employs a 5 cent rate, Utah a 4 cent rate, Arizona a 2 cent rate, California a 3 cent rate, and Oregon does not impose a cigarette tax.

Table 11.6

State Cigarette Tax Rates, 1959

| State | Rate[a] | State | Rate[a] |
|---|---|---|---|
| Alabama | 4 | Montana | 8 |
| Alaska | 5 | Nebraska | 4 |
| Arizona | 2 | Nevada | 3 |
| Arkansas | 6 | New Hampshire[b] | 3 |
| California | 3 | New Jersey | 5 |
| Connecticut | 3 | New Mexico | 5 |
| Delaware | 3 | New York | 5 |
| Florida | 5 | North Dakota | 6 |
| Georgia | 5 | Ohio | 5 |
| Idaho | 5 | Oklahoma | 5 |
| Illinois | 4 | Pennsylvania | 6 |
| Indiana | 3 | Rhode Island | 5 |
| Iowa | 4 | South Carolina | 5 |
| Kansas | 4 | South Dakota | 5 |
| Kentucky | 3 | Tennessee | 5 |
| Louisiana | 8 | Texas | 8 |
| Maine | 5 | Utah | 4 |
| Maryland | 3 | Vermont | 7 |
| Massachusetts | 6 | Washington | 6 |
| Michigan | 5 | West Virginia | 5 |
| Minnesota | 5.5 | Wisconsin | 5 |
| Mississippi | 6 | Wyoming | 4 |
| Missouri | 2 | Average | 4.7 |

[a]In cents per standard package of 20 cigarettes.

[b]Tax rate computed on basis of 15 percent of selling price.

Source: Commerce Clearing House, State Tax Guide: All States, pp. 5521-75.

Table 11.7 indicates the number of states which employ each rate. The most popular rate of 5 cents is employed by 17 states, while the second most popular rate of 3 cents is employed by eight states, including Nevada. Only two states impose a lower rate than Nevada, seven states an equal rate, and 35 states a higher rate.

Table 11.7

Number of States Employing Various Cigarette Tax Rates, 1959

| Rate in cents per standard package of cigarettes | Number of states using rate |
|---|---|
| 2 | 2 |
| 3 | 8 |
| 4 | 7 |
| 5 | 17 |
| 5.5 | 1 |
| 6 | 6 |
| 7 | 1 |
| 8 | 3 |
| | 45 |

Source: Commerce Clearing House, State Tax Guide: All States, pp. 5521-75.

Nevada's cigarette tax rate, in addition to being below the national average is also below the average for the eleven Western States. It will be noted from Table 11.8 that the average for these states is 4.4 cents which is 1.4 cents above the rate in Nevada. A somewhat more meaningful average excludes Nevada and is slightly higher. Of these 11 states, two states do not employ a cigarette tax, one state imposes a lower rate than does Nevada, one state an equal rate, and six states a higher rate. Of the five states which border Nevada, Utah and Idaho employ a higher rate than does Nevada.

Table 11.8

Cigarette Tax Rates, Eleven Continental Western States, 1959

| State | Rate in cents per standard package of twenty cigarettes |
|---|---|
| Arizona | 2 |
| California | 3 |
| Colorado | No tax |
| Idaho | 5 |
| Montana | 8 |
| Nevada | 3 |
| New Mexico | 5 |
| Oregon | No tax |
| Utah | 4 |
| Washington | 6 |
| Wyoming | 4 |
| Average for states using tax | 4.44 |
| Average for states using tax - excluding Nevada | 4.63 |

Source: Commerce Clearing House, State Tax Guide: All States, pp. 5521-75.

From the above discussion it can be seen that Nevada could justifiably increase the present cigarette tax rate of 3 cents per pack if other states are to be used as a guide. An increase to 4 cents would be somewhat below the national average as well as the Western State average. An increase to 5 cents would be slightly above the national average and the Western State average, but would be equal to the modal (most popular) rate employed by the other 44 cigarette taxing states. Based on Nevada cigarette tax collections in 1959,[47] a 4 cent rate would increase annual State revenue by approximately $476,000, and a 5 cent rate would increase annual State revenue by approximately $952,000.

As shown in Tables 11.9 and 11.10, both the methods and rates used in the taxation of other tobacco products vary greatly. A large portion of the revenues effected through the imposition of a tax on other tobacco products is from the levy on cigars. Little cigars are

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[47]State of Nevada, Annual Report of the State Controller, 1959, p. 4.

Table 11.9

State Excise Tax Rates on Cigars, 1959

| State | Weighing less than 3 pounds per 1,000[a] Tax per 1,000 | Weighing more than 3 pounds per 1,000 Intended retail price | Tax per 1,000 |
|---|---|---|---|
| Alabama | $2.00 | 0 - 3-1/3¢ | $ 1.50 |
| | | 3-1/3 - 5 | 3.00 |
| | | 5 - 8 | 4.50 |
| | | 8 - 10 | 7.50 |
| | | 10 - 20 | 15.00 |
| | | 20 - up | 20.25 |
| Arizona | $1.00 | 0 - 5¢ | $ 3.33 |
| | | 5 - up | 10.00 |
| Georgia | $2.00 | 0 - 3-1/3¢ | $ 1.50 |
| | | 3-1/3 - 5 | 3.00 |
| | | 5 - 8 | 4.00 |
| | | 8 - 10 | 7.50 |
| | | 10 - 20 | 15.00 |
| | | 20 - up | 20.00 |
| Louisiana | $1.20 | 0 - 5¢ | $ 3.20 |
| | | 5 - 8 | 4.80 |
| | | 8 - 15 | 8.00 |
| | | 15 - 20 | 32.00 |
| | | 20 - up | 40.00 |
| Minnesota | 20 percent of wholesale price | 20 percent of wholesale price | |
| Mississippi | $1.20 | 0 - 3-1/3¢ | $ 1.20 |
| | | 3-1/3 - 5 | 2.40 |
| | | 5 - 8 | 3.60 |
| | | 8 - 10 | 6.00 |
| | | 10 - 20 | 12.00 |
| | | 20 - up | 16.80 |
| New Hampshire | 15 percent of retail price | 15 percent of retail price | |
| New York | 15 percent of wholesale price | 15 percent of wholesale price | |
| Oklahoma | $2.50 | 0 - 3-1/3¢ | $ 5.00 |
| | | 3-1/3 - up | 10.00 |
| South Carolina | $2.00 | 0 - 3-1/3¢ | $ 5.00 |
| | | 3-1/3 - up | 16.00 |
| Tennessee | $1.00 | 0 - 3-1/3¢ | $ 1.00 |
| | | 3-1/3 - 5 | 2.00 |
| | | 5 - 9 | 3.00 |
| | | 9 - 10 | 5.00 |
| | | 10 - 20 | 10.50 |
| | | 20 - up | 13.50 |
| Texas | $1.00 | 0 - 3-1/3¢ | $ 7.50 |
| | | 3-1/3 - up | 15.00 |
| Vermont | 20 percent of wholesale price | 20 percent of wholesale price | |
| Washington | 25 percent of wholesale price | 25 percent of wholesale price | |

[a]Often termed "little cigars."

Source: Commerce Clearing House, State Tax Guide: All States, pp. 5521-72.

Table 11.10

State Excise Taxes on Smoking and Chewing Tobacco and Snuff, 1959

| State | Smoking Tobacco | Chewing Tobacco | Snuff |
|---|---|---|---|
| Alabama | 0 - 1-1/8 oz. 1¢<br>1-1/8 - 2 oz. 5¢<br>2 - 3 oz. 8¢<br>3 - 4 oz. 11¢<br>ea. add'l. oz. 3¢ | 3/4¢ per ounce | 0 - 5/8 oz. 1/2¢<br>5/8 - 1-5/8 oz. 1¢<br>1-5/8 - 2-1/2 oz. 2¢<br>2-1/2 - 3 oz. 2-1/2¢<br>3 - 5 oz. 3¢<br>5 - 6 oz. 4¢<br>ea. add'l. oz. 1¢ |
| Arizona | 1¢ per ounce | 1/4¢ per ounce | 1¢ per ounce |
| Louisiana | Retail price:<br>0 - 5¢ 1¢<br>5 - 10¢ 2¢<br>10 - 13¢ 3¢<br>13 - 15¢ 4¢<br>ea. add'l. 5¢ 1-1/3¢ | Not taxed | Not taxed |
| Minnesota | 20% of wholesale price | 20% of whsle. pr. | 20% of whsle. pr. |
| Miss. | 1¢ per 5¢ or fraction of retail price | 1/2¢ per 5¢ or fraction of retail price | 1/2¢ per 5¢ or fraction of retail price |
| N. Hamp. | 15% of retail price | 15% of retail price | 15% of retail price |
| New York | 15% of wholesale price | 15% of whsle. pr. | 15% of whsle. pr. |
| N. Dak. | Not Taxed | Not Taxed | 2¢ per 1-1/4 oz. or fraction |
| Okla. | 20% of factory list price | 20% of factory list price | Not taxed |
| S. Car. | 2¢ if retail price less than 10¢<br>2¢ for ea. add'l. 5¢ of retail price | 1/2¢ per ounce | 1/2¢ per ounce |
| Tenn.[a] | 5% of retail price | 5% of retail price | 5% of retail price |
| Texas | 25% of factory list price | 25% of factory list price | Not taxed |
| Vermont | 20% of wholesale price | 20% of whsle. pr. | 20% of whsle. pr. |
| Wash. | 25% of wholesale price | 25% of whsle. pr. | 25% of whsle. pr. |

[a]Tobacco products manufactured exclusively for export purposes exempt from taxation.

Source: Commerce Clearing House, State Tax Guide: All States, pp. 5521-72.

taxed on a specific basis, ranging from $1.00 to $2.50 per 1,000, or as a percent of wholesale or retail price. Regular cigars are taxed on the basis of either wholesale or retail price. Rather than establishing brackets for various tobacco products, several states tax all non-cigarette tobacco products at a percent of either wholesale or retail price. In conjunction with this method the tax is generally paid through report filing rather than the sale of stamps. For example, Minnesota taxes all tobacco products at 20 percent of wholesale price and requires the filing of reports. On the basis of simplicity and administrative ease, this method appears to be preferable to using different bases, brackets, and rates for each commodity as is done, for example, in Alabama. This latter method was probably adopted by several states because it is used by the federal government. Three of the four states which imposed a tax on other tobacco products in 1959 adopted the more simplified method. If Nevada were to adopt a tax on other tobacco products, this method would appear to be desirable. Assuming such a tax were adopted in Nevada on the same basis as that in Minnesota and also at the same rates, additional annual revenues of approximately $90,000 would be effected, based on 1958 per capita collections in Minnesota. A method of taxation and rate structure similar to that used in Arizona would achieve approximately the same revenue, but would be somewhat more complex.

## Interstate Comparison of Revenues

In 1958 state tobacco tax collections ranged from approximately $1 million in Wyoming to about $64 million in New York. (Table 11.11) Tobacco tax collections as a percent of total tax collections, which reflect the reliance a state places on tobacco taxes, ranged from 12.3 percent in New Jersey to 1.6 percent in Florida. Nevada's tobacco tax collections were 3.4 percent of total tax collections, which ranked the State 35th among the 42 states taxing tobacco products in 1958. In other words, only 6 states placed less reliance on the tobacco tax while 34 states relied more on the tax. Moreover, the average reliance placed on the tax of 5.1 percent is significantly higher than Nevada's 3.4 percent.

Table 11.11

Tobacco Tax Collections by States,
Fiscal Year 1958

| Rank | State[a] | Tobacco tax collections | |
|---|---|---|---|
| | | Amount (thousands) | Percent of total tax collections |
| 1 | New Jersey | $35,488 | 12.3 |
| 2 | Montana | 5,510 | 9.8 |
| 3 | New Hampshire | 3,436 | 9.8 |
| 4 | Maine | 5,903 | 7.5 |
| 5 | Massachusetts | 30,040 | 7.2 |
| 6 | Texas | 47,565 | 7.1 |
| 7 | Pennsylvania | 58,029 | 6.5 |
| 8 | Louisiana | 23,400 | 6.1 |
| 9 | Nebraska | 4,967 | 6.1 |
| 10 | Vermont | 2,250 | 6.0 |
| 11 | North Dakota | 3,208 | 5.7 |
| 12 | Tennessee | 14,991 | 5.6 |
| 13 | West Virginia | 8,948 | 5.6 |
| 14 | Michigan | 43,318 | 5.5 |
| 15 | Arkansas | 7,450 | 5.3 |
| 16 | Georgia | 16,392 | 5.2 |
| 17 | Rhode Island | 3,622 | 5.2 |
| 18 | Illinois | 36,727 | 5.0 |
| 19 | Mississippi | 8,221 | 5.0 |
| 20 | Wisconsin | 18,728 | 5.0 |
| 21 | Ohio | 33,926 | 4.9 |
| 22 | Oklahoma | 12,013 | 4.9 |
| 23 | Alabama | 11,239 | 4.8 |
| 24 | Kansas | 7,935 | 4.7 |
| 25 | Connecticut | 9,634 | 4.4 |
| 26 | Minnesota | 13,920 | 4.4 |
| 27 | Idaho | 2,271 | 4.3 |
| 28 | New York | 63,948 | 4.3 |
| 29 | South Dakota | 1,953 | 4.3 |
| 30 | Kentucky | 8,685 | 4.2 |
| 31 | Indiana | 14,870[b] | 4.0 |
| 32 | Missouri | 10,370 | 3.7 |
| 33 | New Mexico | 3,888 | 3.7 |
| 34 | Washington | 13,766 | 3.7 |
| 35 | Nevada | 1,263 | 3.4 |
| 36 | South Carolina | 6,240 | 3.4 |
| 37 | Delaware | 1,704 | 3.2 |
| 38 | Iowa | 7,604 | 3.2 |
| 39 | Wyoming | 1,058 | 2.9 |
| 40 | Arizona | 2,823 | 2.5 |
| 41 | Utah | 2,008 | 2.5 |
| 42 | Florida | 6,885 | 1.6 |
| | Average | — | 5.1 |

[a]Maryland tax effective 6-1-58, $22,000 collected during fiscal 1958.
[b]Includes related license taxes.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1958, pp. 11-12.

Tobacco tax collections and total tax collections for the eleven Western States are shown in Table 11.12. It will be noted that 3 of the 11 Western States did not impose a tobacco tax in 1958. Of the remaining 8 states, Nevada was ranked 5th with regard to reliance placed on the tobacco tax. The average for the 8 states of 4.1 percent was again higher than Nevada's 3.4 percent. It will also be noted that one state, Montana, collected nearly 10 percent of its total revenue in the form of tobacco tax receipts.

Table 11.12

Tobacco Tax Collections and Total Tax Collections, Eleven Western States, Fiscal 1958

| State | Tobacco tax collections (thousands) | Total tax collections (thousands) | Tobacco tax collections as percent of total tax collections, and rank | |
|---|---|---|---|---|
| | | | Percent | Rank |
| Arizona | $ 2,823 | $112,401 | 2.5 | 7 |
| California | No tax | -- | -- | - |
| Colorado | No tax | -- | -- | - |
| Idaho | 2,271 | 53,278 | 4.3 | 2 |
| Montana | 5,510 | 56,508 | 9.8 | 1 |
| Nevada | 1,263 | 36,854 | 3.4 | 5 |
| New Mexico | 3,888 | 105,732 | 3.7 | 3 |
| Oregon | No tax | -- | -- | - |
| Utah | 2,008 | 79,061 | 2.5 | 8 |
| Washington | 13,766 | 374,351 | 3.7 | 4 |
| Wyoming | 1,058 | 36,072 | 2.9 | 6 |
| Average | -- | -- | 4.1 | |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1958, pp. 11-12.

State tobacco tax collections on a per capita basis and as a percent of personal income in 1958 are shown in Table 11.13. Montana ranked first with $8.01 and Florida ranked 42nd with $1.55 per person. Nevada collected $4.73 per person which ranked the State 15th among the 42 states imposing the tax at that time. While per capita data are generally of questionable value, such figures for Nevada with its significant tourist industry are virtually meaningless. Tourists contribute a sizable portion of the cigarette tax collections in the State, but per capita figures attribute the collections only to residents and are therefore grossly overstated.[48]

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[48]For further discussion of the limitations of per capita data see James K. Hall, "Tax Comparisons," National Tax Journal, March, 1959, pp. 69-73.

Table 11.13

Comparative State Tobacco Tax Collections on Per Capita Basis and as Percent of Personal Income, Fiscal Year 1958

| Per capita tobacco tax collections | | | Tobacco tax collections as percent of personal income | | |
|---|---|---|---|---|---|
| Rank | State | Amount | Rank | State | Percent |
| 1 | Montana | $8.01 | 1 | Louisiana | .477 |
| 2 | Louisiana | 7.52 | 2 | Montana | .417 |
| 3 | Maine | 6.20 | 3 | Maine | .364 |
| 4 | Massachusetts | 6.18 | 4 | Mississippi | .357 |
| 5 | New Jersey | 6.17 | 5 | Vermont | .347 |
| 6 | Vermont | 6.05 | 6 | Arkansas | .344 |
| 7 | New Hampshire | 5.88 | 7 | New Hampshire | .312 |
| 8 | Michigan | 5.51 | 8 | Oklahoma | .302 |
| 9 | Oklahoma | 5.26 | 9 | West Virginia | .301 |
| 10 | Pennsylvania | 5.23 | 10 | Tennessee | .300 |
| 11 | Texas | 5.07 | 11 | North Dakota | .291 |
| 12 | Washington | 4.97 | 12 | Georgia | .289 |
| 13 | North Dakota | 4.94 | 13 | Texas | .280 |
| 14 | Wisconsin | 4.76 | 14 | Michigan | .262 |
| 15 | Nevada | 4.73 | 15 | Alabama | .258 |
| 16 | New Mexico | 4.62 | 16 | Massachusetts | .258 |
| 17 | West Virginia | 4.54 | 17 | New Mexico | .251 |
| 18 | Tennessee | 4.32 | 18 | Pennsylvania | .246 |
| 19 | Georgia | 4.29 | 19 | Wisconsin | .246 |
| 20 | Arkansas | 4.22 | 20 | New Jersey | .245 |
| 21 | Connecticut | 4.16 | 21 | Washington | .230 |
| 22 | Rhode Island | 4.14 | 22 | Minnesota | .215 |
| 23 | Minnesota | 4.12 | 23 | South Carolina | .213 |
| 24 | New York | 3.94 | 24 | Rhode Island | .211 |
| 25 | Mississippi | 3.76 | 25 | Idaho | .202 |
| 26 | Delaware | 3.75 | 26 | Kentucky | .202 |
| 27 | Kansas | 3.75 | 27 | Kansas | .187 |
| 28 | Illinois | 3.71 | 28 | Nevada | .184 |
| 29 | Ohio | 3.63 | 29 | Nebraska | .180 |
| 30 | Alabama | 3.50 | 30 | South Dakota | .170 |
| 31 | Idaho | 3.43 | 31 | Ohio | .166 |
| 32 | Nebraska | 3.41 | 32 | Indiana | .163 |
| 33 | Wyoming | 3.31 | 33 | Wyoming | .158 |
| 34 | Indiana | 3.25 | 34 | Illinois | .153 |
| 35 | Kentucky | 2.82 | 35 | New York | .152 |
| 36 | South Dakota | 2.79 | 36 | Connecticut | .148 |
| 37 | Iowa | 2.69 | 37 | Iowa | .145 |
| 38 | South Carolina | 2.60 | 38 | Delaware | .136 |
| 39 | Arizona | 2.48 | 39 | Utah | .132 |
| 40 | Missouri | 2.43 | 40 | Arizona | .128 |
| 41 | Utah | 2.32 | 41 | Missouri | .119 |
| 42 | Florida | 1.55 | 42 | Florida | .083 |
| | Average | 4.29 | | Average | .234 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958, p. 12; and, U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 15.

Tobacco tax collections as a percent of personal income are only slightly more useful since again the collections are paid only in part by residents. Nevertheless, Nevada's tobacco tax collections represented .184 percent of Personal Income Received in 1958. This figure ranked the State 28th among the 42 states and was somewhat below the average of .234 percent. It will be noted that tobacco taxes generally represent quite a small portion of personal income. For example, in the highest ranked state, Louisiana, tobacco tax collections accounted for less than 1/2 of one percent of Personal Income Received in the State.

Similar figures are shown for the eleven Western States in Table 11.14. Among the 8 Western States which imposed a tobacco tax in 1958, Nevada is ranked 3rd when tobacco tax collections are placed on a per capita basis, and 5th when tobacco tax collections are compared to Personal Income Received. The meaningfulness of such comparison is again questionable, especially in states which have a significant tourist industry.

Table 11.14

Comparative Tobacco Tax Collections
on Per Capita Basis and as Percent of Personal Income,
Eleven Western States, Fiscal Year 1958

| Per capita tobacco tax collections | | | Tobacco tax collections as percent of personal income | | |
|---|---|---|---|---|---|
| Rank | State | Amount | Rank | State | Percent |
| 1 | Montana | $8.01 | 1 | Montana | .417 |
| 2 | Washington | 4.97 | 2 | New Mexico | .251 |
| 3 | Nevada | 4.73 | 3 | Washington | .230 |
| 4 | New Mexico | 4.62 | 4 | Idaho | .202 |
| 5 | Idaho | 3.43 | 5 | Nevada | .184 |
| 6 | Wyoming | 3.31 | 6 | Wyoming | .158 |
| 7 | Arizona | 2.48 | 7 | Utah | .132 |
| 8 | Utah | 2.32 | 8 | Arizona | .128 |
| 9 | California | No tax | 9 | California | No tax |
| 10 | Colorado | No tax | 10 | Colorado | No tax |
| 11 | Oregon | No tax | 11 | Oregon | No tax |
| | Average | 4.23 | | Average | .213 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958, p. 12, and, U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 15.

## Tobacco Tax Administration

Nevada's cigarette tax is administered by the Cigarette and Liquor Tax Division of the Nevada Tax Commission. Although the final burden of the tax is borne largely by the consumer, the tax is initially levied on the wholesalers in the State. Like most states, Nevada collects the tax through the use of cigarette stamps and meter impressions. The administrative simplicity of the tax is evidenced by the fact that there are presently less than 25 wholesalers in the State, and direct shipment of cigarettes for resale can be made only to these licensed wholesalers. (Annual State license fee is $150.)

The Cigarette and Liquor Tax Division administers both cigarette and liquor taxes and since costs are not segregated, it is not possible to precisely determine the administrative costs for each tax exclusively. Combined, however, administrative costs as a percent of total cigarette and liquor tax collections have ranged between 2.2 percent and .89 percent in the past 12 years. (Table 11.15) It has been estimated that approximately half of the expense incurred by the Cigarette and Liquor Tax Division in recent years was due to the collection of the cigarette tax. On this basis, administrative costs have averaged about 1 percent of cigarette tax collections in the past 10 years, reaching a low of .77 percent in fiscal 1959.

This apparent low collection cost compares favorably with administrative costs for cigarette taxes in other states which generally range between 1 and 2 percent.[49] One factor contributing to this low cost in Nevada is the statutory provision which permits the Tax Commission to appoint local authorities to sell stamps and make meter impression readings.[50] At present, only wholesalers in Reno are sold stamps and meter impressions directly by the Cigarette and Liquor Tax Division. The costs incurred by the counties are of course, not reflected in the costs of the Cigarette and Liquor Tax Division. A more significant factor to be considered in evaluating the costs of cigarette tax administration in Nevada, as well as other states, is the practice of allowing discounts to wholesalers, ostensibly for affixing the stamps and meter impressions to cigarette packages. It has been argued that cigarette taxes are not an inexpensive tax to collect, as is often assumed, since the dealer discounts should be included in the costs.[51] Thus, if the 5 percent discount allowed in Nevada is included, administrative costs approximate 6 percent of total cigarette tax collections.

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[49]Law, "Tobacco Taxation in the Revenue System," op. cit., p. 373.

[50]Nevada Revised Statutes, 370.200. As mentioned earlier, counties receive 12.5 percent of the cigarette tax fund.

[51]Law, "Tobacco Taxation in the Revenue System," op. cit., p. 373.

Table 11.15

Nevada Cigarette and Liquor Tax Collections
and Administrative Costs, Fiscal Years 1958-1959

| Year | Liquor and cigarette tax and license revenue | Administrative costs, Cigarette and Liquor Tax Division | Administrative costs as percent of revenue | Cigarette tax and license revenue | Half of administrative costs[a] | Half of administrative costs as percent of cigarette tax and license revenue |
|---|---|---|---|---|---|---|
| 1948 | $ 980,205 | $21,079 | 2.15 | $ 518,515 | $10,540 | 2.03 |
| 1949 | 992,396 | 21,057 | 2.12 | 495,764 | 10,529 | 2.12 |
| 1950 | 1,256,465 | 17,586 | 1.40 | 746,089 | 8,793 | 1.18 |
| 1951 | 1,487,123 | 19,438 | 1.31 | 788,075 | 9,719 | 1.23 |
| 1952 | 1,478,034 | 19,478 | 1.32 | 866,526 | 9,739 | 1.12 |
| 1953 | 1,681,082 | 19,458 | 1.16 | 960,306 | 9,729 | 1.01 |
| 1954 | 1,781,023 | 21,689 | 1.22 | 995,610 | 10,845 | 1.09 |
| 1955 | 1,944,910 | 23,226 | 1.19 | 1,091,316 | 11,613 | 1.06 |
| 1956 | 2,058,105 | 19,054 | .93 | 1,182,612 | 9,527 | .81 |
| 1957 | 2,100,766 | 25,716 | 1.22 | 1,180,367 | 12,858 | 1.09 |
| 1958 | 2,192,685 | 20,542 | .94 | 1,266,889 | 10,271 | .81 |
| 1959 | 2,483,784 | 22,178 | .89 | 1,431,445 | 11,089 | .77 |

[a]Division estimates that one-half of costs due to collection of cigarette tax.

While the allowance of discounts significantly increases the costs of collecting the tax, it seems reasonable since wholesalers not only incur a cost due to the affixing of stamps and meter impressions and submitting the required reports, but also due to the investment required to prepay the tax.[52] The wholesaler must pay the tax when stamps or impressions are affixed and not when the cigarettes are actually sold. It should be noted, however, that similar costs are incurred with regard to other taxes and they are not necessarily reimbursable.

Although the policy of giving discounts may be justified, it is useful to compare Nevada's discount with those in other states. It will be seen in Table 11.16 that the 5 percent discount offered in Nevada is equal to the median discount offered by other states and only slightly above the average of 4.6 percent. It is also meaningful to relate the discount to the rate employed in the state and thereby obtain a monetary amount given for affixing stamps, or impressions, to a given quantity of cigarettes. Thus, Nevada's 5 percent discount, when taken in conjunction with the 3 cent rate, amounts to 1.5 cents for each carton of cigarettes stamped. It will be noted that this amount is below both the average and median amount offered in other states of 2.2 cents and 2 cents respectively.

Another approach to determining the reasonableness of the discount offered is to examine the actual cost incurred by the wholesaler in affixing the stamps or meter impressions. As shown by several studies, however, these costs vary greatly as to geographic location, the size of the distributor, the method employed, and other factors.[53] Moreover, the discount is not only offered for affixing stamps or impressions, but also for other compliance costs.

The purpose of selling stamps is not only to provide a method of collection, but more important, it provides a method of policing the sale of cigarettes on which the tax has not been paid. An alternative method employed by three states (Alaska, Massachusetts and Michigan) as well as the federal government, is simply to require periodic reports from wholesalers, or manufacturers in the case of the federal tax. Records of the firms are then subject to audit. While there is a variety of opinion as to the effectiveness of this method, those states which use it are apparently satisfied with it. In addition, the use of this system was

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[52]The practice of allowing discounts in the case of special excise taxes on other tobacco products appears to be less defensible when stamps are not required. Nevertheless, most states which impose a tax on other tobacco products permit the same discount as that given for cigarettes.

[53]See Report of the Minnesota Tax Study Committee, op. cit., pp. 390-91.

Table 11.16

Cigarette Tax Discounts, by States, 1959

| State | Tax per carton of 200 cigarettes | Discount (percent) | Discount per carton of 200 cigarettes (cents) |
|---|---|---|---|
| Alabama | $.40 | 7.5 | 3.0 |
| Alaska[a] | .50 | 1.0 | 0.5 |
| Arizona | .20 | 5.0 | 1.0 |
| Arkansas | .60 | 6.0 | 3.6 |
| California | .30 | 2.0 | 0.6 |
| Connecticut | .30 | 4.5 | 1.4 |
| Delaware | .30 | 5.0 | 1.5 |
| Florida | .50 | 5.0 | 2.5 |
| Georgia | .50 | 5.6 | 2.8 |
| Idaho | .50 | 5.0 | 2.5 |
| Illinois | .40 | 5.0 | 2.0 |
| Indiana | .30 | 7.5 | 2.3 |
| Iowa | .40 | 5.0 | 2.0 |
| Kansas | .40 | 5.0 | 2.0 |
| Kentucky | .30 | 5.7 | 1.7 |
| Louisiana | .80 | 9.0 | 7.2 |
| Maine | .50 | 3.5 | 1.8 |
| Maryland | .30 | 5.0 | 1.5 |
| Massachusetts[a] | .60 | 2.0[b] | 1.2 |
| Michigan[a] | .50 | 1.0 | 0.5 |
| Minnesota | .55 | 2.5 | 1.4 |
| Mississippi | .60 | 10.0 | 6.0 |
| Missouri | .20 | 5.0 | 1.0 |
| Montana | .80 | 5.0 | 4.0 |
| Nebraska | .40 | 5.0 | 2.0 |
| Nevada | .30 | 5.0 | 1.5 |
| New Hampshire | .30 | 5.0 | 1.5 |
| New Jersey | .50 | 3.0 | 1.5 |
| New Mexico | .50 | 4.0 | 2.0 |
| New York | .50 | 2.4 | 1.2 |
| North Dakota | .60 | 5.0 | 3.0 |
| Ohio | .50 | 3.3 | 1.7 |
| Oklahoma | .50 | 4.0 | 2.0 |
| Pennsylvania | .60 | 4.0 | 2.4 |
| Rhode Island | .50 | 4.0 | 2.0 |
| South Carolina | .50 | 5.0 | 2.5 |
| South Dakota | .50 | 7.0 | 3.5 |
| Tennessee | .50 | 5.0 | 2.5 |
| Texas | .80 | 2.3 | 1.8 |
| Utah | .40 | 5.0 | 2.0 |
| Vermont | .70 | 3.8 | 2.7 |
| Washington | .60 | 3.0 | 1.8 |
| West Virginia | .50 | 4.0 | 2.0 |
| Wisconsin | .50 | 3.8 | 1.9 |
| Wyoming | .40 | 6.0 | 2.4 |
| Average | .47 | 4.6 | 2.2 |
| Median | .50 | 5.0 | 2.0 |

[a]Stamps not required.

[b]Wholesalers, 2 percent; vending machine operators, 1 percent; chain store operators, 1/2 percent.

Source: Compiled from Commerce Clearing House, State Tax Guide: All States, pp. 5521-75; and, National Tobacco Tax Association, Comparative Cigarette Tax Collections, by States for 1958, pp. 6-8.

recently advocated in a comprehensive study of the tax structure in Minnesota.[54] Since Nevada allowed discounts of approximately $75,000 in fiscal year 1959,[55] the adoption of a reporting method could possibly increase State revenues by an equal amount. It would be necessary, however, to eliminate discounts entirely and those states which have adopted this method have continued to offer a 1 or 2 percent discount. Equally important is the assumption that the number of cigarettes escaping taxation would not significantly increase. Such an increase could occur, but to reach significant proportions cigarettes would have to be purchased in another state and illegally transported into Nevada because the Jenkins Act requires interstate distributors to notify taxing authorities of the state into which shipments are being made. Having received reports of interstate shipments, state authorities are then in a position to impose a cigarette use tax such as that employed in Nevada.

While the abandonment of the stamping requirements would probably effect greater State revenue, retailers' stocks could not be inspected for evidence that the cigarette tax had been paid. It is believed by the State Tax Commission authorities that this would create a significant enforcement problem. However, the Cigarette and Liquor Tax Division was decreased from 3 to 2 persons on July 1, 1959, and since that time, the staff has been too small to allow the checking of retailers' stocks. While the use of stamps may offer a certain deterrent to evasion, it would appear that the Cigarette and Liquor Tax Division could justifiably be increased to its previous size which would again permit the checking of retailers' stocks. Whatever the usefulness of the stamping requirements, it is largely lost if retail stocks are not policed, at least to some extent.

As previously discussed, direct interstate shipments to consumers, the major evasion problem of cigarette tax administration, has largely been curtailed by the Jenkins Act.[56] Other evasion problems such as bootlegging, abuse of military exemption, and the bringing of untaxed cigarettes into the state for personal use, appear to be relatively unimportant. There is, of course, more incentive for evasion if the entire tax can be saved, which is possible when a taxing state borders a non-taxing state, as in the case of Nevada and Oregon. Nevertheless, this type of evasion would not appear to be substantial as reflected by consumption data even with

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[54] Ibid., pp. 600-601.

[55] Computed from net collections reported in State of Nevada, Annual Report of the State Controller, 1959, p. 4.

[56] For a complete discussion of the history of tobacco tax evasion in the United States, see Warren A. Law, "Evasion of State Tobacco Taxes," National Tax Journal, June, 1954, pp. 164-76.

its limitations. In general, evasion of the state tobacco taxes seems to be relatively insignificant. The National Tobacco Tax Association estimated that state cigarette tax evasion in 1956 amounted to only 2.4 percent of national consumption figures.[57]

## Potential Revenue of Possible Changes in Nevada

If additional State revenue is desired, several changes in Nevada's tobacco tax would be justified using other states as a guide. The rate of 3 cents per pack could be increased to either 4 cents or 5 cents per pack and an excise could be levied on other tobacco products. Based on 1959 cigarette tax collections in Nevada, a 1 cent increase in the rate would effect additional State revenue of $476,000 while a 2 cent increase would result in greater State revenues of $952,000. Based on per capita collections, the imposition of a tax on other tobacco products similar to that employed in Minnesota (20 percent of wholesale price) would increase State revenues by approximately $90,000. Irrespective of need for additional State revenue, a tax on other tobacco products avoids discrimination between cigarette smokers and consumers of other tobacco products.

If the cigarette tax rate were increased to 4 cents per pack and a tax on other tobacco products were imposed, the additional State revenue of $566,000 would be distributed as follows: $495,250 to State General Fund and $70,750 to the counties.

If the cigarette tax rate were increased to 5 cents per pack and a tax on other tobacco products were imposed, the additional State revenue of $1,042,000 would be distributed as follows: $911,750 to State General Fund and $130,250 to the counties.

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[57]National Tobacco Tax Association, Estimated State Cigarette Tax Evasion in 1956 (Chicago, 1957), p. 1.

# CHAPTER XII

# ALCOHOLIC BEVERAGE TAXATION

## Development and Importance of the Tax

Alcoholic beverages are subject to special taxation by the federal government, all fifty states, the District of Columbia, and numerous local taxing jurisdictions. Public revenues in the form of excise taxes, license fees, import duties, and profits from state operated stores exceeded $4 billion in 1958. Of this total, the federal government collected three-fourths and the states and local governments collected the remainder.[1]

State taxation of alcoholic beverages varies greatly but states may be classified broadly as "dry," "license," or "monopoly" states. Mississippi is presently the only dry state, restricting the sale of alcoholic beverages to light beer containing 4 percent or less alcohol.[2] There are 32 license states, including Alaska and Hawaii, wherein the sale of alcoholic beverages is regulated through the issuance of licenses and permits. The remaining states exercise control over some marketing phase of alcoholic beverages, usually the operation of retail package liquor stores. Private concerns in these states are generally allowed to operate "on-sale" establishments.

The federal government and the license states impose specific taxes on spirits, beer, and wine, while monopoly states usually tax these commodities on an ad valorem basis.

## Consumption of Alcoholic Beverages

The widespread reliance placed on alcoholic beverage taxation by various jurisdictions necessitates a brief discussion of the long-run consumption patterns of these products. Table 12.1 shows that per capita consumption of alcoholic beverages has been subject to marked fluctuations which reflect changing social customs, variations in the levels of income, the occurrence of national crises, and a multitude of other factors.

The long-run decline in the per capita consumption of spirits and the increase in beer and wine consumption are notable. The consumption of both spirits and beer rose steadily during the period

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[1]Distilled Spirits Institute, Public Revenues from Alcoholic Beverages, 1958, p. 7.

[2]Commerce Clearing House, State Tax Guide: All States, p. 3550.

Table 12.1

Per Capita Consumption of Alcoholic Beverages, United States, Selected Years 1850-1958

| Year | Spirits (gallons) | Malt Liquors (gallons) | Wine (gallons) |
|---|---|---|---|
| 1850 | 2.24 | 1.58 | .27 |
| 1870 | 2.07 | 5.31 | .32 |
| 1915 | 1.26 | 18.40 | .33 |
| 1930 | .08 | 0.00 | .03 |
| 1935 | .70 | 10.45 | .30 |
| 1940 | 1.02 | 12.58 | .66 |
| 1945 | 1.22 | 18.86 | .73 |
| 1950 | 1.02 | 17.26 | .93 |
| 1952 | 1.00 | 16.94 | .85 |
| 1954 | 1.12 | 16.68 | .86 |
| 1956 | 1.13 | 16.04 | .89 |
| 1958 | 1.12 | 15.22 | .89 |

Source: U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States: 1959, p. 804.

from the repeal of national prohibition to the end of World War II. However, consumption of the former declined to a post-war low in 1952, rose in 1954, and has remained fairly stable since then. In contrast, the consumption of beer has declined continuously since it reached an all-time high of almost 19 gallons per capita in 1945. Consumption of wine, on a per capita basis, generally increased until 1950 and has shown a moderate decline since that time.

## Alcoholic Beverage Taxation by the Federal Government

A federal excise tax on distilled spirits was first levied in 1791 and was the "first form of internal duty laid in the United States."[3] After several unsuccessful impositions the tax was again enacted in 1862 and has been in effect since that date. The outstanding role of the federal liquor tax is shown in Table 12.2, which presents collections and prevailing rates since the turn of the century. Although liquor tax receipts once accounted for over 70 percent of total internal revenue collections, increased reliance on federal income taxes has reduced liquor tax receipts to less than 4 percent of internal revenue collections. Federal liquor taxes, however, were approximately $3 billion in fiscal 1958. Moreover, the tax rate of

[3]Tun Yuan Hu, The Liquor Tax in the United States, 1791-1947 (New York: Columbia University Press, 1950), p. 11.

$10.50 per gallon represents more than a three-fold increase over the levy employed in 1940 and is significantly higher than the rates imposed by any of the states.

Table 12.2

Federal Tax Collections, Liquor Tax Collections and Rates
Selected Fiscal Years 1900-1958

| Year[a] | Total internal revenue collections (millions) | Liquor tax collections (millions) | Liquor tax collections as percent of total collections | Prevailing liquor tax rate per proof gallon |
|---|---|---|---|---|
| 1900 | $ 295.3 | $ 183.4 | 62.1 | $ 1.10 |
| 1910 | 290.0 | 208.6 | 71.9 | 1.10 |
| 1919 | 3,850.2 | 483.1 | 12.5 | 6.40 |
| 1932 | 1,557.8 | 8.7 | .6 | 6.40 |
| 1935 | 3,281.8 | 410.9 | 12.5 | 2.00 |
| 1938 | 5,643.8 | 567.7 | 10.1 | 2.25 |
| 1940 | 5,322.8 | 624.1 | 11.7 | 3.00 |
| 1942 | 13,029.9 | 1,048.2 | 8.0 | 4.00 |
| 1944 | 40,119.5 | 1,618.0 | 4.0 | 9.00 |
| 1946 | 40,671.9 | 2,526.2 | 6.2 | 9.00 |
| 1948 | 41,864.5 | 2,255.3 | 5.4 | 9.00 |
| 1950 | 38,957.1 | 2,219.2 | 5.7 | 9.00 |
| 1952 | 65,009.4 | 2,549.1 | 3.9 | 10.50 |
| 1954 | 69,920.0 | 2,783.0 | 4.0 | 10.50 |
| 1956 | 75,112.6 | 2,920.6 | 3.9 | 10.50 |
| 1958 | 79,978.5 | 2,946.5 | 3.7 | 10.50 |

[a]Years prior to 1938 selected to show general trend and effects of prohibition.

Source: U. S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States, p. 302; U. S. Department of Commerce, Bureau of the Census, Continuation to 1952 of Historical Statistics of the United States, p. 38; Commissioner of Internal Revenue, Annual Reports, 1954, p. 76, 1956, p. 99, and 1958, p. 105; Tun Yuan Hu, The Liquor Tax in the United States, 1791-1947 (New York: Columbia University Press, 1950), Appendix II; and, Distilled Spirits Institute, Annual Statistical Review, 1958, pp. 4-5.

## Alcoholic Beverage Taxation by the States

Although states collected liquor license fees and occupation taxes prior to national prohibition, it was not until 1933 that excise taxes

were imposed. The year in which the license states first imposed excise taxes and adopted the license form of regulation is shown in the following tabulation:[4]

| | | | |
|---|---|---|---|
| 1933 | Arizona | Indiana | New York |
| | California | Maryland | Rhode Island |
| | Colorado | Massachusetts | Wisconsin |
| | Connecticut | New Jersey | |
| | Delaware | New Mexico | |
| 1934 | Florida | Kentucky | Minnesota |
| | Illinois | Louisiana | Missouri |
| 1935 | Arkansas | Nevada | South Dakota |
| | Nebraska | South Carolina | Texas |
| 1936 | North Dakota | | |
| 1938 | Georgia | | |
| 1939 | Tennessee | | |
| 1949 | Kansas | | |
| 1959 | Oklahoma | | |

The large majority of the license states first levied a liquor tax between 1933 and 1936. Following repeal of prohibition three states (Kansas, Mississippi, and Oklahoma) elected to remain "dry." Kansas and Oklahoma became license states in 1949 and 1959, respectively. On the other hand, 17 other states elected the monopoly method following repeal of prohibition. The adoption of the monopoly system by 6 of the 11 Western States is also notable. With the exception of Kansas and Oklahoma the pattern of control established shortly after repeal has been unaltered since the 1930's. No license states have become monopoly states, although the change has occasionally been suggested, nor have any monopoly states adopted the license system of control.

The reasons for election and retention of the monopoly system are numerous. Adoption by certain states may be explained by their nearness to Canada where a monopoly system was in effect at the time. In addition, it has been contended that the monopoly system is more desirable since it eliminates the private profit motive, provides a more effective control on underage drinking and "bootlegging," and

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[4]Distilled Spirits Institute, Annual Statistical Review, 1958, pp. 4-5; and, Commerce Clearing House, State Tax Guide: All States, pp. 3993-3994.

brings greater revenue to the state treasury.[5] While there may be fiscal advantages to the monopoly system, other advantages are substantially more controversial. Moreover, consideration of such a system in Nevada is precluded by the prevailing laissez-faire attitude and the questionable enforcement of such a system in conjunction with legalized gambling.[6]

## Rationale of the Tax

A tax on alcoholic beverages may be considered a sumptuary excise since the traditional rationale is that consumption of alcoholic beverages can and should be discouraged by the imposition of a special tax. Alcoholic beverages, as well as tobacco products, appear to be socially undesirable but not "sufficiently objectionable to require outright prohibition."[7] While one might question such non-revenue use of the tax system, it is more meaningful to question that such a tax will in fact significantly discourage liquor consumption. It must first be assumed that the increased tax will make its way to the consumer in the form of higher prices. This may generally be true although competitive conditions may be such that the tax will be partially absorbed or it may be passed backward in the form of lower prices to suppliers or the factors of production.[8] Assuming that the tax is borne by the consumer, there is ample evidence which

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[5]For a complete discussion of the monopoly method of liquor control, see Roy and Gladys Blakey, Sales Taxes and Other Excises (Chicago: Public Administration Service, 1945), pp. 96-100; Jacob B. Taylor, The Monopoly Liquor Control: An Appraisement, After Seven Years (Columbus, Ohio: National Alcoholic Beverage Control Association, 1941); Glenn D. Morrow and Orba F. Traylor, State Liquor Monopoly or Private Licensing (Frankfort, Kentucky, 1940); and J. E. Eubanks, Ben Tillman's Baby: The Dispensary System of South Carolina (Augusta, Georgia, 1950).

[6]A complete interstate comparison of liquor tax rates and revenues for the license states is undertaken in a later section of this chapter. Due to numerous major differences between license and monopoly states, comparisons are necessarily confined to the license states only.

[7]John F. Due, "Federal Excise Taxation," Bulletin of the National Tax Association, December, 1947, p. 67.

[8]Offsetting any such exceptional cases would be the tendency for "pyramiding" of the tax, i.e., percentage markups made during various stages of the marketing process which actually result in a price increase in excess of the original tax.

shows that consumption is not greatly affected.[9] Although alcoholic beverage taxes have been increased significantly in the past two decades, particularly the federal tax, per capita consumption generally has risen over the same period.

Closely related to the sumptuary rationale is the contention that alcoholic beverages are a luxury and should therefore be subjected to a special excise. This approach may have some merit but it should be noted that distinctions between luxuries and necessities are quite tenuous and largely a matter of personal tastes. Thus, evolving a tax structure on the basis of personal preferences should be done with reluctance, as such a system would be arbitrary and discriminatory.

A cost theory has occasionally been used in an attempt to justify an excise on alcoholic beverages. Since the consumption of liquor may be detrimental not only to the individual but also involves social costs in the form of increased police protection, welfare expenditures, and so forth, it is reasonable to expect the consumers of alcoholic beverages to pay special taxes to support these added costs. A limitation of this concept, as is true of most cost theories, is that social costs cannot be measured adequately and therefore the extent to which such taxes cover these costs is largely unknown.

The most common indictment made against the liquor tax is that it is regressive, that is, a higher proportion of income is taken from the lower income group than from the higher income group. This regressivity is due primarily to the fact that higher income groups do not consume as much liquor in relation to their income as do lower income groups. An additional factor is the common use of specific rates which results in the consumers' incurring the same monetary tax burden irrespective of the selling price of the beverage.

It has been contended that the regressivity of a particular tax may be extenuated if the tax structure is viewed in total. According to this reasoning, the regressivity of a given tax may be offset by a progressive tax and therefore the tax structure in total remains progressive or at least proportional. There are, however, few progressive taxes which could offset regressive levies such as the liquor tax. Moreover, this argument implies that some taxes are excessively progressive, and if this is true it would seem more logical to decrease such progressiveness directly rather than attempt to offset it with regressive taxes.

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[9]In more technical terms, the sumptuary effectiveness of liquor taxes will depend on the price elasticity of the demand for alcoholic beverages, i.e., the decrease in the quantity of liquor purchased as a result of the increased price. Several studies show that the price elasticity of alcoholic beverages is extremely low. See J. P. McKenna and F. M. Boddy, "How Bad Are Liquor Taxes?" Proceedings of the National Tax Association (Louisville, Kentucky, 1953), p. 31.

A common criterion for measuring the desirability of a tax is the effect it has on the allocation of resources in an economy. The extent to which alcoholic beverage taxes do in fact distort resource allocation may be debatable, but there is undoubtedly more distortion than would be present if the same amount of revenue were raised through a direct tax such as an income tax. However, the traditional rationale for the liquor tax is that it will discourage the consumption of alcoholic beverages and thus change the allocation of resources. Nevertheless, any such attempt at guiding public expenditures patterns may result in unexpected misallocation of resources because consumers may not curtail their purchases of liquor but instead decrease their purchases of other commodities, perhaps so-called necessities, in order to meet the higher price of liquor occasioned by the tax.

Although the low responsiveness of the demand for liquor to price changes may defeat the sumptuary rationale, this characteristic is desirable from a fiscal standpoint since the tax base is not destroyed by curtailed purchases when the excise is imposed. Thus, historically, the liquor tax has fulfilled the criterion of adequacy.[10] The consumption of alcoholic beverages also tends to be unresponsive to changes in aggregate income, and therefore also provides a relatively stable source of revenue in periods of economic fluctuations.

The "hidden" manner in which liquor taxes are imposed may be subject to criticism in that it creates an unawareness as to the extent of taxation. This technique, however, may be desirable from the standpoint of being relatively "painless" and therefore politically popular as well as meeting the test of convenience. This also results in administrative ease, especially for the federal tax which is levied on manufacturers. Evasion of the tax through illegal production is considered to be the major administrative problem of the liquor tax and this appears to be due more to the high federal rate than to the nature of the tax itself.[11]

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[10]It should be noted that one cannot logically argue that liquor taxes will both decrease consumption and also provide a high yield, since the success of one objective necessarily defeats the other.

[11]For a complete discussion of the extent of illicit liquor traffic in the United States, see the roundtable discussion, "The Federal Whiskey Tax Rebellion," Proceedings of the National Tax Association (Louisville, Kentucky, 1953), pp. 3-40.

## Taxation of Alcoholic Beverages in Nevada

### General Features of the Present Tax

Nevada presently imposes excise taxes on four types of alcoholic beverages--spirits, fortified wine, light wine, and malt beverages. The tax rates per gallon or proportionate part thereof are as follows:[12]

| | |
|---|---|
| Spirits (liquor containing more than 22% alcohol) | $.80 |
| Fortified Wine (wine containing 14 to 22% alcohol) | .25 |
| Light Wine (wine containing up to 14% alcohol) | .15 |
| Malt Beverages | .03 |

The tax is levied on the first handler in the State, who is required to report all importations from other states to the administrative agent, the Nevada Tax Commission. In addition, the Tax Commission receives reports from other states regarding shipments into Nevada. Although the tax is levied on the first handler it is generally passed forward in the form of higher prices.

Closely related to the nominal rates is the statutory provision which permits importers a 2 percent discount if the tax is paid by the 15th day of the month following importation. A refund of up to 35 percent of the tax is also allowed if it is shown that more than 35 percent of the imports were exported or sold outside the State.

Liquor tax receipts collected by the Tax Commission are deposited to the Liquor Tax Fund and after refunds have been made the balance is transferred quarterly to the General Fund.

Unlike many states, Nevada licenses only manufacturers, importers, and wholesalers, leaving regulation and licensing of retailers to local government units. The schedule for annual State licenses is as follows:[13]

| | |
|---|---|
| Importer's wine, beer, and liquor license | $500 |
| Importer's beer license | 150 |
| Wholesaler's wine, beer, and liquor license | 250 |
| Wholesaler's beer license | 75 |
| Wine manufacturer's and wholesaler's license (products derived entirely from Nevada-grown grapes) | 15 |

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[12] Nevada Revised Statutes, 369.330.

[13] Nevada Revised Statutes, 369.300.

In a later section of this chapter Nevada's tax rates and revenues are compared with those in other states. License fees, however, cannot be adequately compared since they are issued largely for regulatory purposes in some states and for revenue purposes in other states. Numerous other differences, such as local licensing, also exist.

Alcoholic beverages in Nevada, as well as many other states, are included in the sales tax base.

## History of Liquor Taxation in Nevada

Nevada's present liquor tax dates back to 1935.[14] In the original act the gallonage tax rates were as follows: Spirits, $.40; fortified wine, $.20; light wine, $.10; and malt beverages, $.02.

The Stamp Act of 1935 was replaced in 1945 by the Nevada Excise Liquor Law. Rates were raised at that time to the following: Spirits, $.60; fortified wine, $.25; light wine, $.15; and malt beverages, $.03.[15]

The last rate change was made in 1947 when the rate on spirits was increased from $.60 to $.80 per gallon.[16]

Other major changes were the abandonment of stamps in 1945; an increase in license fees to their present level in 1945; the abandonment of an administrative fund equal to 5 percent of receipts and adoption of a budget fund appropriation in 1949; and, adoption of the 2 percent discount in 1955.

In summary, Nevada's liquor tax rates and license fees have not been changed since 1945, with the exception of a minor rate increase for spirits in 1947.

## Revenue Trends

As shown in Table 12.3, combined liquor licenses and taxes in Nevada increased from less than $200,000 in 1936, the first full year of operation, to over $1 million in fiscal year 1959. However, license revenues which constituted approximately 9 percent of the total in 1936 have decreased in relative importance and by 1959 amounted to less than 2 percent of the total State liquor license and tax collections.

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[14] Statutes of Nevada, 1935, p. 345. Prior to prohibition, Nevada collected a small amount of revenue in the form of State liquor licenses.

[15] Statutes of Nevada, 1945, p. 380.

[16] Statutes of Nevada, 1955, p. 464.

Liquor license and tax revenue accounted for over 5 percent of the State's tax collections in 1949 but had declined to less than 3 percent in 1959, with increasing reliance being placed on the sales and gaming taxes.

Table 12.3

Liquor License and Tax Collections, Nevada, Fiscal Years 1935-1959

| Year | Liquor licenses | Liquor taxes | Liquor licenses and taxes | Liquor licenses and taxes as percent of total taxes[a] |
|---|---|---|---|---|
| 1935 | $10,885 | $ 35,437 | $ 46,322 | -- |
| 1936 | 15,942 | 162,784 | 178,726 | -- |
| 1937 | 16,111 | 187,477 | 203,588 | -- |
| 1938 | 16,092 | 184,051 | 200,143 | -- |
| 1939 | 14,742 | 179,934 | 194,676 | -- |
| 1940 | 12,992 | 199,303 | 212,295 | -- |
| 1941 | 11,597 | 204,995 | 216,592 | -- |
| 1942 | 11,215 | 252,697 | 263,912 | -- |
| 1943 | 13,204 | 366,123 | 379,327 | -- |
| 1944 | 19,603 | 351,457 | 371,060 | -- |
| 1945 | 19,112 | 455,122 | 474,234 | -- |
| 1946 | 22,764 | 506,417 | 529,181 | -- |
| 1947 | 22,212 | 519,937 | 542,149 | -- |
| 1948 | 21,824 | 439,866 | 461,690 | -- |
| 1949 | 19,564 | 477,068 | 496,632 | 5.7 |
| 1950 | 18,565 | 491,811 | 510,376 | 5.2 |
| 1951 | 18,829 | 680,219 | 699,048 | 6.0 |
| 1952 | 18,751 | 592,757 | 611,508 | 4.9 |
| 1953 | 18,424 | 702,352 | 720,776 | 4.8 |
| 1954 | 16,324 | 769,089 | 785,413 | 5.0 |
| 1955 | 16,851 | 836,743 | 853,594 | 4.7 |
| 1956 | 17,894 | 857,599 | 875,493 | 3.9 |
| 1957 | 19,407 | 900,992 | 920,399 | 2.8 |
| 1958 | 16,713 | 909,083 | 925,796 | 2.6 |
| 1959 | 17,810 | 1,034,529 | 1,052,339 | 2.9 |

[a]Total taxes not classified prior to 1949.

Source: Compiled from State of Nevada, Annual Report of the State Controller, 1935-1959.

Liquor tax collections by type of commodity are shown in Table 12.4 for the past decade on a calendar year basis. It will be noted that spirits accounted for only 67 percent of the liquor tax revenue in 1949, but represented nearly 74 percent in 1959. The percent accounted for by wine declined somewhat and the percent accounted for by malt beverages fell from about 21 percent in 1949 to 17 percent in 1959. The increasing importance of spirits in the liquor tax base is due in part to the increased tourist industry and the tendency of the tourist to consume more liquor than wine or beer.

Table 12.4

Nevada Spirits, Wine, and Beer Tax Collections,
Calendar Years 1949-1959[a]

| Year | Spirits | % | Light wine | % | Fortified wine | % | Beer | % | Total | % |
|---|---|---|---|---|---|---|---|---|---|---|
| 1949 | $321,030 | 67.3 | $16,096 | 3.4 | $39,164 | 8.2 | $100,804 | 21.1 | $ 477,094 | 100.0 |
| 1950 | 425,190 | 71.0 | 18,493 | 3.1 | 44,303 | 7.4 | 111,106 | 18.5 | 599,092 | 100.0 |
| 1951 | 470,817 | 73.2 | 17,548 | 2.7 | 38,058 | 5.9 | 117,016 | 18.2 | 643,439 | 100.0 |
| 1952 | 448,669 | 69.4 | 18,959 | 2.9 | 48,349 | 7.5 | 130,839 | 20.2 | 646,816 | 100.0 |
| 1953 | 525,062 | 70.4 | 21,581 | 2.9 | 50,676 | 6.8 | 148,095 | 19.9 | 745,414 | 100.0 |
| 1954 | 549,558 | 70.0 | 25,205 | 3.2 | 54,077 | 6.9 | 156,546 | 19.9 | 785,386 | 100.0 |
| 1955 | 613,324 | 71.1 | 27,954 | 3.2 | 56,139 | 6.5 | 165,090 | 19.1 | 862,507 | 100.0 |
| 1956 | 619,762 | 71.8 | 27,589 | 3.2 | 54,632 | 6.3 | 161,351 | 18.7 | 863,334 | 100.0 |
| 1957 | 676,784 | 72.7 | 31,719 | 3.4 | 57,598 | 6.2 | 164,267 | 17.7 | 930,368 | 100.0 |
| 1958 | 710,500 | 73.2 | 33,633 | 3.5 | 55,080 | 5.7 | 171,182 | 17.6 | 970,395 | 100.0 |
| 1959 | 804,829 | 73.6 | 40,522 | 3.7 | 58,952 | 5.4 | 188,686 | 17.3 | 1,092,989 | 100.0 |

[a]Data do not reflect minor adjustment for delinquent accounts.

Source: Nevada Tax Commission, Liquor Tax Division, "Report of Imports of Beer, Wine, and Liquors," 1949-1959.

## Tourism and the Liquor Tax

While it is not possible to estimate precisely the proportion of the liquor tax revenues which may be attributed to tourists, an approximation may be obtained by estimating the amount accounted for by residents and attributing to tourists the difference between this amount and the amount actually collected. Thus, assuming that Nevada residents consumed a per capita quantity of alcoholic beverages equal to the apparent consumption in California, the following distribution of the liquor tax collections in calendar year 1958 may be estimated:[17]

| | | |
|---|---|---|
| Accounted for by residents | $ 589,121 | 53.9% |
| Accounted for by tourists | 503,868 | 46.1 |
| Total | $1,092,989 | 100.0% |

The assumption that Nevada residents consume an amount equal to apparent consumption in California is reasonable because while Nevada residents may actually consume somewhat more, it is easily offset by the fact that the California apparent consumption figure includes the tourist factor in that State.

As long as the tourist industry continues to grow at a rate faster than resident population, the proportion of the liquor tax revenue accounted for by tourists will continue to rise.

## Interstate Comparisons

The license states generally follow the pattern of Nevada and impose alcoholic beverage tax rates graduated according to alcoholic content although some states do not distinguish between light and fortified wine.

Many states also include alcoholic beverages in the sales tax base. Of the 32 license states, 22 impose a sales tax and of these, only 4 states exempt alcoholic beverages from the base. Although such inclusion is common, it is subject to the charge of being a "layered tax," that is, a tax on a tax. For example, a typical fifth of spirits selling for approximately $5.00 reflects over $2.00 in federal and state excise taxes. Therefore, if the sales tax is applied to the selling price it is in part a tax on a tax. While this may not be desirable, it is not an uncommon occurrence when a sales tax is utilized, and the total burden should be considered, not just the base of the tax.

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[17] Compiled from U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Population Estimates, Series P-25, No. 189, November 13, 1958, p. 3; and Distilled Spirits Institute, Public Revenues from Alcoholic Beverages, 1958, p. 19.

## Interstate Comparison of Revenues

Alcoholic beverage tax collections for the license states are shown in Table 12.5. It will be noted that in fiscal 1958, the last year for which complete data are available, there were only 29 license states. Oklahoma, Alaska, and Hawaii have since become license states. Florida, in 1958, placed the greatest reliance on liquor taxes which accounted for over 9 percent of the State's total tax revenues.

Table 12.5

Alcoholic Beverage Tax Collections, License States, Fiscal Year 1958

| Rank | State | Alcoholic Beverage Tax Collections | |
|---|---|---|---|
| | | Amount (thousands) | Percent of total tax collections |
| 1 | Florida | $40,335 | 9.24 |
| 2 | Kentucky | 15,897 | 7.67 |
| 3 | South Carolina | 12,924 | 6.99 |
| 4 | New Jersey | 19,092 | 6.61 |
| 5 | Massachusetts | 23,858 | 5.75 |
| 6 | Georgia | 18,085 | 5.70 |
| 7 | South Dakota | 2,288 | 5.08 |
| 8 | North Dakota | 2,832 | 5.06 |
| 9 | Louisiana | 19,002 | 4.99 |
| 10 | Minnesota | 15,015 | 4.70 |
| 11 | Texas | 30,527 | 4.58 |
| 12 | Arkansas | 5,465 | 3.87 |
| 13 | New York | 52,897 | 3.52 |
| 14 | Indiana | 13,027 | 3.51 |
| 15 | Rhode Island | 2,451 | 3.51 |
| 16 | Nebraska | 2,815 | 3.43 |
| 17 | Illinois | 25,137 | 3.42 |
| 18 | Maryland | 8,617 | 3.41 |
| 19 | Wisconsin | 12,479 | 3.36 |
| 20 | Connecticut | 6,728 | 3.08 |
| 21 | Kansas | 5,064 | 3.01 |
| 22 | Tennessee | 7,981 | 2.96 |
| 23 | Delaware | 1,507 | 2.81 |
| 24 | Arizona | 3,086 | 2.75 |
| 25 | Colorado | 4,504 | 2.72 |
| 26 | Nevada | 909 | 2.47 |
| 27 | California | 38,655 | 2.31 |
| 28 | Missouri | 5,816 | 2.08 |
| 29 | New Mexico | 1,970 | 1.86 |
| | Average | -- | 4.15 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958, pp. 11-12; and Commerce Clearing House, State Tax Guide: All States, pp. 6051-6146.

Nevada's liquor tax collections were only about 2.5 percent of total tax revenues as compared to the average for the license states of 4.2 percent. Moreover, it will be noted that Nevada's collections as a percent of total tax revenue ranked the State 26th, only 3 states collecting a smaller proportion of their total taxes in the form of alcoholic beverage tax receipts. Although Nevada ranked below most states, there is substantially more tourism in relation to the population in Nevada than in many of the higher ranking states.

Table 12.6 shows alcoholic beverage tax collections for 1958 on a per capita basis, and as a percent of personal income received in the license states. It will be noted that Nevada's liquor tax collections on a per capita basis were $3.40 compared to an average of $3.54 for the license states. This figure ranked Nevada ninth among the 29 license states. Conclusions founded on liquor tax collections reduced to a per capita basis should be accepted with caution for a state such as Nevada which is characterized by a high degree of tourism. Although a large portion of Nevada's liquor taxes are paid by tourists, the figure shown on a per capita basis assumes the entire amount was paid by residents and is therefore significantly distorted.

It is only slightly more meaningful to reduce liquor tax collections to a percent of personal income. Nevertheless, it will be noted that Nevada's collections as a proportion of personal income were only .133 percent compared to the average for the license states of .192 percent. Moreover, the State was ranked only seventeenth among the 29 license states.

## Interstate Comparison of Tax Rates

Alcoholic beverage tax rates by type of commodity are shown for the 32 license states in Table 12.7. Nevada's rate for spirits of $.80 per gallon is less than half the average for the license states of $1.70 per gallon.

It will be noted that wine and beer rates are characterized by very great extremes. The highest light wine rate is $1.08 and the lowest is $.01; the highest fortified wine rate is $1.40 and the lowest is $.02; and the highest beer rate is $.45 while the lowest is $.02. Considering these wide extremes the medians shown in the table would appear to be more meaningful measures of central tendency for wine and beer rates. Compared with the median rates for the license states, Nevada's wine rates are somewhat low, and the State's beer rate is less than half the median rate of $.065 per gallon. Nevada's wine and beer rates compare even less favorably with the average for the license states.

The same rates discussed above are shown in Table 12.8 with the states ranked. It will be noted that only one state, South Dakota, imposes a lower rate on spirits than does Nevada. Wine rates in Nevada rank the State somewhat higher, but only two states impose a lower rate on malt beverages than the $.03 per gallon levied in Nevada.

Table 12.6

Comparative Alcoholic Beverage Tax Collections on Per Capita Basis and as Percent of Personal Income, 29 License States, Fiscal Year 1958

| Per capita alcoholic beverage tax collections | | | Alcoholic beverage tax collections as percent of personal income, and rank | | |
|---|---|---|---|---|---|
| Rank | State | Amount | Rank | State | Percent |
| 1 | Florida | $9.08 | 1 | Florida | .484 |
| 2 | Louisiana | 6.11 | 2 | South Carolina | .441 |
| 3 | South Carolina | 5.38 | 3 | Louisiana | .388 |
| 4 | Kentucky | 5.16 | 4 | Kentucky | .369 |
| 5 | Massachusetts | 4.91 | 5 | Georgia | .319 |
| 6 | Georgia | 4.74 | 6 | North Dakota | .257 |
| 7 | Minnesota | 4.45 | 7 | Arkansas | .252 |
| 8 | North Dakota | 4.36 | 8 | Minnesota | .232 |
| 9 | Nevada | 3.40 | 9 | Massachusetts | .205 |
| 10 | Delaware | 3.32 | 10 | South Dakota | .199 |
| 11 | New Jersey | 3.32 | 11 | Texas | .179 |
| 12 | South Dakota | 3.27 | 12 | Wisconsin | .164 |
| 13 | New York | 3.26 | 13 | Tennessee | .160 |
| 14 | Texas | 3.26 | 14 | Indiana | .143 |
| 15 | Wisconsin | 3.17 | 15 | Rhode Island | .143 |
| 16 | Arkansas | 3.09 | 16 | Arizona | .140 |
| 17 | Maryland | 2.92 | 17 | Nevada | .133 |
| 18 | Connecticut | 2.91 | 18 | New Jersey | .132 |
| 19 | Indiana | 2.84 | 19 | Maryland | .131 |
| 20 | Rhode Island | 2.80 | 20 | Colorado | .129 |
| 21 | Arizona | 2.71 | 21 | New Mexico | .127 |
| 22 | California | 2.70 | 22 | New York | .126 |
| 23 | Colorado | 2.63 | 23 | Delaware | .120 |
| 24 | Illinois | 2.54 | 24 | Kansas | .120 |
| 25 | Kansas | 2.39 | 25 | California | .105 |
| 26 | New Mexico | 2.34 | 26 | Illinois | .104 |
| 27 | Tennessee | 2.30 | 27 | Connecticut | .103 |
| 28 | Nebraska | 1.93 | 28 | Nebraska | .102 |
| 29 | Missouri | 1.36 | 29 | Missouri | .067 |
| | Average | 3.54 | | Average | .192 |

Source: Compiled from U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 15; and, U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958, p. 12.

Table 12.7

Alcoholic Beverage Tax Rates: 32 License States, January, 1960

| State[a] | Spirituous liquor (per gallon) | Wine[b] Light (per gallon) | Wine[b] Fortified (per gallon) | Malt beverages (per gallon) |
|---|---|---|---|---|
| Alaska | $3.50 | $ .50 | $ .50 | $.250 |
| Arizona | 1.20 | .36 | .36 | .075 |
| Arkansas | 2.50 | .75 | .75 | .156 |
| California | 1.50 | .01 | .02 | .040 |
| Colorado | 1.80 | .20 | .30 | .060 |
| Connecticut | 1.00 | .10 | .10 | .033 |
| Delaware | 1.15 | .35 | .35 | .065 |
| Florida | 2.17 | 1.00 | 1.40 | .240 |
| Georgia | 1.00 | .20 | .50 | .029 |
| Illinois | 1.52 | .23 | .60 | .060 |
| Indiana | 2.08 | .40 | .40 | .088 |
| Kansas | 1.00 | .15 | .40 | .100 |
| Kentucky | 1.28 | .50 | .50 | .081 |
| Louisiana | 1.68 | .11 | .21 | .323 |
| Maryland | 1.50 | .20 | .20 | .030 |
| Massachusetts | 2.25 | .30 | .30 | .065 |
| Minnesota | 2.88 | .23 | .69 | .119 |
| Missouri | .80 | .02 | .10 | .020 |
| Nebraska | 1.20 | .20 | .55 | .040 |
| Nevada | .80 | .15 | .25 | .030 |
| New Jersey | 1.50 | .10 | .10 | .033 |
| New Mexico | 1.30 | .30 | .30 | .050 |
| New York | 1.50 | .10 | .10 | .033 |
| North Dakota | 2.50 | .50 | .60 | .160 |
| Oklahoma | 2.40 | .36 | .50 | .323 |
| Rhode Island | 1.50 | .20 | .20 | .032 |
| South Carolina | 2.72 | 1.08 | 1.08 | .450 |
| South Dakota | .75 | .15 | .30 | .065 |
| Tennessee | 2.00 | .70 | .70 | .110 |
| Texas | 1.68 | .13 | .26 | .149 |
| Wisconsin | 2.00 | .15 | .30 | .032 |
| Average | 1.70 | .31 | .42 | .108 |
| Median | 1.50 | .20 | .35 | .065 |

[a]Hawaii imposes a tax on alcoholic beverages of 16 percent of wholesale price.

[b]For purposes of this table, "light wine" is wine containing not more than 14 percent alcohol and "fortified wine" contains more than 14 percent alcohol.

Source: Commerce Clearing House, State Tax Guide: All States, pp. 3522-3994.

Table 12.8

Alcoholic Beverage Tax Rates: 32 License States, Ranked, January, 1960

| Spirituous Liquor | | Light Wine[b] | | Fortified Wine[b] | | Malt Beverages | |
|---|---|---|---|---|---|---|---|
| State[a] | Per gal. | State | Per gal. | State | Per gal. | State | Per gal. |
| Alaska | $3.50 | S. Car. | $1.08 | Fla. | $1.40 | S. Car. | $.450 |
| Minn. | 2.88 | Fla. | 1.00 | S. Car. | 1.08 | La. | .323 |
| S. Car. | 2.72 | Ark. | .75 | Ark. | .75 | Okla. | .323 |
| Ark. | 2.50 | Tenn. | .70 | Tenn. | .70 | Alaska | .250 |
| N. Dak. | 2.50 | Alaska | .50 | Minn. | .69 | Fla. | .240 |
| Okla. | 2.40 | Ky. | .50 | Ill. | .60 | N. Dak. | .160 |
| Mass. | 2.25 | N. Dak. | .50 | N. Dak. | .60 | Ark. | .156 |
| Fla. | 2.17 | Ind. | .40 | Nebr. | .55 | Texas | .149 |
| Ind. | 2.08 | Ariz. | .36 | Alaska | .50 | Minn. | .119 |
| Tenn. | 2.00 | Okla. | .36 | Ga. | .50 | Tenn. | .110 |
| Wisc. | 2.00 | Del. | .35 | Ky. | .50 | Kans. | .100 |
| Colo. | 1.80 | Mass. | .30 | Okla. | .50 | Ind. | .088 |
| La. | 1.68 | N. Mex. | .30 | Ind. | .40 | Ky. | .081 |
| Texas | 1.68 | Ill. | .23 | Kans. | .40 | Ariz. | .075 |
| Ill. | 1.52 | Minn. | .23 | Ariz. | .36 | Del. | .065 |
| Calif. | 1.50 | Colo. | .20 | Del. | .35 | Mass. | .065 |
| Md. | 1.50 | Ga. | .20 | Colo. | .30 | S. Dak. | .065 |
| N. J. | 1.50 | Md. | .20 | Mass. | .30 | Colo. | .060 |
| N. Y. | 1.50 | Nebr. | .20 | N. Mex. | .30 | Ill. | .060 |
| R. I. | 1.50 | R. I. | .20 | S. Dak. | .30 | N. Mex. | .050 |
| N. Mex. | 1.30 | Kans. | .15 | Wisc. | .30 | Calif. | .040 |
| Ky. | 1.28 | Nev. | .15 | Texas | .26 | Nebr. | .040 |
| Ariz. | 1.20 | S. Dak. | .15 | Nev. | .25 | Conn. | .033 |
| Nebr. | 1.20 | Wisc. | .15 | La. | .21 | N. J. | .033 |
| Del. | 1.15 | Texas | .13 | Md. | .20 | N. Y. | .033 |
| Conn. | 1.00 | La. | .11 | R. I. | .20 | R. I. | .032 |
| Ga. | 1.00 | Conn. | .10 | Conn. | .10 | Wisc. | .032 |
| Kans. | 1.00 | N. J. | .10 | Mo. | .10 | Md. | .030 |
| Mo. | .80 | N. Y. | .10 | N. J. | .10 | Nev. | .030 |
| Nev. | .80 | Mo. | .02 | N. Y. | .10 | Ga. | .029 |
| S. Dak. | .75 | Calif. | .01 | Calif. | .02 | Mo. | .020 |
| Average | 1.70 | | .31 | | .42 | | .108 |

[a]Hawaii imposes a tax on alcoholic beverages of 16 percent of wholesale price.

[b]For purposes of this table, "light wine" is wine containing not more than 14 percent alcohol and "fortified wine" contains more than 14 percent alcohol.

Source: Commerce Clearing House, State Tax Guide: All States, pp. 3522-3994.

It is not possible to draw meaningful liquor tax comparisons for the Western States as can be done for other types of taxes because 6 of the 11 states have adopted a monopoly system of control. Nevada's alcoholic beverage tax rates, however, are compared in the following tabulation with those imposed in Arizona and California, the only license states which border Nevada:

| | Arizona | California | Nevada |
|---|---|---|---|
| Spirits | $1.20 | $1.50 | $.80 |
| Light Wine | .36 | .01 | .15 |
| Fortified Wine | .36 | .02 | .25 |
| Malt Beverages | .075 | .04 | .03 |

It will be noted that Nevada's rates on spirits and malt beverages are significantly below the rates imposed in both Arizona and California. Wine rates in Nevada are below those in Arizona but above those in California. Wine rates in California, however, are the lowest of the license states, presumably to encourage a local wine industry. While it may be of some use to compare alcoholic beverage rates in Nevada with those in Arizona and California, policy decisions would appear to be more reliable if they were based on the averages for all the license states since these are less distorted by unusual local conditions.

## Liquor Tax Administration in Nevada and Other States

Alcoholic beverage taxes and license fees are administered in Nevada by the Cigarette and Liquor Tax Division, which is part of the Nevada Tax Commission. While the staff of this agency is presently composed of only the supervisor and an assistant, their efforts are supplemented by the reports required from importers and the numerous reports furnished by other states regarding imports coming into Nevada. Estimated collection costs incurred by the Cigarette and Liquor Tax Division are shown in Table 12.9.

Since this agency administers both the cigarette and liquor taxes, the costs shown for the liquor tax exclusively are based on statements by the supervisor that approximately half of the agency's expenses can be attributed to collection of each tax. It will be noted from Table 12.9 that costs as a percent of collections have fallen from 2.3 percent in 1948 to 1.1 percent in 1959. This ratio compares very favorably with the hypothetical 2 - 5 percent criterion of a "good tax." As discussed earlier, however, importers are allowed a 2 percent discount if taxes are paid by the 15th of the month following importation. While these discounts are not a direct cost incurred by the administrative agency, they should nevertheless be considered a cost of administering the tax. If this 2 percent is added to the figure shown for administrative expenses above, the total cost of collection is approximately 3 percent which is still a reasonable cost to collection ratio.

Table 12.9

Nevada Liquor Tax Collections and Estimated Administrative Costs, Fiscal Years 1948-1959

| Year | Liquor tax and license revenue | Costs of liquor tax administration[a] | Administrative costs as percent of revenues |
|---|---|---|---|
| 1948 | $ 461,690 | $10,540 | 2.3 |
| 1949 | 496,632 | 10,529 | 2.2 |
| 1950 | 510,376 | 8,793 | 1.7 |
| 1951 | 699,048 | 9,719 | 1.4 |
| 1952 | 611,508 | 9,739 | 1.6 |
| 1953 | 720,776 | 9,729 | 1.3 |
| 1954 | 785,413 | 10,845 | 1.4 |
| 1955 | 853,594 | 11,613 | 1.4 |
| 1956 | 875,493 | 9,527 | 1.1 |
| 1957 | 920,399 | 12,858 | 1.4 |
| 1958 | 925,796 | 10,271 | 1.1 |
| 1959 | 1,052,339 | 11,089 | 1.1 |

[a]Based on estimate by Cigarette and Liquor Tax Division that one-half of total expenses are due to administration of the liquor tax.

Source: Nevada State Controller, Annual Reports, 1948-1959.

Other states generally allow discounts which were originally given to reimburse liquor dealers for the costs incurred in affixing stamps to containers. Now, however, many states including Nevada, rely on a reporting system but nevertheless continue to allow a nominal compliance discount. This does not appear unreasonable in states such as Nevada where the tax liability is incurred when the liquor is imported rather than when it is sold. Thus, the discount appears to be justified by the fact that the tax is prepaid as well as the need for meeting the costs of submitting various required reports.

The effectiveness of the reporting system as opposed to the stamping method has been a subject of continuing controversy. While a number of states have adopted the reporting system, approximately 32 license and monopoly states still rely on the stamping method. Reports from other states can be relied upon to reveal liquor shipments coming into the states but without the use of stamps, retailers' stocks can be checked only by reviewing invoices and verifying them with wholesalers. When stamps are used, an investigator can determine immediately if the tax has been paid on any particular inventory. There is a necessity for checking retailers' stocks whether or not stamps are used. The present size of the Nevada Cigarette and Liquor

Tax Division, however, does not allow for any extensive checking of retailers' stocks. It would therefore appear that this division could reasonably be increased by an additional agent for more effective verifying of retailers' stocks.

A further strengthening of auditing procedures has been recommended in a recent auditing study conducted by the accounting firm of Chanslor and Folsom. It was recommended that "the records of the importers and wholesalers be test checked by the auditor examining for sales and use tax compliance. Any discrepancies should be reported to the chief auditor of the Tax Commission for further action, for either review or reconciliation or complete audit assignment."[18]

One of the major administrative problems associated with the liquor tax is the evasion encouraged by high rates. The most common form of evasion is the highly publicized production of illegal alcoholic beverages. This problem appears to be largely confined to the south-eastern United States and is of little importance in Nevada. For example, in 1958, over 90 percent of the illegal stills and mash seized by the federal government was in states south of the Ohio River and east of the Mississippi River.[19]

The purchase of out-of-state liquor poses an additional problem in the administration of state alcoholic beverage taxes. For example, it is reported that some purchases of liquor are made in Iowa by Minnesota residents in order to avoid the higher tax in Minnesota.[20] It should be noted, however, that taxes between states are seldom of such a magnitude that extensive evasion would be encouraged. Only when the federal tax of $10.50 per gallon can be evaded, as in the case of illegal production, does there appear to be sufficient incentive for extensive evasion.

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[18]State of Nevada, Office of the Budget Director, State Tax Audit Programs as Performed by Nevada Tax Commission, Employment Security Department, and Nevada Industrial Commission, Report No. 5, p. 65.

[19]The continuing controversy as to the extensiveness of illegal alcoholic production is well presented in "The Federal Whiskey Tax Rebellion," Proceedings of the National Tax Association, op. cit.

[20]E. B. Schmidt, "Selective Sales Taxes," Proceedings of Conference on State and Local Tax Systems (Laramie, Wyoming, 1957), p. 70.

## Potential Increased Revenue

It is clear from the foregoing that Nevada imposes extremely low alcoholic beverage taxes in relation to the other license states. It is not unreasonable to expect a state which draws a great many tourists to place a greater than average reliance on consumption taxes similar to the alcoholic beverage tax. Nevertheless, if Nevada increased rates only to a level comparable with that in other states, the rate on spirits could be doubled from the present level of $.80 to $1.60 per gallon; the rate on light wine could be increased from $.15 to $.20 per gallon; the rate on fortified wine could be increased from $.25 to $.35 per gallon; and the rate on malt beverages could be doubled from the present level of $.03 per gallon to $.06 per gallon. Based on collections in 1959, the foregoing changes would result in increased State revenues as follows:

| Rate changes | Increased revenues |
|---|---|
| Spirits - from $.80 to $1.60 per gallon | $ 800,000 |
| Light wine - from $.15 to $.20 per gallon | 14,000 |
| Fortified wine - from $.25 to $.35 per gallon | 24,000 |
| Beer - from $.03 to $.06 per gallon | 190,000 |
| Total increased revenue | $1,028,000 |

The above changes would render Nevada's liquor tax rates more comparable to those employed in the other license states, but a rate of $1.60 per gallon on spirits would exceed the present levies employed by both Arizona and California. However, perceptible evasion or a noticeable decrease in the quantity of alcoholic beverages consumed in Nevada would be extremely unlikely because of the very small rate differences among the states and, as mentioned above, the outstanding contribution made to Nevada's liquor tax receipts by the extensive tourist industry.

# CHAPTER XIII

## SEVERANCE TAXATION

The concept and use of a special tax upon certain types of natural resource production is largely a development of the present century. Generally speaking, the tax is designed to impose an additional burden upon such resources, though it is sometimes in lieu of the property tax. If all forms of the levy are included, it is now employed by 36 states.[1] However, in many of these jurisdictions it is used for conservation purposes and produces very little revenue.

### Nature of Tax

The severance tax is commonly defined as a levy on the extraction or removal of certain natural resources from the soil or water. It may be applied to virtually all kinds of sub-soil resources, including oil, gas and other minerals, and timber, but is often limited to one or two types. These resources, as contrasted to agricultural products, are either not reproducible or, in the case of timber, require a long period of growth. The distinctive character of the resources gives rise to special taxing problems, and the severance tax was developed to provide a partial solution to these problems.

While the term severance clearly implies that the tax is imposed upon the act of severing or removing a resource from its natural location, this is often not the case. Physical units of the product are only one of several bases upon which the tax is imposed, including value, gross receipts, and gross income. The terminology used by state legislatures in describing the tax is also highly variable. In addition to the basic term, the tax may be called an occupation, privilege, production or special excise levy.

Considering the variations in the tax base and legal descriptions of the tax, it is often difficult to distinguish the character of a particular tax as well as the legislative intent. For example, certain jurisdictions impose substantial rates on natural resource production (as high or higher than manufacturing or retail sales)

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[1]All state tax statutes on both minerals and timber are considered including those that apply to timber only and oil and gas taxes in six jurisdictions that are for conservation purposes only. The U. S. Bureau of the Census only shows severance tax receipts in 27 states.

under their general sales taxes.[2] Though there is no indication in the statutes that these taxes have a severance purpose, this may be the intent. In any case the existence of a special or additional tax on the resources in question logically may be said to consitute severance taxation.

Severance taxes were originally advocated as a substitute for the property tax. If the tax is in lieu of property taxes, therefore, there is a reasonable presumption that it is intended to be a severance levy. In actual practice, however, the tax is usually imposed as an additional rather than alternative levy.

## Rationale of Severance Taxation

Severance taxes have received substantial support both on theoretical and practical grounds. Advocates of the tax allege that it is preferable to the traditional property tax which has many deficiencies in its application to mineral and forest resources; that it serves to compensate the state for the exploitation of its natural resources and to promote conservation; that it is an effective means of taxing absentee owners and of offsetting unfair tax advantages which certain natural resource properties enjoy under other tax forms; that it is productive and relatively easy to administer; and that as a state measure, in contrast to locally imposed and administered property taxes, it permits state-wide sharing of the fiscal benefits.

Opponents of the tax claim that it has an unfavorable impact on resource development and production. Also, if the tax is used as a substitute for the property tax, it may create a serious revenue problem for certain local units who are dependent upon the latter levy for the bulk of their tax revenue. This situation may arise as a consequence of the state's policy in allocating severance tax receipts or by virtue of the relative instability of severance tax collections on certain resources. If the tax is not "in lieu" of the general property tax, the additional burden involved is said to be discriminatory.

The major premises favoring the tax as well as the bases of criticism obviously merit further examination.

## Deficiencies of the Property Tax

The typical weaknesses of the locally administered property tax as applied to mineral and timber resources are a matter of record. Local assessors and their staffs commonly lack the technical competence

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[2]Arizona (1.5 to 3%); Mississippi (3%); New Mexico (.5 to 2%); and West Virginia (1.35 to 7.85%). Indiana also taxes the income from such production at the maximum rate (1.5%) under its gross income tax (See Table 10.5).

to appraise the value of underground mineral deposits and timber lands. The result, typically, is gross under-assessment and often on a highly inequitable basis. Theoretically, the cumulative annual property tax may cause rapid and wasteful exploitation of the resource in order to get out from under the tax burden, and in the case of resources which are currently unproductive such as growing or immature timber it may result in an excessive burden. However, the practical significance of both points is doubtful in view of the widespread practice of under-assessment. In any event, these actual and alleged deficiencies in the application of the property tax undoubtedly played an important part in the development of severance taxes, even though they are often imposed as an additional tax. Many states, including some of those levying severance taxes, have provided for centralized state assessment of these resources in an effort to correct the admitted deficiencies of local assessment.[3]

Thus, the weaknesses of the property tax may provide direct support for the severance tax if it is employed as an alternative levy. On the other hand if it is used as an additional tax, low level assessment of such property may also justify a moderate severance tax.

## Public Interest in Mineral and Timber Resources

The argument that mineral and timber resources are a bounty of nature or a heritage of all the people, and should be subject to a special tax has considerable popular appeal, but is obviously open to question in a private capitalistic society. These resources have been appropriated and developed largely by private capital, and do not belong to the public. Any attempt to justify differential taxation on the basis of a special public interest, therefore, appears to be invalid. Furthermore, it should be recognized that most forms of severance taxation enter into production costs, and part or all of the burden involved will probably be shifted to consumers of the taxed products.

On the other hand, present as well as future generations do have a genuine interest or concern in efficient resource utilization as well as sound conservation measures. In terms of tax policy this interest obviously calls for a tax program which encourages rather than penalizes efficient production, and which creates a favorable climate for scientific and long-range conservation measures. At the same time, it lends additional support to the basic principle that the enterprises engaged in this type of production should pay a proportionate, no more or no less, share of the total tax burden.

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[3]Seven had in lieu provisions in 1959, principally for oil and gas properties, and Colorado allows a credit of property taxes against the severance tax. See Table 13.3.

The property tax, as previously indicated, may have the effect of stimulating rapid and wasteful production or cropping methods, whereas the severance tax does not involve this influence. In fact, the latter tax which only applies to resources which are currently productive may tend to deter or prevent present use in the case of marginal or high cost properties.[4] Thus, the severance tax may have a positive influence in promoting conservation objectives as opposed to the potential negative impact of the property tax.

## Absentee Ownership and Special Tax Advantages

In many states, including Nevada, a large proportion of mineral and timber resources are owned by non-resident corporations or individuals. Absentee ownership, rightly or wrongly, is often subject to public disfavor, and proponents of severance taxes suggest that the people are entitled to an additional tax dividend from such production (over and above regular taxes). While the idea of a discriminatory tax is indefensible, absentee owners may largely escape general tax burdens. The severance tax, therefore, may be used to offset this advantage, and is an effective instrument for achieving proportionality of tax burdens.

The owners of mineral and timber resources also are said to enjoy substantial tax advantages under certain general tax forms, and the severance tax is supported as a means of offsetting these favors. In particular, it is a well known fact that the ratio of assessment under the property tax is often extremely low and that the oil and certain other mineral industries are extended special privileges under both the federal and certain state income tax laws. While special bases of assessing producing oil properties are employed in a number of states, including Nevada, the result may well be fractional assessment as compared to other types of property. Also, there is little doubt that non-producing oil lands and other mineral properties are usually grossly under-assessed as compared to other types of real estate. The inherent difficulties in determining the extent and value of mineral deposits, the tendency to permit self-assessment by mining companies, and the alternative practice of assessing the property almost entirely on the basis of surface developments and improvements have all contributed to the latter situation.[5]

It is generally recognized that the special "percentage depletion" allowances granted to oil and other mineral producers under the federal and certain state income tax laws are very liberal. Finally,

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[4]See Report of the President's Materials Policy Commission (Washington, D. C., 1952).

[5]Earl Crockett, "Should Colorado Adopt a Severance Tax?" Taxation in Colorado, Report No. 2, 1946, p. 38.

it should be emphasized that natural resource industries have a tax responsibility equal to that of other forms of production, and it is evident that this responsibility is not being met under existing assessment practices and provisions of the property tax law in many states.

While appropriate changes in the property and income taxes and/or their administration would seem to be preferable on theoretical grounds, the imposition of reasonable severance taxes to compensate for the deficiencies that exist is an acceptable course of action. In the case of the property tax it may also be the most practical and expedient solution. If under-taxation is regarded as a significant factor in the imposition of severance taxes, however, it is important that a uniform basis of assessment for such properties be established and enforced. Otherwise, there is no firm basis for determining the tax differential which is to be made up.

## Productivity and Ease of Administration

The productivity of severance taxes in states which have substantial mineral or timber production has been fully demonstrated. Substantial revenues are derived in a number of these jurisdictions. As a consequence of the relatively small number of taxpayers and the relative simplicity of the tax base (production units, sales or income), the administrative problems are not difficult or unique in character. These features as indicated in Chapter VI, Principles of Taxation, do not justify the imposition of a tax, but they are important considerations nonetheless.

## State-Wide Sharing of Fiscal Benefits

The imposition of severance taxes by state governments does permit a broader distribution of the fiscal benefits from the taxation of the resources in question. By their nature these resources are usually concentrated in limited areas, and locally imposed and administered taxes necessarily mean a concentration of tax receipts in the favored areas. While this situation is undesirable, the legitimate needs of the local units involved must be recognized and provided for. If the severance tax is in addition to the property tax, the requirements of local governments can be adequately met through the latter levy. The severance tax proceeds may then be used for state purposes or distributed to all local units on the basis of a general formula involving the needs and resources relationships. If the severance tax is in lieu of the traditional property tax, the bulk, if not all, of the revenues should be allocated to local governments in a manner that will assure: (1) adequate revenues to the localities in which the resources are located, and (2) a reasonable share of any excess to other units.

## Effect of Severance Tax on Resource Development: Tax Incidence

The principal criticism of severance taxes is that they have an unfavorable effect upon resource development, and high cost production in particular. This charge is obviously a serious one and merits special attention. At the outset, it is obvious that a severance tax, with the exception of one based upon net income, increases production costs. In fact, all taxes based upon cost factors have this effect. That is, they either increase living costs of the individual or the operating or fixed costs of business concerns. In a broad sense, therefore, they tend to curb incentives to consume or to invest funds in the private economy. The crucial question to be answered in the case of the severance tax is whether it places a disproportionate or unequal burden upon the particular groups involved. The answer, obviously, is dependent primarily upon the impact of the tax system as a whole. The severance tax is only one component of the tax system and ordinarily it is of secondary importance.

There is no reason to suggest that a severance tax will seriously restrict resource development or utilization unless it is applied in a punitive or discriminatory manner. The increased costs occasioned by severance taxes, like property or sales tax costs, normally are recovered through the price charged for the product. Mineral and timber production, with certain exceptions, is carried on under monopolistic or semi-monopolistic conditions, and "administered" or controlled prices are the general rule. In such circumstances it must be presumed that the incidence of the tax is generally upon the consumer. Thus, the severance tax cannot have an unduly burdensome effect upon production, which would otherwise be profitable, if it is employed on a reasonable basis.

This conclusion is subject to two qualifications. Mineral or timber production which is definitely marginal or sub-marginal under given market conditions will be adversely affected by any increase in costs. However, the relative position of such production in the industry will not be changed by imposition of a severance or other general taxes. Needless to say, a tax based upon net income would be most advantageous for such concerns. It should also be emphasized that tax policy for any important segment of the economy cannot reasonably be predicated upon the economic status of high cost and probably inefficient producers. Nor can tax favors to an entire industry be justified on the basis of the economic woes of such enterprises. From a conservation standpoint it would also be highly undesirable to resort to tax or other subsidies to the marginal or sub-marginal properties. If an entire industry is temporarily or chronically subject to a cost-price squeeze, tax relief or other types of governmental aid may well be justified. Even in this case, however, the benefits versus costs to the state as a whole should be carefully weighed.

The second qualification is that the severance tax be imposed in a manner consistent with accepted principles of tax equity. Discriminatory or unequal tax burdens upon the resources in question,

both in terms of other types of production in the state or relative to those imposed by other states, are indefensible in the first instance and of dubious merit in the second. However, state tax practice with respect to timber and mineral resources usually reflects the other extreme of under-taxation. The tax advantages which these resources enjoy under the property and income taxes have already been noted. The analysis of state policies in the severance tax field will indicate the general extent of favorable treatment in this area.

## Instability of Severance Tax Receipts

The alleged instability of severance tax receipts and the problems of financing local governments which may be associated therewith is distinctly a secondary aspect of the severance tax problem. In the first place, the actual variations in severance tax yields are not as great as is often assumed, and are confined to certain specific resources usually of a minor character. Secondly, unless the severance tax is in lieu of property taxes no special problem of financing local governments is involved. If an in lieu feature is included and yields are variable, the problem is not insoluble. Under these circumstances the state has the responsibility of providing assistance to the local units on a continuing basis which is at least equivalent to the revenues that would have been obtained from the property tax. In the case of registered timber lands, for example, several jurisdictions employing severance taxes have permitted the local units to continue low level, uniform per-acre taxes, and in one instance, the state matches this amount. Thus, there are various possible approaches to this problem.

## Conclusions

The case for severance taxes on major mineral and timber resources is believed to be sound subject to certain qualifications. It is dependent in part upon state policy, whether the tax is employed as a substitute for the property tax or as an additional levy. In the former case, it is quite evident that the severance tax is preferable to an inefficiently and inequitably administered property tax. From the standpoint of conservation objectives it is also believed to be superior to a scientifically applied annual tax on the decreasing value of the resource.[6] Moreover, it is generally recognized that the severance tax is much easier to administer than the property tax.

The severance tax also may be appropriately employed to compensate for irregular or low-level assessments under the property levy. It is an effective measure for ensuring that mineral and timber production make a proportionate contribution to the cost of state and/or

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[6]If related to yield, as in the case of the Minnesota and Michigan taxes on iron ore, this advantage would not be operative.

local government provided that the burden is properly correlated to that of a general tax such as the net income levy. At the same time, it should not be employed as a punitive device, and total tax burdens upon this and other types of production should be reasonably equated. In this connection it should be recognized that the adoption of a severance tax program does not relieve the state of the responsibility for achieving a uniform state-wide assessment of mineral and timber properties.

The questions of policy involved in the instance of a particular branch of the mining industry which is temporarily or chronically depressed are extremely complex. Certainly, the introduction of a new tax or the raising of existing taxes under these circumstances would appear to be ill-advised, although such action by an individual state may well be ineffective in dealing with the basic problems involved.

## Development, Scope and Significance of Severance Taxes

Michigan pioneered the development of severance taxation by adopting a tax on specified mineral resources in 1846, and Pennsylvania and Minnesota followed in 1874 and 1881, respectively. Each of these jurisdictions had extensive coal, iron ore and other mineral resources, and realized substantial revenues from the tax.[7] In the early 1900's several of the major oil-producing states adopted the tax. Texas and West Virginia led the way in 1907, and Oklahoma and Louisiana imposed the tax in 1908 and 1910.

Most of the present state severance taxes were adopted in the decades preceding and following World War I. The thirty-six states now levying severance taxes on various types of mineral or forest products are shown in Table 13.1. In addition to these taxes, six states (Arizona, Indiana, Mississippi, New Mexico, Washington and West Virginia) include the products of certain extractive industries under their sales levies.[8] The latter practice may or may not reflect an intent to put a special or additional tax burden on these resources. It should also be noted that there are twenty jurisdictions (most of which impose severance taxes) that have modified their property tax treatment of forest lands.[9]

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[7]Pennsylvania no longer imposes the tax.

[8]See Table 10.5; also Ohio Department of Taxation (Division of Research), Severance Taxation (Columbus, Ohio, 1956), Table 2.

[9]Ibid. (Ohio Department of Taxation), Table 3.

Table 13.1

State Severance Taxes on Natural Resources
December, 1959

| State | Coal | Iron Ore | Metal Ores | Oil & Gas | Other Minerals | Sand & Stone | Timber | Other |
|---|---|---|---|---|---|---|---|---|
| Alabama | | X | | X | | | X | |
| Alaska | | | | X | | | | X |
| Arkansas | X | X | X | X | X | X | X | |
| Calif. | | | | X[a] | | | | |
| Colorado | X[a] | | | X | | | | |
| Conn. | | | | | | | X | |
| Florida | | | | X | | | | |
| Georgia | | | | X[a] | | | | |
| Idaho | X | | X | | | | X | |
| Indiana | | | | X | | | | |
| Kansas | | | | X[a] | | | | |
| Kentucky | | | | X | | | | |
| Louisiana | X | | X | X | X | X | X | X |
| Mass. | | | | | | | X | |
| Michigan | | | | X | | | X | |
| Minnesota | | X | | | X | | X | |
| Miss. | | | | X | | | X | |
| Missouri | | | | | | | X | |
| Montana | X | | X | X | X | X | | |
| Nebraska | | | | X | | | | |
| Nevada | | | | X[a] | | | | |
| N. Hampshire | | | | | | | X | |
| New Mexico | X | | X | X | X | | | |
| New York | | | | | | | X | |
| N.Carolina | | | | X[a] | | | | |
| N.Dakota | | | | X | | | | |
| Oklahoma | | | X | X | | | | |
| Oregon | | | | | | | X | |
| S.Dakota | | | X | | X | | | |
| Tennessee | | | | X | | | | |
| Texas | | | | X | X | | | |
| Utah | | | X | X | | | | |
| Virginia | | | | | | | X | |
| Washington | | | | | | | X | |
| Wisconsin | | | | | | | X | |
| Wyoming | | | | X[a] | | | | |
| No. Taxing | 6 | 3 | 8 | 24 | 7 | 3 | 16 | 2 |

[a]Conservation purposes only.

Source: Commerce Clearing House, State Tax Guide: All States, December, 1959; and State Tax Reporter, April, 1960.

## Resources Taxed

It will be noted that oil and gas resources are taxed in the largest number of states--twenty-four; timber in sixteen; metal ores in eight; other minerals in seven; coal in six; iron ore in three (distinctive rates); and sand, stone or other similar materials in three. Twelve jurisdictions restrict their severance taxes to oil and gas, and six have relatively comprehensive levies applying to three or more types of mineral or other resources. It should also be indicated that the severance taxes on oil and gas in six states and certain of the taxes on coal and iron ore are nominal in amount and are imposed for conservation or inspection rather than revenue purposes.

## Receipts from Severance Taxes

Severance tax collections for 1959 are shown in Table 13.2. Total receipts amounted to approximately $392 million, or about 4.3 percent of the aggregate of state tax collections in the states reporting severance tax receipts. It should be emphasized, however, that only 27 states reported collections from this source, and there is an extreme variation in yields among these jurisdictions.[10]

In relation to total tax revenues, only 11 states derived 2 percent or more of their receipts from severance taxes. They were as follows: Alaska (8.1%); Arkansas (3.6%); Louisiana (26%); Minnesota (6.2%); Mississippi (5.2%); Montana (4.9%); New Mexico (7.9%); North Dakota (3.7%); Oklahoma (13.2%); Texas (26.8%); and Utah (3.1%). In fact, the great bulk of revenues were concentrated in three states, Louisiana, Oklahoma, and Texas, with a total yield of $330 million, or about 85 percent of severance tax receipts. Needless to say, the importance of this source in the tax system of individual states is dictated largely by factors external to the severance tax base and rates; namely, the importance of the taxed resources in the state's economy and the relative emphasis upon the major taxes such as sales, income, property, and highway user levies.

## Special Features of Severance Taxes

Severance tax rates vary significantly from one state to another and as between the products taxed in individual states. There is also some diversity in practice with respect to the particular basis or value factor to which the rates are applied. Present policies in selected states that have substantial taxes are summarized by major type of resource in Table 13.3.

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[10]Failure to show receipts may be attributable to the fact that the law is inoperative or to different bases of classifying receipts.

Table 13.2

State Severance Tax Receipts, 1959

| State | Severance tax receipts (thousands) | Percent of severance tax receipts to total tax collections |
|---|---|---|
| Alabama | $ 1,408 | .57 |
| Alaska | 1,942 | 8.08 |
| Arkansas | 5,357 | 3.58 |
| California | 1,224 | .07 |
| Colorado | 1,179 | .69 |
| Connecticut | --[a] | -- |
| Florida | 49 | .00 |
| Georgia | --[a] | -- |
| Idaho | 32 | .01 |
| Indiana | 356 | .09 |
| Kansas | 482 | .02 |
| Kentucky | 322 | .02 |
| Louisiana | 112,263 | 25.96 |
| Massachusetts | --[a] | -- |
| Michigan | 598 | .07 |
| Minnesota | 19,537 | 6.23 |
| Mississippi | 9,465 | 5.17 |
| Missouri | 5 | .00 |
| Montana | 2,928 | 4.85 |
| Nebraska | 1,257 | 1.55 |
| Nevada | [b] | |
| New Hampshire | 11 | .03 |
| New Mexico | 8,905 | 7.85 |
| New York | --[a] | -- |
| North Carolina | --[a] | -- |
| North Dakota | 2,151 | 3.67 |
| Oklahoma | 33,753 | 13.17 |
| Oregon | 583 | .03 |
| South Dakota | 473 | .09 |
| Tennessee | --[a] | -- |
| Texas | 184,336 | 26.80 |
| Utah | 2,580 | 3.10 |
| Virginia | 255 | .09 |
| Washington | --[a] | -- |
| Wisconsin | 187 | .05 |
| Wyoming | --[a] | -- |
| Totals | $391,678 | 4.34[c] |

[a]No collections reported by Bureau of Census.
[b]Collections less than $1,000 from severance tax (conservation); reported collections of $40,000 by Bureau of Census is property tax revenue.
[c]Percent of severance tax receipts to aggregate tax collections of states reporting severance tax revenue.

Source: Table 13.1 and U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

Table 13.3

Rate, Base, and In Lieu Features of Major Taxes on Selected Resources, December, 1959

| State | Rate | Tax base | In lieu of local property taxes |
|---|---|---|---|
| | | A. Oil | |
| Alabama | 4 percent | gross value | Yes |
| Arkansas | 4-5 percent | market value | No |
| Colorado | 2-5 percent(graduated) | gross income | a |
| Florida | 5 percent | gross value | Yes |
| Indiana | 1 percent | gross value | No |
| Kentucky | ½ of 1 percent(counties up to 1% additional) | market value | No |
| Louisiana | 18 to 26¢ | per barrel | Yes |
| Michigan | 2 percent | gross cash market value | Yes |
| Miss. | 6¢ or 6 percent | per barrel or gross value (greater) | Yes |
| Montana | 2-2½ percent | gross value | No |
| Nebraska | 2 percent | value | No |
| N.Mexico | 2½ percent | value | No |
| N.Dakota | 5 percent | gross value | Yes |
| Oklahoma | 5 percent | gross value | Yes |
| Tennessee | 5¢ | per barrel | No |
| Texas | 4.6 percent or 4.6¢ | market value or per barrel (greater) | No |
| Utah | 2 percent | value | No |
| | | B. Gas | |
| Alabama | 4 percent | gross value | Yes |
| Colorado | 2-5 percent(graduated) | gross income | a |
| Florida | 5 percent | gross value | Yes |
| Indiana | 1 percent | gross value | No |
| Louisiana | 1.3¢-2.3¢ | per 1,000 cubic ft. | Yes |
| Michigan | 2 percent | gross cash market value | Yes |
| Miss. | 3 mills or 6 percent | per 1,000 cubic ft. or gross value (greater) | Yes |
| Nebraska | 2 percent | value | No |
| New Mexico | 2½ percent | value | No |
| N.Dakota | 5 percent | gross value | Yes |
| Oklahoma | 5 percent | gross value | Yes |
| Tennessee | 5 percent | sales price | No |
| Texas | 7 percent, plus 1½% on "dedicated gas" | market value | No |
| Utah | 2 percent | value | No |
| | | C. Iron Ore[b] | |
| Alabama | 3¢ | per ton | No |
| Arkansas | 2¢ | per ton | No |
| Minnesota | 12 percent (plus 2½% through 1960) | net value (and 12% of royalties) | No |

Table 13.3 (continued)

| State | Rate | Tax base | In lieu of local property taxes |
|---|---|---|---|
| | | **D. Metal Ores** | |
| Arkansas | 15¢ | per ton | No |
| Idaho | 3 percent | net proceeds | No |
| Louisiana | 10¢ | per ton | No |
| Montana | ½-1¾ percent | gross value | No |
| New Mexico | ½ of 1 percent | value (copper only) | No |
| Oklahoma | 3/4 of 1 percent | gross value | Yes |
| South Dakota | 2½-4 percent | value (100,000 tons exempt) | No |
| Utah | 1 percent | gross value ($50,000 exempt) | No |
| | | **E. Sand, Stone, etc.** | |
| Arkansas | 1-1½¢ | per ton | No |
| Louisiana | 3¢ | per ton | No |
| Montana | 4¢ | per barrel (cement) | No |
| | 5¢ | per ton (cement plaster & gypsum) | No |
| | | **F. Timber** | |
| Alabama | 8-20¢ | per 1,000 ft. log scale or board feet | No |
| Arkansas | 20-50¢ | per 1,000 ft. log scale or board feet | No |
| Conn. | 2-7 percent | yield value | No |
| Idaho | 12 percent | yield value | No |
| Louisiana | $0.25-$1.50 | per 1,000 ft. log scale (virgin timber) | Yes |
| | 2¾-6 percent | market value (other) | |
| Mass. | .5 - 3 percent | value | No |
| Michigan | 2-10 percent | value | No |
| Minnesota | 10-40 percent | value | No |
| Miss. | 30-40¢ | per 1,000 log scale or board feet (other varied rates) | Yes |
| Missouri | 4-6 percent | value | No |
| N.Hampshire | 10 percent + 2 percent | value | Yes |
| New York | 6 percent | value | Yes |
| Oregon | 5¢ | per 1,000 board ft. + 4¢ west of Cascades (25,000 bd. ft. exempt) | No |
| Wash. | 12½¢ | per $1.00 of value | No |
| Wisconsin | 10 percent | value | No |

[a]Property tax credit allowed on severance tax.

[b]Only includes distinctive taxes; in several other states ores taxes apply.

Source: Commerce Clearing House, State Tax Guide: All States, December, 1959.

## Oil Production

The rates and base of severance taxes on oil production are shown for 17 states. The great majority of these jurisdictions (13) impose the tax on a value or income factor, and either gross value, market value, or gross income (Colorado) is specified. Two states levy the tax on a per barrel basis, and the other two employ a dual rate and measure, either value or per barrel, whichever is greater.

The state rates upon the value of the product range from one-half of 1 percent to 6 percent, but typically they fall within a 2 to 5 percent range. In the Western States a 2 to 2½ percent levy is predominant. Colorado is the only State that uses a progressive rate tax linked to its corporate and personal income tax structure. The rates per barrel run from 4.6¢ to 6¢, except in Louisiana which has a levy ranging from 18¢ to 26¢.

## Gas Production

The taxes on gas production follow the same general pattern as those on oil. However, only 14 states employ a rate that could be considered significant from a revenue standpoint. With two exceptions, Louisiana and Mississippi, the levies are imposed on value or income factors, and the regular rates vary from 1 to 7 percent. Texas has the maximum and Indiana the minimum, and all of the others fall within a 2 to 6 percent range.[11] The rate in Louisiana is 1.3¢ to 2.3¢ per 1,000 cubic feet, and that in Mississippi is 3 mills per 1,000 cubic feet or 6 percent of gross value, whichever is greater.

## Iron Ore

Three states have distinctive tax rates on iron ore, and in several others the metal ores rates apply. Alabama imposes a tax of 3¢ per ton and Arkansas 2¢. Minnesota levies a very heavy tax of 12 percent of the net value of ores produced and 12 percent of royalties received, and an additional tax of 2½ percent applies through 1960. Considering all of the states that tax iron ore, there is a marked diversity in the rate of tax.

## Metal Ores

The rates and bases of all of the eight state taxes on metal ores are shown in Table 13.3. The jurisdictions involved include four Western States, and the provisions of these laws are of particular interest in view of the nature of Nevada's mineral production. Six of the taxes, including those of Idaho, Montana, New Mexico and Utah,

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[11] Texas also imposes an additional tax of 1½ percent on so-called "dedicated gas."

are imposed upon the value of the products or in the case of Idaho, net proceeds therefrom. The rates vary from ½ of 1 percent to 4 percent, with Idaho employing a 3 percent rate, Montana ½ to 1¼ percent, New Mexico ½ of 1 percent, and Utah 1 percent. Substantial exemptions of 100,000 tons of ore and $50,000 of value are provided in South Dakota and Utah, respectively.

## Sand, Stone and Similar Materials

These products as previously indicated are only taxed in a few jurisdictions, and the rates are relatively low. In the instance of sand and stone the rates are from 1 to 1½¢ per ton in Arkansas and 3¢ per ton in Louisiana. Montana applies a rate of 4¢ per barrel on cement and 5¢ per ton on cement plaster and gypsum.

## Relation of Severance Taxes to Property Tax

The majority of states levy the severance tax as an additional tax, rather than in lieu of the property tax. However, the practice varies depending upon the type of resource involved. In the seventeen jurisdictions that impose substantial taxes on oil production the tax is in lieu of local property taxes in seven, and Colorado allows a property tax credit against its gross income tax. As might be anticipated, the same policies are followed in the instance of the gas production taxes. Taxes on metal and iron ore production are in lieu of local property levies in only one State, Oklahoma, and the taxes on sand, stone, etc., are in addition to property taxes in all jurisdictions. The situation in the case of yield taxes on timber is highly complex as various types of classification plans or special provisions are involved. However, in lieu features apply in only four states.

It should be noted that the states which levy the severance tax on in lieu basis generally distribute part or all of the receipts to local governments, and the reverse policy is usually followed by the jurisdictions in which the severance tax is an additional tax. Alabama and Michigan are exceptions to the former rule.

### Oil and Gas Conservation Tax in Nevada

Nevada does not employ a severance tax on its principal mineral resources. The tax imposed on the net proceeds of producing mineral properties is a part of the property tax system, and provides a distinctive basis of assessing such property for property tax purposes.[12]

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[12]The Census Bureau classifies the receipts from the net proceeds of mines as severance tax revenue, but this disregards the stated purpose of constitutional and statutory provisions as well as the general treatment of similar bases of assessment in other states.

The only special levy on mineral properties is the oil and gas tax which is designed to support State conservation activities in these fields.

The oil and gas license tax was passed in 1953 in connection with the establishment of the Oil and Gas Conservation Commission. It involves a nominal rate of 5 mills per barrel of oil and 5 mills per 50,000 cubic feet of gas produced and marketed. The producer is liable for monthly reporting and payment of the tax, but if he fails to pay the tax the purchaser is secondarily liable. There is also a $50 permit fee for each well drilled.

In view of the fact that there is virtually no production of oil and gas in the State, receipts are of no practical significance. Since 1954 they have ranged from $295 to $895 per year.

## The Net Proceeds of Mines Basis of Assessing Mineral Resources

Although the net proceeds of mines tax is treated in Chapter VII, The General Property Tax, a brief review of its principal features and effects is pertinent in this connection. The "net proceeds" basis of taxing mines is a direct outgrowth of the State constitutional provision which excepts unpatented mines and mining claims from the general equality and uniformity requirement concerning property assessment, and stipulates that the proceeds alone shall be assessed and taxed.[13] The tax on net proceeds, however, applies to both unpatented and patented mines[14] and the value of such proceeds is determined by the State Tax Commission. Taxes are levied at the rate prevailing in the district in which the mine is located.

The importance of the tax and its impact upon the mineral industry is reflected by revenues and more particularly the relationship between tax receipts and the value of mineral production. These data for the period 1950-1958 are presented in Table 13.4.

Receipts from the net proceeds of mines tax have been highly variable, ranging from approximately $374,000 in 1950 to a peak of $1,163,000 in 1956. These fluctuations are, of course, attributable primarily to changes in the gross value and profitability of mineral production. The gross value of mineral production as indicated in Table 13.4 reached a high of nearly $127 million in 1957, as compared with a low of $48 million in 1950. The top year in the profitability

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[13] Constitution of the State of Nevada, Section 1, Article 10.

[14] Nevada Revised Statutes, 362.110 and 362.020. Patented mines must also be assessed at not less than $500, except where $100 or more in development work has been performed within the assessment period.

Table 13.4

Mineral Production in Nevada, and Assessed Valuation of and Revenue from Levy on Net Proceeds of Mines Calendar Years 1950-1959

| Year | Value of mineral production (thousands) | Assessed valuation of net proceeds of mines (thousands) | Revenue from levy on on net proceeds (thousands)[a] | Tax receipts as % of value of mineral production |
|---|---|---|---|---|
| 1950 | $ 48,499 | $11,654 | $ 374 | .77 |
| 1951 | 57,674 | 17,522 | 541 | .94 |
| 1952 | 64,231 | 17,918 | 564 | .88 |
| 1953 | 73,523 | 19,673 | 632 | .86 |
| 1954 | 89,138 | 20,098 | 690 | .77 |
| 1955 | 113,220 | 33,437 | 1,084 | .96 |
| 1956 | 126,681 | 36,600 | 1,163 | .92 |
| 1957 | 86,023 | 13,843 | 449 | .52 |
| 1958 | 68,293 | 16,777 | 551 | .81 |
| Aggregate Avg. | $ 80,809 | $20,858 | $ 672 | .83 |

[a]Annual receipts for certain years are distorted in some degree by inclusion of additional taxes assessed (sometimes for 3 years) in a given six-months' period.

Source: Value of mineral production from U. S. Department of Interior, Bureau of Mines, Mineral Industry Surveys, Area Reports II-35, respective years; and assessed valuations and tax revenues as compiled by the Tax Commission.

of mineral production during the period as measured by the assessed value of net proceeds was 1956 with a total of almost $37 million. Reflecting a marked decline the 1958 valuation was only $17 million.

The effect of the net proceeds of mines basis of assessing mineral resources is clearly shown by its impact upon the annual value of mineral production. Percentage-wise the tax has not exceeded .96 percent (1955) of the value of mineral output during the past nine years; it reached a low of .52 percent in 1957; and the aggregate average for the period (1950-1958 inclusive) was .83 percent. As this is the only significant State or local tax on the value of mineral resources as such, the level of taxation is obviously very low.

Further evidence of this fact is provided by the relationship between the assessed value of the net proceeds of mines and those of mine improvements and mills. The former values which are a substitute for assessing the capital values of the resources were less than the assessed values of mine improvements and mills during five of the last ten years.[15]

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[15]See Chapter VII, Table 7.10.

## Status of Mineral Production and Severance Taxation in Western States

The importance of mineral production as well as the impact of severance taxes upon the value of mineral output and the tax systems of the states employing them are obviously significant considerations in the formulation of state policy in this field. As already noted, four of the Western States, Idaho, Montana, New Mexico, and Utah, have relatively broad-based severance taxes. Oregon and Washington only tax timber production. While eight Western States tax oil and gas production, four of these jurisdictions only impose a nominal tax for conservation purposes.[16]

The broad trend in the value of mineral production in the Western States for selected years starting in 1945 is shown in Table 13.5. On an overall basis the value of mineral output has increased markedly since the end of World War II, from $1,182 million in 1945 to $3,844 million in 1959 or by 225 percent. The major increase of 172 percent occurred in the period from 1945 to 1954. Comparing the totals for 1957 and 1959 with 1954, there was a significant rise in 1957, but the 1959 figure evidenced a levelling off tendency. In fact, the value of mineral output in 1959 was about 5.6 percent less than in 1957.

Table 13.5

Value of Mineral Production in Western States for Selected Years, 1945-1959 (millions of dollars)

| State | 1945 | 1954 | 1957 | 1959 | Percentage change: 1954 over 1945 | Percentage change: 1959 over 1954 |
|---|---|---|---|---|---|---|
| Arizona | $ 98.6 | $ 253.0 | $ 372.6 | $ 326.3 | 157.0 | 29.0 |
| California | 514.9 | 1,429.7 | 1,650.9 | 1,433.5 | 178.0 | 0.0 |
| Colorado | 77.2 | 256.2 | 340.6 | 310.4 | 232.0 | 21.2 |
| Idaho | 44.3 | 69.7 | 73.5 | 67.1 | 57.1 | -3.7 |
| Montana | 68.5 | 126.4 | 191.7 | 168.0 | 84.4 | 32.9 |
| Nevada | 31.2 | 89.1 | 86.0 | 66.1 | 184.7 | -25.9 |
| New Mexico | 104.2 | 373.6 | 553.0 | 607.3 | 258.4 | 62.5 |
| Oregon | 9.5 | 32.3 | 42.5 | 39.6 | 240.0 | 22.7 |
| Utah | 127.5 | 255.2 | 356.2 | 368.7 | 100.1 | 44.5 |
| Washington | 31.3 | 53.3 | 58.7 | 62.3 | 70.3 | 16.9 |
| Wyoming | 74.6 | 281.3 | 345.6 | 395.3 | 277.0 | 40.5 |
| Totals | $1,182.0 | $3,219.8 | $4,071.4 | $3,844.6 | 172.4 | 19.4 |

Source: U. S. Department of Interior, Bureau of Mines, Minerals Yearbooks, 1954-1958; and Mineral Industry Surveys, Area Report II-35, December, 1959.

[16] See Table 13.1.

Marked variations in the trend are evident among the individual states. All states experienced substantial if not phenomenal increases during the period, 1945 to 1954, ranging from 57 percent in Idaho to 277 percent in Wyoming. The rise in Nevada of 185 percent was somewhat higher than the average. Changes during the later period, 1959 as compared to 1954, were less marked but highly variable. The value of Nevada's production declined significantly by 26 percent and that of Idaho by about 4 percent. All of the other jurisdictions except California (up .03%) experienced significant increases of from 17 to 63 percent. Thus, the status of mineral production in Nevada relative to that of the other Western States has deteriorated in recent years. However, the value of production in six of the other states also declined from 1957 to 1959, but these jurisdictions had substantial increases in the earlier period 1954 to 1957.

The great bulk of mineral production in the West for 1959 is concentrated in six states. California's production, principally oil and gas, is valued at $1,434 million, more than twice as large as New Mexico's $607 million which ranks second. Four jurisdictions, including Arizona, Colorado, Utah and Wyoming, have annual outputs valued in excess of $300 million, and Montana's exceeds $168 million. In contrast, Nevada's mineral production, which has declined significantly in recent years, was valued at $66 million in 1959, which placed the State in ninth position in the region.[17]

The Western State data on severance receipts and their relation to the value of mineral production and total tax revenues are shown in Table 13.6. Four jurisdictions, Colorado, Montana, New Mexico and Utah, obtained substantial receipts from their severance taxes, but the position of New Mexico which collected $8.9 million was outstanding. In fact, New Mexico's receipts exceeded those of all the other jurisdictions. Montana ranked second with total collections of nearly $3 million; Utah third with $2.5 million; California fourth with $1.2 million; and Colorado fifth with slightly less than $1.2 million.

In terms of the more meaningful measure, the percentage of the value of mineral production represented by severance tax receipts, Montana was in first position (1.74 percent), New Mexico--second (1.47 percent), Utah--third (0.7 percent), and Colorado--fourth (0.4 percent). California and Idaho's receipts were less than 1/10 of 1 percent of the value of mineral production. A similar relationship exists in the contribution of severance tax receipts to total tax collections, except that the position of Montana and New Mexico is reversed. The latter State obtained 7.85 percent of its total tax revenues from this source and the former 4.85 percent. Utah is third with 3.10 percent of its total tax revenue from the severance tax. The relatively minor role of the severance tax in Colorado, it should be noted, is attributable to its limited base, oil and gas production.

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[17]Nevada's mineral output in 1956 was valued at $126 million.

Table 13.6
Mineral Production and Severance Tax Revenues
from Mineral Products, Western States, 1959

| State | Value of mineral production (thousands) | Severance tax revenues (thousands) | Severance tax as percent of value of mineral production | Severance taxes as percent of total tax revenues |
|---|---|---|---|---|
| California | $1,433,485 | $1,224 | 0.09 | 0.07 |
| New Mexico | 607,265 | 8,905 | 1.47 | 7.85 |
| Wyoming | 395,268 | -[a] | - | - |
| Utah | 368,716 | 2,580 | 0.70 | 3.10 |
| Arizona | 326,316 | -[b] | - | - |
| Colorado | 310,445 | 1,179 | 0.38 | 0.69 |
| Montana | 167,974 | 2,928 | 1.74 | 4.85 |
| Idaho | 67,109 | 32 | 0.05 | 0.01 |
| Nevada | 66,093 | -[c] | - | - |
| Washington | 62,293 | -[a] | - | - |
| Oregon | 39,600 | -[d] | - | - |

[a]No receipts reported by Bureau of Census.
[b]Does not impose a severance tax.
[c]Actual collections less than $1,000; $40,000 reported by Census is property tax receipts.
[d]Only taxes timber production.

Source: United States Department of Interior, Bureau of Mines, Mineral Industry Surveys, Preliminary Annual Reports, 1959; and, U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

In California, as previously indicated, the tax is nominal in amount and is used for conservation purposes only. Thus, it may be concluded that the severance tax has a significant impact upon the value of mineral production in four of the Western States, and is a significant but secondary source of state revenue in the same four jurisdictions.

## Suitability of Severance Taxation in Nevada

The appropriateness of a severance tax in Navada may appear to be largely an academic question. Certainly, the "lush days" of gold and silver production are over. On the other hand, there is still a substantial supply of certain important minerals and it is estimated that the current output reached a total value of $66 million in 1959. There is also the possibility that the production of oil and gas and certain new minerals will assume a more significant role in the future.

The approximate yield of a severance tax in Nevada, depending upon its scope and rates, may readily be ascertained. Application of

a 1 percent severance tax to the value of the five principal categories of mineral products in Nevada as shown in Table 13.7 would produce in the neighborhood of $577,000. Inclusion of all those with current production valued in excess of $1 million would increase this total by about $66,000. Although the present revenue potential of a moderate tax is obviously small, it would be substantially greater than that produced by the property levy on the net proceeds of mines in 1959.

Table 13.7

Estimated Yield of Severance Tax on Major Mineral Resources in Nevada, 1959

| Mineral Resource | Value of production (millions) | Yield of 1 percent of value tax (thousands) |
|---|---|---|
| Copper | $35.0 | $350 |
| Undisclosed items[a] | 7.6 | 76 |
| Sand, gravel and stone | 7.5 | 75 |
| Gold | 3.9 | 39 |
| Iron ore | 3.7 | 37 |
| Gypsum | 2.7 | 27 |
| Manganese ore | 2.3 | 23 |
| Mercury | 1.6 | 16 |
| Totals | $64.3 | $643 |

[a]Includes undisclosed values of bauxite, diatomite, lime, magnesite, molybdenum, perlite, pumice, salt, sulfur ore, uranium ore, etc.

Source: United States Department of Interior, Bureau of Mines, "Mineral Production in Nevada in 1959," Mineral Industry Surveys, Area Report II-35, December, 1959.

Apart from the revenue consideration, the desirability of adopting a severance tax logically hinges upon the existing tax burden upon such resources, the probable economic impact of the tax on the industry, and the policies of neighboring states. The only direct tax on actual mineral resources at the present time is the property tax. The basis of assessment employed for such resources as previously indicated results in a fractional tax as compared to one imposed on the annual gross value of the product, not to mention the capital value of the mineral resources. In other words, the burden of the tax on the net product of operating mines is nominal in relation to that on other forms of property, and the degree of tax advantage enjoyed cannot be justified in terms of differences in the character of the resources involved. A moderate severance tax, in addition to the present proceeds of mines tax, therefore, would only serve to lessen this burden differential.

The impact of the two taxes on the value of mineral production would also be moderate as indicated by their hypothetical effect during the last decade. Adding a 1 percent levy on the total value of mineral output to the estimated tax on the net proceeds of mines, the results are as follows:

| Year | Combined tax receipts as percent of value of product |
|---|---|
| 1950 | 1.8 |
| 1951 | 1.9 |
| 1952 | 1.9 |
| 1953 | 1.9 |
| 1954 | 1.8 |
| 1955 | 2.0 |
| 1956 | 1.9 |
| 1957 | 1.5 |
| 1958 | 1.8 |

Thus, the maximum effective rate of the two levies would have been about 2.0 percent of the value of mineral production in 1955, and the average for the period about 1.8 percent. These figures probably overstate the burden as a selective approach to the imposition of a severance tax would almost certainly involve the exclusion of certain minerals.

The economic health of the mineral industry in Nevada reflects a varied and rather complex situation. While specific information on the profitability of particular types of mineral production are not readily available, the value of production trend with respect to individual minerals and the value of the net proceeds of mines afford a broad indication of their economic position. As shown in Table 13.8 copper is the key item in Nevada's mineral industry. The value of production has increased rapidly throughout most of the period (1945-1959), but has declined in the last few years. It still accounts, however, for well over half of the total value of mineral output. The category of minerals for which individual values are not disclosed ranks second, and their overall value dropped sharply in 1959 as compared to 1957. Sand, gravel and stone production has steadily increased in value, and these materials are currently in third position. The value of gold mined has remained on a reasonably stable basis since 1945 with fluctuations from year to year. Although it increased significantly in 1959 as compared to 1957, it is a secondary factor in the mineral industry. Iron ore production was valued at $3.7 million in 1959, a substantial decline from 1957. In the case of the secondary minerals, gypsum, manganese ore and mercury, production values have risen substantially since 1945, and with the exception of manganese have increased in the last two years.

The foregoing data with respect to the value of production for the principal minerals, are generally indicative of a fifteen year trend. Significant declines have occurred for most minerals in recent years. However, these unfavorable developments may well be attributable to temporary influences.

Table 13.8

Value of Production Trends of Principal Minerals
Selected Years 1945-1959
(thousands)

| Minerals | 1945 | 1954 | 1957 | 1959 |
|---|---|---|---|---|
| Copper | $14,201 | $41,428 | $46,806 | $35,005 |
| Undisclosed items[a] | --[b] | --[b] | 16,756 | 7,550 |
| Sand, gravel, stone | --[c] | 4,968 | 6,646 | 7,509 |
| Gold | 3,229 | 2,767 | 2,686 | 3,868 |
| Iron ore | --[c] | --[c] | 5,341 | 3,660 |
| Gypsum | 732 | 2,217 | --[d] | 2,700 |
| Manganese ore | 970 | --[d] | --[d] | 2,340 |
| Mercury | 585 | 1,315 | 1,559 | 1,611 |

[a]Information on individual items withheld.
[b]Not classified as such in 1957 and 1959.
[c]Not separately classified.
[d]Information withheld.

Source: United States Department of Interior, Bureau of Mines, Minerals Yearbook, and "Mineral Production in Nevada in 1959," Mineral Industry Surveys, Area Report II-35, December, 1959.

Except for the peak years 1955 and 1956 (Table 13.4) the value of the net proceeds of mines during the last decade has not manifested the degree of fluctuation that one might anticipate in a net income factor. Nevertheless, the year to year changes are substantial and are indicative of the general instability of market and price conditions on a short-run basis.

The available evidence concerning the profitability of the mineral industry is obviously incomplete and inconclusive. From a broad policy standpoint the imposition of a severance tax on types of production that are chronically depressed clearly would be unwise. At the same time, temporary ups and downs, do not provide a sound basis of policy formulation. Under the circumstances a thorough investigation of the long-range economic position of the principal types of mineral production is an obvious requirement. Following such a study, the imposition of a moderate severance tax on those forms of production found to be generally profitable is believed to be desirable on grounds of tax equity. For example, a one percent of gross product tax on such types of production would substantially reduce the existing property tax differential favoring mineral resources, and such a tax in Nevada would not be out of line with the practice of the majority of neighboring states. Four out of seven of the other Western States with substantial mineral ores production (Idaho, Montana, New Mexico and Utah) now impose medium rate severance taxes, and none of these levies are in lieu of property taxes. The 1/2 of 1 percent rate on copper production in New Mexico, it should be noted, is also in addition to a 2 percent occupational sales and gross receipts tax.

## CHAPTER XIV

## INSURANCE TAXATION

Every state in the nation today subjects private insurance companies to special tax treatment, primarily in the form of a state levy imposed on the premiums paid by resident policyholders. In fiscal year 1959, the gross premiums tax on the state level produced about $548 million, or more than 3 percent of total state tax collections for the year. In Nevada, special insurance premium taxes and license fees amounted to almost $900,000 in 1959, and accounted for more than 2 percent of total State tax revenues.

The first state to enact an insurance tax was Connecticut which in 1816 imposed a 6 percent levy on the capital stock of all insurance companies operating in the State. New York was the first to initiate a special tax on insurance premiums. In 1824 it levied a 10 percent tax on the gross premiums collected within the State by all foreign fire insurance companies (firms organized and domiciled outside of the State). Vermont followed in 1825 with a comparable tax.[1] By 1850 most states imposed special taxes on all insurance companies and levied retaliatory taxes limited to foreign insurance companies operating within their jurisdictions.

Although this system of special insurance taxation on the state level can be traced to the pre-Civil War period, some of the early features of insurance tax legislation have been largely discarded. For example, the early tendency to exempt domestic companies from the tax has almost disappeared. At the present time only four states--Oklahoma, Florida, Arkansas and Kansas--exempt domestic companies from the gross premiums tax or other taxes in lieu of the gross premium tax. In states where the domestic exemption did not originally apply, the frequently used differential rate favoring domestic over foreign companies has also been reduced in importance. On the other hand, certain features have been generally retained of which the use of gross premiums as a basis of the tax is the most important. The adoption of gross premiums rather than net income as the tax base is explained by the difficulty of ascertaining net income for certain types of insurance carriers. In the case of life insurance companies particularly, there is the difficult technical question of what constitutes the required legal reserve to be maintained and therefore the allowable deduction from gross income. Moreover, in the case of mutual companies, difficulty arises in determining taxable net income where the receipts in excess of necessary expenses and additions to reserves are redistributed to policyholders in the form of reduced rates and/or dividends.

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[1] E. R. A. Seligman, Essays in Taxation (New York: The Macmillan Company, 1931), p. 161.

Another of the early features of insurance tax legislation which continues to be a part of present day law in most states is the so-called "retaliatory" clause. In effect this feature tends to equalize the rate of tax levied upon insurance company premiums by the various states. For example, if the rate were increased in Nevada while Washington had lower rates, the retaliatory provisions of the Washington law would take effect and the tax paid on business written in Washington by Nevada companies would be increased, although competing companies domiciled elsewhere would continue to pay the lower tax rate.

A legal question in early tax legislation was whether the insurance business was a valid subject of taxation by states since such business could be considered interstate commerce. In 1869 in the case of Paul v. Virginia the U. S. Supreme Court held that the insurance industry was local business and subject to state regulation.[2] Similarly, in 1931 the Court held that insurance was not commerce, either state or interstate, and could be taxed by the states without violation of the federal constitution.[3] In 1944, however, the Court ruled that the insurance business was a matter of interstate commerce subject to the federal anti-trust laws.[4] As a result of this decision it was feared by some states that laws which discriminated against foreign companies would be found unconstitutional. The McCarren Act of 1945, however, clarified the rights of the states by providing that state taxation of insurance companies was legal if it did not conflict with federal policy, even though the insurance industry was interstate commerce.[5] Also, in 1946, the U. S. Supreme Court upheld California and South Carolina insurance laws which imposed higher tax rates on foreign companies.[6]

## Rationale

Insurance taxes were first sanctioned in order to cover costs of operating insurance departments. Insurance commissioners required trained personnel and it was considered equitable for insurance companies to bear the burden of these costs. Currently, however, the

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[2]Harold M. Groves, Financing Government (fourth edition; New York: Henry Holt & Co., 1954), p. 346. See also Paul v. Virginia, 4 Wall 168 (1869).

[3]New York Life Insurance Co. v. Deer Lodge County, 231 U. S. 508.

[4]U. S. v. Southeastern Underwriters Association, 322 U. S. 533.

[5]E. H. Plank, Public Finance (Homewood, Illinois: Richard D. Irwin, 1953), pp. 509-510.

[6]Prudential Insurance Co. v. Benjamin, 325 U. S. 408 (1946), and Robertson v. California, 328 U. S. 440 (1946).

costs of insurance departments tend in most states to be much less than the amount of insurance taxes collected. In addition to the regulatory argument, it has been contended that the gross premiums tax is justified as an excise tax for the privilege of doing business. The magnitude of this effort is pointed up by the growth of the life insurance business in the United States, from $7.6 billion in 1900 to $494 billion in 1958, an increase of more than 6,000 percent.[7]

The development of insurance taxation as a source of general revenue, that is taxation to bring in revenue over and above costs of administration, has been opposed on a number of grounds. It is claimed, for example, that the tax, because of shifting, results in higher insurance costs to the public. This in turn, it is alleged, tends to deter savings--in the nature of life and annuity contracts. It is also pointed out that the tax is regressive in that it places a heavier burden on the lower income groups which are, in relation to personal income, relatively large holders of life and annuity policies. It is further contended that if a levy on gross premiums is not shifted, double taxation results since it is usual for insurance companies to be subject also to the general property tax. An additional objection is raised by certain types of insurance carriers, notably mutual companies and fraternal and benevolent societies who feel that since they are allegedly non-profit enterprises they should be free of taxes. This objection has apparently carried much weight since most states now grant exemptions to organizations of this type. Finally, insurance taxes are opposed on the grounds that they discourage the development of industry in the state (if domestic companies are taxed) or drive it to more favorable tax climes.

Proponents of the insurance tax answer these arguments point by point. The criticism that the tax decreases savings is declared to be inconsistent with the claim that the tax is shifted. If as opponents charge, the tax is passed on to the consumer (buyer of insurance) then savings in the form of life insurance will not be affected. If, on the other hand, higher premiums cause a large decline in the amount of insurance purchased, then savings in the form of life insurance will decline. But total community savings need not be reduced since other forms of savings exist. In reply to the claim that the tax is regressive, supporters of the tax hold that this may in fact be the case but counter with the observation that the insurance tax is no more objectionable on this score than a host of commonly used sales taxes.[8] On the question of double taxation, it is further

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[7]Institute of Life Insurance, Life Insurance Fact Book, 1959, pp. 7 and 10.

[8]Adequate data are not available on insurance holdings by income groups. One tax study group has suggested that insurance purchases increase more than proportionately to income, and that an insurance tax is therefore less regressive than other types of sales taxes. State of New York, Temporary Commission on the Fiscal Affairs of State Government, A Program for Continued Progress in Fiscal Management, Vol. 2, 1955, pp. 275-277.

observed that insurance companies are, in effect, largely exempt from the property tax. This follows from the fact that the assets of insurance companies are intangibles, in the main, and in many states such property is exempt from the general tax. Moreover, the double tax argument is regarded as entirely without force when the opposition contends, as they do, that the burden of the tax is borne by the policyholder since this admits ability to shift the tax elsewhere.

One of the most frequent criticisms of the gross premiums tax is that it does not differentiate among companies as to the nature of company assets, income, or size of reserves. Thus, a new business may have little investment income and must depend chiefly upon premiums for its operating income for the first few years. Small and growing companies are subject to much greater financial fluctuation than large mature and heavily financed companies. For such small companies the gross premiums tax represents a tax on most of their gross income, while in the case of large established firms that part of their gross income derived from investment escapes taxation on the state level.

Finally, on pragmatic grounds insurance taxation has been defended as a reliable and growing source of state general fund revenues. State insurance tax collections have grown from $241 million in 1950 to estimated receipts of $548 million in 1959, an increase of 127 percent. For Nevada during this same period insurance levies increased from $299,000 to $895,000, an increase of almost 200 percent.[9] The gross premiums tax has the virtue of being a widely used tax and as such is understood by companies and the states. It is a relatively easy tax to administer and it is evident on the basis of the rapid expansion in number and size of insurance companies in the United States that the tax has not been a deterrent to growth.

## Interstate Comparisons

Table 14.1 indicates a wide variation among the states in regard to absolute and relative amounts of insurance tax collections. In 1959, state insurance tax revenues as a percent of total state tax collections ranged from a high of 5.9 percent in California to a low of 1.7 percent in New Mexico. In nine states insurance levies accounted for more than 4 percent of total state revenues, and for the United States as a whole it provided 3.5 percent of total state tax collections. Among the eleven Western States insurance taxes averaged 2.8 percent of total tax collections. For Nevada, the insurance premium tax represented 2.0 percent, and on this basis the State ranked eighth in the region and forty-sixth in the nation.

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[9]U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1950 and 1959, and Chapter III, Table 3.19.

Table 14.1

State Insurance Tax Collections, Fiscal Year 1959

| Rank | State | Ins. tax collections (000) | As % of total tax | Rank | State | Ins. tax collections (000) | As % of total tax |
|---|---|---|---|---|---|---|---|
| 1 | Calif. | $106,635 | 5.88 | 26 | Ky. | $ 5,964 | 2.79 |
| 2 | Conn. | 11,518 | 5.26 | 27 | Ore. | 4,967 | 2.79 |
| 3 | N. J. | 16,708 | 4.93 | 28 | Minn. | 8,777 | 2.79 |
| 4 | N. H. | 1,767 | 4.66 | 29 | Miss. | 5,038 | 2.75 |
| 5 | Texas | 30,016 | 4.36 | 30 | Me. | 2,240 | 2.75 |
| 6 | Nebr. | 3,492 | 4.31 | 31 | Vt. | 1,062 | 2.73 |
| 7 | Mo. | 12,150 | 4.19 | 32 | Md. | 8,477 | 2.67 |
| 8 | Ill. | 30,819 | 4.15 | 33 | N. D. | 1,564 | 2.66 |
| 9 | Idaho | 2,284 | 4.03 | 34 | Wyo. | 985 | 2.62 |
| 10 | Va. | 10,604 | 3.92 | 35 | Colo. | 4,482 | 2.61 |
| 11 | Okla. | 9,863 | 3.84 | 36 | Utah | 2,165 | 2.59 |
| 12 | Ohio | 27,651 | 3.78 | 37 | S. Car. | 4,923 | 2.52 |
| 13 | N. Y. | 59,892 | 3.77 | 38 | Ark. | 3,644 | 2.43 |
| 14 | S. D. | 1,778 | 3.52 | 39 | Ind. | 8,989 | 2.36 |
| 15 | Mont. | 2,055 | 3.40 | 40 | Mich. | 18,964 | 2.35 |
| 16 | Pa. | 27,656 | 3.06 | 41 | Mass. | 11,050 | 2.30 |
| 17 | W. Va. | 4,913 | 3.03 | 42 | Del. | 1,551 | 2.27 |
| 18 | R. I. | 2,384 | 3.01 | 43 | Fla. | 10,683 | 2.26 |
| 19 | Tenn. | 8,446 | 3.00 | 44 | Wisc. | 8,387 | 2.19 |
| 20 | Alaska | 717 | 2.98 | 45 | La. | 8,758 | 2.02 |
| 21 | Ala. | 7,401 | 2.98 | 46 | Nev. | 770 | 1.98 |
| 22 | Kans. | 5,890 | 2.95 | 47 | Ariz. | 2,496 | 1.93 |
| 23 | N. Car. | 11,452 | 2.88 | 48 | Wash. | 7,104 | 1.72 |
| 24 | Ga. | 9,525 | 2.82 | 49 | N. M. | 1,900 | 1.67 |
| 25 | Iowa | 7,004 | 2.80 | Total | | $547,560 | 3.09 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

Table 14.2 shows the amount of insurance tax collections in 1959 on a per capita basis and as a percent of personal income. On a per capita basis, the tax ranged from $7.43 in California to $1.94 in Kentucky, and the national average was $2.82. Nevada ranked 15th in the nation with per capita collections of $2.88, and among the Western States it was exceeded by California, Idaho, Montana and Wyoming. Per capita collections in the region averaged $3.16, but they varied from a low of $2.19 for Arizona to a high of $7.43 for California. Table 14.2 also shows that insurance taxation represents but a small portion of personal income. California ranked first in this respect with insurance taxes that amounted to less than 3/10 of 1 percent of personal income, while Massachusetts was last with a ratio of less than 1/10 of 1 percent. The average for the nation was

Table 14.2

Comparative State Insurance Tax Collections on Per Capita Basis and as Percent of Personal Income, Fiscal Year 1959

| Per capita insurance tax collections | | | Insurance tax collections as percent of personal income | | |
|---|---|---|---|---|---|
| Rank | State | Amount | Rank | State | Percent |
| 1 | California | $7.43 | 1 | California | .291 |
| 2 | Connecticut | 4.97 | 2 | Oklahoma | .248 |
| 3 | Oklahoma | 4.32 | 3 | Mississippi | .219 |
| 4 | New York | 3.69 | 4 | Idaho | .203 |
| 5 | Idaho | 3.45 | 5 | North Carolina | .182 |
| 6 | Delaware | 3.41 | 6 | Louisiana | .179 |
| 7 | Alaska | 3.40 | 7 | Connecticut | .177 |
| 8 | Texas | 3.20 | 8 | Texas | .176 |
| 9 | Illinois | 3.12 | 9 | Alabama | .170 |
| 10 | Wyoming | 3.08 | 10 | Tennessee | .169 |
| 11 | New Hampshire | 3.03 | 11 | Georgia | .168 |
| 12 | Montana | 2.99 | 12 | South Carolina | .168 |
| 13 | Ohio | 2.96 | 13 | Arkansas | .168 |
| 14 | New Jersey | 2.91 | 14 | West Virginia | .165 |
| 15 | Nevada | 2.88 | 15 | Vermont | .164 |
| 16 | Maryland | 2.87 | 16 | Virginia | .161 |
| 17 | Vermont | 2.85 | 17 | New Hampshire | .160 |
| 18 | Missouri | 2.84 | 18 | Montana | .156 |
| 19 | Louisiana | 2.82 | 19 | South Dakota | .155 |
| 20 | Oregon | 2.80 | 20 | Wyoming | .147 |
| 21 | Kansas | 2.78 | 21 | Utah | .143 |
| 22 | Rhode Island | 2.72 | 22 | New York | .143 |
| 23 | Virginia | 2.69 | 23 | North Dakota | .142 |
| 24 | Colorado | 2.62 | 24 | Oregon | .140 |
| 25 | Minnesota | 2.60 | 25 | Missouri | .140 |
| 26 | Washington | 2.57 | 26 | Rhode Island | .139 |
| 27 | South Dakota | 2.54 | 27 | Kansas | .139 |
| 28 | North Carolina | 2.52 | 28 | Kentucky | .139 |
| 29 | Utah | 2.50 | 29 | Maine | .138 |
| 30 | West Virginia | 2.50 | 30 | Minnesota | .136 |
| 31 | Pennsylvania | 2.49 | 31 | Ohio | .135 |
| 32 | Georgia | 2.49 | 32 | Iowa | .133 |
| 33 | Iowa | 2.48 | 33 | Maryland | .129 |
| 34 | Tennessee | 2.43 | 34 | Florida | .128 |
| 35 | North Dakota | 2.41 | 35 | Illinois | .128 |
| 36 | Michigan | 2.41 | 36 | Colorado | .128 |
| 37 | Nebraska | 2.40 | 37 | Nebraska | .127 |
| 38 | Florida | 2.40 | 38 | Delaware | .124 |
| 39 | Maine | 2.35 | 39 | New Mexico | .123 |
| 40 | Alabama | 2.30 | 40 | Washington | .119 |
| 41 | Mississippi | 2.30 | 41 | Pennsylvania | .117 |
| 42 | Massachusetts | 2.27 | 42 | Michigan | .115 |
| 43 | New Mexico | 2.26 | 43 | New Jersey | .115 |
| 44 | Arizona | 2.19 | 44 | Arizona | .113 |
| 45 | Wisconsin | 2.13 | 45 | Nevada | .112 |
| 46 | Arkansas | 2.06 | 46 | Wisconsin | .110 |
| 47 | South Carolina | 2.05 | 47 | Indiana | .098 |
| 48 | Indiana | 1.96 | 48 | Massachusetts | .095 |
| 49 | Kentucky | 1.94 | | Alaska | n.a. |
| | Average | $2.82 | | Average | .149 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959.

.15 percent, and Nevada's ratio of slightly more than 1/10 of 1 percent ranked 45th in the nation and was the lowest among the Western States.

## Tax Base and Rates

Table 14.3 summarizes for all states the base and rate provisions of insurance premium taxation currently in use. It should be noted that all states tax foreign companies under the gross premiums tax. The rates range from .75 percent to 4 percent, but 25 states use a rate of 2 percent. Rates vary within a state depending upon the type of insurance carrier. Fire insurance companies in 17 states pay an additional tax ranging from 1/2 to 1 percent to cover the expense of a fire marshall and other comparable administrative costs. In 39 states domestic companies are subjected to a gross premiums tax. Of the eleven states which do not use this tax, some exempt insurance companies completely, while others tax capital stock and/or surplus, or tax net or gross income. States differentiate between types of companies in establishing rates. Among the Western States, Arizona and Washington distinguish between foreign and domestic companies, while Oregon levies its gross premium tax only on foreign companies. The rates range from 1 percent on domestic companies in Arizona and Washington to 3 percent in Idaho. Nevada uses a 2 percent rate. Arizona, California, Colorado, Montana, Oregon, Utah, and Washington use retaliatory rates on foreign companies whose home states impose taxes in excess of taxes imposed by these states.

It is noteworthy that 12 states permit lower rates if companies invest a certain percentage of their assets in designated investments within the state. For example, in Colorado the rate is 1 percent for a domestic firm which invests 30 percent or more of its assets in Colorado bonds or other property within the State. In Idaho, the rate is 1 percent for domestic companies having 25 percent of their gross assets in approved securities, real estate, or time deposits in Idaho banks or financial institutions. In Montana if 50 percent of the capital stock is invested in Montana securities a lower rate is used. New Mexico permits a rate of 1/2 of 1 percent if 50 percent of the company's assets are invested in New Mexico. Among the 36 states which have a corporate income tax, 31 exempt insurance companies from the income tax when the gross premiums tax is utilized. All of the Western States, except Nevada, use the gross premiums tax in lieu of one or more of the major taxes, and Utah exempts insurance companies from all other taxes.

Exemptions among the states include fraternal benefit societies, mutual and cooperative organizations, benevolent associations, and other non-profit and public welfare organizations. All Western States exempt fraternal benefit societies from the gross premiums tax. California, Colorado, Montana, and Utah exempt varying forms of mutual insurance companies. Arizona and Washington exempt title insurance companies, and Arizona, Idaho, and Utah exempt non-profit hospital services from the tax. Other common exemptions in the West include surplus line brokers, labor insurance companies which are limited to union members only, and various benevolent societies.

Table 14.3

Premium Tax Rates and Base Applicable to Foreign and Domestic Insurance Companies, All States, 1960

| State | Foreign--% on gross prems. | Domestic--% on gross prems. | Other provisions |
|---|---|---|---|
| Alabama[a] | 3.00[b] | 1.00 | - |
| Alaska | 3.00 | 1.50 | - |
| Arizona | 2.00 | 1.00 | Foreign add tax of .5% on motor veh. ins., surplus line brokers 3%. |
| Arkansas[a] | .75-4.00 | none | Surplus line brokers 4%, Life & disability 2.5%. |
| Calif. | 2.35 | 2.35 | - |
| Colorado | 2.25[b] | 2.25 | - |
| Conn. | 2.00 | 2.00 | Life ins. add 1.75% tax on interest & dividends. |
| Delaware[a] | 1.75 | 1.75 | - |
| Florida | 2.00[b] | none | - |
| Georgia[a] | 2.25[b] | 2.25 | - |
| Hawaii | 3.25 | 3.25 | Rates vary for life insurors surplus line brokers, ocean marine. |
| Idaho | 3.00[b] | 3.00 | - |
| Illinois | 2.00 | none | Tax on capital stock for domestic companies. |
| Indiana | 3.00 | none | Dom. co. subject to gross income tax. |
| Iowa | 2.00 | 2.00 | - |
| Kansas | 2.00 | none | - |
| Kentucky[a] | 2.00 | none | Dom. co. pay tax on capital stock, surplus line brokers 4%. |
| Louisiana[a] | 1.00-3.00[b] | 1.00-3.00 | Rate varies with type co. |
| Maine | 2.00 | 1.00 | - |
| Maryland | 2.00 | 2.00 | - |
| Mass. | 2.00 | 2.00 | Marine & Fire ins.,5%. |
| Michigan | 2.00 | none | Fire,marine & auto 3%, Dom. co. 5 mill fee on payee. |
| Minnesota[a] | 2.00 | 2.00 | Marine co. pay tax 5% of underwriting profit. |
| Miss. | 3.00 | 1.50 | Dom. co. subtract from tax advalorem taxes paid up to $20,000. |
| Missouri | 2.00 | 2.00 | - |
| Montana[a] | 2.00[b] | 2.00 | - |
| Nebraska[a] | 2.00 | .40 | - |
| Nevada | 2.00 | 2.00 | - |
| New Hamp. | 2.00 | 2.00 | Ocean marine pay 5% of taxable underwriting profit. |
| New Jersey | 2.00 | 2.00 | Marine pay 5% underwriting profit.Max.tax. 12½% of total premiums. |
| New Mexico | 2.00[b] | 2.00 | - |
| New York | 1.75-2.00 | 1.75-2.00 | - |

Table 14.3 (Continued)

| State | Foreign --% on gross prems. | Domestic --% on gross prems. | Other provisions |
|---|---|---|---|
| N. Car. | 2.50 | 1.00-1.50 | Co. other than life ins. pay 1% of gross prems. or corp. inc. tax, whichever is greater. |
| N. Dak.[a] | 2.50 | 2.50 | - |
| Ohio[a] | 2.50 | none | Dom. co. pay tax on capital and surplus. |
| Okla.[a] | 4.00[b] | none | Surplus brokers 6% tax. |
| Oregon | 2.50-5.00 | none | Dom. co. subject to net income tax. |
| Penn. | 2.00 | none | Dom. co. pay tax on capital |
| R. I. | 2.00 | 2.00 | Marine co. pay tax of 5% on underwriting profits. |
| S. Car.[a] | 2.00[b] | 2.00 | Dom. co. gross prems. tax not to exceed 5% net inc. |
| S. Dak.[a] | 2.50 | .50 | - |
| Tenn.[a] | 2.00[b] | 2.00 | Dom. life ins. 1.75%. |
| Texas[a] | 3.30-3.85[b] | 1.10-3.85 | - |
| Utah | 2.25 | 2.25 | Ocean marine cos. taxed at 5%. |
| Vermont[a] | 2.00 | 2.00 | - |
| Virginia | 1.00-2.75 | 1.00-2.75 | - |
| Washington | 2.00 | 1.00 | Marine & foreign trade ins. co. pay tax of 3/4 of 1%. |
| W. Virginia | 3.00 | 3.00 | Add. tax of 1% on other than life ins. cos. |
| Wisconsin | 2.00-2.38 | 2.00-3.50 | Dom. life ins. co. pay lic. fee in lieu of gross prem. tax. |
| Wyoming | 2.50 | 2.50 | - |

[a]Additional tax on fire insurance companies.
[b]Rates are less when a certain percentage of assets of the company are invested within the state.

Source: Commerce Clearing House, State Tax Guide: All States, 1960, pp. 8511-8557.

## Insurance Taxation in Nevada

The special taxation of insurance companies in Nevada can be traced back to the earliest days of the State's history. One of the revenue acts of the first legislative session in 1864-65 was the passage of a bill to regulate and tax foreign insurance companies doing business within the State. The law provided that:

> . . .on filing the statements agents shall pay to the Treasurer of the county, or city and county aforesaid where principal office is located, a tax of two percent on the amount of gross premiums after deducting return premiums. . .and collected from fire and inland risks, and a tax of one percent on the amount of premiums collected from life risks.[10]

In addition to the gross premiums tax the original act required insurance companies to obtain an insurance license for which the fee was $25 per quarter year. Both the gross premiums tax and the insurance license fees were to be collected by local jurisdictions and then paid into the State treasury.

After several revisions of the tax on foreign companies during the early 1870's, the law was expanded in 1881 to cover domestic companies and provided for supervision and the direct collection of the insurance taxes by the State Controller. The law stated that:

> No company, corporation, or association organized under the laws of this state, or any other state. . .shall be permitted to transact an insurance business in this state without a certificate from the State Controller authorizing and permitting the transaction of such business.[11]

More significantly, the act voided the gross premiums tax and placed the quarterly license fee on an annual $100 basis for fire insurance companies, life insurance companies, and life and accident companies, with an exemption for certain charitable organizations in the field of insurance.

Another half-century elapsed before the gross premiums tax was re-enacted in Nevada. In 1933 the Legislature passed a 1½ percent tax on both domestic and foreign insurance companies. The law provided for retaliatory tax treatment of foreign companies and the gross premiums tax was in lieu of other taxes except those on real estate and license taxes imposed on insurance companies.[12]

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[10] Statutes of Nevada, 1864-65, pp. 105-108.

[11] Statutes of Nevada, 1881, pp. 50-51.

[12] Statutes of Nevada, 1933, p. 280.

General Provisions of the Present Law

The present insurance tax provisions were passed in 1941. The law provides that:

> Every insurance company or association of whatever description, except fraternal or labor insurance companies or societies operating through the means of a lodge system or systems, insuring only their own members and their families. . .doing an insurance business in this State, shall annually pay to the Commissioner a tax of two percent upon the total premium income, including membership fees or policy writing fees, from all classes of business covering property or risks located in this State. . .less return premiums received for reinsurance on such property or risks. The amount of annual licenses paid by such companies or associations upon each class of business licensed annually shall be deducted from such tax on premiums if such tax exceeds in amount the licenses so paid.[13]

Table 14.4 indicates the fees and license charges established by this 1941 statute which are still in effect. The maximum license fee is

Table 14.4

Fees and Charges on Insurance Companies, State of Nevada, 1960

| | |
|---|---|
| Annual license to each fire insurance company | $100.00 |
| Annual license to each life insurance company | 100.00 |
| Annual license to each life and accident insurance company | 100.00 |
| Annual license to each casualty and surety company | 100.00 |
| Fee for issuing a non-resident broker's license | 50.00 |
| Annual license to each underwriter's agency for each company represented in the agency | 25.00 |
| Fee for issuing a broker's license | 25.00 |
| Fee for filing annual company statement | 10.00 |
| Fee for issuing a non-resident agent's license | 10.00 |
| Agent's examination fee | 10.00 |
| Fee for filing each power of attorney | 5.00 |
| Fee for issuing agent's license | 2.00 |
| Fee for issuing solicitor's license | 2.00 |
| Fee for issuing any other certificate required under the law | 1.00 |

Source: Nevada Revised Statutes, Chapter 686.

$100, and the minimum is $1 for miscellaneous certificates. Annual returns from this source of revenue have more than doubled during the last decade, amounting to about one-sixth of gross premiums taxes.

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[13] Nevada Revised Statutes, Chapter 686.

The present statute does not include the "retaliatory tax" feature of the 1933 act, and its basic provisions were made applicable to title companies in 1951 and to surplus line brokers in 1955. The gross premiums tax is regarded as an excise tax based on the right to do business in the State, and receipts from insurance tax collections go into the State's General Fund. In 1951 a Department of Insurance headed by an Insurance Commissioner was established to take the place of the State Controller in administering the regulation and taxation of insurance companies. Finally, it may be noted that although the 1933 act provided that the gross premiums tax should "be in lieu of all other taxes" except those upon real estate and license fees, the present law does not contain this provision except to state that "the possession of a license, under the provisions of this Title shall be in lieu of all licenses required to solicit insurance business within the State of Nevada."[14] However, it appears that in practice the change in the wording of the statute has not affected insurance tax coverage.

## Revenue Importance of Insurance Taxation

As already indicated, insurance taxes and license fees accounted for more than 2 percent of the State's total tax collections in 1959, and Table 14.5 shows that they averaged almost 3 percent for the past decade. Gross premiums tax collections rose from $244,251

Table 14.5

Nevada Insurance Tax Receipts,
Fiscal Years, 1950-1959

| Year | Insurance taxes | Insurance licenses | Total taxes & licenses | Ins. taxes & lic. as % of total taxes |
|---|---|---|---|---|
| 1950 | $244,251 | $ 51,651 | $295,902 | 3.0 |
| 1951 | 263,853 | 55,813 | 319,666 | 2.8 |
| 1952 | 299,221 | 86,566 | 385,787 | 3.1 |
| 1953 | 358,872 | 84,333 | 443,205 | 3.0 |
| 1954 | 436,121 | 88,474 | 524,595 | 3.4 |
| 1955 | 494,147 | 96,557 | 590,704 | 3.3 |
| 1956 | 581,113 | 105,802 | 686,915 | 2.5 |
| 1957 | 616,078 | 111,266 | 727,344 | 2.2 |
| 1958 | 689,779 | 117,383 | 807,162 | 2.3 |
| 1959 | 770,282 | 118,596 | 888,878 | 2.4 |
| Average | | | | 2.8 |

Source: State of Nevada, Annual Report of the State Controller, 1950-1959.

[14] Ibid.

in 1950 to $770,282 in 1959, an increase of 215 percent. During this same period license fees increased from $51,651 to $118,596, an increase of 130 percent. However, it should be noted that during this period total State tax collections in Nevada rose by approximately 272 percent, or significantly more than either the insurance gross premium tax or license fees on a relative basis. In terms of rates of growth, insurance taxes have increased by about $70,000 annually, and it is likely to be maintained as long as the population and economic activity in the State continue to expand at rates comparable to those experienced in the 1950's.

Table 14.6 summarizes insurance company premiums collected in Nevada, classified by type of company for fiscal year 1958, the latest year for which detailed data are available. It will be noted that of

Table 14.6

Insurance Companies and Premiums Collected in Nevada, Fiscal Year 1958[a]

| Type of Company | Number | | | Premiums Collected | | |
|---|---|---|---|---|---|---|
| | Foreign | Domestic | Total | Foreign | Domestic | Total |
| Multiple line[b] | 232 | 1 | 233 | $14,884,396 | $192,137 | $15,076,533 |
| Life insurance | 165 | 3 | 168 | 11,799,541 | 28,209 | 11,827,750 |
| Casualty[b] | 64 | 1 | 65 | 4,954,644 | 76,776 | 5,031,420 |
| Accident & Health: | | | | | | |
| Life | 94 | - | 94 | 6,384,085 | -- | 6,384,085 |
| Casualty | 11 | - | 11 | 995,097 | -- | 995,097 |
| Multiple line | 37 | - | 37 | 293,623 | -- | 293,623 |
| Fire insurance | 53 | - | 53 | 632,679 | -- | 632,679 |
| Fraternal benefit societies[c] | 10 | 1 | 11 | 157,165 | -- | 157,165 |
| Total | 666 | 6 | 672 | $40,101,230 | $297,122 | $40,398,352 |

[a]Total premiums paid in 1959 amounted to $45,212,824. Detailed information was not available for 1959.
[b]Excluding accident and health.
[c]Exempt from gross premiums tax.

Source: State of Nevada, Annual Report of the Department of Insurance, 1958.

the 672 companies which filed reports with the State Department of Insurance, 666 were foreign companies while only 6 firms, or less than 1 percent of the total number, were chartered in Nevada. Total premiums amounted to $40,398,352 for the year, while domestic company premiums were only $297,122, or about 7/10 of 1 percent of the total. Of the domestic companies, three were life insurance companies, one was a casualty company, one a multiple line company, and one a fraternal benefit company. Also, on the basis of these data it is apparent that

the collections of the eleven fraternal benefit companies which are exempt from the tax are relatively insignificant--they amounted to $157,165, or less than 4/10 of 1 percent of total insurance premiums collected in the State. Approximately two-thirds of all premiums were collected by life insurance companies and multiple line companies.

## Administration

Forty-two of the fifty states have established Departments of Insurance to administer their insurance laws. Of these, fifteen require that all taxes be collected by the state treasurer or some comparable agency while in the other twenty-seven states tax payments are made directly to the Department of Insurance. In Virginia insurance companies are regulated by the State Corporation Commission; in Wyoming by the State Board of Equalization; in Louisiana by the Secretary of State; in Massachusetts by the Commissioner of Corporations; in Montana by the State Auditor; and in Rhode Island, Pennsylvania, and Vermont by the Department of Revenue.

In Nevada insurance companies receive their permit to operate from the Department of Insurance. Reports on financial condition from all companies and statements of gross premiums collected and amount of tax liability due are required to be submitted to the Department of Insurance prior to March 1 of each year for the year ending December 31 immediately preceding. In this respect the tax is self-assessing. As noted previously, prior to 1951 the State insurance laws were administered by the State Controller.

During the nine years of administration by the Department of Insurance, administrative costs as a percent of total insurance taxes collected averaged 6.4 percent as shown in Table 14.7. This is about

Table 14.7

Nevada Insurance Tax Revenues and Administrative Costs, Department of Insurance, Fiscal Years, 1951-1959

| Year | Insurance tax & license revenue | Administrative costs | Costs as a percent of revenue |
|---|---|---|---|
| 1951 | $319,666 | $22,002 | 6.9 |
| 1952 | 385,787 | 21,873 | 5.6 |
| 1953 | 443,205 | 31,328 | 7.1 |
| 1954 | 524,595 | 27,982 | 5.3 |
| 1955 | 590,704 | 35,913 | 6.1 |
| 1956 | 686,915 | 43,779 | 6.4 |
| 1957 | 727,344 | 51,945 | 7.1 |
| 1958 | 807,162 | 50,323 | 6.2 |
| 1959 | 888,878 | 61,443 | 6.9 |
| Average | | | 6.4 |

Source: State of Nevada, Annual Report of the State Controller, and Annual Report of the Department of Insurance, 1951-1959.

50 percent higher than that usually found in other states.[15] This comparatively higher administrative cost in part may be attributed to the relatively small population and insurance business carried on in the State. The principle of decreasing costs applies to tax administration as well as private industry.

In conclusion, insurance taxation in Nevada generally conforms with the prevailing practices found in most other states and it does not appear that any substantive revisions in rates or base should be considered at the present time.

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[15]See Report of the Governor's Tax Study Group, Financing Government in Colorado, 1959, p. 261, and annual reports of Insurance Commissioners, other states.

# CHAPTER XV

## PERSONAL INCOME TAXATION

The personal income tax is one of the most important single sources of public revenues in the United States today. In addition to the federal government, the vast majority of the states, plus numerous local taxing jurisdictions, have incorporated some variant of the personal income tax into their revenue structures. In recent years it has produced more than one-half of the federal tax collections, and on the state level it has been exceeded only by the sales tax as a source of general fund revenues. Personal income taxation provides the major element of progressivity to the nation's combined federal-state-local tax structure. As a dominant feature of the American fiscal system, it is essentially a twentieth century phenomenon which has been aptly described as "the outstanding contribution of popular and liberal philosophy to modern fiscal practice."[1]

Although the net income tax is a relatively modern innovation, the origins of the tax can be traced back to its sporadic use as a graduated poll tax in England during the Middle Ages, and to the "faculty" taxes levied upon professional people and artisans in the early American colonies. Some forms of state income taxes, ineffectively administered by local assessors, persisted in a few states throughout the nineteenth century. The first federal levy on personal incomes was passed by Congress as an emergency measure during the Civil War and the first peacetime version was enacted in 1894 only to be declared unconstitutional by the Supreme Court the following year. It is generally agreed that the real beginnings of personal income taxation in the United States were marked by the enactment of Wisconsin's centrally administered state income tax in 1911 and by the passage of the 16th Amendment and the federal personal income tax in 1913. The success of these measures soon became apparent and during the next two decades a dozen states introduced centrally administered income taxes. Another wave of the adoptions occurred in the nineteen-thirties when sixteen more states enacted income tax laws in order to cope with the fiscal problems caused by the Great Depression and to relieve the badly strained general property tax. The years in which the individual states, exclusive of Alaska, introduced the personal income tax were as follows:[2]

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[1]H. C. Simons, Personal Income Taxation (Chicago: University of Chicago Press, 1938), p. 41.

[2]U. S. Bureau of the Census lists 32 personal income tax states, but New Hampshire (1923) and Tennessee (1931) limit the tax to income derived from interest and dividends and are therefore excluded from the listing of states with a broad-based income tax.

1911 - Wisconsin
1912 - Mississippi
1917 - Massachusetts, Missouri, Montana, New York
1919 - North Dakota
1921 - Delaware, North Carolina
1926 - Arkansas, Oregon, South Carolina, Virginia
1931 - Georgia, Idaho, Utah, Vermont
1933 - Alabama, Arizona, Kansas, Minnesota, New Mexico
1934 - Iowa, Louisiana
1935 - California, Oklahoma
1936 - Kentucky
1937 - Colorado, Maryland

Although there have been no additional state adoptions since the nineteen-thirties,[3] an unparalleled increase in the amount of personal income tax collections on the state level has taken place since the end of World War II. Table 15.1 shows that collections

Table 15.1

Total State Tax Collections in the United States, Classified by Major Tax Categories, Fiscal Years 1946 and 1959

| | Amount (millions) | | Percentage increase of | Percentage distribution |
|---|---|---|---|---|
| | 1959 | 1946 | 1959 over 1946 | for 1959 |
| General sales | $ 3,694 | $ 899 | 310.9 | 23.3 |
| Motor fuel | 3,048 | 886 | 244.0 | 19.3 |
| Personal income | 1,778 | 389 | 357.1 | 11.2 |
| Motor vehicle license | 1,381 | 439 | 214.6 | 8.7 |
| Corporate income | 979 | 442 | 122.0 | 6.2 |
| Tobacco | 680 | 198 | 243.4 | 4.3 |
| Alcoholic beverages | 599 | 402 | 49.0 | 3.8 |
| Property | 565 | 249 | 127.0 | 3.6 |
| Insurance | 548 | 145 | 278.0 | 3.5 |
| Corporation license | 360 | 121 | 197.5 | 2.3 |
| Death and gift | 349 | 141 | 147.5 | 2.2 |
| All other[a] | 1,852 | 638 | 190.3 | 11.7 |
| Totals | $15,833 | $4,949 | 220.0 | 100.0 |

[a]Includes public utility taxes, severance taxes, liquor licenses, hunting and fishing licenses, and other miscellaneous taxes.

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959, Table 1., and Statistical Abstract of the United States: 1956, p. 407.

[3]A corporate income tax was enacted in Rhode Island in 1947, and in Delaware and New Jersey in 1957.

rose from less than $.4 billion in 1946 to almost $1.8 billion in 1959, an increase of more than 350 percent. In contrast, general sales and insurance taxes showed about a three-fold increase while corporation, property, inheritance and liquor taxes all experienced rates of growth considerably below the average for the period. Although the general sales tax continues to be quantitatively the most important single source of state revenues, the income tax currently accounts for more than 11 percent of the total tax collections for all states.

Equally significant is the fact that for the thirty states which levy personal income taxes these revenues represented almost 20 percent of their total tax collections in 1959. Of course, there were wide variations between the individual income tax states, ranging from a high of 43 percent in Oregon to a low of less than 4 percent in Mississippi (Table 15.2). The tax produced more than 30 percent of the total state tax collections in Alaska, Delaware, Massachusetts, New York and Wisconsin; and was responsible for more than 20 percent in a half dozen other states. At the other end of the scale the tax accounted for less than 10 percent of the revenues for some eight states. All thirty personal income tax states also impose a corporate income tax, and four additional states--Connecticut, New Jersey, Pennsylvania and Rhode Island--levy a corporate income tax even though they do not utilize the personal income tax on the state level. With regard to the minority of states that do not have any form of income taxation, Nevada, Washington and Wyoming are the only Western States; and Illinois, Michigan and Ohio are the only heavily industrialized states. And all of these states depend upon sales taxation for general fund revenues.

The distribution of state tax structures in terms of their utilization of broad-based income and sales taxes is provided by the following tabulation:

1. States using both personal income and sales taxes (18 states):

| | | |
|---|---|---|
| Alabama | Iowa | *New Mexico |
| *Arizona | Kansas | North Carolina |
| Arkansas | Louisiana | North Dakota |
| *California | Maryland | Oklahoma |
| *Colorado | Mississippi | South Carolina |
| Georgia | Missouri | *Utah |

2. Sales tax states with no personal income tax (14 states):

| | | |
|---|---|---|
| Connecticut | *Nevada | Tennessee |
| Florida | Ohio | *Washington |
| Illinois | Pennsylvania | West Virginia |
| Maine | Rhode Island | *Wyoming |
| Michigan | South Dakota | |

*Denotes Western States.

Table 15.2

Comparative State Personal Income Tax Collections,[a] Ranked by Relative Importance, Fiscal Year, 1959

| | Total tax collections (thousands) | Personal income tax collections (thousands) | Income tax as percent of total tax collections |
|---|---|---|---|
| Oregon | $ 177,502 | $ 77,108 | 43.4 |
| Delaware | 68,075 | 27,050 | 39.7 |
| New York | 1,586,066 | 565,759 | 35.7 |
| Alaska | 24,045 | 8,139 | 33.8 |
| Massachusetts | 479,739 | 155,021 | 32.3 |
| Wisconsin | 382,075 | 121,158 | 31.7 |
| Virginia | 270,192 | 71,814 | 26.6 |
| Maryland | 317,344 | 81,498 | 25.7 |
| Vermont | 38,882 | 9,546 | 24.6 |
| Minnesota | 313,678 | 76,504 | 24.4 |
| Idaho | 56,668 | 13,229 | 23.1 |
| Kentucky | 213,130 | 45,909 | 21.5 |
| Montana | 60,396 | 9,426 | 15.6 |
| North Carolina | 397,630 | 60,724 | 15.3 |
| Colorado | 171,306 | 26,053 | 15.2 |
| Utah | 83,306 | 12,334 | 14.8 |
| Iowa | 249,974 | 35,958 | 14.4 |
| Alabama | 247,623 | 30,329 | 12.2 |
| Missouri | 289,384 | 34,033 | 11.8 |
| Kansas | 199,036 | 22,054 | 11.1 |
| South Carolina | 194,599 | 18,356 | 9.4 |
| California | 1,812,567 | 160,680 | 8.9 |
| Georgia | 337,593 | 29,307 | 8.7 |
| North Dakota | 58,660 | 4,495 | 7.7 |
| Arizona | 129,213 | 9,000 | 7.0 |
| Oklahoma | 256,326 | 14,962 | 5.8 |
| Arkansas | 149,529 | 8,439 | 5.6 |
| Mississippi | 183,073 | 6,355 | 3.5 |
| All States | $8,747,611 | $1,735,240 | 19.8 |

[a]Louisiana and New Mexico excluded because the Bureau of the Census reports show only combined personal and corporate income tax collections for these two states.

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections for 1959, Table 3.

3. Personal income tax states with no sales tax (12 states):

| | | |
|---|---|---|
| *Alaska | Massachusetts | *Oregon |
| Delaware | Minnesota | Vermont |
| *Idaho | *Montana | Virginia |
| Kentucky | New York | Wisconsin |

4. States with neither personal income nor sales taxes (5 states):

| | | |
|---|---|---|
| Indiana | New Hampshire | Texas |
| Nebraska | New Jersey | |

*Denotes Western States.

The extensive use of these two major sources of revenue on the state level throughout the nation is apparent. Only five states possess unique tax structures in that they currently do not depend upon either sales or income taxation to finance general government. Of course, the above classification is arbitrary in the sense that the income tax category is limited to those states with a broad-based tax. Thus, New Hampshire and Tennessee generally are not considered income tax states because their income taxes apply only to investment income; and Indiana is excluded because its gross income tax actually is a "hybrid income-sales" turnover tax applied to both wages and the gross receipts of business. If account is taken of the fact that New Jersey enacted a corporate income tax in 1957, it appears that Nebraska and Texas remain as the only two states in the nation which do not utilize some type of income or sales taxation in their state tax structures. Moreover, it is worth noting that the number of states levying both income and sales taxes significantly exceeds the number levying only sales taxes or only income taxes. In other words, these two major types of state revenues were not considered to be mutually exclusive tax alternatives by the majority of states utilizing either tax. Finally, with regard to the Western States--five imposed both income and sales taxes, four placed major reliance on the personal income tax, and only three levied a general sales tax without an income tax. Of course, Nevada's fiscal position among the states is unusual in that approximately one-fourth of its total State tax collections is derived from gambling taxation and thus its dependence upon traditional sources of state revenue--sales, income and property taxation--should be considerably less than that found in the rest of the nation.

## The Rationale of Income Taxation

The personal income tax probably conforms in principle more closely than any other single tax to the ideal of the good tax. Ever since the publication of Adam Smith's celebrated maxims of taxation in 1776 public finance scholars have agreed that the most basic requisite of sound taxation is that it be fair--that it result in an equitable

allocation of the tax burden. The generally acknowledged standard of fiscal fairness is that taxes be levied in accordance with the taxpayer's economic well-being or "ability-to-pay" as reflected by his net income adjusted for variation in family responsibility. It is recognized that exact differences between individuals' taxpaying capacities cannot be measured precisely by any single criterion. Personal net income, for example, only indirectly takes into account differences in accumulated wealth or rates of saving and spending, factors which also could be considered as affecting tax equity. Nevertheless, no other single factor is as general or significant a measure of relative economic well-being and taxpaying capacity as personal income received.[4]

Proponents of personal income taxation also maintain income is the best measure of ability-to-pay because it is the ultimate source of all tax payments. As already indicated, taxes are legally based on a variety of specific things and transactions, such as real estate, retail sales, liquor, tobacco or insurance; but the impact is always upon people. As a result of taxation individuals are left with less money income and/or higher prices than would have been the case in the absence of the tax. Regardless of the type of tax levied its ultimate incidence is always upon people and it must be paid out of the economy's income stream.[5] In this sense practically all taxes are "income taxes" and no taxing jurisdiction can pre-empt a tax field for its exclusive use unless it were to tax away all income. It follows that if there is taxpaying ability for any tax it is also available for a state income tax. And if ability-to-pay, as measured by personal income, is the socially accepted criterion of tax equity, then taxes based directly on income should be preferred over those levied on the partial use of income as in the case of property, general sales and indirect excise taxation. In other words, the sundry forms of taxation actually used by states do not represent alternative sources of revenue, but rather provide varying combinations of taxes which result in different allocations of the over-all state tax burden.

The progressive feature of income taxation is also justified on the ability principle. A progressive tax is one in which the amount of tax paid expressed as a percentage of the taxpayer's income varies directly with changes in such income, e.g., the greater the income, the

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[4]This is especially so for an industrialized economy such as ours in which approximately three-fourths of the nation's total personal income is received in the form of wages, salaries and non-property income, and only one-fourth takes the form of interest, rents and profits arising from the ownership of wealth. U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, April, 1960.

[5]Of course, some taxpayers may pay current taxes out of past income (accumulated savings or inherited wealth), or with borrowed funds which may be considered a charge against future income.

higher the relative tax liability.[6] On the assumption that the social utility of a marginal (additional) dollar of income to a wealthy person is significantly less than that of a marginal dollar to a poor man, a progressive tax structure is required if their tax burdens are to approximate their respective taxpaying abilities. On the other hand, proponents of personal income taxation who are unwilling to accept the utility assumption on the grounds that interpersonal comparisons are subjective, defend progressive income taxation as a "direct fiscal attack" upon the existing degree of inequality in the distribution of income and wealth. In either case, it is contended that after taking account of differences in taxpayers' family obligations, those with greater amounts of net income should be subjected to higher tax rates than those with smaller incomes. But the critical problem is determining the degree of progression required to achieve even a rough approximation of tax equity. Almost a century ago an English critic of progressive taxation asserted that when the state abandons the principle of proportionality in taxation it is "at sea without rudder or compass, and there is no amount of injustice or folly (it) may not commit."[7] However, the classic reply to this charge is that although the degree of progression on equity grounds cannot be determined precisely, it is better to approximate justice than to be clearly unjust. Furthermore, a state tax structure represents a "product-mix" of a variety of tax levies imposed on particular commodities, sales, properties, incomes, businesses and occupations. It is highly improbable, if not impossible, that the total burden of any such tax package would work out to be proprotional with regard to income. The real choice is not between the proportionality and progressivity principles, but rather between systems of progressive and regressive taxation. State tax structures generally tend in the direction of the latter because the overwhelming bulk of state taxes fall directly on family consumption expenditures.

An impressive body of empirical evidence with regard to the regressivity of state and local taxes has been developed in the postwar years. Two of the most recently published studies are on Michigan and Wisconsin tax burdens. These reports are particularly relevant since Michigan depends on sales and excise taxes without using any form of income taxation, while Wisconsin imposes both a personal and corporate income tax but not a general sales tax. The Michigan study

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[6]In contrast, a proportional tax is one which as a percentage of income remains constant with changes in income, and a regressive tax is one which varies inversely with income changes. Of course, the latter means that the smaller the taxpaying ability, the greater the relative tax liability; and contrariwise, the larger the income the smaller the relative tax burden.

[7]John R. McCulloch, A Treatise on the Principles and Practical Influence of Taxation and the Funding System (2nd ed., 1865).

showed that the total of state and local taxes borne by Michigan taxpayers was regressive throughout the range of income classes from "less than $2,000" to "$10,000 and over," with the tax burden on the lowest income group being three times as great as that on the highest.[8] In contrast, the Wisconsin study stated that "Wisconsin's tax structure tends to be regressive in the lower income range, fairly proportional for the middle income groups, and progressive in the upper range."[9] An indication of the regressivity of state and local tax structures on a national basis is provided by a recognized tax authority who estimated that the combined state and local property, excise and sales tax burden for all spending units in the nation with annual incomes of $2,000 or less in 1954 was almost twice as great as the burden on those with incomes of $10,000 or more.[10]

In consideration of these findings, the proponents of state personal income taxation contend it represents the only practical type of broad-based tax that can provide a significant element of progressivity to state and local tax structures which are predominantly regressive. On the other hand, the opponents of state income taxation argue that not only has the federal government pre-empted this tax source, but that the regressivity of state and local taxes is essential to compensate partially for the steep progressivity of the federal tax. Of course, if the national consensus is that the latter is too progressive the reduction should be made directly by adjusting the federal tax rather than depend upon fifty state tax structures to provide the necessary balance.

In brief, the personal income tax is directly based on the ability principle as measured by net income. The tax liability is legally related to the amount of income received and some allowance is provided for the cost of acquiring gross income. The tax is levied only upon incomes above some socially acceptable minimum standard of living. By use of exemptions and deductions the legal definition of taxable income takes into consideration the size of the family, physical infirmities of old age and blindness, and extraordinary drains on income due to medical expenses or casualty losses. And an income tax system that incorporates withholding and "pay-as-you-go" features matches to a large degree the administrative convenience and collection advantage of sales and excise taxes which allegedly are relatively painless in that they

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[8] Michigan Tax Study, Staff Papers (Lansing, Michigan: 1958), Table 5, p. 138.

[9] Wisconsin's State and Local Tax Burden, University of Wisconsin Tax Study Committee (Madison, Wisconsin: 1959), p. 56.

[10] R. A. Musgrave, "The Incidence of the Tax Structure and Its Effects on Consumption," Federal Tax Policy for Economic Growth and Stability, Papers Submitted by Panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D. C., 1955), pp. 96-113.

only extract a few pennies at a time from the taxpayers' pockets. Since the income tax is not likely to be hidden by the shifting process the people know or can easily ascertain what taxes they are actually paying. This should be of considerable importance in a democratic society which always must be concerned with developing a responsible and tax-conscious citizenry.

It is further contended by the proponents of income taxation that it provides the fiscal structure with a large degree of flexibility. During periods of economic growth characterized by increased governmental services and expenditures the rise in personal income automatically provides an expanded income tax base and tax yield which in part helps meet the state's need for greater revenues. Also, from the individual taxpayer's point of view, because the tax is assessed only during those periods in which net income is earned it proves to be less burdensome than relatively fixed taxes such as those based on real property values or on the purchase of necessities. For the economy as a whole the income tax helps to mitigate the swings of the business cycle--it automatically provides a counter-cyclical effect to the fluctuations which occur in over-all business activity. On this score the graduated income tax is unique in that it provides a "built-in stabilizer" for the private sector of the economy. Without legislative alteration of tax rates or base the total revenues from this source will vary directly and progressively with changes in levels of employment and income. In periods of prosperity the sharp rise in income tax collections tends to dampen private spending and check inflationary forces which lead to "boom and bust." Contrariwise, in periods of depression the automatic reduction in the public's tax liability helps to induce consumption and investment expenditures which tend to reduce the severity of the business contraction, unemployment and price deflation. On the other hand, it is obvious that instability of revenue yields makes the planning of public expenditures and fiscal budgeting extremely difficult, particularly for state and local authorities. On the state level it is understandingly more important to pursue tax policies concerned with developing adequate and stable sources of revenue than with compensating for the ups and downs in general business activity. However, so-called "stable taxes" have proven to be highly unstable during periods of severe economic crisis as in the nineteen-thirties when state and local governments were confronted with an "avalanche of property-tax delinquencies and forced sales."[11]

One of the major arguments leveled against progressive income taxation is that it has adverse effects on the operation of a free enterprise system in terms of economic efficiency. The crux of the problem is whether progressive taxation does more or less violence than other taxes to the principle of "tax neutrality" which has been defined as

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[11]A. H. Hansen and H. S. Perloff, State and Local Finances in the National Economy (New York: W. W. Norton, 1944), p. 39.

"taxation that does not alter the allocation of resources."[12] All taxes, of course, have some influence on the structure of relative prices, production and employment which prevail in the private sector of the economy. There are no neutral taxes in the sense that a tax can be completely independent of the economic activity which individuals undertake. It is generally understood that sales, excises and ad valorem levies relatively have the greatest direct effect on the market prices of individual goods and services taxed and, therefore, directly disturb economic relationships which otherwise would emerge from the operation of free-market forces. In other words, such taxes distort the allocation of resources unless it can be shown that they offset competitive imperfections or help achieve other socially desired goals of the private enterprise system. At the other extreme, a uniform lump-sum levy which is not passed on to others, such as a poll-tax, might be considered ideal by the neutrality criterion although it was considered unfair when judged in terms of equity. But even the poll-tax leaves the taxpayer with less purchasing power, and the reduction in income influences his spending decisions. Similarly, a progressive income tax which generally cannot be shifted should have only an "income effect" on output prices. It is on the input side of the market that the effects of income taxation on economic efficiency are more complex. Theoretically all taxes should have some finite impact on incentives to work and to invest, but the direction is uncertain. Such evidence as is available does not support the contention that the imposition of progressive income taxes has deterred effort and risk-taking. To the contrary, it appears that some individuals actually have increased their efforts in order to compensate for the reduction in after-tax income.[13] Thus, the personal income tax is highly neutral in that it does not tend to distort the structure of relative prices nor materially alter the patterns of consumption and production in the private sector of the economy.

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[12]H. M. Groves, "Neutrality in Taxation," National Tax Journal, March, 1948.

[13]See for example: J. Cooper, "Taxation and Incentives in Mobilization," Quarterly Journal of Economics, February, 1952; G. F. Break, "Income Taxes, Wage Rates and Incentives to Supply Labor Service," National Tax Journal, December, 1953; "Income Taxes and Incentives to Work," American Economic Review, September, 1957; I. H. Saunders, Effects of Taxation on the Executive (Boston: Harvard University Graduate School of Business Administration, 1951); J. K. Butters, et al., Effects of Taxation: Investment by Individuals (Boston: Harvard University Graduate School of Business Administration, 1953); J. K. Butters, "Taxation, Incentives, and Financial Capacity," American Economic Review, Supplement, May, 1954, p. 505; and R. Goode, "The Income Tax and the Supply of Labor," Journal of Political Economy, October, 1949.

In brief, the rationale for utilizing the personal income tax as a major source of state revenue is that it adequately meets the four basic criteria of a "good tax" for a modern state: (1) fairness--it conforms with the ability-to-pay principle which is socially accepted as the standard of equity for the apportionment of the tax burden; (2) adequacy--it directly reflects the state's taxable capacity inasmuch as all taxes ultimately are paid from the economy's income stream; (3) flexibility--as a compensatory fiscal device it contributes to the state's economic welfare by lessening the degree of instability in the private sphere of the system; and (4) neutrality--it has minimal adverse effects on the efficiency of the economy as determined by market standards.

## Basic Features of State Personal Income Taxation

The lack of uniformity among the states in personal income taxation may be attributed in part to conceptual difficulties associated with the definition of net income for tax-making purposes. The tax base--net taxable income--must be derived from a series of accounting computations which require clearcut and fairly rigorous statutory definitions of economic concepts such as gross income, business expenses, adjusted gross income, personal deductions, exemptions and credits. Although the federal government and most income tax levying states follow the same general pattern in the determination of "net taxable income" they differ significantly in their statutory definitions of these concepts and treatment of specific inclusions and exclusions from taxable income. Some of the major variations concern the use of federal income as the base for state taxes, income-splitting by married taxpayers, exclusion of capital gains from the tax base, deductibility of federal income taxes, optional standard deductions, and personal credits and exemptions for dependents. Interstate comparisons of rate structures are grossly misleading unless these marked differences in the tax base are taken into consideration.

### Tax Base Factors

The majority of states have maintained an appearance of fiscal independence by not tying their statutory income tax definitions to the federal tax code. As shown in Table 15.3, only about one-fourth of the states have attempted to coordinate their statutes with the federal by adopting the federal tax base or by setting their state tax as a fixed percentage of the federal tax liability. Similarly, only about one-third of the income tax states, mainly those with community-property statutes, follow the federal practice of permitting married taxpayers who file joint returns to split their combined income in order to benefit from lower tax rates. One of the most controversial features of personal income taxation on both the federal and state levels is the preferential treatment of capital gains which is an important tax-saving device for taxpayers in the upper-income groups. However, the published discussion of tax

Table 15.3

Comparative State Summary of Selected Personal Income Tax Base Factors, 1960

| | Federal income used as state tax base | Permit splitting of income | Include 100% of capital gains in tax base | Full deductibility of federal income tax | Maximum amount of optional standard deduction |
|---|---|---|---|---|---|
| Alabama | No | No | Yes | Yes | $ 500[a] |
| Arizona | No | Yes | No | Yes | 1,000[a] |
| Arkansas | No | No | Yes | No | 1,000 |
| California | No | Yes | No | No | 600 |
| Colorado | No | No | No | Yes | 1,000[a] |
| Delaware | No | No | Yes | No[b] | - |
| Georgia | No | No | No | No | 1,000 |
| Hawaii | Yes | Yes | No | No | 1,000 |
| Idaho | Yes | Yes | Yes | Yes | 500[a] |
| Iowa | Yes | No | No | Yes | 250[a] |
| Kansas | No | Yes | No | Yes | 400[a] |
| Kentucky | Yes | No | No | Yes | 500[a] |
| Louisiana | No | Yes | Yes | Yes | 500[a] |
| Maryland | No | No | No | No | 1,000 |
| Massachusetts | No | No | Yes | No[c] | - |
| Minnesota | No | No | Yes | Yes | 1,000 |
| Mississippi | No | No | Yes | No | 500 |
| Missouri | No | No | No | Yes | 500[a] |
| Montana | Yes | No | No | Yes | 500 |
| New Mexico | No | Yes | Yes | Yes | - |
| New York | No | No | No | No | 500 |
| North Carolina | No | No | Yes | No | 1,000 |
| North Dakota | Yes | No | No | Yes | - |
| Oklahoma | No | Yes | No | No | 1,000[a] |
| Oregon | No | Yes | No | No | 500[a] |
| South Carolina | No | No | Yes | No[d] | 1,000 |
| Utah | No | No | Yes | Yes | 1,000[a] |
| Vermont | Yes | No | No | No | 1,000 |
| Virginia | No | No | Yes | No | 500 |
| Wisconsin | No | No | Yes | No[e] | 450 |
| Number Yes | 7 | 9 | 14 | 14 | 26 |
| Number No | 23 | 21 | 16 | 16 | 4 |

[a]Federal income tax allowed in addition to standard deduction.
[b]Limited to $300 per taxpayer.
[c]Limited to earned and business income only.
[d]Limited to $500 per taxpayer.
[e]Limited to 3 percent of net income before federal tax.

Source: Income tax statutes, regulations and tax forms of the several states, and Commerce Clearing House, State Tax Guide, Second Edition, 1960.

authorities has been practically limited to the federal code[14] since the high marginal rates of the federal tax are significantly more crucial to investment decision-making. In consideration of the comparatively low state tax rates, the rationale for the special treatment of capital gains on the state level becomes less tenable. As a result, almost one-half of the income tax states include all realized gains in the tax base. Only eight states follow the federal practice of permitting taxpayers to exclude 50 percent of long-term gains on assets held more than six months. A few states use longer periods with sliding scales of percentage exclusion; Maryland and Vermont alone conform to the British practice of excluding all capital gains from the tax base.

Reciprocal Income Tax Deductibility

Another important feature on which the income tax states are almost evenly divided is with regard to reciprocal federal-state income tax deductibility. The federal provision allowing state taxes to be deducted from the federal income tax base effectively reduces the nominal progressivity and burden of state income taxes, particularly for taxpayers in the upper tax brackets who file itemized federal returns. Of course, this results from the steeply graduated federal rates, e.g., a taxpayer in the 75 per cent federal bracket pays his state tax with 25¢-after-federal-tax dollars. In turn, eighteen of the income tax states permit either full or limited reciprocal deduction of the federal tax in the computation of the state income tax base.[15] Thus, each tax reduces the liability of

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[14]The following are cited merely as representative of the voluminous literature on the subject: L. H. Seltzer, The Nature and Tax Treatment of Capital Gains (New York: National Bureau of Economic Research, 1951); H. Simon, Personal Income Taxation (Chicago: University of Chicago Press, 1938), Chap. VII, pp. 148-169; W. Vickrey, Agenda for Progressive Taxation (New York: The Ronald Press Company, 1947), Chap. V, pp. 136-150; H. Groves, Financing Government (New York: Henry Holt and Company, 1954), pp. 168-173; W. W. Heller, "Investors' Decisions, Equity, and the Capital Gains Tax," Federal Tax Policy for Economic Growth and Stability, pp. 381-394, and "Practical Limitations on the Federal Net Income Tax," Journal of Finance, September, 1952, pp. 185-199; W. Cary, "Pressure Groups and the Revenue Code," Harvard Law Review, Vol. 68 (1955), pp. 745-780; R. E. Paul, "Erosion of the Tax Base and Rate Structure," Federal Tax Policy for Economic Growth and Stability, pp. 297-311; and H. M. Somers, "An Economic Analysis of the Capital Gains Tax," National Tax Journal, September, 1948, pp. 226-232.

[15]An analysis of the Colorado income tax in 1959 showed that the "federal tax deduction accounted for more than the total amount of all other itemized and standard personal expense deductions reported on taxable returns." Governor's Tax Study Group, Financing Government in Colorado, 1959, p. 294.

the other, and it is this mutual deductibility that gives rise to the marked difference between the effective burden of a state tax to the taxpayer and the amount of tax collected by the state.[16]

Some form of standard or optional deduction in lieu of itemizing personal expenses is permitted by the vast majority of income tax states,[17] but there is little uniformity in the treatment of this item. The deductions vary from 5 percent of net income to 10 percent of adjusted gross income with maximum permissible deductions ranging from $250 to $1,000 on joint returns. Moreover, about half of these states permit the taxpayer to take the full federal tax deduction on top of the standard deduction. This is contrary to the federal code which allows deductibility of state taxes only by those taxpayers who file itemized federal returns. Because of this feature of the federal tax, the modifying effect of reciprocal tax deductibility does not apply to the vast majority of medium and low income taxpayers who file under the federal short form or take the federal optional standard deduction.

## Personal Exemptions and Credits

Quantitatively, the most important single factor accounting for the "erosion" of the state income tax base is the granting of personal exemptions and credits.[18] As previously noted, exemptions are rationalized on the grounds that the ability-to-pay principle should take into consideration both the taxpayer's net income and family obligations--the tax should apply only to income above a socially determined minimum standard of living. However, the wide variations among the income tax states in the treatment of this factor, as shown in Table 15.4, suggest that revenue needs and administrative expediency were perhaps as important as considerations of equity. Only seven states follow the federal code of allowing a standard $600 exemption per individual. The combinations of the other states range from $500 for a single individual and $1,000 for a married couple in Vermont, to $5,000 and $7,000 exemptions for similar categories in Mississippi. Moreover, five states have introduced, in lieu of exemptions that reduce the tax base, flat dollar credits as deductions from normal tax.[19] The

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[16]The real or effective burden of any state tax is measured by the net increase in tax cost attributable to the imposition of the tax, i.e., the net amount by which a taxpayer's state and federal tax liability combined exceeds the federal tax liability he would have incurred in the absence of the state tax.

[17]Exceptions are Delaware, Massachusetts, New Mexico and North Dakota.

[18]Reuben A. Zubrow, "The Erosion of a State Income Tax," National Tax Journal, March, 1960, pp. 59-68.

[19]New York utilizes both exemptions and credits.

Table 15.4

Exemptions and Credits for Dependents Permitted by Personal Income Tax States, 1960

| State | Personal exemption: Single individual | Personal exemption: Married or head of family | Credits for dependents |
|---|---|---|---|
| Alabama | $1,500.00 | $3,000.00 | $300.00 |
| Arizona | 1,000.00 | 2,000.00 | 600.00 |
| Arkansas[a] | 17.50 | 35.00 | 6.00 |
| California | 1,500.00 | 3,000.00 | 600.00 |
| Colorado | 750.00 | 1,500.00 | 750.00 |
| Delaware | 600.00 | 1,200.00 | 600.00 |
| Georgia | 1,500.00 | 3,000.00 | 600.00 |
| Hawaii | 600.00 | 1,200.00 | 600.00 |
| Idaho | 700.00 | 1,500.00 | 200.00 |
| Iowa[a] | 15.00 | 30.00 | 7.50 |
| Kansas | 600.00 | 1,200.00 | 600.00 |
| Kentucky[a] | 13.00 | 26.00 | 13.00 |
| Louisiana[b] | 2,500.00 | 5,000.00 | 400.00 |
| Maryland | 800.00 | 1,600.00 | 800.00 |
| Massachusetts | 2,000.00 | 2,500.00 | 400.00 |
| Minnesota[a] | 10.00 | 30.00 | 14.00 |
| Mississippi | 5,000.00 | 7,000.00 | -- |
| Missouri | 1,200.00 | 2,400.00 | 400.00 |
| Montana | 600.00 | 1,200.00 | 600.00 |
| New Mexico | 1,500.00 | 2,500.00 | 200.00 |
| New York[c] | 600.00 | 1,200.00 | 600.00 |
| North Carolina | 1,000.00 | 2,000.00 | 300.00 |
| North Dakota | 600.00 | 1,500.00 | 600.00 |
| Oklahoma | 1,000.00 | 2,000.00 | 500.00 |
| Oregon | 600.00 | 1,200.00 | 600.00 |
| South Carolina | 1,000.00 | 2,000.00 | 400.00 |
| Utah | 600.00 | 1,200.00 | 600.00 |
| Vermont | 500.00 | 1,000.00 | 500.00 |
| Virginia | 1,000.00 | 2,000.00 | 200.00 |
| Wisconsin[a] | 7.00 | 14.00 | 7.00 |

[a]Instead of personal exemption these states use the indicated dollar tax credit against normal tax.

[b]The exemptions are deductible from lowest income tax bracket only, and are equivalent to tax credits of $50, $100, and $8, respectively.

[c]Additional credit against tax of $10 for single individual and $25 for married taxpayer.

Source: Income tax statutes, regulations and tax forms of the several states, and Commerce Clearing House, State Tax Guide, Second Edition, 1960.

rationale for the use of the tax credits in place of exemptions is that the value of the credit varies only with the size of the taxpayer's family regardless of the level of income, whereas the value of the personal exemption varies directly with both the size of family and level of income. In other words, the tax credit has a uniform value for all taxpayers, while the exemption represents a greater dollar tax benefit to taxpayers in the upper income brackets. In any case, after deducting personal exemptions from net income the remainder is the net taxable income which represents the base for applying normal tax rates.

## Tax Rates

Under a graduated personal income tax structure the rates are applied to "net taxable income" which is significantly smaller than the taxpayer's personal income.[20] Moreover, the progressivity of the average rates will be considerably less than that of the marginal or bracket rates since the latter represent tax rates applied to successive increments of taxable income whereas the average rate represents the tax liability expressed as a percentage of the total net taxable income.[21] Thus, under a state tax based on $1,000 income brackets with statutory rates ranging from 1 to 10 percent, the average rate on $10,000 of taxable income would only be 5.5 percent although the taxpayer was in the 10 percent tax bracket class.

Table 15.5 is a comparative summary of statutory (marginal) tax rates for the thirty personal income tax states, exclusive of Alaska.[22] As in the case of the tax base, considerable variation exists between the rate structures of the states and no two have identical tax schedules. The most common unadjusted minimum rate, used by a dozen states, is 1 percent. However, it is applied to varying amounts of taxable income, ranging from the first $1,000 of income in six states to the first $10,000 of income in New Mexico. The highest beginning

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[20]Analysis of federal income tax returns reveals that only about 40 percent of the personal income received in the nation as a whole has been included in the federal income tax base in recent years. Similarly, on the state level it was found that in the case of an income tax state with one of the most steeply progressive rate structures, only about 25 percent of the personal income received in that state ever found its way into the tax base. See Zubrow, op. cit., pp. 66-67.

[21]Of course, as taxable income rises above the level to which the maximum rate first applies, the marginal rate remains constant as the average continues to increase. However, the latter will never reach the marginal and, therefore, is always the lesser of the two rates.

[22]Alaska levies a state income tax equal to 14 percent of the taxpayer's federal tax liability.

Table 15.5

Comparative State Summary of Statutory Personal Income Tax Rates, 1960

| State | Minimum marginal rate | | Maximum marginal rate | |
|---|---|---|---|---|
| | Percent | Applied to first | Percent | Applied to income over |
| Alabama | 1.5 | $1,000 | 5.0 | $ 5,000 |
| Arizona | 1.0 | 1,000 | 4.5 | 7,000 |
| Arkansas | 1.0 | 3,000 | 5.0 | 25,000 |
| California | 1.0 | 2,500 | 7.0 | 15,000 |
| Colorado[a] | 3.0 | 1,000 | 9.0 | 10,000 |
| Delaware | 1.5 | 1,000 | 8.0 | 8,000 |
| Georgia | 1.0 | 1,000 | 6.0 | 10,000 |
| Hawaii | 3.0 | 500 | 9.0 | 30,000 |
| Idaho[b] | 3.0 | 1,000 | 9.5 | 5,000 |
| Iowa | 0.75 | 1,000 | 3.75 | 4,000 |
| Kansas | 1.5 | 2,000 | 5.5 | 7,000 |
| Kentucky[c] | 2.0 | 3,000 | 6.0 | 8,000 |
| Louisiana | 2.0 | 10,000 | 6.0 | 50,000 |
| Maryland | 3.0 | d | 5.0 | d |
| Massachusetts | 2.5 | e | 6.0 | e |
| Minnesota[b] | 1.0 | 500 | 10.5 | 20,000 |
| Mississippi | 2.0 | 5,000 | 6.0 | 25,000 |
| Missouri[g] | 1.0 | 1,000 | 4.0 | 9,000 |
| Montana | 1.0 | 1,000 | 7.0 | 7,000 |
| New Mexico | 1.0 | 10,000 | 4.0 | 100,000 |
| New York | 2.0 | 1,000 | 10.0 | 15,000 |
| North Carolina | 3.0 | 2,000 | 7.0 | 10,000 |
| North Dakota | 1.0 | 3,000 | 11.0 | 15,000 |
| Oklahoma | 1.0 | 1,500 | 6.0 | 7,500 |
| Oregon | 3.0 | 500 | 9.5 | 8,000 |
| South Carolina | 2.0 | 2,000 | 7.0 | 10,000 |
| Utah | 1.0 | 1,000 | 5.0 | 4,000 |
| Vermont | 2.0 | 1,000 | 7.5 | 5,000 |
| Virginia | 2.0 | 3,000 | 5.0 | 5,000 |
| Wisconsin | 1.0 | 1,000 | 8.5 | 14,000 |

[a]Plus 2 percent surtax on income over $5,000 derived from intangibles.
[b]Plus filing fee of additional $10 per return.
[c]Plus surtax of 10 percent of first $25 of normal tax, 20 percent of next $75, and 30 percent of all over $100.
[d]All income subject to 3 percent rate, except investment income over $500 subject to 5 percent rate.
[e]Rate of 2.5 percent applies to earned and business income; 6 percent rate to interest, dividends, and capital gains; and 15 percent to annuities. In addition, all income subject to 23 percent surtax.
[f]Plus 10 percent on tax after personal credit.
[g]Rates are average and not marginal, i.e., apply to entire income and not brackets, less fixed credits.

Source: Income tax statutes, regulations and tax forms of the several states, and Commerce Clearing House, State Tax Guide, Second Edition, 1960.

rates are in Colorado, Idaho, Maryland, North Carolina and Oregon where the tax structures start at 3 percent. There is even less uniformity with regard to maximum marginal rates. They range from a low of 3.75 percent on taxable income in excess of $4,000 in Iowa to a high of 11 percent on taxable income in excess of $15,000 in North Dakota. The next highest unadjusted maximum rates are to be found in Minnesota and New York where rates of 10.5 and 10 percent are applied to taxable incomes above $20,000 and $15,000, respectively. Moreover, sundry temporary surtaxes, surcharges, (particularly on investment income), and tax allowances utilized by many of the states materially modify the progressivity of the statutory rates and the distribution of the tax burden. It is apparent in light of the wide variations shown in Table 15.5 that although the ability-to-pay principle requires graduated rates, the actual degree of progression primarily reflects state revenue needs, the political feasibility of a given tax distribution, and a subjective valuation of taxpayer equity.

## Interstate Comparisons of Income Tax Liabilities and Collections

An attempt to measure the relative income tax burdens between states was made in a recent tax study on the basis of the computed income tax liabilities in 1957 for a married couple with two dependent children at eight different levels of income for each of the twenty-nine continental income tax states and the District of Columbia.[23] In order to maintain comparability between the states it was assumed the family did not receive any investment or capital gains income, the wife had no independent income, and the "adjusted net income" represented family income before federal or state income taxes and personal exemptions or credits, but after deduction of all other business and personal expenses. The computed tax liabilities (Table 15.6) indicate that the progressivity and burden of state income taxation in the United States has been considerably modified by such key provisions as splitting of income, federal tax deductibility and personal exemptions. When the average income tax for all states in the nation was expressed as a percentage of the adjusted net income the state tax liability progressed from about 1/10 of 1 percent at the $3,000 income level to less than 4 percent at the $100,000 level. At all income levels below $10,000 the average tax worked out to be less than 2 percent. In consideration of the fact that 1957 federal tax return data show that almost 95 percent of all taxpayers reported adjusted gross income of less than $10,000,[24] it is evident that the overwhelming majority of families would be included in the first four income classes.

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[23]Governor's Tax Study Group, Financing Government in Colorado, 1959, pp. 283-286.

[24]U. S. Treasury, Internal Revenue Service, Statistics of Income for 1957 (Washington: 1959), p. 20.

Table 15.6

Computed State Personal Income Tax Liability for a Representative Taxpayer at Selected Levels of Income, Taxable Year, 1957

| Adjusted net income level | Dollar tax liability in: Lowest state | Highest state | National average tax: Amount in dollars | As percent of income |
|---|---|---|---|---|
| $ 3,000 | $ 0 | $ 20.00 | $ 3.91 | .13 |
| 5,000 | 0 | 100.00 | 36.36 | .73 |
| 8,000 | 20.96 | 295.00 | 119.46 | 1.39 |
| 10,000 | 52.16 | 445.00 | 191.24 | 1.91 |
| 15,000 | 92.00 | 820.00 | 402.29 | 2.68 |
| 25,000 | 158.32 | 1,758.90 | 864.52 | 3.46 |
| 50,000 | 364.32 | 4,232.40 | 1,938.64 | 3.88 |
| 100,000 | 755.64 | 9,179.40 | 3,891.00 | 3.89 |

Source: Based on Governor's Tax Study Group, Financing Government in Colorado, 1959, pp. 284-286.

It is also apparent on the basis of the data that wide variations exist between the states in the amount of tax imposed on a representative family. The taxes levied by the highest states at all levels of adjusted net income were approximately ten times as large as those of the states with the lowest taxes. The family at the $3,000 income level would not incur any tax liability in fifteen of the states; and the tax would range from $1.60 to $20.00 in the remaining states. Only three of the latter were Western States--Montana, Oregon and Utah. Oregon's tax consistently ranked high at all levels of income, and Idaho's tax generally was above the national average. At the income levels from $5,000 to $10,000, the five states with the heaviest personal income taxes were Minnesota, North Carolina, Oregon, Vermont and Wisconsin. In contrast, at the other end of the scale, with the exception of Louisiana and Mississippi, the states with the lightest tax burdens were three Western States--Arizona, California and New Mexico. At income levels of $15,000 and more the top-ranking states, including Delaware and New York, were generally those which do not permit the deductibility of the federal tax in the determination of state taxable income. For the same reason California's tax at progressively higher income levels became comparatively greater, notwithstanding its low statutory rates and income-splitting provision.

Two other measures widely used to compare relative state tax burdens are obtained by reducing the collections from a given tax to a per capita basis and by expressing the state tax collection as a percentage of the personal income received in the state (Table 15.7). The wide variation in the total dollar amount of state collections, ranging from more than a half billion to less than $5 million, when considered alone is not too meaningful. For example, New York's revenue from this source was more than a hundred times larger than North Dakota's, but after the data are reduced to per capita figures the ratio becomes less than six to one. Of course, interstate comparisons based on per capita figures also have limitations. The essence of progressive income taxation is that it should approximate ability-to-pay and not be levied as a capitation tax. Average data, however, conceal both the extensiveness of the tax and its apportionment among the various income groups in the taxing jurisdiction. But within such limitations the data do reveal the general level of income taxation which prevailed in the several states. For the fiscal year 1959 per capita state income tax collections ranged from a high of $59.58 in Delaware to a low of $2.91 in Mississippi. The next five top-ranking states, all with per capita income taxes in excess of $30.00, were Oregon, Alaska, New York, Massachusetts and Wisconsin. On the other hand, the eight lowest states had a tax burden on this basis of less than $10.00. In addition to Oregon, Idaho was the only Western State above the unweighted national average of $18.60; while California's per capita income tax was less than two-thirds of the average.

When the state income tax is expressed as a percentage of personal income received, the nominal burden ranged from slightly more than 2 percent in Oregon to less than 3/10 of 1 percent Mississippi; with an unweighted average of approximately 9/10 of 1 percent for the 27 states for which data were available. Except for some slight shift in relative positions, it appears that generally the same groups constitute the heavy and light income tax states on the basis of this index.

In summary, only eleven states imposed a personal income tax which amounted to as much as 1 percent of the income received in the state, while the seven lowest states had a tax of less than 1/2 of 1 percent. With regard to Nevada's neighbors, Idaho belonged in the former category and California in the latter.

## Administration

When the first modern state personal income tax was introduced by Wisconsin a half century ago many competent observers had serious doubts as to whether such a tax ever could be successfully administered by state governments. One of the prominent tax authorities of that period stated that "whatever may be the future of the income tax in

Table 15.7

Comparative Importance of State Income Tax Collections, Ranked by States, Fiscal Year 1959

| Total personal income tax collections (millions)[a] | | | Per capita personal income tax collections[b] | | | Income tax collections as percent of personal income[c] | | |
|---|---|---|---|---|---|---|---|---|
| Rank | State | Amount | Rank | State | Amount | Rank | State | Percent |
| 1 | New York | $565.8 | 1 | Delaware | $59.58 | 1 | Oregon | 2.17 |
| 2 | Calif. | 160.7 | 2 | Oregon | 43.49 | 2 | Delaware | 2.16 |
| 3 | Mass. | 155.0 | 3 | Alaska | 38.57 | 3 | Wisconsin | 1.59 |
| 4 | Wisconsin | 121.2 | 4 | New York | 34.86 | 4 | Vermont | 1.47 |
| 5 | Maryland | 81.5 | 5 | Mass. | 31.88 | 5 | New York | 1.35 |
| 6 | Oregon | 77.1 | 6 | Wisconsin | 30.77 | 6 | Mass. | 1.33 |
| 7 | Minnesota | 76.5 | 7 | Maryland | 27.57 | 7 | Maryland | 1.24 |
| 8 | Virginia | 71.8 | 8 | Vermont | 25.66 | 8 | Minnesota | 1.18 |
| 9 | N.Carolina | 60.7 | 9 | Minnesota | 22.67 | 9 | Idaho | 1.17 |
| 10 | Kentucky | 45.9 | 10 | Idaho | 19.98 | 10 | Virginia | 1.09 |
| 11 | Iowa | 36.0 | 11 | Virginia | 18.25 | 11 | Kentucky | 1.07 |
| 12 | Missouri | 34.0 | 12 | Colorado | 15.23 | 12 | N.Carolina | 0.96 |
| 13 | Alabama | 30.3 | 13 | Kentucky | 14.91 | 13 | Utah | 0.81 |
| 14 | Georgia | 29.3 | 14 | Utah | 14.26 | 14 | Colorado | 0.74 |
| 15 | Delaware | 27.1 | 15 | Montana | 13.70 | 15 | Montana | 0.71 |
| 16 | Colorado | 26.1 | 16 | N.Carolina | 13.35 | 16 | Alabama | 0.69 |
| 17 | Kansas | 22.1 | 17 | Iowa | 12.74 | 17 | Iowa | 0.68 |
| 18 | S.Carolina | 18.4 | 18 | Calif. | 11.21 | 18 | S.Carolina | 0.63 |
| 19 | Oklahoma | 15.0 | 19 | Kansas | 10.42 | 19 | Kansas | 0.52 |
| 20 | Idaho | 13.2 | 20 | Alabama | 9.45 | 20 | Georgia | 0.52 |
| 21 | Utah | 12.3 | 21 | Missouri | 7.97 | 21 | Calif. | 0.44 |
| 22 | Vermont | 9.5 | 22 | Arizona | 7.89 | 22 | Arizona | 0.41 |
| 23 | Montana | 9.4 | 23 | Georgia | 7.68 | 23 | N.Dakota | 0.41 |
| 24 | Arizona | 9.0 | 24 | S.Carolina | 7.64 | 24 | Missouri | 0.39 |
| 25 | Arkansas | 8.4 | 25 | N.Dakota | 6.92 | 25 | Arkansas | 0.39 |
| 26 | Alaska | 8.1 | 26 | Oklahoma | 6.55 | 26 | Oklahoma | 0.38 |
| 27 | Miss. | 6.4 | 27 | Arkansas | 4.78 | 27 | Miss. | 0.28 |
| 28 | N.Dakota | 4.5 | 28 | Miss. | 2.91 | - | Alaska | d |
| | Total | $1,735.2 | | Average | $18.60 | | Average | 0.89 |

[a]Louisiana and New Mexico excluded because Bureau of Census reports show only combined personal and corporate tax collections for these two states.

[b]Based on population estimates for July 1, 1958.

[c]Based on personal income received for calendar year, 1958.

[d]Personal income estimate not available.

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1959; Office of Business Economics, Survey of Current Business, August, 1959.

the United States, it has no prospects as a state income tax."[25] It was believed that if the states were to rely upon income taxation it would result in widespread evasion, underreporting of income, and tax inequities because of inherent complexities and enforcement difficulties.

Since the tax is self-assessed the responsibility of computing the tax and filing the return is placed on the taxpayer. This accounts for the three basic functions of income tax administration: taxpayers must be identified and those who do not report must be located, returns must be verified, and the tax must be collected. Although it may be assumed that the majority of taxpayers are honest, it is recognized that many also subscribe to the maxim that "the best tax is the tax which someone else pays." Hence, administration must be consistently effective, otherwise taxpayer morale deteriorates, extensive evasion takes place, and horizontal "inequities" arise between taxpayers who in other basic respects enjoy similar economic circumstances. Of course, the search for tax loopholes and means of shifting the tax burden is not restricted to state taxation. A greater effort probably is made in attempting to minimize federal taxes because of their relative importance and progressivity. But the states are confronted with the additional problem of closing loopholes that result from their limited political jurisdiction--the taxation of residents' out-of-state income and non-residents' income derived from sources within the state.

Notwithstanding these limitations, post-war administrative developments tend to support the position now held by many public finance authorities that the personal income tax can be administered effectively and fairly by state governments, particularly when they utilize withholding-at-source and other "pay as you go" features comparable to those provided under the federal code. For example, a recent study indicated that in the case of an income tax state which tied its withholding directly to the federal withholding tax, the underreporting of income for tax purposes in 1957 represented approximately 12 percent of the total income that should have been reported,[26] whereas on the federal level it has been estimated to be about 10 percent.[27] In terms of compliance the voluntary reporting of approximately 88 percent of income for tax purposes on the state level does not compare too unfavorably

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[25]E. R. A. Seligman, The Income Tax (New York: Macmillan Company, 1911), p. 425.

[26]Report of the Governor's Tax Study Group, Financing Government in Colorado, 1959, p. 292.

[27]D. M. Holland and C. H. Kahn, "Comparison of Personal and Taxable Income," Federal Tax Policy for Economic Growth, Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D. C., 1955), pp. 313-38.

with the 90 percent federal figure. Of course, the above percentage applies only to one state and there are large variations between the states on this score. Only those that use withholding and continuously strive to achieve effective enforcement can hope to approximate the federal record on compliance.

Withholding of state income taxes by employers is relatively new. Oregon led the way in 1948 and since then more than one-third of the income tax levying states have adopted some form of payroll withholding. Three different methods are presently in use for computing the amount to be withheld. One method requires withholding of a flat percentage of every wage payment, another takes a flat percentage of the amount withheld for federal tax, and a third provides the employer with tables or formulas similar to those used for federal withholding. The first two methods result in withholding which only approximates the taxpayer's liability but they are relatively simple to apply and therefore have a low compliance cost. In contrast, the third method, though more burdensome for the employer, results in withholding that more closely corresponds with tax liability. Despite the fact that under all three methods a refund problem is created and some additional compliance costs are imposed upon employers, the general response to withholding in the states where used has been favorable--it makes possible more complete coverage, reduces delinquencies, increases revenues, and proves more convenient for taxpayers. In brief, the introduction of withholding at source probably has been one of the most important single innovations to occur in the administration of the state personal income tax.

Other recent developments which have made for more efficient administration have been the simplification of reporting (short forms, standard deductions, broader tax tables), extensive use of electronic processing equipment, inspection of federal income tax returns by state authorities, and the introduction of an experimental program for the exchange of tax audit information between several states and the Internal Revenue Service. Finally, it may be noted that it is difficult to obtain comparable cost data on the administration of state personal income taxes primarily because of inadequate record keeping and the failure to separate tax collection costs by type of specific levy. However, in the few states for which such data were available the cost of administration was estimated to be approximately 3 percent of total income tax collections,[28] a cost which generally is considered to be within the 2 to 5 percent range for a "good tax" from the administrative aspect.

## Potential Income Tax Revenues

The potential revenue that can be collected from a state income tax primarily depends upon the level of personal income received, statutory deductions and exemptions, and the tax rate structure. As already

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[28]Colorado Study, op. cit., p. 317.

noted, there are marked variations in the rate and base provisions currently used by the thirty-one personal income tax states. Dependent upon the revenue requirements and the desired distribution of the tax burden, if Nevada were to levy a state income tax it could pattern it after one of the types used in a neighboring Western State--California, Idaho or Utah; or it could adopt a variant of the unique federal tie-in system employed by Alaska. Estimates of the potential revenue yields for Nevada based on these different methods of income taxation are developed in Table 15.8.

Table 15.8

Estimates of Potential Income Tax Revenues for Nevada, Years 1957 and 1960

| | Nevada tax revenues (in thousands) if patterned on: | | |
|---|---|---|---|
| | California | Utah | Idaho |
| Year 1957, if estimate based on: | | | |
| A. State income tax collections as a percent of adjusted gross income reported on federal tax returns | $2,661 | $4,448 | $6,293 |
| B. State income tax collections as a percent of personal income received | 2,653 | 4,464 | 6,082 |
| C. State per capita income tax collections adjusted for personal income received | 2,706 | 4,546 | 6,301 |
| Year 1960, based on projected annual rate of income growth of 5 percent: | | | |
| A. State income tax collections as a percent of adjusted gross income reported on federal tax returns | $3,081 | $5,149 | $7,223 |
| B. State income tax collections as a percent of personal income received | 3,071 | 5,167 | 7,040 |
| C. State per capita income tax collections adjusted for personal income received | 3,132 | 5,263 | 7,294 |

California represents a "low" income tax state. It permits the splitting of income and it has relatively high personal exemptions. However, it does not allow federal income taxes as a deduction from the state tax base. Its rate structure ranges from 1 percent on the first $5,000 of taxable income to 6 percent on income over $25,000.[29] A study of comparative state income tax liabilities for 1957 showed that California ranked among the lowest fifth of the income tax states of the nation.[30] On the basis of state and federal income tax statistics, it is estimated that if Nevada had levied an income tax based on a tax structure comparable to that of California in 1957, the last year for which federal data are available, the State would have raised approximately $2.7 million from this source. If an annual income growth factor for Nevada of 5 percent is applied for the last three years it appears that the potential income tax collections for Nevada in 1960 would be about $3.1 million.

Utah is considered to be a "median" income tax state on the basis of interstate comparisons of tax burdens. It does not permit the splitting of income but does allow the full deduction of federal income taxes. Exemptions are the same as those provided under the federal code. Rates range from 1 percent applied to taxable income of less than $1,000 to 5 percent on income of $4,000 or more. Table 15.8 shows that a comparable income tax for Nevada in 1957 would have produced about $4.5 million of additional state revenue. If an adjustment is made for recent income growth it appears that the 1960 potential revenue from a state tax patterned after the Utah system would have amounted to approximately $5.2 million.

Idaho is one of the "high" personal income tax states in the west. On a per capita basis and as a percent of personal income, Idaho's income tax collections ranked among the ten top states of the nation. Personal exemptions in Idaho are considerably below the average of the other income tax states. Although it permits the splitting of income and federal tax deductibility, its marginal rates range from 3 percent on the first $1,000 bracket to 9.5 percent on all income of $5,000 or more. It is estimated that if Nevada had used an income tax structure similar to that of Idaho's in 1957 it would have raised about $6.3 million of additional revenue for the State. Again, adjusting for the growth factor the potential yield from this source in 1960 would approximate $7.2 million.

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[29]California's rate structure for 1960 was revised and the 1 percent minimum bracket rate now applies to the first $2,500 of income and the maximum bracket rate was raised to 7 percent and applies to taxable income over $15,000.

[30]Colorado Tax Study, op. cit., pp. 286-287.

Finally, if Nevada in 1957 had followed Alaska's example and simply had levied a state personal income tax tied directly to the taxpayer's federal income tax liability at a flat rate of 10 percent, the State would have raised approximately $7.4 million of additional revenue that year. On the basis of the same percentage growth factor used in the above estimates, the projected yield from such a tax would have exceeded $8.5 million, an amount roughly equivalent to projected State gambling tax revenues for the same year. Furthermore, it is interesting to note that Nevada's sales tax collections are estimated to be about $12 million for calendar year 1960. It is evident that if the State desired to raise an equivalent amount of revenue by the use of a State personal income tax tied directly to the federal tax it would require the imposition of a flat rate of 14 percent which coincidentally is the rate currently used in Alaska.

# CHAPTER XVI

## THE CORPORATION INCOME TAX

In the vast majority of the states today taxes are levied on both personal and business income. The corporation income tax has become widely accepted as an indispensable component of the modern American tax structure. It has proved to be a highly productive source of revenue, an essential instrument of fiscal policy, and an important supplement to the personal income tax. On the state level, it has grown more rapidly during the past two decades than any other major source of state tax revenue and has been described as the nation's "second best tax."[1]

The present federal corporate income tax was adopted in 1909, four years before the enactment of the federal personal income tax. The act of 1894, which contained both a personal and corporation levy, was declared unconstitutional in 1895 because of its direct personal income tax provisions. In order to avoid similar constitutional disqualification, the corporate income tax act of 1909 statutorily defined the tax as a "corporate excise tax on the privilege of doing business." The original tax rate was 1 percent on income in excess of $5,000. Over the years the rates and yields have varied with changes in the levels of economic activity and the need for revenue. At present the basic rate is 30 percent, plus an additional tax of 22 percent on net income above $25,000. Corporate income tax collections in 1959 amounted to $18 billion and represented approximately one-fifth of the total budget receipts of the federal government.

On the state level the patterns of development of corporate and personal income taxation generally have been similar, and the two usually have been enacted in the same statute. Early state laws did not directly tax the income of corporations, but it was assumed that the property of "artificial persons," as well as that of natural persons, was subject to taxation. Thus, as early as 1823 New York passed a tax law which provided that "all incorporated companies receiving a regular income from employment of their capital" should be considered "persons" liable to the general property tax.[2] A few other states attempted to tax corporate income during the nineteenth century. Virginia applied an income tax to corporations in 1844, Pennsylvania extended its bank dividend tax

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[1]Richard Goode, The Corporation Income Tax (New York: Wiley & Sons, Inc., 1951), p. 217.

[2]E. R. A. Seligman, Essays In Taxation (New York: The Macmillan Company, 1931), pp. 145-46.

to corporate dividends during the Civil War, and Georgia attempted to tax corporate income in 1863. However, it is generally agreed that the successful administration of the Wisconsin tax, passed in 1911, marks the beginning of modern corporate income taxation on the state level in this country. A dozen states emulated Wisconsin and passed similar laws prior to 1929; a score of others adopted corporate income taxes during the Great Depression; and three states enacted the tax after World War II. Thus, at the present time thirty-four continental states, plus Alaska, Hawaii and the District of Columbia, levy taxes on corporate net income. All of these states, with the exception of Connecticut, Rhode Island, New Jersey and Pennsylvania, also impose a tax on the net income of individuals. The years in which the states, exclusive of Alaska and Hawaii, adopted the corporation net income tax were as follows:

1911 - Wisconsin
1912 - Mississippi
1915 - Connecticut
1917 - Missouri, Montana, New York
1919 - North Dakota, Massachusetts
1921 - North Carolina
1922 - South Carolina
1923 - Tennessee
1926 - Virginia
1929 - Arkansas, California, Georgia, Oregon
1931 - Idaho, Oklahoma, Utah, Vermont
1933 - Alabama, Arizona, Kansas, Minnesota, New Mexico
1934 - Iowa, Louisiana
1935 - Pennsylvania
1936 - Kentucky
1937 - Colorado, Maryland
1939 - District of Columbia
1947 - Rhode Island
1957 - Delaware, New Jersey

The magnitude and relative importance of federal and state corporate income tax collections are shown in Table 16.1. It will be noted that federal corporate income tax collections have increased approximately sixteen-fold in the last two decades while state collections increased about nine-fold. Moreover, there was a greater increase in the relative importance of the tax for the individual income tax states for which separate data were available than for the federal government during this same period. Corporate tax collections for the states, expressed as a percentage of their total tax receipts, almost doubled from 1939 to 1959, increasing from 5 to more than 9 percent; whereas, the federal receipts only rose from 22 to 24 percent. Of course, the enlarged role of the tax in the revenue systems on both levels of government is a reflection of increased national income as well as the use of higher tax rates.

Table 16.1

Corporate Income Tax Collections in the United States, Selected Years, 1939-1959

| | Corporate income tax collections: Amount (millions) | As percent of total taxes |
|---|---|---|
| Federal: | | |
| 1939 | $ 1,156 | 22.4 |
| 1950 | 10,854 | 27.9 |
| 1957 | 21,531 | 26.9 |
| 1959 | 18,096 | 24.1 |
| State:[a] | | |
| 1939 | $ 108 | 5.0 |
| 1950 | 624 | 11.5 |
| 1957 | 1,046 | 11.8 |
| 1959 | 977 | 9.3 |

[a]Years 1939-1957, collections are for 27 states; and in 1959, for 33 states. In prior years 5 states did not segregate corporate from personal income tax receipts; in 1959, 2 states did not segregate.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1950-1957; Financial Statistics of States, 1939 and 1949; Statistical Abstract of the United States, 1948-1958; and Annual Report of the Secretary of the Treasury for Fiscal Years, 1957 and 1959.

## The Rationale of Corporate Income Taxation

A fundamental justification for corporate income taxation is the special benefit or privilege theory, as developed by a series of court decisions. As early as 1911, the U. S. Supreme Court upheld the corporate income tax as "an excise upon the particular privilege of doing business in the corporate capacity," and termed it "a tax upon the doing of business with the advantages which inhere in the peculiarities of corporate or joint-stock organization."[3]

[3]Flint v. Stone Tracy Co., 220 U. S. 107, (1911).

Originally, the privilege theory of corporate taxation was associated with the origin of the corporate form itself. The earliest corporations were granted by the state particular monopoly privileges or exclusive franchises to carry on business in specified regions or communities. As the nature of the corporation changed and corporate charters became more generalized and easily obtainable, the actual development of modern big business became dependent upon the corporation form of organization. Apart from the legal right of existence, the specific privileges or benefits conferred by a corporate charter are: limited liability of stockholders, perpetual life, easy transfer of ownership, diffused sources of financing, and possibilities for intercorporate affiliation. As noted by Goode:

> These characteristics make it easy for corporations to grow in size and power and to tap new sources of finance and wide markets. Undoubtedly they make possible modern big business as we know it and help to account for a large part of corporate profits.[4]

It is contended by some authorities that if the benefit principle is accepted as a valid justification of a special tax on corporations, then the amount of corporate net income or profits reflects the benefits of incorporation better than any other single measure of business activity. "The fact that business is done in the corporate form, despite special corporation taxes, is a clear indication that the charter is worth something."[5]

A second justification offered by the proponents of the corporate income tax has been termed the government "partnership in enterprise" principle.[6] According to this view, the remarkable success of modern business in the corporate form justifies special direct taxation of corporate enterprise. The tax provides a way of tapping directly the community's income stream at one of its principal sources. If government is justified in taxing income after its distribution to the individual agents of production, it is no less justified in taxing part of the yield from production directly at its source. The "partnership principle" also provides a rationale for the carry-back and carry-over of losses for tax purposes, in that government under such provisions shares the losses as well as the gains of enterprise. In other words, the tax "does

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[4]Goode, op. cit., p. 28.

[5]Ibid., p. 29.

[6]Gerhard Colm, "The Corporation and the Corporate Income Tax in the American Economy," Proceedings of the American Economic Association, May, 1954, pp. 486-503.

not substantially modify the chances and risks involved in a business venture, since the government participates in both gains and losses."[7] In short, an important part of the responsibility of both state and federal government is to help maintain the kind of conditions under which free enterprises can flourish and the concomitant obligation of successful corporate enterprises is to bear a share of the costs of government. Corporations are taxed separately from their individual legal owners because they are established and function as separate and independent economic entities.

Proponents of the tax have also contended that there are two major considerations which specifically favor the use of the corporate income tax by state government. Due to the limited taxing jurisdiction of state governments, other forms of state taxation cannot reach the full income produced within the state and corporate profits channeled to out-of-state stockholders will escape a state's tax base entirely unless a corporate income tax is levied. In other words, the corporate tax provides an effective and practical means for states to tax corporate profits originating within their boundaries which otherwise escape taxation. Also, in this respect it supplements a personal income tax which does not apply to the interest and dividends received by non-residents of the state. Secondly, the over-all state and local tax structure is essentially regressive, and to the extent that the corporate income tax burden is borne by the stockholders, it provides an element of progressivity.

However, opponents of income taxation have pointed out that such taxation of corporations is not in accord with the ability-to-pay principle, the generally accepted criterion of good taxation. Although all types of firms should pay taxes to the state for the privilege of doing business, it is contended that limiting the income tax to corporations is discriminatory and that net income does not necessarily correspond with the value of the benefits received. It cannot be assumed that a firm which has not earned any net profit in a given period has not received any governmental services or benefits. Moreover, in order to assess the distribution of the burden of a tax, it is necessary to distinguish its impact, i.e., the economic units upon which the tax is levied, from its incidence, i.e., the persons upon whom the burden of the tax ultimately comes to rest. While it is difficult generally to determine accurately the incidence of any tax, the numerous shifting possibilities open to the corporate income tax render a precise determination of the distribution of its burden impossible. The corporation income tax may be shifted in part to consumers in the form of higher prices, to employees and other factor sources in lower wages and prices, and to the stockholders in lower dividends or retained earnings. The

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[7] Ibid., p. 496.

extent to which this shifting takes place is not known since it depends on a host of independent, complex variables such as the economic position of the corporation, the degree to which the firm can "administer" price and output, the demand for the product, the rate of turnover of inventory, and the bargaining strength of the corporation relative to its labor force. Perhaps the only accurate general statement that can be made at present with regard to the incidence of the corporate income tax is provided by the theory of "tax diffusion" which holds that the burden of the corporate income tax is shifted to all three types of economic units--consumers, wage-earners, and stockholders; and in part is reflected by reduced undistributed corporate profits. Over a long period the tax becomes so imbedded in the commodity price structure and in equity values that its burden is diffused broadly throughout the economy. In any case, the extensiveness and direction of the shifting of the tax is not determined by the ability-to-pay of the individuals involved and, therefore, the ability principle cannot be used as a rationalization for corporate income taxation. The ability-to-pay principle as applied to the corporation also has been criticized on the grounds that the dollar amount of corporate income is not indicative of the rate of return on capital invested. Thus, two corporations may have identical net income but this may represent a 1 percent return on the net investment of one firm, and a 50 percent return for another.

Finally, it should be noted that the economic effects of the corporate income tax have made it a principal instrument of fiscal policy. The flexibility of its yield exceeds that of any other tax and it contributes significantly to the over-all stability of the economy. However, it should be recognized that on the state level, the degree of flexibility and magnitude of the corporate income tax, and consequently its stabilizing effect, is considerably less than on the federal level. Of course, for all states combined the stabilizing effect of corporate income taxation is quantitatively significant. Moreover, during periods of economic growth characterized by increased demands for state services the rise in corporate income automatically provides an expanded tax base and tax yield which in part will help meet a state's need for greater revenues.

## Interstate Comparisons of Corporate Income Tax Collections

As previously indicated, thirty-six states and the District of Columbia levy a corporation net income tax. Nevada, Washington and Wyoming are the only three states among the continental Western States which at the present time do not utilize this form of state taxation. Although no corporate income tax state collects as large a proportion of its total revenue from this tax as does the federal government, nevertheless it is an important source of revenue for many states as shown in Table 16.2. For example, in 1959, New York

Table 16.2

Total and Per Capita State Corporate Income Tax Collections, Fiscal Year, 1959

| Total corporate income tax collections | | | | Per capita corporate income tax collections | | |
|---|---|---|---|---|---|---|
| Rank | State[a] | Amount (millions) | As % of total tax | Rank | State | Amount |
| 1 | New York | $254.3 | 16.0 | 1 | New York | $15.41 |
| 2 | Pennsylvania | 128.1 | 14.2 | 2 | Wisconsin | 12.09 |
| 3 | Wisconsin | 48.5 | 12.7 | 3 | California | 11.98 |
| 4 | Connecticut | 27.5 | 12.5 | 4 | Connecticut | 11.37 |
| 5 | No. Carolina | 41.0 | 10.3 | 5 | Delaware | 11.37 |
| 6 | California | 175.4 | 9.7 | 6 | Pennsylvania | 11.31 |
| 7 | Rhode Island | 7.6 | 9.5 | 7 | Oregon | 9.22 |
| 8 | Oregon | 16.3 | 9.2 | 8 | No. Carolina | 9.06 |
| 9 | Virginia | 24.3 | 9.0 | 9 | Rhode Island | 8.63 |
| 10 | Minnesota | 26.1 | 8.3 | 10 | Minnesota | 7.67 |
| 11 | Kentucky | 16.7 | 7.8 | 11 | Alaska | 7.32 |
| 12 | Delaware | 5.2 | 7.6 | 12 | Colorado | 7.27 |
| 13 | Idaho | 4.3 | 7.6 | 13 | Idaho | 7.12 |
| 14 | So. Carolina | 14.2 | 7.3 | 14 | Virginia | 6.08 |
| 15 | Mississippi | 12.1 | 6.6 | 15 | Utah | 6.04 |
| 16 | Utah | 5.3 | 6.4 | 16 | Maryland | 6.00 |
| 17 | Georgia | 21.2 | 6.3 | 17 | Massachusetts | 5.97 |
| 18 | Massachusetts | 29.6 | 6.2 | 18 | So. Carolina | 5.88 |
| 19 | Tennessee | 16.5 | 5.9 | 19 | Mississippi | 5.55 |
| 20 | Alaska | 1.4 | 5.8 | 20 | Georgia | 5.50 |
| 21 | Maryland | 18.2 | 5.7 | 21 | Vermont | 5.38 |
| 22 | Arkansas | 8.3 | 5.6 | 22 | Kentucky | 5.34 |
| 23 | Colorado | 9.5 | 5.6 | 23 | Oklahoma | 4.96 |
| 24 | New Jersey | 18.3 | 5.4 | 24 | Arkansas | 4.79 |
| 25 | Vermont | 2.0 | 5.1 | 25 | Tennessee | 4.71 |
| 26 | Montana | 2.9 | 4.8 | 26 | Arizona | 4.33 |
| 27 | Oklahoma | 11.3 | 4.4 | 27 | Montana | 4.25 |
| 28 | Arizona | 5.3 | 4.1 | 28 | Kansas | 3.32 |
| 29 | Kansas | 7.1 | 3.6 | 29 | New Jersey | 3.09 |
| 30 | Missouri | 9.0 | 3.1 | 30 | Alabama | 2.37 |
| 31 | Alabama | 6.9 | 2.8 | 31 | No. Dakota | 2.36 |
| 32 | No. Dakota | 1.5 | 2.6 | 32 | Missouri | 2.12 |
| 33 | Iowa | 2.7 | 1.1 | 33 | Iowa | .96 |
| | Totals | $978.4 | 9.3 | | Average | $ 5.70 |

[a]New Mexico and Louisiana not included since their personal and corporate income tax collections not reported on a segregated basis.

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances for 1959, May, 1960.

collected 16 percent of its total tax revenue from the corporate income tax and four other states--Connecticut, North Carolina, Pennsylvania and Wisconsin--collected more than 10 percent. Among the eight Western States utilizing the tax, the ratio of corporate tax collections ranged from a high of 9.7 percent for California to a low of 4.1 percent in Arizona. The five states in the nation which ranked lower than Arizona on this basis were Alabama, Iowa, Kansas, Missouri and North Dakota. It also may be noted that the nine states which obtain the highest proportion of their taxes from this source do not permit the deductibility of the federal corporate income tax in the computation of the state corporate income tax base. On the other hand, the seven states which obtain the smallest proportion of their revenue from the corporate tax permit deductibility of the full federal tax. In 1959 corporate collections for the eleven states which permitted federal tax deductibility averaged 4.7 percent of total tax collections, whereas for the twenty-two states which did not permit the full deduction the corporate tax collections averaged 8.5 percent, or almost twice as much.

On a per capita basis, state corporate income tax collections in 1959 ranged from a high of $15.41 in New York to a low of $.96 in Iowa, and the national average was $5.70. California ranked third in the nation with per capita collections of $11.98. Among the Western States, it was followed by Oregon with $9.22. The states in the region with the lowest collections on this basis were Arizona, $4.33; and Montana, $4.25.

Table 16.3 presents three other relevant measures used as the basis for making interstate comparisons. The first measure shows state corporate income tax collections expressed as a percentage of total income tax collections. Connecticut, New Jersey, Pennsylvania and Rhode Island have no personal income tax, while Tennessee limits its personal income tax to investment income and, therefore, the comparison is not relevant for these states. Among the remaining states which have both forms of income tax, however, the corporate tax collections for 1959 were relatively less significant than the personal income tax, averaging only 29.0 percent of the combined revenue from these sources. On this basis, California and Mississippi obtained over 50 percent of their income tax collections from the corporate income tax. In the West, Utah followed California with 30 percent, while Oregon was low with a 17.4 percent ratio.

When corporate income tax revenues on the state level are related to those collected by the federal government in these states for fiscal year 1959, the percentages ranged from a high of 46.7 percent in Mississippi to a low of 1.3 percent in Delaware. The over-all average for the thirty-three states was 13.4 percent. Among the Western States, Oregon led with a ratio of 23.8 percent, followed by Idaho with 16.8 percent and California with 14.9 percent. Arizona was about average, 13.6 percent, and Colorado was the lowest in the West with State collections amounting to only 8.0 percent of its federal collections.

Table 16.3

Comparative State Corporate Income Tax Collections as Percentages of Total State Income Tax Collections, Federal Corporate Income Tax Collections, and Personal Income Received, Fiscal Year, 1957

| Corporate income tax collections as percent of total state income tax collections | | | Corporate income tax collections as percent of federal corporate tax collections | | | Corporate income tax collections as percent of personal income[b] | | |
|---|---|---|---|---|---|---|---|---|
| Rank | State | Percent | Rank | State | Percent | Rank | State | Percent |
| 1 | Conn. | 100.0 | 1 | Miss. | 46.9 | 1 | No. Car. | 0.65 |
| 2 | N. J. | 100.0 | 2 | Alaska | 42.1 | 2 | Wisc. | 0.64 |
| 3 | Penna. | 100.0 | 3 | Arkansas | 28.3 | 3 | New York | 0.61 |
| 4 | R. I. | 100.0 | 4 | So. Car. | 25.2 | 4 | Penna. | 0.54 |
| 5 | Tenn. | 77.4 | 5 | Oregon | 23.8 | 5 | Miss. | 0.53 |
| 6 | Miss. | 65.6 | 6 | Vermont | 18.6 | 6 | So. Car. | 0.49 |
| 7 | Calif. | 53.8 | 7 | Idaho | 16.8 | 7 | Calif. | 0.48 |
| 8 | Arkansas | 49.7 | 8 | Calif. | 14.9 | 8 | Oregon | 0.46 |
| 9 | So. Car. | 43.6 | 9 | No. Dak. | 14.7 | 9 | R. I. | 0.44 |
| 10 | Oklahoma | 43.0 | 10 | No. Car. | 14.0 | 10 | Conn. | 0.42 |
| 11 | Georgia | 42.0 | 11 | Wisc. | 13.8 | 11 | Delaware | 0.41 |
| 12 | No. Car. | 40.3 | 12 | R. I. | 13.7 | 12 | Minn. | 0.40 |
| 13 | Arizona | 37.2 | 13 | Arizona | 13.6 | 13 | Arkansas | 0.39 |
| 14 | New York | 31.0 | 14 | Tenn. | 12.9 | 14 | Kentucky | 0.39 |
| 15 | Utah | 30.0 | 15 | Montana | 12.6 | 15 | Idaho | 0.38 |
| 16 | Wisc. | 28.6 | 16 | Utah | 12.4 | 16 | Georgia | 0.37 |
| 17 | Colorado | 26.8 | 17 | Penna. | 11.8 | 17 | Virginia | 0.37 |
| 18 | Kentucky | 26.7 | 18 | Virginia | 11.8 | 18 | Utah | 0.35 |
| 19 | Minn. | 25.4 | 19 | Georgia | 10.8 | 19 | Tenn. | 0.33 |
| 20 | Virginia | 25.4 | 20 | Kentucky | 10.8 | 20 | Vermont | 0.31 |
| 21 | No. Dak. | 25.2 | 21 | Conn. | 9.4 | 21 | Maryland | 0.28 |
| 22 | Idaho | 24.5 | 22 | Colorado | 8.0 | 22 | Oklahoma | 0.28 |
| 23 | Kansas | 24.4 | 23 | Oklahoma | 7.9 | 23 | Colorado | 0.27 |
| 24 | Montana | 23.7 | 24 | Minn. | 7.7 | 24 | Mass. | 0.25 |
| 25 | Missouri | 20.9 | 25 | Maryland | 7.5 | 25 | Arizona | 0.24 |
| 26 | Alabama | 18.5 | 26 | Mass. | 6.2 | 26 | Montana | 0.22 |
| 27 | Maryland | 18.2 | 27 | Alabama | 6.0 | 27 | Kansas | 0.17 |
| 28 | Oregon | 17.4 | 28 | Kansas | 5.8 | 28 | Alabama | 0.16 |
| 29 | Vermont | 17.3 | 29 | New York | 5.0 | 29 | No. Dak. | 0.14 |
| 30 | Delaware | 16.0 | 30 | N. J. | 3.6 | 30 | N. J. | 0.12 |
| 31 | Mass. | 16.0 | 31 | Missouri | 1.9 | 31 | Missouri | 0.10 |
| 32 | Alaska | 14.7 | 32 | Iowa | 1.8 | 32 | Iowa | 0.05 |
| 33 | Iowa | 7.0 | 33 | Delaware | 1.3 | 33 | Alaska | n.a. |
| | Average | 29.0[a] | | Average | 13.4 | | Average | 0.37 |

[a]Excludes states without a personal income tax.
[b]State personal income is for calendar year 1958.

Source: Based on U. S. Department of Commerce, Bureau of the Census, State Tax Collections for 1959; Office of Business Economics, Survey of Current Business, August, 1959; and Secretary of Treasury, Annual Report on the State of Finances, 1959.

In the third measure state corporation income tax collections for fiscal year 1959 are expressed as a percentage of state personal income received during calendar year 1958. In these terms the corporate tax collections varied from less than 7/10 of 1 percent in North Carolina to 5/100 of 1 percent in Iowa. For all corporate income tax states it averaged less than 4/10 of 1 percent. Among the Western States California and Oregon had the highest ratios, slightly less than 1/2 of 1 percent, while Colorado and Arizona showed the lowest ratios of about 1/4 of 1 percent. On the basis of these three relative measures it is apparent that the corporate income tax is considerably more important in California and Oregon than in the other states of the region.

## Nature of State Corporate Income Taxes

The basic characteristics of the corporate income tax vary considerably among the states. For example, in twenty of the states it is a direct tax on the net income of the corporation; in six states it represents a franchise tax; in five states it is an excise tax; and in four states a license tax. In a few states the tax is used in combination. Thus, in California and Utah it represents both an income and franchise tax; while in Pennsylvania and Oregon it is considered to be both an income and excise tax.[8] In contrast to a direct tax which is levied on the net income earned, the franchise, excise and license taxes are levied on the corporate privilege of doing business in the state and the value of the privilege accordingly is measured by the net income received by the corporation.

### The Corporate Income Tax Base

The definition of corporate "gross income" for tax purposes under the statutes of most of the income tax states is similar to the federal definition and generally includes income received from all sources unless specifically exempted or excluded by law. Institutions exempt from the corporate income tax usually are nonprofit institutions such as religious, charitable, scientific, literary, and educational organizations. In addition, such organizations as chambers of commerce, civic leagues, fraternal organizations, recreational bodies, labor, agricultural and horticultural organizations are exempt from the tax in most states. Employee beneficiary associations and teachers' retirement fund societies are exempt in about half of the states. In the case of cooperatives, there does not appear to be any uniform exemption practice

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[8]Commerce Clearing House, Inc., State Tax Guide: All States, 1960.

among the states, although agricultural marketing, telephone, irrigation, insurance, and electric cooperatives are most frequently granted an exempt status. In some states a few particular types of profit-making corporations such as insurance companies, public utilities, state banks, and trust companies are exempt from the corporation income tax when they are subject to other forms of state franchise or excise taxes.

The states also vary considerably with regard to the specific types of receipts excluded from the gross income base and expenses permitted as deductions from income. Receipts generally excluded are insurance proceeds, gifts, bequests, and interest on federal, state and municipal securities. Table 16.4 summarizes some of the important factors which affect the income base used for corporate income tax purposes. It will be noted that about half of the states, in accord with the "immunity doctrine" are prohibited from taxing dividends from corporations owned or sponsored by the federal government, or interest derived from obligations of the United States and its agencies (interest from bonds of the T.V.A. is an exception). However, the income from federal securities may be included in the tax base when the state tax is legally interpreted to be a corporate franchise or privilege tax measured by corporate net income.[9] Similarly, fifteen of the states exclude the interest received by corporations on state and municipal securities from the tax base. Only five states exclude intercorporate dividend receipts although the specific dividend inclusions of the other states vary considerably from each other. In contrast to the usual practice under the personal income tax, net capital gains to corporations are fully taxable under the present tax statutes of most of the corporate income tax states. Twenty-four of the states require full inclusion of net capital gains, and nineteen states allow full exclusion of net capital losses.

Deductions from gross income include the necessary expenses of doing business such as labor costs, raw materials, bad debts, depreciation, losses not covered by insurance, depletion and obsolescence. About half of the states permit contributions to pensions as a deduction. A few regulate the amount of interest which may be regarded as a deduction. Connecticut permits no interest to be deducted as an expense. Quantitatively the most important single deduction is the federal income tax paid by the corporation. When permitted by the state it results in reciprocal income tax deductibility, i.e., the federal tax is taken as a deduction against the state income tax base, and the state tax in

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[9]See Miller et al. v. Milwaukee, 1927, 1 STC P265, 272 U. S. 713, 47 S.Ct. 280; Pacific Co., Ltd., v. Johnson, 1932, 1 STC P275, 285 U. S. 480, 52, S.Ct. 424.

Table 16.4

Comparative State Summary of Selected Corporate Income Tax Base Factors, 1960

| | Deductibility of federal income tax permitted | 85% or more of all types dividend receipts excluded[a] | Exclude interest receipts from: State & local bonds | Exclude interest receipts from: Federal bonds & obligations | Net capital gains included at 100% | Amount of net capital losses permitted |
|---|---|---|---|---|---|---|
| Alabama | Yes | No | Yes | Yes | Yes | Full |
| Alaska | No | No | Yes | No | b | b |
| Arizona | Yes | No | Yes | Yes | Yes | Full |
| Arkansas | No | No | Yes | Yes | Yes | Full |
| Calif. | No | No | No | No | Yes | Full |
| Colorado | No | Yes | No | Yes | Yes | $2,000 |
| Conn. | No | No | No | No | b | b |
| Delaware | No | Yes | Yes | Yes | Yes | None |
| Georgia | No | No | Yes | No | Yes | Full |
| Hawaii | No | Yes | Yes | No | b | b |
| Idaho | Yes | No | No | No | Yes | None |
| Iowa | Yes | No | No | Yes | b | b |
| Kansas | Yes | No | No | No | Yes | $2,000 |
| Kentucky | Yes | No | No | No | b | b |
| Louisiana | Yes | No | Yes | No | Yes | None |
| Maryland | No | Yes | Yes | No | No | None |
| Mass. | No | No | No | No | Yes | Full |
| Minn. | Yes | No | No | No | No | $1,000 |
| Miss. | No | No | Yes | Yes | Yes | Full |
| Missouri | Yes | No | No | No | No | $2,500 |
| Montana | No | No | No | No | Yes | Full |
| N. J. | No | No | No | No | Yes | Full |
| N. Mex. | Yes | No | Yes | Yes | Yes | Full |
| New York | No | No | No | No | b | b |
| No. Car. | No | No | Yes | Yes | Yes | Full |
| No. Dak. | Yes | No | Yes | Yes | No | c |
| Oklahoma | Yes | No | No | No | Yes | Full |
| Oregon | No | No | No | No | Yes | Full |
| Penna. | No | Yes | No | No | Yes | Full |
| R. I. | No | No | Yes | Yes | b | b |
| So. Car. | No | No | Yes | Yes | Yes | Full |
| Tenn. | No | No | No | No | Yes | Full |
| Utah | Yes | Yes | No | No | Yes | Full |
| Vermont | No | No | Yes | Yes | b | b |
| Virginia | No | No | Yes | Yes | Yes | Full |
| Wisconsin | No[d] | No | No | No | Yes | Full |

[a]"No" indicates that state either includes all dividend receipts in taxable income, or excludes only specific limited categories of dividend receipts.
[b]Same as federal code.
[c]Excludes 50 percent of long-term losses only.
[d]Deductibility of federal tax limited to 10 percent of state taxable income.

Source: Commerce Clearing House, State Tax Guide: All States, 1960, and Governor's Tax Study Group, Financing Government in Colorado, 1959, p.331.

turn is used as an offset against the federal tax base. With current federal rates averaging about 50 percent, the effect on the state level is to reduce the state tax liability by approximately one-half. Of the thirty-six states which use the corporation income tax, only thirteen permit the full deductibility of the federal income tax. Wisconsin is unique in that it limits the deductibility to 10 percent of the state taxable income. It is also noteworthy that the states which permit full reciprocal income tax deductibility are primarily agricultural states and their corporate income tax revenues are relatively small. In contrast, the states which do not permit federal deductibility are generally the important industrial and manufacturing states, and the corporate income tax accounts for a significantly higher proportion of their total tax collections.

## Statutory Corporate Income Tax Rates

Table 16.5 presents an interstate comparison of nominal corporate income tax rates in use throughout the nation in 1960. It will

Table 16.5

Statutory State Corporate Income Tax Rates, 1960

| State[a] | Rate[b] | State[a] | Rate[b] |
|---|---|---|---|
| Idaho | 9.5 | Vermont | 5.0 |
| Minnesota | 7.5 | Virginia | 5.0 |
| Kentucky | 7.0-5.0 | Arizona | 5.0-1.0 |
| Wisconsin | 7.0-2.0 | Arkansas | 5.0-1.0 |
| Massachusetts | 6.765 | Georgia | 4.0 |
| North Carolina | 6.0 | Louisiana | 4.0 |
| Oregon | 6.0 | Oklahoma | 4.0 |
| North Dakota | 6.0-3.0 | Rhode Island | 4.0 |
| Mississippi | 6.0-2.0 | Utah | 4.0 |
| California | 5.5 | Connecticut | 3.75 |
| Hawaii | 5.5-5.0 | Tennessee | 3.75 |
| New York | 5.5 | Kansas | 3.5 |
| Colorado | 5.0 | Alabama | 3.0 |
| Delaware | 5.0 | Iowa | 3.0 |
| Maryland | 5.0 | Missouri | 2.0 |
| Montana | 5.0 | New Mexico | 2.0 |
| Pennsylvania | 5.0 | New Jersey | 1.75 |
| South Carolina | 5.0 | Median | 5.0 |

[a]Alaska, 18 percent of federal tax.
[b]Two rates represent the maximum and minimum rates of a progressive rate structure.

Source: Commerce Clearing House, State Tax Guide: All States, 1960.

be noted that twenty-eight states use a single rate ranging from 9.5 percent in Idaho to 1.75 percent in New Jersey. Alaska is unique in using a direct tie-in with the federal income tax, its State levy being 18 percent of a corporation's federal tax liability. The most commonly used rate is 5 percent, levied by eight states, and it represents the median for all the corporate income tax states. Among the Western States, in addition to Idaho, Oregon and California have relatively high rates, while rates in Utah and New Mexico are below the national median. Seven states have progressive rate structures ranging from 1 to 5 percent in Arizona to 2 to 7 percent in Wisconsin. The states graduating their rates use relatively high top rates applicable to low levels of income. Illustrative is that of Arizona with a top rate of 5 percent applicable to all income over $6,000. A few of the states utilize a minimum tax ranging from $10 to $100 which must be paid regardless of income. California has such a minimum of $100.

## Effective Corporate Income Tax Rates

As already indicated, both the federal deductibility and the mutual federal-state deductibility of corporate income taxes reduce a corporation's state tax liability below that reflected by the nominal statutory rate structure. The "effective rate" measures the actual tax cost attributable to the imposition of the state tax expressed as a percent of a firm's total net income before either federal or state income taxes. In other words, the effective or actual cost of the tax to a corporation is the net amount by which the firm's total state and federal income tax liability combined exceeds the federal tax the firm would have incurred in the absence of a state income tax. In Table 16.6 the effective state tax rate has been computed for each state. Where deductibility of the federal income tax is permitted the effective rate is correspondingly lessened. Thus, Oregon which does not permit federal tax deduction has a 6 percent statutory rate which works out to be an effective rate of 2.9 percent. North Dakota which permits deductibility of federal taxes, also has a statutory rate of 6 percent but its effective rate was only 1.4 percent. It is apparent that a state sacrifices revenue by permitting the federal tax to be deducted from income before computing the state tax. In the last two years Colorado and Montana have changed their tax laws and now do not permit deduction of the federal tax, while Kentucky reversed its practice and now permits the federal tax deduction. In the West, at the present time half of the states with an income tax allow the federal tax deduction and the effective marginal rates range from 2.9 percent in Oregon to .5 percent in New Mexico.

Moreover, it should be noted that income tax deductibility transforms slightly progressive and proportional nominal corporate rates into regressive effective rates, with the regressivity being considerably greater for the states which allow the full deductibility

Table 16.6

Effective Corporate State Income Tax Rates, 1960

| States | Effective rates | Statutory maximum rates |
|---|---|---|
| Massachusetts | 3.3 | 6.765 |
| Wisconsin[a] | 3.0 | 7.0 |
| Miss., N. Car., Oregon | 2.9 | 6.0 |
| California, Hawaii, New York | 2.6 | 5.5 |
| Ark., Colo., Del., D. C., Md., Mont., Pa., S. Car., Vt., and Va. | 2.4 | 5.0 |
| *Idaho | 2.3 | 9.5 |
| Georgia, Rhode Island | 1.9 | 4.0 |
| Connecticut, Tennessee | 1.8 | 3.75 |
| *Minnesota | 1.8 | 7.5 |
| *Kentucky | 1.7 | 7.0 |
| *North Dakota | 1.4 | 6.0 |
| *Arizona | 1.2 | 5.0 |
| *Louisiana, *Oklahoma, *Utah | .9 | 4.0 |
| New Jersey | .8 | 1.75 |
| *Kansas | .8 | 3.5 |
| *Alabama, *Iowa | .7 | 3.0 |
| *Missouri, *New Mexico | .5 | 2.0 |

[a]Deduction of federal income tax limited to 10 percent of net income.
*States permit deduction of federal income tax.

Source: Based on Report of the Governor's Minnesota Tax Study Committee (St. Paul: 1956), p. 314 and Commerce Clearing House, Inc., State Tax Guide: All States, 1960.

of the federal tax. For example, Table 16.7 shows the effective rates for a 5 percent statutory rate at selected levels of income under both mutual and federal deductibility conditions.

When mutual deductibility is permitted under a statutory rate of 5 percent, the effective rate for the firm with $25,000 of net income before tax is only 2.5 percent, but still more than twice as large as that for the firm with $1 million of income; whereas, if the deduction of the federal tax were not permitted by the state the effective rate for the smaller firm would be 3.5 percent, or only about 50 percent larger than that for the $1 million firm. In short, reciprocal tax deductibility makes the effective state corporate income tax structure more regressive as long as the federal nominal rate structure is even slightly progressive.

Table 16.7

Effective Rates of a Five Percent Statutory Tax Rate at Selected Levels of Net Income [a]

| Net income before all income taxes | Effective rates, with federal tax deductibility | Effective rates, without federal tax deductibility |
|---|---|---|
| $ 25,000 | 2.49 | 3.50 |
| 50,000 | 1.78 | 2.95 |
| 100,000 | 1.46 | 2.68 |
| 500,000 | 1.24 | 2.46 |
| 1,000,000 | 1.21 | 2.43 |

[a]Computed on the basis of 1960 federal corporate tax rates.

## Allocation of Interstate Income

One of the most difficult problems of corporate income taxation on the state level is apportioning for tax purposes the net income of interstate firms, i.e., of both domestic and foreign firms carrying on business within and without the state. Among the corporate income tax states, three types of methods are used: (1) separate accounting, (2) allocation of particular classes of income to the state in which they may be said to have a taxable situs, and (3) apportionment by an allocation formula. Separate accounting is not feasible for many interstate corporations, although most states allow the use of this method whenever the taxpayer's accounts are kept in a manner so that business attributable to the taxing state can be determined. Allocation of income from particular classes of assets such as real estate may be assigned to a particular state but there are many sources of income where allocation by this method cannot be achieved. Because of the difficulties posed by the first two procedures the formula method is permitted in all states.

Table 16.8 summarizes the components of statutory formulas currently used for the allocation of interstate corporate income. Twenty-three, or almost two-thirds of the states use a three-factor formula composed of property, gross receipts and payroll components. The property factor usually consists of all tangible property used in connection with the business and six states specifically include rental property. The payroll factor mainly consists of wages, salaries, commissions, or other payments made to employees, but the compensation of officers many times is not included. In a few states the sales factor also includes various types of non-operating income, such as rents and royalties. The half dozen other states that use the three-factor formula substitute for payrolls a cost factor variously defined as manufacturing, selling, operating or all business costs. Only seven states use a one or two-factor formula, and these vary considerably from each other.

The statutory definition of a sale made by an interstate firm constitutes one of the major differences between the allocation formulas, and 34 of the 36 states include sales as a basic factor. The most widely accepted general definition, used by fifteen states,

Table 16.8

Components of Statutory Allocation Formulas, State Corporate Income Taxation, 1960

| State | Tangible property | Sales or gross receipts | Payroll or other costs[a] | Allow separate accounting[b] |
|---|---|---|---|---|
| Alabama | X | X | X[a] | Yes |
| Alaska | X | - | X | - |
| Arizona | X | X | X | Yes |
| Arkansas | - | X | - | Yes |
| California[c] | X | X | X | - |
| Colorado | X | X | - | No |
| Connecticut | X | X | X | - |
| Delaware | X | X | X | Yes |
| Georgia | X | X | X | - |
| Hawaii | X | X | X | Yes |
| Idaho | X | X | X | Yes |
| Iowa | - | X | - | No |
| Kansas | X | X | X[a] | Yes |
| Kentucky | X | X | X | - |
| Louisiana | X | X | X | Yes |
| Maryland | X | X | X | Yes |
| Massachusetts | X | X | X | - |
| Minnesota | X | X | X | Yes |
| Mississippi | X | X | X | - |
| Missouri | - | X | - | Yes |
| Montana[d] | X | X | X | Yes |
| New Jersey | X | X | X | - |
| New Mexico | X | X | X[a] | Yes |
| New York | X | X | X | - |
| North Carolina | X | X | X | - |
| North Dakota | X | X[e] | - | Yes |
| Oklahoma | X | X | X[a] | - |
| Oregon | X | X | X | Yes |
| Pennsylvania | X | X | X | - |
| Rhode Island | X | X | X | - |
| South Carolina | X | X | X | Yes |
| Tennessee | X | X | X[a] | Yes |
| Utah | X | X | X | - |
| Vermont | X | X | X | - |
| Virginia[f] | X | X | - | Yes |
| Wisconsin | X | X | X[a] | - |

[a]Indicates manufacturing or selling costs used as third factor instead of payroll.
[b]"No" indicates that separate accounting is specifically not allowed.
[c]Purchases, costs, or other factors may be used.
[d]Recommends standard three-factor formula, but does not require it.
[e]Second factor is a "business ratio" of wages, costs and gross receipts.
[f]Sum of property and gross receipts in both numerator and denominator.

Source: State Tax Guide: All States, 1960, and individual state income tax instructions and regulations.

attributes the sale to the given state if it is "principally secured, negotiated or effected by employees, agents, offices or branches of the corporation located in (the) state,"[10] or if it is any sale except those "negotiated or effected by agents or agencies chiefly situated at, connected with, or sent out from premises. . .outside the state."[11] The other states use such criteria as the destination of the goods, the place where the order is accepted or title passes, the location of stocks and warehouses, or sundry combinations of the above. Because of the multiplicity of statutory allocation formulas and sales definitions many interstate firms operating on a national basis have contended they were subjected to arbitrary, and in some instances, double taxation. In 1959, the federal government passed legislation designed to limit the type of interstate sale subject to state corporate income taxation. Under this new law a state is not permitted to levy taxes on a foreign corporation's net income derived from a state if the only business activities within the state consist of "the solicitation of orders. . .for sales of tangible personal property, which orders are sent outside the state for approval or rejection, and, if approved are filled by shipment or delivery from a point outside the state."[12] At this juncture it is difficult to appraise the effect of this federal act upon state taxation but it is generally believed that the widespread use of a variety of allocation formulas and sales definitions has unduly complicated corporate income taxation on the state level.

## Administration

The administration of the corporation income tax is similar to that of the personal income tax in that the tax is self-assessed, the returns must be office and field audited, and appeal machinery must be established. In addition, under both personal and corporate taxation, when income is earned in more than one state, it must be allocated to the various states involved for tax purposes. However, as noted above, the problem of allocating corporate income is vastly more complex and difficult than that of allocating personal income and most solutions appear to have an arbitrary element. In the absence of the use of a uniform method by the states, discriminatory double-taxation is always possible. The federal courts have permitted states to tax foreign corporations only on the income earned within the state but the courts have not defined "income earned in the state" in terms of any one

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[10] Maryland Income Tax Regulations, 1956.

[11] Minnesota Income Tax Regulations, 1956.

[12] U. S. Public Law 86-272, September, 1959.

formula. This is not a new problem. Many years ago a committee of the National Tax Association publicly stated that:

> All methods of apportionment of trading profits are arbitrary--the cutting of a Gordian knot. . . . There is no one right rule of apportionment, notwithstanding that there are probably a number of different rules, all of which may work substantial justice. . . . The only right rule of procedure is a rule on which the several states can and will get together as a matter of comity. Getting together by the uniform adoption of some equitable method and finding the right rule of apportionment are. . .synonymous.[13]

In order to attain uniformity in the allocation procedures of all the states, and thereby achieve more equitable taxation of corporate net income derived from interstate business, the National Tax Association, the National Association of Tax Administrators, and the American Bar Association have recommended that all states adopt a standarized version of the three-factor formula patterned on the "Massachusetts" type currently used by the twenty-three states noted above. However, it is apparent that many states have been less interested in securing a uniform allocation formula than in tailoring one which would provide a maximum tax base. The problem of setting up a formula also has been influenced by considerations of the effect of the tax upon business development and the location of industry in the state.

Among the states the tax is administered by State Tax Commissions, Departments of Revenue, and other centralized state tax administrative units. Statistics indicate that the corporate income tax has a lower cost of administration per dollar of yield than the personal income tax. This is attributed to higher tax payments per return and fewer returns. Although administrative costs vary among the states, they generally average between two and three percent of total state corporate income tax collections.

## Potential Tax Revenues

The potential amount of revenue obtainable from the corporation income tax, given the industrial and economic structure of the state, is dependent upon the tax law enacted and quality of its administration by state authorities. As already noted, there are marked variations among the thirty-six corporate income tax states with regard to their rate structures and base provisions, particularly in the treatment of the federal tax as an offset against the

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[13]"Report of the Committee on the Apportionment Between States of Taxes on Mercantile and Manufacturing Business," National Tax Association, Proceedings, 1922, p. 201.

state tax. Dependent upon revenue requirements, if Nevada desired to levy a State corporation income tax it could pattern it after any one of the types currently used in the neighboring Western States or it could adopt a variant of the federal tie-in system employed by Alaska. Estimates of the revenue a corporate income tax would have yielded for Nevada in 1959 based on federal corporate income tax revenues and personal income received in Nevada and six of the Western States which represent relatively low, medium and high tax structures, are shown in Table 16.9.

Table 16.9

Estimates of Potential Corporate Income Tax Revenues for Nevada, Fiscal Year 1959

| Nevada corporate income tax patterned after that of: | Estimated tax revenues (thousands) from projections based on: | | |
|---|---|---|---|
| | Federal tax collections | Personal income | Mean of federal & personal estimates |
| Arizona | $2,061 | $1,646 | $1,853 |
| California[a] | 2,257 | 3,293 | 2,775 |
| Colorado | 1,212 | 1,852 | 1,532 |
| Idaho | 2,545 | 2,607 | 2,576 |
| Montana | 1,909 | 1,509 | 1,709 |
| Oregon[a] | 3,606 | 3,156 | 3,381 |

[a]Did not permit deduction of federal income tax in 1959.

Source: Annual Report of the Secretary of the Treasury for the Fiscal Year 1959, and U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959.

Arizona, Colorado and Montana had basically similar corporation income tax structures in 1959. They all used a statutory nominal tax rate of 5 percent on net taxable income and permitted federal corporate income taxes to be taken as a deduction from the state tax base. On a comparative basis (Tables 16.2 and 16.3) they represented "low" corporate income tax states, ranking among the lowest third of the thirty-six states which utilized such taxes in 1959. It appears that if Nevada had levied a corporate income tax patterned upon the statutes of Arizona, Colorado or Montana, it would have raised approximately $1.5 million to $2 million from such a source in 1959.

Idaho has the highest statutory corporate income tax rate in the nation, 9.5 percent, but its effective rate is significantly less because it permits the federal income tax to be taken as an offset against the State tax base. Idaho's corporate income tax collections for 1959 when compared on a relative basis with that of the other states, ranked above the national and Western State averages, but considerably below that of California and Oregon. It is estimated that if Nevada had imposed a corporate income tax in 1959 similar in rate and base provisions to Idaho's, it would have raised about $2.5 million of additional State revenues that year.

California and Oregon are considered to be "high" corporation income tax states both for the Western region and the nation as a whole. Neither state permits the deductibility of the federal corporate income tax from the state tax base and their statutory rates of 5.5 and 6.0 percent, respectively, are above the national median. As shown in Tables 16.2 and 16.3, when these states are compared with the other corporate income tax states they ranked among the top ten states of the nation in terms of four of the relative measures used. If Nevada had patterned a corporate income tax system upon either the California or Oregon tax structures, it is estimated that it would have collected in the neighborhood of $3 million from such a tax in 1959. If instead of establishing its own rate and base structure Nevada were to follow the Alaska example of a direct tie-in to the federal tax, then a tax equivalent of a flat 10 percent of the federal corporate income tax liability for 1959 would have yielded approximately $1.5 million of revenue for the State.

In brief, if Nevada were to emulate the majority of the states in the West and nation by levying a corporate income tax, it appears it could raise additional tax funds ranging from $1.5 million to $3 million annually on the basis of 1959 economic activity. Finally, it should be observed that at the present time about one-half of the total dollar amount of corporate income taxes received by the states in effect is being financed by the federal government as a result of the deductibility provision of the federal law and the federal corporate tax rate structure which averages 50 percent. In other words, business firms pay their state corporation income taxes with 50¢-or-less-after-federal-tax dollars and, therefore, if Nevada were to raise $2 million from this source the net real cost to Nevada and foreign corporations would be about $1 million, depending upon whether reciprocal tax deductibility were permitted.

# CHAPTER XVII

# INHERITANCE, ESTATE, AND GIFT TAXATION

Death taxes commonly refer to levies imposed on the transfer of the accumulated wealth of decedents to their heirs or beneficiaries. Such taxes are almost as old as our civilization, having been utilized in ancient Egypt and Greece. During the Middle Ages death taxes were part of the fiscal structure of feudal societies and the subsequent development of full-blown capitalistic economies and national states resulted in the widespread use of inheritance taxation throughout the world. In modern times, England and the United States are outstanding in the extent to which they have developed the use of death duties. Such taxes are employed in the United States by the federal government, forty-nine states and the District of Columbia. Nevada is the only state which does not utilize this source of revenue. In 1959, collections in the United States from inheritance, estate and gift taxes for all governmental units combined amounted to almost $2 billion.

## Federal and State Death Duties

The estate tax, currently relied upon by the federal government and a dozen states, is a tax levied upon the entire estate of a decedent and in this respect bears a similarity to the property tax. However, it legally represents a tax imposed on the transfer of property and not on the property itself. A single exemption is permitted per estate and the number or relationship of the beneficiaries involved does not affect the size of the estate tax. On the other hand, the inheritance tax, used by the overwhelming majority of state governments, is levied on the individual shares of the estate received by the beneficiaries. Generally, state inheritance tax laws provide for a classification of beneficiaries depending upon the closeness of the relationship to the decedent. The size of the exemption and degree of progressivity are governed by this categorical relationship. The estate tax is regarded as a tax on the right to transmit property from the decedent's estate to the living, while the inheritance tax is considered to be a tax on the right to receive property. Of the two taxes, the estate tax is more easily administered in that only a single calculation is required whereas under the inheritance tax separate calculations are necessary for each heir. With regard to revenue potential, there is no reason why estate and inheritance taxes should differ since each tax could be designed with rate and base provisions which would produce approximately the same yield.

Although their fiscal importance continues to be relatively small, about 2 percent of total tax collections, federal and state death and gift taxes actually have proven to be fairly stable sources of revenue on both levels of government in recent years. As shown

in Table 17.1, total collections from transfer taxes have practically doubled during the past decade. Federal estate and gift tax collections increased from $706 million in 1950 to $1,333 million in 1959, and on a percentage basis ranged from 1.4 to 2.0 percent of total federal budget receipts. In contrast, state death and gift tax revenues for the nation as a whole actually exhibited a greater rate of growth and degree of stability during this same ten-year period.

Table 17.1

Federal and State Death and Gift Tax Revenues, 1950-1959

| | Federal estate and gift taxes | | State death and gift taxes | |
|---|---|---|---|---|
| Year | Amount (millions) | As percent of total budget receipts | Amount (millions) | As percent of total taxes |
| 1950 | $ 706.2 | 1.9 | $170.6 | 2.1 |
| 1951 | 729.7 | 1.5 | 195.6 | 2.2 |
| 1952 | 833.2 | 1.4 | 211.0 | 2.1 |
| 1953 | 891.3 | 1.4 | 222.0 | 2.1 |
| 1954 | 935.1 | 1.5 | 247.1 | 2.2 |
| 1955 | 936.3 | 1.6 | 249.0 | 2.1 |
| 1956 | 1,171.3 | 1.8 | 310.4 | 2.3 |
| 1957 | 1,365.0 | 1.9 | 338.0 | 2.3 |
| 1958 | 1,393.0 | 2.0 | 351.0 | 2.4 |
| 1959 | 1,333.0 | 2.0 | 349.0[a] | 2.2 |

[a]Estimate.

Source: U. S. Bureau of the Budget, The Budget of the U. S. Government, 1961, p. 938; and, U. S. Department of Commerce, Bureau of the Census, State Tax Collections, 1959, p. 3.

These revenues increased from less than $171 million in 1950 to $349 million in 1959, and as a percentage of total state tax collections they ranged only from 2.1 to 2.4 percent. Of course, the fiscal significance of transfer taxes varies considerably from state to state as well as from year to year for any individual state. It is generally evident that estate and inheritance taxes now are definitely a permanent part of both federal and state tax systems and it is noteworthy that 47 states have retained some form of death taxation in their fiscal structures for over a quarter of a century.[1]

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[1]L. Laszlo Ecker-Racz, "State Taxes After the 1956-1957 Legislative Sessions," National Tax Journal, December, 1957, p. 296.

The present federal estate tax was enacted in 1916 although death taxes had been used in the form of a probate stamp tax at the end of the 18th century and as emergency tax measures during both the Civil and Spanish-American Wars.[2] The 1916 act originally provided a specific exemption of $50,000 per estate and had graduated rates from 1 to 10 percent with the maximum applicable to estates over $5 million. During World War I the rates were sharply increased and by 1924 a concerted effort was made to repeal the federal estate tax, partly on the grounds that this source of tax revenue should be reserved solely for the states. It was argued that the ultimate title to land and other property resided with the states and therefore logically only they should levy inheritance taxes. On the other hand, it was contended that if the federal government abandoned the estate tax the states would resort to intensified "cut-throat" competition in death tax rates which would undermine the entire structure of inheritance taxation on the state level. The attempt to abolish the federal tax failed, but as a compromise the 1924 Revenue Act reduced the maximum rate to 40 percent and provided that state death tax payments would be used up to 25 percent as a partial offset against the federal estate tax liability. In 1926, the federal estate tax schedule was again lowered, the maximum rate was reduced to 20 percent, the exemption was raised to $100,000, and the state tax credit was increased to 80 percent of the federal tax liability. In effect, four-fifths of any federal estate tax at that time could be paid with state death tax receipts. During the 1930's, as a depression measure, an "additional" federal death tax with higher rates and lower exemptions was superimposed on the 1926 "basic" estate tax. Since then the "additional" tax has been revised upward several times. At present the federal exemption is $60,000,[3] and the rates range from 3 to 77 percent with the maximum applicable to taxable estates in excess of $10 million. However, it is important to note that the 80 percent state tax credit does not apply to the "additional" tax and can only be utilized as an offset against that part of the federal estate tax represented by the 1926 "basic" tax structure. Thus, the 80 percent credit no longer represents the degree of abandonment by the federal government of the estate tax that it once did. In 1957, for example, the federal gross estate tax was $1,324 million and the total state tax credit amounted to about $147 million, or only 11 percent.

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[2]For a complete account of the history of death taxation in this country see William J. Shultz, The Taxation of Inheritance (Boston: Houghton Mifflin Company, 1926), Chapter 1.

[3]Except in the case of a "marital deduction" which grants an exemption up to 50 percent of the adjusted estate left a surviving spouse. In other words, in this case the exemption actually amounts to $120,000.

It is generally agreed that the states pioneered in the development of death taxation in the United States.[4] Some forms of probate duties or fees had existed in several states from colonial times and Pennsylvania is credited with having adopted the first state inheritance tax in 1825. It imposed a proportional (flat rate) levy on the shares received by collateral heirs and eleven other states enacted similar tax measures during the remainder of the nineteenth century. With the exception of the New York tax (1885), these early state death duties were characterized by ineffective administration and proved to be fiscally unsuccessful. In 1903 Wisconsin levied the first modern progressive inheritance tax which served as a model for subsequent inheritance tax legislation. By 1916, the year the present federal estate tax was adopted, all but five states in the nation had enacted some form of death taxation. After World War I the diversity of state laws as to rates and exemptions led some states to compete for wealthy individuals by offering themselves as tax havens from death duties. Florida and Nevada became the most publicized examples of this practice. Florida adopted a constitutional amendment prohibiting inheritance taxation in 1924 and the following year Nevada repealed its progressive inheritance tax which had been in effect for a dozen years.[5] However, the institution of the use of the "state tax credit" against the federal estate tax in 1924 and 1926, as noted above, largely nullified the tax-cutting efforts of competing jurisdictions and actually induced almost all states to adjust their death tax structures to take full advantage of the crediting provision. Obviously, a state which did not was in no better competitive position than one which levied a death tax equivalent to the 80 percent credit; and the latter, without imposing any additional tax burden on its residents, obtained state revenue which otherwise would have been diverted to the federal government. Florida challenged the constitutionality of the federal crediting device on the grounds that its effects were not uniform and that it unduly interfered with the states in their choice of taxes. The Supreme Court, however, upheld the act and observed that the fiscal sovereignty of the states does not permit them to engage in interstate rivalry which might do harm to the group.[6] In 1930 Florida amended its constitution and subsequently enacted an estate tax equal to the federal credit. Thus, at the present time every state except Nevada levies some form of death taxation.

Although there are wide variations among the states with regard to the specific means employed to obtain the federal credit, the most

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[4]Eugene Oakes, "Development of American State Death Taxes," Iowa Law Review, March, 1941, pp. 451-78.

[5]Statutes of Nevada, 1925, p. 31.

[6]Florida v. Mellon, 273 U. S. 12 (1927).

commonly used method is to impose an inheritance tax supplemented by an estate tax which is applicable only to the extent the inheritance tax fails to equal the federal credit. As is shown in Table 17.2, there are actually four types of death duties currently used by the states in varying combinations: inheritance taxes, estate taxes based on the 1926 federal levy, estate taxes independent of the federal levy, and differential estate taxes designed to absorb the maximum federal credit in combination with some other tax. Five states--Alabama, Arizona, Arkansas, Florida, and Georgia--have enacted estate taxes conforming in their entirety to provisions of the 1926 federal estate tax.

Table 17.2

Types of Death and Gift Taxes by States, 1959

| State | A | B | C | D | E | State | A | B | C | D | E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | | x | | | | Montana | x | | | x | |
| Alaska | x | | | x | | Nebraska | x | | | x | |
| Arizona | | x | | x | | N. Hampshire | x | | | x | |
| Arkansas | | x | | | | New Jersey | x | | | x | |
| California | x | | | x | x | New Mexico | x | | | x | |
| Colorado | x | | | x | x | New York | | x | | x | |
| Connecticut | x | | | x | | N. Carolina | x | | | x | x |
| Delaware | x | | | x | | N. Dakota | | | x | | |
| Florida | | x | | | | Ohio | x | | | x | |
| Georgia | | x | | | | Oklahoma | | | x | x | x |
| Hawaii | x | | | x | | Oregon | x | | x | | |
| Idaho | x | | | x | | Pennsylvania | x | | | x | |
| Illinois | x | | | x | | Rhode Island | x | | x | x | x |
| Indiana | x | | | x | | S. Carolina | x | | | x | |
| Iowa | x | | | x | | S. Dakota | x | | | | |
| Kansas | x | | | x | | Tennessee | x | | | x | x |
| Kentucky | x | | | x | | Texas | x | | | x | |
| Louisiana | x | | | x | x | Utah | | | x | | |
| Maine | x | | | x | | Vermont | x | | | x | |
| Maryland | x | | | x | | Virginia | x | | | x | x |
| Massachusetts | x | | | x | | Washington | x | | | x | x |
| Michigan | x | | | x | | W. Virginia | x | | | | |
| Minnesota | x | | | x | x | Wisconsin | x | | | x | x |
| Mississippi | | x | | | | Wyoming | x | | | x | |
| Missouri | x | | | x | | | | | | | |

A - Inheritance tax, 39 states.
B - Estate tax based on 1926 federal levy, 7 states.
C - Independent estate tax, 5 states.
D - Differential estate tax, 39 states.
E - Gift tax, 12 states.

Source: Commerce Clearing House, Inc., State Tax Guide: All States, 1959.

Mississippi and New York also have estate taxes patterned on the 1926 law but with significant variations. Mississippi, although retaining 80 percent of the tax rates under the 1926 law, has reduced its exemptions from $100,000 to $60,000 and levies a surtax equal to 14 percent of the liability. New York imposes rates 25 percent above those allowed as credit and varies its exemption on the basis of the relationship of the heirs to the decedent. Five other states--North Dakota, Oklahoma, Oregon, Rhode Island, and Utah--have estate taxes but the rates and exemptions are not similar to the provisions of the federal code. Thirty-nine states and the District of Columbia employ inheritance taxes and all but two--South Dakota and West Virginia--have differential estate taxes to absorb any credit left unused by their inheritance taxes.

The gift tax is utilized by the federal government and twelve states as an administrative supplement to the death tax since gifts between living persons obviously lessen the amount of an estate subject to death taxation. The gift tax may not prevent such gifts from occurring, but it does prevent distribution of the estate to escape taxation. In terms of revenue, gift taxes are not designed to be substantive revenue producers. As a percentage of death tax collections in 1959, they ranged from about 2 to 12 percent for the twelve individual states having gift taxes. Federal gift tax rates are equal to three-fourths of the federal estate tax rates. Although some states have followed the federal gift tax rates, others use rates identical to their inheritance tax rates.

## Inheritance Taxation in Nevada

Nevada imposed an inheritance tax in 1913 patterned on the Wisconsin model. Rates were graduated according to the amount of inheritance and the relationship of the heirs and beneficiaries to the deceased.[7] The provisions of the law were as follows:

a. The tax was imposed upon direct and collateral inheritance.

b. All property in the State without regard to residence of owner was subject to the tax.

c. The tax was levied on shares of corporate stock of corporations doing business in Nevada as well as notes secured by mortgage on real estate located in Nevada.

d. Exemptions ranged from $5,000 to $25,000, depending on the degree of relationship. Non-relatives and "remote relationships" were accorded no exemption.

e. Primary rates ranging from 1 to 5 percent were levied on taxable inheritances, up to $25,000 after exemption. Rates were progressive on bequests above the taxable $25,000 with a maximum rate of 25 percent on amounts over $500,000.

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[7] Statutes of Nevada, 1913, pp. 411-12.

Revenues collected under this act were apportioned as follows: 20 percent to the county treasurer in county of collection, 40 percent to the State School Fund, and 40 percent to the State General Fund. In 1919 the act was amended with regard to the conditions under which a compromise in assessment could be reached.[8] As previously indicated, in 1925, Nevada's inheritance tax was repealed. In 1939, a constitutional amendment was proposed and passed by the legislature, a portion of which read as follows: "No inheritance or estate tax shall ever be levied. . . ."[9] This amendment was approved by the legislature in 1941,[10] and ratified by the people in the general election of 1942. The amendment prohibiting the imposition of an inheritance tax has not been amended or repealed. With regard to inheritance tax collections, it is interesting to note that during the years the tax was in effect the largest amount of collections in any year was $57,594 in 1921, the smallest was $123 in 1914, and the yearly average amounted to $7,002 for the entire period.[11]

## Rationale of Death Taxes

Most of the arguments supporting inheritance taxes view these taxes as a means of achieving a desirable qualification of the institution of private property in the same manner that various other laws qualify the use of private property. Few taxes have received support from both liberal and conservative points of view as has the inheritance tax. In addition to the equalitarian argument mentioned below, the taxes are also supported from an individualistic viewpoint.[12] It is held, for example, that unqualified inheritance creates a concentration of wealth that places the average individual at a disadvantage although he may be more competent. It is argued that an environment should be created in which individuals may excel to the full extent of their ability. Part of this environment is equality of opportunity. A sense of "fair play" dictates that individuals begin from the same "starting line." Perhaps more importantly, it is widely held by both liberals and conservatives that the concentration of wealth and economic power constitutes a genuine threat to the very

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[8] Statutes of Nevada, 1919, p. 360.

[9] Nevada Constitution, Article 10, Section 1, and Statutes of Nevada, 1939, p. 360.

[10] Statutes of Nevada, 1941, p. 560.

[11] State of Nevada, Annual Report of the State Controller, 1913-1927.

[12] No less an individualist than Andrew Carnegie advocated the imposition of taxes upon gratuitous bequests. See Harold M. Groves, Financing Government (New York: Henry Holt and Company, 1954), p. 222.

existence of a free democratic society. None other than former President Hoover feared the development of such concentration and publicly advocated the distribution of private property ownership under capitalism, as follows:

> I am convinced that one of the continuous and underlying problems of sustained democracy is the constant and wider diffusion of property ownership. Indeed, I should become fatalistic of the ultimate destruction of democracy itself, if I believed that the result of all our invention, all our discovery, all our increasing economic efficiency, and all our growing wealth would be toward further concentration of ownership. We are all fundamentally interested that our public and private policies should be so directed that with our increasing wealth, the tendencies of diffusion of ownership shall be greater than the tendencies of concentration.[13]

A corollary of the above, is the egalitarian position which supports inheritance taxation on the grounds that it tends to reduce the inequality of income distribution. The burden of the tax is on the wealthy while the benefits of the tax are enjoyed, through the state, by all. Implicit in this argument is the belief that society would benefit if incomes were more equally distributed, a point generally agreed upon although the degree of equality desired has not been defined.

An additional justification for the imposition of death taxes is the privilege theory which holds that inheritance is not a right but rather a privilege granted and perpetuated by the state. Moreover, it is only with the protection of the state that estates of large magnitude can be amassed. Thus, it is felt that since the state grants and protects the privilege of inheritance and also provides the environment for the creation of estates, it should share at least to some degree in the advantages of such estates. The state should participate however, in the benefits of an estate only to the extent for which the state is responsible. Since this is difficult to define, it can be seen that this rationale offers a sound basis for imposition of death taxes but offers little assistance with regard to the rates which should be imposed.

A frequently offered justification for the taxation of inheritance is that it conforms closely to the widely accepted principles of ability-to-pay. It is held that little sacrifice is involved in inheritance taxation because the decedent incurs no sacrifice and because the beneficiary incurs no sacrifice since the

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[13]Herbert Hoover in the Proceedings, American Academy of Political Science, April, 1925. Quoted by William H. Anderson, Taxation and the American Economy (New York: Prentice-Hall, Inc., 1951), p. 245.

inheritance is in the nature of a "windfall." This justification of the inheritance tax has been subject to criticism on the grounds that ability-to-pay may or may not be present when an estate is transferred. If the decedent can incur no sacrifice it is equally true that he has no ability-to-pay. If it is the ability-to-pay of the beneficiary that is being singled out, there is doubt that inheritance necessarily indicates ability-to-pay because the financial position of the beneficiary prior to the inheritance is not taken into account. The ability-to-pay principle seems to be more appropriate for justifying the progressivity of inheritance taxes than for the levying of the inheritance tax itself.

Death taxes are occasionally considered as "deferred income" taxes. It has been observed that some taxpayers over a lifetime partially avoid income taxation through use of such practices as creating equities in capital gains which are never realized for tax purposes, stock dividends, tax-free securities, deductible business expenses, and so forth. Thus, the death tax is rationalized as an attempt to make an equitable adjustment for that portion of income tax which has been avoided during the life of the decedent. Moreover, the inheritance tax reaches income which has completely evaded taxation, it is relatively easy to administer since there are few individuals involved, and it is subject to few tax shifting possibilities.

From a pragmatic viewpoint, as already noted, the inheritance tax as a state source of revenue is encouraged by the federal estate tax crediting provision. Thus, states may levy an inheritance tax equal to the federal credit and increase state revenues correspondingly without imposing any greater financial burden on the residents of the state. In other words, the burden of such a tax is fully offset by reduction of the federal estate tax. It is because of the numerous other justifications of death taxes, however, that the majority of states have imposed inheritance taxes at rates which exceed the federal credit.

An argument frequently made against inheritance taxes is that they adversely affect the capital or potential capital of a country. It has been argued that the incentive to accumulate wealth will be partially destroyed if individuals are not given complete freedom with regard to the disposition of such wealth. The significance of such motivation in our modern society is uncertain. Numerous studies conducted with regard to the disincentive effects of the personal income tax, which is significantly more important, reveal that work incentives are not greatly distorted by the imposition of such taxes. The conclusions of these studies may be offered as corollary evidence that inheritance taxes also have relatively few disincentive effects.

Inheritance taxes are also alleged to decrease a country's capital because it may be necessary to convert capital goods into cash to meet the burden of the death tax. While such action might decrease the real capital held by one individual or estate, the goods are sold to someone else and therefore the total capital of

the country is unchanged. Closely related to this argument is the observation that inheritance taxes may tend to accelerate business concentration.[14] This is due in part to the uncertainty of the burden which will be incurred by a person's estate when he dies and the possible forced sale of securities which may be necessary to meet this burden. Uncertainty of tax burden is, of course, contrary to established principles of taxation, but this uncertainty appears to be due primarily to the administration of the tax and the difficulty of evaluating closely held securities, rather than to the nature of the tax itself.

A final criticism of death taxes is that philanthropic activities are adversely affected by the diminution of the large estates upon which such organizations depend. While inheritance taxes may have such a long-run effect, it would appear that philanthropic activities are encouraged in the short run because contributions to such organizations are deductible for purposes of the federal estate tax. Hence, the government is subsidizing private charitable activities through the inheritance tax exemptions in addition to the well-known income tax deduction. Any long run possibility of diminished private philanthropy due to inheritance taxation would appear to be a small cost to pay for the numerous advantages which accrue from diminished concentrations of wealth.

## Interstate Comparison of Death Tax Collections

There exists a wide variation among the states with regard to the absolute and relative amounts of death tax collections, as shown in Table 17.3. In New Jersey the inheritance tax provided 6.4 percent of the State's total tax revenues in 1958, while in Alabama an estate tax based on the 80 percent federal credit only yielded 16/100 of 1 percent of total tax collections. In the other states which use a tax equivalent to the 80 percent credit, the tax as a percent of total collections ranged from 22/100 of 1 percent in Arizona to 85/100 of 1 percent in Florida. At the other end of the scale, death and gift taxes provided over 4 percent of the total state tax revenue in Connecticut, Massachusetts, New Hampshire, Pennsylvania, and Rhode Island, as well as New Jersey. For all states using the levy in 1958 death tax collections averaged 2.02 percent of total tax collections.

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[14]For a complete discussion of this possible effect, see Harold M. Somers, "Estate Taxes and Business Mergers," Journal of Finance, May, 1958; and, J. Keith Butters, L. E. Thompson, and L. L. Bollinger, Effects of Taxation: Investment by Individuals (Boston: Harvard University Press, 1953), pp. 34 and 171.

Table 17.3

State Death and Gift Tax Collections, 1958

| Rank | State | Death and gift tax collections: (thousands) | As percent of total state tax collections |
|---|---|---|---|
| 1 | New Jersey | $18,600 | 6.44 |
| 2 | Pennsylvania | 50,215 | 5.64 |
| 3 | Connecticut | 12,173 | 5.56 |
| 4 | New Hampshire | 1,497 | 4.28 |
| 5 | Massachusetts | 17,607 | 4.24 |
| 6 | Rhode Island | 2,923 | 4.18 |
| 7 | New York | 47,120 | 3.14 |
| 8 | Iowa | 7,428 | 3.13 |
| 9 | Maine | 2,465 | 3.13 |
| 10 | Wisconsin | 11,021 | 2.97 |
| 11 | Illinois | 20,372 | 2.77 |
| 12 | California | 45,477 | 2.72 |
| 13 | Montana | 1,534 | 2.71 |
| 14 | Washington | 10,048 | 2.68 |
| 15 | Colorado | 4,366 | 2.64 |
| 16 | Vermont | 983 | 2.63 |
| 17 | Oklahoma | 5,048 | 2.05 |
| 18 | Oregon | 3,604 | 1.95 |
| 19 | Delaware | 1,019 | 1.90 |
| 20 | Kentucky | 3,904 | 1.88 |
| 21 | Maryland | 4,518 | 1.79 |
| 22 | Indiana | 6,471 | 1.74 |
| 23 | Tennessee | 4,692 | 1.74 |
| 24 | Idaho | 913 | 1.71 |
| 25 | Minnesota | 5,442 | 1.70 |
| 26 | Texas | 10,728 | 1.61 |
| 27 | Missouri | 4,406 | 1.58 |
| 28 | North Carolina | 5,832 | 1.55 |
| 29 | South Dakota | 619 | 1.38 |
| 30 | West Virginia | 2,198 | 1.36 |
| 31 | Virginia | 3,448 | 1.34 |
| 32 | Michigan | 10,539 | 1.33 |
| 33 | Ohio | 9,141 | 1.31 |
| 34 | Kansas | 2,155 | 1.28 |
| 35 | Utah | 926 | 1.17 |
| 36 | Wyoming | 357 | 0.99 |
| 37 | Florida | 3,706 | 0.85 |
| 38 | Louisiana | 2,827 | 0.74 |
| 39 | South Carolina | 1,204 | 0.65 |
| 40 | North Dakota | 267 | 0.48 |
| 41 | Nebraska | 370 | 0.45 |
| 42 | New Mexico | 393 | 0.37 |
| 43 | Arkansas | 515 | 0.36 |
| 44 | Georgia | 1,058 | 0.33 |
| 45 | Mississippi | 409 | 0.25 |
| 46 | Arizona | 249 | 0.22 |
| 47 | Alabama | 384 | 0.16 |
| | Average | -- | 2.02 |

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1958, p. 11.

Table 17.4 shows the amount of death and gift taxes collected in 1958 on a per capita basis and as a percent of personal income. On the basis of per capita collections the relative tax burden of these transfer levies for the individual states ranged from $5.26 in Connecticut to $.12 in Alabama, with an average collection of $1.73 for all states. The data also indicate that death taxes represent a relatively small portion of total income. On this basis Pennsylvania ranked first among the states in 1958 with a death tax burden which amounted to .213 percent of state income while Alabama again was last with a tax burden of .009 percent. The average collection for all states combined amounted to .086 percent of state income. It also should be observed that states with death tax rates equivalent to the 80 percent federal credit consistently ranked low in terms of both measures.

## Exemptions and Rates

Exemption in the inheritance tax field is governed by closeness of the relationship of the heirs to the decedent. Differentiation may be made as to spouse, minor child, adult child, brothers and sisters, and collateral and non-collateral heirs. There are marked variations in the value of the exemptions among the states. For the widow, exemptions vary from $150 in Maryland to full exemption in Oregon, and in most states they range from $10,000 to $20,000. Exemptions for minor and adult children follow similar patterns.

Likewise rate structures differ among the states, ranging from 1 percent in many states to 15 percent on bequests of over $500,000 in Idaho. For the "all other than relatives" category, the rates range from 3 percent in Hawaii to 40 percent in Wisconsin. Maximum rates for this class of heirs for most states varied from 10 to 20 percent. The rate structures generally are progressive for all heirs, the degree of progression being governed by closeness of relationship and amount of bequest. However, it is important to note that despite the wide differences in both tax base and rate schedules there is considerable uniformity in the burden of state death taxation on estates which exceed $250,000, since as already noted practically all the states impose a tax to cover the full federal credit.[15]

An indication of the pattern of exemptions and rates for the Western States, exclusive of Nevada, is shown in Table 17.5. All of the Western States imposing death duties use an inheritance tax

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[15]William J. Shultz and C. Lowell Harris, American Public Finance (Englewood Cliffs: Prentice-Hall, Inc., 1959), Seventh Edition, p. 409.

Table 17.4

Comparative State Death and Gift Tax Collections, 1958

| Per capita death and gift tax collections | | | Death and gift tax collections as percent of personal income | | |
|---|---|---|---|---|---|
| Rank | State | Amount | Rank | State | Percent |
| 1 | Connecticut | $5.26 | 1 | Pennsylvania | .213 |
| 2 | Pennsylvania | 4.52 | 2 | Connecticut | .187 |
| 3 | Washington | 3.63 | 3 | Rhode Island | .170 |
| 4 | Massachusetts | 3.62 | 4 | Washington | .168 |
| 5 | Rhode Island | 3.34 | 5 | Maine | .152 |
| 6 | New Jersey | 3.24 | 6 | Massachusetts | .151 |
| 7 | California | 3.17 | 7 | Vermont | .151 |
| 8 | New York | 2.90 | 8 | Wisconsin | .145 |
| 9 | Wisconsin | 2.80 | 9 | Iowa | .141 |
| 10 | Vermont | 2.64 | 10 | New Hampshire | .136 |
| 11 | Iowa | 2.63 | 11 | New Jersey | .128 |
| 12 | Maine | 2.59 | 12 | Oklahoma | .127 |
| 13 | New Hampshire | 2.56 | 13 | Colorado | .125 |
| 14 | Colorado | 2.55 | 14 | California | .124 |
| 15 | Delaware | 2.24 | 15 | Montana | .116 |
| 16 | Montana | 2.23 | 16 | New York | .112 |
| 17 | Oklahoma | 2.21 | 17 | Oregon | .101 |
| 18 | Illinois | 2.06 | 18 | Tennessee | .094 |
| 19 | Oregon | 2.03 | 19 | North Carolina | .093 |
| 20 | Minnesota | 1.61 | 20 | Kentucky | .091 |
| 21 | Maryland | 1.53 | 21 | Illinois | .085 |
| 22 | Indiana | 1.41 | 22 | Minnesota | .084 |
| 23 | Idaho | 1.38 | 23 | Delaware | .081 |
| 24 | Tennessee | 1.35 | 24 | Idaho | .081 |
| 25 | Michigan | 1.34 | 25 | West Virginia | .074 |
| 26 | North Carolina | 1.28 | 26 | Indiana | .071 |
| 27 | Kentucky | 1.27 | 27 | Maryland | .069 |
| 28 | Texas | 1.14 | 28 | Michigan | .064 |
| 29 | West Virginia | 1.12 | 29 | Texas | .063 |
| 30 | Wyoming | 1.12 | 30 | Utah | .061 |
| 31 | Utah | 1.07 | 31 | Louisiana | .058 |
| 32 | Missouri | 1.03 | 32 | South Dakota | .054 |
| 33 | Kansas | 1.02 | 33 | Wyoming | .053 |
| 34 | Ohio | .98 | 34 | Virginia | .052 |
| 35 | Louisiana | .91 | 35 | Kansas | .051 |
| 36 | South Dakota | .89 | 36 | Missouri | .051 |
| 37 | Virginia | .88 | 37 | Ohio | .045 |
| 38 | Florida | .83 | 38 | Florida | .044 |
| 39 | South Carolina | .50 | 39 | South Carolina | .041 |
| 40 | New Mexico | .47 | 40 | New Mexico | .025 |
| 41 | North Dakota | .41 | 41 | Arkansas | .024 |
| 42 | Arkansas | .29 | 42 | North Dakota | .024 |
| 43 | Georgia | .28 | 43 | Georgia | .019 |
| 44 | Nebraska | .25 | 44 | Mississippi | .018 |
| 45 | Arizona | .22 | 45 | Nebraska | .013 |
| 46 | Mississippi | .19 | 46 | Arizona | .011 |
| 47 | Alabama | .12 | 47 | Alabama | .009 |
| | Average | 1.73 | | Average | .086 |

Source: Compiled from U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 15; and U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958, p. 11.

Table 17.5

State Inheritance Tax Exemptions and Rates for Selected Western States, 1959

| State | Exemptions | | | Rates | | In case of spouse | |
|---|---|---|---|---|---|---|---|
| | Widow | Minor child | Other than relative | Spouse or minor child | Other than relative | Size of first bracket | Level at which maximum rate applies |
| California[a,b] | $24,000 | $12,000 | $ 50 | 2-10 | 10-24 | $25,000 | $500,000 |
| Colorado | 20,000 | 10,000 | 500[c] | 2- 8 | 7-16 | 50,000 | 500,000 |
| Montana[a] | 17,500 | 2,000 | 0 | 2- 8 | 8-32 | 25,000 | 100,000 |
| Idaho[b] | 10,000 | 10,000 | 0 | 2-15 | 8-30 | 25,000 | 500,000 |
| New Mexico[b,d] | 10,000 | 10,000 | 500 | 1 | 5 | Entire share | Entire share |
| Washington[a,b] | 10,000 | 5,000 | 0 | 1-10 | 10-25 | 25,000 | 500,000 |
| Wyoming | 10,000 | 10,000 | 0 | 2 | 6 | Entire share | Entire share |
| Oregon[e] | No tax | No tax | 500 | No tax | 4-20 | No tax | No tax |
| Arizona | Estate tax based on 1926 federal estate tax structure, also uses a differential estate tax. | | | | | | |
| Utah | Uses only an estate tax, maximum exemption $40,000, taxable rates 3-10 percent. | | | | | | |

[a] Exemptions are deductible from first bracket.

[b] Half of the community property passing to surviving spouse is not taxable.

[c] Where value of transfer is over $500 there is no exemption.

[d] The exemption shown is the total exemption for all beneficiaries falling into a particular class and is shared by them proportionally.

[e] Imposes an estate tax on top of inheritance tax.

Source: Commerce Clearing House, State Tax Guide: All States, 1959.

except Arizona and Utah. The former levies an estate tax based on the 1926 federal rates to take full advantage of the 80 percent federal credit. Utah is one of the two states in the nation (the other is North Dakota) which utilizes an independent estate tax as the sole basis of transfer taxation. Although it is difficult to make interstate comparisons on the basis of exemptions and rates due to the large number of variable conditions involved, it appears that Idaho and Montana are the high tax Western States while New Mexico and Arizona represent comparatively low tax states.

## Gift Taxes

Gift taxes are utilized by twelve states as an administrative supplement to inheritance and estate taxes (Table 17.6). They are designed to tax property which might otherwise escape death taxes if transferred in the form of gifts. As such, their importance exceeds their apparent revenue production. It will be noted that with the exception of California gift tax collections did not amount to $600,000 in any state in 1959, and as a percentage of death tax revenues for that year they ranged from 1.4 percent in the case of Rhode Island to 12.3 percent for Oklahoma. Gift tax laws generally are similar to the death tax statutes of the respective states. Eight of the twelve states have identical rates for their gift and death taxes and the other four use lower rates. The size of exemption is determined by closeness of relationship with provisions for an annual

Table 17.6

Death and Gift Tax Revenues, Selected States, 1959

| State | Gift taxes (thousands) | Death taxes (thousands) | Gift tax as percent of death tax revenues |
|---|---|---|---|
| California | $2,991 | $42,009 | 7.1 |
| Colorado | 315 | 4,506 | 7.0 |
| Louisiana | 91 | 2,818 | 3.2 |
| Minnesota | 162 | 6,930 | 2.3 |
| North Carolina | 328 | 5,018 | 6.5 |
| Oklahoma | 567 | 4,621 | 12.3 |
| Oregon | 163 | 3,889 | 4.2 |
| Rhode Island | 46 | 3,268 | 1.4 |
| Tennessee | 315 | 4,035 | 7.8 |
| Virginia | 247 | 3,413 | 7.2 |
| Washington | 500 | 8,591 | 5.8 |
| Wisconsin | 187 | 2,428 | 7.7 |

Source: U. S. Department of Commerce, Bureau of the Census, State Tax Collections, 1959.

exclusion to each donee, plus a specific exemption. For example, in California lifetime exemptions range from $50 for gifts to distant relatives to $24,000 for a wife, plus an annual exclusion of $4,000 to each donee.

## Administration of State Death Taxes

As previously noted, in most cases estate tax laws are easier to administer than those of inheritance tax laws since the former involve only one levy, whereas the latter require a return from each heir. An administrative difficulty of the inheritance tax is the impossibility of achieving a final tax determination for estates which have a contingent remainder. An example of this is when the decedent leaves the income from his property to his children (perhaps unmarried) with the remainder to go to their children or to distant relatives if they have no children. Final determination of the tax will then await the disposition of the remainder. In contrast, for the estate tax the method of distributing bequests does not affect the amount of tax liability. Both forms of death taxation, however, have an administrative advantage in that assessment and payment are usually the responsibility of executors who act in a quasi-official capacity as officers of the probate courts. Thus, tax evasion is limited to the extent that the courts cooperate with the state tax collection agency.

Death taxes are generally administered by state tax commissions, agencies within revenue departments, or agencies having liaison with state tax commissions in 41 of the 49 states. The agency having such liaison is usually at a county level, e.g., in 20 states the chief responsibility for determining evaluation for estate and inheritance taxes rests with county personnel. Experience indicates that states are in a better position to administer death taxes than are the counties. California, for example, administers its death taxes through the Inheritance Tax Attorney, Inheritance Tax Department, State Controller's Office. In Colorado, the Department of Law, Inheritance Tax Division, administers the law. In other states the administration within the state tax and revenue department may include the commissioner of revenue, estate and inheritance tax division, state treasurer, and other divisions within the tax department of the state.

Many of the problems in the field of death taxes are legal in nature. Lifetime transactions of the deceased must be examined. Not all property may be subject to taxation. Wealth may be passed in the form of interests in trusts, life insurance, property with mixed ownership, gifts before death, and so forth. There is also the intricate problem of assessing the true value of the property. In addition, there is the jurisdictional problem between and among the states as to the disposition of intangibles. Therefore, it appears practical to place the administration of death taxes with a state agency which assumes the major responsibility for this task. Such an agency might be placed within the state tax department or commission. Moreover, it is desirable that the income tax and inheritance tax departments

cooperate with each other. Finally, it may be noted that although administrative costs vary among the states, they generally average about 3 percent of the total state death and gift tax collections.

## Nevada and Death Taxes

The enactment of the federal credit clause in 1926 brought an end to much of the interstate competition for wealthy persons as attested by the fact that all states with the exception of Nevada soon enacted death tax laws. As previously noted, under the 1926 law if a state enacts legislation to take advantage of the federal credit, an estate does not pay any additional total tax but the state profits to the extent of the credit based on the 1926 rates. Thus, Nevada at the present time loses a portion of every dollar collected by the federal government on estates of residents equivalent to 80 percent of the federal tax based on the 1926 rates. Table 17.7 shows the maximum federal credit allowed under this law. The affect of death

Table 17.7

Federal Credit for State Death Taxes

| Taxable estate after $60,000 exemption (thousands) | Total credit permitted | | |
|---|---|---|---|
| | Amount plus | Percent of | Taxable estate over |
| $ 0 - $ 40 | $ 0 | 0 | $ 0 |
| 40 - 90 | 0 | 0.8 | 40,000 |
| 90 - 140 | 400 | 1.6 | 90,000 |
| 140 - 240 | 1,200 | 2.4 | 140,000 |
| 240 - 440 | 3,600 | 3.2 | 240,000 |
| 440 - 640 | 10,000 | 4.0 | 440,000 |
| 640 - 840 | 18,000 | 4.8 | 640,000 |
| 840 - 1,040 | 27,600 | 5.6 | 840,000 |
| 1,040 - 1,540 | 38,800 | 6.4 | 1,040,000 |
| 1,540 - 2,040 | 70,800 | 7.2 | 1,540,000 |
| 2,040 - 2,540 | 106,800 | 8.0 | 2,040,000 |
| 2,540 - 3,040 | 146,800 | 8.8 | 2,540,000 |
| 3,040 - 3,540 | 190,800 | 9.6 | 3,040,000 |
| 3,540 - 4,040 | 238,800 | 10.4 | 3,540,000 |
| 4,040 - 5,040 | 290,800 | 11.2 | 4,040,000 |
| 5,040 - 6,040 | 402,800 | 12.0 | 5,040,000 |
| 6,040 - 7,040 | 522,800 | 12.8 | 6,040,000 |
| 7,040 - 8,040 | 650,800 | 13.6 | 7,040,000 |
| 8,040 - 9,040 | 786,800 | 14.4 | 8,040,000 |
| 9,040 - 10,040 | 930,800 | 15.2 | 9,040,000 |
| 10,040 - ..... | 1,082,800 | 16.0 | 10,040,000 |

Source: Commerce Clearing House, State Tax Guide: All States, p. 8926.

taxes upon the interstate migration of wealthy persons at the present time is dependent upon how much a state collects above the 80 percent credit. In relating death taxes to migration, it may be observed that it is not possible to determine in advance the amount of death tax that will be paid on any single estate since the number and classification of heirs and the value of the future assets cannot be determined. In addition to uncertainty there are numerous other factors which obviously influence interstate migration such as other state and local taxes, business interests, family relationships, climate and desirable living conditions.

If Nevada were to impose an inheritance tax at rates equal to the federal credit, the increase in State revenue would depend on the size and number of Nevada estates. While this figure would vary considerably each year, the number of Nevada estates and the federal estate tax for the single year 1957 are shown in Table 17.8. It will be noted that if a State tax had been in effect in Nevada in 1957 the fifty estates would have been allowed a total credit against their federal tax of $151,208. Since there was no State inheritance tax, this amount was actually paid to the federal government. In addition

Table 17.8

Federal Estate Tax Returns,
Nevada, Fiscal Year 1957

| Taxable returns before exemptions | Number of returns | Amount (thousands) | | Federal credit for state death taxes |
|---|---|---|---|---|
| | | Taxable estate | Gross estate tax | |
| Under $ 60,000 | -- | -- | -- | -- |
| $ 60,000 under 80,000 | 13 | $ 154 | $ 8 | $ 0 |
| 80,000 under 100,000 | 7 | 208 | 20 | 0 |
| 100,000 under 150,000 | 12 | 732 | 120 | 2,016 |
| 150,000 under 200,000 | 9 | 1,058 | 235 | 7,560 |
| 200,000 under 300,000 | 3 | 595 | 150 | 7,800 |
| 300,000 under 400,000 | 2 | 513 | 136 | 8,256 |
| 400,000 under 500,000 | 1 | 391 | 111 | 8,432 |
| 500,000 under 600,000 | -- | -- | -- | -- |
| 600,000 under 700,000 | 1 | 556 | 165 | 14,640 |
| 700,000 under 800,000 | 1 | 681 | 209 | 19,968 |
| 800,000 under 900,000 | -- | -- | -- | -- |
| 900,000 under 1,000,000 | -- | -- | -- | -- |
| 1,000,000 under 2,000,000 | 1 | 1,703 | 619 | 82,536 |
| Total taxable returns | 50 | 6,591 | 1,773 | 151,208 |

Source: U. S. Treasury Department, Internal Revenue Service, Statistics Division, March, 1959.

to this amount which the State could have collected from an inheritance tax, there were also estates being settled of individuals who had owned property in Nevada but resided in other states. If Nevada had imposed a minimum death tax levy on these estates, the taxpayer also could have deducted this tax from his federal estate tax liability. The magnitude of absentee ownership in Nevada is not known but it may be roughly approximated by assuming that the amount of property held by Nevada residents in other states represents the minimum amount of property held by non-residents in Nevada. In 1957, the former resulted in federal estate tax credits of $72,000. Thus, in total, Nevada would have collected approximately $225,000 in 1957 if a minimum inheritance tax had been in effect. This additional State revenue, as emphasized previously, would have represented no greater burden to the individuals involved, since it simply would have reduced their federal tax liability by an equal amount. Furthermore, since inheritance tax collections for any single state will vary considerably from year to year it is impossible to predict precisely the potential state revenue which a minimum inheritance tax would yield if imposed in Nevada at the present time.

If Nevada were to consider levying an inheritance tax at rates and exemptions comparable with those of neighboring Western States, the potential revenues would approximate the estimates shown in Table 17.9 which are based on 1958 death tax collections for each of

Table 17.9

Estimated Death Taxes for Nevada Based on 1958 Per Capita Tax Collections of Western States

| | Per capita death tax collections 1958 | Unadjusted estimates of death taxes for Nevada | Per capita income 1958 | Nevada per capita income as percent of other states' income | Adjusted estimates of death taxes for Nevada |
|---|---|---|---|---|---|
| Arizona | $ .22 | $ 58,740 | $1,932 | 133 | $ 78,124 |
| Calif. | 3.17 | 846,390 | 2,559 | 100 | 846,390 |
| Colorado | 2.55 | 680,850 | 2,047 | 126 | 857,871 |
| Idaho | 1.38 | 368,460 | 1,701 | 151 | 556,374 |
| Montana | 2.23 | 595,410 | 1,920 | 134 | 797,849 |
| New Mex. | .47 | 125,490 | 1,838 | 139 | 174,431 |
| Oregon | 2.03 | 542,010 | 2,006 | 128 | 693,773 |
| Utah | 1.07 | 285,690 | 1,753 | 146 | 417,107 |
| Wash. | 3.63 | 969,210 | 2,160 | 119 | 1,153,260 |
| Wyoming | 1.12 | 299,040 | 2,088 | 123 | 367,819 |

Source: Compiled from U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances, 1958, p. 11; and U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1959, p. 15.

the respective states. For example, if Nevada had levied an inheritance tax similar to that used in Washington which yielded a per capita collection of $3.17, it appears the State would have collected revenues of approximately $1 million in 1958. On the other hand, if it patterned an inheritance tax structure on New Mexico's which only yielded a per capita tax of $.47 in 1958, it is estimated Nevada would have raised about $175,000 that year from death taxation.

While there may be reasonable opposition to an inheritance tax with rates at a level similar to those in most states, there appears to be little justification for opposition to a tax which is only equal to the federal credit. As noted earlier, such a levy could not impair Nevada's competitive tax position but would increase State revenues without imposing any additional burden on the Nevada taxpayer since the federal tax liability would be reduced correspondingly. To the extent that Nevada does not enact such legislation, it is in effect contributing an unwarranted subsidy to the other states of the nation.

# CHAPTER XVIII

## FINANCING LOCAL GOVERNMENT IN NEVADA

One of the central problems of governmental finance today is that of providing adequate revenue to finance urban services. This is a direct outgrowth of the so-called population explosion and an increasing concentration of population in the urban areas. Other factors have played a significant role including the inevitable impact of post-war inflation upon governmental costs and the demand for more and higher quality services which in large part may be attributed to rising incomes as well as the technological implications of increased urbanization. All of these influences are reflected in Nevada's experience, particularly during the last decade.

The population of Nevada's cities, as shown in Table 18.1, increased from 99,063 in 1950 to 193,112 in 1960, a rise of almost 95 percent. On the other hand, the total non-urban population of the

Table 18.1

Population Trend for Nevada Cities
1950-1960

| Cities | Total population 1950 | 1960 | Percent increase |
|---|---|---|---|
| Boulder City | 3,903 | 4,043 | 3.6 |
| Carlin | 1,203 | 1,016 | -15.5 |
| Carson City | 3,082 | 5,123 | 66.2 |
| Elko | 5,393 | 6,285 | 16.5 |
| Ely | 3,558 | 3,982 | 11.9 |
| Fallon | 2,400 | 2,712 | 13.0 |
| Henderson | 3,770[a] | 12,518 | 232.0 |
| Las Vegas | 24,624 | 63,453 | 157.7 |
| Lovelock | 1,604 | 1,921 | 19.8 |
| North Las Vegas | 3,875 | 18,458 | 376.3 |
| Reno | 32,497 | 50,938 | 56.7 |
| Sparks | 8,203 | 16,412 | 100.1 |
| Wells | 947 | 1,078 | 13.8 |
| Winnemucca | 2,847 | 3,433 | 20.6 |
| Yerington | 1,157 | 1,740 | 50.4 |
| City total | 99,063 | 193,112 | 94.4 |
| Non-urban total | 61,020 | 89,025 | 45.9 |
| State total | 160,083 | 282,137 | 76.2 |

[a]Estimate.

Source: U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Reports), June, 1960.

State during this same period only increased by 46 percent, and the statewide average for the decade shows a 76 percent increase. While the size of Nevada's urban centers does not yet rival that of certain of her neighbors, the rate of increase was phenomenal, especially in the Las Vegas and Reno-Sparks area. During the last decade North Las Vegas experienced a 376 percent increase and Las Vegas 158 percent; the population of Sparks doubled; and that of Carson City and Reno rose 66 and 57 percent, respectively. The pressure of the population factor on local financing is also reflected by the continually growing school populations. Net enrollments in the State's public school system rose from 29,490 in 1950 to 61,937 in 1959, an increase of 110 percent.[1] Needless to say, the bulk of this increase was concentrated in the urban areas noted above. Growth of population has also influenced county and special district costs, but to a much lesser degree than for cities and school districts. Moreover, the unprecedented level of tourism in recent years has added to the costs of various local services, particularly those of streets, traffic control, law enforcement, sanitation and recreational facilities. In view of its magnitude the effect of this element is largely unique in Nevada. Finally, the broad impact of rising dollar costs of government attributable to the decreased purchasing power of the dollar during the last decade has been significant. As already indicated in Chapter III, the Department of Commerce index of "state and local governmental costs" during the last decade has increased about 44 percent, or more than twice as much as the consumer price index and nearly three times as much as the wholesale price index for the same period.

The other side of the coin in governmental finance is the revenue structure available for meeting rising costs. In this respect local governments have been at a serious disadvantage in coping with the unprecedented demands upon their limited resources. The traditional workhorse of local finance, the property tax, has proved to be wholly inadequate to meet the needs. While rates have been increased and assessed valuations have risen, the higher yields have been absorbed largely by school district requirements since other than for state and federal aid, these units are wholly dependent upon the property tax. This development in the light of legal and economic limitations upon the level of property taxation has largely exhausted the present potential of the source and continued pressures for such purposes will undoubtedly tend to mortgage its future. Prior to the last decade other major tax sources generally were not available to local units. Recognizing the impossible situation confronting their local subdivisions, the states have sought to provide relief by increasing state aid and enlarging the local tax base. State aid in the form of grants or shared taxes has grown significantly in all jurisdictions but to varying degrees, and one-half or more of the states have made additional tax sources available to their municipalities and in some

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[1]State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1950 and 1959.

instances to counties. The tendency for the states to relinquish the property tax source to local governments, mentioned in an earlier connection, is another important facet of the general trend.

The revenue position of local governments in Nevada today is generally comparable to that of such units in other states, except that it is more inflexible in certain important respects. In the first place local units are limited to the property tax and certain specified licenses on business and professional pursuits. Property tax rates are limited by the overall $5 per $100 of assessed valuation restriction as well as the specific percentage limitations on individual types of units. Although the property tax rate for State purposes has been sharply reduced in recent years, it still amounts to $.28 per $100 of assessed value. While State aid and grants to local jurisdictions have increased in Nevada in recent years, on a comparative basis it is still markedly below the average of the other Western States and the nation as a whole.[2]

## Financial Powers of Local Units and Legal Limitations

The principal provisions concerning the financial powers of Nevada's local governments--counties, incorporated cities and towns, school districts and special districts--are set forth in the general statutes, the charter provisions of ten special charter cities, and special State laws providing for the creation of special districts. However, Article VIII, Section 8, of the State Constitution provides the broad basis of State legislative action with respect to city and town financing as follows: "The legislature . . . shall restrict their power of taxation, assessment, borrowing money, contracting debts and loaning their credit, except for procuring supplies of water . . . ." In addition the Constitution prohibits the lending of local government credit to private companies or corporations (except railroad), the use of public funds for sectarian purposes, and a combined property tax levy exceeding $5 on $100 of assessed valuation. The purposes for which counties and incorporated cities or towns may spend public moneys are broadly defined, and except for the above constitutional limits there are few specific restrictions. In contrast, the taxing or other revenue powers of local units are specifically stated, and by implication are limited to the designated sources. The purposes for which local units may borrow are also broadly formulated, but borrowing and debt procedures are spelled out in some detail, and there are a variety of specific limitations.

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[2]See Chapter III, Table 3.12.

## Expenditure or Appropriation of Public Funds

The counties, cities and incorporated towns are given broad powers to legislate in the interest of the public health, welfare, safety and convenience, and to spend public funds for such purposes. Certain other powers are also specifically defined including planning and zoning, urban renewal and community re-development; and all local units are authorized to enter into cooperative agreements for providing particular services. The counties, cities and incorporated towns may also purchase and sell property for public use, and have the power of eminent domain. Counties and school districts are authorized within limits to establish, with the approval of the State Board of Finance, surplus building and maintenance reserve funds.[3] In view of the general problem of providing urban services in unincorporated urban areas the powers granted the counties in this area are worthy of special note. Counties with populations in excess of 15,000 may establish improvement districts for roads and bridges, and special districts for parks, other recreational facilities and for sanitary services. School districts are authorized to spend general school funds for such basic purposes as the maintenance and operation of the public schools; purchase of school sites and buildings; and the repair and construction of school buildings. The State Board of Education specifies the uses to which State distributive school funds are to be put. Special districts, of course, are restricted in the use of funds to the purposes for which the district was created. Unincorporated towns have no independent powers, being governed by the Board of County Commissioners, and the scope of their activities is mainly determined by the County Commissioners.

## Local Revenue Sources and Limitations

The taxing powers of local governments in Nevada generally are limited to the property tax although counties and incorporated cities and towns may levy license taxes on various businesses and occupations. The former source is available to all local units other than the majority of the special districts, but is subject to specific rate limitations. Apart from the overall rate limitation previously mentioned which applies to all taxing jurisdictions combined, counties are not subject to a specific limit; school districts are required to impose a minimum $.70 per $100 of assessed valuation levy but may not exceed $1.50 exclusive of debt service; and the limits, if any, on cities and incorporated towns depend upon their basis of incorporation. The city and town limitations on both property taxes and debt are presented in Table 18.2. Six of the "special charter" cities, it will be noted

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[3]The period for accumulating such funds is limited to ten years; a special tax of not more than $.25 per $100 of assessed valuation may be imposed, and the funds may be invested only in short-term U. S. Government bonds.

Table 18.2

Bond and Tax Limits of Incorporated Cities and Towns

| City | Statutory basis of incorporation | Type of charter | Bond limit: % assessed valuation | Property tax limit: dollars per $100 of assessed valuation |
|---|---|---|---|---|
| Boulder City | NRS 267 | Commission | 30 | $3.00 |
| Caliente | Chap. 289, Nev. 1957 | Special | 60 | none |
| Carlin (Town) | NRS 267 | Commission | 30 | 3.00 |
| Carson City | Chap. 43, Nev. 1875 | Special | none | 1.25 |
| Elko | Chap. 84, Nev. 1917 | Special | 10 | none |
| Ely | NRS 266 | Gen. Law | 30 | 3.00 |
| Fallon | NRS 266 | Gen. Law | 30 | 3.00 |
| Gabbs | Chap. 381, Nev. 1955 | Special | 10 | none |
| Henderson | NRS 266 | Gen. Law | 30 | 3.00 |
| Las Vegas | Chap. 132, Nev. 1911 | Special | 20 | none |
| Lovelock | NRS 266 | Gen. Law | 30 | 3.00 |
| North Las Vegas | Chap. 283, Nev. 1953 | Special | 60 | none |
| Reno | Chap. 102, Nev. 1903 | Special | 7½ | 1.75 |
| Sparks | Chap. 180, Nev. 1949 | Special | none | 1.75 |
| Wells | Chap. 104, Nev. 1927 | Special | 10 | none |
| Winnemucca | NRS 266 | Gen. Law | 30 | 3.00 |
| Yerington | Chap. 72, Nev. 1907 | Special | none | 2.00 |

Source: Data obtained from State Attorney General's office.

have no limits; and the other four have limits ranging from $1.25 to $2.00 per $100 of assessed valuation. Those incorporated under general or commission type of charter are limited to $3.00 per $100 of assessed valuation. The maximum rate of tax that may be imposed for various special purposes by the counties and cities is also indicated in the statutes.[4]

Both the counties and incorporated cities and towns are given broad powers to regulate and impose license taxes on virtually all types of private businesses, callings and professions, although specific provisions relate to particular activities and licenses. Thus, county liquor licenses only apply outside the limits of incorporated cities and towns, while city license taxes are subject to the requirement that the tax must be uniform as to each trade or business affected. Other types of revenue sources available to the counties and/or cities include the usual miscellaneous non-tax revenues and charges such as fines, special assessments, parking meters, sales and rentals of property and special charges for public utility and other authorized services. As noted, school districts are wholly dependent upon the property tax and certain special charges insofar as local sources are concerned. Only seven of the special districts are authorized to employ property taxes, and the principal sources of revenue for these units, depending upon their nature, are tolls and rates charged for services, and special assessments. Aid from other governmental units, state and federal, in the form of grants or shared taxes constitutes a significant source of local revenue. However, these receipts are considered in the general analysis of local revenues.

## Local Borrowing Powers and Legal Limitations

The counties and incorporated cities and towns generally may borrow funds for the conduct of their authorized functions. Depending upon the nature of the activity to be financed they may issue general obligation or revenue bonds, and they may also issue funding or refunding bonds to pay the interest and principal on outstanding obligations. Bond issue proposals must be submitted to the electorate, approved by the majority of voters, and taxes must be levied to meet the service charges on such debt. The amount of general obligation debt in the case of counties is limited to 10 percent of assessed valuation, and the status of incorporated city and town debt limits varies, as shown in Table 18.2. Three have no limitations; two have a 60 percent limit; and five have limits ranging from 7½ to 20 percent. All seven of the general law or commission cities have debt limits of 30 percent of

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[4]For example, counties may impose a tax of not more than 5¢ per $100 of assessed valuation for the establishment of a pension fund for county employees.

their assessed valuation.[5] In addition, county debt incurred for recreational facilities and participation in federal aid projects is governed by special provisions as is city debt for specified public improvements and public utilities.

School district debt is restricted to the financing of new construction, repair of existing facilities, acquisition of school building sites, and purchase of equipment; and the total bonded indebtedness of the school district is limited to 10 percent of its assessed valuation.[6] Provisions concerning approval of bond proposals by the electorate are similar to those applying to county and city borrowing. Borrowing by special districts is restricted by the individual statutes creating such districts. Five types of limitation on those authorized to borrow may be involved--absolute dollar amounts, percentage limits based on assessed valuation, requirement of approval of electorate above a designated amount, maximum interest rates, and maximum periods for the duration of loans. It is evident that the taxing powers of local jurisdictions in Nevada are limited in scope and closely circumscribed by a wide variety of constitutional and statutory limitations. Their borrowing powers, although broadly stated, are also subject to numerous specific restrictions.

## Local Budgetary and Financial Administration

Broadly speaking, the problem of achieving sound financial management is the same on all levels of government and the basic principles and procedures set forth in Chapter V, State Budgetary Processes, also apply to local finance. However, in view of the special status of local units in the general governmental pattern, particular emphasis should be placed upon the adequacy of their financial powers in relation to their responsibilities, the effective organization of their financial activities, their use of sound fiscal procedures and the existence and application of adequate internal and external controls.

The attainment of such basic objectives on the local level is seriously complicated by certain typical characteristics of local government structure and practice as well as state policies pertaining to local finance. The multiplicity of governmental jurisdictions on the local level--counties, townships, cities, towns, school districts and special districts--confuses the overall problem of local financing and results in specific difficulties with respect to overlapping jurisdictions and the allocation of revenue resources. Election of the

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[5]General bond issues are also limited in terms of duration, usually 20 or 30 years, and interest rates vary depending on the unit and the purpose of the loan.

[6]School districts may refund outstanding indebtedness with certain limitations and their bonds are limited to a maximum maturity of 20 years, with interest rates at not more than 5 percent.

principal administrative officers, particularly in county government, often contributes to a lack of executive control and coordination of activities. Both features in turn lead to highly variable practices from one unit to another in the absence of state control. Finally, the state constitutional and statutory controls over local finances that do exist often lack direction or are poorly conceived, and in some cases block the local officials from adopting appropriate policies and procedures for the solution of their fiscal problems.

Nevada's situation relative to the number of local units is relatively favorable in that there are only seventeen counties[7] and 17 coterminous school districts. The number of special districts and towns, however, is increasing, and certain special district problems are now apparent. Nevada's practice of electing local fiscal officers is typical, except that the offices of county auditor and recorder have been consolidated in all counties and the offices of county treasurer and clerk in most jurisdictions. The State statutes permit, but do not require such actions. While this policy contributes to better coordination of activities in the individual counties, financial practices in general are highly variable from one county or municipality to another. Although there is a wide assortment of constitutional and statutory controls over local financial administration in Nevada, the appropriateness of some may be seriously questioned, and additional forms of supervision appear to be desirable. Moreover, the lack of a single state administrative agency to deal with local practices and problems on a continuing basis sacrifices needed flexibility in the application of controls and is not conducive to effective enforcement.

## Local Financial Structure in Nevada

The specific agencies and officials responsible for local financial administration in Nevada are generally the same as those found in the other Western States. The nature and functions of the principal ones are briefly summarized below.

Counties. There are four principal financial agencies and officials on the county level--the Board of County Commissioners, the County Auditor, the County Treasurer and the County Assessor. All are elected for terms of four years. The Board of County Commissioners has broad executive, legislative and administrative responsibility for county finances. In particular, it formulates, adopts and plays an

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[7]Several of the counties though large in area lack sufficient population and resources to finance essential services without substantial State aid, and it is questionable whether a state with a total population of only 280,000 even warrants this number of counties, when some have a total population of less than 1,000.

important part in the execution of the county budget; it levies property taxes for all local units and may adopt license taxes for county purposes; it may initiate debt proposals which generally must be approved by the electorate; it performs the purchasing function (major items) and may sell or lease county property; it must approve and order payment of all legitimate claims against the county; it is required to examine and audit the accounts of all county officers handling public moneys; it controls and manages county property and must require a biennial inventory of county property from all agencies and offices; and it must publish quarterly statements of receipts and expenditures. The Board may employ an administrative officer to perform certain of the executive and administrative functions and this has been done in several of the most populous counties.[8] Needless to say, this is essential in such jurisdictions if the financial housekeeping activities are to be effectively performed.

The County Auditor is the key county administrative officer from the standpoint of financial control. He pre-audits all claims against the county before they are passed upon by the Board of Commissioners. Following approval by the Commission he generally certifies the orders for payment to the County Treasurer, but may refuse to do so. In the latter event, he submits the reasons for refusal to the Board who may overrule his decision. The Auditor also keeps the general financial records for the county and certain basic accounts for incorporated and unincorporated towns, school districts, and special districts. Finally, he extends the taxes on the basis of the assessment roll and the levies imposed. The general functions of the County Treasurer are to receive, maintain custody of and disburse county moneys. Warrants are issued and paid only on the basis of orders issued by the Board of County Commissioners and certified by the Auditor. The Treasurer is authorized to deposit county funds in approved banks, and is also generally responsible for the collection of taxes on real estate and personal property taxes not collected by the Assessor. The duties of the County Assessor relative to the valuation and assessment of property for tax purposes were examined in Chapter VII. In addition, the Assessor also has responsibility for the collection of personal property taxes if the taxpayer does not have sufficient real property in the county to cover his tax liability. It should also be noted that the County Sheriff is designated as ex officio collector of licenses.

Incorporated Cities and Towns. The chief financial agencies and officers of incorporated municipalities include a City Council, Mayor or City Manager, City Treasurer, City Auditor, and in some instances a City Clerk. The Mayor, members of the City Council, the City Treasurer

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[8]Clark county employs a Budget Director and Washoe county a County Manager.

(first and second class cities) and the City Clerk are elected for four year terms; the City Auditor's position, if established, may be elective or appointive. In addition, depending upon the terms of the individual charter, other financial offices may be created such as a Director of Finance, Budget Director or Purchasing Officer.

The duties of the Mayor with respect to financial matters are not specifically defined in the State statutes and vary from one city to another based upon charter provisions and actual practice. Under the City Manager form of municipal government the Manager generally is responsible for the formulation of budget proposals including both expenditures and revenues, and the general administration of such measures after approval by the Council.[9] This approach gives the City Council the benefit of professional advice on needs and revenue sources and also removes an onerous burden of technical work which its members usually have neither the time nor knowledge to adequately perform. The policy and administrative functions of the City Council with respect to financial matters are basically the same as those of other general legislative bodies. As in the case of the counties, however, the executive responsibility also often falls on the legislative body, particularly in the smaller, mayor-council cities. Some assistance is obtained from the estimates of expenses and revenues supplied by the City Auditor, but these data are no substitute for a carefully prepared budget proposal. The basic fiscal duties of the City Treasurer and City Auditor (often the City Clerk) parallel those of the same officers on the county level. The City Auditor is required to report to the City Council on or before June 1 estimates of probable needs and revenues; he must preaudit all claims against the city; and he is supposed to prepare periodic and annual reports on the financial condition of the city.

School Districts. School finances are the general responsibility of the elected Board of Trustees. They adopt the school budget; certify the tax levy required to finance it; and exercise broad authority over its execution. The actual task of formulating a budget proposal as well as the administration of the provisions of the adopted budget is usually delegated to the County Superintendent and his staff.[10] Two of the counties, Clark and Washoe, have special officers appointed by the Superintendent to manage their business and financial affairs. The County Treasurer is the custodian of all school funds and the County Auditor must approve all expenditures of such funds authorized by the Board of Trustees. Thus, these officials perform the same general financial control functions for the school districts that they do for the counties.

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[9]The mechanics of preparing the budget document as well as the administration of financial policy may, of course, be delegated to subordinate officers.

[10]Esmeralda County does not have this position in view of its limited school population.

Unincorporated Towns and Special Districts. Although the Board of Trustees and Treasurers of unincorporated towns have certain advisory and administrative functions relative to town finances, the basic powers and control functions are vested in the Board of County Commissioners and the County Treasurer and Auditor, respectively. In short, the unincorporated towns do not possess independent authority with respect to financial or other matters. While each special district represents an individual case situation, the Board of Directors or Board of Trustees (title varies) has full responsibility for the conduct of the general financial and other business of the district. The County Treasurers and Auditors, however, generally handle custodial and control functions as in the instance of school districts, and the property tax levies that may be required are made by the County Board of Commissioners.

## State Supervision of Local Finance in Nevada

As already noted, local government finance in Nevada, as well as in most other states, is subject to a substantial amount of state control. In the area of financial administration such controls commonly emcompass the budgetary process and other fiscal procedures, the financial records and accounting system to be maintained, the auditing of accounts, the responsibilities of financial officers, and the reporting of fiscal activities. The attainment of certain minimum standards of performance in each of these fields is essential if the state is to properly discharge its responsibilities in providing financial assistance to local units. Perhaps more significantly, state requirements can and should serve as a valuable guide and aid to local financial officers.

Nevada's system of statutory controls is concerned primarily with the local budget process, auditing, the financial responsibility of local officers and fiscal reporting. There are no specific requirements relating to local accounting or fund systems; State administrative supervision is limited in most cases to the receipt and examination of financial reports, and the latter function is divided among several State offices. The specific requirements in each field are discussed below.

Local Budgeting. State control over the local budget process was instituted in 1917 with the passage of the Local Government Budget Act. The present statute applies to all local units authorized to impose property taxes, and the State Tax Commission is charged with the administration of its provisions.[11] The local units are required to prepare a budget between March 1 and March 15 for the fiscal year beginning July 1, but a grace period of two weeks may be permitted by the

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[11]These provisions as they apply to counties, cities and school districts are set forth in Nevada Revised Statutes, Chapter 354.

State Tax Commission.[12] The local governing boards are required to hold hearings on the budget and to publish notice of the hearing at least ten days prior to the date set for the hearing. Such notice is to give pertinent details of the budget and indicate a specified place where copies of the tentative budget are available for inspection by the public. The tentative budget must also be submitted to the Tax Commission ten days before the hearings, and the Commission must examine the budget and notify the unit as to whether it is in compliance with the law.

The Tax Commission is empowered to prescribe budget forms and the detailed data to be included, but the law requires that the budget document include the following information:

a. Total assessed valuation of the governmental unit for the fiscal year beginning July 1 of the year of the budget;

b. Unencumbered cash balances at the beginning of the budget year;

c. Estimated receipts from all sources for the next fiscal year;

d. Estimated expenditures for the next fiscal year;

e. Amount required from property tax and the tax rate necessary to produce it;

f. Expenditures, receipts, and balances for the last completed fiscal year and estimates for the current year.

The budget adopted must be filed with the Tax Commission, and it has the responsibility of determining whether the aggregate property tax levy for any area exceeds the $5 limit per $100 of assessed valuation. If an excess levy is involved the Commission must make the necessary adjustments in consultation with the units involved.

The local units may not spend in excess of amounts set forth in the budget with one exception. They may request and receive approval from the State Board of Finance for temporary emergency loans to meet unusual situations which occur when the budgeted amounts are insufficient to pay all the costs of a particular function. Before such a loan can be obtained, a resolution must be approved unanimously by the local governing board, the board's intention must be published in a newspaper, all pertinent facts must be reviewed by the Secretary of the Nevada Tax Commission, and the loan must be approved by the

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[12]A review of local budget filings shows that a large number of the local units request and are granted such extensions, and in some cases they do not file within the extended time limit.

State Board of Finance. If approved and the emergency loan is obtained from outside sources or from local funds which require repayment, the local governing board must make provision in the following year's budget for a sufficient tax levy to repay the loan within three years from the date of borrowing.[13] Thus, instead of a budgeted contingency fund to be used at the discretion of a local governing board before total spending amounts authorized in the original local budget can be exceeded, a detailed and complex procedure must be followed to obtain a temporary emergency loan. This method, however, does provide notice to local taxpayers and an opportunity for State review of the reasons for the proposed budget excess.

Table 18.3 shows the aggregate of outstanding emergency loans

Table 18.3

Outstanding Emergency Loans of Local Jurisdictions[a]
Fiscal Years 1950 and 1959

| | Counties[b] | | School Districts | |
|---|---|---|---|---|
| County | 1950 | 1959 | 1950 | 1959 |
| Churchill | $ 31,500 | $ 26,229 | -- | -- |
| Clark | 28,000 | 173,500 | $ 22,750 | -- |
| Douglas | 21,000 | 4,500 | 4,300 | -- |
| Elko | 24,500 | 15,000 | 2,700 | -- |
| Esmeralda | 2,500 | -- | -- | -- |
| Eureka | -- | -- | -- | -- |
| Humboldt | -- | -- | -- | -- |
| Lander | -- | -- | -- | -- |
| Lincoln | 10,000 | -- | 4,884 | -- |
| Lyon | 14,125 | 24,415 | 13,901 | -- |
| Mineral | 14,000 | 11,045 | 3,000 | -- |
| Nye | 40,000 | -- | 3,500 | $2,452 |
| Ormsby | -- | -- | 21,163 | -- |
| Pershing | 30,000 | 8,020 | 12,750 | -- |
| Storey | 2,469 | -- | -- | -- |
| Washoe | 100,000 | -- | 7,880 | -- |
| White Pine | -- | -- | 6,893 | -- |
| Totals | $318,094 | $262,709 | $103,721 | $2,452 |

[a]No city emergency loans reported except for Carson City ($7,500 in 1950 and $25,000 in 1959) and Yerington ($7,500 in 1959).
[b]Amounts for counties include loans for towns, hospitals, and other special districts under jurisdiction of counties.

Source: County Auditor Reports, 1950 and 1959; City budgets filed with the Nevada Tax Commission, 1950 and 1959.

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[13]Interest on such loans cannot exceed 8 percent.

by Nevada counties and school districts for 1950 and 1959.[14] It will be noted that the total of about $318,000 of such loans for counties at the end of fiscal year 1950 had dropped to $263,000 in 1959, and the change was especially notable for school districts which had decreased from about $104,000 in 1950 to less than $3,000 in the course of the decade. This decline in outstanding emergency loans may reflect some improvement in local financial planning, but the reduction is partly attributable to the rapid growth in the State's economic resources and expanded State aid programs.

The State law is also very specific in requiring that counties may not make expenditures unless funds have been authorized and are available in the accounts of the County Treasurer. Similar provisions apply to the cities, towns and school districts. However, an element of flexibility is introduced by permitting local governing boards to amend their budgets by transferring funds from one account to another provided no increase in the overall budget is involved and public notice is given of such action. In addition to the above general requirements the Tax Commission has specified the fund and functional categories for city budgets.

Local Accounting Systems and Financial Records. State supervision of local government accounting is limited to the general stipulation that adequate accounts be maintained with one major exception. The State Board of Education is authorized to prescribe the accounts and records to be maintained by school districts. The duties of the County Auditor in maintaining financial accounts and in checking expenditures for the county, school districts, unincorporated towns and certain special districts are also specified, and certain financial reports are required. The two principal reports to be prepared by the Auditor are a summary statement of receipts and expenditures for each unit including the source of the revenue and the purpose of the expenditure classified by fund and sometimes object; and a statement concerning county finances showing the amount of indebtedness, an estimate of the value of county-owned property, details of property taxation, poll taxes collected, and the number of registered voters. The former report is filed with the State Superintendent of Banks and the latter with the State Controller.[15]

Auditing of Local Government Accounts. In addition to the internal pre-auditing discussed above, the city and county governing boards are required to audit the books of all officials handling public moneys, but the nature of the audits are not defined in specific terms. The law does provide that county books be audited annually

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[14]The cities generally have not resorted to this type of financing.

[15]The Tax Commission also obtains copies of these reports.

by the State Superintendent of Banks, but the State does not participate in the auditing of city books which is usually conducted by outside firms. With regard to school districts, the Boards of Trustees, at least every two years, must have audits made which are filed with the County Auditor. The State Board of Education also is empowered to audit school district books. Other than the State audit of county books and the provision with respect to school district audits, there is no requirement that local units audits be filed with or reviewed by a State agency.

Conclusions on State Supervision. While it has not been feasible to make a thorough analysis of the impact of State control and supervision on local financial practice, certain general observations on its nature and effects are believed to be merited. State requirements with respect to the preparation and form of local budgets as administered by the Tax Commission generally appear to be adequate.[16] Compliance with the law and regulations, however, often is not satisfactory in terms of the data actually reported. The period of time allowed the Commission for checking the tentative budgets as well as the staff available for this work are also inadequate. Other than the check on total tax levies made by the Commission there is no specific provision for review of the budgets adopted or a follow-up of performance under the budget. As the existing provisions presently operate it is two years after the filing of the local budgets before the Tax Commission has the information on actual expenditures and revenues by budget categories, assuming that the data actually are reported.

A special problem arises as a consequence of the fact that local governments in Nevada do not budget operating cash reserves. Instead they must add opening cash balances to estimated non-property tax receipts, and then balance the budget by making a tax levy sufficient to meet expenditures proposed. Such a procedure tends to cause local officials to overestimate expenditures and underestimate non-property tax revenues in order to assure a sufficient amount of operating cash. A more suitable approach would be to allow local government units to budget, over and above proposed expenditures, a cash reserve of about one month's operating expenses. Such reserve would be carried forward each year and would not have to be deducted from the property tax requirement. In some instances it would probably take a number of years to build up the reserve to the desirable level, but it would provide necessary flexibility in local government financial operations, would assure sufficient amounts to meet unforeseen reductions of revenue, and would encourage more realistic budgeting.

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[16] It should be noted that Las Vegas and Reno on their volition have established modern budget systems which compare favorably with those employed by progressive municipalities in other states.

No direct control is presently exercised by the State over local accounting and fund systems apart from budget accounts. The consequent lack of uniformity, apart from the questionable procedures that may be employed, hampers sound budgetary practice, makes direct and meaningful comparisons of local finances extremely difficult, and is a serious obstacle to sound financial management in general. State action in prescribing a uniform system of accounts and fund structure adapted to the requirements of all local units is obviously desirable for the reasons noted, and also would serve as a valuable guide to local fiscal officers who may have had little training or experience in the field of government accounting. The institution of such a system in the individual units as well as its effective operation would undoubtedly require State assistance. Illustrating the need for sound accounting and fund systems, county budgets now include a multitude of very small special funds--such as agricultural extension, swimming pool, ambulances, cemetery--which properly could be included in the County General Fund. With a limited, uniform county fund structure, budget preparation and analysis, property tax levies, accounting, auditing and reporting would be greatly simplified The integrity of certain special revenue sources could be maintained by accounts within the general fund if this is desired because of a local situation.

With regard to fiscal reporting by local units it may be noted that such reports generally should serve the internal needs of the jurisdiction in budgeting and audit activities, keep the citizens adequately informed on what the government is doing with their money, and provide information essential to the intelligent formulation of State policy as well as the exercise of State supervisory measures. The chief reports now required are those of the County Auditor and School Boards. In the former instance, the scope as well as the nature of the information presented, particularly for units other than the counties, is inadequate except in the property tax field. These reports should present a complete financial record of the county and other units (unless direct reporting is required) based upon budget and other fiscal accounts and should encompass a three-year period. Uniformity of form and basic content is essential for all units, although special types of data are needed in the case of school districts, for example. It is recognized that the preparation of this type of report is contingent upon the implementation of the suggestions concerning budgetary and accounting procedure.[17] The desirability of uniform requirements with respect to the conduct of annual external audits and the filing of audit reports by all local units including special districts also is clearly indicated.

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[17]There has been a considerable improvement in the auditors' reports during the last decade, and the reports filed by school districts with the State Board of Education also are being improved through the efforts of the financial auditors of the Department (positions established in 1956). Moreover, one or more of the large cities and counties are issuing special reports to their citizens on municipal finance and other matters of general concern to the public.

Another significant aspect of the general problem of State supervision over local financial administration is that of administering State requirements in this and other fiscal fields. In the first place, it is axiomatic that State requirements will have little meaning unless they are implemented, and local initiative is often lacking. Continuing State assistance and supervision in such matters is essential, and this in turn necessitates a specialized and permanent staff on the State level. In the second place, if State action is to have proper direction and consistency and if reasonable uniformity in local practice is to be achieved, the principal responsibility for achieving such results must be placed in a single agency. Considering its present functions with respect to property taxes and local budgeting, the State Tax Commission is a logical choice. Once a more comprehensive system of State assistance and supervision is established direct reporting by autonomous local units--cities, incorporated towns, and school districts--should also contribute to more effective relationships between the State agency and the local fiscal officers of these units. This would also relieve the County Auditor of an onerous task which is not being adequately performed in some jurisdictions.

## Local Expenditure and Revenue Patterns

As has been indicated in the preceding section, the financial records and statements of local jurisdictions in Nevada are not kept on a uniform basis, and in many instances the County Auditor Reports and local budgets filed with the Nevada Tax Commission are incomplete with regard to actual and budgeted expenditures and revenues. Notwithstanding these limitations, county financial reports and local budgets provide the best available data for determining the actual levels and patterns of expenditures by functions, and revenues by tax sources for the three major types of local jurisdictions in Nevada.[18] It is believed that the detailed data in this section provide for the first time a realistic and comprehensive picture of the major characteristics and patterns of local finance in Nevada on a consistent and aggregate basis. Moreover, the expenditure and revenue data for 1950 and 1959 have been reduced to a per capita basis and adjusted for changing price levels in order to reflect the impact of both population growth and post-war inflation on local finance. These statistical data are presented in the series of Tables 18.4 through 18.21, which as a group provide a comprehensive overview of what Nevada residents have received in the form of public services from their local units of government during the past decade as well as a measure of the real costs involved. The discussion

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[18] In one instance an estimate had to be used for fiscal year 1950, but generally when reported financial data filed with the State agencies were inadequate, direct communication with the respective financial officers of counties and cities provided the required information. Also, wherever possible, the data were tested for internal consistency and checked against the aggregate figures reported by the State agencies and the local finance estimates of the U. S. Census Bureau.

treats each level of local government in successive order--counties, cities, and school districts--and then the data for the individual levels of government are aggregated to provide a comprehensive expenditure and revenue picture of the combined local units of government in Nevada.[19]

County Governments

The detailed statistical data for the general expenditures and revenues of Nevada's seventeen counties are presented on both a total and per capita basis, classified by the nature of the governmental function financed and the source of tax revenues, in Tables 18.4 through 18.7.

The combined general expenditures in fiscal year 1959 for all counties (Table 18.4), amounted to $25.4 million, of which $2.9 million represented intergovernmental grants to the State and municipalities primarily as a result of the sharing of the county gambling table tax and the county gasoline tax. Thus, the direct expenditures for the county units amounted to $22.5 million or 89 percent of the total general expenditures. Quantitatively public health and welfare expenditures constituted the most important single function, accounting for $8.1 million or almost 32 percent of the total general expenditures of the counties. However, there were marked variations between the counties with regard to the relative amounts spent for this function, ranging from 3.3 percent in Douglas county to almost 55 percent in Elko county. It is also interesting to note that the relative expenditure on health and welfare in Washoe county was almost twice as large as that reported for Clark county. General administration expenditures were next in importance, amounting to $4.1 million or 16 percent of the total for the fiscal year 1959, but the relative amounts spent by individual counties varied from 11.5 percent in Clark to 39.9 percent in Esmeralda. In the aggregate, the two categories of public health and welfare and general administration expenditures together accounted for almost 50 percent of the total outlay for Nevada's counties in 1959.

Table 18.5 shows the per capita expenditures for Nevada's counties. On this basis,[20] general administration outlays averaged $37.25 for all counties. Public health and welfare expenditures of $34.10 ranked next, followed by highway and roads; public safety and sanitation; and parks and recreation categories. There were also marked differences in the per capita expenditures between the counties; for example, general administration ranged from a low of $9.49 in Clark county to a high of $103 in Storey. Other high-cost counties on this basis were Esmeralda,

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[19]Total general expenditures and total general revenues in this analysis are exclusive of the payments for the repayment of debt, proceeds from the issuance of public debt, and the expenditures and income of publicly operated utilities and insurance trust funds.

[20]See footnote "b" at end of Table 18.5.

Table 18.4

Total General Expenditures for Nevada Counties[a]
Fiscal Year 1959

| County | General administration | Highways and roads | Public health & welfare | Parks, natural resources, etc.[b] | Public safety & San. | All other expenditures[c] | Total direct general expenditures | Grants to other gov't units | Total general expenditures[d] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | A. Amounts (in thousands): | | | | | |
| Churchill | $ 126.6 | $ 91.1 | $ 300.0 | $ 284.2 | $ 36.0 | $ 39.2 | $ 877.1 | $ 60.5 | $ 937.6 |
| Clark | 1,184.4 | 406.7 | 2,485.2 | 83.6 | 630.8 | 4,177.6 | 8,968.4 | 1,357.4 | 10,325.8 |
| Douglas | 113.0 | 162.3 | 17.5 | 6.0 | 119.1 | 11.5 | 429.5 | 103.1 | 532.6 |
| Elko | 207.9 | 253.7 | 964.5 | 87.6 | 72.2 | 28.0 | 1,613.8 | 142.4 | 1,756.2 |
| Esmeralda | 61.5 | 55.0 | 11.6 | 3.4 | 12.5 | 3.5 | 147.5 | 6.5 | 154.0 |
| Eureka | 65.8 | 50.5 | 32.5 | 3.8 | 16.8 | 1.6 | 171.0 | 1.5 | 172.3 |
| Humboldt | 130.2 | 100.2 | 199.0 | 27.5 | 33.0 | 16.3 | 506.0 | 39.0 | 545.6 |
| Lander | 91.8 | 66.2 | 46.5 | .5 | 32.8 | 3.9 | 241.8 | 6.7 | 248.5 |
| Lincoln | 87.6 | 74.3 | 103.5 | 9.0 | 41.8 | 11.6 | 327.8 | 9.1 | 336.9 |
| Lyon | 120.7 | 131.8 | 237.8 | 244.0 | 78.7 | 49.0 | 862.0 | 24.4 | 886.3 |
| Mineral | 125.1 | 50.7 | 176.4 | 4.3 | 105.5 | 10.1 | 472.1 | 23.1 | 495.2 |
| Nye | 149.9 | 103.1 | 147.7 | 4.9 | 138.9 | 23.7 | 568.1 | 18.4 | 586.5 |
| Ormsby | 92.8 | 33.3 | 44.8 | .1 | 55.8 | 73.5 | 296.4 | 99.7 | 396.1 |
| Pershing | 93.8 | 57.0 | 205.7 | 133.1 | 20.3 | 8.1 | 517.9 | 18.9 | 536.9 |
| Storey | 58.4 | 32.2 | 18.3 | .3 | 35.6 | -- | 144.8 | 6.0 | 150.9 |
| Washoe | 1,163.3 | 509.9 | 2,769.7 | 322.9 | 431.9 | 256.2 | 5,453.9 | 932.1 | 6,386.0 |
| White Pine | 199.0 | 166.4 | 300.6 | 117.4 | 67.0 | 38.3 | 888.6 | 61.0 | 949.6 |
| Total[d] | $4,071.5 | $2,344.5 | $8,061.0 | $1,333.6 | $1,924.7 | $4,752.2 | $22,486.6 | $2,910.3 | $25,396.9 |
| | | | | B. Percent distribution: | | | | | |
| Churchill | 13.5 | 9.7 | 32.0 | 30.3 | 3.8 | 4.2 | 93.5 | 6.5 | 100.0 |
| Clark | 11.5 | 3.9 | 24.1 | .8 | 6.1 | 40.5 | 86.9 | 13.1 | 100.0 |
| Douglas | 21.2 | 30.5 | 3.3 | 1.1 | 22.4 | 2.2 | 80.6 | 19.4 | 100.0 |
| Elko | 11.8 | 14.4 | 54.9 | 5.0 | 4.1 | 1.6 | 91.9 | 8.1 | 100.0 |
| Esmeralda | 39.9 | 35.7 | 7.5 | 2.2 | 8.1 | 2.3 | 95.8 | 4.2 | 100.0 |
| Eureka | 38.2 | 29.3 | 18.9 | 2.2 | 9.8 | .9 | 99.2 | .8 | 100.0 |
| Humboldt | 23.9 | 18.4 | 36.5 | 5.0 | 6.0 | 3.0 | 92.7 | 7.1 | 100.0 |
| Lander | 36.9 | 26.6 | 18.7 | .2 | 13.2 | 1.6 | 97.3 | 2.7 | 100.0 |
| Lincoln | 26.0 | 22.1 | 30.7 | 2.7 | 12.4 | 3.4 | 97.3 | 2.7 | 100.0 |
| Lyon | 13.6 | 14.9 | 26.8 | 27.5 | 8.9 | 5.5 | 97.3 | 2.8 | 100.0 |
| Mineral | 25.3 | 10.2 | 35.6 | .9 | 21.3 | 2.0 | 95.3 | 4.7 | 100.0 |
| Nye | 25.6 | 17.6 | 25.2 | .8 | 23.7 | 4.0 | 96.7 | 3.1 | 100.0 |
| Ormsby | 23.4 | 8.4 | 11.3 | -- | 14.1 | 18.6 | 74.8 | 25.2 | 100.0 |
| Pershing | 17.5 | 10.6 | 38.3 | 24.8 | 3.8 | 1.5 | 96.5 | 3.5 | 100.0 |
| Storey | 38.7 | 21.3 | 12.1 | .2 | 23.6 | -- | 96.0 | 4.0 | 100.0 |
| Washoe | 19.7 | 8.0 | 43.4 | 5.1 | 6.8 | 4.0 | 85.4 | 14.6 | 100.0 |
| White Pine | 21.0 | 17.5 | 31.6 | 12.4 | 7.4 | 4.0 | 93.6 | 6.4 | 100.0 |
| Total[d] | 16.0 | 9.2 | 31.7 | 5.3 | 7.6 | 18.7 | 88.5 | 11.5 | 100.0 |

[a]Expenditures for operation of utilities excluded. [b]Includes conservation and recreation. [c]Includes refunds, insurance, interest payments, airport expenditures, etc. [d]Totals may not equal sum of items due to rounding.

Source: Annual Report of County Auditor, 1959, for each county.

Table 18.5

Per Capita General Expenditures for Nevada Counties
Fiscal Year 1959

| County | General administration | Highways and roads | Public health & welfare | Parks, nat. resources, etc.[a] | Public safety & san. | All other expen. | Total direct gen. expen. | Grants to other gov't units | Total general expen. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | A. Per capita amounts: | | | | | |
| Churchill | $15.08 | $10.85 | $35.73 | $33.85 | $ 4.29 | $ 4.67 | $104.45 | $ 7.20 | $111.66 |
| Clark | 9.49 | 3.27 | 19.91 | .67 | 5.05 | 33.47 | 71.85 | 10.88 | 82.73 |
| Douglas | 32.85 | 47.18 | 5.09 | 1.74 | 34.62 | 3.34 | 124.85 | 29.97 | 154.83 |
| Elko | 17.44 | 21.28 | 80.89 | 7.35 | 6.06 | 2.35 | 135.35 | 11.94 | 147.30 |
| Esmeralda | 99.84 | 89.29 | 18.83 | 5.52 | 20.29 | 5.68 | 239.45 | 10.55 | 250.00 |
| Eureka | 87.27 | 66.98 | 43.10 | 5.04 | 22.28 | 2.12 | 226.79 | 1.99 | 228.51 |
| Humboldt | 22.90 | 17.62 | 35.00 | 4.84 | 5.80 | 2.87 | 88.99 | 6.86 | 95.95 |
| Lander | 58.85 | 42.44 | 29.81 | .32 | 21.03 | 2.50 | 155.00 | 4.29 | 159.29 |
| Lincoln | 36.12 | 30.64 | 42.68 | 3.71 | 17.24 | 4.78 | 135.18 | 3.75 | 138.93 |
| Lyon | 19.83 | 21.65 | 39.07 | 40.09 | 1.29 | 8.05 | 141.61 | 4.01 | 145.61 |
| Mineral | 20.42 | 8.28 | 28.80 | .70 | 17.22 | 1.65 | 77.08 | 3.77 | 80.85 |
| Nye | 34.57 | 23.78 | 34.06 | 1.13 | 32.03 | 5.47 | 131.02 | 4.24 | 135.26 |
| Ormsby | 11.56 | 4.15 | 5.58 | .02 | 6.95 | 9.15 | 36.91 | 12.42 | 49.33 |
| Pershing | 29.61 | 17.99 | 64.93 | 42.01 | 6.41 | 2.56 | 163.48 | 5.97 | 169.48 |
| Storey | 103.00 | 56.79 | 32.28 | .55 | 62.79 | .16 | 255.38 | 10.58 | 266.14 |
| Washoe | 13.90 | 6.09 | 33.09 | 3.86 | 5.16 | 3.06 | 65.16 | 11.14 | 76.30 |
| White Pine | 20.47 | 17.12 | 30.92 | 12.08 | 6.89 | 3.94 | 91.41 | 6.28 | 97.69 |
| Average[b] | $37.25 | $28.55 | $34.10 | $ 9.62 | $16.20 | $ 5.64 | $132.00 | $ 8.58 | $140.58 |
| | | | | B. Percent increase 1959 over 1950: | | | | | |
| Churchill | 38.1 | -13.2 | 77.8 | 2,389.0 | 88.2 | -66.4 | 71.0 | -9.8 | 61.7 |
| Clark | 31.0 | -3.0 | 63.7 | 39.6 | 69.5 | 62.8 | 54.5 | 40.9 | 52.6 |
| Douglas | 60.2 | 114.1 | 87.1 | -62.5 | 99.8 | 31.0 | 78.9 | 316.3 | 101.1 |
| Elko | 24.8 | 29.6 | 452.9 | 28.5 | 6.9 | 193.8 | 136.6 | 27.2 | 121.2 |
| Esmeralda | 85.2 | 295.3 | 19.6 | 203.3 | 143.0 | 35.6 | 124.6 | 31.9 | 118.6 |
| Eureka | 94.7 | 57.9 | 148.1 | -7.7 | 99.1 | 332.7 | 86.2 | -63.6 | 79.6 |
| Humboldt | 40.4 | 48.9 | 49.8 | 231.5 | 87.7 | -20.1 | 49.2 | -31.0 | 37.9 |
| Lander | 141.1 | 76.3 | 39.6 | -75.4 | 42.4 | 204.9 | 78.7 | -26.0 | 72.1 |
| Lincoln | 147.2 | 151.1 | 103.3 | -20.9 | 5.9 | 141.4 | 91.1 | -24.7 | 83.5 |
| Lyon | 18.7 | 102.1 | 317.0 | 3,133.1 | -80.6 | -74.2 | 86.6 | -51.4 | 73.0 |
| Mineral | 82.8 | 97.6 | 82.2 | 191.7 | 312.9 | -61.9 | 93.1 | 216.8 | 96.7 |
| Nye | 62.4 | 276.3 | 24.6 | -50.4 | 220.0 | 101.8 | 87.3 | 136.9 | 88.6 |
| Ormsby | 2.6 | 202.9 | 49.6 | -85.7 | 418.7 | c | 106.8 | 31.2 | 80.6 |
| Pershing | 68.1 | 85.8 | 152.0 | 2,146.5 | 84.7 | -88.2 | 104.1 | 28.7 | 100.0 |
| Storey | 171.8 | 177.2 | 96.6 | -30.4 | 159.0 | 220.0 | 155.7 | 30.3 | 146.4 |
| Washoe | 1.9 | 27.9 | 26.0 | 1.3 | 66.5 | 236.3 | 24.2 | -7.2 | 18.3 |
| White Pine | 55.9 | 159.0 | 128.4 | 352.4 | 78.0 | d | 129.3 | 12.1 | 114.8 |
| Average | 81.4 | 109.6 | 102.3 | 309.4 | 98.5 | -12.7 | 94.1 | 24.2 | 87.7 |

[a]Includes conservation and recreation. [b]Simple average. [c]No figure for 1950. [d]Per capita figure too small for meaningful comparison.

Source: Annual Report of County Auditor, 1959, for each county; and U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

Eureka and Lander; while Ormsby, Washoe and Elko represented low-cost counties. Of course, this variance in part may be attributed to the economies of scale, i.e., the latter counties obviously have a much larger base over which to spread their governmental costs, particularly those which are of a relatively fixed nature.

Part B of Table 18.5 shows the increases which were incurred in per capita expenditures during the past decade by major functions. Total general expenditures for all counties rose by almost 88 percent for the ten-year period. The percentage increases for the individual counties ranged from a low of only 18 percent for Washoe county to a high of 146 percent for Storey county. Other counties with large increases were Douglas, Elko, Esmeralda, Pershing and White Pine. Similarly, the percentage increases for specific functions were not uniform--per capita expenditures for parks and recreation rose by more than 300 percent while general administration expenditures only increased by 81 percent, and the catch-all category of "all other" actually showed a decrease of almost 13 percent. With regard to per capita general administration costs, it is noteworthy that the increase for the entire ten-year period for Washoe county was less than 2 percent, the smallest in the State, followed closely by Ormsby. On the other hand, Clark county's increase in administration costs was 31 percent, and the greatest increase in the State was the 172 percent rise experienced by Storey county.

The general revenue picture for Nevada counties is presented in Table 18.6. Of course, total general revenues should not be confused with taxes inasmuch as the former include a variety of charges, miscellaneous non-tax revenues, and grants from other governmental jurisdictions as well as ordinary taxes, licenses and fees. Total general revenues for Nevada's counties in 1959 amounted to $26.3 million, of which amount $1.5 million, or less than 6 percent, were grants and shared taxes; and $8.8 million or 33 percent, represented charges and miscellaneous non-tax revenues. In other words almost 40 percent of the total county revenue was derived from non-tax sources. Tax revenues for the seventeen counties amounted to $16 million and, as is to be expected, almost two-thirds was collected by Clark and Washoe counties. In 1959, the most important single revenue source was the property tax which amounted to $10 million or 38 percent of the total county revenues. In contrast, gambling taxes amounted to less than 10 percent and the county gas tax was only 7 percent of the total. The county liquor tax and poll tax were both quantitatively insignificant, amounting to less than 1 percent of the total, respectively. With regard to the property tax, Clark and Washoe counties accounted for almost two-thirds of the total, but its relative importance for the other counties varied considerably, from less than one-fourth of the revenues of Douglas county to more than one-half of the total for Lander, Mineral, Pershing and White Pine counties. Differences in gambling tax collections were even greater, ranging from 40 percent of the total for Douglas county to less than 1 percent for Esmeralda. Moreover, it is interesting to note that Douglas is the only county in the State in which gambling tax collections actually exceeded property tax collections.

Table 18.6

Total General Revenues for Nevada Counties,[a]
Fiscal Year 1959

| County | Property tax[b] | County gambling tax | County liquor tax | County gas tax[c] | County poll tax | Other taxes, fees & lic[d] | Total tax revenue | Charges & misc.gen. revenue[e] | Grants from State and others | Total general revenue[f] |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | A. Amounts (in thousands): | | | | | | |
| Churchill | $ 380.4 | $ 26.1 | $ 3.5 | $ 65.0 | $ 4.5 | $ 11.2 | $ 490.7 | $ 442.6 | $ 55.7 | $ 989.0 |
| Clark | 4,230.8 | 1,206.0 | 87.5 | 559.2 | 85.9 | 531.1[g] | 6,700.5 | 4,153.5 | 268.2 | 11,122.1 |
| Douglas | 110.4 | 188.0 | 8.0 | 29.4 | 2.1 | 25.7 | 363.6 | 56.3 | 50.0 | 470.1 |
| Elko | 460.7 | 129.9 | 4.2 | 177.8 | 12.1 | 18.1 | 802.8 | 774.3 | 122.7 | 1,699.9 |
| Esmeralda | 49.3 | 1.0 | 1.2 | 24.0 | 2.4 | 4.7 | 82.6 | 10.3 | 46.8 | 139.7 |
| Eureka | 64.9 | 1.5 | 1.3 | 24.4 | .7 | 2.7 | 95.5 | 6.7 | 53.5 | 155.7 |
| Humboldt | 274.9 | 36.7 | 3.6 | 84.7 | 2.1 | 10.1 | 412.1 | 152.5 | 60.0 | 624.6 |
| Lander | 145.8 | 10.2 | 2.2 | 44.2 | 1.1 | 2.1 | 205.6 | 14.6 | 50.6 | 270.7 |
| Lincoln | 200.0 | 8.9 | 2.4 | 54.3 | 2.3 | 4.1 | 272.0 | 61.6 | 56.8 | 390.5 |
| Lyon | 293.9 | 16.2 | 6.3 | 64.8 | 4.0 | 10.2 | 395.4 | 231.1 | 58.7 | 685.0 |
| Mineral | 293.0 | 35.2 | 11.2 | 48.8 | 4.1 | 13.4 | 405.7 | 135.5 | 40.2 | 581.5 |
| Nye | 206.3 | 37.0 | 9.6 | 99.5 | 3.4 | 13.6 | 369.4 | 135.5 | 66.7 | 571.7 |
| Ormsby | 168.7 | 42.1 | 1.1 | 47.3 | 1.2 | 28.7 | 289.1 | 63.0 | 56.2 | 408.2 |
| Pershing | 325.2 | 19.7 | 1.3 | 59.8 | 3.0 | 6.9 | 415.9 | 130.7 | 57.7 | 604.3 |
| Storey | 59.7 | 18.6 | 3.8 | 9.4 | .3 | 6.0 | 97.8 | 4.1 | 49.9 | 151.7 |
| Washoe | 2,215.7 | 800.0 | 24.0 | 381.1 | 51.2 | 346.3 | 3,818.3 | 2,183.1 | 326.1 | 6,327.3 |
| White Pine | 602.3 | 25.5 | 5.7 | 100.3 | 7.5 | 14.1 | 755.4 | 219.0 | 85.3 | 1,059.6 |
| Total[f] | $10,082.0 | $2,602.3 | $176.9 | $1,874.0 | $187.8 | $1,049.0 | $15,972.0 | $8,774.5 | $1,505.1 | $26,251.7 |
| | | | | B. Percent distribution: | | | | | | |
| Churchill | 38.5 | 2.6 | .4 | 6.6 | .5 | 1.1 | 49.6 | 44.8 | 5.6 | 100.0 |
| Clark | 38.0 | 10.8 | .8 | 5.0 | .8 | 4.8 | 60.2 | 37.3 | 2.4 | 100.0 |
| Douglas | 23.5 | 40.0 | 1.7 | 6.3 | .4 | 5.5 | 77.3 | 12.0 | 10.6 | 100.0 |
| Elko | 27.1 | 7.6 | .2 | 10.5 | .7 | 1.1 | 47.2 | 45.5 | 7.2 | 100.0 |
| Esmeralda | 35.3 | .7 | .9 | 17.2 | 1.7 | 3.4 | 59.1 | 7.4 | 33.5 | 100.0 |
| Eureka | 41.7 | 1.0 | .9 | 15.7 | .4 | 1.7 | 61.3 | 4.3 | 34.4 | 100.0 |
| Humboldt | 44.0 | 5.9 | .6 | 13.6 | .3 | 1.6 | 66.0 | 24.4 | 9.6 | 100.0 |
| Lander | 53.9 | 3.8 | .8 | 16.3 | .4 | .8 | 76.0 | 5.4 | 18.7 | 100.0 |
| Lincoln | 51.2 | 2.3 | .6 | 13.9 | .6 | 1.0 | 69.7 | 15.8 | 14.5 | 100.0 |
| Lyon | 42.9 | 2.4 | .9 | 9.5 | .6 | 1.5 | 57.7 | 33.7 | 8.6 | 100.0 |
| Mineral | 50.4 | 6.1 | 1.9 | 8.4 | .7 | 2.3 | 69.8 | 23.3 | 6.9 | 100.0 |
| Nye | 36.1 | 6.5 | 1.7 | 17.4 | .6 | 2.4 | 64.6 | 23.7 | 11.7 | 100.0 |
| Ormsby | 41.3 | 10.3 | .3 | 11.6 | .3 | 7.0 | 70.8 | 15.4 | 13.8 | 100.0 |
| Pershing | 53.8 | 3.3 | .2 | 9.9 | .5 | 1.1 | 68.8 | 21.6 | 9.5 | 100.0 |
| Storey | 39.4 | 12.3 | 2.5 | 6.2 | .2 | 4.0 | 64.5 | 2.7 | 32.9 | 100.0 |
| Washoe | 35.0 | 12.6 | .4 | 6.0 | .8 | 5.8 | 60.3 | 34.5 | 5.2 | 100.0 |
| White Pine | 56.8 | 2.4 | .5 | 9.5 | .7 | 1.3 | 71.3 | 20.7 | 8.1 | 100.0 |
| Total[f] | 38.4 | 9.9 | .7 | 7.1 | .7 | 4.0 | 60.8 | 33.4 | 5.7 | 100.0 |

[a]Includes special district data unincorporated in County Auditor Reports. Excludes income from operation of utilities. [b]Includes past year delinquent taxes, bullion tax, and penalties and trusts. [c]Net county gas tax after refunds. [d]Includes building inspection fees, marriage fees, dog licenses, and other fees collected by county sheriff, recorder, justice of the peace, etc. [e]Fines, refunds, hospital fees, airport operation revenue, etc. [f]Totals may not equal sum of items due to rounding. [g]Includes Fair and Recreation tax of $38,053.

Source: Annual Report of County Auditor, 1959, for each county.

Table 18.7

Per Capita General Revenues for Nevada Counties
Fiscal Year 1959

| County | Property tax | County gambling tax | County liquor tax | County gas tax | County poll tax | Other taxes, fees & lic. | Total tax revenue | Charges & misc. gen. revenue | Grants from State and others | Total general revenue |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | A. Per Capita amounts: | | | | | | |
| Churchill | $ 45.30 | $ 3.11 | $ .42 | $ 7.74 | $ .54 | $ 1.33 | $ 58.44 | $52.71 | $ 6.63 | $117.78 |
| Clark | 33.90 | 9.66 | .70 | 4.48 | .69 | 4.26 | 53.68 | 33.28 | 2.15 | 89.11 |
| Douglas | 32.09 | 54.65 | 2.33 | 8.55 | .61 | 7.47 | 105.70 | 16.37 | 14.53 | 136.66 |
| Elko | 38.64 | 10.89 | .35 | 14.91 | 1.01 | 1.52 | 67.33 | 64.94 | 10.29 | 142.57 |
| Esmeralda | 80.03 | 1.62 | 1.95 | 38.96 | 3.90 | 7.63 | 134.09 | 16.72 | 75.97 | 226.79 |
| Eureka | 86.07 | 1.99 | 1.72 | 32.36 | .93 | 3.58 | 12.67 | 8.89 | 70.95 | 206.50 |
| Humboldt | 48.35 | 6.45 | .63 | 14.90 | .37 | 1.78 | 72.48 | 26.82 | 10.55 | 109.85 |
| Lander | 93.46 | 6.54 | 1.41 | 28.33 | .71 | 1.35 | 131.79 | 9.36 | 32.44 | 173.53 |
| Lincoln | 82.47 | 3.67 | .99 | 22.39 | .95 | 1.69 | 112.16 | 25.40 | 23.42 | 161.03 |
| Lyon | 48.28 | 2.66 | 1.03 | 10.65 | .66 | 1.68 | 64.96 | 37.97 | 9.64 | 112.53 |
| Mineral | 47.84 | 5.75 | 1.83 | 7.97 | .67 | 2.19 | 66.24 | 22.12 | 6.56 | 94.94 |
| Nye | 47.58 | 8.53 | 2.21 | 22.95 | .78 | 3.14 | 85.19 | 31.25 | 15.38 | 131.85 |
| Ormsby | 21.01 | 5.24 | .14 | 5.89 | .15 | 3.57 | 36.00 | 7.85 | 7.00 | 50.83 |
| Pershing | 102.65 | 6.22 | .41 | 18.88 | .95 | 2.18 | 131.28 | 41.26 | 18.21 | 190.75 |
| Storey | 105.29 | 32.80 | 6.70 | 16.58 | .53 | 10.58 | 172.49 | 7.23 | 88.01 | 267.55 |
| Washoe | 26.47 | 9.56 | .29 | 4.55 | .61 | 4.14 | 87.38 | 26.08 | 3.90 | 75.59 |
| White Pine | 61.96 | 2.62 | .59 | 10.32 | .77 | 1.45 | 77.71 | 22.53 | 8.77 | 109.01 |
| Average[a] | $ 58.91 | $10.12 | $1.39 | $15.91 | $ .87 | $ 3.50 | $ 86.45 | $26.52 | $23.79 | $140.99 |
| | | | | B. Percent increase 1959 over 1950: | | | | | | |
| Churchill | 24.3 | -20.1 | 147.1 | 60.9 | 28.6 | -21.8 | 23.2 | 109.7 | 698.8 | 60.4 |
| Clark | 45.7 | 8.2 | -10.3 | 46.4 | -31.0 | 19.0 | 32.6 | 147.4 | 277.2 | 63.5 |
| Douglas | 8.0 | 172.4 | 57.4 | 15.1 | -20.8 | 65.3 | 65.3 | 305.2 | 2,541.8 | 99.4 |
| Elko | -4.5 | 36.5 | -16.7 | 120.9 | 16.1 | -3.8 | 16.0 | 670.3 | 343.5 | 107.3 |
| Esmeralda | 11.9 | -34.4 | 32.7 | 166.3 | 353.5 | 54.8 | 39.9 | 294.3 | 7,497.0 | 124.3 |
| Eureka | -25.1 | -30.4 | -4.5 | 196.3 | -21.9 | 3,480.0 | -90.4 | -14.9 | 2,389.5 | 42.4 |
| Humboldt | 49.4 | -23.0 | -35.7 | 73.9 | -63.7 | 14.8 | 37.1 | 82.2 | 350.9 | 57.1 |
| Lander | 28.5 | -5.9 | 50.0 | 168.8 | -22.0 | 400.0 | 42.7 | -3.2 | 1,538.4 | 66.9 |
| Lincoln | 90.6 | -31.7 | 41.4 | 205.5 | 4.4 | 83.7 | 91.8 | 124.0 | 2,592.0 | 127.8 |
| Lyon | 23.4 | -45.2 | -16.9 | 39.2 | -15.4 | 7.0 | 17.6 | 14.5 | 1,383.1 | 26.4 |
| Mineral | 70.6 | 22.1 | 325.6 | 112.5 | 11.7 | -67.3 | 49.7 | 4,815.6 | 2,633.3 | 111.3 |
| Nye | 14.3 | 19.3 | -33.0 | 97.7 | 66.0 | 1.6 | 26.7 | 120.7 | 12.2 | 38.6 |
| Ormsby | 8.8 | -22.5 | 7.7 | 62.7 | 7.1 | -35.7 | 1.4 | 181.4 | 1,566.7 | 31.5 |
| Pershing | 33.6 | -22.6 | 24.2 | 77.1 | -4.1 | 54.6 | 33.6 | 204.1 | 2,885.2 | 69.6 |
| Storey | 49.2 | 294.2 | 335.1 | 227.7 | -39.1 | -54.3 | 57.5 | -20.6 | b | 124.7 |
| Washoe | 25.2 | 6.6 | -48.2 | 12.6 | -33.7 | -23.3 | 112.9 | 11.1 | 319.4 | 15.5 |
| White Pine | 298.2 | -37.6 | 25.5 | 129.8 | -24.5 | -60.6 | 164.1 | 415.6 | 200.3 | 197.0 |
| Average | 28.9 | 43.5 | 41.8 | 116.5 | 7.4 | -14.6 | 31.0 | 122.5 | 1,120.0 | 76.6 |

[a]Unweighted average. [b]1950 per capita figure too small for meaningful comparison.

Source: Annual Report of County Auditor, 1959, for each county; and U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

With regard to grants and shared taxes, they represented about one-third of the revenues for Esmeralda, Eureka and Storey counties, but less than 6 percent in the case of Churchill, Clark and Washoe counties.

Table 18.7 shows the county revenue data expressed in per capita terms. Total tax revenues for all counties in 1959 averaged $86.45. This amounted to a 31 percent increase for the decade. The average county per capita property tax was $58.91 followed by the county gas tax of $15.91 and an average gambling tax of $10.12. Marked differences between the per capita county tax burdens by specific types of levies also were evidenced for 1959. For example, the county property tax burden ranged from a low of $26.47 in Washoe county to a high of $105.29 in Storey county, and the per capita gambling tax varied from a low of $1.62 for Esmeralda county to a high of $54.65 for Douglas county. The per capita gambling tax collections for Clark and Washoe counties for 1959 were about the same, $9.66 and $9.56, respectively. Finally, it may be observed that the increases in county revenues have practically kept pace with the rise in county expenditures during the past decade and it appears that Nevada's counties have been able to adequately meet their increased cost of government from the present combination of taxes, miscellaneous charges and intergovernmental grants.

## City Governments

Total municipal expenditures for Nevada's fifteen incorporated cities and one incorporated town for fiscal year 1959 amounted to $11 million (Table 18.8). Public safety and sanitation outlays were 45 percent of the total, followed by streets and roads which accounted for another 24 percent. Thus, dollarwise more than two-thirds of the total cost of municipal government in Nevada was incurred in providing police and fire protection, sanitation, and street improvements. General administration and parks and recreation expenditures represented 14 and 9 percent, respectively. The marked differences in the size of Nevada's cities are also reflected in the expenditure totals which ranged from a low of $33,000 for Gabbs to a high of $4.2 million for Las Vegas. The latter, moreover, exceeded Reno's total expenditures of $3.7 million by about 14 percent which corresponds to the relative difference in the populations of Nevada's two major cities.

Per capita municipal expenditures, classified by functions, are shown in Table 18.9, and are compared with the county outlays in Chart 18.1. On this basis the combined expenditures for the sixteen incorporated municipalities in 1959 averaged $53.62 which reflected an increase of about 38 percent over the 1950 level. Differences in per capita expenditures for 1959 between the individual cities ranged from a low of $25.12 in North Las Vegas to a high of $96.68 for Winnemucca. With regard to the per capita costs of operating Nevada's two largest cities, the 1959 expenditure for Reno was $71.85 or about 20 percent above the 1950 figure, while the Las Vegas outlay of $65.83 actually represented a slight decline for the past decade.

Table 18.8

Total General Expenditures for Nevada Cities[a]
Fiscal Year 1959

| City | General administration | Highways and roads | Parks, nat. resources, etc.[b] | San. & public safety | All other expen.[c] | Total general expen.[d] |
|---|---|---|---|---|---|---|
| | | | A. Amounts (in thousands): | | | |
| Caliente | $ 16.2 | $ 2.6 | $ 3.4 | $ 18.0 | $ 0 | $ 40.2 |
| Carlin[e] | .9 | 20.4 | 0 | 16.4 | 13.3 | 51.0 |
| Carson City | 28.1 | 77.6 | 8.5 | 111.7 | 7.9 | 233.7 |
| Elko | 36.4 | 111.2 | 43.1 | 117.6 | 9.8 | 318.1 |
| Ely | 29.5 | 49.7 | 9.7 | 85.4 | 1.3 | 175.7 |
| Fallon | 47.5 | 54.5 | 9.8 | 86.0 | 4.7 | 202.4 |
| Gabbs | 16.9 | 6.2 | 2.1 | 8.2 | 0 | 33.4 |
| Henderson | 71.1 | 70.4 | 25.6 | 219.5 | 97.0 | 483.6 |
| Las Vegas | 633.2 | 836.2 | 562.1 | 1,856.0 | 289.5 | 4,176.9 |
| Lovelock | 17.5 | 22.2 | 1.1 | 10.2 | 7.6 | 58.6 |
| No.Las Vegas | 94.7 | 99.1 | 28.6 | 210.7 | 30.6 | 463.6 |
| Reno | 436.7 | 833.7 | 268.5 | 1,680.0 | 441.0 | 3,660.0 |
| Sparks | 59.1 | 136.5 | 17.0 | 368.0 | 13.0 | 593.6 |
| Wells | 19.7 | 20.6 | 3.7 | 28.5 | 2.3 | 74.8 |
| Winnemucca | 35.8 | 213.8 | 18.0 | 64.3 | 0 | 331.9 |
| Yerington | 17.3 | 28.4 | 0 | 41.8 | 1.8 | 89.3 |
| Total[d] | $1,560.3 | $2,583.0 | $1,001.1 | $4,922.0 | $919.8 | $10,986.2 |
| | | | B. Percent distribution: | | | |
| Caliente | 40.3 | 6.5 | 8.5 | 44.8 | 0 | 100.0 |
| Carlin | 1.8 | 40.0 | 0 | 32.2 | 26.1 | 100.0 |
| Carson City | 12.0 | 33.2 | 3.6 | 47.8 | 3.4 | 100.0 |
| Elko | 11.4 | 35.0 | 13.5 | 37.0 | 3.1 | 100.0 |
| Ely | 16.8 | 28.3 | 5.5 | 48.6 | .7 | 100.0 |
| Fallon | 23.5 | 26.9 | 4.8 | 42.5 | 2.3 | 100.0 |
| Gabbs | 50.6 | 18.6 | 6.3 | 24.6 | 0 | 100.0 |
| Henderson | 14.7 | 14.6 | 5.3 | 45.4 | 20.1 | 100.0 |
| Las Vegas | 15.2 | 20.0 | 13.5 | 44.4 | 6.9 | 100.0 |
| Lovelock | 29.9 | 37.9 | 1.9 | 17.4 | 13.0 | 100.0 |
| No.Las Vegas | 20.4 | 21.4 | 6.2 | 45.4 | 6.6 | 100.0 |
| Reno | 11.9 | 22.8 | 7.3 | 45.9 | 12.0 | 100.0 |
| Sparks | 10.0 | 23.0 | 2.9 | 62.0 | 2.2 | 100.0 |
| Wells | 26.3 | 27.5 | 4.9 | 38.1 | 3.1 | 100.0 |
| Winnemucca | 10.8 | 64.4 | 5.4 | 19.4 | 0 | 100.0 |
| Yerington | 19.4 | 31.8 | 0 | 46.8 | 2.0 | 100.0 |
| Total[d] | 14.2 | 23.5 | 9.1 | 44.8 | 8.4 | 100.0 |

[a]Expenditures for operation of utilities excluded.
[b]Includes conservation and recreation.
[c]Includes interest payments, expenditures for airport operations, land purchases, etc.
[d]Totals may not equal sum of items due to rounding.
[e]Budgetary estimate.

Source: City budgets for fiscal 1961 filed with the Nevada Tax Commission.

Table 18.9

Per Capita General Expenditures for Nevada Cities[a]
Fiscal Year 1959

| City | General administration | Highways and roads | Parks, nat. resources, etc.[b] | Public safety & san. | All other expen.[c] | Total general expen. |
|---|---|---|---|---|---|---|
| | | | A. Per capita amounts: | | | |
| Caliente[d] | -- | -- | -- | -- | -- | -- |
| Carlin[e] | $ .89 | $20.08 | 0 | $16.14 | $13.09 | $50.20 |
| Carson City | 5.49 | 15.15 | $1.66 | 21.80 | 1.54 | 45.62 |
| Elko | 5.79 | 17.69 | 6.86 | 18.71 | 1.56 | 50.61 |
| Ely | 7.41 | 12.48 | 2.44 | 21.45 | .33 | 44.12 |
| Fallon | 17.51 | 20.10 | 3.61 | 31.71 | 1.73 | 74.63 |
| Gabbs[d] | -- | -- | -- | -- | -- | -- |
| Henderson | 5.68 | 5.62 | 2.04 | 17.53 | 7.75 | 38.63 |
| Las Vegas | 9.98 | 13.18 | 8.86 | 29.25 | 4.56 | 65.83 |
| Lovelock | 9.11 | 11.56 | .57 | 5.31 | 3.96 | 30.50 |
| N.Las Vegas | 5.13 | 5.37 | 1.55 | 11.42 | 1.66 | 25.12 |
| Reno | 8.57 | 16.37 | 5.27 | 32.98 | 8.66 | 71.85 |
| Sparks | 3.60 | 8.32 | 1.04 | 22.42 | .79 | 36.17 |
| Wells | 18.27 | 19.11 | 3.43 | 26.44 | 2.13 | 69.39 |
| Winnemucca | 10.43 | 62.27 | 5.24 | 18.73 | 0 | 96.68 |
| Yerington | 9.94 | 16.32 | 0 | 24.02 | 1.03 | 51.32 |
| Average | $ 8.41 | $17.40 | $3.04 | $21.28 | $ 3.49 | $53.62 |
| | | | B. Percent increase 1959 over 1950: | | | |
| Caliente[d] | -- | -- | -- | -- | -- | -- |
| Carlin | 39.1 | 33.0 | -- | 94.7 | 118.5 | 67.3 |
| Carson City | 28.0 | 37.5 | -36.2 | 96.4 | -18.1 | 47.7 |
| Elko | 9.0 | 8.5 | 486.3 | 38.0 | -78.9 | 15.7 |
| Ely | 169.5 | 34.8 | 87.7 | 110.1 | -95.0 | 46.5 |
| Fallon | 623.6 | 106.6 | 11.1 | 64.0 | -68.5 | 85.5 |
| Gabbs[f] | -- | -- | -- | -- | -- | -- |
| Henderson[f] | -- | -- | -- | -- | -- | -- |
| Las Vegas | 54.0 | 149.1 | 118.8 | 48.3 | -85.0 | -.3 |
| Lovelock | 75.9 | 2.7 | -- | -48.4 | -45.1 | -10.1 |
| N.Las Vegas | 116.5 | 39.8 | 715.8 | -18.0 | -10.3 | 13.3 |
| Reno | 61.1 | 79.3 | 19.5 | 15.3 | -31.2 | 19.7 |
| Sparks | 40.1 | 18.7 | -11.9 | 125.8 | -81.0 | 45.7 |
| Wells | 282.2 | 34.9 | 154.1 | 95.3 | -85.1 | 44.2 |
| Winnemucca | 327.5 | 225.9 | 217.6 | 41.0 | -- | 97.4 |
| Yerington | 332.2 | 377.2 | -- | 101.7 | -83.4 | 107.0 |
| Average | 133.6 | 68.0 | 78.8 | 50.6 | -61.1 | 38.3 |

[a]Expenditures for operation of public utilities excluded. [b]Includes conservation and recreation. [c]Includes interest payments, expenditures for airport operations, land purchases, etc. [d]Population data not available. [e]Budgetary estimate. [f]Were not cities in 1950.

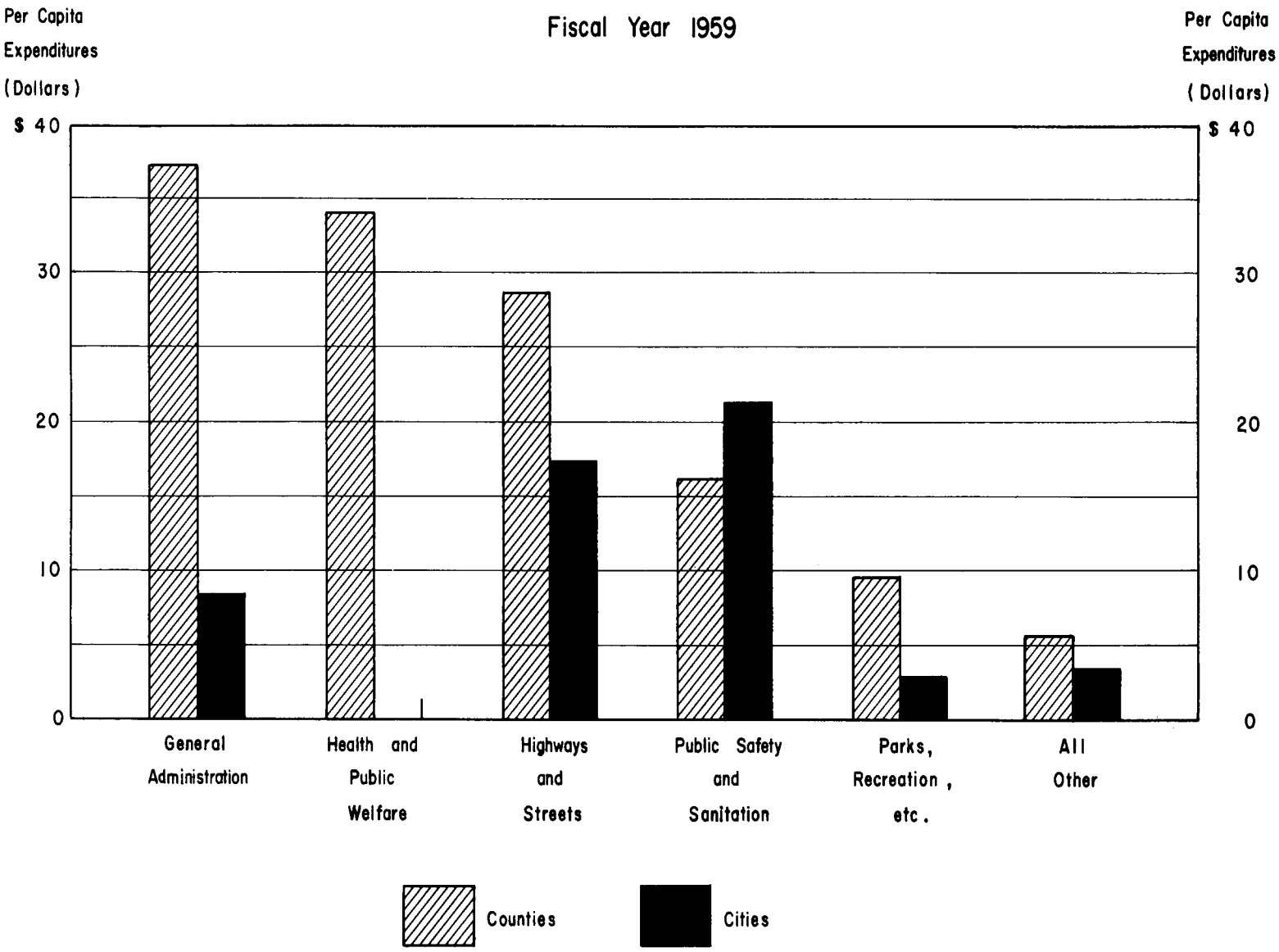
Source: City budgets for 1959 and 1950 filed with Nevada Tax Commission.

Chart 18.1

Per Capita General Expenditures of Counties and Cities,

Classified by Function, Nevada,

Fiscal Year 1959




Source: Tables 18.5 and 18.9

Table 18.10

Total General Revenue for Nevada Cities,[a]
Fiscal Year 1959

| City | Property tax[b] | City gambling tax | City liquor tax | Other taxes, fees & lic.[c] | Total taxes | Charges & misc.gen. revenue[d] | Grants from other gov't units | Total general revenue[e] |
|---|---|---|---|---|---|---|---|---|
| | | | | A. Amounts (in thousands): | | | | |
| Caliente | $ 12.3 | $ 1.7 | $ 5.2 | $ 5.7 | $ 24.9 | $ 11.3 | $ 4.2 | $ 40.6 |
| Carlin | 30.4 | 1.1 | f | 3.6 | 35.1 | 8.5 | 8.1 | 51.7 |
| Carson City | 80.1 | 9.3 | 4.8 | 25.2 | 119.4 | 77.3 | 51.8 | 248.5 |
| Elko | 185.0 | 11.6 | 23.0 | 23.5 | 243.1 | 94.8 | 48.8 | 386.6 |
| Ely | 71.5 | 4.1 | f | 33.9 | 109.5 | 59.8 | 22.7 | 191.9 |
| Fallon | 17.8 | 2.5 | 4.1 | 13.7 | 38.1 | 64.8 | 26.3 | 129.2 |
| Gabbs | 20.3 | -- | .2 | 1.7 | 22.0 | 3.4 | 10.0 | 35.5 |
| Henderson | 142.0 | 11.4 | 14.2 | 43.6 | 211.2 | 68.9 | 46.7 | 326.8 |
| Las Vegas | 1,355.4 | 592.6 | 141.1 | 337.6 | 2,426.7 | 1,033.6 | 560.1 | 4,020.4 |
| Lovelock | 42.2 | 9.6 | 5.2 | 3.0 | 60.0 | 18.8 | 9.8 | 88.7 |
| North Las Vegas | 256.5 | 14.8 | 29.0 | 70.5 | 370.8 | 95.4 | 47.8 | 513.9 |
| Reno | 925.8 | 442.0 | 165.8 | 337.0 | 1,870.6 | 1,002.7 | 557.2 | 3,430.7 |
| Sparks | 203.2 | 30.7 | 15.0 | 49.4 | 298.3 | 183.8 | 106.3 | 588.4 |
| Wells | 35.3 | 3.7 | f | 10.3 | 49.3 | 19.3 | 16.4 | 85.0 |
| Winnemucca | 97.9 | 15.0 | 8.2 | 13.0 | 134.1 | 67.4 | 19.5 | 220.9 |
| Yerington | 11.0 | 2.7 | 2.3 | 13.1 | 29.1 | 8.1 | 12.8 | 50.0 |
| Total[e] | $3,486.7 | $1,152.7 | $418.1 | $985.0 | $6,042.5 | $2,817.7 | $1,548.5 | $10,408.7 |
| | | | | B. Percent distribution: | | | | |
| Caliente | 30.3 | 4.2 | 12.8 | 14.0 | 61.3 | 27.8 | 10.3 | 100.0 |
| Carlin | 58.8 | 2.1 | f | 6.7 | 67.9 | 16.4 | 15.7 | 100.0 |
| Carson City | 32.2 | 3.7 | 1.9 | 10.1 | 48.0 | 31.1 | 20.8 | 100.0 |
| Elko | 47.9 | 3.0 | 5.9 | 6.1 | 62.9 | 24.5 | 12.6 | 100.0 |
| Ely | 37.3 | 2.1 | f | 17.7 | 57.1 | 31.2 | 11.8 | 100.0 |
| Fallon | 13.8 | 1.9 | 3.2 | 10.6 | 29.5 | 50.2 | 20.4 | 100.0 |
| Gabbs | 57.2 | -- | .1 | 4.8 | 62.0 | 9.6 | 28.2 | 100.0 |
| Henderson | 43.5 | 3.5 | 4.3 | 13.3 | 64.6 | 21.1 | 14.3 | 100.0 |
| Las Vegas | 33.7 | 14.7 | 3.5 | 8.4 | 60.4 | 25.7 | 13.9 | 100.0 |
| Lovelock | 47.6 | 10.8 | 5.9 | 3.4 | 67.6 | 21.2 | 11.0 | 100.0 |
| North Las Vegas | 49.9 | 2.9 | 5.6 | 13.7 | 72.2 | 18.6 | 9.3 | 100.0 |
| Reno | 27.0 | 12.9 | 4.8 | 9.8 | 54.5 | 29.2 | 16.2 | 100.0 |
| Sparks | 34.5 | 5.2 | 2.5 | 8.4 | 50.7 | 31.2 | 18.1 | 100.0 |
| Wells | 41.5 | 4.4 | f | 12.1 | 58.0 | 22.7 | 19.3 | 100.0 |
| Winnemucca | 44.3 | 6.8 | 3.7 | 5.9 | 60.7 | 30.5 | 8.8 | 100.0 |
| Yerington | 22.0 | 5.4 | 4.6 | 26.2 | 58.2 | 16.2 | 25.6 | 100.0 |
| Total[e] | 33.5 | 11.1 | 4.1 | 9.5 | 58.1 | 27.1 | 14.9 | 100.0 |

[a]Utility income excluded. [b]Real and personal property and delinquencies. [c]Includes revenue from business, bicycle, and dog licenses and various fees. [d]Includes fines, insurance settlements, interest earned, rentals, sales, other miscellaneous charges and institutional fees. [e]Totals may not equal sum of items due to rounding. [f]Included in "Other taxes, fees and licenses."

Source: City budgets for fiscal 1961 filed with the Nevada Tax Commission.

Table 18.11

Per Capita General Revenue for Nevada Cities[a]
Fiscal Year 1959

| City | Property tax[b] | City gambling tax | City liquor tax[c] | Other taxes, fees & lic.[d] | Total taxes | Charges & misc.gen. revenue[e] | Grants from other gov't units | Total general revenue |
|---|---|---|---|---|---|---|---|---|
| | | | A. Per capita amounts: | | | | | |
| Caliente[f] | -- | -- | -- | -- | -- | -- | -- | -- |
| Carlin | $29.92 | $1.08 | g | $3.54 | $34.55 | $ 8.37 | $ 7.97 | $50.89 |
| Carson City | 15.64 | 1.82 | $ .94 | 4.92 | 23.31 | 15.09 | 10.11 | 48.51 |
| Elko | 29.44 | 1.85 | 3.66 | 3.73 | 38.68 | 15.08 | 7.76 | 61.51 |
| Ely | 17.96 | 1.03 | g | 8.51 | 27.50 | 15.02 | 5.70 | 48.19 |
| Fallon | 6.56 | .92 | 1.51 | 5.05 | 14.05 | 23.89 | 9.70 | 47.64 |
| Gabbs[f] | -- | -- | -- | -- | -- | -- | -- | -- |
| Henderson | 11.34 | .91 | 1.13 | 3.48 | 16.87 | 5.50 | 3.73 | 26.11 |
| Las Vegas | 21.36 | 9.34 | 2.22 | 5.32 | 38.24 | 16.29 | 8.83 | 63.36 |
| Lovelock | 21.97 | 5.00 | 2.71 | 1.56 | 31.23 | 9.79 | 5.10 | 46.17 |
| North Las Vegas | 13.90 | .80 | 1.57 | 3.82 | 20.09 | 5.17 | 2.59 | 27.84 |
| Reno | 18.18 | 8.68 | 3.25 | 6.62 | 36.72 | 19.68 | 10.94 | 67.35 |
| Sparks | 12.38 | 1.87 | .91 | 3.01 | 18.18 | 11.20 | 6.48 | 35.85 |
| Wells | 32.75 | 3.43 | g | 9.55 | 45.73 | 17.90 | 15.21 | 78.85 |
| Winnemucca | 28.52 | 4.37 | 2.39 | 3.79 | 39.06 | 19.63 | 5.68 | 64.35 |
| Yerington | 6.32 | 1.55 | 1.32 | 7.53 | 16.72 | 4.66 | 7.36 | 28.74 |
| Average | $19.02 | $3.05 | $1.96[h] | $5.03 | $28.64 | $13.38 | $ 7.65 | $49.67 |
| | | | B. Percent increase 1959 over 1950: | | | | | |
| Caliente[f] | -- | -- | | -- | -- | -- | -- | -- |
| Carlin | 68.9 | -40.0 | | 8.9 | 51.8 | 38.1 | 4.3 | 39.6 |
| Carson City | 13.3 | -62.7 | | 100.8 | 10.2 | 141.1 | 117.0 | 51.3 |
| Elko | 26.7 | -- | | -67.3 | 11.7 | 101.2 | 9.1 | 25.0 |
| Ely | 33.4 | -25.4 | | -5.3 | -4.6 | 400.7 | 4.0 | 49.1 |
| Fallon | 155.3 | 15.0 | | -13.1 | 53.4 | 99.6 | 84.4 | 80.4 |
| Gabbs[i] | -- | -- | | -- | -- | -- | -- | -- |
| Henderson[i] | -- | -- | | -- | -- | -- | -- | -- |
| Las Vegas | 24.0 | 29.0 | | -74.8 | -16.2 | 69.9 | 3.6 | -.6 |
| Lovelock | 5.5 | -29.2 | | -75.7 | -11.1 | 1,079.5 | 171.3 | 22.0 |
| North Las Vegas | 172.0 | -- | | -63.9 | 28.0 | j | -27.2 | 44.5 |
| Reno | -24.4 | 48.1 | | -39.8 | -10.2 | 30.1 | 10.4 | 2.2 |
| Sparks | -2.3 | -- | | -64.1 | -13.6 | 1,249.4 | 26.3 | 32.7 |
| Wells | 50.2 | -- | | -6.0 | 43.1 | 360.2 | 20.0 | 62.5 |
| Winnemucca | 8.4 | 133.7 | | -54.8 | 6.9 | 209.6 | -32.6 | 25.4 |
| Yerington | -44.2 | -- | | -28.6 | -23.5 | 4.3 | -11.2 | -17.0 |
| Average | 17.3 | -21.0 | | -44.9 | 3.3 | 129.1 | 12.3 | 23.1 |

[a]Utility income excluded. [b]Real and personal property and delinquencies. [c]Liquor tax collections for 1950 not available. [d]Includes revenue from businesses, bicycle and dog licenses and various fees. [e]Includes fines, insurance settlements, interest earned, rentals, sales, other miscellaneous charges and institutional fees. [f]Population data not available. [g]Items included in "Other taxes, fees and licenses." [h]Computed on the basis of eleven cities only. [i]Were not cities in 1950. [j]Per capita figure too small for meaningful comparison.

Source: City budgets for 1959 and 1950 filed with Nevada Tax Commission and U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

The major revenue sources of Nevada's cities for fiscal year 1959 are presented in Table 18.10. Total general revenues amounted to $10.4 million, and the total tax collections of $6 million for that year represented 58 percent of the general revenues. The difference was accounted for by charges, miscellaneous non-tax revenues, and shared taxes and grants from other governmental units. The latter represented less than 15 percent of the general revenues. Property tax collections were quantitatively the most important single source of funds, amounting to $3.5 million or almost 34 percent. City gambling taxes provided another 11 percent, and liquor licenses were about 4 percent of the total. As is to be expected, differences are apparent in the distribution pattern of revenues for the individual cities. In Las Vegas about 34 percent of the revenue was derived from property taxes and 15 percent from gambling levies, while in Reno these two sources provided only 27 and 13 percent, respectively. With regard to shared taxes and grants from other governmental units, the relative importance of this revenue source ranged from a low of less than 9 percent for Winnemucca to a high of 28 percent for Gabbs. In none of Nevada's five cities with populations of 10,000 or more--Las Vegas, Reno, North Las Vegas, Sparks and Henderson--did intergovernmental grants amount to as much as one-fifth of the total general revenues in fiscal year 1959.

When the city revenues are expressed in per capita terms (Table 18.11), the combined total for the sixteen municipalities averaged $49.67 for fiscal year 1959. This was 23 percent above the comparable figure for 1950. Moreover, on this basis the average tax burden for 1959 was $28.64 and as such represented an increase of only 3 percent over 1950. Although the rise in city property taxes averaged 17 percent for the decade, city gambling levies and "other taxes, fees and licenses" actually declined by 21 and 45 percent, respectively. And it is important to note that the latter categories account for about one-fourth of the total revenues of Nevada's incorporated municipalities. In short, it appears that part of the financial difficulties of the urban centers may be attributed to the fact that the use of these traditional sources of municipal finance--gambling, liquor and miscellaneous license and fee revenues--has lagged significantly behind the business and population growth which has characterized the Nevada urban economy of the past decade.

## School Districts

School district expenditures are shown in Tables 18.12 and 18.13. The total outlay for fiscal year 1959 for the seventeen school districts combined amounted to $26.9 million, of which $1.1 million or slightly more than 4 percent was spent for interest on school debt and the remaining $25.8 million represented the direct expenditures made on public school education that year. Of the total school expenditures, almost three-fourths was accounted for by the Clark and Washoe school districts. The only others with expenditures exceeding $1 million for the year were Elko, Lyon and White Pine. For all seventeen districts the average per capita school expenditure was $116.77 which represented an increase of

Table 18.12

Total Expenditures for Nevada School Districts
Fiscal Year 1959

| County | Direct education | Interest on debt | Total |
|---|---|---|---|
| | A. Amounts: | | |
| Churchill | $ 736.6 | $ 23.3 | $ 759.8 |
| Clark | 10,889.5 | 628.1 | 11,517.6 |
| Douglas | 317.0 | 20.2 | 337.2 |
| Elko | 1,243.9 | 18.3 | 1,262.2 |
| Esmeralda | 56.5 | -- | 56.5 |
| Eureka | 135.3 | -- | 135.3 |
| Humboldt | 833.4 | 25.2 | 858.7 |
| Lander | 197.7 | -- | 197.7 |
| Lincoln | 368.6 | 6.8 | 375.4 |
| Lyon | 1,170.4 | 39.7 | 1,210.1 |
| Mineral | 739.6 | -- | 739.6 |
| Nye | 392.1 | 6.5 | 398.6 |
| Ormsby | 605.7 | 13.0 | 618.7 |
| Pershing | 347.1 | 9.3 | 356.5 |
| Storey | 57.1 | .2 | 57.3 |
| Washoe | 6,627.0 | 288.9 | 6,915.9 |
| White Pine | 1,033.8 | 34.9 | 1,068.8 |
| Total | $25,751.4 | $1,114.5 | $26,865.7 |
| | B. Percentage distribution: | | |
| Churchill | 96.9 | 3.1 | 100.0 |
| Clark | 94.5 | 5.5 | 100.0 |
| Douglas | 94.0 | 6.0 | 100.0 |
| Elko | 98.6 | 1.4 | 100.0 |
| Esmeralda | 100.0 | -- | 100.0 |
| Eureka | 100.0 | -- | 100.0 |
| Humboldt | 97.1 | 2.9 | 100.0 |
| Lander | 100.0 | -- | 100.0 |
| Lincoln | 98.2 | 1.8 | 100.0 |
| Lyon | 96.7 | 3.3 | 100.0 |
| Mineral | 100.0 | -- | 100.0 |
| Nye | 98.4 | 1.6 | 100.0 |
| Ormsby | 97.9 | 2.1 | 100.0 |
| Pershing | 97.4 | 2.6 | 100.0 |
| Storey | 99.7 | .3 | 100.0 |
| Washoe | 95.8 | 4.2 | 100.0 |
| White Pine | 96.7 | 3.3 | 100.0 |
| Total | 95.9 | 4.1 | 100.0 |

Source: State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959.

Table 18.13

Per Capita General Expenditures for Nevada School Districts
Fiscal Year 1959

| County | Direct education | Interest on debt | Total[a] |
|---|---|---|---|
| | A. Per capita amounts: | | |
| Churchill | $ 87.58 | $2.77 | $ 90.48 |
| Clark | 86.79 | 5.01 | 92.28 |
| Douglas | 91.97 | 5.86 | 98.02 |
| Elko | 104.33 | 1.53 | 105.86 |
| Esmeralda | 91.74 | 0 | 91.72 |
| Eureka | 178.96 | 0 | 179.44 |
| Humboldt | 146.58 | 4.44 | 151.02 |
| Lander | 126.70 | 0 | 126.73 |
| Lincoln | 154.54 | 2.84 | 154.80 |
| Lyon | 192.06 | 6.51 | 198.80 |
| Mineral | 117.96 | 0 | 120.75 |
| Nye | 90.43 | 1.50 | 91.93 |
| Ormsby | 75.41 | 1.62 | 77.05 |
| Pershing | 109.58 | 2.94 | 112.53 |
| Storey | 100.73 | .28 | 101.06 |
| Washoe | 79.18 | 3.45 | 82.63 |
| White Pine | 106.35 | 3.59 | 109.95 |
| Average | $114.17 | $2.49 | $116.77 |
| | B. Percent increase 1959 over 1950: | | |
| Churchill | 58.1 | 39.2 | 57.7 |
| Clark | 112.6 | 475.9 | 121.3 |
| Douglas | 71.0 | 1,623.5 | 81.1 |
| Elko | 98.1 | 14.2 | 96.0 |
| Esmeralda | 264.2 | -- | 263.4 |
| Eureka | 122.4 | -- | 123.0 |
| Humboldt | 243.1 | 1,168.6 | 250.6 |
| Lander | 140.2 | -- | 140.2 |
| Lincoln | 157.3 | 47.2 | 149.7 |
| Lyon | 170.2 | 438.0 | 175.0 |
| Mineral | 148.4 | -- | 153.9 |
| Nye | 88.7 | 1,150.0 | 91.3 |
| Ormsby | 87.7 | 315.4 | 90.0 |
| Pershing | 53.2 | -23.0 | 49.4 |
| Storey | 74.8 | -83.8 | 70.4 |
| Washoe | 30.0 | 171.7 | 32.9 |
| White Pine | 93.2 | 405.6 | 97.2 |
| Average | 112.0 | 162.1 | 113.0 |

[a]Computed on the basis of total expenditures and will not equal sum of items.

Source: State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959 and 1950; and, U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

about 113 percent for the decade. Interest costs on school debt, although quantitatively insignificant rose by even a larger amount, 162 percent, and this, of course, reflects the rising interest rates of the past ten years.

Chart 18.2 summarizes the per capita expenditures of all three types of local governmental units. The county outlay of $132.00 was the highest and represented an increase of almost 88 percent over 1950, school expenditures on this basis amounted to $116.77 for an increase of 113 percent, while the per capita outlay for the cities averaged $53.62 and reflected an increase of only 38 percent. In brief, the per capita city expenditures have continually lagged behind those of the counties and school districts during the past decade.

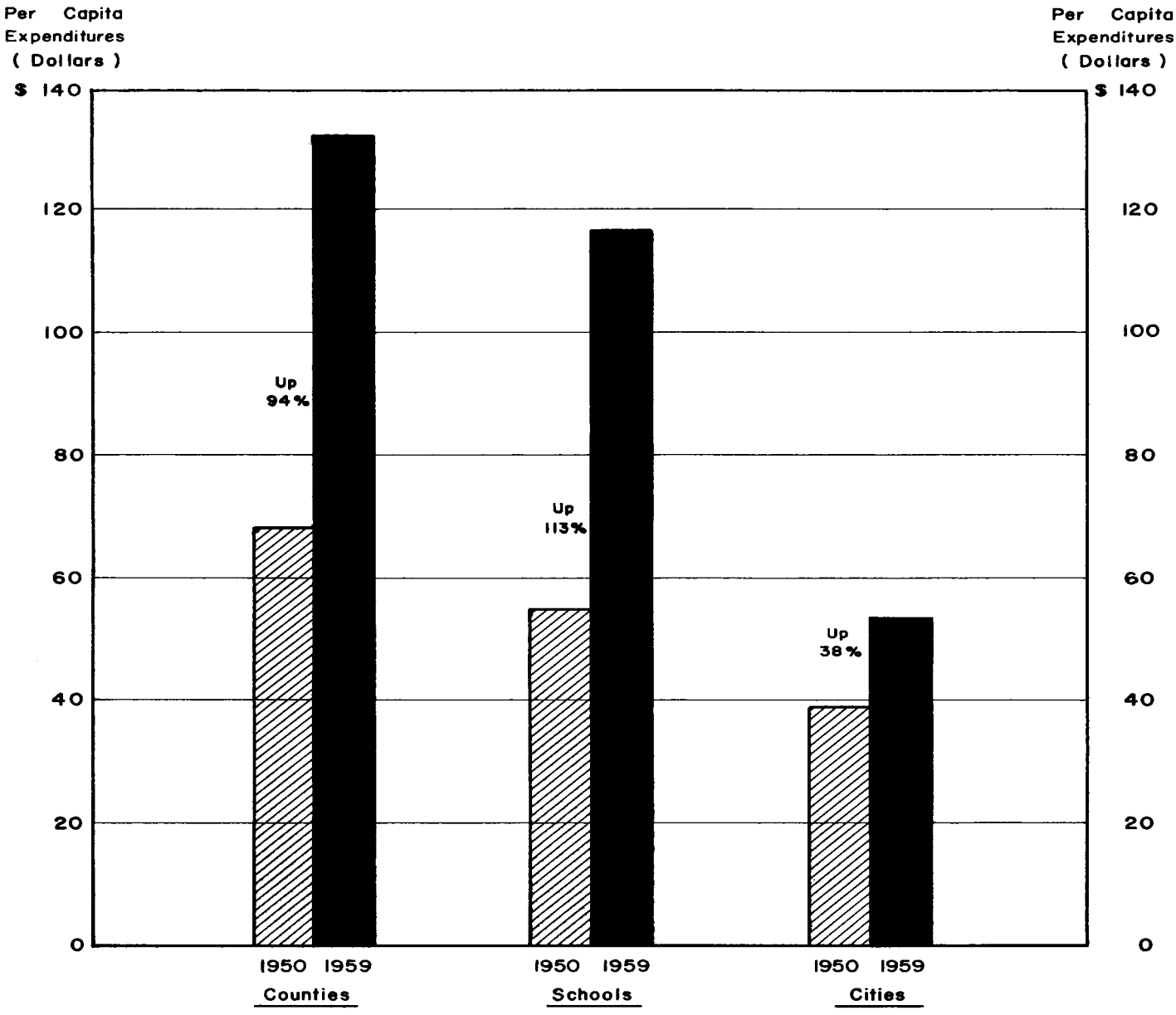
As has been noted, school revenues are primarily derived from property tax collections and state aid for the implementation of the foundation program. Table 18.14 shows that the general revenues for the seventeen districts in fiscal year 1959 totaled $20.5 million. This was $6.4 million less than the school expenditure of $26.9 million and indicates that almost one-fourth of the total educational outlay for the year had to be covered by debt financing. Property taxes accounted for 41 percent of the general revenues, miscellaneous charges and fees 3 percent, and grants-in-aid represented the balance of 56 percent. As is to be expected, there were considerable differences in the relative amounts of aid received by the various school districts. For example, total grants ranged from a low of 29 percent for Eureka to a high of 88 percent in the case of the Mineral district. Of course, the reverse of this pattern prevailed with regard to the relative reliance placed on property taxation for financing education.

On a per capita basis (Table 18.15), school revenues for the seventeen districts averaged $100.59, an increase of almost 100 percent for the decade. Property tax collections were $45.10, or about 74 percent above the 1950 average. In contrast, the per capita educational grant of $50.47 reflects an increase of almost 136 percent for the same period. With regard to variations among the districts, the per capita property tax burden for the schools ranged from $11.83 in Ormsby to a high of $112.47 in Eureka, with Clark and Washoe districts being fairly close to each other at about $26.00. Similarly, with regard to per capita grants for the individual districts, the variation was from a low of $32.38 in Douglas to a high of $107.17 for Mineral, with Clark's per capita grant of $36.19 slightly exceeding that of Washoe's $34.42. Of course, the basic purpose of the school foundation program is to equalize the educational opportunities between districts and the variance in aid is a rough measure of the extent to which this objective was achieved.

Charts 18.3 and 18.4 compare the per capita revenues and taxes of the counties, cities and school districts. With regard to local property taxes it is evident that the average county collection for 1959 was almost one-third larger than that of the schools and more than three times larger than the average for the cities. Similarly, in the case of gambling tax revenues the county per capita collections were markedly above

Chart 18.2

## Per Capita Direct General Expenditures of Local Units of Government in Nevada, Fiscal Years, 1950 and 1959




Source: Tables 18.5, 18.9 and 18.13

Table 18.14

Total General Revenues for Nevada School Districts, Fiscal Year 1959

| County | Property tax[a] | Misc. charges & fees | Grants from other gov't units[b] | Total general revenue[c] |
|---|---|---|---|---|
| | A. Amounts (thousands): | | | |
| Churchill | $ 221.5 | $ 3.9 | $ 441.9 | $ 667.3 |
| Clark | 3,361.1 | 284.5 | 4,516.6 | 8,162.1 |
| Douglas | 142.0 | 19.8 | 111.4 | 273.1 |
| Elko | 603.3 | 27.6 | 573.5 | 1,204.5 |
| Esmeralda | 32.8 | 5.7 | 21.2 | 59.7 |
| Eureka | 84.8 | 3.3 | 36.6 | 124.7 |
| Humboldt | 244.0 | 13.2 | 237.6 | 494.7 |
| Lander | 105.2 | 8.0 | 80.0 | 193.1 |
| Lincoln | 171.2 | 1.4 | 183.1 | 355.7 |
| Lyon | 323.0 | 26.1 | 323.8 | 672.9 |
| Mineral | 77.0 | 9.4 | 656.4 | 742.9 |
| Nye | 114.2 | 14.1 | 232.2 | 360.6 |
| Ormsby | 95.0 | 10.9 | 406.9 | 512.8 |
| Pershing | 209.8 | 15.9 | 121.1 | 346.8 |
| Storey | 38.4 | .1 | 22.3 | 60.8 |
| Washoe | 2,120.3 | 185.3 | 2,880.8 | 5,186.3 |
| White Pine | 444.7 | 12.2 | 588.7 | 1,045.6 |
| Total[c] | $8,388.1 | $641.3 | $11,434.1 | $20,463.4 |
| | B. Percent distribution: | | | |
| Churchill | 33.2 | .6 | 66.2 | 100.0 |
| Clark | 41.2 | 3.5 | 55.3 | 100.0 |
| Douglas | 52.0 | 7.3 | 40.8 | 100.0 |
| Elko | 50.1 | 2.3 | 47.6 | 100.0 |
| Esmeralda | 54.9 | 9.5 | 35.5 | 100.0 |
| Eureka | 68.0 | 2.6 | 29.4 | 100.0 |
| Humboldt | 49.3 | 2.7 | 48.0 | 100.0 |
| Lander | 54.5 | 4.1 | 41.4 | 100.0 |
| Lincoln | 48.1 | .4 | 51.5 | 100.0 |
| Lyon | 48.0 | 3.9 | 48.1 | 100.0 |
| Mineral | 10.4 | 1.3 | 88.4 | 100.0 |
| Nye | 31.7 | 3.9 | 64.4 | 100.0 |
| Ormsby | 18.5 | 2.1 | 79.3 | 100.0 |
| Pershing | 60.5 | 4.6 | 34.9 | 100.0 |
| Storey | 63.2 | -- | 36.7 | 100.0 |
| Washoe | 40.9 | 3.6 | 55.5 | 100.0 |
| White Pine | 42.5 | 1.2 | 56.3 | 100.0 |
| Total[c] | 41.0 | 3.1 | 55.9 | 100.0 |

[a]Includes small amount of franchise tax.
[b]Includes tuition, rents, sales, etc.
[c]Totals may not equal sum of items due to rounding.

Source: State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959.

Table 18.15

Per Capita General Revenue for Nevada School Districts
Fiscal Year 1959

| County | Property tax | Misc. charges & fees | Grants from other governmental units | Total general revenue |
|---|---|---|---|---|
| | | A. Per capita amounts: | | |
| Churchill | $ 26.38 | $ .46 | $ 52.63 | $ 79.47 |
| Clark | 26.93 | 2.28 | 36.19 | 65.39 |
| Douglas | 41.28 | 5.76 | 32.38 | 79.39 |
| Elko | 50.60 | 2.31 | 48.10 | 101.02 |
| Esmeralda | 53.25 | 9.25 | 34.42 | 96.92 |
| Eureka | 112.47 | 4.38 | 48.54 | 165.38 |
| Humboldt | 42.91 | 2.32 | 41.79 | 87.00 |
| Lander | 67.44 | 5.13 | 51.28 | 123.78 |
| Lincoln | 70.60 | .58 | 75.51 | 146.68 |
| Lyon | 53.06 | 4.29 | 53.20 | 110.55 |
| Mineral | 12.57 | 1.53 | 107.17 | 121.29 |
| Nye | 26.34 | 3.25 | 53.55 | 83.16 |
| Ormsby | 11.83 | 1.36 | 50.67 | 63.86 |
| Pershing | 66.22 | 5.02 | 38.23 | 109.45 |
| Storey | 67.72 | .10 | 39.33 | 107.23 |
| Washoe | 25.33 | 2.21 | 34.42 | 61.96 |
| White Pine | 45.75 | 1.26 | 60.56 | 107.56 |
| Average[a] | $ 45.10 | $3.03 | $ 50.47 | $100.59 |
| | | B. Percent increase 1959 over 1950: | | |
| Churchill | -9.8 | 9.5 | 143.4 | 50.1 |
| Clark | 54.2 | 196.1 | 135.8 | 94.7 |
| Douglas | 45.4 | -34.3 | 41.0 | 32.0 |
| Elko | 62.2 | 3.1 | 118.8 | 82.3 |
| Esmeralda | 315.0 | b | 169.1 | 277.7 |
| Eureka | 84.5 | -24.0 | 96.4 | 80.8 |
| Humboldt | 56.9 | 182.9 | 162.5 | 97.4 |
| Lander | 75.5 | 145.5 | 214.2 | 117.8 |
| Lincoln | 118.7 | -58.3 | 186.1 | 144.2 |
| Lyon | 92.0 | 18.8 | 78.2 | 80.9 |
| Mineral | 13.1 | 115.5 | 189.6 | 148.5 |
| Nye | 63.2 | 16.9 | 92.1 | 77.7 |
| Ormsby | -3.1 | -51.4 | 134.7 | 74.5 |
| Pershing | 89.4 | 24.0 | 115.1 | 92.8 |
| Storey | 106.7 | -97.9 | 148.5 | 100.9 |
| Washoe | 29.0 | 550.0 | 215.8 | 100.7 |
| White Pine | 63.4 | -42.5 | 158.4 | 100.6 |
| Average | 73.9 | 18.4 | 135.7 | 97.0 |

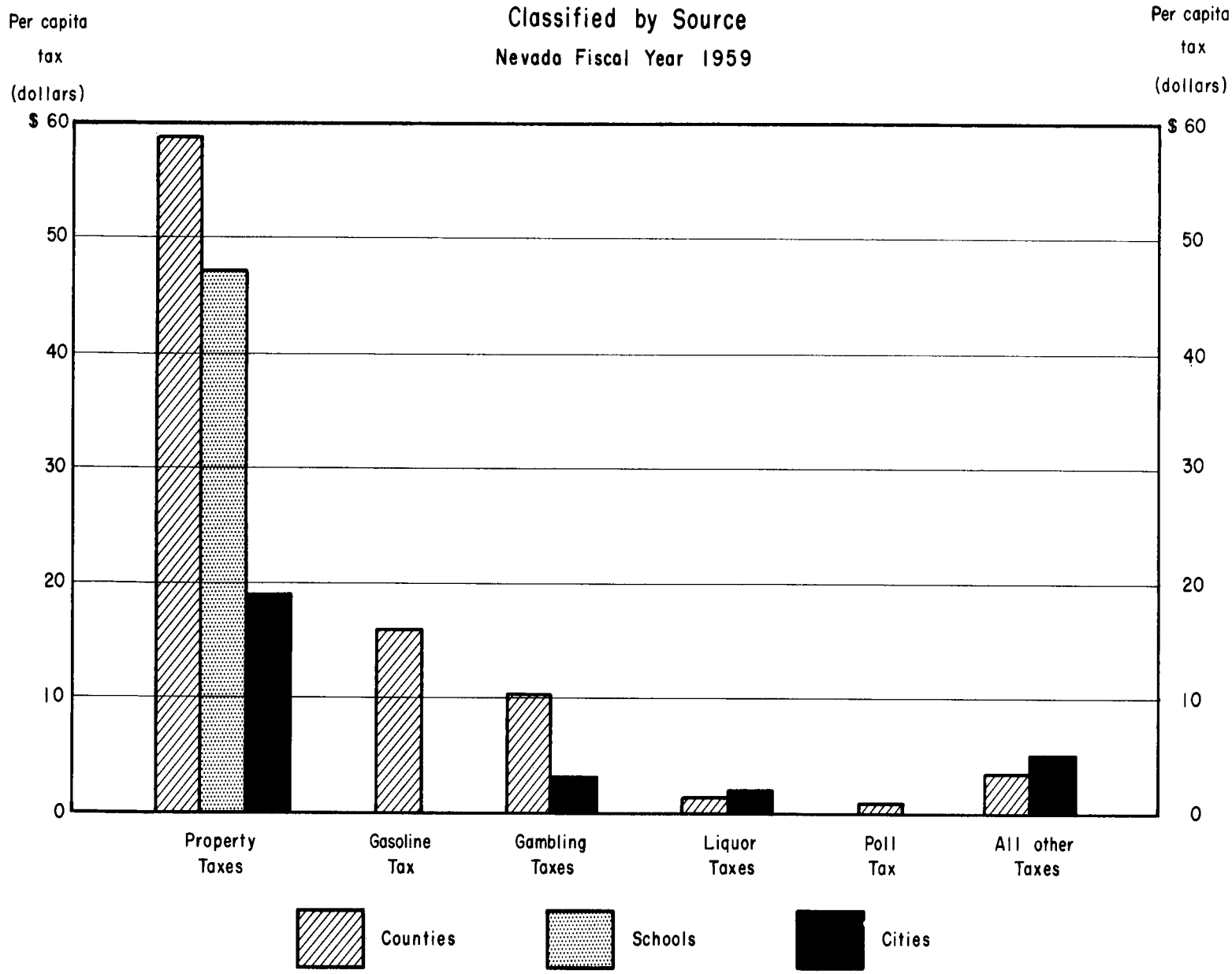
[a]Unweighted average.
[b]Per capita figure too small for meaningful comparison.

Source: State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959 and 1950; and, U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

Chart 18.3

## Per Capita Tax Collections of Local Units of Government Classified by Source

Nevada Fiscal Year 1959

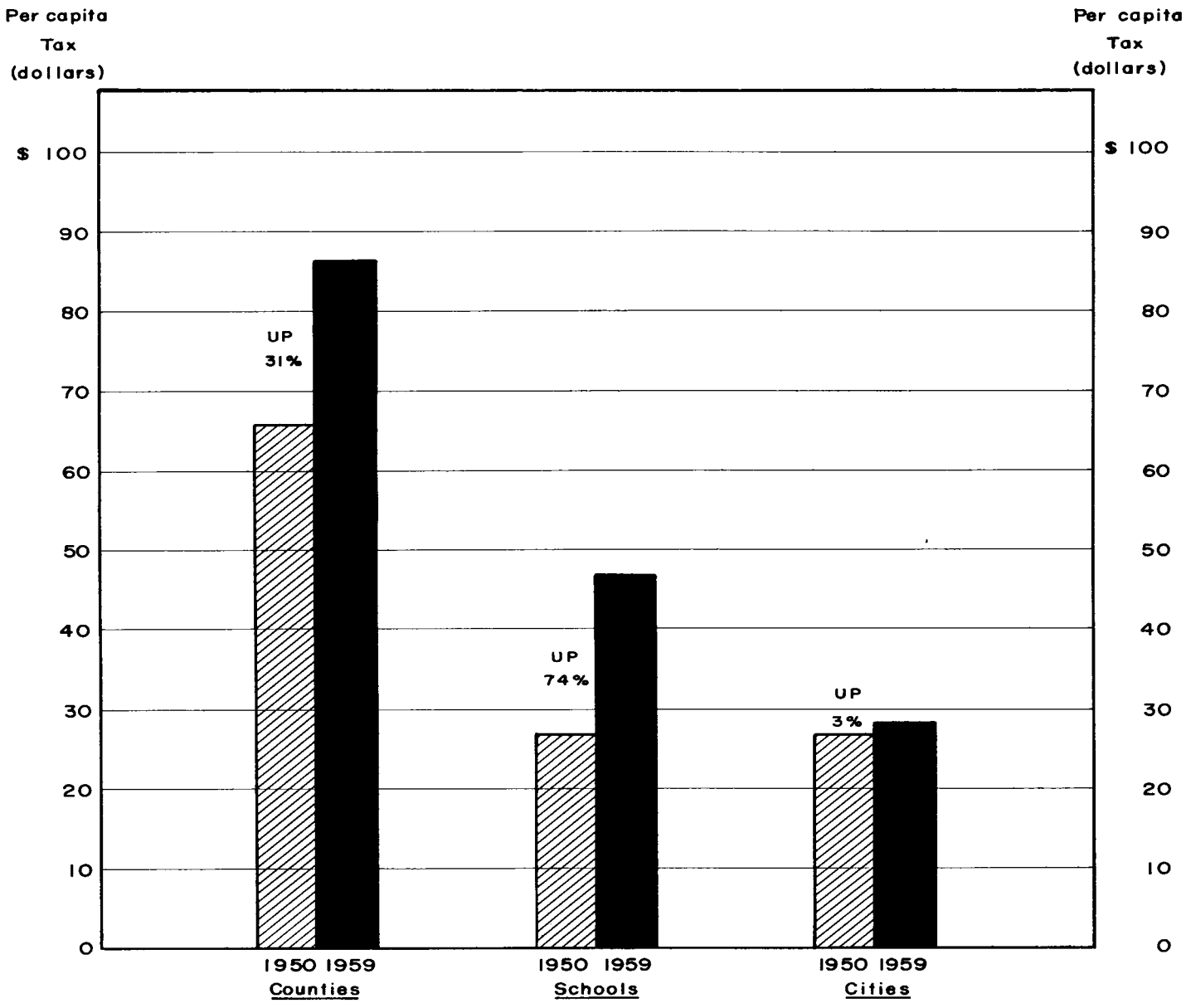



Source: Tables 18.7, 18.11 and 18.15

Chart 18.4

## Per Capita Tax Collections of Local Units of Government in Nevada

Fiscal Years, 1950 and 1959




Source: Tables 18.7, 18.11 and 18.15

that of the municipalities. Moreover, it will be noted that the county per capita tax collection of $86.45 from all sources was the highest and reflected a 31 percent increase over the 1950 comparable figure and the school district tax averaged $45.10 for an increase of almost 74 percent. In contrast, the average per capita tax collection for the incorporated cities was only $28.64 and as such represented an increase of only 3 percent for the ten-year period. It is clearly evident on the basis of the above detailed financial statistics that Nevada's cities compared to the counties and school districts have not maintained their relative position either in terms of expenditures or revenues during the past decade of unprecedented population growth, urbanization and inflation.

## Combined Local Expenditures and Revenues

The financial statistics for the counties, cities, and school districts discussed above are combined in Tables 18.16 through 18.21 in order to present a comprehensive picture of the expenditure patterns and tax burdens incurred on the local level of government in Nevada. Table 18.16 shows that total outlays for 1959 amounted to more than $63.2 million, of which $26.9 million, or almost 43 percent represented direct expenditures for financing Nevada's public school systems. Next in importance were the outlays for public health, welfare, safety, and sanitation, 24 percent; general administration, 9 percent; highway and streets, 8 percent; and the category of parks, recreation, conservation, and natural resource development, 4 percent of the total expenditure for the year. These same data are summarized in Chart 18.5.

When the aggregated expenditure data for all local units of government are reduced to per capita terms (Table 18.17), the average expenditure for 1959 was $275.95, or 94 percent above the comparable figure for 1950. It is noteworthy that the average outlay of $116.77 for education was approximately twice as large as that of the next highest category of expenditures--public health, welfare, safety, and sanitation. The general administration outlay averaged $40.45 and except for the "all other" category, it showed the smallest relative increase of any major function for the decade.

However, it is important to recognize that a more realistic measure of the increased costs of local government in Nevada for the past ten years is obtained when the financial data are adjusted for the price inflation factor as well as for population growth. As already noted, the U. S. Department of Commerce index of "state and local governmental costs" indicates an increase of 44 percent for the past decade. Using this index to adjust for the price factor, Table 18.18 shows the "real" per capita county, city, and school district expenditures in Nevada for fiscal years 1950 and 1959 expressed in 1959 dollars of constant purchasing power. On this price adjusted basis, per capita expenditures on the local level rose from $205.46 in 1950 to $275.95 in 1959, an increase of about 34 percent for the period. If public expenditures, both operating and capital outlays, are assumed to be a rough measure

Table 18.16

Total General Expenditures for Nevada Counties, Cities, and School Districts, by Counties, Fiscal Year 1959

| County | General administration | Highways and roads | Direct education | Pub.health, welfare, etc.[a] | Parks,nat. resources, etc.[b] | All other direct expen. | Grants | Total general expen. |
|---|---|---|---|---|---|---|---|---|
| | | | | A. Amount (in thousands): | | | | |
| Churchill | $ 174.1 | $ 145.6 | $ 759.8 | $ 422.0 | $ 294.0 | $ 43.9 | $ 60.5 | $ 1,899.8 |
| Clark | 1,983.4 | 1,412.4 | 11,517.6 | 5,402.2 | 699.9 | 4,594.7 | 1,357.4 | 26,967.5 |
| Douglas | 113.0 | 162.3 | 337.2 | 136.6 | 6.0 | 11.5 | 103.1 | 869.8 |
| Elko | 264.9 | 405.9 | 1,262.2 | 1,199.2 | 134.4 | 53.4 | 142.4 | 3,462.3 |
| Esmeralda | 61.5 | 55.0 | 56.5 | 24.1 | 3.4 | 3.5 | 6.5 | 210.5 |
| Eureka | 65.8 | 50.5 | 135.3 | 49.3 | 3.8 | 1.6 | 1.5 | 307.6 |
| Humboldt | 166.0 | 314.0 | 858.7 | 296.3 | 45.5 | 16.3 | 39.0 | 1,736.2 |
| Lander | 91.8 | 66.2 | 197.7 | 79.3 | .5 | 3.9 | 6.7 | 446.2 |
| Lincoln | 103.8 | 76.9 | 375.4 | 163.3 | 12.4 | 11.6 | 9.1 | 752.5 |
| Lyon | 138.0 | 160.2 | 1,210.1 | 358.3 | 244.0 | 50.8 | 24.4 | 2,185.7 |
| Mineral | 125.1 | 50.7 | 739.6 | 281.9 | 4.3 | 10.1 | 23.1 | 1,234.8 |
| Nye | 166.8 | 109.3 | 398.6 | 294.8 | 7.0 | 23.7 | 18.4 | 1,018.5 |
| Ormsby | 120.9 | 110.9 | 618.7 | 208.3 | 8.6 | 81.4 | 99.7 | 1,248.5 |
| Pershing | 111.3 | 79.2 | 356.5 | 236.2 | 134.2 | 15.7 | 18.9 | 952.0 |
| Storey | 58.4 | 32.2 | 57.3 | 53.9 | .3 | .1 | 6.0 | 208.2 |
| Washoe | 1,659.1 | 1,480.1 | 6,915.9 | 5,249.6 | 608.4 | 710.2 | 932.1 | 17,555.0 |
| White Pine | 228.5 | 216.1 | 1,068.8 | 453.0 | 127.1 | 39.6 | 61.0 | 2,194.1 |
| Total | $5,632.4 | $4,927.5 | $26,865.7 | $14,908.3 | $2,333.8 | $5,672.0 | $2,909.8 | $63,249.2 |
| | | | | B. Percent distribution: | | | | |
| Churchill | 9.2 | 7.7 | 40.0 | 22.2 | 15.5 | 2.3 | 3.2 | 100.0 |
| Clark | 7.4 | 5.2 | 42.7 | 20.0 | 2.6 | 17.0 | 5.0 | 100.0 |
| Douglas | 13.0 | 18.7 | 38.8 | 15.7 | .7 | 1.3 | 11.9 | 100.0 |
| Elko | 7.7 | 11.7 | 36.5 | 34.6 | 3.9 | 1.5 | 4.1 | 100.0 |
| Esmeralda | 29.2 | 26.1 | 26.8 | 11.4 | 1.6 | 1.7 | 3.1 | 100.0 |
| Eureka | 21.4 | 16.4 | 44.0 | 16.0 | 1.2 | .5 | .5 | 100.0 |
| Humboldt | 9.6 | 18.1 | 49.5 | 17.1 | 2.6 | .9 | 2.2 | 100.0 |
| Lander | 20.6 | 14.8 | 44.3 | 17.8 | .1 | .9 | 1.5 | 100.0 |
| Lincoln | 13.8 | 10.2 | 49.9 | 21.7 | 1.6 | 1.5 | 1.2 | 100.0 |
| Lyon | 6.3 | 7.3 | 55.4 | 16.4 | 11.2 | 2.3 | 1.1 | 100.0 |
| Mineral | 10.1 | 4.1 | 59.9 | 22.8 | .3 | .8 | 1.9 | 100.0 |
| Nye | 16.4 | 10.7 | 39.1 | 28.9 | .7 | 2.3 | 1.8 | 100.0 |
| Ormsby | 9.7 | 8.9 | 49.6 | 16.7 | .7 | 6.5 | 8.0 | 100.0 |
| Pershing | 11.7 | 8.3 | 37.4 | 24.8 | 14.1 | 1.6 | 2.0 | 100.0 |
| Storey | 28.0 | 15.5 | 27.5 | 25.9 | .1 | -- | 2.9 | 100.0 |
| Washoe | 9.5 | 8.4 | 39.4 | 29.9 | 3.5 | 4.0 | 5.3 | 100.0 |
| White Pine | 10.4 | 9.8 | 48.7 | 20.6 | 5.8 | 1.8 | 2.8 | 100.0 |
| Total | 8.9 | 7.8 | 42.5 | 23.6 | 3.7 | 9.0 | 4.6 | 100.0 |

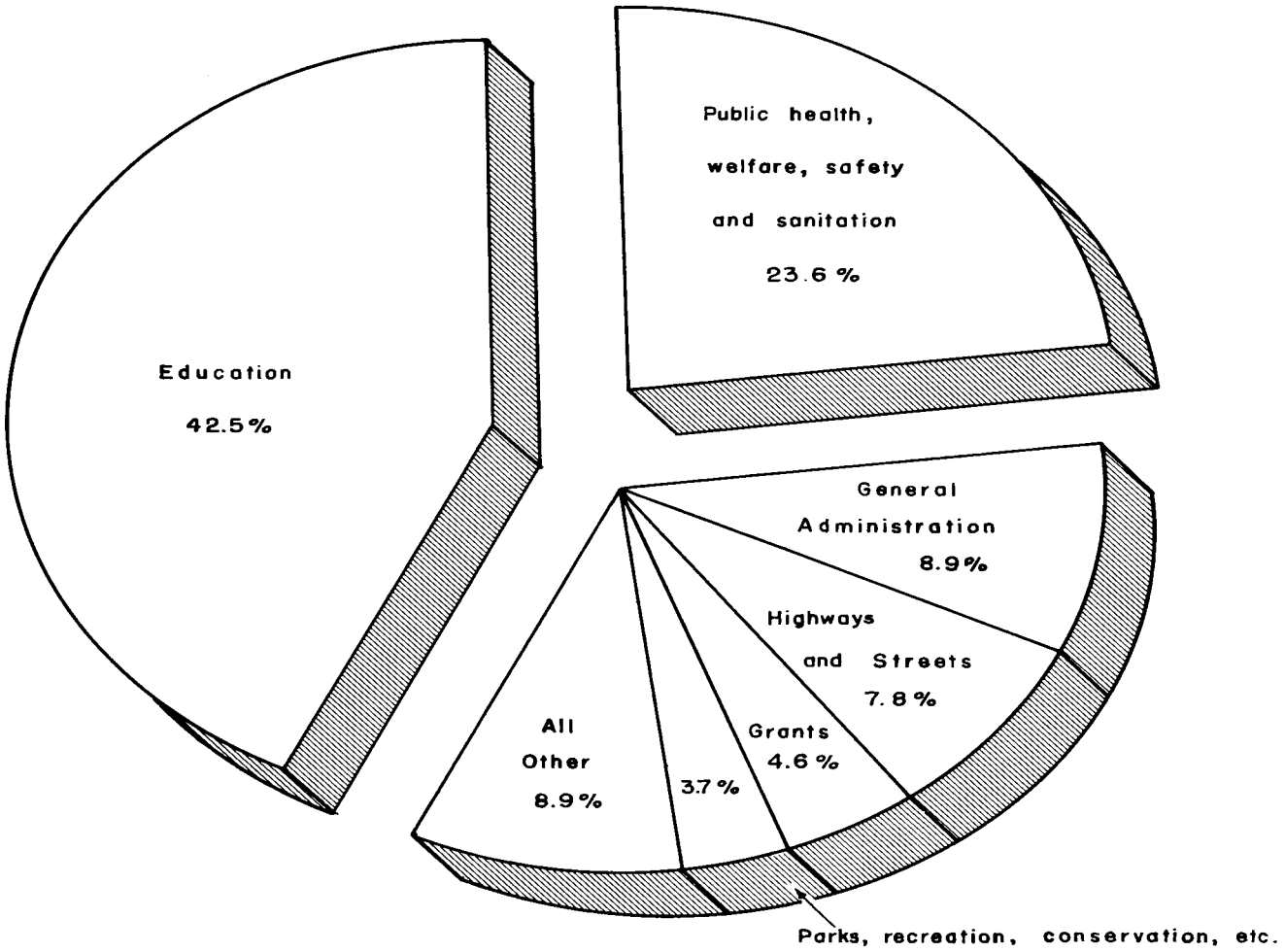
[a]Includes safety and sanitation. [b]Includes conservation and recreation.

Source: Annual Report of the County Auditor, 1959, for each county; City budgets filed with the Nevada Tax Commission; and State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959.

Chart 18.5

# Percentage Distribution of Combined General Expenditures, Counties, Cities and School Districts

Nevada, Fiscal Year, 1959




Source: Table 18.16

Table 18.17

Total Per Capita Expenditures for Nevada Counties, Cities and School Districts, by Counties, Fiscal Year 1959

| County | General administration | Highways and roads | Direct education | Pub.health, welfare, etc.[a] | Parks,nat. resources, etc.[b] | All other direct expen. | Grants | Total general expen.[c] |
|---|---|---|---|---|---|---|---|---|
| | | | | A. Per capita amount: | | | | |
| Churchill | $ 20.73 | $17.34 | $ 90.48 | $ 50.26 | $35.01 | $ 5.23 | $ 7.20 | $226.25 |
| Clark | 15.89 | 11.32 | 92.28 | 43.28 | 5.61 | 36.81 | 10.88 | 216.06 |
| Douglas | 32.85 | 47.18 | 98.02 | 39.71 | 1.74 | 3.34 | 29.97 | 252.85 |
| Elko | 22.22 | 34.04 | 105.86 | 100.58 | 11.27 | 4.48 | 11.94 | 290.39 |
| Esmeralda | 99.84 | 89.29 | 91.72 | 39.12 | 5.52 | 5.68 | 10.55 | 341.72 |
| Eureka | 87.27 | 66.98 | 179.44 | 65.38 | 5.04 | 2.12 | 1.99 | 407.96 |
| Humboldt | 29.19 | 55.22 | 151.02 | 52.11 | 8.00 | 2.87 | 6.86 | 305.35 |
| Lander | 58.85 | 42.44 | 126.73 | 50.83 | .32 | 2.50 | 4.29 | 286.03 |
| Lincoln | 42.80 | 31.71 | 154.80 | 67.34 | 5.11 | 4.78 | 3.75 | 310.31 |
| Lyon | 22.67 | 26.32 | 198.80 | 58.86 | 40.09 | 8.35 | 4.01 | 359.08 |
| Mineral | 20.42 | 8.28 | 120.75 | 46.02 | .70 | 1.65 | 3.77 | 201.60 |
| Nye | 38.47 | 25.21 | 91.93 | 67.99 | 1.61 | 5.47 | 4.24 | 234.89 |
| Ormsby | 15.06 | 13.81 | 77.05 | 25.97 | 1.06 | 10.14 | 12.42 | 155.48 |
| Pershing | 35.13 | 25.00 | 112.53 | 74.56 | 42.36 | 4.96 | 5.97 | 300.51 |
| Storey | 103.00 | 56.79 | 101.06 | 95.06 | .55 | .16 | 10.58 | 367.20 |
| Washoe | 19.82 | 17.68 | 82.63 | 62.72 | 7.27 | 8.49 | 11.14 | 209.74 |
| White Pine | 23.51 | 22.23 | 109.95 | 46.60 | 13.07 | 4.07 | 6.28 | 225.71 |
| Average[d] | $ 40.45 | $34.76 | $116.77 | $ 58.02 | $10.84 | $ 6.54 | $ 8.58 | $275.95 |
| | | | | B. Percent increase 1959 over 1950: | | | | |
| Churchill | 74.8 | 6.4 | 57.7 | 68.0 | 1,231.2 | -67.4 | -9.7 | 59.3 |
| Clark | 52.3 | 77.4 | 121.3 | 64.4 | 119.1 | 1.6 | 40.8 | 64.5 |
| Douglas | 60.2 | 114.2 | 81.1 | 98.0 | -62.4 | 30.5 | 316.3 | 92.9 |
| Elko | 31.6 | 27.5 | 96.0 | 252.5 | 76.9 | -25.3 | 27.2 | 96.4 |
| Esmeralda | 85.2 | 294.4 | 263.4 | 62.3 | 208.4 | 34.3 | 32.2 | 144.3 |
| Eureka | 94.5 | 57.9 | 123.0 | 128.8 | -7.9 | 371.1 | -63.6 | 96.4 |
| Humboldt | 64.4 | 139.4 | 250.6 | 52.1 | 227.9 | -73.8 | -31.0 | 115.8 |
| Lander | 140.9 | 76.5 | 140.2 | 40.8 | -75.4 | 208.6 | -25.8 | 96.9 |
| Lincoln | 171.1 | 97.8 | 149.7 | 64.2 | 5.4 | 68.3 | -24.7 | 110.3 |
| Lyon | 29.9 | 123.1 | 175.0 | 197.4 | 2,486.5 | -74.8 | -51.5 | 118.6 |
| Mineral | 82.8 | 97.6 | 153.9 | 130.3 | 204.3 | -61.9 | 216.8 | 127.4 |
| Nye | 80.8 | 298.9 | 91.3 | 82.1 | -29.7 | 101.8 | 134.3 | 96.1 |
| Ormsby | 4.4 | 45.5 | 90.0 | 95.9 | -48.5 | 629.5 | 31.2 | 71.4 |
| Pershing | 73.3 | 61.3 | 49.4 | 115.8 | 2,165.2 | -81.5 | 28.7 | 69.2 |
| Storey | 172.1 | 178.1 | 70.4 | 133.6 | -26.7 | -- | 31.4 | 119.4 |
| Washoe | 13.3 | 49.6 | 32.9 | 26.7 | 6.0 | -12.7 | -7.2 | 23.7 |
| White Pine | 65.8 | 119.9 | 97.2 | 118.9 | 313.6 | 62.2 | 12.1 | 100.4 |
| Average | 85.6 | 104.4 | 113.0 | 95.2 | 262.5 | -30.3 | 24.2 | 93.5 |

[a]Includes safety and sanitation. [b]Includes conservation and recreation. [c]Totals may not equal sum of items due to rounding. [d]Simple average.

Source: Annual Report of the County Auditor, 1959 and 1950 for each county; County budgets filed with the Nevada Tax Commission 1950 and 1959; State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959 and 1950; U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

Table 18.18

Combined Per Capita Expenditures in Constant 1959 Prices, for Nevada Counties, Cities, and School Districts, Fiscal Years 1950 and 1959

| | Current Prices: | | | Constant 1959 Prices:[a] | | |
|---|---|---|---|---|---|---|
| | 1950 | 1959 | % increase | 1950 | 1959 | % increase |
| Counties | $ 74.91 | $140.58 | 87.7 | $107.91 | $140.58 | 30.3 |
| Cities[b] | 38.76 | 53.62 | 38.3 | 55.83 | 53.62 | -4.0 |
| School districts | 54.81 | 116.77 | 113.0 | 78.95 | 116.77 | 47.9 |
| Combined units[c] | $142.63 | $275.95 | 93.5 | $205.46 | $275.95 | 34.3 |

[a]Adjusted by index of state and local government cost.
[b]Computed on basis of city population.
[c]Computed on basis of State population.

Source: Annual Report of the County Auditor, 1950 and 1959 for each county; County budgets filed with the Nevada Tax Commission 1950 and 1959; State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1950 and 1959; U. S. Department of Commerce, U. S. Income and Output, A Supplement to the Survey of Current Business, 1958; and, the Economic Report of the President, January, 1960.

of the levels of public services, then on the basis of the above analysis local services in Nevada were expanded by about one-third during the past decade, i.e., on the average the local jurisdictions provided each resident with approximately one-third more of "real" public services in 1959 than in 1950. However, it should be noted that the major improvement occurred in education since school district "real" expenditures rose by almost 48 percent; whereas in the case of municipalities it appears that a 4 percent contraction in "real" outlay and services was experienced in the ten-year period.

The combined general revenues of Nevada's counties, cities, and school districts for fiscal year 1959 (Table 18.19), amounted to more than $57.1 million, of which $30.4 million or 53 percent resulted from direct taxation. The difference between these magnitudes is accounted for by the $12.2 million of charges and miscellaneous non-tax revenues and $14.5 million of intergovernmental grants. The latter represented more than one-fourth of the total revenues of Nevada's local jurisdictions. The property tax alone amounted to nearly $22.0 million or 38 percent of the general revenues, and the gambling taxes provided $3.8 million, or less than 7 percent of the total. The distribution of the combined revenues are summarized in Chart 18.6.

When the above revenue data for 1959 are reduced to per capita terms (Table 18.20), the average for the combined local jurisdictions

Table 18.19

Total General Revenues for Nevada Counties, Cities, and School Districts, by Counties, Fiscal Year 1959

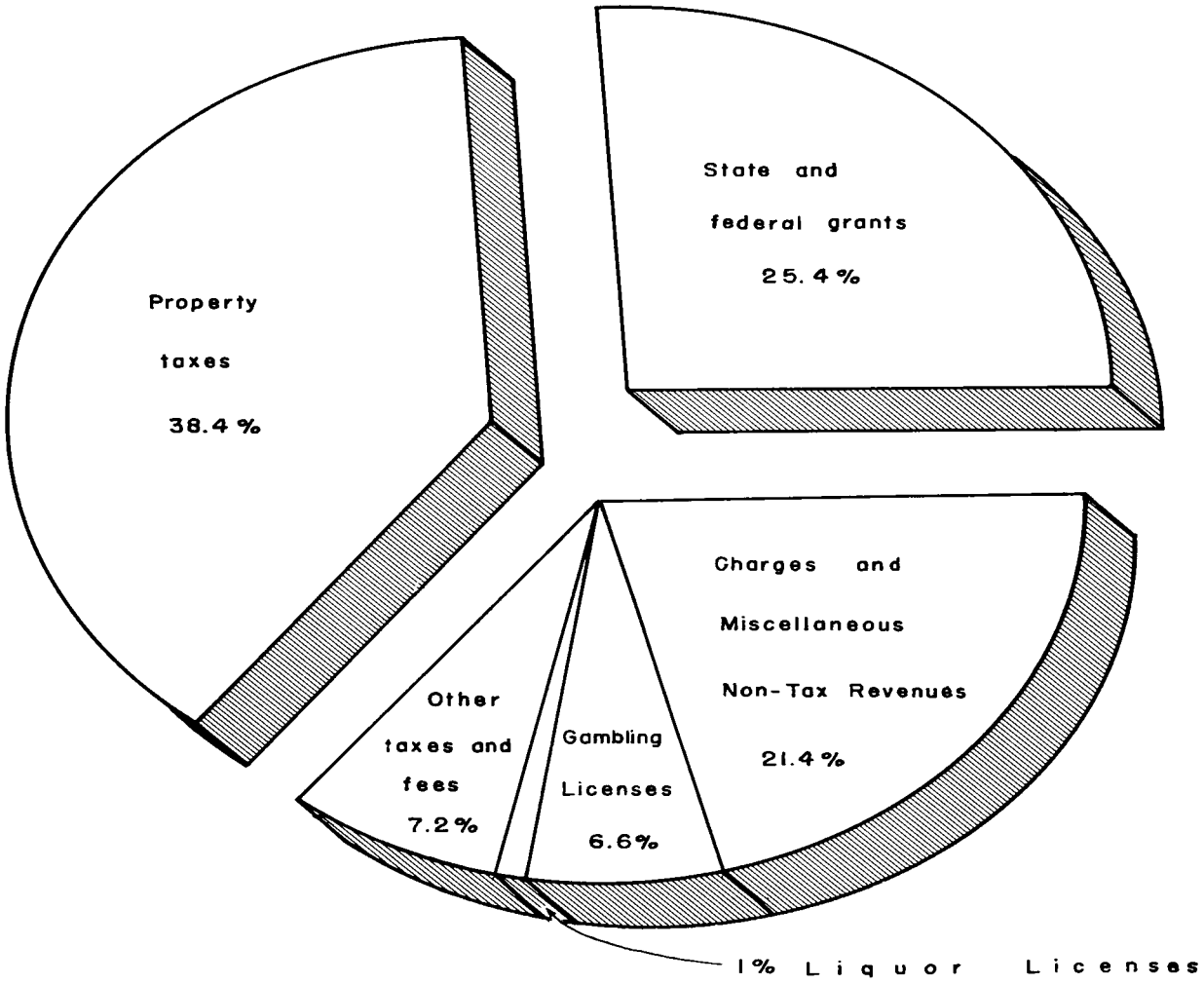
| County | Property tax | Gambling taxes | Other taxes | Total tax revenue | Charges & misc.gen. revenue | Grants | Total general revenue |
|---|---|---|---|---|---|---|---|
| | | | A. Amounts (in thousands): | | | | |
| Churchill | $ 619.7 | $ 28.6 | $ 102.0 | $ 750.3 | $ 511.3 | $ 523.9 | $ 1,785.5 |
| Clark | 9,345.8 | 1,824.8 | 1,899.7 | 13,070.3 | 5,635.9 | 5,439.4 | 24,145.3 |
| Douglas | 252.4 | 188.0 | 65.2 | 505.9 | 76.1 | 161.4 | 743.2 |
| Elko | 1,314.7 | 146.3 | 272.6 | 1,733.6 | 924.5 | 769.5 | 3,427.7 |
| Esmeralda | 82.1 | 1.0 | 32.3 | 115.4 | 16.0 | 68.0 | 199.4 |
| Eureka | 149.7 | 1.5 | 29.1 | 180.3 | 10.5 | 90.1 | 280.4 |
| Humboldt | 616.8 | 51.7 | 121.7 | 790.2 | 233.1 | 317.1 | 1,340.2 |
| Lander | 251.0 | 10.2 | 49.6 | 310.8 | 22.6 | 130.6 | 463.8 |
| Lincoln | 383.5 | 10.6 | 74.0 | 468.1 | 74.3 | 244.1 | 786.8 |
| Lyon | 627.9 | 18.9 | 100.7 | 747.5 | 265.3 | 395.3 | 1,407.9 |
| Mineral | 370.0 | 35.2 | 77.5 | 482.7 | 144.9 | 696.6 | 1,324.4 |
| Nye | 340.8 | 37.0 | 127.8 | 505.6 | 153.0 | 308.9 | 967.8 |
| Ormsby | 343.8 | 51.4 | 108.3 | 503.5 | 151.2 | 514.9 | 1,169.5 |
| Pershing | 577.2 | 29.3 | 79.2 | 685.7 | 165.4 | 188.6 | 1,039.8 |
| Storey | 98.1 | 18.6 | 19.5 | 136.2 | 4.1 | 72.2 | 212.5 |
| Washoe | 5,465.0 | 1,272.7 | 1,369.8 | 8,107.5 | 3,554.9 | 3,870.4 | 15,532.7 |
| White Pine | 1,118.5 | 29.6 | 161.5 | 1,309.6 | 291.0 | 696.7 | 2,297.1 |
| Total | $21,957.0 | $3,755.4 | $4,690.5 | $30,403.2 | $12,233.6 | $14,487.7 | $57,124.0 |
| | | | B. Percent distribution: | | | | |
| Churchill | 34.7 | 1.6 | 5.7 | 42.0 | 28.6 | 29.3 | 100.0 |
| Clark | 38.7 | 7.6 | 7.9 | 54.1 | 23.3 | 22.5 | 100.0 |
| Douglas | 34.0 | 25.3 | 8.8 | 68.1 | 10.2 | 21.7 | 100.0 |
| Elko | 38.4 | 4.3 | 8.0 | 50.6 | 27.0 | 22.4 | 100.0 |
| Esmeralda | 41.2 | .5 | 16.2 | 57.9 | 8.0 | 34.1 | 100.0 |
| Eureka | 53.4 | .5 | 10.4 | 64.3 | 3.7 | 32.1 | 100.0 |
| Humboldt | 46.0 | 3.9 | 9.1 | 59.0 | 17.4 | 23.7 | 100.0 |
| Lander | 54.1 | 2.2 | 10.7 | 67.0 | 4.9 | 28.2 | 100.0 |
| Lincoln | 48.7 | 1.3 | 9.4 | 59.5 | 9.4 | 31.0 | 100.0 |
| Lyon | 44.6 | 1.3 | 7.2 | 53.1 | 18.8 | 28.1 | 100.0 |
| Mineral | 27.9 | 2.7 | 5.9 | 36.4 | 10.9 | 52.6 | 100.0 |
| Nye | 35.2 | 3.8 | 13.2 | 52.2 | 15.8 | 31.9 | 100.0 |
| Ormsby | 29.4 | 4.4 | 9.3 | 43.1 | 12.9 | 44.0 | 100.0 |
| Pershing | 55.5 | 2.8 | 7.6 | 65.9 | 15.9 | 18.1 | 100.0 |
| Storey | 46.2 | 8.8 | 9.2 | 64.1 | 1.9 | 34.0 | 100.0 |
| Washoe | 35.2 | 8.2 | 8.8 | 52.2 | 22.9 | 24.9 | 100.0 |
| White Pine | 48.7 | 1.3 | 7.0 | 57.0 | 12.7 | 30.3 | 100.0 |
| Total | 38.4 | 6.6 | 8.2 | 53.2 | 21.4 | 25.4 | 100.0 |

Source: Annual Report of the County Auditor, 1959, for each county; City budgets filed with the Nevada Tax Commission; and State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959.

Chart 18.6

# Percentage Distribution of Combined General Revenues, Counties, Cities and School Districts

Nevada, Fiscal Year, 1959




Source: Table 18.16

Table 18.20

Total Per Capita Revenues for Nevada Counties, Cities, and School Districts, by Counties, Fiscal Year 1959

| County | Property taxes | Gambling taxes | Other taxes | Total tax revenue | Charges & misc.gen. revenue | Grants | Total general revenue |
|---|---|---|---|---|---|---|---|
| | | | A. Per capita amounts: | | | | |
| Churchill | $ 73.80 | $ 3.41 | $12.14 | $ 89.35 | $60.89 | $ 62.39 | $212.64 |
| Clark | 74.88 | 14.62 | 15.22 | 104.72 | 45.15 | 43.58 | 193.45 |
| Douglas | 73.37 | 54.65 | 18.95 | 147.06 | 22.12 | 46.92 | 216.05 |
| Elko | 110.27 | 12.27 | 22.86 | 145.40 | 77.54 | 64.54 | 287.49 |
| Esmeralda | 133.28 | 1.62 | 52.44 | 187.34 | 25.97 | 110.39 | 323.70 |
| Eureka | 198.54 | 1.99 | 38.59 | 239.12 | 13.93 | 119.50 | 371.88 |
| Humboldt | 108.48 | 9.09 | 21.40 | 138.97 | 41.00 | 55.77 | 235.70 |
| Lander | 160.90 | 6.54 | 31.79 | 199.23 | 14.49 | 83.72 | 297.31 |
| Lincoln | 158.14 | 4.37 | 30.52 | 193.03 | 30.64 | 100.66 | 324.45 |
| Lyon | 103.15 | 3.10 | 16.54 | 122.80 | 43.58 | 64.94 | 231.30 |
| Mineral | 60.41 | 5.65 | 12.65 | 78.81 | 23.66 | 113.73 | 216.23 |
| Nye | 78.60 | 8.53 | 29.47 | 116.61 | 35.29 | 71.24 | 223.20 |
| Ormsby | 42.81 | 6.40 | 13.49 | 62.70 | 18.83 | 64.12 | 145.64 |
| Pershing | 182.20 | 9.25 | 25.00 | 216.45 | 52.21 | 59.53 | 328.22 |
| Storey | 173.02 | 32.80 | 34.39 | 240.21 | 7.23 | 127.34 | 374.78 |
| Washoe | 65.29 | 15.21 | 16.37 | 96.86 | 42.47 | 46.24 | 185.58 |
| White Pine | 115.06 | 3.04 | 16.61 | 134.72 | 29.94 | 71.67 | 236.30 |
| Average | $112.48 | $11.33 | $24.03 | $147.85 | $34.41 | $ 76.84 | $259.05 |
| | | | B. Percent increase 1959 over 1950: | | | | |
| Churchill | 10.6 | -18.8 | 29.4 | 11.3 | 101.5 | 138.6 | 55.6 |
| Clark | 50.0 | 15.8 | -23.6 | 27.0 | 136.3 | 112.1 | 58.4 |
| Douglas | 26.3 | 172.4 | 33.5 | 59.2 | 72.7 | 100.0 | 67.9 |
| Elko | 28.2 | 50.4 | 42.4 | 31.9 | 415.2 | 119.5 | 85.9 |
| Esmeralda | 58.0 | -33.6 | 140.3 | 72.2 | 513.9 | 697.6 | 155.1 |
| Eureka | 12.9 | -31.4 | 176.6 | 24.1 | -14.5 | 331.7 | 57.2 |
| Humboldt | 44.3 | -4.0 | 25.7 | 36.6 | 112.9 | 140.3 | 63.4 |
| Lander | 44.8 | -6.2 | 151.3 | 52.4 | 23.0 | 357.0 | 84.8 |
| Lincoln | 104.8 | -25.2 | 159.7 | 103.7 | 130.9 | 244.3 | 136.3 |
| Lyon | 46.6 | -36.3 | 13.8 | 36.8 | 14.1 | 95.8 | 43.6 |
| Mineral | 54.3 | 20.0 | 10.3 | 42.4 | 1,922.2 | 205.5 | 130.7 |
| Nye | 36.1 | 19.1 | 59.5 | 39.9 | 108.4 | 71.3 | 57.3 |
| Ormsby | 2.6 | -38.2 | 20.0 | -1.0 | 84.4 | 151.8 | 47.1 |
| Pershing | 48.2 | -20.7 | 49.4 | 43.0 | 189.3 | 207.8 | 73.9 |
| Storey | 67.5 | 292.8 | 12.0 | 68.8 | -47.8 | 684.1 | 117.4 |
| Washoe | 11.8 | 19.2 | -15.6 | 6.9 | 25.8 | 142.2 | 29.4 |
| White Pine | 136.5 | -35.6 | 27.3 | 102.8 | 289.3 | 152.1 | 130.4 |
| Average | 44.1 | 40.4 | 49.4 | 44.7 | 107.5 | 202.0 | 79.7 |

Source: Annual Report of the County Auditor, 1959 and 1950 for each county; County budgets filed with the Nevada Tax Commission 1950 and 1959; State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959 and 1950; U. S. Department of Commerce, Bureau of the Census, 1960 Census of Population (Preliminary Report), and 1950 Census of Population.

amounted to $259.05, which reflected an increase of almost 80 percent for the decade. Intergovernmental grants received by local units on this basis averaged $76.84 and showed the largest increase for the ten-year period, slightly more than 200 percent. In contrast, the local per capita tax burden for 1959 was $147.85 but reflected an increase of only 45 percent over the comparable 1950 figure. However, the "real" increases in taxes and revenues were considerably smaller for the decade when consideration is given to the price inflation of the period. In this instance in order to obtain population-price adjusted figures the tax data were corrected by the consumer price index.[21] The "real" per capita tax burden for all of Nevada's local jurisdictions, expressed in constant 1959 dollars of purchasing power (Table 18.21), increased from $123.97 in 1950 to $147.85 in 1959, or by 19 percent for the entire decade. But equally noteworthy is the fact that the school tax burden showed the greatest relative rise for this same period, or by more than 43 percent in "real" terms. On

Table 18.21

Combined Per Capita Taxes in Constant 1959 Prices, for Nevada Counties, Cities and School Districts, Fiscal Years 1950 and 1959

| | Current Prices: | | | Constant 1959 Prices:[a] | | |
|---|---|---|---|---|---|---|
| | 1950 | 1959 | % increase | 1950 | 1959 | % increase |
| Counties | $ 65.98 | $ 86.45 | 31.0 | $ 80.07 | $ 86.45 | 10.8 |
| Cities[b] | 27.72 | 28.64 | 3.3 | 33.64 | 28.64 | -14.9 |
| School districts | 27.09 | 47.10 | 73.9 | 32.88 | 47.10 | 43.2 |
| Combined units[c] | $102.15 | $147.85 | 44.7 | $123.97 | $147.85 | 19.3 |

[a]Adjusted by consumer price index.
[b]Computed on basis of city population.
[c]Computed on basis of State population.

Source: Annual Report of the County Auditor, 1959 and 1950 for each county; County budgets filed with the Nevada Tax Commission, 1950 and 1959; State of Nevada, Department of Education, Statistical Report of the Superintendent of Public Instruction, 1959 and 1950; U. S. Department of Commerce, U. S. Income and Output, A Supplement to the Survey of Current Business, 1958; and, the Economic Report of the President, January, 1960.

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[21] In order to correct for the price factor, state and local revenues in this study were adjusted by the consumer price index since the tax burden ultimately reflects a reduction in the taxpayer's "real" disposable income and purchasing power. However, in the case of state and local expenditure data the index of "state and local government costs" was used since this reflects the "real" purchasing power of the dollars spent by government. It may be noted that the latter showed an increase for the decade under review which was twice as large as that for consumer prices. See Chapter III, p. 60.

the other hand, county taxes increased by less than 11 percent on this population-price adjusted basis, while the average city taxpayer's "real" tax burden showed an actual decline of almost 15 percent for the ten-year period. Thus, as in the case of local expenditures, it is clearly evident that Nevada's municipal jurisdictions lag behind the State's counties and school districts in tax revenues, primarily because city levies during the past ten years have not been increased sufficiently even to compensate for the population growth and price inflation which has characterized the last ten years. In other words, the "real" burden of local taxes for the average city taxpayer in Nevada in 1959 was actually less than his comparable tax burden a decade ago in 1950.[22]

## Local Government Debt

The local debt picture in Nevada generally parallels the trend of local expenditures and revenues. Local revenues particularly in urban areas have been insufficient to meet rapidly expanding capital improvement needs on a pay-as-you-go basis and during the last decade there has been an unprecedented increase in the amount of external financing by all local units. The broad trends of local debt for the counties, cities and school districts as illustrated by 1950 and 1959 data are shown in Table 18.22. The aggregate general debt of all local units in Nevada rose from $15.5 million in 1950 to almost $65 million in 1959, an increase of more than 300 percent for the decade. In broad terms, the increase in county debt for the decade was almost six-fold; in school district debt more than three-fold; and municipal debt almost two-fold. At the end of the fiscal year 1959 school district debt represented about 55 percent of the total local debt, and the counties and cities accounted for 23 and 22 percent of the total, respectively.[23]

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[22]The above data are for combined municipal taxes and levies. However, even in the case of the property tax alone the "real" burden was less in 1959 than in 1950 for the average city taxpayer since the nominal increase in per capita municipal property taxes for the decade was 17 percent (Table 18.11), while the increase in the consumer price index for the years 1950 and 1959 amounted to 21 percent.

[23]Only general obligation debt and that which involves general fund liability is included. Special district debt of this character is in the totals for the counties. However, substantial revenue bond debts have been incurred by several special districts, including the Las Vegas Valley Water District which had over $8 million in revenue bond debt outstanding at the end of 1959, and the Clark County Sanitation District which had $2.8 million outstanding at the end of that year.

Table 18.22

Long Term Debt of Nevada Counties, Incorporated Cities, and School Districts, Fiscal Years 1950 and 1959
(Amounts in thousands)

| Jurisdiction | 1950 | 1959 | Amount of increase: Dollars | Amount of increase: Percent |
|---|---|---|---|---|
| Counties[a] | $ 2,237 | $15,401 | $13,164 | 588 |
| Cities[b] | 4,572 | 13,586 | 9,014 | 197 |
| Schools | 8,717 | 35,980 | 27,263 | 313 |
| Totals | $15,526 | $64,967 | $49,441 | 318 |

[a]Includes special district debt reported by County Auditors; does not include debt of $8 million for the Las Vegas Valley Water District and $2.8 million for Clark County Sanitation District which are supported by user revenues.
[b]Includes general obligation and special assessment bonds.

Source: County and school district debt from County Auditors Reports; city and town debt from local budgets filed with Nevada Tax Commission.

Although comparative local debt data for other states are not available for 1950 and 1959, the debt position of Nevada's local units relative to those of the other states is provided by the recently published 1957 Census of Governments, prepared by the U. S. Department of Commerce, Bureau of the Census.[24] On the basis of these data (Table 18.23), the per capita total of local debt outstanding at the end of fiscal year 1957 for the eleven Western States averaged $246.10, with a low of $137.32 for Idaho and a high of $390.00 for Washington. Nevada ranked fifth and its combined debt for all local jurisdictions was $239.45. With regard to county debt, Nevada ranked first in the West and its per capita debt of $31.89 was almost three times as great as the regional average of $11.06. On the other hand, Nevada's per capita city debt of $50.70 was almost 50 percent less than the Western State average, and in this instance Nevada ranked seventh. The average per capita debt for school districts in 1957 ranged from a low of $43.08 in New Mexico to a high of $104.70 in Colorado. Nevada ranked second and its school debt of $97.19 for 1957 was markedly above the regional average of $80.78. In contrast, Nevada's special district debt of $59.67 was below the regional average although the State ranked fifth. In general, the comparative data show that the local

[24]U. S. Department of Commerce, Bureau of the Census, 1957 Census of Governments, 1959-1960.

Table 18.23

Per Capita Long Term Debt of Local Governments
Nevada and Other Western States,
Fiscal Year, 1959

| State | Counties | Cities | School districts | Special districts | Total: All local units |
|---|---|---|---|---|---|
| Arizona | $11.27 | $ 59.67 | $ 76.90 | $122.54 | $270.38 |
| California | 13.05 | 75.43 | 87.95 | 67.73 | 244.16 |
| Colorado | .34 | 105.90 | 104.70 | 41.80 | 252.74 |
| Idaho | 7.16 | 17.62 | 64.97 | 47.57 | 137.32 |
| Montana | 11.34 | 35.05 | 72.03 | 32.17 | 150.59 |
| Nevada | 31.89 | 50.70 | 97.19 | 59.67 | 239.45 |
| New Mexico | 8.18 | 104.89 | 43.08 | 33.90 | 190.05 |
| Oregon | 13.40 | 48.95 | 56.89 | 37.15 | 156.39 |
| Utah | 1.58 | 33.83 | 50.76 | 102.17 | 188.34 |
| Washington | 8.39 | 107.04 | 71.43 | 203.14 | 390.00 |
| Wyoming | 12.04 | 51.93 | 79.92 | 51.62 | 195.51 |
| Average - Western States | $11.06 | $ 74.80 | $ 80.78 | $ 79.46 | $246.10 |

Source: U. S. Department of Commerce, Bureau of the Census, 1957 Census of Governments, individual state reports, 1959-60.

debt situation in Nevada is not unique, although it is clearly above that of the majority of the other Western States and the same situation prevails for particular units with the exception of the municipalities.

The primary reasons for the relatively high local debts in the State are readily apparent. State aid to local units is relatively low, local tax sources are limited and have not been extended, and the combined impact of increases in needs and costs have made debt expansion inevitable.

## County Debt

County debt in Nevada has grown from $2.2 million in 1950 to $15.4 million in 1959, a revolutionary rise of 588 percent (Table 18.24). The greatest absolute increase, almost $10 million, occurred in Clark county where borrowing was used to finance construction of a courthouse, an airport, a hospital and fair and recreation facilities. The debt on the latter is to be repaid primarily from proceeds of newly imposed commercial lodging and gaming taxes, although it is a contingent liability on property taxes. The debt increase for Washoe county of slightly more than $2 million was incurred in financing the construction of a new courthouse, detention home and medical center.

Table 18.24

Outstanding Long Term Debt of Nevada Counties,[a] at the End of Fiscal Years 1950 and 1959

| County | 1950 (thousands) | 1959 (thousands) | 1959 assessed valuation (millions) | 1959 debt as % of assessed valuation |
|---|---|---|---|---|
| Churchill | $ 170 | $ 250 | $ 15.7 | 1.6 |
| Clark | 1,012 | 10,790 | 247.5 | 4.4 |
| Douglas | 35 | 29 | 12.4 | .2 |
| Elko | 0 | 557 | 50.1 | 1.1 |
| Esmeralda | 0 | 0 | 2.2 | 0 |
| Eureka | 0 | 0 | 7.0 | 0 |
| Humboldt | 80 | 0 | 21.5 | 0 |
| Lander | 58 | 29 | 7.3 | .4 |
| Lincoln | 76 | 40 | 10.4 | .4 |
| Lyon | 14 | 240 | 22.0 | 1.1 |
| Mineral | 39 | 121 | 6.7 | 1.8 |
| Nye | 0 | 202 | 8.5 | 2.4 |
| Ormsby | 0 | 0 | 8.2 | 0 |
| Pershing | 28 | 10 | 16.3 | .1 |
| Storey | 0 | 0 | 3.0 | 0 |
| Washoe | 725 | 2,946 | 150.1 | 2.0 |
| White Pine | 0 | 187 | 33.0 | .6 |
| Total | $2,237 | $15,401 | $621.8 | 2.5 |

[a]Includes special district* debt within county.

Source: Annual Report of the County Auditors, 1950-1959.

Nearly 89 percent of the county debt for fiscal year 1959 was in these two counties, although some debt was reported for ten other counties, and five counties--Esmeralda, Eureka, Humboldt, Ormsby and Storey--had no outstanding debt at the end of that fiscal year. On a statewide basis the total county debt in 1959 was 2.5 percent of assessed valuations. The ratio of county debt to valuation was highest in Clark county with 4.4 percent, Nye county was next with 2.4 percent, followed by Washoe with a debt-assessment ratio of 2 percent.

## City Debt

The outstanding long-term debt of incorporated cities and towns in Nevada rose from $4.6 million at the end of fiscal year 1950, to $13.6 million at the end of fiscal 1959, an increase of almost 200 percent for the decade (Table 18.25). This was incurred primarily for water and sewage systems, fire protection and various public buildings. Over two-thirds of the total in 1959, or $9.8 million, was for the

Table 18.25

Outstanding Long Term Debt of Nevada Incorporated Cities, at the End of Fiscal Years 1950 and 1959

| City | 1950 (thousands) | 1959 (thousands) | 1959 assessed valuation (millions) | 1959 debt as % of assessed valuation |
|---|---|---|---|---|
| Caliente | 0 | 0 | $ .9 | 0 |
| Carlin | $ 32 | 0 | 1.7 | 0 |
| Carson City | 43 | $ 342 | 6.2 | 5.5 |
| Elko | 162 | 164 | 10.1 | 1.6 |
| Ely | 85 | 91 | 5.0 | 1.8 |
| Fallon | 14 | 197 | 3.5 | 5.6 |
| Gabbs | a | 0 | 1.8 | 0 |
| Henderson | a | 1,256 | 8.4 | 15.0 |
| Las Vegas | 1,331 | 4,587 | 128.5 | 3.6 |
| Lovelock | 263 | 130 | 2.0 | 6.5 |
| North Las Vegas | 0 | 767 | 15.1 | 5.1 |
| Reno | 2,271 | 5,183 | 97.0 | 5.3 |
| Sparks | 237 | 605 | 16.2 | 3.7 |
| Wells | 12 | 0 | 1.9 | 0 |
| Winnemucca | 4 | 141 | 4.2 | 3.3 |
| Yerington | 118 | 123 | 1.4 | 8.7 |
| Total | $4,572 | $13,586 | $304.0 | 4.5 |

[a]Not available.

Source: City budgets filed with Nevada Tax Commission.

State's two largest cities--Las Vegas ($4.6 million), and Reno ($5.2 million). Henderson also had a substantial debt of $1.3 million. Four municipalities--Caliente, Carlin, Gabbs, and Wells--had no debt and for the other cities it was relatively small. None of the cities even closely approached the liberal debt limits shown in Table 18.2. Henderson had the highest ratio of debt to assessed valuation of 15.0 percent, and Yerington was next with 8.7 percent. The ratios of the two largest cities, Las Vegas and Reno, were 3.6 and 5.3 percent, respectively. Statewide the total municipal debt of $13.6 million was 4.5 percent of the assessed valuation of such units.

## School District Debt

School district debt which constitutes the largest share of local indebtedness in Nevada rose from $8.7 million in 1950 to nearly $36 million in 1959, an increase of almost 313 percent for the decade. Of the total school district debt in 1959, $29.4 million or 81.6 percent

was concentrated in two counties--Clark with $19.6 million and Washoe with $9.8 million. The White Pine county and Lyon county districts also had substantial debts of $1.7 million and $.9 million, while four districts--Esmeralda, Eureka, Lander and Mineral--had no outstanding school debt at the close of that fiscal year. School district debts approached the statutory limit of 10 percent of assessed valuation in only two counties--Ormsby (8.6 percent) and Clark (7.9 percent)--but were also relatively high in Washoe and Douglas counties with 6.5 and 4.3 percent, respectively. For the State as a whole the school district debt ratio was 5.8 percent (Table 18.26).

Table 18.26

Outstanding Long Term Debt of Nevada School Districts at the End of Fiscal Years 1950 and 1959

| School districts | 1950 (thousands) | 1959 (thousands) | 1959 assessed valuation (millions) | 1959 debt as % of assessed valuation |
|---|---|---|---|---|
| Churchill | $ 348 | $ 613 | $ 15.7 | 3.9 |
| Clark | 1,843 | 19,571 | 247.5 | 7.9 |
| Douglas | 7 | 527 | 12.3 | 4.3 |
| Elko | 339 | 618 | 50.1 | 1.2 |
| Esmeralda | 0 | 0 | 2.2 | 0 |
| Eureka | 0 | 0 | 7.0 | 0 |
| Humboldt | 105 | 681 | 21.5 | 3.2 |
| Lander | 0 | 0 | 7.3 | 0 |
| Lincoln | 370 | 391 | 10.4 | 3.8 |
| Lyon | 162 | 908 | 22.0 | 4.1 |
| Mineral | 4 | 0 | 6.7 | 0 |
| Nye | 9 | 188 | 8.5 | 2.2 |
| Ormsby | 22 | 703 | 8.2 | 8.6 |
| Pershing | 140 | 286 | 16.3 | 1.8 |
| Storey | 26 | 2 | 3.0 | .1 |
| Washoe | 5,171 | 9,793 | 150.1 | 6.5 |
| White Pine | 171 | 1,699 | 33.0 | 5.1 |
| Total | $8,717 | $35,980 | $621.8 | 5.8 |

Source: Annual Report of the County Auditor, 1950-1959.

## Overlapping Local Debt

There is no overall limit on the several layers of debt which may be placed on property by the local jurisdictions which have overlapping boundaries. For example, a single piece of property located in a city incorporated under general law could be subjected to overlapping indebtedness equivalent to 50 percent of its assessed valuation if all the local units were at their maximum debt limits of 10 percent for county purposes, 10 percent for schools, and 30 percent for city purposes.

This extreme possibility would be exclusive of special district and State debt. The actual extent of overlapping indebtedness of Nevada's cities in 1959 may be obtained by adding the city debt to a proportionate share of county and school debt based upon the percentage that the assessed valuation of the city constitutes of county assessed valuations. Although there may be some debt classified as county debt affecting one city in a county and not another, the general picture is readily discernible in the following tabulation (Table 18.27). Overlapping debt of cities, counties, and school districts applicable to

Table 18.27

Overlapping City, County and School Debt of Nevada Incorporated Cities, Fiscal Year 1959

| Cities | Total of overlapping debt[a] (thousands) | 1959 assessed valuation of cities (millions) | 1959 debt as % of assessed valuation |
|---|---|---|---|
| Caliente | $ 35 | $ .9 | 3.9 |
| Carlin | 40 | 1.7 | 2.4 |
| Carson City | 873 | 6.2 | 14.1 |
| Elko | 400 | 10.1 | 4.0 |
| Ely | 376 | 5.0 | 7.5 |
| Fallon | 391 | 3.5 | 11.2 |
| Gabbs | 82 | 1.8 | 4.6 |
| Henderson | 2,288 | 8.4 | 27.2 |
| Las Vegas | 20,344 | 128.5 | 15.8 |
| Lovelock | 166 | 2.0 | 8.3 |
| North Las Vegas | 2,619 | 15.1 | 17.3 |
| Reno | 13,412 | 97.0 | 13.8 |
| Sparks | 1,981 | 16.2 | 12.2 |
| Wells | 44 | 1.9 | 2.3 |
| Winnemucca | 277 | 4.2 | 6.6 |
| Yerington | 194 | 1.4 | 13.9 |
| Total | $43,522 | $304.0 | 14.3 |

[a]Includes special district debt reported by county auditors.

Source: Report of the State Controller, County Auditor Reports, and city budgets filed with the Nevada Tax Commission.

property located within incorporated cities and towns totaled about $44 million in 1959 or 14 percent of the assessed valuation of such units. On this basis, more than three-fourths of the debt was concentrated in Las Vegas and Reno, and the ratios of debt to assessed valuations for Nevada's two major cities were 15.8 and 13.8 percent, respectively. However, the largest proportion of overlapping debt on an individual city basis was in Henderson with a debt-assessment ratio of 27.2 percent, and many of the other principal cities also had relatively

high ratios which ranged from a low of 12.2 percent for Sparks to 17.3 percent for North Las Vegas.

The principal conclusions to be drawn from the foregoing analysis of the local debt situation in Nevada are apparent. Local debt has been increasing at a rapid rate and the level is above that of most of the other Western States. As is to be expected, there is also a high degree of concentration of the debt in the two most populous counties which presently account for 85.4 percent of total local indebtedness. Also a disproportionate part of the responsibility for local debt relative to assessed valuations rests upon the shoulders of the population in cities and towns. For example, these units accounted for 49 percent of the State's assessed valuation but were responsible for about 67 percent of local debt liabilities. The reasons for concern with debt levels or debt charges are axiomatic. Borrowing to finance local capital improvements (non-income) serves a useful purpose in the case of major outlays for long-lasting facilities the need for which does not recur frequently. Debt financing, in the absence of a continuing inflationary trend greatly increases the total cost of improvements due to interest charges. On the other hand, the apparent saving of interest costs which result from cash financing may be illusory since an inflexible "pay-as-you-go" policy in the long run may be more expensive than debt financing if the construction of needed capital projects is delayed during periods of sustained inflation.[25] In any case, capital requirements should be budgeted on the basis of a five or ten-year program and the costs met from current revenues. Secondly, unnecessary or excessive borrowing in the light of these considerations reduces the capacity of all local units to meet current service needs. Considering the overall limit on property tax rates, and the division of this source among the different local units, the impact of such effects in Nevada will necessarily be borne largely by the municipalities.

State policy with respect to local debt limits may be characterized as erratic, misguided and ineffective. In the case of incorporated cities and towns the range is from no limitation to 60 percent of assessed valuation. The limits specified for all types of units are generally too high to be meaningful, and there is no restriction on overlapping local debt. An objective approach to State control clearly would require an overall limit by counties administered in such a manner as to ensure a reasonable element of flexibility in meeting local problems. Of course, the adoption and implementation of this approach would presume the existence of adequate revenue sources for cities as well as other local units.

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[25]For example, the U. S. Department of Commerce index of construction costs for the post-war years has risen steadily from 77 in 1946 to 141 in 1959, an increase of more than 80 percent. See U. S. Department of Commerce, Business and Defense Service Administration, Construction Volume and Costs, 1915-1956, p. 54; and Construction Review, June, 1960, p. 34.

## Conclusions on Local Finance

The preceding analyses of local expenditures, revenues and debt all highlight the central problem of local finance in Nevada, namely, the provision of adequate revenues for the municipalities of the State. During the past decade, concurrent with the marked increase in Nevada's urban population and the impact of price inflation on governmental finance, the expenditures and revenues of the cities and towns have fallen considerably behind those of the counties and school districts. The inevitable result has been a relative deterioration in current services, and a postponement of essential capital improvements. From the standpoint of growth in population and need for improved services, the financial requirements of municipalities should closely parallel those of the school districts, particularly in the more urbanized counties of the State.

The absence of any direct state grants or shared state taxes for the cities and the general inflexibility of municipal tax sources have been prime factors in this situation. Although the cities receive some intergovernmental aid by sharing in the county gas and gambling taxes, and to some extent benefit indirectly from the state grants made to the other jurisdictions, it is important to note that the total amount of state aid to all local units of government in Nevada on a relative basis is markedly below the averages for the other Western States and the nation as a whole. With regard to the property tax, under the existing statutory provisions, the cities receive a "residual share" after the other jurisdictions have cut the plum. Moreover, the basis of apportioning the assessed valuation of public utilities discriminates against the more populous urban centers. On the other hand, their tax problems cannot be attributed solely to the ad valorem levy. In many instances the 1959 collections derived from gambling licenses and other municipal taxes and fees, when expressed in per capita terms, actually were less than the comparable revenues for 1950. In brief, the growth in these traditional sources of locally imposed revenues has been allowed to lag considerably behind the population and business growth which generally has characterized the Nevada urban economy during the past decade. Some specific suggestions for dealing with the local budgetary process and other aspects of state supervision of financial administration as well as the pressing revenue and debt problems are presented in the final chapter of this study.

# CHAPTER XIX

## SUMMARY, FINDINGS AND RECOMMENDATIONS

The present financial condition of the Nevada State government as demonstrated in this report is excellent. The revenue system of the State incorporating the three principal tax sources--retail sales, highway user and gambling--is tailored to the particular nature of the State's economy and is well adapted to its prevailing growth patterns. The outstanding debt of the State is unusually small relative to the situation prevailing in most of the other Western States and the nation as a whole. Moreover, the surplus in the State's General Fund is substantial and above that required on a conservative basis to meet current operational needs.

From the standpoint of equity, however, there are significant elements of regressivity involved in the existing structure as well as serious inequities in the administration of the property tax--the most important single source of local revenues. Similarly, the regressive impact of the sales tax as it applies to food (other than restaurant meals) and the burdensome effect of the property tax on personal household effects are particular areas of concern in the absence of a progressive state income tax. At the same time, the existing taxes on such luxury items as liquor and tobacco are unreasonably low. A relative shift in burden, therefore, from necessities to luxuries, and from taxes that have a markedly burdensome impact on low and middle income resident groups to those that have a primary incidence on non-resident tourists, is clearly indicated.

Local governmental units, particularly those in urban areas which are subject to the direct pressures of population growth and rising costs attributable to inflation, are not as fortunate. While the property tax coupled with increased local debt and state aid generally has served to meet the needs of the school districts and counties, the sources presently employed are inadequate to meet the needs of many municipalities. Apart from possible changes in the license tax and fee systems of certain cities, state assistance to these units is undoubtedly required. This assistance appropriately may take the form of shared taxes. State action in providing an equitable basis of assessments and improved administration of the property tax will also provide substantial benefits to urban as well as rural areas.

Certain aspects of financial administration both on the state and local levels involve serious shortcomings. Outside the budgetary area state fiscal operations are unduly decentralized and accounting procedures and fiscal reporting require substantial modification. State supervision of local financial practices is inadequate in many respects, and a re-orientation of state policy with greater emphasis on assistance obviously is in order.

The following sections of this chapter will present in summary form the combined burden of existing state and local taxes, the principal findings of each chapter of the report and suggestions for improvement, and a recommended five point tax reform program for immediate consideration.

## Combined State and Local Expenditure and Revenue Patterns

It is possible on the basis of the detailed statistical data developed in this study to present for the first time a comprehensive picture of the cost of the public services provided by the State, counties, incorporated cities and school districts, as well as the magnitude and nature of the "combined tax burden" borne by the residents of Nevada. The total of public expenditures for all jurisdictions in fiscal year 1959 amounted to almost $107 million and as such was almost three times as large as the comparable amount of expenditures for fiscal year 1950. However, it is important to recognize that the rise in state and local spending was mainly due to Nevada's unparalleled growth in population and the impact of inflation on governmental costs during the past decade. When these two factors are taken into consideration the "real" increase in per capita terms and dollars of constant purchasing power for the entire ten-year period amounted to only 15 percent. In other words, if the level of public expenditures roughly reflects the level of services provided, the residents of Nevada were receiving approximately one-seventh more in "real public services" from their state and local units of government.

Chart 19.1 shows the present distribution of the $107 million of expenditures for fiscal year 1959. Public education outlays ranked first and represented almost 30 percent of the total, followed closely by highway and street expenditures. Public health, welfare and safety amounted to another 22 percent, and combined, the "big three" accounted for $4 out of every $5 spent by state and local jurisdictions. On the other hand, only 9 percent of the spending was used for financing general administration and less than 5 percent was allocated to conservation and the development of Nevada's natural resources, parks and recreation facilities. As indicated by Chart 19.2 the per capita outlay in dollars of constant purchasing power for each of these major functional categories in fiscal year 1959 was somewhat larger than in 1950--30 percent for education and 20 percent for highways--but on this basis the increased cost of general administration amounted to less than 2 percent for the decade.

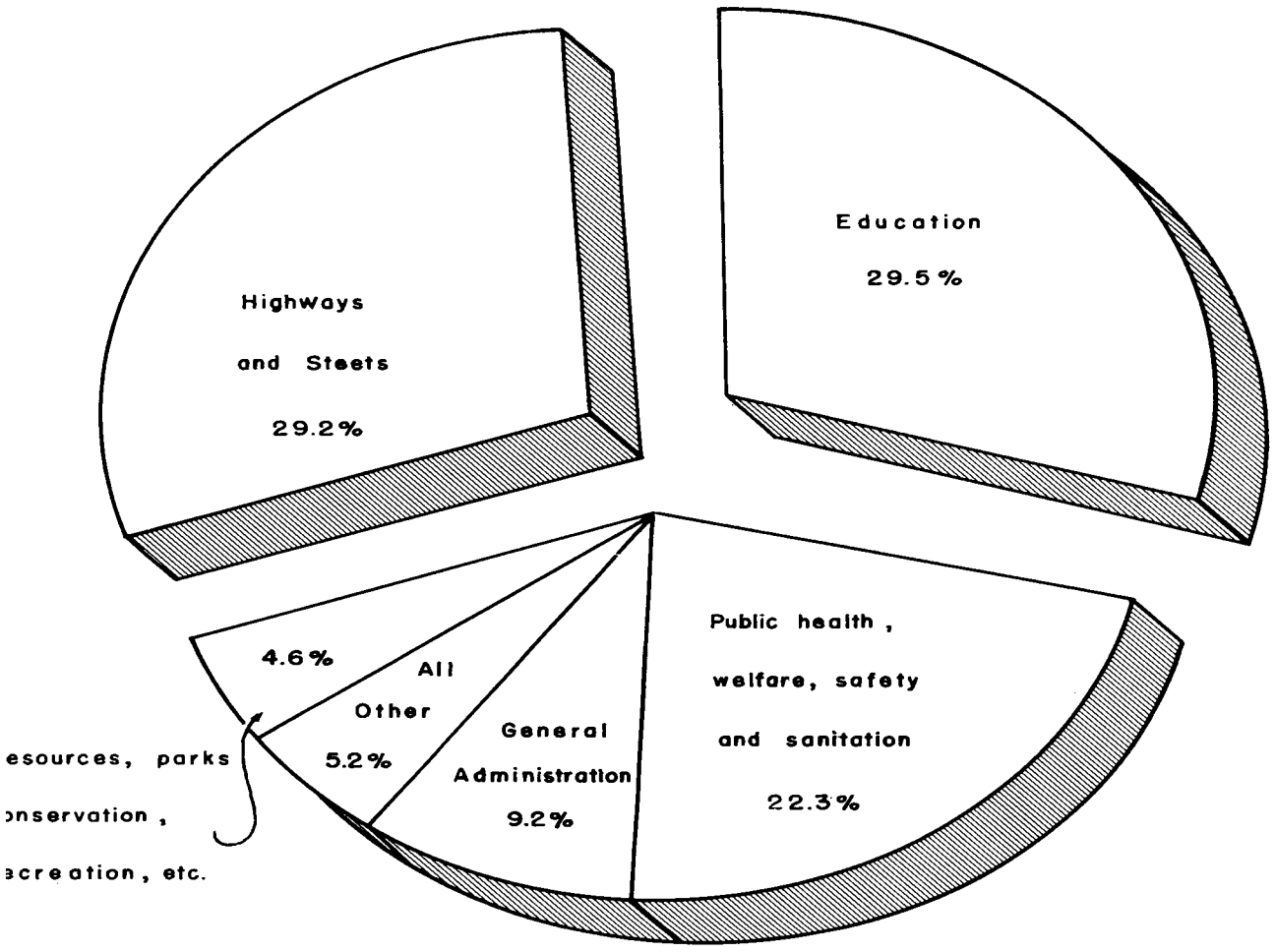
The combined tax collections of state and local government in Nevada for fiscal year 1959 amounted to nearly $67 million, of which 55 percent was imposed by local units and 45 percent by the state. As is to be expected, this total tax bill was significantly larger than that levied in 1950--an increase of almost 180 percent for the decade. However, this increase also must be mainly attributed to the growth in

Chart 19.1

## Percentage Distribution of Combined General Expenditures, [a]

## State and Local Units of Government,

Nevada, Fiscal Year, 1959

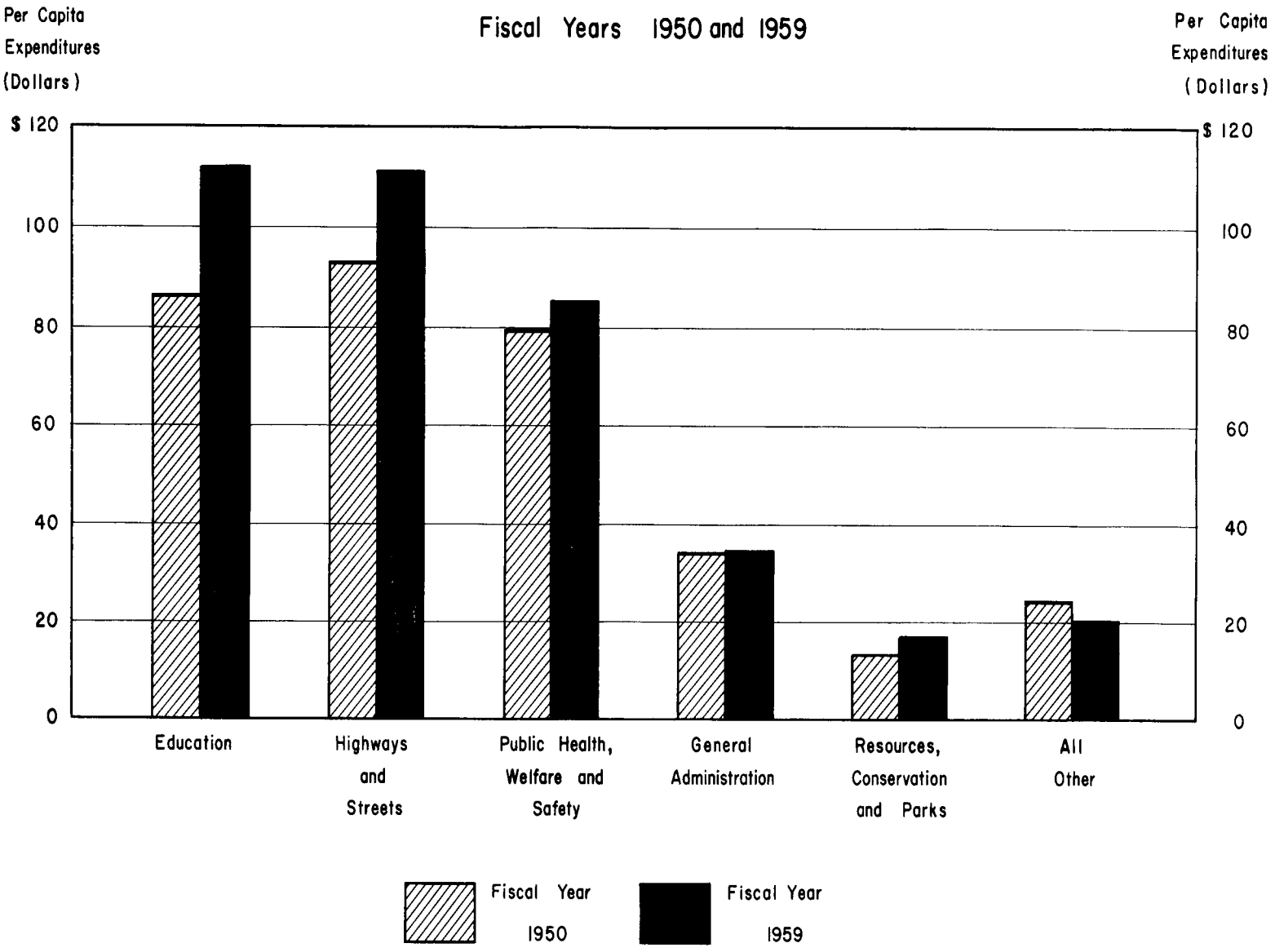



[a]/Net of intergovernment grants

ource: Chapters III and XVIII

Chart 19.2

## Per Capita Combined General Expenditures[a], 1959 Constant Dollars, Nevada State and Local Units of Government, Fiscal Years 1950 and 1959




Source: Chapters III and XVIII

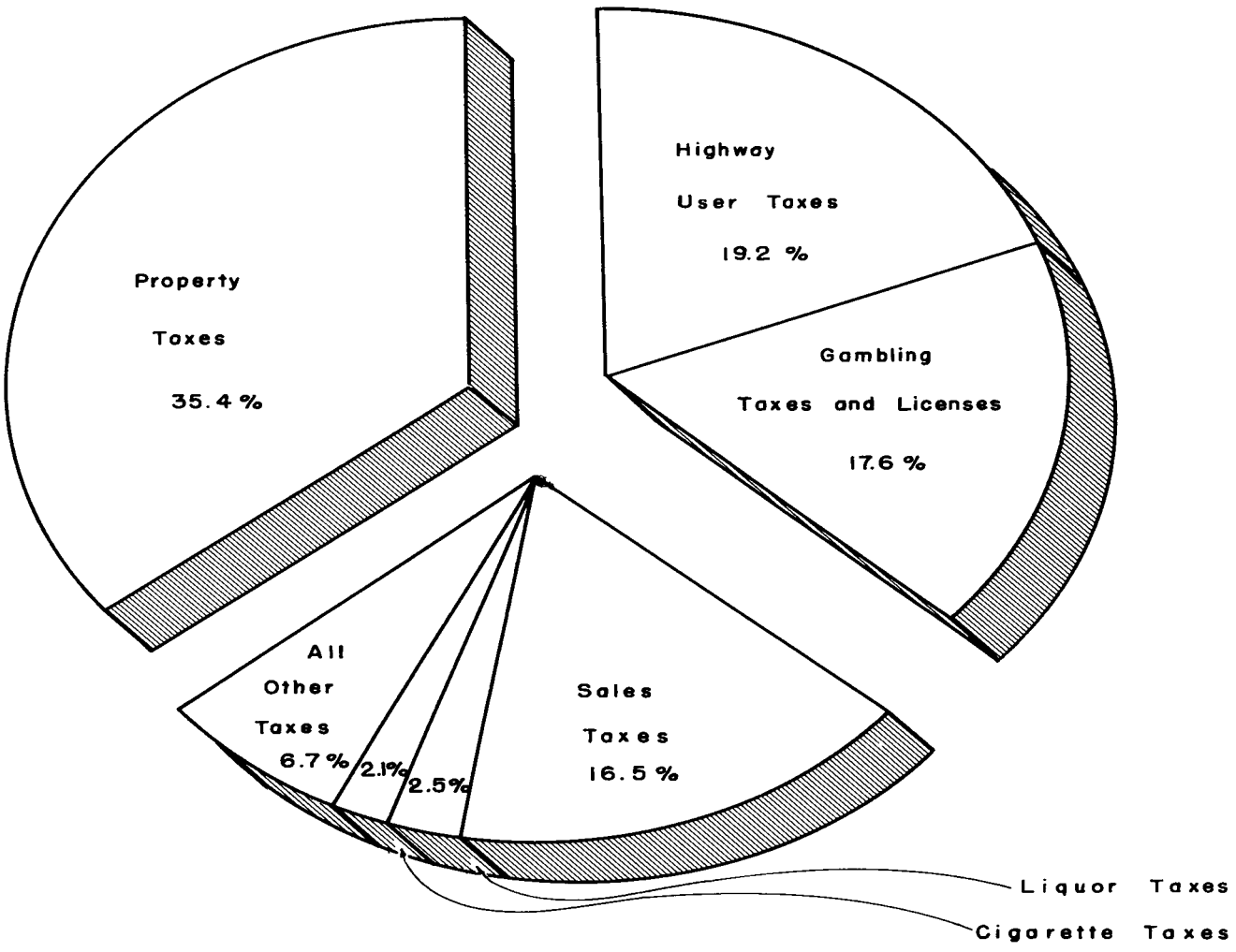
[a] Net of Intergovernmental Grants

population and the inflation factor. When the "real tax burden" is computed on a per capita basis in dollars of constant purchasing power, it appears that the tax liability of the average Nevada resident increased by less than one-third during the past decade.

Chart 19.3 summarizes the major sources of the tax dollar collected by state and local jurisdictions in Nevada in 1959. Property taxes, although relatively insignificant on the state level, continued to be quantitatively the most important single tax and provided over 35 percent of the combined tax collections of all units of government in Nevada. Highway user taxes were next in importance and accounted for more than 19 percent, followed closely by gambling taxes and licenses which amounted to almost 18 percent. On the other hand, the combined revenues derived from liquor, beer, and cigarette excises for all units of government accounted for less than 5 percent of the total. Chart 19.4 compares these same collections on a per capita basis in constant dollars with the specific 1950 tax burdens. Notwithstanding the successive reduction in the state ad valorem rate, the average property tax in 1959 was almost twice as large as any other single levy and only 4 percent less than the property tax level prevailing at the beginning of the decade. Similarly, liquor and cigarette taxes and licenses on a real basis were about 10 percent lower in 1959 than in 1950. As is evident the major increases in the tax burden resulted from statutory increases in the state gambling levies and the imposition of the state sales tax in 1955. Of course, it must be borne in mind that averages in many cases can conceal as much as they reveal. For example, part of the Nevada tax burden, particularly that reflected by sales, gambling, and excise levies, actually is not borne by residents but is shifted to tourists and other nonresidents of the State.

Chart 19.3

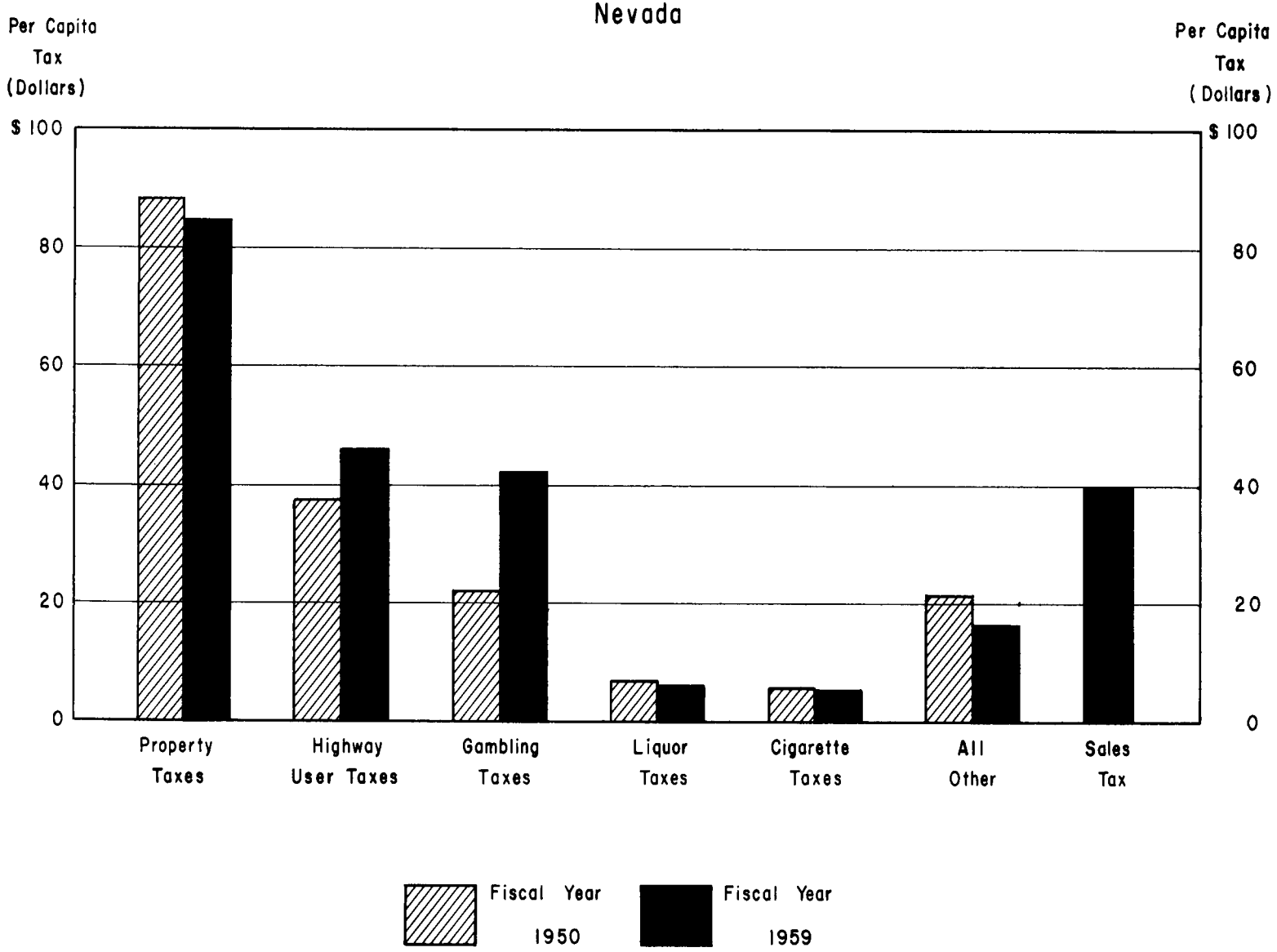
# Percentage Distribution of Combined Tax Collections, State and Local Units of Government, Nevada, Fiscal Year, 1959




Source: Chapters III and XVIII

Chart 19.4

Per Capita Combined Tax Collections,
1959 Constant Dollars,
Nevada




Source: Chapters III and XVIII

## Chapter Summaries and Findings

This section presents the highlights of each of the chapters of this study as well as the principal findings and recommendations related to the major subjects of the study. It should, of course, be recognized that the summaries do not contain the comprehensive and detailed analysis on which the recommendations are based.

### The Economy of Nevada (Chapter I)

Public expenditure and revenue policies are conditioned by a state's economic resources and population structure, as well as the social philosophy and aspirations of its citizens. Thus, the general level of governmental revenues and the apportionment of the tax burden should reasonably conform to the community's resource base and income distribution. However, in order to assess the degree to which the State's fiscal system fits the contours of the economy and the needs of the people, it is first necessary to obtain an understanding of the major characteristics of the State's economy.

In common with other Western States, Nevada has historically relied on mining and agriculture, but at present the physical character of the State combined with an extensive public domain has resulted in only about 1 percent of Nevada's total land area being put into harvested and unharvested cropland. Moreover, the relative importance of agriculture and mining have declined drastically with the further development of trade and service industries since the end of World War II. Nevada has properly been characterized as a rapidly growing state since its rate of population increase has exceeded that of both the nation as a whole as well as the mountain states for the past four decades. While the population growth between 1950 and 1959 amounted to about 120,000, or 75 percent, the fastest rate of growth occurred in the first half of the decade. Since 1955 the population has increased at a declining rate. In common with the rest of the nation Nevada has experienced an uninterrupted growth in urbanization in recent years--Clark and Washoe counties account for almost three-fourths of the total population and almost two-fifths is concentrated in Las Vegas and Reno. Projections of Nevada's population by the U. S. Bureau of Census indicate that Nevada's population will approximate 450,000 by 1970.

The physical resources and characteristics of the population set the general limits within which the economy must operate. The two measures most frequently used in assessing its performance are income and employment. Nevada personal income in recent years on a per capita basis was nearly one-fourth above the national average, and of the total personal income in 1958, 70 percent was in the form of wage and salary income and the remainder was from proprietors' income, property income and transfer payments. In the wage and salary category, services accounted for over 20 percent of the total income, followed closely by government with 16 percent, and trade with 12 percent. On the other hand, agriculture represented less than 5 percent, and mining accounted

for only 2.5 percent of the State's total personal income. The distribution of income in Nevada shows a greater proportion of individuals in the middle and upper income classes than is true for the nation as a whole. Nevada's economy has generally experienced greater relative increases in income during periods of recovery and prosperity than either the Western region or the rest of the country, but during periods of contraction the relative decline has not been as serious as that generally experienced elsewhere. As Nevada's economy, however, becomes increasingly dependent on industries related to tourism, future economic fluctuations on the national level will tend to have a greater impact on Nevada's economy than in the past.

Employment in Nevada amounted to approximately 100,000 in 1959, and represented more than one-third of the total population. The labor force was concentrated in services, trade, and government, which as a group accounted for about two-thirds of the total employment in the State. On the other hand, agriculture and mining accounted for only one-tenth of the labor force. In the past decade services have become relatively more important and mining has actually suffered an absolute decline in the number of persons employed. The importance of service industries in Nevada is also indicated by the fact that on a relative basis they employ about three times as many as is true for the nation as a whole. In the service industry group the largest number of establishments was represented by hotels, motels and tourist camps, followed closely by personal services. By other measures, however, gambling was the most significant category, providing almost one-half of all services receipts and employment and more than one-half of all services payrolls. Combined, gaming and lodging alone accounted for approximately five-sixths of all service receipts, employment and payrolls. As is to be expected, the services industry is highly concentrated in Clark and Washoe counties which together contribute about four-fifths of the services receipts, employees and payrolls.

It is evident that the economy of Nevada has experienced substantial growth and change in recent decades, particularly in the postwar period. Tourism has become a dominant factor in the Nevada economy and an important source of income generation, but it also gives rise to additional public expense and costs because of the need for providing public services and facilities. Tourists, however, are not directly part of the Nevada tax base for many purposes, and the question is raised as to the extent to which they can or should be taxed to support the operation of State and local government. An additional consideration is the increased urbanization and the growing concentration of economic and social activities in Clark and Washoe counties which also create new problems for State and local governmental agencies in these areas. These and other changes in the economy mean that past experience in the State cannot solely be relied upon to provide the necessary guidelines for present or future policy. Wise management of public finance in an expanding economy requires the recognition of the changing needs of the public, the use of efficient means of providing public services, and the development of tax programs which are consistent with the pattern and capacity of the State's economy.

Taxation and the Location of Industry (Chapter II)

Analysis of the role played by state and local taxation in the location of industrial activity is particularly meaningful for Nevada in light of the frequently made assertion that the State's "favorable tax climate" is conducive to economic development. The location of industry is dependent on a multitude of factors and no single one can be analyzed in isolation from all of the other relevant considerations which impinge on locational decision-making.

Although there is some controversy regarding the locational importance of taxation, it is generally agreed that the major factors are market orientation, availability of materials, and labor considerations. The lack of agreement concerning taxation is due in large part to difficulties inherent in the problem. The seemingly easy task of measuring tax burdens between two given areas becomes extremely complex when consideration is given to differences in tax rates and bases, types of taxes employed, enforcement procedures, collection policies, and relationships between various taxing jurisdictions. Moreover, accounting for the benefits received from government expenditures and attempting to locate the elusive incidence of various taxes provide problems which are essentially insoluble.

Extensive research and numerous studies have been conducted in an attempt to assess the significance of taxation on the location of industry. The methods employed involve statistical data, personal interviews and questionnaires directed at business executives. While all of these inquiries are subject to certain limitations they do in total suggest that state and local taxation is a relatively unimportant location factor. Moreover, several of these studies were directed specifically to the Western States and one comprehensive survey ranked the importance of state and local taxation 27th in a list of 30 selected location factors.

In addition, it should be realized that a large part of economic activity occurs in industries which simply do not possess sufficient locational freedom to respond to "favorable" tax structures. Examples are agriculture, mining, transportation, communications, public utilities, and construction. Another major basic industry in this category is federal, state and local government. Similarly, there are numerous firms in manufacturing, wholesale trade, and retail trade which are so dependent on one factor, such as the availability of basic materials or the availability of markets, that they cannot change their location to take advantage of lower taxes. This locational freedom approach is particularly meaningful for Nevada since the State's economy is heavily dependent on services, mining, contract construction and government. It would appear that state and local taxes exert an even smaller influence in Nevada than for the rest of the country. Moreover, the importance of taxation in large part is offset by numerous other factors in Nevada such as above average wage rates, high transport costs and the relative scarcity of markets, resources, power and water.

If state and local taxes are to exert any locational influence on industry they must actually be borne by business firms. Many levies such as the personal income tax and the inheritance tax obviously do not affect industry. In addition, taxes which are initially paid by business may ultimately be borne by consumers, suppliers, or wage earners. Also, it is important to recognize that state and local taxes are shifted to the federal government through the deductibility provision of the federal income tax. Thus, in the case of corporations, approximately 50 percent of the state and local tax liability is shifted to the federal government, thereby greatly diminishing the apparent tax differentials which exist between taxing jurisdictions.

Finally, while the available evidence is somewhat less than conclusive it does suggest that, in general, state and local taxes exert less locational influence than a multitude of other factors; and, that the assertion frequently made in Nevada regarding a simple direct relationship between a "favorable tax climate" and rapid economic growth cannot be defended.

State Expenditures and Revenues (Chapter III)

It is generally recognized that the rise in public expenditures on a state level basically reflects population growth, secular inflation, rising personal income, increasing urbanization and general industrialization of the American economy. State expenditures for 1959 were $65.3 million which represented an increase of almost 200 percent for the past decade in contrast to the 100 percent rise for the Western region and the nation as a whole. However, when population, price and income growth are considered, the Nevada increase was significantly less than that for the region and nation. Continuous advances in the price level have meant that governmental units have had to increase their spending in order to maintain a given amount of "real" services. For example, the U. S. Department of Commerce index of "state and local government costs," increased by 44 percent during the past decade. On a price adjusted basis, per capita expenditures in Nevada increased only 15 percent in the ten-year period. If expenditures are assumed to roughly reflect the level of public services, then it appears that the State on the average provided each resident with approximately one-seventh more "real" public services in 1959 than in 1950.

In 1959 about one-half of the State general expenditures was for highways; one-fourth for direct and indirect support of public schools and higher education; one-sixth for public welfare, health, safety and regulation; and about one-twentieth went for resource development, conservation and agricultural services. Comparative expenditure data indicate that in 1959 Nevada's per capita spending for highways was second highest among the Western States, but the State lagged in the field of education, public welfare, and public health services notwithstanding the fact that expenditure trends of the last decade have reduced the variance between Nevada and the other states in the region. Similarly, State grants to local jurisdictions in Nevada were markedly below the regional and national averages.

State general revenues for fiscal year 1959 amounted to nearly $60 million, of which 61 percent represented taxes and 37 percent intergovernmental grants. The federal grants were apportioned as follows: 71 percent for highways; 11 percent for public welfare; about 7 percent for conservation, resource development and agriculture; and, 3 percent for public health and education. It is also noteworthy that aid from local jurisdictions actually amounted to about 5 percent of the intergovernmental grants received by the State during the decade. Total State tax revenues for 1959 amounted to more than $36 million and as such were almost four times as great as the comparable collections for 1950. In recent years the State tax dollar has come from the following major sources of revenue: slightly more than 30 percent from the broadbased general sales and use tax; another 30 percent from all highway user revenues; almost 22 percent from the State's gambling levies; about 7 percent from the excises on cigarettes and liquor; less than 5 percent from the State's share in the general property tax; approximately 4 percent from all other business and agricultural taxes combined, which category includes insurance taxation and business incorporation fees as well as a host of other relatively small levies; and, finally, less than 2 percent from miscellaneous licenses and fees, the most important of which are represented by hunting and fishing licenses and marriage and civil action fees.

The increase in State tax collections since 1950 primarily reflects Nevada's population growth and the price inflation of the period. Per capita total tax collections, expressed in dollars of constant purchasing power, increased by 75 percent but changes in the specific levies were not uniform. For example, the State property tax burden actually declined by almost 60 percent, miscellaneous license fees by 54 percent, and cigarette and liquor taxes showed decreases of 10 and 3 percent, respectively; while gaming taxes increased by more than 200 percent, "other business and agricultural taxes" by 57 percent, and highway user taxes by 24 percent. In brief, approximately three-fourths of the actual increase in State tax collections for the decade of the 1950's may be attributed to Nevada's population growth and the price inflation of the period.

## State Debt (Chapter IV)

The power to borrow, like the power to tax, is inherent in all sovereign governments and every one of the fifty states in the nation utilizes public debt as a supplementary means of financing public expenditures. But Nevada is unique among the states in having the smallest total state debt in the nation, and even on a per capita basis its outstanding long-term debt at the end of fiscal year 1959 was less than that of some 45 other states.

Public borrowing as a means of financing governmental activities in the United States has been employed primarily by the federal government. However, a six-fold increase in state indebtedness has occurred since 1946 as a result of the backlog of capital improvements

deferred by depression and war, the unprecedented rise in population, the public demand for improved educational facilities, and the erosion of the state tax dollar by continuous post-war inflation. For example, the U. S. Department of Commerce index of construction costs has risen steadily from 77 in 1946 to 141 in 1959, an increase of more than 80 percent.

Public borrowing is analogous to private business borrowing and the underlying economic principle is the same--if funds from internal sources are not available, capital improvements should be financed by borrowing whenever a project is expected to yield benefits during its useful life which are clearly equal to or greater than the full cost of the borrowing. This is considered to be rational economic behavior for both individuals and governments. In more pragmatic terms, it is generally recognized that continuous debt financing of current expenditures and recurring short-lived capital improvement merely saddles future taxpayers with costs that should be borne by the present beneficiaries of public services. On the other hand, an austere "pay-as-you-go" policy may deny the community the opportunity of acquiring socially needed long-term capital improvements whose total cost is large relative to the current level of tax revenues; or when such projects are in the main financed out of current tax revenues the policy in effect exploits present taxpayers for the benefit of future taxpayers. Moreover, it is important to recognize that the apparent saving of interest costs which result from cash financing may be illusory since an inflexible "pay-as-you-go" policy actually may be more expensive than deficit financing if the construction of needed projects is delayed during periods of sustained price inflation. In accord with these concepts borrowing should not be used to finance current outlays or short-lived improvements, and the period of the loan should not exceed the conservatively estimated useful life of the facility. Secondary uses of borrowing that may be appropriate under certain conditions include emergency loans, short-term loans in anticipation of tax revenues and borrowing to refund outstanding debt.

Several special methods of capital financing employed by certain states are worthy of mention. New York pioneered the development of a separate capital construction fund for all major capital needs financed from excess current revenues, the income earned from certain special funds and bond issues. Maryland and a number of other states utilize the device of a capital improvements budget based on a long-range capital improvements program financed in part by borrowing and by current receipts. The latter approach is believed to be best suited to the needs of most jurisdictions. Three broad types of bonds are utilized in capital improvement or enterprise borrowing: general obligation or full faith and credit instruments which are secured by the general revenues and credit of the issuing jurisdiction; revenue bonds used in the financing of self-liquidating enterprises; and limited obligation bonds which usually are secured by special or limited revenue sources such as special assessments. A relatively new arrangement for acquiring capital improvement used by some states is the lease-purchase agreement. In the long run it is likely to prove more expensive than the traditional borrowing approach.

As noted, Nevada in effect has no real debt problem. At the end of fiscal year 1959 its total of outstanding long-term debt amounted to $2.9 million and on a per capita basis the increase in Nevada State debt was significantly below that experienced by the other Western States and the nation. In contrast to the other Western States which have primarily used special or non-guaranteed issues, Nevada's debt consists solely of full faith and credit obligations. Furthermore, Nevada has not used borrowing to finance its state highway construction programs which have been maintained on a pay-as-you-go basis. Borrowing has been utilized for state institutions, office buildings and educational purposes although the major financing of these projects in recent years has been by appropriation from surpluses accumulated in the State General Fund. Also, it should be mentioned that the debt outstanding at the end of fiscal year 1959 was less than one-half the amount constitutionally permitted by the present level of property assessments. The ability of the State to hold the debt internally at a fixed interest rate of 3 percent benefits both the State as a borrower and also the State trust fund which has loaned the money. The State has been able to finance more than 97 percent of its total capital outlay since 1947 on a pay-as-you-go basis. With prudent planning and capital budgeting the State should be able to continue substantially on such a basis for a number of years.

State Budgetary Processes (Chapter V)

The success or failure of democratic government in part depends upon the relationship between the legislative and executive branches of government. Adequate legislative control must be effected, but it must be legislative control of a responsible executive who has the authority and power to deal with the economic and social problems confronting state government today. As important instruments of both legislative control and executive management, budgets serve as the nexus between these branches of government.

A common feature of all economic activity, whether private or public, is making choices regarding the allocation of resources between their alternative uses. In the private sector of the economy it may be the choice of producing radios or refrigerators, in the public sector the choice of more schools or more highways. However, the nature of the economic activities in each of these spheres can be differentiated from the other on the basis of the criteria used for decision-making, i.e., in terms of the role played by the market. In the private sector economic activities are dominated by the profit-motive and market prices; in the public sector by considerations of the general welfare and the "budgetary principle."

Decisions as to allocation of public expenditures are determined by an interplay of factors. There is no scientific determination of the proper content of a budget. Struggle and compromise are the very essence of the democratic process and are necessarily reflected in the budget. The budget process serves as a method to channel and balance

the conflicting views and to assure that whatever compromise is reached will be carried out. The decisions made are largely political decisions and reflect the balance of power of various economic and special-interest groups. The real test of a budget lies in its ultimate ability to carry out the will of the community for which the budget is prepared. The budget also represents a tool for legislative control of the government, but such control is impossible without adequate budget presentation and management on the executive side.

Executive budgeting in the United States is a development of the present century. Nevada enacted an executive budget law in 1919 but no staff was provided to implement the plan. This problem was finally resolved three decades later when the Legislature adopted a comprehensive budget act, providing for the creation of the Office of Budget Director under the direct control of the Governor. This law, however, left intact the original elective financial offices and administrative boards. Thus, other aspects of financial administration are divided among a large number of offices and agencies including the Governor, Treasurer, Controller, State Board of Finance, State Board of Examiners, State Planning Board, Nevada Tax Commission, Gaming Commission and Gaming Control Board, Department of Motor Vehicles, Secretary of State, Insurance Department, and numerous other administrative and regulatory agencies. This decentralization removes important aspects of financial administration from direct executive control, involves some duplication of functions, and prevents effective co-ordination of fiscal practice in certain areas.

In general, the budgetary process is divided into three phases: formulation, adoption, and execution. Executive responsibility and leadership in the formulation of budget proposals as well as the carrying out of budget policy adopted by the Legislature is essential to sound fiscal management, although the Legislature should have the final check on executive action under the budget. Legislative action on the budget should be unlimited in scope, except for the exercise of the Governor's veto power, but the general budget form and broad accounts should be followed in the appropriation of funds. After legislative adoption of the budget, action by the Governor is likely to be ineffective unless he possesses the power to veto particular items. Effective control over the actual utilization of funds under the adopted budget requires the adoption of an allotment plan incorporating approved agency work programs on at least a quarterly basis, the establishment and enforcement of staffing patterns for each agency, a pre-audit of all claims, and special provision for meeting unforeseen contingencies. Finally, the legislative check on executive performance under the budget (the post-audit) may be appropriately made by a legislative auditor or comptroller.

Nevada's executive budgetary practices are generally in accord with sound principles and procedures. Extension of budget data to include programs and performance standards, however, would be desirable. The cash accounting system presently employed seriously handicaps effective budgeting both in the formulation and execution or control phases, and introduction of the accrual system particularly for expenditures would be a significant forward step. There are 112 separate funds

in Nevada, but most of these are of minor importance. The two principal ones are the Highway Fund and the General Fund. All highway user tax funds (less certain administrative costs) are constitutionally earmarked for the Highway Fund, and federal aid moneys are also deposited in this fund. Most of the other major functions of the State government are financed through the General Fund. Total outlays from this fund amounted to $27.5 million in 1959, and $31.2 million is budgeted for 1961. The bulk of the money goes for education (70 percent in 1961), and the other major operational purposes in the order of their importance are welfare, general government, health and public safety. Capital construction needs financed from the General Fund in 1959 and 1960 exceeded $5 million in each year. The condition of this fund is very favorable with an actual surplus of $9.5 million in 1959 and estimated surpluses of over $8 million in the two succeeding years. These amounts obviously exceed the requirements of a cash operating reserve.

Recommendations. The following changes in Nevada's State financial practices are believed to be essential to sound financial management:

1. The existing surplus in the State General Fund is substantial and above that required on a conservative basis to meet current operational needs. That part of the General Fund surplus in excess of a reasonable cash reserve of about 10 percent should be utilized to implement a long-range capital construction program and/or to make an equitable revision of the State's tax structure possible.

2. The accrual system of accounting should be substituted for the present cash basis in the instance of expenditures;

3. The fund and account classifications employed by the Controller's Office should be standardized on the basis of accepted accounting practice and reporting should be maintained on a consistent basis over time.

4. The administration of the finances of regulatory boards and commissions should be centralized under a single State agency;

5. The financial operations of the Industrial Commission should be included in the State Budget document; and

6. As long range goals it would be desirable to provide for the absorption of the functions of the State Board of Examiners and the State Board of Finance by regular fiscal offices and agencies, and to introduce the essential features of a performance budget.

## Principles of Taxation (Chapter VI)

A rational analysis of any tax or tax system requires that it be considered within the framework of the state's economic and social structure and be evaluated in terms of generally accepted criteria or principles of good taxation. The overriding objective of fiscal policy should be to maximize the general welfare. More specifically, the problem is how to translate broad social ideals into specific guideposts of tax policy. In the absence of standards, any existent pattern of taxation would have to be accepted as a mere reflection of the arbitrary whims or predilections of legislators and tax administrators. Without the development of some criteria it would be impossible to evaluate either tax policies or tax structures.

The recognized standards of a sound tax system include: (1) equity in the distribution of tax burdens; (2) a recognition of the rights and problems of taxpayers; (3) productivity; and (4) adaptability of the tax program to the immediate and long-range needs of the economy as a whole. Equity is a universally accepted goal of tax policy and as such it involves a series of social judgments relative to the existing and future economic relationships between individuals, family groups, business enterprises and other private organizations. The crucial elements are the social decisions as to the best approach or approaches to the distribution of tax burdens and the most appropriate measures of implementing them. Two broad theories concerning the distribution of tax burdens are presently accepted and applied with varying degrees of qualification by tax economists and those responsible for the formulation of policy, namely, the ability-to-pay principle and the benefits received standard. Although the preponderance of opinion favors the ability-to-pay theory doctrine, a limited application of the benefit principle in certain areas of government financing is held to be desirable.

The ability-to-pay theory is based upon the proposition that those who possess income or wealth should contribute to the support of governmental functions in accord with their respective abilities. From the standpoint of either the individual or family unit the ability principle involves a determination of their current economic status, the minimum demands upon their resources for living and other costs, and finally the actual capacity to make tax payments. Net income is viewed as the most reasonable and effective measure of capacity to pay taxes although property or accumulated wealth is also viewed as indicative of taxpaying ability, and in addition, some economists view consumption expenditures as a possible supplementary standard of ability-to-pay. In the case of individuals, at least, it is generally assumed that taxpaying ability reflected by net income in excess of absolute subsistence required, increases on a progressive basis.

The benefit principle of taxation rests upon the broad proposition that costs of governmental services should be apportioned among individuals and business organizations on the basis of the relative benefits they enjoy. The theory contemplates that the government

would operate on a basis comparable to that of a huge private supermarket with prices clearly marked on each item. However, this theory has serious theoretical and practical shortcomings. It disregards the primary social purpose of many public programs which would be denied to those who cannot pay their full cost. In addition, from a practical standpoint, it is impossible to determine the individual benefits which accrue from much of government expenditure such as that for national defense. Thus, the role of the benefit principle in governmental activity is necessarily a restricted one. It is only in those areas where the government actually functions as a private commercial enterprise that the benefit principle has a wholly logical application, i.e., in the field of public utilities or for some of the financing of streets and highways.

It is recognized that unqualified use of the ability-to-pay theory may lead to extreme progression under the net income tax which may curb the incentive to save and invest by high income groups. By the same token, an overemphasis of the benefit principle may place an undue burden on low income classes. Thus, equity in taxation requires use of both the ability-to-pay and benefit principles with a dominant emphasis upon the former.

The productivity requirement means that the yield of individual taxes and the entire tax system must be predictable within reasonable limits, and that certain major tax sources must be sufficiently flexible in structure and rates to handle the rising costs of government. Effective and economical administration is also part of the productivity problem. The federal government clearly occupies a primary position in all phases of public financial policy. Considering the magnitude of its revenue needs it is apparent that the choice of federal tax sources is the principle determinant of the effects of public revenue programs. The emphasis placed upon personal and corporate net income and certain sales and excise taxes serves as a possible model for state action but may also tend to delimit the scope of state policy. Double or multiple taxation of a given base should be considered in appraising the equity and productive potential of a given source. It is the latter elements, however, that are important not the duality of its use. In other words, the various types of taxation used by the state actually do not represent alternative sources of revenue, but rather different allocations of the tax burden since the patterns of the sundry tax bases and rates by income groups do not parallel each other.

Property Taxation (Chapter VII)

The property tax in the United States is traditionally a tax on capital rather than income values. In most jurisdictions it is applied at a uniform rate to all major types of property except intangibles. Attempts to tax the latter, even at low millage rates have not proved to be effective, and about one-half of the states now exempt all or specified types. There is also a distinct trend to exclude non-income

producing personal and household possessions, and special treatment is generally extended to public utilities, mineral and timber lands and motor vehicles.

While the property tax has continued to produce an increasing amount of revenue, its relative importance particularly at the state level has declined rapidly in recent decades. Nevada's reliance on the property tax for State purposes is above the national average but below the Western State average. Local units in Nevada derived about four-fifths of their total tax receipts from the property source, which was less than the regional and national averages. The theoretical justification for property taxes is confused and at best questionable. It has been characterized by some tax experts as "wrong in theory and unworkable in practice." While proponents of the tax have attempted to defend it on grounds of benefits received and ability to pay, it is obvious that property does not constitute a direct or complete measure of benefits and is even less reliable as a measure of taxpaying ability. The principal reasons for its continued use are that it is a good revenue producer, receipts are relatively stable and it is generally accepted by the people.

The development of general property taxation in Nevada has been characterized by the special treatment of unpatented mines and mining claims, an increasing degree of state participation in assessment and the adoption of specific rate limitations. The base of the present tax is restricted by the typical exemptions applying to governmental and private institutional property of a non-profit character, the exemption of all major forms of intangibles except bank stock and a special exemption for veterans. Relative to the practice of other states these exemptions reflect a modest encroachment on the base.

State law requires that property be assessed at its full cash value. Responsibility for the valuation and for assessment of property is divided between the State Tax Commission and local county assessors. The Commission's functions include the key categories of rural land, livestock and motor vehicles in addition to public utilities, the net proceeds of mines and bank stock. All other property is valued and assessed by the county assessors. With the exception of net proceeds of mines and certain broad approaches to the valuation of public utilities, the State statutes do not specify the particular bases of assessment to be employed.

Serious deficiencies are indicated by the bases of assessment used as well as the assessment procedures with respect to: rural land, livestock, public utilities, bank stock, net proceeds of mines, urban and rural improvements, merchandise inventories, and last but not least, personal and household effects. The total net assessed valuation of property in the State has almost doubled during the last decade and a more than 300 percent increase occurred in Clark county, and increases of over 100 percent have taken place in Lyon, Douglas and Ormsby counties. Property tax rates are subject to the overall

limitation of $5 per $100 of assessed valuation, and varying specific limits also apply in the case of local units. The State tax rate which has been reduced sharply in recent years was $.28 per $100 in 1959. Rates for local purposes, which have been rising in the last decade, particularly in the case of school districts, varied widely. The range in 1959 for counties was from $.35 to $3.00; for school districts from $1.18 to $1.888; and for cities and towns from $.77 to $2.3664. The maximum constitutional limit has been reached in 27 out of 106 local units, 24 of which were cities and towns. The major increases in property taxes have been for school and county purposes, although the total for municipalities doubled during the past decade. Property tax delinquencies are not a serious problem with the exception of a few counties.

The Assessment Standards Division of the Tax Commission in cooperation with local assessors have attained significant progress in the improvement of assessment procedure and results. A substantial segment of locally assessed property in the State has been re-appraised and the Division has the important responsibility of conducting the annual assessment ratio study inaugurated in 1956. The Division also prepares an Assessor's Manual and arranges training sessions for assessors. In addition, it is noteworthy that the Division has developed a new approach to the classification and appraisal of rural land, which method has been applied on an experimental basis in two counties. In view of the importance of the assessment ratio findings in the distribution of State aid to schools and its implications in terms of equalization of assessment, the procedures employed as well as the results shown were thoroughly examined. Although the present plan is adequate in many respects, certain procedures are faulty, the number of appraisals is insufficient in particular cases, the inclusion of state-assessed property in computing county and state-wide ratios is indefensible and the scope of the study should be extended to permit the computation of ratios on specific types and classes of locally-assessed property.

The results of the assessment ratio studies from 1956-1960 inclusive evidence a substantial upward trend in the weighted state-wide and county ratios. More significantly, there was a marked reduction in the range of variation in the county ratios over the five-year period. Nevertheless, significant disparities still exist. The individual county ratios for urban and rural real estate reveal important differences as between the two types of property and in the level of ratios derived from sales as contrasted to appraisal data. Finally, the distribution of individual sales and appraisal ratios used in computing county ratios by percentage classes shows an extreme range of variation.

The principal problem of property tax administration in Nevada as in other states is one of achieving a reasonable degree of equalization in assessed valuations. This problem encompasses all aspects of the property tax system including constitutional and statutory

provisions and their interpretation and application by the Tax Commission and county assessors.

Recommendation. With respect to assessment procedure and practice, it is recommended that: (1) the practice of self-appraisal be discontinued on both the State and local levels by placing the responsibility for valuing all State valued property in the staff of the Tax Commission and by requiring county assessors to physically check inventories and other income personalty on at least a sampling basis; (2) the procedures employed in the assessment ratio study be modified and extended, the use of state-assessed property in computing ratios be discontinued, and the scope of the study broadened to include the computation of ratios for other important classes of property; (3) the equalization activities of the Assessment Standards Division be strengthened and State appropriations for county equalization funds be made on an annual basis.

With respect to the structure and base of the property tax, it is proposed that: (1) a uniform percentage rate of assessment be established and used for all types of property; (2) taxable personal property be re-appraised every year and real estate every three years under a continuing assessment plan involving increased state aid to local assessors where needed; and, (3) individual personal possessions and household effects of a non-income producing character be exempt with provision for reduction of the state levy to roughly compensate local units for the loss of revenue involved.

The exemption of rural and urban household effects from the tax base obviously would involve the loss of revenue for all jurisdictions if not replaced from other tax sources. On the basis of the 1959 data it appears that the effect on each type of jurisdiction would be as follows:

| | Estimated loss if household personal property were exempted from tax base: | |
|---|---|---|
| | Loss in net assessment (thousands) | Loss in property tax revenues |
| Counties | $22,260 | $233,328 |
| School Districts | 22,260 | 367,923 |
| Cities | 17,411 | 272,959 |
| Total for local government | -- | $874,210 |
| State | $22,260 | 62,328 |
| Total State and local | -- | $936,538 |

Considering only the reduction in local revenues, the school districts would absorb 42 percent, the counties about 31 percent and cities and towns about 27 percent. It may also be noted that 80 percent of the local reduction would be concentrated in five counties--Clark (36 percent), Washoe (27 percent), Elko (8 percent), White Pine (6 percent)

and Humboldt (4 percent). The remaining 20 percent of the reduction would be sustained by the other twelve counties. It is recognized that such a reduction in local revenues, though relatively minor in magnitude, might involve serious problems for some of the units involved, particularly municipalities. Consequently, it is recommended that the present $.28 state tax levy be reduced to $.14, which would cut State collections (1959 basis) by about $871,000, the approximate amount of the revenue reduction caused by the proposed exemption. This would permit local units to recover the sums lost without an increase in overall rates, and the total cost to the State would be approximately $933,000. The outstanding effect of these changes would be a significant decrease in the tax burden of the individual taxpayers.

Highway User Taxes (Chapter VIII)

Highway or special user taxes are presently the chief source of state tax receipts. Two principal types of levies are involved, namely, motor fuel and license or registration taxes. In addition, over half of the states impose special or third structure taxes on certain commercial carrier vehicles. Various miscellaneous charges on vehicle owners and operators are used in all states. The federal government also taxes motor fuel, and in some states one or both of the basic taxes may be employed by local units.

The highway user taxes constitute the only significant application of the special benefit principle in the nation's tax system. Generally speaking, they are intended to place the primary responsibility for the support of the nation's highway and road systems on those who use them. As user benefits cannot be valued directly, the responsibility of each class of user is supposed to be related to the costs that their use entails. While the benefit approach to financing has much to commend it, serious problems are encountered in its application including the proportion of total costs which should be borne by the user group and the most appropriate basis or bases of allocating user costs among the various types of vehicle and vehicle use. Cost factors are commonly classified as: the readiness to serve element, a function of the number of vehicles; relative use as reflected by miles traveled; and relative damage which is attributable to vehicle weight and its distribution. The registration tax is well adapted to the allocation of readiness to serve costs and the fuel tax provides a rough but acceptable measure of use. The determination of and assignment of the costs occasioned by vehicle weight and its distribution, therefore, represent the crux of the problem, and the solutions adopted are necessarily dependent largely on subjective considerations since comprehensive cost data are not available.

Taxation of motor fuel in Nevada actually involves two taxes, the motor vehicle fuel levy on regular fuel and a distinct tax on special fuels. Non-highway uses of fuel as well as governmental are not subject to the tax (use of special fuel by federal government is

an exception). Except for certain bonded bulk users the tax is paid and subject to refund. Farmers and ranchers are entitled to a flat refund on 80 percent of their purchases. Except for this special provision, Nevada's exemption practice is typical of that in the majority of states. In view of the basic theory of the tax, Nevada's policy is believed to be sound.

The combined rate of the State (4½¢) and county (1½¢) taxes in Nevada is 6¢ per gallon. This is the most popular rate and is employed in nineteen jurisdictions including eight of the Western States. However, eighteen impose a higher rate (usually 7¢) and only eleven use a lower rate. There are eleven jurisdictions which levy a higher tax on diesel fuel, ranging from 1 to 3¢ per gallon, on the basis that users of such fuel enjoy a significant mileage advantage as compared to regular fuel users. Use of the uniform rate in Nevada is regarded as the major deficiency in fuel tax policy.

Receipts from the State motor and special fuels taxes amounted to over $6.7 million in 1959, and have grown rapidly since World War II. Refunds as a percentage of gross tax collections have declined sharply from a high point of 17 percent in 1943 to 4 percent in 1959. Yields from the county tax of 1½¢ per gallon totaled nearly $2 million in 1959. Combining State and county fuel tax collections for purposes of interstate comparison, the total receipts accounted for 22.3 percent of the State's tax revenue, which placed Nevada in 21st position or above the average for the 48 states. Except for unrefunded aviation fuel taxes which go into the State Airport Fund, all fuel tax receipts (less costs of administration) are earmarked by constitutional provision for highway, road and street purposes.

Nevada registers private passenger vehicles on the basis of a flat fee; trucks and trailers of less than 3,900 pounds unladen weight pay a flat registration fee and units of a combination an unladen weight fee; and buses pay the same flat fee as passenger cars. In addition, inter-city common, contract and certain private carriers of property are subject to unladen weight plus flat fees (interstate may elect in lieu mileage tax), and common and contract carrier buses pay a flat fee plus a charge per seat. The latter taxes reflect the third structure type of levy on these uses. Nevada's practice in using unladen weight for property-carrying vehicles is in contrast to that of the majority of states which employ a gross weight factor. Gross weight is preferred because it affords a more complete measure of cost responsibility.

Rate schedules of the registration and carrier taxes are extremely complex, and make meaningful comparisons very difficult. However, the flat fee of $5.50 in Nevada for private passenger cars is moderate in relation to that of other states, and it should be noted that the inverse rate-mileage relationship in the case of the optional mileage tax for interstate carriers is most unusual. The real test of the charges for all users is the total tax burden paid by the different types, weight and use categories of vehicles.

Receipts from the registration, carrier licenses and other special charges amounted to over $4 million in 1959, and have quadrupled since 1947. Since 1955 they have accounted for approximately 10 percent of total state tax collections. In terms of average fees per type of vehicle in 1959, private passenger cars paid about $5.50, commercial slightly over $14 and trailers about $5.60. In contrast to the situation in most of the other states over half of the total revenues are produced by the carrier licenses. Single trip and emergency permits also account for an extremely high proportion of the carrier revenues, almost 30 percent, indicating a laxness in this aspect of license practice.

The total user tax burden in Nevada, as indicated by analyses of 1956 and later data, is divided among the three major types of vehicle approximately as follows: private passenger cars, slightly over 52 percent; trucks and trailers, about 46 percent; and buses, about 2 percent. A unique situation exists in that one-third or more of the private passenger payments are attributed to the vehicles of non-resident owners. The results of the comparisons made of average user tax costs per mile for different types and weights of vehicle, by types of fuel used by major use category are not conclusive, but indicate that the burden for private passenger cars is equal to the Western State average, that it is below average for common and contract buses and that it approximates the average for commercial truck and combination units. For the latter group, however, there are substantial variations, both above and below the average, for different classes and weights of vehicle. The future revenue potential of the user taxes appears to be excellent in the light of the general increase in the number of vehicles and miles traveled as well as the rapid growth of tourism in Nevada.

Recommendations. The specific problems in the field of highway user taxation are relatively minor compared to those in other areas. The following changes, however, are believed to be desirable: (1) the imposition of a 2¢ differential rate on diesel fuel; (2) the adoption of the gross weight basis of licensing all property-carrying vehicles with appropriate rate differentials for regular use vehicles; and (3) the use of proportional rates under the optional mileage tax for interstate carriers.

## Gambling Taxation (Chapter IX)

As a result of the legalized gambling industry Nevada's economy is unique among the states of the nation and it is evident that the State's economic welfare has become highly dependent on the multitude of tourists attracted to the State during the post-war years. Nevada with a resident population of approximately 280,000 accommodates about 12,000,000 tourists annually which represents a resident-tourist ratio of more than 1-to-40, probably one of the highest in the nation. The impact of tourism on the private sector of the economy is indicated by

the fact that the gambling industry and closely related trade and service industries account for about one-third of the State's employment and approximately one-half of the State's personal income. Moreover, tourism exerts numerous secondary and indirect effects which may not be quantifiable but are nevertheless significant. With regard to the public sector of the economy, the gambling industry has not resulted in Nevada becoming a "one-tax" state. Nevertheless, gaming provides more than one-fifth of the total State tax collections and approximately one-sixth of the combined tax collections of city and county governments. Also, the revenues derived from numerous other State and local taxes, such as cigarette and liquor taxes, can be attributed in part to Nevada's tourist population. In brief, legalized gambling today constitutes one of the most important industries in Nevada and provides a substantial tax base for both the State and local units of governments.

Since its beginning as a territory in the mid-nineteenth century, Nevada has traditionally been characterized by legalized gambling. Although intermittently prohibited, gambling has enjoyed a legal status throughout most of the past century, and thus, the adoption of the present legalized gambling system in 1931 did not represent a break with the past but rather a continuation of the past.

Nevada's gambling industry is composed of two separate groups of firms--unrestricted licensees who operate more than seven slot machines and/or one or more games; and, restricted licensees who operate seven or fewer machines and no games. In 1959, the former represented about one-third and the latter, about two-thirds of the total number of licensees. In terms of revenue, however, the unrestricted portion of the industry accounted for almost 97 percent of the reported gross winnings in fiscal year 1959 while the restricted licensees earned only about 3 percent. Similarly, about one-third of the revenue was due to the operation of approximately 16,000 slot machines in the State, and the remaining two-thirds was accounted for by the operation of nearly 1,200 games such as twenty-one, craps, and roulette. The unrestricted portion of Nevada's gambling industry is characterized by a large number of proprietorships and partnerships and a small number of corporations. It is the latter, however, which are most significant in terms of gambling activity since in 1959, corporations accounted for about 85 percent of the game revenue. Gambling casinos in Nevada are, of course, subject to wide variation in the amount of gross revenue earned. For the unrestricted sector of the industry, the smallest clubs with reported gross income of less than $12,000 in 1959 and represented more than 44 percent of the unrestricted licensees and accounted for less than ½ of 1 percent of the gross winnings. At the upper end of the income scale a handful of casinos, representing 2 percent of the unrestricted licensees, accounted for about one-third of the total revenues. The relative reliance placed on slot machines and games varies considerably among licensees and in the smaller clubs about three-fourths of the income is from slot machines while in the larger clubs about three-fourths of the revenue is due to the operation of games. There are extreme variations in both slot machine and game average income between clubs of different size as well as between those operating the same number of games.

There are several theories of taxation which may be offered as justification for the imposition of a special tax on the legalized gambling industry. The primary rationale, however, is based on the traditional privilege theory which has been applied to other forms of taxation such as the corporate income tax. By legalizing gambling, the State of Nevada is conferring a privilege rarely granted by other governments and for this reason it may be contended that a special tax is justified. Although the value of the privilege may be difficult to determine, the use of gross winnings does not appear to be an unreasonable basis of taxation. With regard to the burden of gambling taxation it is likely that part of the tax is shifted forward and part is absorbed by the clubs. In the latter case it is important to recognize that the nominal tax burden is substantially reduced because of the federal income tax provision which permits the deduction of state and local taxes. Thus, in the case of corporations the real tax burden is only about 50 percent of the nominal burden since the remainder is shifted to the federal government.

Nevada's legalized gambling industry is subject to five types of major taxes imposed by four levels of government, excluding federal income taxes. The levies imposed by the various jurisdictions are as follows with the amounts of revenue raised in fiscal year 1959: federal government, slot machine tax ($3.8 million); State of Nevada, Gross Receipts Tax ($7.3 million) and State Table Tax ($.7 million); Nevada counties, County Table Tax ($2.6 million); and Nevada cities, gambling licenses ($1.1 million). The federal slot machine tax is levied at a rate of $250 per machine annually. The State Gross Receipts Tax applies to the reported winnings of all gambling operations in the State and employs a graduated rate structure which ranges from 3 percent on the first $150,000 of reported quarterly revenue to 5.5 percent of all gross income in excess of $1 million per quarter. Receipts accrue to the State General Fund. The State Table Tax applies to most popular games such as twenty-one, craps, and roulette but excludes slot machines and certain minor games such as poker and panguingui. The present annual rates are highly uneven and involve such extreme variations as $100 for the first game, $1,000 for the fifth game, o for the seventh game, $5,000 for the eleventh game, and $200 for each game over sixteen. Receipts from the State Table Tax are allocated to the counties on an equal basis, i.e., the total is simply divided by seventeen and each county receives the same amount notwithstanding the differences in need between the counties. The County Table Tax applies to slot machines as well as all table games. Common games such as twenty-one and craps are taxed at a rate of $150 per quarter; less popular games such as poker and bridge are taxed at a rate of $75 per quarter; and, the license fee for slot machines is $30 per quarter. Revenues are allocated as follows: 25 percent to the State; 25 percent to the county; and 50 percent to the respective incorporated cities in which the tax was collected. When a licensee is located outside the corporate limits of a city, 75 percent of the collections accrue to the county. It should be noted that the distribution of the State and County Table Tax involves cross-sharing, i.e., the State allocates revenues to the counties and the counties allocate revenue to the State. City gambling taxes are levied on the

number of slot machines and games operated by licensees and were utilized by 15 of the 16 cities in Nevada in 1959. The annual license fee for slot machines ranged from $12 in Fallon and Lovelock to $120 in Las Vegas. Game rates varied from $12 in Lovelock to $1,050 per game in Reno if more than 20 games were operated. Of the total city collections in 1959, Las Vegas and Reno accounted for over $1 million which represented slightly more than 90 percent of the total.

The magnitude of estimated underreporting for State Gross Receipts Tax returns approximates the percentage of estimated underreporting of business income for federal and state personal income tax returns and, therefore, the reported tax returns represent the best data available for analyzing the present gambling tax structure of Nevada. Although the restricted sector of the gambling industry accounts for about two-thirds of the total number of licensees, the unrestricted portion of the industry pays nearly 98 percent of the State gambling taxes. Within the unrestricted sector, the tax collections are further concentrated in the upper income classes. For example, the largest casinos representing only 6 percent of the unrestricted licensees paid about three-fourths of the Gross Receipts Tax. On the other hand, those clubs reporting gross winnings of less than $60,000 represented over 70 percent of the licensees but accounted for only 1.4 percent of the Gross Receipts Tax collections. The burden of the Gross Receipts Tax works out to be progressive with the exception of those clubs in the middle income group. The State Table Tax is similarly concentrated in the upper income groups. The burden of the State Table Tax as measured by the ratio of tax collections to total income is regressive, particularly between the first and second income classes. The combined Gross Receipts Tax and Table Tax burden is of course similarly concentrated in the upper income groups but the progressive character of the Gross Receipts Tax is negated by the regressive Table Tax, and, therefore, the total tax works out to be generally proportional or regressive.

From a cursory examination of the administration of the State gambling taxes, it appears that greater cooperation between the State gaming officials and the Internal Revenue Service should be sought, and that the existing regulations requiring the filing of financial statements should be more adequately enforced.

From the analysis developed in the chapter, it is possible to assess the effects of alternative rate changes in the State Gross Receipts Tax. Although three rate structures are analyzed, the need for two income brackets in place of the present lowest bracket is evidenced by the fact that the latter presently contains almost 86 percent of all licensees in the unrestricted sector of the industry. The three alternative rate structures (low, medium, and high) and the respective increased revenue, based on 1959 tax liability, are shown in the following tabulation.

| Annual tax bracket income class (thousands) | Present marginal rates | Alternative rate structures and increased tax liability (in thousands) "A" Rate | "A" Amount | "B" Rate | "B" Amount | "C" Rate | "C" Amount |
|---|---|---|---|---|---|---|---|
| $ 0 - $ 60 | 3 | 3 | $ 0 | 3 | $ 0 | 4 | $ 30 |
| 60 - 600 | 3 | 4 | 60 | 4 | 60 | 5 | 156 |
| 600 - 1,600 | 4 | 5 | 229 | 5 | 229 | 6 | 472 |
| 1,600 - 4,000 | 5 | 5.5 | 256 | 6 | 313 | 7 | 633 |
| 4,000 and over | 5.5 | 6 | 548 | 7 | 1,046 | 8 | 1,936 |
| Total | | | $1,094 | | $1,647 | | $3,227 |

The present State Table Tax rate structure is highly uneven and it is believed that a structure proposed in the chapter would be more equitable and rational. The proposed structure employs marginal rates of from $100 to $800 on the first five games; $1,000 for between six and ten games; $3,000 for between eleven and sixteen games; $500 for between seventeen and twenty-five games; and, no marginal tax is imposed on more than 25 games. While the proposed Table Tax structure is primarily for purposes of equity it is estimated that on the basis of 1959 collections, such a structure would increase annual State revenues by approximately $217,000.

Recommendations. In order to correct certain inequities in the State Gross Receipts Tax structure and to compensate the State for revenue losses due to other proposals in this study, it is recommended that the medium alternative rate structure "B" discussed above, be adopted. This proposal would split the present lowest tax bracket and would impose rates ranging from 3 to 7 percent. The additional revenue collected from this proposal--approximately $1,647,000 based on 1959 collections--should accrue to the State General Fund.

Since the present State Table Tax is imposed at rates which are unrelated to income and which create numerous inequities between clubs, it is recommended that the new State Table Tax rate structure discussed above be adopted. This proposal would provide marginal rates more closely related to the gross winnings of games and would allow for a progression up to the most profitable game class and a decrease thereafter. Although the present seventeen-way equal allocation of the State Table Tax is clearly capricious, in the absence of an acceptable criterion based on need it is suggested that the present method of distribution be continued. On the basis of 1959 collections, approximately $217,000 of additional revenues would be allocated to the counties on this basis if the proposed State Table Tax recommendation were adopted.

Finally, the cross-sharing of the table tax collections between the State and counties should be discontinued. It is suggested that the counties retain the State's share of the tax and return a portion of it to the cities on the basis of production. Thus, the county table tax

would be distributed as follows: 25 percent to the county and 75 percent to the city in which the tax was collected. Any revenues collected outside the cities would be wholly retained by the counties. On the basis of 1959 collections, it is estimated that this redistribution would result in increased county revenues of about $198,000 and increased city revenues of $374,000. Of the total increased city share, cities in Clark county would receive about $140,000 or 37 percent of the total; and Washoe county cities would receive $176,000 or about 47 percent of the total.

The net revenue effects of the combined proposals with regard to the Gross Receipts Tax, the State Table Tax, and the County Table Tax on the various governmental jurisdictions are summarized in the following tabulation:

| | Revenue effect (in thousands) | | |
|---|---|---|---|
| | State | Counties | Cities |
| Adoption of new Gross Receipts Tax structure | $+1,647 | -- | -- |
| Adoption of new Table Tax rate structure | -- | $+217 | -- |
| Re-allocation of State share of county table tax | -572 | +198 | $+374 |
| | $+1,075 | $+415 | $+374 |

Retail and General Sales Taxes (Chapter X)

Retail and general sales taxes are currently a primary source of tax revenue in over two-thirds of the states. Since the adoption of the first modern version of the tax by West Virginia in 1921, they have rapidly increased in popularity with thirty-five states (including Alaska and Hawaii) and many local units employing the tax as of January 1, 1960.

The retail and general sales taxes are broad-based levies applying to the sale of most tangible personal commodities and specified services. The retail version is limited by definition to retail transactions, while the general type applies to the retail level and one or more additional stages in the production and distribution process such as wholesaling, manufacturing and natural resource production. Twenty-five of the existing taxes apply only at the retail level; nine extend to other stages, and the Indiana gross income tax which is included in the sales category applies to both personal and business income. The retail base is preferred because it is much broader and inclusion of other levels adds to the administrative problem and results in pyramiding of the tax burden.

Practical considerations rather than conformance to theoretical principles provide the primary justification for sales taxes. High yields, flexibility of yields, relative ease of administration, convenience of payment and in some cases an apparent lack of acceptable alternatives have assumed a greater weight in policy formation than the adverse effects which the tax is commonly thought to have on income distribution. The incidence of the tax is generally on the consumer and the latter effects are in fact present. The degree of regressive influence, however, is dependent upon the inclusion or exclusion of particular items such as food.

The Nevada tax, adopted in 1955 in response to a fiscal emergency, is a retail levy and its revenues are utilized for general fund purposes. The sales tax law was referred to the people in 1956, and was upheld by more than a 2 to 1 vote. The definition of taxable sales or transactions under the Nevada law is comprehensive in scope and is based primarily upon the use or uses to be made of the product. Sales for re-sale, wholesale sales and certain occasional sales are specifically excluded. The base of the Nevada tax as affected by specific inclusions and exemptions generally compares favorably with that of other states, but it may be noted that food (other than restaurant meals) is exempted in nine jurisdictions, including Nevada's neighboring state of California, and prescription drugs also are exempt from sales taxation in nine states.

The 2 percent rate of the Nevada tax is the lowest presently used in the nation. Seventeen jurisdictions employ a 3 percent rate; twelve, including Nevada, 2 percent; two, 4 percent; one, 2.5 percent; and one, 3.5 percent. Nevada, like the great majority of other states, deals with fractional sales by a bracket plan which exempts sales of 24 cents or less.

Receipts from the Nevada sales and use tax amounted to over $11 million in 1959, and have averaged between 29 and 30 percent of total State tax revenues in the last three years. In comparison to the other seven Western States using the tax, Nevada's receipts ranked in sixth position as a percent of total tax revenue, in terms of its impact on personal income and on a per capita basis. This position may be attributed in part to the 2 percent rate and the fact that services are not subject to the tax.

There do not appear to be serious problems in the administration of the sales and use tax. The field enforcement program is producing good results, and costs of administration exclusive of the 2 percent retailers' discount amounted to 1.5 percent of collections in 1959.

The principal objection to retail or general sales taxes is that they result in a higher percentage burden on the incomes of low and medium as compared to high income groups. Such effects were evident in the analysis of the impact of the Nevada tax. In the instance of the

lowest income category the effective percentage tax was almost twice that on the highest class, and the effects were generally regressive throughout the entire income range. These results are markedly similar to those obtained by independent studies of comparable sales taxes in other Western States. Another significant effect established by certain of the state investigations is that regressive influences are more marked as the size of the family increases. Both in Nevada and other states food is a key item in determining the economic effects of the tax. Exemption of food products largely relieves but does not entirely eliminate the regressive influence in the low and middle income ranges. In Nevada food purchased for consumption off the premises produces about 15 percent of the total sales and use tax receipts. This is a lower percentage than in most other states, but receipts from restaurant sales are relatively more important due to the unique role played by tourism in Nevada.

There is every indication that revenues from the present 2 percent retail tax will continue to increase, and proportionate effects may be anticipated from reasonable changes in the rate of the tax. However, the current financial position of the State does not warrant consideration of an increase in rates at the present time. Apart from rates, the principal policy issue relates to the possible exemption of food (other than restaurant meals) and prescription drugs from the sales tax. On the basis of the most recent available data it is estimated that the removal of food and drugs from the tax base would have resulted in a revenue loss for fiscal year 1959 of $1,787,000 in the case of the food exemption, and about $50,000 for prescription drugs. The possible broadening of the tax base by inclusion of certain services, motor fuel, and the major types of non-retail business activities also involves questions of equity and administrative feasibility.

The inclusion of motel, hotel and other temporary lodging service would be highly advantageous from a revenue standpoint, but the recent action of several cities and counties in imposing substantial taxes on lodging raises serious doubts about the advisability of subjecting such services to both state and local excises. The other services noted are of lesser significance revenue-wise, and the economic effects of including public utilities would be comparable to those of the tax on food. Similarly, the inclusion of motor fuels is believed to be inadvisable by virtue of the heavy special tax now imposed and the economic implications of the tax. Extension of the sales tax to other levels of business activity is not deemed desirable since it would not increase revenues appreciably, it would heighten administrative problems and result in a pyramiding of tax burdens. In the instance of food and drugs, the issues are clear cut, equity versus revenue.

Recommendations. The exemption of food products (other than restaurant meals) and prescription drugs is believed to be highly desirable. Due to the loss of revenue involved, approximately $1.8 million on the basis of 1959 receipts, this action would be contingent upon the availability of replacement funds from sources that involve less adverse economic effects. Implementation of the five point tax reform program recommended in this report would resolve the replacement problem.

Taxation of Tobacco Products (Chapter XI)

Nevada's cigarette tax is unusually low when compared with those levied by the other Western States and the nation as a whole. This is particularly significant in the case of Nevada since it probably has the highest tourist-resident population ratio in the country. A special excise tax is imposed on the consumption of tobacco products by the federal government, 45 states, and numerous local governmental units. The federal government collects approximately 2 percent of its total revenue in the form of tobacco taxes, and the states, approximately 4 percent. The imposition of a cigarette tax is defended on the basis of its alleged sumptuary effects and the contention that smoking is a luxury. The former, however, appear to be very minor and the tenability of the luxury argument is questionable because of the tenuous nature of distinctions between luxuries and necessities. With regard to the equity criterion, tobacco taxes are regressive. While there are several administrative merits to the tax, it is somewhat expensive to collect if discounts are included in administrative costs.

Nevada presently imposes a cigarette tax of 3 cents per pack and the State sales tax is also applicable to tobacco products as is true in 20 other states. Nevada's cigarette tax collections amounted to $1.4 million in fiscal year 1959, which represented about 4 percent of total State tax collections. As is to be expected, Clark county accounted for nearly half of the cigarette tax collections, Washoe for slightly more than 25 percent, and the remaining 15 counties for approximately 25 percent. At present 12.5 percent of the cigarette tax collections are remitted to counties as a shared tax on the basis of sales made in each county. In 1959 the counties received about $175,000 from this source of revenue. It is estimated that Nevada residents account for about 70 percent of the cigarette tax revenue and tourists the remainder, or approximately 30 percent.

Costs incurred for administration of the cigarette tax in Nevada average between $10,000 and $12,000 annually, which represents less than 1 percent of total cigarette tax collections. If the 5 percent discount allowed wholesalers is included, costs are slightly less than 6 percent of cigarette tax collections. Nevada's discount rate is slightly more than the national average of 4.7 percent, but is equal to the national median discount of 5 percent.

While 15 states impose a special excise tax on other tobacco products, Nevada's tax is presently confined to cigarettes. Though this restriction avoids certain administrative difficulties, it nevertheless discriminates against the cigarette smoker. The imposition of a tax on other tobacco products at 20 percent of the wholesale price, similar to that employed in Minnesota, would produce additional revenue of approximately $90,000 annually.

Nevada's cigarette tax rate of 3 cents per pack is below both the national modal average of 5 cents and average rate of 4.6 cents for

the Western States using the tax, excluding Nevada. This relatively low rate is reflected by the fact that Nevada's tobacco tax collections, when expressed as a percent of total collections, ranked the State 35th among the cigarette-taxing states in 1958. Based on 1959 collections, Nevada would receive additional State revenue of approximately one-half million dollars for each additional cent of tax rate increase.

Recommendation. Since Nevada's present cigarette tax rate is significantly below both the national and Western State averages, it is recommended that an increase of from 3 cents to 5 cents per pack be enacted, which would make Nevada's rate more comparable with those employed in other states. Moreover, in consideration of the need for additional revenue on local levels, particularly municipalities, it is further suggested that the following allocation be substituted for the existing distribution. The State would retain 50 percent of the collections (2½¢ of the 5¢ levy); counties would receive 10 percent of the collections (½¢ of the 5¢ levy); and, cities would receive 40 percent of the collections (2¢ of the 5¢ levy). County distribution would continue to be on the present basis of cigarette sales made in each county, and the city distribution would be on the basis of the proportion of the State's total urban population contained in each city. Based on collections in 1959, this proposal would result in decreased State revenues of approximately $62,000; increased county revenue of approximately $63,000; and increased city revenue of about $952,000.

To compensate the State for the loss in cigarette tax revenue it is suggested that consideration be given to the imposition of a special excise tax on other tobacco products at a rate of 20 percent of wholesale price. Such a levy would yield approximately $90,000 annually and irrespective of revenue considerations such a tax is commendable because the present base of the tax, which excludes other tobacco products, is inequitable and discriminates against the cigarette smoker. In terms of revenue, however, this additional tax source would not be essential because growth of the cigarette tax collections would compensate the State for its relatively small loss of revenue.

## Alcoholic Beverage Taxation (Chapter XII)

The taxation of alcoholic beverages represents one of the oldest forms of internal levies in the United States and is presently utilized by the federal government, all fifty states, and numerous local taxing jurisdictions. Public revenues in the form of excise taxes, license fees, import duties, and profits from state operated stores exceed $4 billion annually with the federal government accounting for about three-fourths of the total collections and state and local governments accounting for the remainder.

Liquor taxes are commonly defended on the basis that consumption is a luxury and should be discouraged by the imposition of a special excise, and that numerous social costs such as increased police protection

and welfare expenditures are incurred due to the use of alcoholic beverages. Definitional distinctions between luxuries and necessities, however, are largely a matter of personal tastes and the degree to which liquor taxes actually decrease consumption does not appear to be great. Moreover, while liquor consumption undoubtedly results in extensive social costs there is no way to adequately measure such costs and thus the amount of taxation needed to reimburse society cannot be known. With regard to equity, liquor taxes tend to be regressive since upper income groups consume a smaller quantity of liquor in relation to their income than do lower income groups. The consumption of alcoholic beverages also tends to be unresponsive to changes in aggregate income, and therefore, provides a relatively stable source of revenue in periods of economic fluctuations.

Nevada and 31 other states presently rely on the licensing system of control as opposed to the practice in most of the remaining states where control over some phase of the marketing of alcoholic beverages is exercised, usually the operation of retail package liquor stores. Nevada's present liquor tax rates per gallon are as follows: spirituous liquor, $.80; light wine, $.15; fortified wine, $.25; and malt beverages, $.03. In fiscal year 1959, liquor tax collections in Nevada amounted to slightly more than $1 million which in addition to a small amount of revenue from liquor licenses represented about 3 percent of the total taxes collected in the State. Liquor tax receipts accrue to the State General Fund. In addition to the special excise tax, alcoholic beverages are also included in Nevada's sales tax base as is done in 17 other license states.

The cost of administering liquor taxes in Nevada averages between $10,000 and $12,000 annually which is approximately 1 percent of total collections. Importers who pay the tax, however, are allowed a 2 percent discount if tax payments are made by the 15th of the month following importation. While these discounts are not a direct cost incurred by the administrative agency, they nevertheless are a cost of collecting the tax. If these discounts are added to the administrative costs, however, the cost to collection ratio of 3 percent is still reasonable relative to collection costs for other taxes.

Nevada's present alcoholic beverage tax rates are among the lowest in the nation. The rate on spirits of $.80 per gallon is less than half the average for the other license states of $1.70 per gallon. Moreover, only one license state, South Dakota, employs a lower rate on spirits. The tax rate on light wine in Nevada of $.15 per gallon is also less than half the average for the license states of $.31 per gallon, and the fortified wine rate of $.25 per gallon is substantially less than the average of $.42 per gallon. Finally, Nevada's rate on malt beverages of $.03 per gallon is less than one-third of the average rate for the license states of nearly $.11 per gallon. Although unusually low alcoholic beverage tax rates are employed in Nevada, it is estimated that over 45 percent of the liquor tax collections is paid by tourists and thus it would not be unreasonable to expect rates to

be above the average employed in other states. Nevertheless, if the State increased rates only to a level comparable to other license states, the following increases could be made and would yield the corresponding amounts of increased State revenue based on 1959 collections:

| Rate changes | Increased revenues |
|---|---|
| Spirits - from $.80 to $1.60 per gallon | $ 800,000 |
| Light wine - from $.15 to $.20 per gallon | 14,000 |
| Fortified wine - from $.25 to $.35 per gallon | 24,000 |
| Beer - from $.03 to $.06 per gallon | 190,000 |
| | $1,028,000 |

Recommendation. Since Nevada's liquor tax rates are significantly below the average employed in the other license states, and considering the extremely high proportion of the liquor tax burden borne by tourists, it is recommended that the above rate increases be considered. These increases would place Nevada's rates at a level which is about equal to the median rates and slightly below the average rates employed in the other license states. The increased revenue of approximately $1 million annually should accrue to the State General Fund as is now the case with present alcoholic beverage tax collections.

## Severance Taxation (Chapter XIII)

The imposition of special taxes on certain types of natural resource production dates largely from the turn of the present century. Severance taxes are commonly defined as levies on the extraction or removal of such resources from the soil or water. While the concept of a severance tax implies that it is based upon physical units of the product, it is also often applied to gross value, gross receipts or gross income. Due to understandable differences in terminology the existence of a severance tax may be difficult to determine. For example, five states impose substantial rates on the sale or gross income from natural resource production under their general sales or gross income taxes, and the legislative intent is not clear.

The basic motivation for the introduction of severance taxes arises from the peculiar character of the non-reproducible resources and the inherent difficulties of taxing such resources as property. The tax is also favored on the grounds that it serves to compensate the state for the exploitation of its natural resources often by absentee owners, that it promotes conservation in contrast to the possible effects of the cumulative property tax, that it is an effective means of offsetting tax advantages which such resources usually enjoy under the property and other general tax forms, and that it is productive and relatively easy to administer. Opposition to the use of the tax is generally based upon the claim that it hinders resource development and production, and is discriminatory if imposed in addition to the property tax.

While the issues involved are complex, the case for moderate severance taxes generally is believed to be sound. Use of the tax as a substitute for the property levy if the latter is applied to the capital value of the resource is advantageous from the standpoint of equity, conservation and administration. As an additional tax it may serve to compensate for low-level assessments under the property tax. At the same time, the total tax burden on the resources in question should be reasonably equated with that on other forms of property, and it appears unwise to impose the tax on chronically depressed types of production.

Thirty-six states now employ some form of severance tax on mineral and/or timber production, although six of the levies on oil and gas production (including that of Nevada) are for conservation purposes only. The levy on the net proceeds of mines in Nevada is properly classified as a property tax. The type of resources taxed varies from one state to another. Oil and gas is subject to the tax in twenty-four states, timber in sixteen, metal ores in eight, other minerals in seven, coal in six, iron ore in three (distinctive rates) and sand, stone or other similar materials in three. There is also little uniformity in rates as between states and type of product. In the case of oil production rates imposed on the value of the product range from ½ of 1 percent to 6 percent, and in the Western States a rate of 2 to 2½ percent is predominant. Similar differentials exist insofar as gas production is concerned. The rates on metal ores, which are taxed in four of the Western States, vary from ½ of 1 percent to 4 percent.

Severance tax collections totaled $392 million in 1959 for the twenty-seven states reporting such receipts, or 4.34 percent of all tax revenues in these jurisdictions. Only eleven states (including three Western States), however, derived 2 percent or more of their total tax collections from this source.

Conclusions. The appropriateness of a severance tax in Nevada may appear to be largely an academic question as the "lush days" of gold and silver production are over. However, there is still a substantial supply of important minerals (production valued at $66 million in 1959), and it is possible that oil and gas production will assume a more significant role in the future. The desirability of a severance tax logically should hinge upon its equity and its economic impact upon mineral production. State revenue is a secondary consideration in this instance. From the standpoint of equity it appears that the burden of the existing net proceeds of mines levy is far less than that on most other forms of property. Use of a gross proceeds base would reduce but not eliminate this advantage. In lieu of such action there is justification for a moderate severance tax on grounds of equity but the economic impact of the tax on various types of mineral production cannot be readily determined without a thorough economic study of the individual segments of the industry.

Insurance Taxation (Chapter XIV)

Every state in the nation today subjects private insurance companies to special tax treatment, primarily in the form of a state levy imposed on the premiums paid by resident policyholders. The gross premiums tax on insurance companies has been justified as an excise tax for the privilege of doing business. On pragmatic grounds, insurance taxation has been defended as a reliable and growing source of state general fund revenue. State insurance tax collections have increased by well over 100 percent during the last decade, while Nevada insurance tax collections during this same interval increased nearly 200 percent. In Nevada in 1959 insurance premiums tax collections represented 2.0 percent of total tax collections. In addition to being a widely understood and accepted tax by companies and states, the gross premiums tax is relatively easy to administer, and if one may judge from the rapid expansion in the number and size of insurance companies in the United States, it is no deterrent to growth.

All states tax foreign companies under the gross premiums tax with rates varying from .75 percent to 4 percent with 25 states using a rate of 2 percent. States may vary their rates between foreign and domestic companies, and twelve states utilize lower rates where the insurance company maintains a portion of its assets within the state. Exemptions among the states include fraternal benefit societies, mutual and cooperative organizations, benevolent associations and certain other non-profit organizations. The State of Nevada exempts certain fraternal and non-profit insurance organizations and levies a 2 percent gross premiums tax along with certain licensing fees and charges upon domestic and foreign companies. In 1958 there were 666 foreign companies and 6 domestic companies operating in the State collecting total premiums of over $40 million. Domestic companies accounted for about 7/10 of 1 percent of these premium collections. Insurance taxation in Nevada generally conforms to the prevailing practices found in most states.

Personal Income Taxation (Chapter XV)

The paramount significance of personal income taxation on the state level is that it alone in our battery of taxes is capable of providing a substantial element of progressivity to a combined state and local tax structure which otherwise is regressive. At the present time thirty-one states have enacted income tax laws and for these states income taxes represented almost a fifth of their total tax collections in 1959. On a state level the income tax is exceeded only by the sales tax as a source of general fund revenues. All thirty personal income tax states also impose a corporate income tax, and four additional states--Connecticut, New Jersey, Pennsylvania and Rhode Island--levy a corporate income tax even though they do not utilize the personal income tax on the state level. With regard to the minority of states that do not have any form of income taxation, Nevada,

Washington and Wyoming are the only Western States; and Illinois, Michigan and Ohio are the only heavily industrialized states. And all of these states depend upon sales taxation for general fund revenues. Finally, with regard to the Western States--five imposed both income and sales taxes, four placed major reliance on the personal income tax, and only three levied a general sales tax without an income tax. Of course, Nevada's fiscal position among the states is unusual in that approximately one-fourth of its total State tax collections is derived from gambling taxation and thus its dependence upon traditional sources of state revenue--sales, income and property taxation--should be considerably less than that found in the rest of the nation.

The rationale for utilizing the personal income tax as a major source of state revenue is that it adequately meets the four basic criteria of a "good tax" for a modern state: (1) fairness--it conforms with the ability-to-pay principle which is socially accepted as the standard of equity for the apportionment of the tax burden; (2) adequacy--it directly reflects the state's taxable capacity inasmuch as all taxes ultimately are paid from the economy's income stream; (3) flexibility--as a compensatory fiscal device it contributes to the state's economic welfare by lessening the degree of instability in the private sphere of the system; and (4) neutrality--it has minimal adverse effects on the efficiency of the economy as determined by market standards.

The federal provision allowing state taxes to be deducted from the federal income base reduces the nominal progressivity and burden of state income taxes especially for those taxpayers in the upper tax brackets. Eighteen of the income tax states permit either full or limited reciprocal deduction of the federal tax in the computation of the state income tax base. Thus, each tax reduces the liability of the other and this mutual deductibility gives rise to marked difference between the effective burden of a state tax to the taxpayer and the amount of tax collected by the state. Most of the income tax states permit some form of standard or optional deduction in itemizing personal expenses although there is little uniformity in this practice.

The income tax is self-assessing since the responsibility of computing the tax and filing the return rests with the taxpayer. Postwar administrative developments indicate that the personal income tax can be administered efficiently and fairly by state governments, particularly when they utilize withholding-at-source and other "pay-as-you-go" features. Other recent developments which have made for more efficient administration have been simplification of reporting (short forms, standard deductions, broader tax tables), extensive use of electronic processing equipment, inspection of federal income returns by state authorities, and the introduction of an experimental program for the exchange of tax audit information between several states and the Internal Revenue Service.

The potential revenue that can be collected from a state income tax primarily depends upon the level of personal income received, statutory deductions and exemptions, and the tax rate structure. If Nevada were to levy a state income tax patterned after California representing a "low" income tax state, projections indicate potential income tax collections in 1960 would be about $3 million; if patterned after Utah, a "median" income tax state, projections for 1960 indicate income tax collections of around $5 million; and if based on Idaho, a "high" income tax state, the estimated potential yield would be about $7 million. Were Nevada to follow the example of Alaska and impose a personal income tax on the basis of a rate of 14 percent of the federal income tax, projected revenues for 1960 would be about $12 million, an amount equivalent to Nevada's estimated sales tax collection in 1960. In brief, if personal income taxation and general sales taxation are alternatives for Nevada, the real differences in the distribution of the tax burden would be reduced significantly if food were removed from the sales tax base.

## The Corporation Income Tax (Chapter XVI)

The corporation income tax, originally utilized as an emergency source of revenue, has come to be widely accepted as an indispensable component of the modern American tax system. On both federal and state government levels it has proved to be not only a highly productive source of revenue, but also an essential instrument of fiscal policy as well. It serves as a necessary supplement to the personal income tax, a role especially significant at the state level. State government revenues from the corporate income tax have grown more rapidly over the past two decades than those from any other source of state revenue. At the present time thirty-four continental states plus Alaska, Hawaii and the District of Columbia levy corporate income taxes. Nevada, Washington, and Wyoming are the only three states among the continental Western States which do not levy the corporation income tax.

The fundamental justification of the corporate income tax is the special benefit or privilege theory of the corporation. The United States Supreme Court as early as 1911 upheld the tax as "an excise upon the particular privilege of doing business in the corporate capacity." The development of the modern American business system has given substance to the special privilege theory. The corporate income tax has also been justified on the government "partnership in enterprise" principle. An important part of the responsibility of both state and federal government is to help maintain the kind of conditions under which free enterprise can flourish; the concomitant obligation of successful corporate enterprises, as of all business organizations and individuals, is to bear a share of the costs of government. Corporations are taxed separately from their individual legal owners because they are established and function as separate and independent entities. However, it should be noted that the burden of the corporate income tax is shifted in part to consumers, wage-earners and stockholders. It seems likely that over a long period the tax becomes

imbedded in the commodity price structure and in equity values so that its burden is diffused broadly throughout the economic system.

The basic characteristics of the corporate income tax vary among the states. In most states the definition of corporation "gross income" is similar to that used by the federal government. Deductions from gross income include the necessary expenses of doing business with some variation in deductions permitted among the states. Quantitatively the most important single deduction is the federal income tax paid by the corporation. It results in reciprocal income tax deductibility, i.e., the federal tax is taken as a deduction against the state income tax base, and the state tax in turn is offset against the federal tax base. With current federal rates averaging about 50 percent, the effect on the state level is to reduce state tax liability by approximately one-half. Of course, the same holds true for Nevada's gambling taxes paid by incorporated licensees.

The amount of revenue a state may secure from the corporation income tax is dependent upon the industrial and economic structure of the state, the content of its tax law, and the quality of administration by the tax authorities. Were Nevada to enact a corporation income tax law similar to those of some of its neighboring Western States, projections indicate that in 1959 such a tax would have produced from $1.5 million to $3.0 million. At the present time about one-half of the total dollar amount of corporate income taxes received by the states in effect is being financed by the federal government as a result of the deductibility provision of the federal law and the federal corporate tax structure which averages 50 percent. Thus, were Nevada to raise $2 million from this tax, the net real cost to Nevada and foreign corporations would be about $1 million depending upon whether reciprocal tax deductibility were permitted.

Inheritance, Estate, and Gift Taxation (Chapter XVII)

Nevada is unique in being the only state in the nation without even a minimal inheritance tax to take advantage of the federal offset against the federal estate tax. Currently, death taxes are employed in the United States by the federal government, forty-nine states and the District of Columbia. It is noteworthy that forty-seven states have retained some form of death taxation in their fiscal structures for over a quarter of a century. Such utilization is due in part to the federal estate tax provision which allows a taxpayer to partially offset his federal tax liability by an amount of state death tax payments up to 80 percent of federal tax liability based upon 1926 rates.

Inheritance taxes have been justified as a desirable qualification of the institution of private property in a similar manner that other laws qualify the use of private property. It is alleged that unqualified inheritance creates a concentration of wealth which places the average individual at a disadvantage. In addition, it is said that

such concentration of economic power poses a threat to the very existence of a free democratic society. The inheritance tax is also justified on the grounds that inheritance is not a right but a privilege granted and perpetuated by the state. Death taxes have also been regarded as "deferred income" taxes in that they tax income which through avoidance and/or evasion may have escaped the income tax during the life of the decedent. From a pragmatic point of view, a state inheritance tax may be regarded as burdenless to taxpayers of a state where the burden of such a tax is fully offset by a reduction of the federal estate tax through the use of the federal estate tax crediting provision. Although there are variations among the states with regard to the specific means employed to obtain the federal credit, thirty-seven states and the District of Columbia impose an inheritance tax supplemented by an estate tax which is applicable only to the extent the inheritance tax fails to equal the federal credit.

The gift tax is utilized by the federal government and twelve states as an administrative supplement to the death tax since gifts inter vivos (between living persons) lessen the amount of an estate subject to death taxation. Such taxes are designed to tax property which might otherwise escape death taxes if transferred in the form of gifts. Gift tax laws generally are similar to the death tax statutes of the respective states. As a percentage of state death tax collections in 1959, they ranged from about 2 to 12 percent for the twelve individual states having gift taxes.

It is interesting to note that Nevada imposed an inheritance tax in 1913 upon direct and collateral inheritance with exemptions ranging from $5,000 to $25,000 along with a progressive rate structure having a maximum rate of 25 percent on amounts over $500,000. In 1925 the Nevada tax law was repealed and in 1942 an amendment was ratified by the people of the State prohibiting the levy of either an inheritance or estate tax. The effect of death taxes upon interstate migration of wealthy persons is dependent upon how much a state collects above the 80 percent credit permitted although it must be remembered that it is not possible to determine in advance the amount and time of payment of death taxes. In addition, there are other factors which influence interstate migration such as business interests, family relationships, living conditions, climate, and other state and local taxes.

If Nevada were to impose an inheritance tax at rates equal to the federal credit, the amount of revenue would depend upon the size and number of Nevada estates. In 1957 had such a tax been levied total state inheritance collections would have approached $225,000. This would have placed no greater burden on the individuals involved as it would have lowered their federal tax liability by this amount. Had Nevada imposed an inheritance tax comparable to those employed by some of the other Western States, even larger amounts of revenue might have been collected. A tax similar to that used in Washington would have produced over $1 million in 1958.

In conclusion, while there may be reasonable opposition to an inheritance tax with rates at levels similar to those in most states, there appears to be little justification for opposition to a tax which is only equal to the federal credit. Such a levy would impose no additional tax burden on Nevada citizens nor would it weaken the State's competitive tax position. To the extent that Nevada does not enact such legislation it is in effect contributing an unwarranted subsidy to the other states of the nation.

Financing Local Government in Nevada (Chapter XVIII)

As is common throughout the nation, a central problem of governmental finance today in Nevada is providing adequate revenue to finance urban services. The typical pressures at this level--rapid population growth and concentration, rising costs attributable to inflation, and the demand for more and better services--have all played a part in Nevada. The population of Nevada's cities and towns, for example, increased by 94 percent during the past decade as compared with about a 46 percent rise in the rural areas. The revenues for meeting rising costs, on the other hand, have proved to be relatively inflexible. Increases in the assessed valuation of property and local rate increases as permitted under the $5 limitation have not been sufficient to meet the needs of local jurisdictions, especially municipalities. State aid has increased in the case of the schools and counties, but this has not benefited the cities and towns directly. Taxing powers of the counties and municipalities are limited to property and license taxes, and school districts must rely entirely on the former source. In addition to the overall rate limitation noted, school districts may not exceed a $1.50 levy exclusive of debt service, and cities and towns are subject to varying policies ranging from no limitation to $3. County and school district debts are restricted to 10 percent of their assessed valuations, and in the case of cities and towns state policy is very erratic, with three units having no limitations and the others with limits varying from 7½ to 60 percent of assessed valuations.

The expenditure and revenue picture for the principal local units in Nevada reflects a variable growth pattern with substantial differences as between the types of units and with respect to the particular spending and revenue patterns of individual units of the same class. The combined general outlays of county governments in 1959 totaled $25.4 million of which $2.9 million represented grants to the State and municipalities. The principal general expenditures for county purposes in the same year were public health and welfare (32 percent); general administration (26 percent); highways and roads (9 percent); and public safety and sanitation (8 percent). Total general revenues for Nevada's counties in 1959 amounted to $26.3 million of which about 60 percent was derived from county taxes, 33 percent from charges and miscellaneous nontax revenues, and about 6 percent from grants and shared taxes. Taxwise the property tax accounted for 38 percent, gambling taxes less than 10 percent, the county gas tax 7 percent, and the liquor and poll taxes

less than 1 percent, respectively. Marked differences existed in the importance of the gambling levy from one county to another. Per capita county revenues in 1959 averaged about $86, and increases in receipts have generally kept pace with expenditures during the last decade.

The total expenditures for Nevada's cities and towns (15 cities and 1 incorporated town) amounted to $11 million in 1959. Public safety and sanitation outlays accounted for 45 percent of the total; streets and roads, 24 percent; general administration, 14 percent; and parks and recreation, 9 percent. Total dollar outlays varied from $33,000 in Gabbs to $4.2 million in Las Vegas. The total general revenues of Nevada's cities and towns in 1959 were approximately $10.4 million. The property tax was responsible for the largest share or almost 34 percent; gambling taxes, 11 percent; and liquor licenses, 4 percent. The remaining 42 percent was derived largely from special charges, miscellaneous non-tax revenues and shared taxes and grants from other units. The latter item, which accounted for less than 15 percent of the total consisted primarily of the county-shared gasoline and gambling levies. On a per capita basis city revenues averaged about $50 in 1959, which was only 23 percent above the comparable figure for 1950. Per capita property tax collections rose by a moderate 17 percent, but "other taxes" and "fees and licenses" actually declined by 21 and 45 percent, respectively. Thus, the revenue problems of certain Nevada municipalities may be attributable in part to a failure to take full advantage of the latter sources.

Total spending by Nevada's 17 school districts in 1959 amounted to $26.9 million of which only about 4 percent was absorbed by interest charges. Almost three-fourths of the total outlays for schools was in Clark and Washoe counties. General revenues of the school districts in 1959 totaled $20.5 million. This would indicate a current revenue gap as compared to expenditures of about $6.4 million requiring debt financing. About 41 percent of general revenue was derived from property levies, 3 percent from special charges and fees, and the remainder from state grants.

The combined expenditure and revenue picture for all local governments in Nevada during the decade reflects a substantial growth, but the increase is moderate when reduced to per capita and "uniform dollar" terms. The aggregate per capita increase in expenditures was 94 percent, but the adjusted dollar rise was only 34 percent. Real per capita outlays for schools, which increased by almost 48 percent, were responsible for the bulk of the total, and the real per capita expenditures of municipalities appear to have suffered a 4 percent contraction. Overall per capita and real revenues follow a similar pattern.

The aggregate general debt for local governments in Nevada totaled $65 million in 1959, an unprecedented rise of 300 percent for the decade. Relatively, county debt increased six-fold, school debt three-fold and municipal debt two-fold. Of the total local debt in 1959 school district indebtedness accounted for 55 percent; county

debt, 23 percent; and city debt, 22 percent. The overall level of local debt in Nevada is above that of most of the other Western States as indicated by 1957 data. There is an exceptionally high degree of concentration of the debt in the two most populous counties, Washoe and Clark. They accounted for over 85 percent of the total in 1959. Also, a disproportionate part of the responsibility for local indebtedness in terms of assessed valuations rests upon the populations of the cities and towns. Whereas these units had 49 percent of the State's assessed valuation, they were responsible for 67 percent of local debt liabilities.

Recommendations. In the field of municipal finance it is recommended that:

1. The revenues from an increased state tax on cigarettes be shared with municipalities and counties on a basis that will give the former over 90 percent of the total (See Tobacco Tax summary);

2. The State's share of the present county gambling table tax be transferred to the cities and counties on the basis of production which would result in approximately a two-thirds and a one-third ratio (See Gambling Tax summary);

3. Greater state assistance be given to the counties in achieving improved property assessment procedures and more equitable assessment results (See Property Tax summary);

4. State policy with respect to local debt limitation be reoriented to insure that limits are reasonably related to the needs and capacity of local units and to provide an essential element of flexibility in their application; and

5. State supervision of local finance be strengthened: by broadening its scope to include the essential aspects of budgeting, accounting, financial reporting and auditing; by incorporating the positive concept of state assistance; and by centralizing the administration of all state policies in this and the debt area in a single state agency, preferably the Tax Commission.

## A Recommended Five Point Tax Reform Program

On the basis of the preceding detailed study of both state and local finance in Nevada, it is apparent that what Nevada should strive for is not two separate fiscal systems, one for the state and one for local units, but a single comprehensive and integrated system designed to assure adequate revenues at both levels of government. In the development of the following proposed Tax Reform Program, the Tax Study Group was guided by the following major objectives:

1. A tax structure greatly improved in terms of equity;

2. A tax structure which will provide sufficient revenues for both local and state governmental units to finance existing needs and extend increasing aid in the form of grants and shared taxes to the hard-pressed subordinate governmental units, especially the municipalities of the State;

3. A tax program which is balanced, rational, flexible and relatively simple to administer.

This proposed five point program is presented in the following two tabulations--one indicates the dollar magnitude of the changes involved if such a program had been in effect during fiscal year 1959; the other takes into account the growth factor and shows the estimated effects of these recommendations projected for fiscal year 1962.

Recommended Five Point Tax Reform Program
With Estimated Changes Based on Data for Fiscal Year 1959

| | Estimated revenue effects (thousands) | | |
|---|---|---|---|
| | State | Counties | Cities |
| 1. Property tax - Exempt personal household effects from the tax base and reduce the State levy from $.28 to $.14 in order to compensate local jurisdictions. | $ -937 | $ -- | $ -- |
| 2. Sales tax - Exempt food (other than restaurant meals) from tax base in order to improve overall equity of tax structure. | -1,837 | -- | -- |
| 3. Cigarette tax - (a) Increase present 3¢ cigarette tax rate to 5¢ and distribute the tax as follows: 2½¢ to State; ½¢ to counties; and 2¢ to cities on basis of population; | -62 | +63 | +952 |
| (b) Impose tax on other tobacco products with revenues accruing to State only. | +90 | -- | -- |
| 4. Gambling taxes - (a) Counties retain the 25% share of the County Table Tax presently distributed to the State, and then apportion to the cities that part collected in the cities on the basis of 75% of the total; | -572 | +198 | +374 |
| (b) Increase State Gross Receipts Tax rates from 3 - 5.5% to 3 - 7%; | +1,647 | -- | -- |
| (c) Revise State Table Tax structure in accord with plan proposed in chapter. | -- | +217 | -- |
| 5. Alcoholic beverage taxes - Raise the present gallonage rates which are below the national averages as follows: (a) Spirits - from $.80 to $1.60; (b) Light wine - from $.15 to $.20; (c) Fortified wine - from $.25 to $.35; (d) Beer - from $.03 to $.06. | +1,028 | -- | -- |
| Total change | $ -643 | $+478 | $+1,326 |

Recommended Five Point Tax Reform Program
With Estimated Changes Projected to Fiscal Year 1962

| | Estimated revenue effects (thousands) | | |
|---|---|---|---|
| | State | Counties | Cities |
| 1. Property tax - Exempt personal household effects from the tax base and reduce the State levy from $.28 to $.14 in order to compensate local jurisdictions. | $-1,033 | $ -- | $ -- |
| 2. Sales tax - Exempt food (other than restaurant meals) from tax base in order to improve overall equity of tax structure. | -2,530 | -- | -- |
| 3. Cigarette tax - (a) Increase present 3¢ cigarette tax rate to 5¢ and distribute the tax as follows: 2½¢ to State; ½¢ to counties; and 2¢ to cities on basis of population; | -83 | +85 | +1,280 |
| (b) Impose tax on other tobacco products with revenues accruing to State only. | +100 | -- | -- |
| 4. Gambling taxes - (a) Counties retain the 25% share of the County Table Tax presently distributed to the State, and then apportion to the cities that part collected in the cities on the basis of 75% of the total; | -662 | +229 | +433 |
| (b) Increase State Gross Receipts Tax rates from 3 - 5.5% to 3 - 7%; | +2,631 | -- | -- |
| (c) Revise State Table Tax structure in accord with plan proposed in chapter. | -- | +261 | -- |
| 5. Alcoholic beverage taxes - Raise the present gallonage rates which are below the national averages as follows: (a) Spirits - from $.80 to $1.60; (b) Light wine - from $.15 to $.20; (c) Fortified wine - from $.25 to $.35; (d) Beer - from $.03 to $.06. | +1,384 | -- | -- |
| Total change | $ -193 | $+575 | $+1,713 |