

STUDY OF GENERAL FUND REVENUES

of the

STATE OF NEVADA



Legislative Commission
of the
Legislative Counsel Bureau
State of Nevada

December 16, 1966

Bulletin No. 68

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* * *

Legislative Commission

Melvin D. Close, Jr.
James I. Gibson
Lawrence E. Jacobsen
Archie Pozzi, Jr.

B. Mahlon Brown
Carl F. Dodge
John Fransway
Floyd R. Lamb



Senate Concurrent
Resolution No. 8--1966 Special
Session of the Nevada Legislature

Senate Concurrent Resolution No. 8--Committee on Taxation

SENATE CONCURRENT RESOLUTION--Directing the legislative commission to study possible sources of additional revenue for the State of Nevada, giving priority to additional gaming taxes.

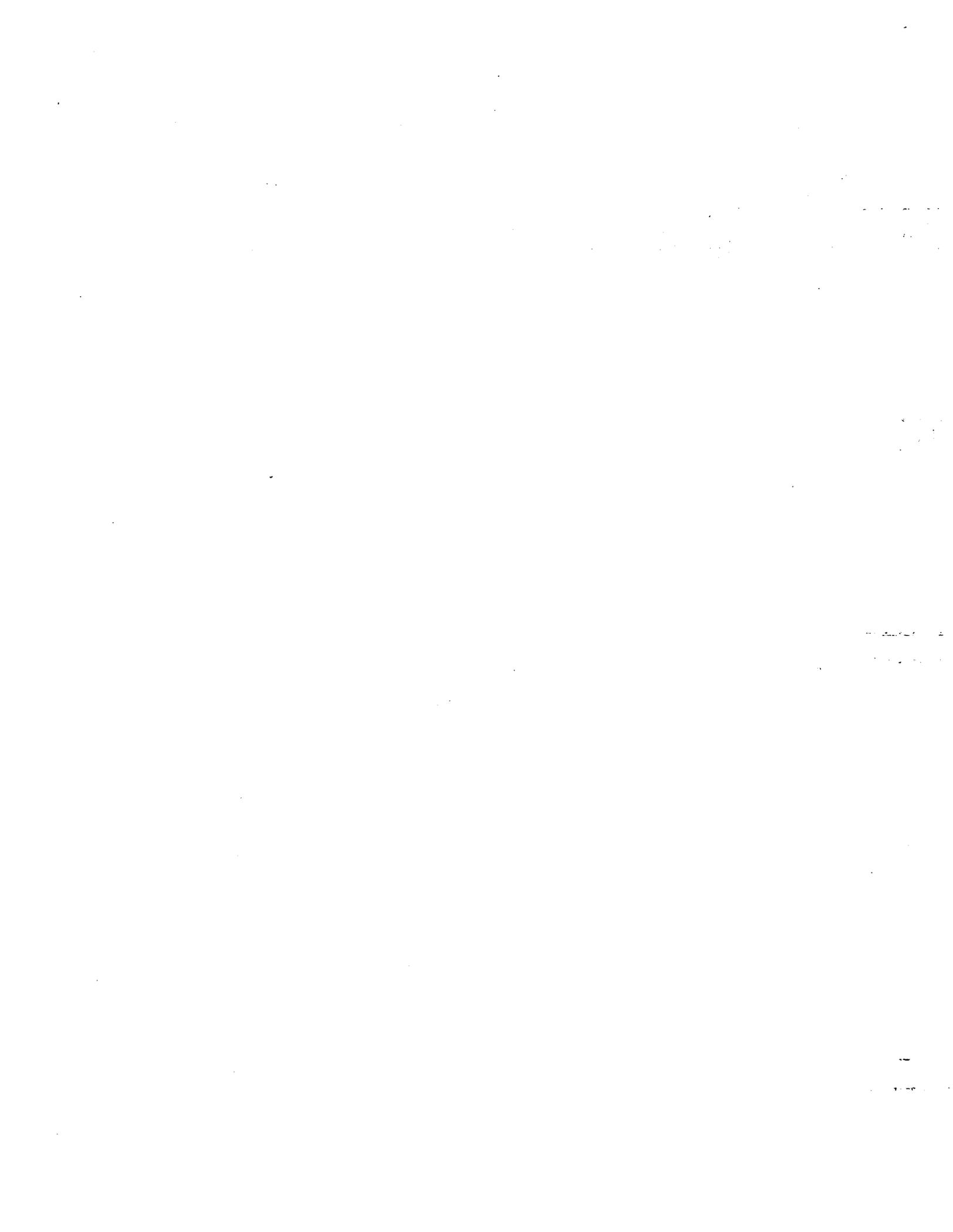
WHEREAS, In order to provide sufficient funds for already implemented programs of financing education and the general operation of state government, major additional sources of revenue will have to be found by the 1967 session of the legislature; and

WHEREAS, Gaming is a large and well established business in this state which must be considered a prime source of additional revenue; and

WHEREAS, In order to evaluate the comparative potential sources of needed revenue, the legislature must ascertain, from current, accurate and unbiased information, what form and level of additional taxes, if any, can be borne by gaming; now, therefore, be it

RESOLVED BY THE SENATE OF THE STATE OF NEVADA, THE ASSEMBLY CONCURRING, That the legislative commission is hereby directed:

1. To conduct a thorough study of the principal sources of revenue for the general fund;
2. To give priority in such study to additional gaming taxes and the economic positions of gaming;
3. To consider carefully the economic feasibility of any new or additional tax proposed;
4. To conduct such study under its existing statutory authority and within its existing appropriation; and
5. To report the results of such study to the 1967 session of the legislature.



REPORT OF THE LEGISLATIVE COMMISSION

To the Members of the 54th Session of the Nevada Legislature:

This report is submitted pursuant to the requirements of Senate Concurrent Resolution No. 8 of the 1966 special legislative session, which directs the legislative commission:

1. To conduct a thorough study of the principal sources of revenue for the general fund of the state;
2. To give priority in such study to additional gaming taxes and the economic positions of gaming;
3. To consider carefully the economic feasibility of any new or additional tax proposed;
4. To conduct such study under its existing statutory authority and within its existing appropriation; and
5. To report the results of such study to the 1967 session of the legislature.

In July 1966, the legislative commission engaged Lybrand, Ross Bros. & Montgomery to make the directed study. This firm ranks among the leading certified public accountant firms in the United States and provides, in addition to services conventionally associated with public accounting, actuarial services and management consulting services by a specialized staff of over 170 highly qualified consultants recruited from industry, from management consulting firms, university faculties, government agencies, and from the firm's other divisions. In August 1966, Lybrand, Ross Bros. & Montgomery was also directed by the legislative commission to examine the system of financial controls in force in a selected number of Nevada gaming establishments and to recommend measures for strengthening the control over accountability for taxes due to the State of Nevada.

The accompanying report was submitted by Lybrand, Ross Bros. & Montgomery to the legislative commission on November 22, 1966, and accepted by the legislative commission on December 16, 1966. Part I of the report is a digest or summary in nontechnical

terms of the findings and conclusions emanating from the survey. For those persons interested in the underlying logic and substance, the detailed report should be carefully read.

Upon acceptance of the report the legislative commission raised three supplementary issues, dealing with the following questions:

1. What would be the effect on the profits of individual businesses in the gaming industry if the percentage gaming tax were increased at a variety of selected levels?
2. At what rates would games (cards, table games and slot machines) have to be taxed to produce about \$5,000,000 annually in additional tax revenues as an alternative to increasing the percentage tax?
3. If the percentage gaming tax were to be increased by 25 percent, would this have the effect of either or both of:
 - (a) Withdrawing from the industry funds now borrowed from outside sources; or
 - (b) Materially reducing the availability of funds to finance the future expansion of the industry?

The legislative commission has determined that meaningful answers to these questions will be essential for the use of the 1967 legislature in its deliberations and actions and therefore has further engaged Lybrand, Ross Bros. & Montgomery to provide the answers during the forthcoming legislative session.

Respectfully submitted,

Legislative Commission
State of Nevada

Carson City, Nevada
December 16, 1966

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

ONE BUSH STREET

SAN FRANCISCO 94104

YUKON 1-5333

November 22, 1966

OFFICES IN THE
PRINCIPAL CITIES OF THE
UNITED STATES

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

Legislative Commission of the State of Nevada
Carson City, Nevada

Gentlemen:

The accompanying report is submitted in accordance with an agreement dated July 11, 1966. By that agreement our firm was engaged to make a survey of the general fund revenue needs of the State of Nevada; to recommend an approach toward sources of additional revenue that may be needed; and to evaluate the ability of the gaming industry to assume additional or higher gaming taxes. Our firm was further commissioned to examine the system of financial controls in force in a selected number of casinos and to recommend measures for strengthening the control over accountability for taxes due to the State.

Part I constitutes a digest of the findings and conclusions emanating from the survey. It deals at some length, however, with the alternative tax programs through the fiscal year 1976.

The second part analyzes the more important elements of the State's tax structure and draws comparisons with the structures of other states. It suggests opportunities for increasing taxes and introducing new ones. Finally, taking into account the probable general fund deficits in the fiscal years 1968, 1971 and 1976, it presents alternative tax programs that should bridge the gap between revenues and expenditures. Part II was prepared in close collaboration with Dr. Harold M. Somers, a prominent authority in the fields of governmental finance and taxation.

Dr. Somers served as consulting economist to the California Legislature in the major tax study of that state, published in 1964.

Part III of the report contains an economic analysis of the gaming industry in Nevada, including projections of future years' profitability at differing levels of gaming taxes. Supported by three technical appendixes, it analyzes, in particular, the ability of the industry to absorb higher gaming taxes.

The fourth part contains a summary of our observations of financial controls in selected casinos and recommendations for strengthening financial controls in the industry.

Each of the four parts is preceded by a comprehensive table of contents to permit the reader to gain a general perspective of the subject matter.

Respectfully submitted,

Lybrana, Ross Bros. & Montgomery

STATE OF NEVADA
STUDY OF GENERAL FUND REVENUES

PART I

NEVADA'S FUTURE TAX PROBLEMS
AND THEIR IMPACT ON THE GAMING INDUSTRY

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NEVADA'S FUTURE TAX PROBLEMS
AND THEIR IMPACT ON THE GAMING INDUSTRY

The State of Nevada will shortly face the prospect of a deficit on its general fund. Several factors are forcing expenditures upwards at a faster rate than revenues. The population has risen sharply; the public is receiving additional services; inflation is moving salaries higher; and new federal programs are leading to heavier State outlays.

Nevada's fiscal record has been good. It has a balanced budget, no income taxes or death taxes, and a modest public debt. To maintain its enviable record, the State will probably have to increase taxes.

Public opinion has focused on gaming as a source of higher tax revenues. The gaming industry, on the other hand, contends that it is already highly taxed and an additional burden could cripple it. This might create a chain reaction and undermine the economy of Nevada, which is already heavily dependent on gaming - as an employer, a consumer, and a vital part of the tourist industry.

Is gaming's position valid? Or can it bear more taxes?

The study recently completed was made to examine this situation. Shorn of some of its more technical aspects, it was conducted to answer four fundamental questions:

1. What additional load has to be imposed on the taxpayers in the coming years?
2. What types and amounts of taxes are needed to prevent a deficit?
3. To what extent can the gaming industry bear higher taxes?
4. What is needed to improve administration of the gaming industry?

The report resulting from the study answers these and related questions. The study was extensive and penetrating. It involved many field interviews - with casino operators, with civic leaders, with financial institutions, with educators, with government officials, and with others. It involved the gathering of volumes of confidential information from gaming licensees. Mathematical and statistical approaches were used, with the aid of an electronic computer. Information received was exhaustively questioned. Eventually, from the many sources of data gathered and processed, a picture emerged.

It is the purpose of this summary to describe that picture in non-technical terms. For those interested in the underlying logic and substance, the detailed report should be read.

Let us now address ourselves to the principal questions covered by the study.

1. WHAT ADDITIONAL LOAD HAS TO BE IMPOSED ON THE TAXPAYERS IN THE COMING YEARS?

Sights were set ten years ahead. Three specific years were studied:

- . the year ending June 30, 1968 - fiscal 1968
- . the year ending June 30, 1971 - fiscal 1971
- . the year ending June 30, 1976 - fiscal 1976.

Fiscal 1968 is of immediate interest to the Legislature, as a budget and fiscal plan have to be decided upon in 1967. Fiscal 1971 is of medium-term interest because of the time needed to plan for forthcoming changes and to make the necessary legislative arrangements. Fiscal 1976 - while far ahead - points to a landmark that shows the direction events should follow; it is important for longer-range planning.

In forecasting the deficit for future years, we relied substantially on estimates made by authorities in the State government. These estimates were prepared according to specified guidelines; they were questioned; and, where appropriate, they were adjusted by mutual agreement.

If no changes are made in the present taxes or tax rates, the State may expect to experience the following results on its general fund account:

<u>Fiscal</u> <u>year</u>	<u>In millions of dollars</u>		
	<u>Outlays</u>	<u>Revenues</u>	<u>Gaps</u>
1968	74	65	9
1971	104	84	20
1976	175	130	45

Many conditions, now unpredicted, can occur to change the expected picture. And the farther one projects into the future, the more uncertainties exist. The future becomes clearer as each year passes by.

With circumstances and trends as they can best be judged today, the State faces a deficit of \$9 millions in fiscal 1968, mounting to \$45 millions in fiscal 1976.

There are, of course, two sides of the coin. A deficit can also be avoided, or at least minimized, by reducing outlays. This possibility, we are sure, is under constant watch. Nevertheless, we have assumed that the expected outlays taken into account are realistic, and our study was not intended to explore ways of reducing costs.

In any event, the burden on the taxpayer will be high.

2. WHAT TYPES AND AMOUNTS OF TAXES ARE NEEDED TO PREVENT A DEFICIT?

In viewing the avenues open to the State, we compared and contrasted the tax structure of Nevada with those of other states. We disregarded such factors as the political unpopularity of certain types of taxes and present obstacles imposed by the State Constitution.

Bold action may be needed to avoid future deficits. Some taxes that are now politically unpopular may be essential reservoirs of future State revenues in face of the needs as they are now projected.

Despite current political thinking and present constitutional bars, one cannot escape the conclusions that:

- . New taxes have to be levied, and
- . Rates of present taxes have to be increased.

Each of these issues is now considered.

(1) New taxes have to be levied

The State will be well advised to introduce three new forms of taxation: death taxes, individual income taxes, and corporate income taxes.

The levy of death taxes would require a constitutional amendment. It is proposed that the State use the same plan as that adopted by Alabama, Arkansas, Florida, Georgia and Mississippi. In these states a portion of the death duties which would have otherwise gone to the federal government goes to the states. There is no cost to the estate of the deceased.

Other states commonly use individual and corporate income taxes, but this source is not tapped in Nevada. These taxes are invariably unpopular, but a sound fiscal policy rarely wins a popularity contest. Nevadans paying federal income taxes would, at any rate, gain some measure of relief if their State income taxes are deducted for federal tax purposes.

Our report offers suggestions for income tax administration that would keep the cost of collection at a minimum and would save Nevadans the chore of filling in elaborate income tax returns.

(2) Present tax rates have to be increased

Many opportunities exist for increasing present taxes. In some cases, where the tax payments qualify as deductions for federal income tax purposes, Nevadans would be relieved of the full cost of the higher tax rates.

The sales and use tax and gaming taxes are Nevada's most prolific revenue-producers. They are obvious candidates for increases because the cost of collection would not rise and the amounts collected could be large. However, increases would have to be kept within reasonable bounds to avoid overburdening the classes of taxpayers concerned. (An increase to a rate as high as 4 percent in the sales and use tax is not considered feasible unless food purchased for home use is exempted from sales tax.)

Liquor taxes and licenses, as well as cigarette taxes and licenses, are useful vehicles for raising additional tax revenues. On the other hand, their capacity to add materially to State revenues is limited.

Another, and less often considered, source of revenue is an increase in the host of fees, licenses, service charges and similar levies collected by the State. The rates are, in many cases, inadequate to reimburse the State for the services it performs; and an increase should create little hardship.

Based on these considerations, we present four alternative tax programs to bridge the expected revenue gap in each of the fiscal years 1968, 1971 and 1976. The first three programs are illustrative and, taken by themselves, have shortcomings. The fourth program merits consideration because it spreads the additional tax burden over a broader cross-section of taxpayers. It may therefore be recommended.

First alternative program - consumer impact

The first program is based on heavier taxation of the consumer. Its structure and effects are as follows:

	Expected additional amounts in millions of dollars		
	<u>Fiscal 1968</u>	<u>Fiscal 1971</u>	<u>Fiscal 1976</u>
Fees, licenses, fines and charges*			
Increase present rates by 100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Liquor tax and licenses			
Increase present rates by 50 percent	1.8	2.3	3.1
Cigarette tax and licenses			
Increase tax by 2¢ a pack and licenses proportionately	0.5	0.6	0.8
Sales and use tax			
Increase rate to 3 percent, starting February 1, 1968	4.7	14.5	23.8
Corporate income tax			
Levy tax equivalent to 16 percent of present federal rates	<u>-</u>	<u>-</u>	<u>12.3</u>
Totals from the foregoing	9.6	21.5	45.5
Estimated revenue gaps	<u>9.0</u>	<u>20.0</u>	<u>45.0</u>
Estimated surpluses	<u>0.6</u>	<u>1.5</u>	<u>0.5</u>

* This item, and all future references to it, excludes licenses for gaming, liquor and cigarettes, as these latter are considered separately.

Second alternative program - gaming impact

The second program is directed predominantly toward heavier taxation of the gaming industry as follows:

	Expected additional amounts in millions of dollars		
	<u>Fiscal 1968</u>	<u>Fiscal 1971</u>	<u>Fiscal 1976</u>
Fees, licenses, fines and charges			
Increase present rates by			
100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Gaming tax			
Increase percentage tax*			
overall by:			
35 percent	6.6		
70 percent		16.8	
100 percent			34.9
Corporate income tax			
Levy tax equivalent to 6			
percent of present federal			
rates	<u>-</u>	<u>-</u>	<u>4.6</u>
Totals from the foregoing	9.2	20.9	45.0
Estimated revenue gaps	<u>9.0</u>	<u>20.0</u>	<u>45.0</u>
Estimated surpluses	<u>0.2</u>	<u>0.9</u>	<u>none</u>

* It is assumed here, and throughout the report, that the gaming tax increase will be made by way of a surcharge, that the percentage tax will be calculated in the customary manner and that a surcharge, at the rates here indicated, will be added. The actual process may prove to be different, but this approach is the simplest, both for understanding and for calculation.

Third alternative program - income impact

In the third program, which follows, the major emphasis is on income taxes, both individual and corporate.

	Expected additional amounts in millions of dollars		
	<u>Fiscal 1968</u>	<u>Fiscal 1971</u>	<u>Fiscal 1976</u>
Fees, licenses, fines and charges			
Increase present rates by 100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Corporate income tax			
Levy tax equivalent to the following percentages of present federal rates:			
6	2.8		
12		6.9	
20			15.4
Individual income tax			
Levy tax equivalent to the following percentages of present federal rates:			
2	3.6		
4		9.1	
8			24.1
Totals from the foregoing	9.0	20.1	45.0
Estimated revenue gaps	<u>9.0</u>	<u>20.0</u>	<u>45.0</u>
Estimated surpluses	<u>none</u>	<u>0.1</u>	<u>none</u>

Fourth alternative program - balanced impact

None of the three programs presented thus far would be acceptable. The first would draw revenue predominantly from the consumer, the second from the gaming industry, and the third from the income-earner in Nevada. A sound tax program spreads the burden more equitably across all taxpaying segments.

The fourth program, presented on the next page, is an approach to a balanced tax structure.

	Expected additional amounts in millions of dollars		
	<u>Fiscal 1968</u>	<u>Fiscal 1971</u>	<u>Fiscal 1976</u>
Fees, licenses, fines and charges			
Increase present rates by			
100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Liquor tax and licenses			
Increase present rates by			
50 percent	1.8	2.3	3.1
Cigarette tax and licenses			
Increase tax by 2¢ a pack and			
licenses proportionately	0.5	0.6	0.8
Gaming tax			
Increase percentage tax			
overall by:			
25 percent	4.7		
35 percent		8.4	
50 percent			17.4
Corporate income tax			
Levy tax equivalent to the			
following percentages of			
present federal rates:			
5	-	2.9	
12 1/2			9.6
Individual income tax			
Levy tax equivalent to the			
following percentages of present			
federal rates:			
1 1/4	-	2.8	
3			9.1
Totals from the foregoing	9.6	21.1	45.5
Estimated revenue gaps	<u>9.0</u>	<u>20.0</u>	<u>45.0</u>
Estimated surpluses	<u>0.6</u>	<u>1.1</u>	<u>0.5</u>

It is of interest to assess the impact of this program. After deducting those portions of the estimated gaps in revenue met through miscellaneous fees, etc. and death taxes, the suggested additional taxes would be borne as follows:

SPREAD OF ADDITIONAL TAXES AMONG MAJOR TAXPAYING GROUPS

	<u>In millions of dollars</u>			<u>In percentages</u>		
	<u>Fiscal 1968</u>	<u>Fiscal 1971</u>	<u>Fiscal 1976</u>	<u>Fiscal 1968</u>	<u>Fiscal 1971</u>	<u>Fiscal 1976</u>
Consumer taxes						
Liquor and cigarette	2.3	2.9	3.9	33	17	10
Gaming tax	4.7	8.4	17.4	67	49	43
Income taxes						
Corporate and individual	-	5.7	18.7	-	34	47
Totals	<u>7.0</u>	<u>17.0</u>	<u>40.0</u>	<u>100</u>	<u>100</u>	<u>100</u>

Taxes levied directly on the consumer decrease steadily in significance after fiscal 1968. The gaming tax, at an increase of 25 percent, bears a relatively high proportion of the increased taxation in fiscal 1968, but its relative contribution declines after then, despite rate increases. Income taxes are scheduled to increase in stages, both in amount and in proportion. (On the other hand, an alternative increase in the sales tax would reduce the need for reliance on income taxes.)

3. TO WHAT EXTENT CAN THE GAMING INDUSTRY BEAR HIGHER TAXES?

Perhaps the most intricate and exacting part of the study was to evaluate the gaming industry's ability to pay higher gaming taxes.

To do this, we studied the industry's figures in detail; we gathered data from licensees by questionnaires, and our representatives followed up, in many cases, with field interviews. Deficiencies and inconsistencies in the data compelled adjustment to put them into a form suitable for analysis. After rejecting unsuitable returns, we covered a sample representing 75 percent of the business done by the industry in Nevada.

It was found possible to make a satisfactory projection of gaming revenues over the years ahead. This was done through statistical analysis, involving the calculation of equations through an electronic computer.

On the other hand, the many unknown factors affecting future operations made it difficult to project the industry's expenses. Two of the most difficult and controversial issues to be solved were these:

- . How much will costs rise, and how effective will management be in controlling them? (We assumed three different trends - one a return to the satisfactory experience of a year or two ago, a second reflecting a holding of expenses at current proportionate levels, and a third assuming a continuously increasing proportion of expenses.)
- . To what extent will the industry be able to pass on any increase in gaming taxes by reducing odds to customers or by increasing charges for hotel, restaurant, bar or other services? (We assumed four alternatives, ranging from no recapture to full recapture.)

The conclusions drawn from the analysis were these:

- (1) An increase of 200 percent of the present rates would make serious inroads into gaming profits

If gaming tax rates were increased by 200 percent - the approximate effect of the initiative petition receiving attention during our study - gaming profits would probably be reduced to less than 5 percent on owners' capital, before deducting any tax increases (other than on gaming) in Nevada. The less efficient licensees would undoubtedly be put out of business, and even the more efficient ones might find it difficult to attract the necessary capital because of the low return. The investor would find it more profitable to put his money into blue chip stocks or bonds, and would, by so doing, assume a lower risk.

The consequences of such a tax increase might conceivably be a decline of such magnitude that the economy of Nevada could be seriously affected. Moreover, revenues from gaming taxes might increase by a lower rate than the size of the tax increase would indicate.

(2) The industry can bear some increase in gaming tax rates

Our projections indicate that an increase in the rate of gaming taxes of 25 percent would permit the industry to earn about 12 percent a year on capital, subject to other increases in taxes in Nevada. A 50 percent increase would produce a return of about 11 percent, and a 75 percent increase would produce a return of about 10-percent.

These returns might not be very attractive to the investor of risk capital. Against this, however, it must be recognized that:

- . Percentage returns represent industry averages. The better managed concerns earn higher profits.
- . These projections make no allowance for recoupment of any part of the tax increase. The industry argues that it would be hard to pass on any of the tax burden to the customer. We cannot help but conclude, nonetheless, that circumstances would lead at least to its partial recapture.
- . The impact of higher taxation would undoubtedly lead to tighter control over expenses. We gained the impression that some of the industry's expenses can be reduced in relation to the volume of business.

Even moderate increases in the tax rate would bring about some business failures. But the industry is typified by a high rate of turnover in ownership; some licensees are going out of business even though others earn satisfactory profits.

(3) An abrupt increase in the gaming tax could harm the industry

Some time will inevitably be needed by the gaming industry to gear itself to the impact of a substantial increase in gaming taxes. It would have to take such countermeasures as reducing its other expenses or services, and increasing charges to customers, whether by raising hotel, restaurant, bar or other charges or by reducing odds. Licensees should be able to take these actions successfully, but probably not rapidly. A program of year-by-year increases of relatively small amounts, rather than a sharp one-time increase in tax, should allow the industry to adjust in a more orderly manner.

It was not the purpose of our study to pass judgment on the merits of the important role of gaming in the economy of Nevada. We have accepted the fact that it is, indeed, significant. Any marked decline in the fortunes of the industry would, in turn, react adversely both on the State's economy and on its budgetary position.

4. WHAT IS NEEDED TO IMPROVE ADMINISTRATION OF THE GAMING INDUSTRY?

The public of Nevada is well aware of recent allegations that gaming licensees have indulged in "skimming" - concealing part of their winnings and thus evading taxes.

We did not attempt to determine whether these allegations had substance. On the other hand, we examined the practices and procedures of some of the larger licensees - selected because of their reputedly good

management - and of the regulatory agencies. Our examinations of these licensees revealed no evidence of skimming, but this of itself should not be accepted as a statement that it does not occur. Opportunities do exist for improvement - both to minimize the chance of skimming and to provide for better management of the affairs of the industry.

A program to achieve these improvements calls for the following action:

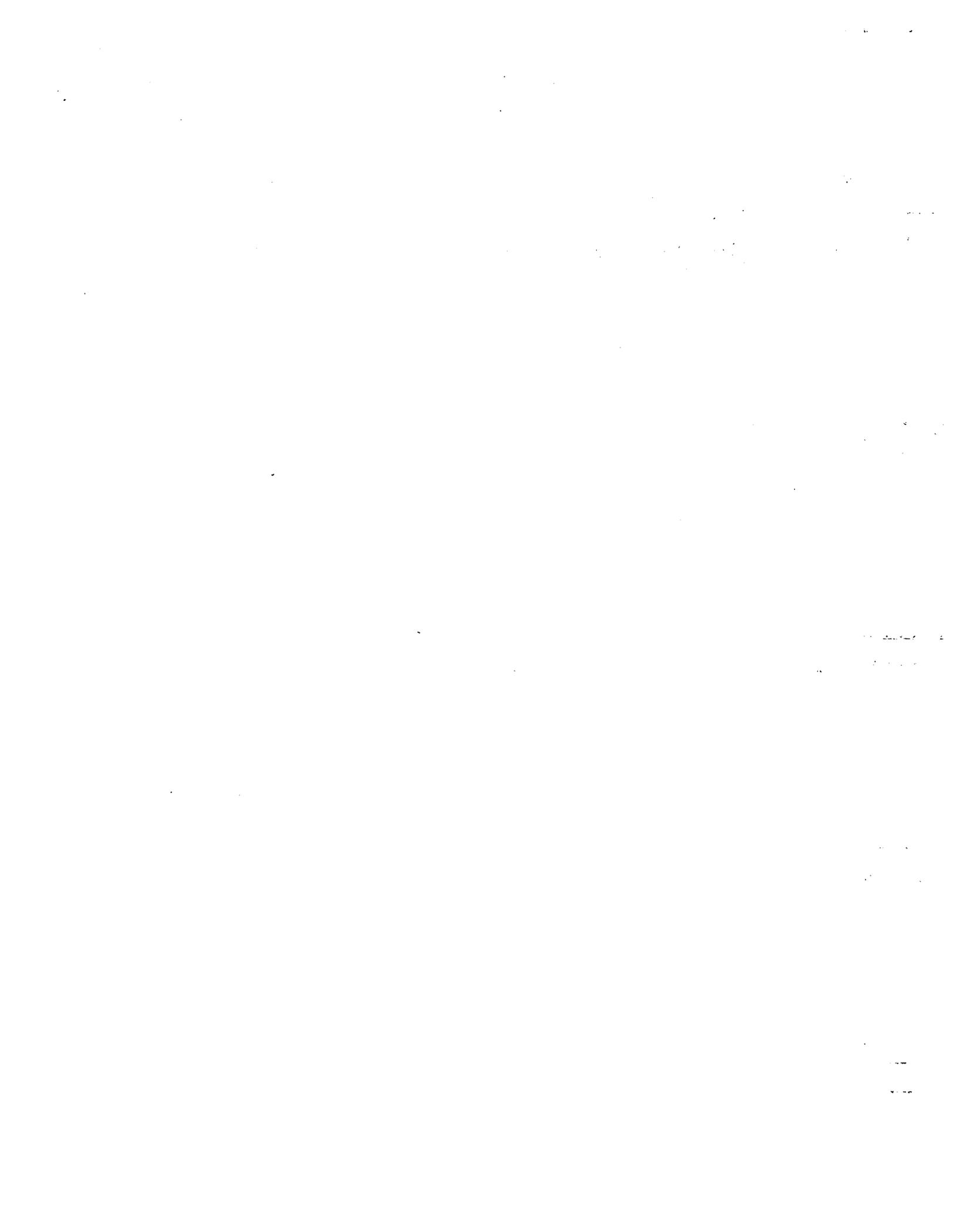
- (1) Establish and enforce standards for better controls within the licensee organizations, particularly those controls which affect the handling of money and its equivalent.
- (2) Require licensees to adopt uniform methods of reporting their financial results. This is common in most other regulated industries.
- (3) Set up a central body to conduct economic research concerning the gaming industry.
- (4) Broaden the scope of independent audits of licensees.
- (5) Strengthen and modernize the State's auditing of licensees' operations.

If this program is adopted and put into effect, it should reduce present opportunities for tax evasion; it should give owners better protection against loss caused by their employees; it should demonstrate the State's determination to accept its responsibilities for regulating the industry; and it should help build a better reputation for the industry itself by reason of its using more businesslike practices.

* * *

The reader is asked to recognize that projections of future revenues and outlays, of additional income from taxation, and of future earnings of the gaming industry are, in fact, projections. They are not predictions.

Projections are based on the use of assumptions that judgment and experience dictate to be valid. If any of these assumptions proves to be materially wrong - for example, if there were an outbreak of a major war, or if a serious depression occurred - the projections based on these assumptions would prove wrong, as also might the conclusions. In the light of current conditions, however, the projections have been based on the best available facts and judgments.



STATE OF NEVADA
STUDY OF GENERAL FUND REVENUES

PART II

THE TAX STRUCTURE OF THE STATE OF NEVADA
AND FUTURE TAXATION POSSIBILITIES

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THE TAX STRUCTURE OF THE STATE OF NEVADA

AND FUTURE TAXATION POSSIBILITIES

This part of the report explores sources of revenue available to the State of Nevada. It makes projections of their future productivity. It compares these projections with projections of revenue needs. And it indicates some programs that would meet these needs.

We consider both existing sources of revenue and possible new ones. The present sources are identified, and their nature, mechanics and revenue-producing records are described. The revenue and economic consequences of various possible increases in rates are examined. Similar treatment is devoted to sources of revenue not now used by the State.

To maintain a proper perspective, we must stress at the outset that we are dealing only with the general fund. In the fiscal year 1965 (the latest for which official figures had been published at the time of our study), general fund revenues totaled \$52.0 millions⁽¹⁾ - about one-third of the State's financial aggregates for the year: ⁽²⁾

(1) State of Nevada, EXECUTIVE BUDGET FOR THE FISCAL YEARS 1965-66 and 1966-67, p. A-2 (Interstate data are not available for later years).

(2) U. S. Bureau of the Census, COMPENDIUM OF STATE GOVERNMENT FINANCES IN 1965, Series GF-No. 4, p. 10. (U. S. Government Printing Office, Washington, D. C., 1966).

	<u>\$ millions</u> ⁽¹⁾
Revenue:	
General revenue	146.1
Insurance trust	<u>32.4</u>
Total	178.5
Expenditure:	
General revenue	146.0
Insurance trust	<u>21.0</u>
Total	167.0
Borrowing	3.5
Debt redemption	0.6

A comparison of these aggregates with corresponding figures for other states for that year is given in Table 201, following page 4 . For the present purpose, it should be borne in mind that sources of revenue other than general taxation - particularly grants from the federal government - play a major role in the fiscal health of the State.

Several studies of the fiscal structure have been made in recent years, particularly the comprehensive review undertaken by the Nevada Legislative Tax Study Group in 1959 and 1960.⁽²⁾ The present report makes no attempt to duplicate these studies. It rather focuses attention on the tax problems facing the State in the next decade. The reader is referred to the earlier studies for background and historical material.

(1) In many cases both in this and other parts of the report, amounts are expressed in terms of millions of dollars. In the case of historical data, more detailed definition of amounts would not be meaningful, as the purpose in stating them is usually to present a picture of relative magnitudes. In the case of projections, approximations in millions of dollars avoid any pretension that a more detailed projection is practicable.

(2) R. A. Zubrow, R. L. Decker and E. H. Plank, FINANCING STATE AND LOCAL GOVERNMENT IN NEVADA, Nevada Legislative Counsel Bureau Report No. 44. (Carson City: State Printing Office, 1960). Copies are available from the Nevada Legislative Counsel Bureau.

Throughout the discussion of new taxes and increased rates on old taxes, it must be borne in mind that the federal government will be bearing part of the burden through the deductibility of state and local taxes (generally speaking) in computing the federal income tax. At current rates, in the case of individuals, the saving would range from 14 percent to 70 percent for those who do not take the standard deduction. In the case of corporations, the saving is 48 percent (or 22 percent on the first \$25,000 of net income and 48 percent on the rest). The tax has to be imposed on the federal taxpayer himself to be eligible for deduction. The Nevada sales and use, property and gasoline taxes are examples of taxes eligible for deduction on individual returns. All taxes and licenses paid in the course of business are eligible for deduction on the corporate or other business income tax returns. State and personal income taxes paid would also, of course, be deductible. Individuals who take the standard deduction would not benefit from the deductibility feature of the federal income tax.

The federal government would bear an even greater part of the State and local tax burden if it adopted a proposal to grant a credit rather than a deduction for State and local taxes paid. (1)

(1) This proposal is discussed more fully in Harold M. Somers, *THE HELLER PLAN: A CRITIQUE AND AN ALTERNATIVE*. Institute of Government and Public Affairs, University of California, Los Angeles, November, 1965.

I. GENERAL CONSIDERATIONS

Before examining individual sources of revenue, it may be appropriate to consider, first, some overall comparisons with other states and, second, some factors concerning the use of projections.

1. FISCAL COMPARISONS WITH OTHER STATES

Several overall comparisons are made with other states in an effort to obtain a proper perspective on Nevada's fiscal problems. It may be that fiscal techniques and complicated tax provisions that are efficient in economically larger states would be inefficient in Nevada because of the size of the available tax base.

As shown in Table 201, Nevada's total revenue from all sources in fiscal 1965 was \$178,467,000. This was larger than the revenue in only four states:

- . New Hampshire
- . South Dakota
- . Vermont
- . Wyoming

and was roughly in the same range as the revenue in three others:

- . Alaska
- . Delaware
- . Idaho.

The remaining forty-two states had larger revenues, ranging from \$209 millions in North Dakota to \$6,216 millions in California.

When allowance is made for differences in population and personal income, we find that Nevada's revenue burden appears to be higher than the average. This is shown in Tables 202 and 203. Looking at the tax burden figures in Table 202, we find that Nevada's taxes per capita were

SUMMARY FINANCIAL AGGREGATES: 1965

(Thousands of dollars)

State	Revenue				Borrowing	Expenditure				Debt redemption
	Total	General	Liquor stores	Insurance trust		Total	General	Liquor stores	Insurance trust	
All States...	48,826,921	40,929,981	1,270,031	6,626,909	2,956,730	45,507,280	40,314,973	1,022,042	4,170,265	1,130,118
Alabama.....	809,438	714,588	44,310	50,540	81,303	781,328	716,904	39,812	24,612	16,658
Alaska.....	191,073	178,274	-	12,799	33,131	202,222	196,331	-	5,891	1,407
Arizona.....	468,235	409,433	-	58,802	12,801	439,967	400,960	-	39,007	796
Arkansas.....	392,781	367,540	-	25,241	7,166	368,229	347,656	-	20,573	8,047
California.....	6,216,449	4,931,577	-	1,284,872	576,696	6,122,871	5,087,486	-	1,035,385	128,392
Colorado.....	542,964	482,839	-	60,125	5,808	523,849	492,100	-	31,749	3,046
Connecticut.....	674,445	583,494	-	90,951	91,900	655,374	594,956	-	60,418	28,277
Delaware.....	190,716	180,256	-	10,460	40,904	190,955	185,113	-	5,842	15,906
Florida.....	1,197,156	1,092,047	-	105,109	123,763	1,145,196	1,093,765	-	51,431	14,534
Georgia.....	905,790	831,687	-	74,103	107,935	819,084	787,335	-	31,749	33,207
Hawaii.....	287,256	253,987	-	33,269	41,235	273,306	257,939	-	15,367	16,100
Idaho.....	196,195	166,735	15,381	14,079	3,625	182,239	160,991	11,143	10,105	438
Illinois.....	2,116,048	1,847,333	-	268,715	53,515	2,066,010	1,900,981	-	165,029	34,515
Indiana.....	1,066,367	987,468	-	78,899	25,629	1,006,440	952,813	-	53,627	9,160
Iowa.....	660,390	562,887	52,099	45,404	12,712	637,774	577,990	39,496	20,288	3,065
Kansas.....	475,796	446,527	-	29,269	13,720	453,123	431,408	-	21,715	2,383
Kentucky.....	689,385	634,619	-	54,766	16,850	690,359	637,359	-	53,000	12,163
Louisiana.....	1,124,135	1,046,937	-	77,198	50,194	1,079,671	1,036,383	-	43,288	30,251
Maine.....	251,721	198,776	29,872	23,073	193	227,398	190,229	22,076	15,093	7,031
Maryland.....	852,286	748,744	-	103,542	71,650	787,535	742,876	-	44,659	52,238
Massachusetts.....	1,223,536	1,043,130	-	180,406	224,372	1,273,120	1,106,100	-	167,020	87,252
Michigan.....	2,419,986	1,959,333	202,573	258,080	43,685	2,053,768	1,782,086	163,445	108,237	60,712
Minnesota.....	936,125	863,614	-	72,511	17,400	890,697	838,629	-	52,068	13,936
Mississippi.....	486,176	453,223	-	32,953	31,113	469,079	454,939	-	14,140	13,061
Missouri.....	902,515	816,642	-	85,873	3,425	819,843	775,520	-	44,323	5,321
Montana.....	228,289	187,312	18,355	22,622	10,507	221,567	189,724	14,967	16,876	5,066
Nebraska.....	242,298	229,440	-	12,858	3,545	237,538	227,002	-	10,536	190
Nevada.....	178,467	146,067	-	32,400	3,515	166,981	145,998	-	20,983	618
New Hampshire.....	160,897	107,388	37,197	16,312	13,150	154,837	117,372	29,247	8,218	7,349
New Jersey.....	1,192,873	897,508	-	295,365	54,633	1,060,882	825,635	-	235,247	33,671
New Mexico.....	390,643	364,164	-	26,479	27,412	353,778	339,053	-	14,725	6,483
New York.....	4,948,658	3,912,670	-	1,035,988	389,655	4,600,888	3,985,328	-	615,561	123,911
North Carolina.....	1,086,443	987,209	-	99,234	3,443	939,605	895,578	-	44,027	19,603
North Dakota.....	209,015	195,932	-	13,083	3,792	199,265	188,204	-	11,061	2,054
Ohio.....	2,408,951	1,600,580	241,821	566,550	165,235	2,016,961	1,517,592	204,482	294,887	60,553
Oklahoma.....	672,649	639,274	-	33,375	17,430	679,712	654,623	-	25,089	9,234
Oregon.....	686,757	526,556	59,682	100,519	44,170	623,788	530,282	37,633	55,873	29,354
Pennsylvania.....	2,941,696	2,157,472	280,192	504,032	189,231	2,559,301	2,079,378	230,929	248,994	85,319
Rhode Island.....	240,447	195,560	-	44,887	45,650	237,005	206,192	-	30,813	26,167
South Carolina.....	502,285	459,957	-	42,328	21,242	457,275	436,318	-	20,957	25,400
South Dakota.....	168,693	164,281	-	4,412	4,565	172,047	169,146	-	2,901	216
Tennessee.....	751,947	693,122	-	58,825	27,144	702,747	671,358	-	31,389	12,143
Texas.....	2,149,901	1,985,261	-	164,640	39,487	1,793,112	1,695,518	-	97,594	16,123
Utah.....	325,434	280,574	18,997	25,863	8,035	338,704	305,414	13,532	19,758	1,486
Vermont.....	142,537	119,746	-	12,737	10,054	135,006	115,492	-	6,687	7,920
Virginia.....	997,788	825,338	119,386	53,064	23,415	929,684	805,641	102,637	21,406	9,645
Washington.....	1,159,188	914,829	92,881	151,478	39,257	1,100,590	916,782	65,103	118,705	32,906
West Virginia.....	482,610	396,974	36,517	49,119	65,180	465,743	399,362	27,597	38,784	13,173
Wisconsin.....	1,119,396	998,955	-	120,441	49,362	1,048,727	990,691	-	58,036	2,800
Wyoming.....	162,095	142,122	8,031	11,942	1,860	152,100	138,442	7,116	6,542	838

SOURCE: U. S. Bureau of the Census, COMPENDIUM OF STATE GOVERNMENT FINANCES IN 1965, Series GF-No. 4. Table 3, p. 10. (U. S. Government Printing Office, Washington, D. C., 1966).

PER CAPITA AMOUNTS OF SELECTED FINANCIAL ITEMS: 1965

(Dollar amounts)

State	General revenue											
	Total general revenue ¹	Taxes										
		All taxes ¹	Sales and gross receipts taxes					Motor vehicle licenses	Individual income	Corporation net income	Property	Death and gift
			Total ¹	General	Motor fuels	Alcoholic beverages	Tobacco products					
50-State average..	212.05	135.36	78.02	34.77	22.28	4.75	6.65	9.68	18.95	9.99	3.97	3.79
Median State.....	214.56	133.23	78.28	² 36.62	24.22	4.39	6.88	10.06	² 14.05	² 6.95	3.23	2.38
Alabama.....	206.35	121.60	88.27	44.77	25.87	6.47	5.86	1.51	13.35	5.57	5.13	.54
Alaska.....	704.64	173.99	50.94	-	23.73	12.41	8.87	11.11	63.73	7.42	(³)	1.43
Arizona.....	254.46	147.63	92.75	54.85	24.15	3.34	2.66	9.12	10.07	5.77	20.78	4.79
Arkansas.....	187.52	111.15	78.14	38.89	25.13	3.68	6.07	9.25	9.14	7.02	.24	.47
California.....	265.02	168.32	95.20	50.72	27.39	3.57	4.00	9.21	22.06	22.38	9.60	6.17
Colorado.....	245.22	136.20	69.35	32.25	23.37	4.03	3.87	10.03	30.44	12.15	3.31	3.59
Connecticut.....	205.96	137.86	94.04	43.39	20.32	5.62	8.51	7.86	-	20.24	(³)	10.95
Delaware.....	356.94	239.50	51.66	-	24.73	4.34	7.90	11.11	83.53	20.17	.46	33.88
Florida.....	188.12	131.34	98.43	44.90	26.97	11.67	3.01	15.40	-	-	3.31	1.78
Georgia.....	190.84	125.83	91.17	47.63	24.50	7.36	8.13	5.21	14.75	11.05	.41	.47
Hawaii.....	357.23	217.73	148.08	108.71	15.46	5.88	3.67	.08	54.22	10.64	-	1.51
Idaho.....	240.95	133.26	42.87	-	25.43	4.29	6.33	15.79	41.71	11.79	8.51	1.50
Illinois.....	173.52	114.47	96.81	58.51	15.97	4.50	5.55	11.57	-	-	.14	3.10
Indiana.....	202.10	132.76	88.77	52.77	24.06	3.29	5.52	9.20	25.23	1.92	2.33	1.95
Iowa.....	203.94	120.03	69.45	33.60	23.80	2.67	5.51	19.67	20.85	2.13	1.48	3.63
Kansas.....	199.88	118.74	75.19	40.60	21.24	3.17	6.49	12.06	14.81	5.16	4.72	2.19
Kentucky.....	199.63	123.15	78.09	36.76	23.92	5.08	3.02	4.74	17.88	9.19	6.60	2.81
Louisiana.....	296.25	164.48	80.33	33.76	21.86	6.80	8.81	3.23	6.65	7.74	4.99	1.47
Maine.....	190.11	118.56	93.99	46.83	26.74	3.56	8.07	10.08	-	-	2.18	4.87
Maryland.....	212.65	149.82	82.48	32.38	21.96	3.28	6.72	8.94	39.84	7.90	5.04	2.05
Massachusetts.....	195.01	126.19	40.72	-	16.99	5.75	9.09	4.03	41.08	9.19	.06	5.91
Michigan.....	238.36	161.63	114.80	72.26	21.66	6.68	9.00	10.20	-	-	8.10	2.15
Minnesota.....	242.93	146.12	48.67	-	22.26	6.18	8.69	13.76	48.92	12.67	8.79	3.89
Mississippi.....	195.19	114.69	86.84	46.86	24.99	2.69	7.61	4.22	3.84	6.26	1.62	.70
Missouri.....	181.56	114.99	78.41	48.00	19.21	2.39	5.07	10.40	15.68	2.96	1.31	1.68
Montana.....	265.31	112.69	50.43	-	29.12	5.83	8.95	6.28	23.59	8.32	7.61	3.54
Nebraska.....	155.34	78.01	44.48	-	32.18	3.29	6.37	4.72	-	-	23.71	.15
Nevada.....	331.97	175.38	134.34	52.26	30.62	7.61	9.88	19.30	-	-	10.06	-
New Hampshire.....	160.52	80.78	51.12	-	24.89	1.99	8.41	11.38	3.18	-	3.42	3.41
New Jersey.....	132.47	80.23	45.20	-	20.30	4.43	10.61	12.12	1.23	5.29	.32	7.11
New Mexico.....	353.90	183.13	107.87	61.29	27.81	3.07	7.30	15.99	15.76	-	9.86	1.04
New York.....	216.47	158.36	41.23	-	13.88	3.49	7.03	8.40	62.61	29.20	.38	5.89
North Carolina.....	200.90	140.03	75.40	34.28	25.23	5.13	-	7.78	27.75	16.17	3.31	2.57
North Dakota.....	300.51	125.89	76.37	36.03	23.47	5.60	7.09	18.56	12.20	3.79	4.15	.71
Ohio.....	156.20	101.09	75.41	31.63	24.16	3.93	6.46	12.05	-	-	4.61	1.26
Oklahoma.....	257.46	144.01	83.31	27.87	28.39	5.63	8.68	18.21	10.67	6.88	-	3.95
Oregon.....	277.13	146.87	30.32	-	24.39	.92	-	16.68	71.52	13.98	.81	6.11
Pennsylvania.....	187.25	134.92	90.39	47.69	21.54	5.41	9.27	8.06	-	16.03	.17	6.08
Rhode Island.....	219.48	139.87	99.39	41.49	21.67	3.85	10.58	10.10	-	13.80	-	10.31
South Carolina.....	180.87	121.70	83.99	36.48	24.27	9.49	5.06	4.04	17.05	9.66	.47	.92
South Dakota.....	233.69	91.30	71.04	25.93	24.28	5.04	5.72	11.92	-	.80	(³)	1.87
Tennessee.....	180.22	112.54	81.31	41.75	24.50	3.18	7.42	9.56	1.78	8.08	(³)	2.47
Texas.....	188.14	112.51	68.57	21.04	21.72	4.12	10.45	9.93	-	-	4.37	2.57
Utah.....	283.41	149.01	87.02	51.79	24.44	1.08	5.22	7.74	22.74	6.72	14.66	2.20
Vermont.....	301.63	159.21	69.13	-	25.11	13.72	10.42	21.63	47.16	8.24	.73	4.10
Virginia.....	185.22	107.18	43.40	-	24.94	5.96	3.58	10.04	31.88	8.93	3.15	1.44
Washington.....	305.96	201.20	163.34	108.66	27.91	7.06	7.63	9.58	-	-	15.45	5.54
West Virginia.....	219.08	133.20	104.58	61.91	20.10	1.92	6.32	10.84	11.43	-	.19	2.28
Wisconsin.....	241.00	176.68	60.12	20.12	20.49	4.54	8.44	11.84	65.83	19.74	9.94	5.04
Wyoming.....	418.01	140.94	78.12	39.85	27.02	1.90	5.16	25.89	-	-	24.96	1.61

¹Including amounts for categories not shown separately.²Medians based on those States having the specified finance items are: general sales or gross receipts tax, \$43.39; individual income tax, \$21.46; and corporation net income tax, \$8.32.³Less than \$.005.

SOURCE: U. S. Bureau of the Census, COMPENDIUM OF STATE GOVERNMENT FINANCIES IN 1965, Series GF-No. 4. Table 4, p. 11. (U. S. Government Printing Office, Washington, D. C., 1966).

**RELATION OF SELECTED ITEMS OF STATE GOVERNMENT FINANCES
TO PERSONAL INCOME: 1965**

State	General revenue per \$1,000 of personal income						General expenditure per \$1,000 of personal income					
	Total	Taxes			Revenue from Federal Government	Charges and miscellaneous	Total	Education			Highways	Public welfare
		Total	General sales or gross receipts	Individual income				Total	State institutions of higher education	Inter-governmental		
50-State average	83.85	53.52	13.75	7.49	20.23	9.18	82.59	29.77	10.77	17.11	20.17	11.13
Median State.....	101.46	57.75	16.95	6.25	24.66	10.90	97.22	35.96	13.74	17.86	25.93	10.42
Alabama.....	119.92	70.67	26.02	7.76	37.77	10.52	120.31	45.06	13.43	26.66	34.16	20.37
Alaska.....	228.85	96.51	-	20.70	140.65	31.27	252.03	61.33	21.00	21.85	100.25	8.52
Arizona.....	115.99	67.29	25.00	4.59	33.72	14.36	113.59	44.35	21.95	20.28	28.94	9.64
Arkansas.....	114.86	68.08	23.82	5.60	37.76	8.89	108.64	35.68	14.05	19.11	30.31	20.50
California.....	87.87	55.81	16.82	7.31	23.35	8.04	90.65	30.75	10.79	18.93	17.19	15.21
Colorado.....	95.73	53.17	12.59	11.88	29.04	13.38	97.56	36.74	22.83	12.29	22.78	17.58
Connecticut.....	64.30	43.04	13.55	-	12.10	8.50	65.56	16.38	4.86	9.22	19.08	9.52
Delaware.....	106.10	71.19	-	24.83	16.31	16.68	108.95	53.40	13.39	35.63	23.25	7.42
Florida.....	85.04	59.37	20.30	-	17.94	6.91	85.18	34.32	8.92	23.66	22.09	8.58
Georgia.....	99.66	65.71	24.87	7.70	25.51	7.57	94.35	41.46	11.15	26.68	20.50	13.57
Hawaii.....	140.56	85.67	42.78	21.33	32.63	20.13	142.74	52.38	16.05	-	13.64	8.24
Idaho.....	119.27	65.96	-	20.65	40.33	11.63	115.16	35.67	14.51	17.52	41.99	11.22
Illinois.....	97.92	38.21	19.53	-	14.86	4.60	99.60	19.43	9.17	9.15	15.10	10.89
Indiana.....	80.46	52.85	21.01	10.04	14.94	12.19	77.63	36.98	19.34	16.38	22.25	3.77
Iowa.....	85.96	50.59	14.16	8.79	21.55	9.73	88.27	27.81	18.23	7.98	29.39	10.62
Kansas.....	85.56	50.83	17.38	6.34	22.14	10.92	82.66	29.08	17.56	10.40	24.17	10.30
Kentucky.....	109.78	67.72	20.22	9.83	31.69	9.99	113.71	38.14	12.11	22.23	33.21	16.83
Louisiana.....	160.82	89.29	18.33	3.61	43.73	26.76	159.20	51.41	14.30	33.67	36.15	31.17
Maine.....	94.30	55.85	22.06	-	23.81	12.66	90.24	23.42	9.43	11.11	29.30	13.11
Maryland.....	76.11	53.62	11.59	14.26	13.10	8.68	75.51	24.71	8.62	15.28	17.25	6.25
Massachusetts.....	65.90	42.64	-	13.88	14.15	5.73	69.88	12.13	4.54	6.36	14.71	12.44
Michigan.....	87.82	59.55	26.62	-	17.40	9.72	79.87	36.23	16.23	19.03	15.68	8.35
Minnesota.....	103.25	62.11	-	20.79	26.12	13.47	100.27	42.26	18.18	23.18	26.42	10.18
Mississippi.....	136.18	80.02	32.70	2.68	40.85	13.10	136.70	51.06	17.41	31.05	39.71	19.70
Missouri.....	71.24	45.12	18.84	6.15	20.98	4.84	67.65	21.83	8.03	13.05	21.12	12.67
Montana.....	118.03	50.13	-	10.50	50.72	15.98	119.55	37.14	18.79	16.97	51.24	7.71
Nebraska.....	65.99	33.14	-	-	20.38	8.83	65.29	15.71	11.80	2.31	25.43	8.08
Nevada.....	110.24	58.24	17.35	-	44.20	7.50	110.19	30.22	8.14	20.41	48.24	5.62
New Hampshire.....	69.06	34.75	-	1.37	19.32	12.21	75.48	17.23	11.64	3.36	26.69	7.30
New Jersey.....	44.70	27.07	-	.42	8.66	7.54	41.12	11.87	4.79	6.37	10.73	4.96
New Mexico.....	176.95	91.57	30.65	7.88	50.03	34.68	164.75	79.59	28.56	47.60	42.01	16.28
New York.....	69.07	50.53	-	19.98	11.66	6.68	70.35	28.17	5.18	20.78	9.17	9.78
North Carolina.....	106.36	74.13	18.15	14.69	21.46	10.08	96.49	46.22	13.49	29.77	18.76	9.54
North Dakota.....	142.39	59.65	17.07	5.78	39.76	39.94	136.78	37.77	22.80	12.93	43.15	13.03
Ohio.....	59.88	38.76	12.13	-	13.57	6.93	56.78	15.89	7.34	8.15	19.91	8.38
Oklahoma.....	124.52	69.65	13.48	5.16	37.16	17.40	127.51	40.27	20.00	18.19	31.81	31.38
Oregon.....	107.99	57.23	-	27.87	32.94	15.97	108.75	36.73	19.65	15.20	33.86	10.98
Pennsylvania.....	72.39	52.16	18.43	-	12.92	6.10	69.77	25.36	5.65	16.63	17.72	9.23
Rhode Island.....	85.10	54.23	16.09	-	23.74	6.52	89.73	23.07	8.63	11.04	21.61	15.67
South Carolina.....	108.76	73.18	21.93	10.25	22.78	11.66	103.17	43.00	10.75	25.91	23.34	8.80
South Dakota.....	122.32	47.79	13.57	-	50.10	21.83	125.95	30.81	21.66	7.51	57.24	11.74
Tennessee.....	98.16	61.30	22.74	.97	29.68	6.14	95.08	33.68	10.81	21.00	32.48	10.26
Texas.....	87.27	52.19	9.76	-	21.14	13.57	74.53	33.67	10.63	21.95	19.58	10.54
Utah.....	131.17	68.97	23.97	10.52	48.19	13.34	142.78	68.48	27.99	37.86	40.49	12.70
Vermont.....	138.12	72.90	-	21.60	47.72	15.60	133.21	38.24	22.46	11.87	49.85	13.08
Virginia.....	84.18	48.72	-	14.49	23.74	10.87	82.17	26.53	9.82	14.98	31.29	3.97
Washington.....	116.38	76.53	41.33	-	26.13	13.17	116.62	51.11	17.56	30.46	25.01	16.58
West Virginia.....	112.43	68.35	31.77	5.86	34.94	8.85	113.10	37.82	13.99	21.65	37.23	17.99
Wisconsin.....	97.68	71.61	8.16	26.68	15.53	9.02	96.87	31.18	18.52	11.62	16.51	7.97
Wyoming.....	169.80	57.25	16.19	-	89.01	21.94	165.40	45.28	20.28	23.42	83.72	6.38

Note: State financial amounts for fiscal 1965 are related herein to personal income data as estimated for calendar 1964 (see table 20).
 Medians based on those States having the specified finance items are: general sales or gross receipts taxes, \$18.84; and individual income taxes, \$9.94.

SOURCE: U. S. Bureau of the Census, COMPENDIUM OF STATE GOVERNMENT FINANCES IN 1965, Series GF-No. 4. Table 6, p. 18. (U. S. Government Printing Office, Washington, D. C., 1966).

\$175.38 in fiscal 1965, while the average for all fifty states was \$135.36.

Nevada's tax burden per capita actually appears to be one of the highest in the nation. It was exceeded only by:

- . Delaware
- . Hawaii
- . New Mexico
- . Washington
- . Wisconsin

and was about the same as Alaska.

The comparison of taxes relative to personal income is perhaps of greatest significance since personal income is one of the recognized criteria (wealth being the other) of ability to pay taxes. Nevada's taxes at the state level totaled \$58.24 per \$1,000 of personal income in fiscal 1965, compared with a fifty-state average of \$53.52 and extremes of \$91.57 in New Mexico and \$27.07 in New Jersey. In an array of the fifty states, Nevada would be approximately in the middle, the median being \$57.75.

One important caution must be sounded in interpreting any of these figures. What we have is the revenue accruing to the respective states but not revenues necessarily derived from the residents of those states. To the extent that tourists and other nonresidents pay taxes in Nevada — and the extent is undoubtedly great — the data exaggerate the burden on Nevadan residents; and, of course, grants from the federal government represent a burden on all taxpayers in the United States (including Nevada) and not on Nevadans alone. When these factors are considered, the revenue aggregates represent the size of the fiscal operation in Nevada — the role of government if you will — rather than the tax burden on Nevadans.

2. REVENUE PROJECTIONS

It must be emphasized at the outset that revenue projections five and ten years into the future must be based to a large extent on assumption and conjecture. In no sense can the "projections" be construed as "predictions" as to what will actually occur. The projections are merely extensions into the future of existing figures on the assumption that certain conditions will then prevail. Alternative assumptions yield alternative projections. No prediction is made as to which conditions will actually prevail, hence which projections will become reality. The projections are nevertheless useful in providing a framework within which long-run thinking and planning can occur for a variety of eventualities.

For tax revenues as a whole, a major benchmark must be the trend of population. The total resident population of Nevada on July 1, 1964 was 419,000 according to the U. S. Census Bureau. The figure for the United States as a whole was 191,371,000. ⁽¹⁾ The increase from April 1, 1960 to July 1, 1964 was 46.8 percent for Nevada compared with 6.7 percent for the United States as a whole. ⁽²⁾ Nevada had by far the largest increase of any state, the closest contenders being Arizona with 19.0 percent and California with 15.0 percent. The average for the mountain states as a whole (which includes Arizona and Nevada) was 11.2 percent, and for the Pacific states as a whole (which includes California) was 12.7 percent. Details and further comparisons are available in Tables 204 and 205.

(1) U. S. Bureau of the Census, POPULATION ESTIMATES, Series P-25, No. 333, March 30, 1966, p. 6.

(2) Same source, p. 8.

The extraordinary rate of growth of Nevada's population must be borne in mind in making projections into the future, especially in comparison with the country as a whole. From an estimate of 192,110,000 at the beginning of fiscal 1965, the following projections have been made in the national figures for the beginning of fiscal 1970 on the basis of four different sets of assumptions as to fertility:⁽¹⁾

A	205,641,000
B	204,364,000
C	203,198,000
D	202,256,000

The annual rate of growth does not reach as high as 2.0 percent from one year to the next.

The radical difference between Nevada's and the nation's rate of growth of population in recent years is attributable to the high rate of net migration into Nevada. On the assumption that the trend will continue, the population of Nevada has been projected to increase to 602,600 at the beginning of calendar 1970.⁽²⁾ This represents more than a 10 percent uncompounded annual average increase over the 1960 U. S. Census figure of 285,278.⁽³⁾ The much smaller rate of increase implicit in the national projections should serve as a constant reminder of the special assumptions underlying projections of Nevada's future growth.

(1) U. S. Bureau of the Census, POPULATION ESTIMATES, Series P-25, No. 345, July 29, 1966, Table 1, pp. 4-5.

(2) Estimate released by Nevada Research and Planning Conference, June 20, 1966.

(3) U. S. Bureau of the Census, POPULATION ESTIMATES, Series P-25, No. 333, March 30, 1966, Table 2, p. 7.

TABLE 204

ESTIMATES OF THE TOTAL RESIDENT POPULATION, BY AGE, FOR STATES: JULY 1, 1964

Region, division, and State	Total resident population	Under 5 years	5 to 17 years	18 to 44 years	45 to 64 years	65 years and over	14 years and over	18 years and over	21 years and over
United States.....	191,371,000	20,691,000	49,536,000	64,878,000	38,409,000	17,856,000	135,381,000	121,143,000	112,944,000
REGIONS:									
Northeast.....	47,051,000	4,716,000	11,333,000	15,786,000	10,415,000	4,801,000	34,274,000	31,002,000	29,156,000
North Central.....	53,610,000	5,861,000	14,080,000	17,438,000	10,874,000	5,358,000	37,651,000	33,669,000	31,523,000
South.....	59,208,000	6,634,000	15,903,000	20,499,000	11,133,000	5,039,000	41,335,000	36,671,000	33,859,000
West.....	31,502,000	3,480,000	8,221,000	11,155,000	5,987,000	2,659,000	22,122,000	19,801,000	18,406,000
NORTHEAST:									
New England.....	11,021,000	1,150,000	2,711,000	3,641,000	2,339,000	1,180,000	7,941,000	7,160,000	6,714,000
Middle Atlantic.....	36,030,000	3,466,000	8,621,000	12,146,000	8,076,000	3,620,000	26,333,000	23,842,000	22,442,000
NORTH CENTRAL:									
West North Central.....	37,802,000	4,141,000	9,968,000	12,460,000	7,679,000	3,554,000	26,497,000	23,692,000	22,202,000
East North Central.....	15,806,000	1,720,000	4,111,000	4,978,000	3,195,000	1,803,000	11,154,000	9,976,000	9,321,000
SOUTH:									
South Atlantic.....	28,246,000	3,122,000	7,476,000	10,003,000	5,280,000	2,365,000	19,841,000	17,648,000	16,303,000
East South Central.....	12,684,000	1,408,000	3,478,000	4,278,000	2,408,000	1,113,000	8,848,000	7,799,000	7,180,000
West South Central.....	18,277,000	2,104,000	4,949,000	6,237,000	3,446,000	1,560,000	12,646,000	11,225,000	10,375,000
WEST:									
Mountain.....	7,619,000	932,000	2,142,000	2,621,000	1,341,000	584,000	5,145,000	4,546,000	4,198,000
Pacific.....	23,883,000	2,548,000	6,079,000	8,535,000	4,646,000	2,075,000	16,977,000	15,256,000	14,208,000
NEW ENGLAND:									
Maine.....	989,000	110,000	256,000	318,000	195,000	110,000	700,000	623,000	579,000
New Hampshire.....	659,000	70,000	166,000	218,000	133,000	72,000	472,000	423,000	396,000
Vermont.....	396,000	44,000	104,000	124,000	80,000	45,000	280,000	249,000	232,000
Massachusetts.....	5,309,000	553,000	1,285,000	1,729,000	1,144,000	598,000	3,841,000	3,470,000	3,262,000
Rhode Island ¹	884,000	89,000	211,000	298,000	190,000	95,000	645,000	583,000	546,000
Connecticut.....	2,783,000	284,000	689,000	953,000	597,000	261,000	2,003,000	1,811,000	1,699,000
MIDDLE ATLANTIC:									
New York.....	17,872,000	1,774,000	4,164,000	6,055,000	4,055,000	1,824,000	13,135,000	11,935,000	11,250,000
New Jersey.....	6,665,000	668,000	1,618,000	2,308,000	1,454,000	617,000	4,836,000	4,379,000	4,113,000
Pennsylvania.....	11,492,000	1,125,000	2,839,000	3,783,000	2,567,000	1,179,000	8,363,000	7,529,000	7,079,000
EAST NORTH CENTRAL:									
Ohio.....	10,151,000	1,089,000	2,707,000	3,393,000	2,024,000	938,000	7,124,000	6,355,000	5,963,000
Indiana.....	4,843,000	537,000	1,285,000	1,609,000	950,000	462,000	3,388,000	3,021,000	2,825,000
Illinois.....	10,545,000	1,140,000	2,631,000	3,476,000	2,265,000	1,032,000	7,507,000	6,773,000	6,370,000
Michigan.....	8,154,000	912,000	2,249,000	2,693,000	1,609,000	690,000	5,617,000	4,992,000	4,661,000
Wisconsin.....	4,110,000	463,000	1,096,000	1,288,000	830,000	432,000	2,860,000	2,551,000	2,384,000
WEST NORTH CENTRAL:									
Minnesota.....	3,525,000	408,000	958,000	1,086,000	693,000	381,000	2,429,000	2,160,000	2,016,000
Iowa.....	2,761,000	294,000	720,000	843,000	564,000	341,000	1,960,000	1,748,000	1,636,000
Missouri.....	4,473,000	463,000	1,104,000	1,436,000	949,000	520,000	3,222,000	2,906,000	2,726,000
North Dakota.....	650,000	76,000	182,000	206,000	124,000	61,000	443,000	391,000	359,000
South Dakota.....	731,000	83,000	194,000	216,000	133,000	76,000	480,000	425,000	394,000
Nebraska.....	1,471,000	163,000	378,000	467,000	292,000	172,000	1,038,000	930,000	869,000
Kansas.....	2,227,000	234,000	576,000	724,000	442,000	252,000	1,582,000	1,417,000	1,322,000
SOUTH ATLANTIC:									
Delaware.....	496,000	58,000	132,000	175,000	93,000	38,000	342,000	306,000	285,000
Maryland.....	3,441,000	344,000	914,000	1,229,000	662,000	290,000	2,398,000	2,144,000	1,989,000
District of Columbia.....	795,000	2,962,000	168,000	232,000	178,000	72,000	575,000	531,000	504,000
Virginia.....	4,367,000	1,149,000	1,625,000	800,000	313,000	3,073,000	2,738,000	2,530,000	2,350,000
West Virginia.....	1,824,000	181,000	493,000	588,000	381,000	180,000	1,311,000	1,149,000	1,064,000
North Carolina.....	4,855,000	539,000	1,328,000	1,763,000	879,000	346,000	3,392,000	2,988,000	2,736,000
South Carolina.....	2,523,000	297,000	734,000	902,000	424,000	166,000	1,713,000	1,492,000	1,351,000
Georgia.....	4,295,000	500,000	1,175,000	1,527,000	778,000	314,000	2,969,000	2,620,000	2,404,000
Florida.....	5,651,000	584,000	1,384,000	1,912,000	1,084,000	686,000	4,067,000	3,682,000	3,447,000
EAST SOUTH CENTRAL:									
Kentucky.....	3,160,000	344,000	846,000	1,061,000	603,000	306,000	2,228,000	1,970,000	1,818,000
Tennessee.....	3,800,000	399,000	999,000	1,328,000	744,000	330,000	2,704,000	2,402,000	2,224,000
Alabama.....	3,426,000	385,000	959,000	1,156,000	646,000	279,000	2,372,000	2,082,000	1,913,000
Mississippi.....	2,298,000	280,000	673,000	733,000	414,000	198,000	1,545,000	1,345,000	1,225,000
WEST SOUTH CENTRAL:									
Arkansas.....	1,939,000	214,000	509,000	622,000	388,000	205,000	1,373,000	1,216,000	1,119,000
Louisiana.....	3,487,000	430,000	1,001,000	1,167,000	629,000	260,000	2,340,000	2,056,000	1,893,000
Oklahoma.....	2,461,000	249,000	616,000	830,000	502,000	263,000	1,780,000	1,596,000	1,481,000
Texas.....	10,391,000	1,210,000	2,823,000	3,600,000	1,926,000	832,000	7,154,000	6,358,000	5,882,000
MOUNTAIN:									
Montana.....	702,000	81,000	195,000	225,000	135,000	66,000	482,000	426,000	395,000
Idaho.....	688,000	78,000	196,000	220,000	132,000	62,000	471,000	414,000	381,000
Wyoming.....	338,000	39,000	93,000	113,000	65,000	28,000	233,000	206,000	191,000
Colorado.....	1,936,000	217,000	518,000	680,000	353,000	168,000	1,346,000	1,200,000	1,116,000
New Mexico.....	1,013,000	144,000	306,000	344,000	160,000	58,000	649,000	563,000	514,000
Arizona.....	1,590,000	194,000	424,000	546,000	263,000	113,000	1,042,000	922,000	850,000
Utah.....	973,000	128,000	294,000	327,000	157,000	67,000	631,000	550,000	505,000
Nevada.....	419,000	50,000	105,000	166,000	76,000	22,000	291,000	264,000	246,000
PACIFIC:									
Washington.....	2,967,000	310,000	776,000	983,000	604,000	294,000	2,112,000	1,881,000	1,745,000
Oregon.....	1,881,000	182,000	489,000	611,000	399,000	199,000	1,355,000	1,209,000	1,128,000
California.....	18,077,000	1,933,000	4,552,000	6,555,000	3,496,000	1,541,000	12,864,000	11,591,000	10,822,000
Alaska.....	250,000	37,000	70,000	103,000	34,000	6,000	160,000	143,000	128,000
Hawaii.....	708,000	86,000	191,000	284,000	113,000	35,000	485,000	431,000	385,000

¹ At the time the estimates were in process, only the overall total was available from the October 1, 1963, special census of Rhode Island. Data, by age, have since become available as follows: Under 5 years, 86,000; 5 to 17 years, 213,000; 18 to 44 years, 307,000; 45 to 64 years, 192,000; and 65 years and over, 95,000. Detailed results of the special census of Rhode Island are given in Current Population Reports, Series P-28, No. 1393.

² Numbers for this age group are shown for the District of Columbia, Maryland, and Virginia combined. See "Accuracy of estimates" section of text.

SOURCE: U. S. Bureau of the Census, POPULATION ESTIMATES, Series P-25, No. 333, March 30, 1966, Table 1, p. 6.
(U. S. Government Printing Office, Washington, D. C., 1966).

TABLE 205

PERCENT CHANGE IN THE TOTAL RESIDENT POPULATION, BY AGE, FOR STATES: APRIL 1, 1960, TO JULY 1, 1964

Region, division, and State	Total resident population	Under 5 years	5 to 17 years	18 to 44 years	45 to 64 years	65 years and over	14 years and over	18 years and over	21 years and over
United States.....	+6.7	+1.8	+12.9	+3.8	+6.5	+7.8	+7.2	+5.2	+4.5
REGIONS:									
Northeast.....	+5.3	+1.3	+12.7	+1.4	+5.3	+6.7	+5.3	+3.5	+2.7
North Central.....	+3.9	-2.5	+12.1	-0.7	+4.4	+5.5	+4.1	+1.9	+1.3
South.....	+7.7	+3.4	+10.9	+6.5	+7.2	+10.0	+8.9	+7.2	+6.4
West.....	+12.3	+7.4	+18.8	+10.1	+11.8	+10.7	+12.8	+10.7	+9.7
NORTHEAST:									
New England.....	+4.9	+1.3	+12.2	+0.9	+5.0	+5.2	+4.7	+2.9	+2.3
Middle Atlantic.....	+5.4	+1.3	+12.8	+1.5	+5.3	+7.2	+5.4	+3.6	+2.7
NORTH CENTRAL:									
East North Central.....	+4.4	-2.6	+13.2	-0.6	+5.6	+5.8	+4.6	+2.3	+1.7
West North Central.....	+2.7	-2.2	+9.4	-0.7	+1.6	+4.8	+3.0	+1.0	+0.4
SOUTH:									
South Atlantic.....	+8.8	+4.5	+11.9	+7.1	+8.6	+12.7	+10.0	+8.2	+7.5
East South Central.....	+5.3	+0.2	+7.2	+5.3	+5.3	+5.8	+7.0	+5.4	+4.6
West South Central.....	+7.8	+4.0	+12.1	+6.5	+6.3	+9.1	+8.6	+6.8	+5.9
WEST:									
Mountain.....	+11.2	+6.2	+16.7	+8.7	+11.5	+10.7	+12.0	+9.8	+8.8
Pacific.....	+12.7	+7.9	+19.5	+10.5	+11.8	+10.8	+13.1	+10.9	+9.9
NEW ENGLAND:									
Maine.....	+2.1	+1.4	+6.3	-0.6	+0.9	+3.2	+2.5	+0.5	-0.3
New Hampshire.....	+2.6	+5.7	+15.3	+7.8	+5.1	+6.1	+9.0	+6.7	+6.3
Vermont.....	+1.7	-0.4	+5.7	-0.8	+1.5	+1.9	+2.3	+0.4	+0.5
Massachusetts.....	+3.1	+0.9	+10.8	-1.7	+3.0	+4.6	+2.7	+0.9	+0.5
Rhode Island.....	+2.8	-0.7	+10.4	-2.0	+3.4	+5.7	+2.7	+0.9	+1.2
Connecticut.....	+9.8	+2.0	+18.3	+6.2	+11.6	+7.7	+9.8	+8.1	+6.8
MIDDLE ATLANTIC:									
New York.....	+6.5	+4.9	+14.2	+3.2	+4.2	+8.1	+6.0	+4.3	+3.4
New Jersey.....	+9.9	+4.0	+18.3	+6.2	+9.8	+10.1	+9.8	+7.9	+6.5
Pennsylvania.....	+1.5	-5.3	+8.1	-3.6	+4.7	+4.5	+2.2	+0.3	-0.3
EAST NORTH CENTRAL:									
Ohio.....	+4.6	-4.4	+14.3	-0.4	+6.8	+4.5	+5.3	+2.5	+2.1
Indiana.....	+3.9	-1.2	+11.2	-0.4	+5.2	+3.8	+4.2	+2.0	+1.7
Illinois.....	+4.6	+0.9	+14.0	-0.8	+4.7	+5.9	+4.0	+2.0	+1.4
Michigan.....	+4.2	-5.9	+13.0	-1.0	+6.9	+8.1	+5.0	+2.6	+1.8
Wisconsin.....	+4.0	-1.3	+11.4	-0.2	+3.1	+7.3	+4.3	+2.1	+1.2
WEST NORTH CENTRAL:									
Minnesota.....	+3.3	-2.0	+10.5	-1.3	+2.4	+7.5	+3.6	+1.4	+0.7
Iowa.....	+0.1	-4.3	+5.9	-4.3	+0.3	+4.0	+0.9	-1.3	-1.7
Missouri.....	+3.6	-0.5	+11.1	+1.0	+1.4	+3.4	+3.3	+1.6	+1.1
North Dakota.....	+2.7	-4.0	+15.8	+1.8	+3.4	+4.6	+4.1	+2.7	+1.3
South Dakota.....	+3.0	-0.6	+8.1	-0.2	+1.4	+6.6	+3.7	+1.5	+0.5
Nebraska.....	+4.2	+1.5	+11.2	+1.2	+1.3	+4.8	+4.2	+2.1	+1.2
Kansas.....	+2.2	-5.0	+9.6	-1.5	+2.3	+4.7	+2.8	+0.7	(2)
SOUTH ATLANTIC:									
Delaware.....	+11.1	+4.7	+22.2	+6.2	+12.4	+7.5	+10.5	+8.2	+6.8
Maryland.....	+11.0	+6.5	+18.8	+6.8	+12.7	+10.3	+11.3	+9.0	+7.8
District of Columbia.....	+4.1	+6.5	+18.5	-5.9	-1.0	+3.5	-0.6	-2.5	-0.7
Virginia.....	+10.1	+6.5	+14.2	+8.6	+11.6	+8.5	+11.2	+9.4	+9.0
West Virginia.....	-2.0	-7.6	-2.5	-4.0	+2.2	+4.4	+1.2	-0.8	-1.8
North Carolina.....	+6.6	+2.4	+6.4	+5.9	+9.2	+10.7	+8.8	+7.4	+7.0
South Carolina.....	+5.9	+0.9	+5.2	+6.1	+8.9	+10.0	+8.5	+7.3	+6.7
Georgia.....	+8.9	+5.9	+10.7	+8.6	+9.2	+8.1	+10.4	+8.7	+7.8
Florida.....	+14.1	+8.0	+21.4	+12.6	+6.3	+24.0	+14.3	+12.6	+11.6
EAST SOUTH CENTRAL:									
Kentucky.....	+4.0	+0.4	+6.1	+3.7	+3.6	+4.7	+5.6	+3.8	+3.1
Tennessee.....	+6.5	+1.3	+8.5	+6.4	+7.0	+6.8	+8.2	+6.6	+6.3
Alabama.....	+4.9	-1.3	+6.6	+4.3	+6.5	+6.9	+7.0	+5.3	+4.3
Mississippi.....	+5.5	+0.7	+7.5	+7.4	+3.0	+4.3	+7.3	+5.6	+4.6
WEST SOUTH CENTRAL:									
Arkansas.....	+8.5	+10.1	+7.3	+13.1	+4.1	+5.6	+9.9	+8.8	+7.2
Louisiana.....	+7.0	+1.6	+12.2	+5.3	+6.2	+7.6	+8.1	+5.9	+4.9
Oklahoma.....	+5.7	+2.8	+7.6	+6.5	+3.4	+5.9	+6.7	+5.4	+4.6
Texas.....	+8.5	+4.2	+14.0	+5.7	+7.6	+11.6	+9.0	+7.0	+6.3
MOUNTAIN:									
Montana.....	+4.1	-2.4	+10.1	+0.5	+7.9	+1.1	+5.1	+2.1	+1.6
Idaho.....	+3.1	-4.8	+5.5	+0.5	+7.4	+7.1	+5.4	+3.6	+2.2
Wyoming.....	+2.5	-4.4	+7.5	-2.1	+6.0	+9.3	+4.2	+1.8	+0.5
Colorado.....	+10.4	+3.7	+17.8	+8.4	+10.3	+6.1	+11.1	+8.7	+8.2
New Mexico.....	+6.5	+5.9	+12.1	-0.6	+11.7	+13.5	+6.9	+3.8	+2.6
Arizona.....	+19.0	+16.4	+23.7	+17.5	+14.7	+24.8	+19.6	+17.5	+16.2
Utah.....	+9.3	+1.8	+15.0	+6.7	+10.2	+11.3	+10.3	+8.2	+8.0
Nevada.....	+46.8	+50.1	+57.7	+52.7	+30.8	+14.1	+44.3	+45.3	+40.4
PACIFIC:									
Washington.....	+4.0	-1.8	+9.1	+0.1	+6.8	+5.3	+5.3	+3.0	+1.6
Oregon.....	+6.3	-1.7	+9.9	+5.3	+6.6	+8.6	+8.3	+4.3	+5.1
California.....	+15.0	+10.7	+22.9	+13.0	+13.1	+12.0	+15.0	+12.9	+12.0
Alaska.....	+10.7	+9.2	+28.4	-0.8	+21.3	+9.2	+7.6	+4.1	+3.2
Hawaii.....	+11.9	+5.8	+12.5	+11.1	+15.9	+14.2	+13.8	+12.9	+10.6

2 Less than 0.05.

1 Numbers for this age group are shown for the District of Columbia, Maryland, and Virginia combined. See "Accuracy of estimates" section of text.

SOURCE: U. S. Bureau of the Census, POPULATION ESTIMATES, Series P-25, No. 333, March 30, 1966, Table 3, p. 8.
(U. S. Government Printing Office, Washington, D. C., 1966).

United States
CONSUMER PRICES
(1957-59=100)

Period	All items	Food	Housing					Apparel and upkeep	Transportation	Health and recreation					
			Total	Rent	Home-ownership	Fuel oil and coal	Gas and electricity			Furnishings and operation	Total	Medical care	Personal care	Reading and recreation	Other goods and services
1929	59.7	55.6		85.4											
1933	45.1	35.3		60.8											
1941	51.3	44.2		64.3			45.2	88.3		51.2		50.6	47.6	57.3	58.2
1945	62.7	58.4	61.4	66.1			53.6	86.4		55.4		57.5	63.6	75.0	67.3
1957	98.0	97.8	98.5	98.3	98.2	100.8	96.9	99.4	99.5	96.5	97.0	95.5	97.1	96.9	98.5
1958	100.7	101.9	100.2	100.1	100.4	99.0	100.3	99.9	99.8	99.7	100.3	100.1	100.4	100.8	99.8
1959	101.5	100.3	101.3	101.6	101.4	100.2	102.8	100.7	100.6	103.8	102.8	104.4	102.4	102.4	101.8
1960	103.1	101.4	103.1	103.1	103.7	99.5	107.0	101.5	102.2	103.8	105.4	108.1	104.1	104.9	103.8
1961	104.2	102.6	103.9	104.4	104.4	101.6	107.9	101.4	103.0	105.0	107.3	111.3	104.6	107.2	104.6
1962	105.4	103.6	104.8	105.7	105.6	102.1	107.9	101.5	103.6	107.2	109.4	114.2	106.5	109.6	105.3
1963	106.7	105.1	106.0	106.8	107.0	104.0	107.8	102.4	104.8	107.8	111.4	117.0	107.9	111.5	107.1
1964	108.1	106.4	107.2	107.8	109.1	103.5	107.9	102.8	105.7	109.3	113.6	119.4	109.2	114.1	108.8
1965	109.9	108.8	108.5	108.9	111.4	105.6	107.8	103.1	106.8	111.1	115.6	122.3	109.9	115.2	111.4
1965—June	110.1	110.1	108.2	108.8	111.0	103.4	107.8	103.1	106.9	111.2	115.7	122.2	111.0	115.7	111.0
July	110.2	110.9	108.3	108.9	111.2	103.2	106.9	102.9	106.1	111.5	115.3	122.7	108.7	114.6	111.5
Aug.	110.0	110.1	108.2	109.0	111.4	103.5	107.7	102.9	106.4	111.0	115.6	122.8	109.0	114.3	112.6
Sept.	110.2	109.7	108.6	109.1	111.6	104.3	107.9	103.1	107.2	111.0	115.8	122.8	109.2	114.8	112.7
Oct.	110.4	109.7	109.0	109.2	112.1	106.9	107.9	103.3	107.8	111.2	116.2	123.0	109.2	115.2	113.3
Nov.	110.6	109.7	109.2	109.3	112.5	108.0	108.0	103.3	108.1	111.5	116.4	123.4	109.6	115.4	113.3
Dec.	111.0	110.6	109.4	109.5	112.9	108.6	108.0	103.6	108.1	111.6	116.6	123.7	110.0	115.4	113.4
1966—Jan.	111.0	111.4	109.2	109.7	113.1	108.9	107.9	103.6	107.3	111.2	116.9	124.2	110.4	115.7	113.4
Feb.	111.6	113.1	109.4	109.8	113.3	109.0	108.2	103.8	107.6	111.1	117.1	124.5	110.8	115.9	113.6
Mar.	112.0	113.9	109.6	109.9	113.5	108.9	108.2	104.0	108.2	111.4	117.6	125.3	111.0	116.6	113.8
Apr.	112.5	114.0	110.3	110.1	114.3	108.5	108.3	104.4	108.7	112.0	118.1	125.8	111.6	116.8	114.3
May	112.6	113.5	110.7	110.2	115.0	108.0	108.2	104.6	109.3	112.0	118.4	126.3	112.0	116.8	114.7
June	112.9	113.9	111.1	110.2	115.8	107.0	108.1	104.8	109.4	112.2	118.7	127.0	112.2	117.0	114.9

NOTE.—Bureau of Labor Statistics index for city wage-earners and clerical workers.
The new series index begins with Jan. 1964.

SOURCE: FEDERAL RESERVE BULLETIN, August 1966, p. 1234.

United States
WHOLESALE PRICES: SUMMARY
(1957-59=100)

Period	All commodities	Farm products	Processed foods	Other commodities													
				Total	Textiles, etc.	Hides, etc.	Fuel, etc.	Chemicals, etc.	Rubber, etc.	Lumber, etc.	Paper, etc.	Metals, etc.	Machinery	Furniture, etc.	Non-metallic minerals	Tobacco, etc.	Miscellaneous
1957	99.0	99.2	97.9	99.2	100.8	94.9	102.7	99.6	100.2	98.5	99.0	99.7	97.7	99.4	98.9	98.0	96.6
1958	100.4	103.6	102.9	99.5	98.9	96.0	98.7	100.4	100.1	97.4	100.1	99.1	100.1	100.2	99.9	99.1	101.5
1959	100.6	97.2	99.2	101.3	100.4	109.1	98.7	100.0	99.7	104.1	101.0	101.2	102.2	100.4	101.2	102.2	101.9
1960	100.7	96.9	100.0	101.3	101.5	105.2	99.6	100.2	99.9	100.4	101.8	101.3	102.4	100.1	101.4	102.5	99.3
1961	100.3	96.0	100.7	100.8	99.7	106.2	100.7	99.1	96.1	95.9	98.8	100.7	102.3	99.5	101.8	103.2	103.9
1962	100.6	97.7	101.2	100.8	100.6	107.4	100.2	97.5	93.3	96.5	100.0	100.0	102.3	98.8	101.8	104.1	107.3
1963	100.3	95.7	101.1	100.7	100.5	104.2	99.8	96.3	93.8	98.6	99.2	100.1	102.2	98.1	101.3	106.1	110.4
1964	100.5	94.3	101.0	101.2	101.2	104.6	97.1	96.7	92.5	100.6	99.0	102.8	102.9	98.5	101.5	107.4	109.2
1965	102.5	98.4	105.1	102.5	101.8	109.2	97.4	92.9	101.1	99.9	105.7	103.7	98.0	101.7	107.7	111.0	
1965—June	102.8	100.3	106.1	102.5	101.9	107.7	98.7	97.4	93.1	100.3	100.0	105.9	103.8	98.0	102.0	107.6	111.0
July	102.9	100.0	106.6	102.5	101.9	108.8	98.7	97.4	93.0	100.5	99.9	105.8	103.7	97.8	101.7	107.6	112.6
Aug.	102.9	99.1	106.7	102.7	101.9	112.2	99.0	97.1	93.2	101.8	99.9	106.2	103.8	97.7	101.6	107.6	111.5
Sept.	103.0	99.5	106.7	102.7	102.1	111.3	99.2	97.2	93.3	102.0	100.0	106.2	103.8	97.7	101.6	107.7	111.5
Oct.	103.1	99.4	106.9	102.8	102.0	113.3	99.4	97.6	93.4	101.6	100.5	106.3	103.9	97.8	101.6	107.7	111.2
Nov.	103.5	100.3	107.6	103.2	101.9	113.6	100.3	97.5	93.5	101.6	100.8	106.7	104.1	98.0	101.6	107.7	113.2
Dec.	104.1	103.0	109.4	103.2	102.0	114.6	100.6	97.6	93.5	101.9	100.9	106.6	104.2	98.2	101.6	107.9	112.5
1966—Jan.	104.6	104.5	110.3	103.5	101.9	116.0	100.5	97.6	93.7	102.8	101.2	107.0	104.4	98.3	102.0	108.1	114.3
Feb.	105.4	107.4	111.8	103.8	102.0	117.8	100.3	97.6	94.1	103.7	101.3	107.5	104.7	98.4	102.1	108.0	116.0
Mar.	105.4	106.8	111.5	104.9	102.1	118.7	99.9	97.6	94.3	105.6	101.8	106.2	105.0	98.4	102.1	109.2	113.1
Apr.	105.5	106.4	110.6	104.3	102.2	120.8	100.0	97.6	95.4	108.4	102.3	108.2	105.2	98.6	102.3	109.4	113.0
May	105.6	104.5	110.5	104.7	102.2	122.9	100.4	97.7	95.4	109.6	102.7	108.4	105.8	98.9	102.4	109.4	115.1
June	105.7	104.1	110.5	104.9	102.2	123.1	101.5	97.7	95.4	108.0	103.0	108.7	105.9	98.9	102.4	109.8	116.0

SOURCE: FEDERAL RESERVE BULLETIN, August 1966, p. 1234.

Another basic factor in revenue projections is the trend of prices. National data are given in Tables 206 and 207. Although some local price data are available, it is appropriate for our purposes to refer to the comprehensive national data. Consumer prices have increased less than 2 percent per annum on the average and wholesale prices have increased less than 1 percent per annum on the average over the past ten years. What the next few years hold in store is, of course, an open question.

Other data, particularly in the realm of income and sales, are of great relevance also. Population and price data are fundamental, however, and are sufficient for the immediate purpose. In making outlay projections, the Budget Division of the Department of Administration of the State made the following assumptions on population and prices for the most realistic figures:

- . An annual population increase of 7 percent
- . An annual inflation of $1\frac{1}{2}$ percent.

In making projections of revenue as a whole, the Fiscal Analyst of the Legislative Counsel Bureau used an 8 to 9 percent annual growth factor as a best estimate. If we consider this as an intermediate projection, it is not inconsistent with the assumptions underlying the "low" outlay projections of the Budget Division. The resulting best revenue estimates of the Fiscal Analyst, assuming present taxes and rates, and allowing for certain adjustments discussed in Chapter IV, is:

	<u>\$ millions</u>
1967-68	65.1
1970-71	84.0
1975-76	130.0

Individual tax revenues may, of course, rise at greater or smaller rates than overall revenues. Special factors that are likely to affect particular taxes are considered later.

II. PRESENT SOURCES OF STATE TAX REVENUE

Significant sources of tax revenue in order of their current contribution to the general fund - ranked according to estimates for the fiscal year 1967 - are as follows:

	<u>\$ millions</u>
Sales and use tax	24.2
Gaming taxes ⁽¹⁾	17.1
Casino entertainment (cabaret) tax	3.9
Property tax	3.9
Liquor tax and licenses	3.7

In addition, there are various other taxes and fees and, as previously mentioned, sources of revenue outside the general fund. It is noteworthy that the sales and use tax - and not gaming taxes - constitutes the major source of tax revenue for the State.

Relevant data starting with the fiscal year 1960 are shown in Table 208.

In view of their significance, whether as present or future sources of revenue, we deal in this chapter with the taxes mentioned above and others as follows:

1. Sales and use tax
2. Gaming taxes (including casino entertainment tax)
3. Property tax
4. Liquor tax and licenses
5. Cigarette tax and licenses
6. Fees and similar charges
7. Insurance premium tax.

(1) Excluding amount used for gaming administration and including miscellaneous collections, but further excluding the State's portion of gaming licenses collected by counties.

TABLE 208

GENERAL FUND REVENUES

A DETAILED COMPARISON OF ACTUAL GENERAL FUND REVENUES WITH PROJECTED REVENUES FOR 1965-66 and 1966-67

	Actual 1951-60	Actual 1960-61	Actual 1961-62	Actual 1962-63	Actual 1963-64	Actual 1964-65	Estimate 1965-66	Estimate 1966-67
TAXES								
Property Tax	\$ 1,786,661	\$ 1,911,425	\$ 2,086,681	\$ 2,343,303	\$ 2,441,454.75	\$ 3,226,101.74	\$ 3,577,994	\$ 3,878,240
Sales & Use Tax	12,896,910	13,835,331	15,216,081	19,481,084	21,242,944.24	22,233,184.51	23,128,838	24,169,310
*Gaming	9,058,108	8,836,470	10,010,394	11,311,674	12,900,147.80	13,567,788.50	15,338,616	17,073,754
Cigarette Tax & Licenses	1,321,667	1,486,337	3,269,101	3,163,024	3,369,416.94	3,490,019.45	1,629,080	1,677,952
Liquor Tax & Licenses	1,159,741	1,313,192	2,225,301	2,690,462	2,886,255.36	3,081,180.47	3,409,800	3,682,584
Insurance Premium Tax	868,051	973,149	1,100,455	1,245,823	1,625,219.15	1,781,008.49	1,925,000	2,075,000
Cabaret Taxes							1,885,749	3,932,323
Sub-Total, Taxes	\$27,091,138	\$28,355,904	\$33,908,013	\$40,235,370	\$44,465,438.24	\$47,379,283.16	\$50,895,077	\$56,489,163
LICENSES								
Banking	\$ 13,303	\$ 5,450	\$	\$ 6,050	\$ 7,650.00	\$ 9,050.00	\$ 10,000	\$ 10,000
Buildings & Loan Licenses	1,476	912						
Gaming Licenses (from Co.)	610,158	644,462	679,062	741,882	813,055.00	860,716.25	1,015,000	1,100,000
Insurance Licenses	129,940	137,805	147,487	144,526	176,681.00	188,747.00	203,000	218,000
Marriage Licenses	183,694	185,190	192,225	211,542	222,679.00	227,812.00	266,000	275,000
Small Loan Licenses	8,484	7,500	15,363	11,365	12,825.00	13,105.00	14,000	14,900
Corporation Licenses	480,024	409,304	501,487	465,956	559,526.75	701,288.70	685,000	700,000
Milk Tester's Licenses	190	180	170	150	120.00	120.00	120	120
Private School Licenses	10	35	25		590.00	610.00	610	610
Savings & Loan Licenses & Fees							167,725	176,111
Real Estate Licenses & Exams							112,500	120,000
Sub-Total, Licenses	\$ 1,427,279	\$ 1,390,838	\$ 1,535,810	\$ 1,581,471	\$ 1,793,126.75	\$ 2,001,448.95	\$ 2,473,955	\$ 2,614,741
FEES AND FINES								
Bureau of Certification	\$ 6,118	\$ 3,201	\$ 2,872	\$ 3,245	\$ 4,405.00	\$ 4,132.00	\$ 7,500	\$ 7,500
Vital Statistics Fees	9,031	11,412	12,580	13,726	15,728.63	12,427.36	18,000	18,000
Civil Action Fees	178,957	178,335	184,627	213,811	229,221.00	246,495.00	275,000	285,000
Insurance Examination Fees	6,930	6,640	7,592	9,367	14,250.00	16,060.00	17,000	18,000
Insurance Fines	700	15,797	7,725	10,806	450.00	2,000.00	4,000	4,000
State Engineer's Fees	19,331	25,490	22,215	21,519	20,648.07	24,730.35	15,000	15,000
Supreme Court Fees	2,800	2,500	2,191	2,750	3,175.00	4,075.00	4,100	4,200
Library Fines			136					
Racing Commission Fees						17,943.71	20,000	20,000
Sub-Total, Fees & Fines	\$ 223,867	\$ 243,375	\$ 239,938	\$ 275,224	\$ 287,877.70	\$ 327,863.42	\$ 360,600	\$ 371,700
CHARGES FOR SERVICES								
Children's Home Care	\$ 32,393	\$ 29,394	\$ 26,803	\$ 26,928	\$ 24,466.93	\$ 38,726.79	\$ 37,500	\$ 40,000
State Hospital Care	162,473	169,506	198,881	195,596	228,025.78	182,347.76	230,000	230,000
M.V. Tax Collection Chg.	481	20,110	24,953	30,063	45,707.10	43,352.54	46,000	49,000
Youth Training Center				2,312	5,177.00	5,899.00	14,000	14,000
Girls Training Center		765	2,299		1,760.00	3,075.00	3,000	3,000
Sub-Total, Chgs. for Services	195,347	\$ 219,775	\$ 252,936	\$ 254,899	\$ 305,136.81	\$ 273,401.09	\$ 330,500	\$ 336,000
USE OF MONEY & PROPERTY								
Int. on Bank Deposits	\$ 279,300	\$ 278,175	\$ 270,750	\$ 270,800	\$ 242,721.45	\$ 346,287.54	\$ 554,000	\$ 700,000
B & C Sales & Rents	59,609	59,611	55,068	40,055	19,218.82	13,789.56	10,000	10,000
Sub-Total, Money & Property	\$ 338,909	\$ 337,786	\$ 325,818	\$ 310,855	\$ 261,940.27	\$ 360,077.10	\$ 564,000	\$ 710,000
ALL OTHER RECEIPTS								
Federal Power Receipts	\$ 966	\$ 894	\$ 894	\$ 898	\$ 903.74	\$ 903.52	\$ 900	\$ 900
Hoover Dam	300,000	300,000	300,000	300,000	300,000.00	300,000.00	300,000	300,000
Misc. Sales & Refunds	7,522	26,894	11,824	5,629	3,671.78	2,285.38	8,500	6,500
Hosp: Rents, Lesses, Sales	3,350	20,110						
Insurance, Unclaimed Fund	465	2,631	1,210	776	3,135.24	4,185.80	3,000	3,000
State Engineer's Sales	80	158	569	268				
Petroleum Products Insp.		174,817	80,002	121,950	114,863.42	121,402.80	129,000	134,000
Insurance, Misc.					11,345.30	18,021.04	15,000	15,000
Sub-Total, Other Receipts	\$ 312,383	\$ 525,504	\$ 394,499	\$ 429,521	\$ 433,919.48	\$ 446,798.54	\$ 456,400	\$ 459,400
TOTAL REVENUES	\$29,588,924	\$31,073,182	\$36,657,014	\$43,087,340	\$47,547,439.25	\$50,788,872.26	\$55,080,532	\$60,981,004
REVERSIONS	921,038	2,105,009	911,644	860,613	2,232,694.94	2,525,880.09	750,000	1,000,000
TOTAL REVENUES & REVERSIONS	\$30,509,962	\$33,178,191	\$37,568,658	\$43,947,953	\$49,780,134.19	\$53,314,752.35	\$55,830,532	\$61,981,004

*Excluding amount used by Gaming Administration and including miscellaneous collections.

SOURCE: Howard E. Barrett, Chief of the Budget Division, Department of Administration report to 1966 Special Session Legislature, May 9, 1966, p. 3.

(Note: The date at the top of the first column should be 1959-60.)

1. SALES AND USE TAX

Discussion of the sales and use tax (referred to as the sales tax for purposes of brevity) is dealt with under four topics:

- (1) The nature of the sales tax in Nevada
- (2) Comparison with sales taxes in other states
- (3) The question of exempting food from sales tax
- (4) Revenue projections.

(1) The nature of the sales tax in Nevada

The Nevada sales tax is 2 percent on the retail sale of goods. An important characteristic of the tax is that it does not exempt food. This distinguishes it sharply from the tax in neighboring California, where food for home consumption is exempt. The lack of this exemption also helps explain why Nevada can rely on the sales tax as its major revenue producer with a rate of only 2 percent.

The "goods" covered by the tax include certain services, but not services in general.⁽¹⁾ The full classification is as follows, using the groupings employed by the Nevada Tax Commission in its quarterly reports:⁽²⁾

Soft goods:

- Apparel
- General merchandise
- Specialties
- Food
- Prepared food
- Liquor
- Candy

(1) NEVADA REVISED STATUTES, Chapter 372: Sales and use taxes.

(2) Nevada Tax Commission, TAXABLE SALES BY QUARTER (mimeo.)

Tobacco

Drugs

Hard goods:

Home furnishings and appliances

Secondhand goods

Farm implements

Garden and farm supplies

Fuel

Ice

Mining materials

Building materials

Hardware

Autos

Boats

Service stations

Itinerant vendors

Personal services:

Garages

Photographers

Repairs

Other personal services⁽¹⁾

Manufacturers, wholesalers, construction and miscellaneous⁽²⁾

Construction and special contractors

Manufacturers and wholesalers

Producers and distributors

All other outlets.

(1) Although this heading is used, the tax actually applies only to certain personal services involving goods.

(2) Applies only to certain of the transactions in these categories. Note that this is a classification by sources of revenue, not by type of goods covered.

(2) Comparison with sales taxes in other states

Nevada's sales tax is on retail sales as the basis of taxation. In some other states, we find "gross receipts", "gross income" and related bases. Moreover, other activities than just "retail" are taxed in many of the states. Thus, a mere reference to the rate, such as "2 percent", does not convey the full story. Table 209 shows the types of tax and types of transactions covered in the various states.

In the matter of what goods and services are subject to tax, there is also great variety. Although exemption or nonexemption of food is a main revenue consideration, there are actually many other points of difference among the states using the sales tax. The variations are suggested by Table 210. Particularly noteworthy is the treatment of services not associated with goods, namely utility and certain other services.

As a result primarily of the failure to exempt food for home use, the Nevada sales tax tends to be regressive in the sense that the percentage of family income that is paid out in sales tax is greater for low-income families than it is for high-income families. As shown in Figure 1 and Table 211, the percentage of outlay on sales tax in Nevada declines as net income rises. ⁽¹⁾ This occurs when we make the comparison of sales tax paid with net income, thereby using net income as our indicator of "ability-to-pay". If we broaden the concept of ability-to-pay beyond family net income to include use of assets or credit to maintain consumer expenditures - a modification for which a

(1) State-by-state income and expenditure data by income classes are not available in an adequate sample. Data employed on a nationwide basis are employed. (See detailed references with each table).

Type of Sales Tax and Rates Levied, by State and by Type of Transaction, August 1964

State	Type of tax	Rates levied					
		Retail	Wholesale	Extractive	Manufacturing	Personal and professional services	Wages, interest, rent, dividends
Alabama	Gross receipts	4.000%*		1.500% over \$100,000 at 1.500%	1.500%		None
Alaska	Gross receipts	\$20,000 to \$100,000 at .500%			.250%		
Arizona	Gross income	3.000%					
Arkansas	Gross receipts	3.000%					
California	Gross receipts	3.000%					
Colorado	Retail sales	2.000%					
Connecticut	Retail sales	3.500%					
	Unincorporated gross income	.13% 1st \$60,000, .20% over	.035% 1st \$60,000, .065% over		.13% 1st \$60,000, .20% over		
Delaware	Gross receipts license	\$5 plus 1/7 of 1%	\$5 plus 1/7 of 1%		\$5 plus .025%		
District of Columbia	Gross receipts	3.000%					
Florida	Retail sales	3.000% ^b					
Georgia	Retail sales	3.000%					
Hawaii	General excise	3.500%	.500%	.500%	.500%	3.500%	
Illinois	Retail sales	3.500%					
Indiana	Retail sales	2.000%					
	Gross income	.500%	.500%	2.000%	2.000%	2.000%	2.000%
Iowa	Retail sales	2.000%					
Kansas	Retail sales	2.500%					
Kentucky	Retail sales	3.000%					
Louisiana	Retail sales	2.000%				2.000%*	
Maine	Retail sales	4.000%					
Maryland	Retail sales	3.000%					
Michigan	Retail sales	4.000%					
	Business receipts	.775%	.775%	.775%	.775%	.775%	
Mississippi	Retail sales	3.500% ^b	.125%				
Missouri	Retail sales	3.000%					
Nevada	Retail sales	2.000%					
New Mexico	Gross income	3.000%*	.500% ^d	3.000%		3.000%	
North Carolina	Retail sales	3.000%	.050%				
North Dakota	Retail sales	2.250%					
Ohio	Retail sales	3.000%					
Oklahoma	Retail sales	2.000%					
Pennsylvania	Retail sales	5.000%					
Rhode Island	Retail sales	3.500%					
	Unincorporated business*	.200%	.100%	.200%	.200%	.200%	
South Carolina	Retail sales	3.000%					
South Dakota	Retail sales	2.000%					
Tennessee	Retail sales	3.000%					
Texas	Retail sales	2.000%					
Utah	Retail sales	2.500%					
Vermont	Meals and rooms	3.000% ^f					
Virginia	Merchants license	.200%	\$50 1st \$10,000 gross purchases plus .13% over \$10,000				
Washington	Retail sales	4.000%				4.000%*	
	Business and occupation	.0044%	.0044%	.0044%	.0044%	.0044%	
West Virginia	Retail sales	2.000%					
	Occ. gross income	.500%	.250%	Varies from 1.35% to 7.85%	.4000%	1.0500%	
Wisconsin	Selective retail sales	3.000%				3.0000%*	
Wyoming	Retail sales	2.000%					

Source: *State Sales Tax Reporter* (Chicago: Commerce Clearing House, Inc.), Vols. I-IV.

* Except automobile and truck sales at 1 1/2%.

^b Except automobile and truck sales at 2%.

^c Personal services only.

^d Alcoholic beverages only.

* An exemption of \$5,000 granted to all taxpayers.

^f Meals including alcoholic beverages and transient rentals of less than 30 days' consecutive company only.

(Note: Format derived from Ohio Department of Taxation, *Retail Sales Tax Comparative Tables*, pp. 3-4, Columbus, 1958).

SOURCE: Harold M. Somers assisted by Joseph J. Launie, THE SALES TAX, California Legislature, December 1964, Table 1, pp. 18-19. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

Taxable Status of Selected Commodities, Services, and Sales to Institutions Under State Sales and Use Tax Laws—March 1962

	Retail sales tax																	N.D.	Ohio
	Ala.	Ark.	Calif.	Colo.	Conn.	D.C.	Fla.	Ga.	Ill.	Iowa	Kan.	Ky.	La.	Me.	Md.	Mich.	Mo.		
Food																			
Used in home.....	A	A	B	A	B	A ¹	B	A	A	A	A	A	A	B	B	A	A	A	A
Restaurant meals.....	A	A	B	A	B ³	A	B	A	A	A	A	A	A	B	B	A	A	A	A
School lunches.....	B	B	B	B ²	B	—	A	B	B	B	B	B	B	B	B	B	B	B	B
Free meals to employees.....	B	B	B	B ²	B	—	A	B	B	B	B	B	B	B	B	B	B	B	B
Main served by churches, etc.....	B	B	B	B ²	B	—	A	B	B	B	B	B ² , ³⁷	B ²	B	B	B ¹⁰	B	B	B
Industrial production—goods used in																			
Component part or raw material.....	B	B	B	B	B	B	B	B	B	B ¹²	B	B	B	B	B	B	B	B	B
Fuel, electricity ¹⁴	B ¹	A	A	A	B	A ¹⁰	B	A	A	A ¹⁰	B	B ¹²	B	B ¹²	B	B	B	B	B
Machinery and equipment ¹⁵	B ¹	A ¹¹²	A	A	B	A	B	A	A	A ¹⁰	B	B ¹²	B	B ¹²	B	B	B	B	B
Office equipment and supplies.....	A	A	A	A	A	A	B	A	A	A	A	A	A	A	A	A	A	A	A
Nonreturnable containers, labels, etc.....	B	A	B	B	B ¹³	A	B	A	B	A	B	B	B	B	B	B	B	B	B
Agricultural production—goods used in																			
Food, seed, fertilizer.....	B ²	A ¹⁴	B ²³	B	B	B	B	B	B	B	B	B	B ²⁷	B	B	B	B	B	B
Machinery.....	A	A	A	A	A	A	B	A	A	A	A	A	A	A	A	A	A	A	A
Other commodities																			
Alcoholic beverages.....	A	A	A	B	A	A	A	A	A	B	B	A	A	B ²⁴	A	A	A	A	A
Automobiles.....	A ¹⁷	A	A	B	A	A	A	A	A	B ¹¹⁵	B	A ¹⁰⁰	A	A ^{100,100}	A	A	A	A	A
Cigarettes.....	A	A	A	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A	A
Clothing.....	A	A	A	A	B ¹⁴	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Farm products (retail).....	B	B	B	A	A ¹⁶	B	B	A	A	A	A	A	A	A	A	A	A	A	A
Ice.....	A	A	A	A	B	A ¹⁸	B	B	B	B	B	B	B	B	B	B	B	B	B
Medicine.....	A	A	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Motor fuels.....	A	A	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
School textbooks.....	A	A	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Occasional sales.....	B	B	B	A	B	A	B	B	B	B	B	B	B	B	B	B	B	B	B
Occasional sales—automobiles.....	B	B	B	A	A	A ¹⁹	B	B	B	B	B	B	B	B	B	B	B	B	B
Utility services																			
Gas (domestic use).....	B	A	A	B	B	A	B	A	A	A	A	B	B	B	A	A	A	A	A
Electricity (domestic use).....	B	A	A	B	B	A	B	A	A	A	A	A	B	B	A	A	A	A	A
Water (domestic use).....	B	A	A	B	B	A	B	A	A	A	A	A	B	B	A	A	A	A	A
Communications.....	B	A	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Transportation.....	B	B	B	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Other services																			
Admissions.....	A	A	B	B	B	B	B	A	B	A ^{73,77}	A ¹⁵	A	A	B	B	B	B	B	B
Newspapers ²⁰	A	A	B	B	B	B	B	A	B	B	B	A	A	B	B	B	B	B	B
Transient lodgings ²¹	A	A	B	B	B	B	B	A	B	B	B	A	A	B	B	B	B	B	B
Leases and rentals of tangible personal property.....	B ²	A	B	A	B	A	B	A	A	B	A	A	A	B	A	A	A	A	A
Institutions—sales to																			
Charitable and religious.....	B	B ²⁰	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
State and subdivisions.....	B	A ²¹	A	B	B	B	B	B	B	B	B	A	A	B	B	B	B	B	B

	Retail sales tax										Gen. sales N.C.	Gross receipts					Totals		
	Okla.	Pa.	R.I.	S.C.	S.D.	Tenn.	Tex.	Utah	Wis.	Wyo.		Ariz.	Hawaii	Miss.	N.M.	Wash.	W.Va.	A	B
Food																			
Used in home.....	A	B	B	A	A	A	B	A	B	A	B	A	A	A	A	A	27	10	—
Restaurant meals.....	A	B ²	A	A	A	A	B	A	B	A	A	A	A	A	A	A	3	3	—
School lunches.....	B	B	B	B	B ²	B	B	B	B	B	B	B	B	B	B	B	34	31	3
Free meals to employees.....	B	B	B	B	B ²	B	B	B	B	B	B	B	B	B	B	B	9	20	8
Main served by churches, etc.....	B	B ¹	—	—	B ²	A	A	B	B	—	A	B	B	B	B	B	5	22	10
Industrial production—goods used in																			
Component part or raw material.....	B	B	B	B	B	B	B	B	B	B	B ¹²	B ²	B ¹¹³	B ¹²	B	B	—	37	—
Fuel, electricity ¹⁴	B	B	B	B	A ¹⁴	B	B	B	B	B	A ¹⁰	A	A	A	A	A	20	17	—
Machinery and equipment ¹⁵	B	B	B	A	A	A	A	A	A	A	A ¹⁰	A	A	A	A	A	27	10	—
Office equipment and supplies.....	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	37	2	—
Nonreturnable containers, labels, etc.....	B	A	B	B	B ¹³	A	B	A	B	A	B	B	B	B	B	B	2	35	—
Agricultural production—goods used in																			
Food, seed, fertilizer.....	A ¹³	B	B	B	B	B	B	B	B	B	B	A ²³	A	B	B	B	5	32	—
Machinery.....	A	B	B	B	A ²²	B	A	B	B	B	B	A	A	B	B	B	27	10	—
Other commodities																			
Alcoholic beverages.....	A ¹⁵	A	A	A	B	A	B	A	A	B	B ²	A	A	A	A	A	28	9	—
Automobiles.....	B ¹⁰	A	A	A	B	A	B	A	A	A	A	A	A	A	A	A	29	8	—
Cigarettes.....	B	B	B	B	B	B	B	B	B	B	B	A	A	A	A	A	22	15	—
Clothing.....	A	B ¹⁴	A	A	A	B	A	A	A	A	A	A	A	A	A	A	33	4	—
Farm products (retail).....	A	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	16	21	—
Ice.....	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	29	7	—
Medicine.....	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	22	15	—
Motor fuels.....	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	5	32	—
School textbooks.....	A	A	A	B	—	B	B	B	B	B	B	B	B	B	B	B	14	14	—
Occasional sales.....	A	A	B	A	B	B	B	B	B	B	B	B	B	B	B	B	5	32	—
Occasional sales—automobiles.....	A	A	B	B	B	B	B	B	B	A	A	A	A	A	A	A	20	17	—
Utility services																			
Gas (domestic use).....	A	A	A	A	A	B ²⁴	A	A	B	A	B	A ¹⁷	B ¹¹⁴	A ¹⁰	A	B ¹¹¹	22	15	—
Electricity (domestic use).....	A	A	A	A	A	B	A	A	B	A	B	A ¹⁷	B ¹¹⁴	A ¹⁰	A	B ¹¹¹	22	15	—
Water (domestic use).....	A	A	A	A	A	B	A	A	B	A	B	A ¹⁷	B ¹¹⁴	A ¹⁰	A	B ¹¹¹	13	24	—
Communications.....	A	A	A	A	B	B	B	A	A	A	B	A ¹⁷	B ¹¹⁴	A	A ¹⁷	B ¹¹¹	19	18	—
Transportation.....	A ¹³	B	B	B	B ²²	B	B	A	A	A ¹⁰	B	A ¹⁷	B ¹¹⁴	A ¹⁰	B ¹¹¹	B ¹¹¹	8	29	—
Other services																			
Admissions.....	A	B	B	B ¹⁰⁴	A ^{73,77}	B ⁷⁹	B	A	B	A	B	A	A	A	B	A	20	17	—
Newspapers ²⁰	B	A	B	B	B	B	A	B	B	B	B	A	A	A	B	A	9	28	—
Transient lodgings ²¹	A	A	A	A	B	A ²³	B	A	B	A	A	A	A	A	A	A	29	8	—
Leases and rentals of tangible personal property.....	A	A	A	B	B	A ²⁷	A	A	B	A	A	A	A	A	A	A	26	11	—
Institutions—sales to																			
Charitable and religious.....	B ²⁵	B	B	A	B	A	B	B	B	B	B	B	B	B	B	B	7	30	—
State and subdivisions.....	B	B	B	A	B	B ²⁸	B	B	B	B	B	B	B	B	B	B	9	28	—

A: Taxable. B: Nontaxable. —: No provision. * Gas and electricity exempt in California; other fuels taxable (revised from Indiana report).

Sources: State statutes, regulations, and CCH State Tax Reporters. Reproduced from Indiana Commission Final Report, 1962, "The Retail Sales Tax," pp. 36-41.

SOURCE: Harold M. Somers assisted by Joseph J. Lounie, THE SALES TAX, California Legislature, December 1964, Table 2, pp. 20-23. (State of California Assembly Interim Committee on Revenue and Taxation 1964).

TABLE 210
(continued)

FOOTNOTES

- ¹ Taxed at 1 percent rate.
- ² Meals over \$1 are taxed.
- ³ Exemption applies only to meals below \$0.50.
- ⁴ Taxed at 1½-percent rate.
- ⁵ Food purchased for such purposes is taxable.
- ⁶ No specific provision; probable status shown.
- ⁷ Taxable on basis of 25 cents per meal.
- ⁸ If meals are served only occasionally.
- ⁹ If proceeds are used for religious purposes.
- ¹⁰ Not open to general public.
- ¹¹ Charitable organizations not exempt.
- ¹² Sales of building materials and supplies to owners, contractors, and builders are taxable.
- ¹³ Subject to wholesale tax rate.
- ¹⁴ Fuel and electricity, if exempt, are exempt only if used directly in industrial processing.
- ¹⁵ Exempt from use tax.
- ¹⁶ Exemption if fuel comes in direct contact with and consumed rapidly in the processing of manufactured supplies.
- ¹⁷ Machinery and equipment, if exempt, are exempt only if used directly in industrial processing.
- ¹⁸ Exempt from use tax if used for replacement or expansion of existing facilities.
- ¹⁹ Taxed only if machinery sale is over \$1,000.
- ²⁰ Equipment and industrial materials not readily obtainable in the state are exempt.
- ²¹ Except for offices directly related to industrial processing.
- ²² Except where used directly in making retail sales.
- ²³ Includes returnable containers.
- ²⁴ Livestock feed and seed cotton are exempt.
- ²⁵ If used to produce goods for human consumption.
- ²⁶ Commercial feeds taxed at wholesale rate of ¾ percent.
- ²⁷ Feed is taxed.
- ²⁸ Feed is exempt.
- ²⁹ Tractors taxable at 1½ percent.
- ³⁰ Taxable at 2 percent.
- ³¹ Tractors taxable at 1 percent.
- ³² Tractors are taxed.
- ³³ Used farm machinery is exempt.
- ³⁴ Exempt if sold in state liquor stores.
- ³⁵ Beer and malt beverages exempt.
- ³⁶ Beer and wine are taxable; liquor not.
- ³⁷ Taxed at 1½ percent.
- ³⁸ Taxed at 1 percent.
- ³⁹ Except vehicles sold to nonresidents.
- ⁴⁰ Taxed at same rate under another law.
- ⁴¹ Taxable at 1 percent with maximum tax of \$80. To be 1½ percent, July, 1962.
- ⁴² Taxed at 2 percent.
- ⁴³ Children's clothing only.
- ⁴⁴ Formal apparel, furs, and jewelry not exempt.
- ⁴⁵ Exemption applies only to animals used for food.
- ⁴⁶ Sales of breeding stock are exempt.
- ⁴⁷ Direct sales of food items only are exempt.
- ⁴⁸ Farmers may procure free certificates up to \$1,200 of sales.
- ⁴⁹ Exempt if used in packing food and shipped in interstate commerce.
- ⁵⁰ Prescription sales only are exempt.
- ⁵¹ One-half the price of prescriptions is exempt.
- ⁵² Prescriptions, artificial limbs, and prescribed support devices are exempt.
- ⁵³ Exempt if sold by school board.
- ⁵⁴ Only when sold to schools.
- ⁵⁵ Taxed under separate 2-percent titling law.
- ⁵⁶ Taxed at 1-percent rate.
- ⁵⁷ If delivered through pipes or mains.
- ⁵⁸ If billed separately after sale is made.
- ⁵⁹ Municipal utilities exempt.
- ⁶⁰ Only local telephone service is taxed.
- ⁶¹ Taxed at same rate under service occupational tax law.
- ⁶² Includes radio.
- ⁶³ Gas and electricity used in farming are exempt.
- ⁶⁴ Natural gas is exempt.
- ⁶⁵ REA cooperatives are exempt.
- ⁶⁶ Bus and cab fares of less than 25 cents and receipts from transportation of farm products are exempt.
- ⁶⁷ Taxed at 1½-percent rate.
- ⁶⁸ Includes pipelines.
- ⁶⁹ Purchases of drugs by pharmacists for filling prescriptions are taxable.
- ⁷⁰ Fuel is taxed at only 1 percent.
- ⁷¹ Machinery and parts are taxed at only 1 percent with a maximum tax of \$80 on a single article.
- ⁷² Motor vehicles are taxable except buses and trucks and semitrailers sold to common or contract carriers.
- ⁷³ Tax applies only to intrastate telegraph services to business, industrial, professional, and commercial users and local basic rate telephone services to the same users.
- ⁷⁴ Exempt are movie admissions of 75 cents or less and admissions to activities of schools and religious or charitable groups.
- ⁷⁵ Except state, county, or local fairs.
- ⁷⁶ Exempt if the sale of the property to the lessor was subject to sales or use tax.
- ⁷⁷ Admissions for charitable or educational purposes are exempt.
- ⁷⁸ Taxed under separate admissions tax at 2-percent rate.
- ⁷⁹ Admissions to theaters are taxed at 1 percent under separate law.
- ⁸⁰ In many or most states, sales of magazines and other periodicals also are exempt.
- ⁸¹ Taxes normally apply to lodgings of less than a month.
- ⁸² Taxed at same rate under separate law.
- ⁸³ If for less than 90 days.
- ⁸⁴ Taxable where rental is in lieu of sale or property is substantially consumed during lease.
- ⁸⁵ Except lease of motion picture films.
- ⁸⁶ Leases or rentals of less than seven days are exempt.
- ⁸⁷ Rentals from films, recordings, and transcriptions are exempt.
- ⁸⁸ Lease with option to buy is taxable.
- ⁸⁹ Except rentals of motor vehicles which have paid motor vehicle registration tax.
- ⁹⁰ Exemption applies to nonprofit hospitals and children's homes but materials for construction and repair are taxable.
- ⁹¹ Except on foodstuffs used for free distribution to poor or to public, penal, and eleemosynary institutions. School buses sold to school districts are exempt.
- ⁹² Religious organizations are exempt except when engaged in business for profit.
- ⁹³ Includes scientific and educational institutions.
- ⁹⁴ Taxable when competing with private business.
- ⁹⁵ Exemption applies only to hospitals.
- ⁹⁶ Racing admissions are exempt.
- ⁹⁷ Exemption applies only to religious societies.
- ⁹⁸ Exemption applies to all coal for the manufacture of electricity and fuels used in manufacturing, mining, or refining to the extent that the cost of the fuel exceeds 3 percent of the cost of production.
- ⁹⁹ Exempt are sales of machinery for new and expanded industry and industrial tools with a useful life of less than one year.
- ¹⁰⁰ The value allowed for a motor vehicle traded in for another is not taxable.
- ¹⁰¹ Sales of livestock for breeding, poultry for egg production, and livestock for use in farming are exempt.
- ¹⁰² Exempt if sold for use in ice drinks.
- ¹⁰³ All sales by educational institutions to own students are exempt.
- ¹⁰⁴ Hospitals are exempt from use tax on out-of-state purchases.
- ¹⁰⁵ Taxed under separate admissions tax law at 10 percent.
- ¹⁰⁶ Only gas and electricity used in industrial processing are exempt; other fuels taxable.
- ¹⁰⁷ Taxable if served with meals.
- ¹⁰⁸ Work clothing and any outer apparel are exempt if not exceeding \$10.
- ¹⁰⁹ Exempt if food for human consumption.
- ¹¹⁰ Exempt if used in packaging.
- ¹¹¹ Gross receipts are taxable at various rates under other laws.
- ¹¹² Manufacturing machinery is subject to the Arkansas sales tax but exempt under the use tax if the machinery is not available within the state.
- ¹¹³ Sales of raw materials to manufacturers are subject to the general excise on wholesaling of ¾ percent.
- ¹¹⁴ Taxed under separate statute at rates from 5 percent up.
- ¹¹⁵ Exemption applies only to new motor vehicles.
- ¹¹⁶ Exempt are fares of 15 cents or less and of school children.
- ¹¹⁷ Exempt only when sold by the producer.
- ¹¹⁸ Draught beer consumed on the premises is exempt.
- ¹¹⁹ Street railways exempt.

EFFECTIVE
SALES TAX
RATE (%)

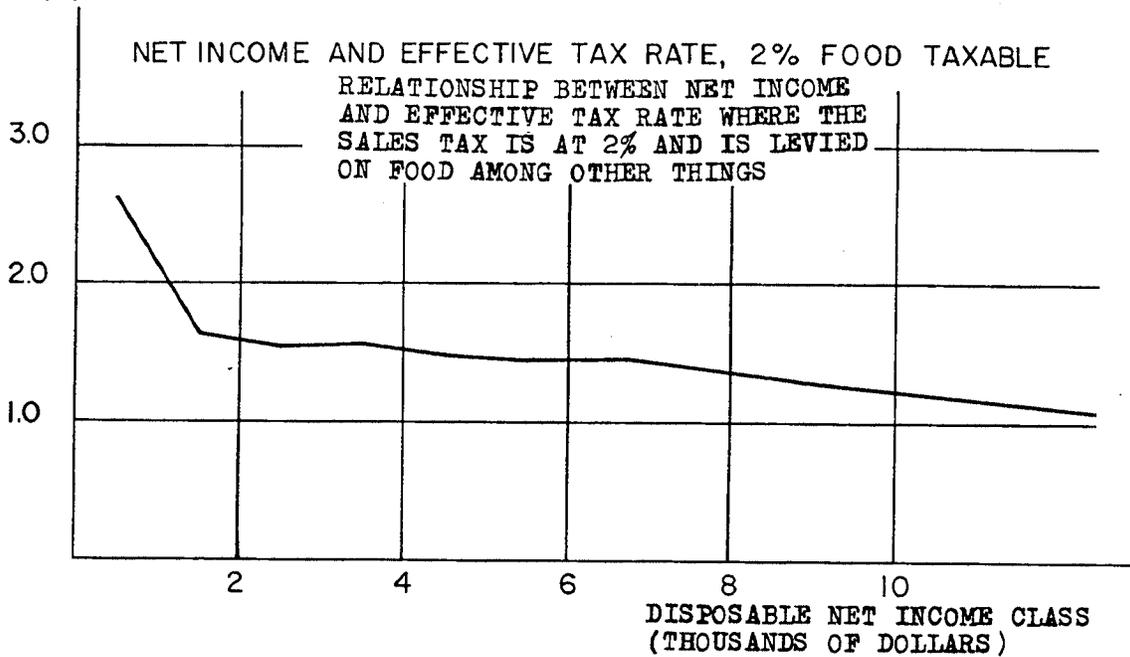


TABLE 211

Net Income and Effective Tax Rate, 2 Percent, Food Taxable

1 Disposable net income class* (000)	2 Net income	3 Con- sumption (C)	4 Taxable con- sumption (TC)	5 TC ÷ C	6 APC	7 APCT	8 Tax amount	9 Effective tax rate (8) ÷ (2) (percent)
Under 1.....	619	1,279	811	.63	2.07	1.31	\$16.22	2.62
1-2.....	1,534	1,889	1,277	.68	1.23	.83	25.54	1.66
2-3.....	2,527	2,665	1,932	.72	1.05	.76	38.64	1.53
3-4.....	3,523	3,609	2,714	.75	1.02	.77	54.28	1.54
4-5.....	4,459	4,374	3,321	.76	.98	.74	66.42	1.49
5-6.....	5,468	5,108	3,975	.78	.93	.73	79.50	1.45
6-7.5.....	6,664	6,239	4,908	.79	.94	.74	98.16	1.47
7.5-10.....	8,613	7,134	5,630	.79	.83	.65	112.60	1.31
10 and over.....	15,040	10,573	8,313	.79	.70	.55	166.26	1.10

APC = (3) ÷ (2).

APCT = (4) ÷ (2).

Median income = \$3,566; PRI = 1.38 ÷ 1.87 = .738.

* Disposable net income refers to money income after deduction of personal taxes and occupational expenses and includes: wages and salaries including tips and bonuses; income from unincorporated businesses and professions; net receipts from rented properties; net receipts from roomers and boarders; interest; dividends; receipts based on military service; unemployment insurance and social security benefits; other public and private pensions and retirement benefits; cash received as public and private relief; payments from private insurance annuities and trust funds; profits from the sale of stocks and bonds bought in 1950 and profits from businesses owned but not operated; contributions from persons not in the family; and such items as alimony, prizes and gambling gains.

Occupational expenses, such as union dues and purchase of special tools, were subtracted from wage and salary earnings and were not included in gross or net income. Federal, state and local income tax, poll tax and personal property taxes were deducted from gross income to arrive at the netted figure. Two nonmoney items—the value of food and housing received as pay—were included as income.

Source: Study of Consumer Expenditures, Vol. II, p. xxvii. Wharton School of Finance and Commerce, University of Pennsylvania (Washington, D.C.: 1956).

SOURCE OF FIGURE 1 AND TABLE 211: Harold M. Somers assisted by Joseph J. Launie, THE SALES TAX, pp. 39-40. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

considerable amount of support can be mustered⁽¹⁾ - the tax loses its appearance of regressivity. If, accordingly, we use "disposable receipts" (what the family actually has to spend, whether through income, net liquidation of assets or net borrowing) as our measure of ability-to-pay, the regressivity virtually disappears. This is shown in Figure 2 and Table 212. If we use "net resources" (income plus net worth) as our measure of ability-to-pay, the Nevada tax of 2 percent without food exemption actually appears to be progressive on balance: the percentage of net resources paid in sales tax by families above the mid-point exceeds the percentage of net resources paid in sales tax by families below the mid-point in an array of families listed according to their net resources. This is shown in Figure 3 and Table 213. The statistical reason for this is that, at the lowest end of the income scale, we find persons with large assets relative to their current income - people retired or between jobs. They have an ability to pay taxes that is not reflected adequately in this year's income alone.⁽²⁾

The effect of food exemption on regressivity may be judged by reference to California. There the rate is 4 percent (3 percent for state purposes and 1 percent collected by the state for local units). This tax, despite the higher rate, is less regressive than Nevada's 2 percent rate without food exemption. This may readily be seen by comparing Figures 4, 5 and 6 and Tables 214, 215 and 216 with corresponding analyses of the effects of the Nevada tax, considered above.

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- (1) See Harold M. Somers, "Sales Taxation and the Economist", in TAX CHANGES FOR SHORTRUN STABILIZATION, Joint Economic Committee, Congress of the United States, March 1966, pp. 100-106.
 - (2) See Harold M. Somers assisted by Joseph J. Launie, THE SALES TAX, California Legislature, December 1964, pp. 49-59, esp. p. 57. (State of California Assembly Interim Committee on Revenue and Taxation 1964)

FIGURE 2

EFFECTIVE
SALES TAX
RATE (%)

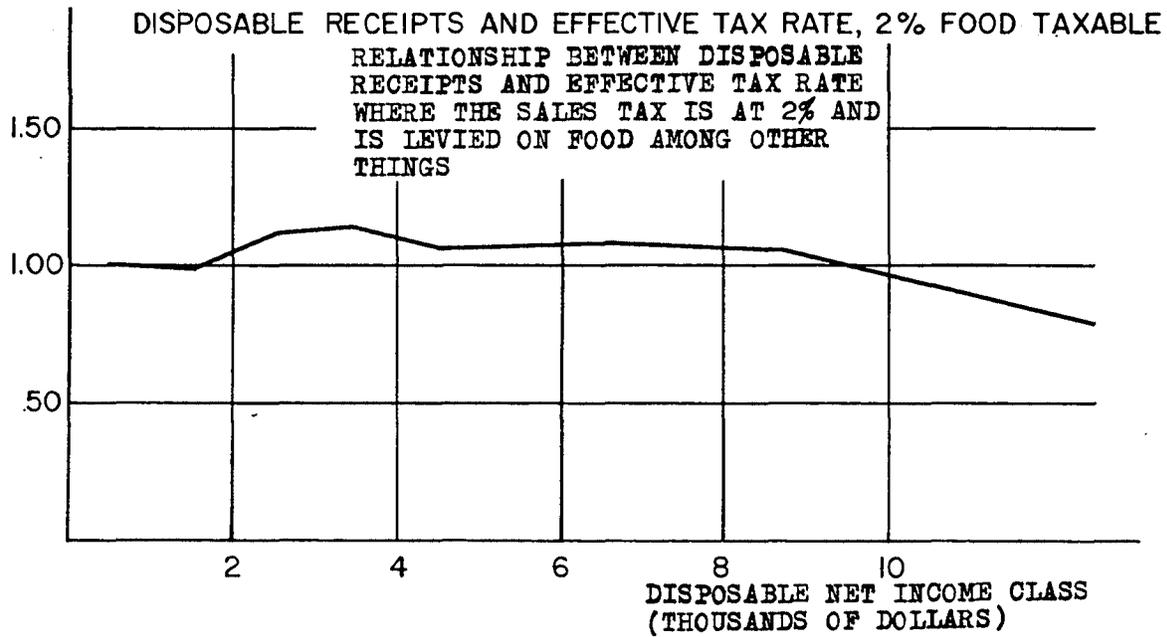


TABLE 212

Disposable Receipts and Effective Tax Rate, 2 Percent, Food Taxable

1 Disposable net income class* (000)	2 Dispos- able receipts	3 Con- sumption (C)	4 Taxable con- sumption (TC)	5 TC ÷ C	6 APC	7 APCT	8 Tax amount	9 Effective tax rate (8) ÷ (2) (percent)
Under 1.....	1,613	1,279	811	.63	.79	.60	\$16.22	1.01
1-2.....	2,597	1,889	1,277	.68	.73	.49	25.54	.98
2-3.....	3,442	2,665	1,932	.72	.77	.56	38.64	1.12
3-4.....	4,749	3,609	2,714	.75	.76	.57	54.28	1.14
4-5.....	6,289	4,374	3,321	.76	.70	.53	66.42	1.06
5-6.....	7,413	5,108	3,975	.78	.69	.54	75.50	1.07
6-7.5.....	9,125	6,239	4,908	.79	.68	.54	98.16	1.08
7.5-10.....	10,750	7,134	5,630	.79	.66	.52	112.60	1.05
10 and over.....	20,757	10,573	8,313	.79	.51	.40	166.26	.80

APC = (3) ÷ (2).

APCT = (4) ÷ (2).

Median income = \$3,566; PRI = 1.02 ÷ 1.05 = .971.

* Disposable net income refers to money income after deduction of personal taxes and occupational expenses and includes: wages and salaries including tips and bonuses; income from unincorporated businesses and professions; net receipts from rented properties; net receipts from roomers and boarders; interest; dividends; receipts based on military service; unemployment insurance and social security benefits; other public and private pensions and retirement benefits; cash received as public and private relief; payments from private insurance annuities and trust funds; profits from the sale of stocks and bonds bought in 1950 and profits from businesses owned but not operated; contributions from persons not in the family; and such items as alimony, prizes and gambling gains.

Occupational expenses, such as union dues and purchase of special tools, were subtracted from wage and salary earnings and were not included in gross or net income. Federal, state and local income tax, poll tax and personal property taxes were deducted from gross income to arrive at the netted figure. Two nonmoney items—the value of food and housing received as pay—were included as income.

Source: Study of Consumer Expenditures, Vol. II, p. xxvii. Wharton School of Finance and Commerce, University of Pennsylvania (Washington, D.C.: 1956).

SOURCE OF FIGURE 2 AND TABLE 212: Harold M. Somers assisted by Joseph J. Launie, THE SALES TAX, pp. 43-44. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

EFFECTIVE
SALES TAX
RATE (%)

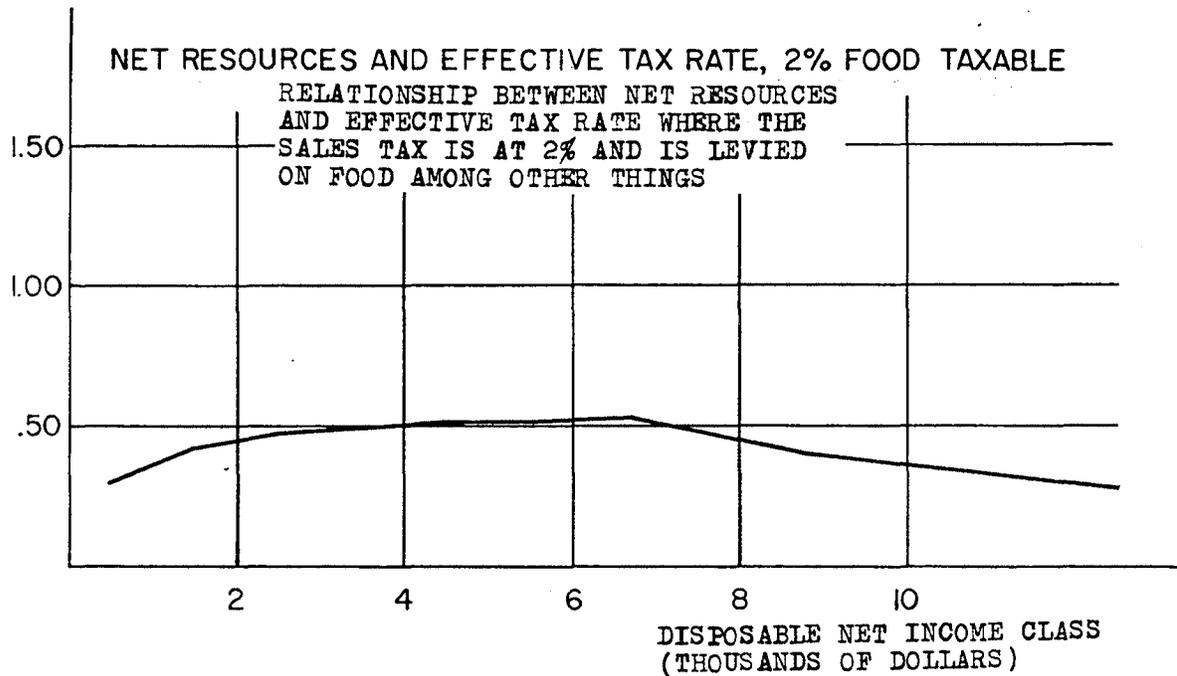


TABLE 213

Net Resources and Effective Tax Rate, 2 Percent, Food Taxable

1 Disposable net income class* (000)	2 Net income	3 Net worth*	4 Net resources (2) + (3)	5 Con- sumption (C)	6 Taxable con- sumption (TC)	7 TC ÷ C	8 Tax amount	9 Effective tax rate (8) ÷ (4)
Under 1.....	619	5,065	5,684	1,279	811	.63	\$16.22	.29
1-2.....	1,534	4,610	6,144	1,889	1,277	.68	25.54	.42
2-3.....	2,527	5,750	8,277	2,665	1,932	.72	38.64	.47
3-4.....	3,523	7,480	11,003	3,609	2,714	.75	54.28	.49
4-5.....	4,439	8,480	12,939	4,374	3,321	.76	66.42	.51
5-6.....	5,468	10,164	15,632	5,108	3,975	.78	79.50	.51
6-7.5.....	6,664	11,750	18,414	6,239	4,908	.79	98.16	.53
7.5-10.....	8,613	19,155	27,768	7,134	5,630	.79	112.60	.41
10 and over.....	15,040	40,000	55,040	10,573	8,313	.79	166.26	.30

Median income = \$3,566; PRI = .454 ÷ .409 = 1.110.

* Estimated from "Survey of Financial Characteristics of Consumers," *Federal Reserve Bulletin* (December 1950).

* *Disposable net income* refers to money income after deduction of personal taxes and occupational expenses and includes: wages and salaries including tips and bonuses; income from unincorporated businesses and professions; net receipts from rented properties; net receipts from roomers and boarders; interest; dividends; receipts based on military service; unemployment insurance and social security benefits; other public and private pensions and retirement benefits; cash received as public and private relief; payments from private insurance annuities and trust funds; profits from the sale of stocks and bonds bought in 1950 and profits from businesses owned but not operated; contributions from persons not in the family; and such items as alimony, prizes and gambling gains.

Occupational expenses, such as union dues and purchase of special tools, were subtracted from wage and salary earnings and were not included in gross or net income. Federal, state and local income tax, poll tax and personal property taxes were deducted from gross income to arrive at the netted figure. Two nonmoney items—the value of food and housing received as pay—were included as income.

Source: *Study of Consumer Expenditures*, Vol. II, p. xxvii. Wharton School of Finance and Commerce, University of Pennsylvania (Washington, D.C.: 1956).

SOURCE OF FIGURE 3 AND TABLE 213 : Harold M. Somers assisted by Joseph J. Launie, *THE SALES TAX*, pp. 46-47. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

EFFECTIVE
SALES TAX
RATE (%)

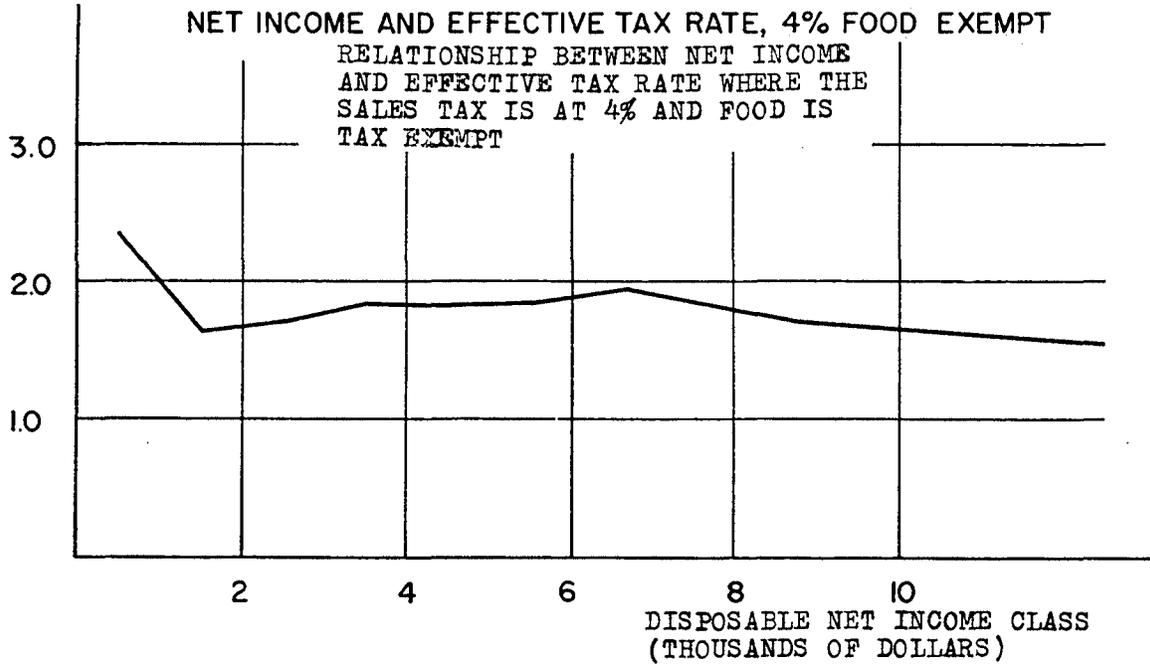


TABLE 214

Net Income and Effective Tax Rate, 4 Percent, Food Exempt

1 Disposable net income class* (000)	2 Net income	3 Con- sumption (C)	4 Taxable con- sumption (TC)	5 TC ÷ C	6 APC	7 APCT	8 Tax amount	9 Effective tax rate (8) ÷ (2) (percent)
Under 1.....	619	1,279	368	.29	2.07	.59	\$14.72	2.38
1-2.....	1,534	1,889	631	.33	1.23	.41	25.24	1.64
2-3.....	2,527	2,665	1,074	.40	1.05	.42	42.96	1.70
3-4.....	3,523	3,000	1,603	.44	1.02	.46	64.12	1.82
4-5.....	4,459	4,374	2,007	.46	.98	.45	80.28	1.80
5-6.....	5,468	3,108	2,479	.49	.93	.45	99.16	1.81
6-7, 5.....	6,664	6,239	3,178	.51	.94	.48	127.12	1.91
7.5-10.....	8,613	7,134	3,662	.51	.83	.42	146.48	1.70
10 and over.....	15,040	10,573	5,893	.56	.70	.39	235.72	1.57

APC = (3) ÷ (2).
APCT = (4) ÷ (2).
Median income = \$3,566; PRI = 1.70 ÷ 1.89 = .931.

* Disposable net income refers to money income after deduction of personal taxes and occupational expenses and includes: wages and salaries including tips and bonuses; income from unincorporated businesses and professions; net receipts from rented properties; net receipts from roomers and boarders; interest; dividends; receipts based on military service; unemployment insurance and social security benefits; other public and private pensions and retirement benefits; cash received as public and private relief; payments from private insurance annuities and trust funds; profits from the sale of stocks and bonds bought in 1959 and profits from businesses owned but not operated; contributions from persons not in the family; and such items as alimony, prizes and gambling gains.

Occupational expenses, such as union dues and purchase of special tools, were subtracted from wage and salary earnings and were not included in gross or net income. Federal, state and local income tax, poll tax and personal property taxes were deducted from gross income to arrive at the netted figure. Two nonmoney items—the value of food and housing received as pay—were included as income.

Source: *Study of Consumer Expenditures*, Vol. II, p. xxvii. Wharton School of Finance and Commerce, University of Pennsylvania (Washington, D.C.: 1956).

SOURCE OF FIGURE 4 AND TABLE 214 : Harold M. Somers assisted by Joseph J. Launie, *THE SALES TAX*, pp. 41-42. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

FIGURE 5

EFFECTIVE
SALES TAX
RATE (%)

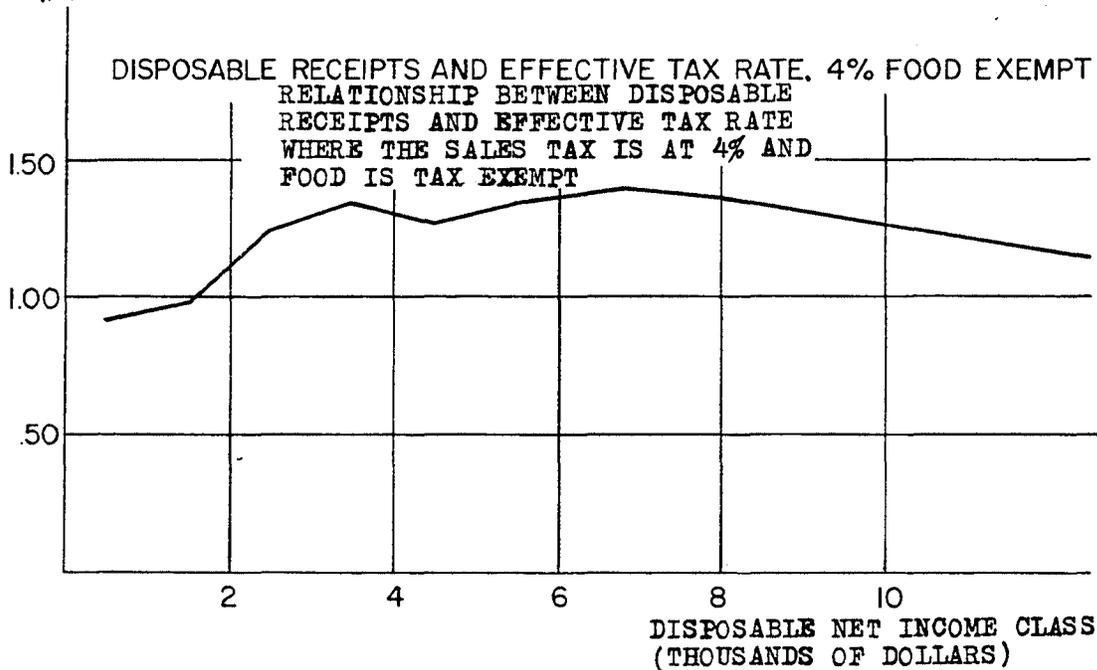


TABLE 215

Disposable Receipts and Effective Tax Rate, 4 Percent, Food Exempt

1 Disposable net income class* (000)	2 Dispos- able receipts	3 Con- sumption (C)	4 Taxable con- sumption (TC)	5 TC ÷ C	6 APC	7 APCT	8 Tax amount	9 Effective tax rate (8) ÷ (2) (percent)
Under 1.....	1,613	1,279	368	.29	.79	.23	\$14.72	.91
1-2.....	2,597	1,889	631	.33	.73	.24	25.24	.97
2-3.....	3,442	2,665	1,074	.40	.77	.31	42.96	1.25
3-4.....	4,749	3,609	1,603	.44	.76	.34	64.12	1.35
4-5.....	6,289	4,374	2,007	.46	.70	.32	80.28	1.28
5-6.....	7,413	5,108	2,479	.49	.69	.33	99.16	1.34
6-7.5.....	9,125	6,239	3,178	.51	.68	.35	127.12	1.39
7.5-10.....	10,750	7,134	3,662	.51	.66	.34	146.48	1.36
10 and over.....	20,757	10,573	5,893	.56	.51	.28	235.72	1.14

APC = (3) ÷ (2).

APCT = (4) ÷ (2).

Median income = \$3,566; PRI = 1.31 ÷ 1.09 = 1.202.

* Disposable net income refers to money income after deduction of personal taxes and occupational expenses and includes: wages and salaries including tips and bonuses; income from unincorporated businesses and professions; net receipts from rented properties; net receipts from roomers and boarders; interest; dividends; receipts based on military service; unemployment insurance and social security benefits; other public and private pensions and retirement benefits; cash received as public and private relief; payments from private insurance annuities and trust funds; profits from the sale of stocks and bonds bought in 1950 and profits from businesses owned but not operated; contributions from persons not in the family; and such items as alimony, prizes and gambling gains.

Occupational expenses, such as union dues and purchase of special tools, were subtracted from wage and salary earnings and were not included in gross or net income. Federal, state and local income tax, payroll tax and personal property taxes were deducted from gross income to arrive at the netted figure. Two nonmoney items—the value of food and housing received as pay—were included as income.

Source: Study of Consumer Expenditures, Vol. II, p. xxvii. Wharton School of Finance and Commerce, University of Pennsylvania (Washington, D.C.: 1956).

SOURCE OF FIGURE 5 AND TABLE 215 : Harold M. Somers assisted by Joseph J. Launie, THE SALES TAX, pp. 44-45. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

EFFECTIVE
SALES TAX
RATE (%)

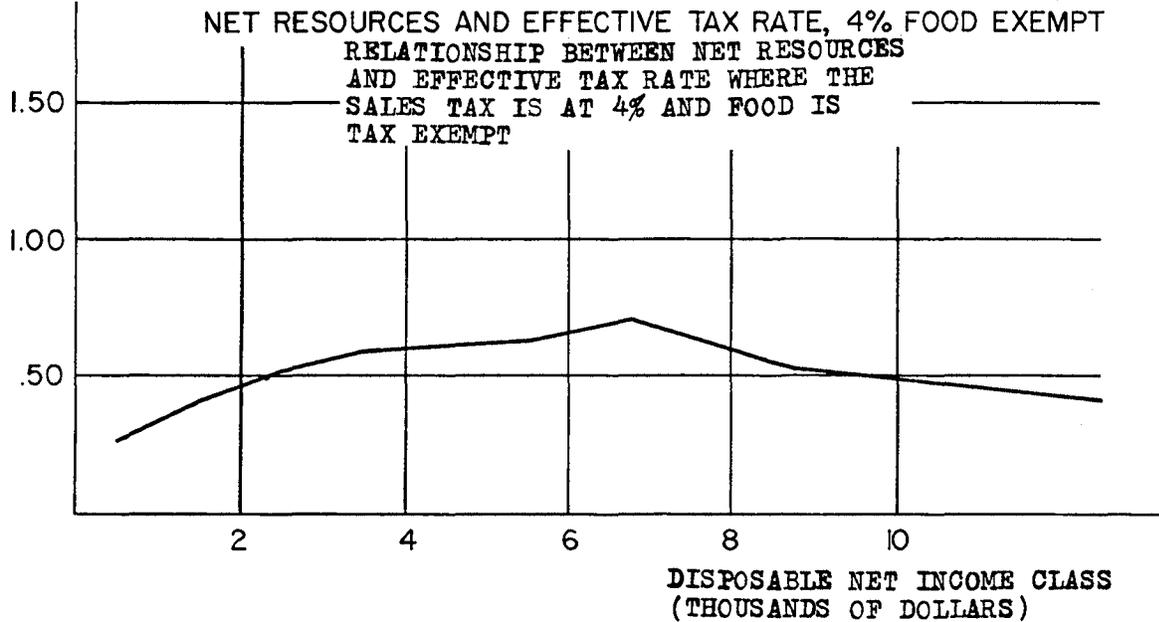


TABLE 216

Net Resources and Effective Tax Rate, 4 Percent, Food Exempt

1 Disposable net income class* (000)	2 Net income	3 Net worth ^a	4 Net resources (2) + (3)	5 Con- sumption (C)	6 Taxable con- sumption (TC)	7 TC ÷ C	8 Tax amount	9 Effective tax rate (8) ÷ (4)
Under 1.....	619	5,065	5,684	1,279	368	.29	\$14.72	.26
1-2.....	1,534	4,610	6,144	1,889	631	.33	25.24	.41
2-3.....	2,527	5,750	8,277	2,665	1,074	.40	42.96	.52
3-4.....	3,523	7,480	11,003	3,609	1,603	.44	64.12	.58
4-5.....	4,459	8,480	12,939	4,374	2,007	.46	80.28	.62
5-6.....	5,468	10,165	15,632	5,108	2,479	.49	99.16	.63
6-7.5.....	6,664	11,750	18,414	6,239	3,178	.51	127.12	.69
7.5-10.....	8,613	19,155	27,768	7,134	3,662	.51	146.48	.53
10 and over.....	15,040	40,000	55,040	10,573	5,893	.56	235.72	.43

Median income = \$3,566; PRI = .579 ÷ .426 = 1.359.

* Estimated from "Survey of Financial Characteristics of Consumers," *Federal Reserve Bulletin* (December 1950).

^a Disposable net income refers to money income after deduction of personal taxes and occupational expenses and includes: wages and salaries including tips and bonuses; income from unincorporated businesses and professions; net receipts from rented properties; net receipts from roomers and boarders; interest; dividends; receipts based on military service; unemployment insurance and social security benefits; other public and private pensions and retirement benefits; cash received as public and private relief; payments from private insurance annuities and trust funds; profits from the sale of stocks and bonds bought in 1950 and profits from businesses owned but not operated; contributions from persons not in the family; and such items as alimony, prizes and gambling gains.

Occupational expenses, such as union dues and purchase of special tools, were subtracted from wage and salary earnings and were not included in gross or net income. Federal, state and local income tax, poll tax and personal property taxes were deducted from gross income to arrive at the netted figure. Two nonmoney items—the value of food and housing received as pay—were included as income.

Source: *Study of Consumer Expenditures*, Vol. II, p. xxvii. Wharton School of Finance and Commerce, University of Pennsylvania (Washington, D.C.: 1956).

SOURCE OF FIGURE 6 AND TABLE 216 : Harold M. Somers assisted by Joseph J. Launie, *THE SALES TAX*, pp. 46, 48. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

In summary, the Nevada sales tax appears to be regressive by ordinary standards, in comparing sales tax paid with family income. If we compare sales tax paid with a more comprehensive measure of ability to pay, family income plus net assets, the tax loses its appearance of regressivity. In making these comparisons we must rely on nationwide estimates of how much each family in a particular income class spends on various goods and services. We then apply Nevada's exemptions and exclusions and the Nevada rate of 2 percent to estimate what each family would pay in sales tax. Similarly, the net asset data are on a nationwide basis. A special survey of income, assets and expenditures in Nevada would be prohibitive in cost. We have no reason to believe, however, that the patterns in Nevada are sufficiently different from the national pattern to invalidate the general, qualitative conclusions reached.

Exemption of food, as in California, reduces regressivity, as would be expected. A higher tax rate imposes a heavier burden on everyone but the concept of regressivity is a relative one, comparing one income class with another; hence, the higher tax with food exemption (as in California) is less regressive than the lower tax with food taxable (as in Nevada).

(3) The question of exempting food from sales tax

The relatively low rate of 2 percent for the sales tax in Nevada is misleading in comparison with many other states because food is taxed in Nevada. Making a comparison with California, where food for home use is exempt, we find that Nevada's 2 percent is roughly equivalent to a 3 percent tax (the California rate for state purposes) in terms of burden on the average individual taxpayer.

In fiscal 1965, taxpayers in Nevada paid \$52.26 per capita for the general sales tax while Californians paid \$50.72 per capita at the 3 percent rate. This is shown in Table 202. In fact, only a few states collect more per capita than Nevada despite its apparently low rate.

We may also relate general sales tax paid to personal income. In fiscal 1965, taxpayers in Nevada paid \$17.35 per \$1,000 of personal income earned in the State. In California the figure was \$16.82, despite the disparity in rates. This is shown in Table 203. Nevada's burden on income, although above the average (of \$13.75), is not far from the median (of \$16.95). In terms of personal income, Nevada's sales tax burden is neither high nor low in comparison with other states.

The very heavy level of tourist expenditures in Nevada has an important bearing on who actually pays the sales tax revenue collected. It has been estimated that there are 30,000,000 tourist days to 180,000,000 resident days.⁽¹⁾ This means that a large proportion of any tax on goods and services is borne by nonresidents.⁽²⁾ In that sense the incidence of the tax is on nonresidents to a considerable extent. In more specific terms, only a portion of the \$23.1 millions derived from the sales tax in the fiscal year 1966 was borne by residents of Nevada. This must be kept in mind when increases in rates or changes in coverage are considered.

The task of computing the exact amount of tax borne by residents and nonresidents respectively is a formidable one. It cannot, as a

(1) Letter from Russell W. McDonald, October 5, 1966.

(2) We are using the terms "resident" and "nonresident" in the conventional and not the legal sense.

general rule, be assumed that 100 percent of a sales tax is borne by the consumer and that none of it is absorbed by business even where there is a "separate charging" provision - the maintenance of sales volume or profit dictates partial absorption of the tax through lowering of price under some conditions.⁽¹⁾ Thus the Nevada businessman may be absorbing some of the tax nominally paid by the tourist. Moreover, the particular resident family that pays a sales tax on food and other taxable items is not relieved of the burden it bears by the fact that some of the total revenue derived by the State is contributed by tourists. The tax rate that is imposed on him, however, may be kept low by virtue of the fact that the contribution of tourists enables the State to derive large revenues at the low rate. In that sense, the tax is shifted to the nonresident.

The following arguments may be made in favor of the existing provisions:

- (i) The tax is not actually regressive on an overall basis if both income and net worth are considered in measuring ability-to-pay.
- (ii) The tax now yields large amounts of revenue and, in fact, is the largest single source of revenue. Any reduction in base would jeopardize State services if the reduction is of such large magnitude as is involved in the food exemption.
- (iii) Other parts of the tax structure, especially if new taxes (like an income tax) are adopted, may be used to protect medium- and low-income residents.

(1) See Harold M. Somers, "Some Economic Implications of Sales and Excise Taxation" in EXCISE TAX COMPENDIUM, pp. 24-31 (Washington: U. S. Government Printing Office, 1964) and "Theoretical Framework of Sales and Use Taxation", PROCEEDINGS OF THE NATIONAL TAX ASSOCIATION: 1961, pp. 607-618.

- (iv) There is some merit in the saying, "An old tax is a good tax". The people have become adjusted to the existing provisions, and the collection procedures are functioning effectively. In the case of some taxes we may find such grievous faults as to warrant drastic reform or complete removal of the tax. Such has not been demonstrated in the case of Nevada's sales tax.
- (v) The existing tax cuts across the board and gets something from everyone, whether at high or low income, whether resident or visitor. This ensures that everyone makes some contribution to the support of public services. In the case of residents, this increases interest in governmental activities. In the case of visitors, it extracts a fee for the services they enjoy while they are in Nevada (not possible, for instance, through an income tax).
- (vi) It hits people in their spending rather their savings, and hence impinges little on the capital available to develop industry, commerce, agriculture and mining in Nevada.
- (vii) The exemption of food would increase administrative problems and costs.

The following arguments may be adduced in favor of a food exemption:

- (i) Even if the sales tax is not regressive in some sense on an overall basis, it is burdensome for some families, particularly those with low income, few net assets, or a large number of children. A rise in rates would be particularly onerous to these families as they have few resources to fall back on. They might experience a significant and perhaps harmful reduction in their standard of living.

- (ii) The lack of a basic exemption aggravates the problem of welfare and puts a strain on public services.

The arguments pro and con cannot be weighted simply by their numbers: the regressivity argument alone is considered by some to outweigh all of the arguments in favor of the nonexemption of food.

Exemption of food would reduce regressivity as ordinarily measured; and it would cut revenues considerably. A rate of 2.5 percent might be necessary to make up the loss in revenue. (1) The issue is clear-cut: revenue needs of the State vs redistribution of the burden of the sales tax. The issue will have to be faced particularly if revenue needs increase so that serious consideration is given to increasing the rate to 3 percent or 4 percent with existing provisions. Applying the food exemption only to the increased portion of the tax would be an administrative nightmare.

(4) The question of local options for increases in sales tax

One possible way to derive increased revenue from the sales tax is to allow local governments - cities, counties or school districts - to impose an additional half or one percent if they choose. The total would be collected by the State with the State sales tax. The added amount would be returned to the unit in which the tax was paid. There are two points to consider in connection with such a plan:

- (i) Unless the additional tax is universally adopted, unsatisfactory competitive relationships can be set up to the detriment of commercial establishments in the units that impose the tax. Shoppers can go a short distance to avoid the tax. California

(1) Exemption of food would naturally lead to other exemptions such as prescription drugs. A rate closer to 3 percent may be necessary to provide the yield of the present 2 percent tax.

has this option with respect to a one percent sales tax but today all counties impose the tax.⁽¹⁾ Diversified sources of local revenue are to be encouraged, but a checkerboard of local taxes on highly competitive goods has disadvantages.

(ii) If the money is returned to the unit in which it was collected, the money sometimes goes where it is not needed. A local governmental unit that includes a large shopping area will receive a lot of money it does not need while a neighboring area with a housing development and many little children will not have money for its schools. The local property tax will fall (perhaps to zero) in the former and rise to the limit in the latter.⁽²⁾ The broader the geographical area of the taxing and benefitting unit the less serious this problem becomes.

(5) Revenue projections

The sales tax was adopted in 1955 and has remained substantially unchanged since then. The revenue estimate for 1965-66 is \$23.1 millions.⁽³⁾ The annual increases in collections from sales and use tax over those of the previous year were as follows:⁽⁴⁾

	<u>Percent</u>
1960-61	7.3
1961-62	9.9
1962-63	28.0
1963-64	9.0

- (1) Actually cities and counties combined, with counties taking up the slack, if any. See Wilma Mayers, FINANCING LOCAL GOVERNMENT IN CALIFORNIA, pp. 46-51. (State of California Assembly Interim Committee on Revenue and Taxation 1964)
- (2) Several cases of zero or near-zero property tax have arisen in California because of this. For a proposal to distribute according to school needs see A PROGRAM OF TAX REFORM FOR CALIFORNIA, p. 32. (State of California Assembly Interim Committee on Revenue and Taxation 1965)
- (3) Table 208.
- (4) Derived from data on Table 208.

	<u>Percent</u>
1964-65	4.7
1965-66	4.0 (estimated)
1966-67	4.5 (estimated)

When these figures are considered in relation to the population and price projections discussed above, an annual growth rate compounded (one year over the previous year) in the neighborhood of 7 percent would appear reasonable. A more conservative view would put it at 4 to 5 percent. There are, however, several pertinent factors to consider, especially as we go far out into the future and allow for possible increases in the tax rate to 3 percent or even 4 percent.

In estimating the possible effects of increased rates, we must consider the possible impact on family budgets. Any significant rise in the sales tax must cut the purchases of low- and possibly medium-income families which have no substantial margin of savings. This is known as the "income effect" of any tax and must be taken into account when higher rates are contemplated. There will probably also be some "price effect" - substitution of untaxed for taxed items. The Nevada tax, comprehensive though it is (for example, in taxing all food), does leave some areas of consumer spending untaxed, and there will be an inducement to switch to some extent where substitution is possible, such as from certain goods to certain services in the field of entertainment.

There will also be an "evasion effect". The higher the rate, the greater the inducement to find ways and means of evading payment although legally required to pay. Some collusion with sellers may occur despite the high standards generally prevalent in sales tax administration. The more important evasion effect, however, will

probably be in connection with the use tax on out-of-state purchases by residents. Goods purchased out-of-state for use in Nevada are subject to the use tax. Enforcement of the use tax other than on automobiles is notoriously difficult in all states. Actually this evasion effect is a form of price effect since the evasive behavior is induced by the higher cost of the taxed item to the consumer. The distinction is made here, however, because we are using the term price effect to refer to a legitimate avoidance of the sales tax through substitution of tax-exempt for taxable items.

Tourists will probably also be encouraged to do their buying before entering the State if they pass through a state with lower rates or broader exemptions. This may be considered a form of (legal) avoidance rather than (illegal) evasion.

Allowing for possible budgetary, avoidance and evasion effects with increases in the tax rate, we have assumed that (i) an increase from 2 percent to 3 percent in the tax rate would increase revenues by only 40 percent and not 50 percent and (ii) an increase from 2 percent to 4 percent would produce an increase of only 75 percent and not 100 percent.

Using projections supplied by the Fiscal Analyst, and applying the dampeners referred to in the previous paragraph, with a basic estimate of \$23.1 millions from sales tax in the fiscal year 1966, we arrive at the following projections:

	In millions of dollars		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
At present rate of 2 percent	28.3	36.2	59.4
At 3 percent			
Totals	39.6	50.7	83.2
Increments	11.3	14.5	23.8
At 4 percent			
Totals	49.5	63.4	104.0
Increments	21.2	27.2	44.6

The amounts designated as increments are used in a later chapter in which alternative programs are presented for filling the estimated revenue gaps.

2. GAMING TAXES

There is a description and enumeration of the State's gaming taxes in Chapter II of Part III of this report. Also explained there is a method used for projecting gross revenues from gaming, based on a statistical relationship with California personal income.

Gaming taxes, for the purpose of projection, may be divided into two classes:

- (1) The quarterly license fee, otherwise known as the gaming percentage tax, which is the predominant revenue-producer.
- (2) Miscellaneous taxes, licenses, fees, etc., based on other than a percentage of gross win.

From the foregoing, gaming administration expenses are paid, and the balance is received into the general fund.

Specifically, the two more important taxes are as follows:

- . The gaming percentage tax
- . The table tax.

The gaming percentage tax - a gross receipts tax as ordinarily understood - is levied quarterly on licensees' gross win in brackets as follows:

<u>Quarterly gross win</u>	<u>Percentage rate</u>
Up to \$150,000	3
\$150,000 to \$400,000	4
\$400,000 to \$1,000,000	5
Over \$1,000,000	5½

The table tax is levied annually, in the form of a license fee, assessed on table games at rates ranging from \$100 a year for one game up to \$1,000 a game for up to 16 games, plus \$200 for each game over 16 operated by any one licensee.

The history of collections for the three years to June 30, 1966, as shown in the report of the Chief of the Budget Division, Department of Administration, to the 1966 Special Session Legislature, dated May 9, 1966, was as follows:

	<u>In millions of dollars</u>		
	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
Percentage tax	13.4	14.1	16.0
All other taxes, etc.	1.0	1.0	1.2
Administration (deduction)	<u>(0.7)</u>	<u>(0.7)</u>	<u>(0.8)</u>
Net to general fund	<u>13.7</u>	<u>14.4</u>	<u>16.4</u>

It was established that there is, and has been for about the last four years, a consistent relationship between the percentage tax and gross win of 4.8 percent.

To project future revenues from gaming taxes, it is safe to assume that the percentage tax will be the only item of consequence and that the margin between the revenues from other types of gaming taxes and administrative expense will remain relatively constant.

Using the projections of gross win previously mentioned, and assuming continuation of a relationship of 4.8 percent between the gaming tax and gross win, we are able to arrive at the following projections of gaming percentage tax revenues:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Gross revenue from gaming	391	500	727
Percentage tax at current sliding scale rates	18.8	24.0	34.9
Increments produced if across-the-board increases in the tax are levied, amounting to:			
25 percent	4.7	6.0	8.7
50 percent	9.4	12.0	17.4
100 percent	18.8	24.0	34.9

The increments above are based on the assumption that an increase in the percentage tax will not reduce the volume of gaming. Their significance is considered in a later chapter when presenting alternative programs for filling the revenue gaps.

The casino entertainment (cabaret) tax, which is estimated to produce nearly \$4 millions in the fiscal year 1967, is not considered in detail. At the time of our study discussion was centering around the question of its repeal. In the absence of any clear-cut predictability of this issue, we have assumed that the tax will continue at its present rate. If it is, in fact, repealed a source of equivalent revenue will have to be introduced to make good the deficiency such repeal would create.

Many interesting economic questions are raised by this tax on gaming. Two of them are: (1) How important is the gaming industry to the Nevada economy; hence, what risks are run in imposing higher taxes on this industry? (2) Will the industry be able to pass on to the customer any increased tax or

license fee? These and other questions are considered in detail in another part of this report. For the present purpose our analysis is limited to increases in the order of magnitude of 100 percent and we assume that gross win will be unaffected, the industry absorbing all of the rise.

3. PROPERTY TAX

The State derives a substantial portion of its revenue from the property tax. As shown in Table 208, the total in the fiscal year 1966 was \$3.6 millions and the estimate for the fiscal year 1967 was \$3.9 millions. The tax is collected by the counties, which remit a portion to the State. Property is assessed, on the average, at 35 percent of value. The State portion of the tax for the fiscal year 1966 was \$2.80 per \$1,000 assessment. Special rules exist for assessing mining companies. Mobile homes are assessed as personalty, with an identification sticker of \$1 required.⁽¹⁾

A property tax on households tends to be highly regressive,⁽²⁾ mainly for two reasons. First, a low-income family tends to pay a higher proportion of its income for housing than does a high-income family. Second, there is a tendency to underassess larger holdings relative to small households, for which current sales and other relevant data are more readily available.

Moreover, the property tax is generally difficult to administer because of the problem of valuation and the varying degrees of training and ability of assessors. Whether and to what extent these comments apply to the property tax in Nevada could be determined only after thorough study. A contrary result in Nevada would make the State exceptional among all the states of

(1) Prentice-Hall, Inc., ALL STATES UNIT, par. 200, p. 201 (5-3-66).

(2) For references to numerous studies confirming this finding, see David R. Doerr and Raymond R. Sullivan, TAXATION OF PROPERTY IN CALIFORNIA, pp. 25-53. (State of California Assembly Interim Committee on Revenue and Taxation 1964).

the Union. Pending such study, any impending increase in property tax rates must be viewed with concern.

The growth of property tax revenues, even without increase in rates, is as inevitable as population growth and price increase. In any case, it would be unrealistic to project any increase in the State's property tax rate. Even if local units should decide to rely more heavily on property taxes - and the trend is in the opposite direction nationally, toward greater diversification of local sources of revenue - the State is likely to seek other sources of revenue before increasing the burden on the property owner. This is true even though, compared with personal income, the property tax burden in Nevada is lower than in most other states. Table 217 shows that property taxes in Nevada are well below the national average when compared on the basis of property tax paid per \$1,000 of personal income. The constitutional limitation of \$5 per \$100 of assessed value must also be considered before any significant rise in rates is contemplated. This limit applies to the combined State and local rate. ⁽¹⁾

For all these reasons, increases in property tax rates are not included in the projections used for the various State tax programs considered later in this report.

4. LIQUOR TAX AND LICENSES

The taxation of liquor is always a likely prospect when increased revenues are needed. It is felt that, at the very worst, a higher tax will discourage the consumption of liquor, an effect which is considered socially desirable. A special factor at work in Nevada is that a large part of the liquor tax is paid by tourists; accordingly, a correspondingly large part of any increase in tax would be borne by tourists rather than residents.

(1) Commerce Clearing House, Inc., STATE TAX GUIDE: NEVADA, par. 620, p. 556; also State of Nevada, Department of Economic Development, NEVADA TAX STRUCTURE.

TABLE 217

-RELATION OF SELECTED ITEMS OF STATE AND LOCAL GOVERNMENT FINANCES TO PERSONAL INCOME, BY STATES: 1963

State	General revenue per \$1,000 of personal income						General expenditure per \$1,000 of personal income					
	Total	From Federal Government	All State and local general revenue sources	Taxes		Charges and miscellaneous general revenue	All general expenditure	Education		Highways	Public welfare	Health and hospitals
				Total	Property only			Total	Local schools only			
United States average..	136.55	18.94	117.61	96.14	43.62	21.47	140.73	52.13	40.82	24.18	11.90	10.17
Median State.....	142.46	23.77	119.58	96.91	43.69	22.92	151.12	56.25	42.31	29.84	11.09	9.72
Alabama.....	143.23	31.76	111.47	85.40	17.29	26.06	151.12	52.61	38.64	30.36	20.96	9.94
Alaska.....	213.49	75.81	137.68	80.17	17.83	57.51	235.83	73.84	54.18	73.89	8.00	11.31
Arizona.....	168.54	27.96	140.58	113.04	57.16	27.55	171.42	74.41	55.40	29.62	10.28	6.51
Arkansas.....	151.97	36.27	115.70	92.78	26.96	22.92	155.50	56.03	42.04	36.12	20.26	10.98
California.....	151.13	21.80	129.32	106.73	53.98	22.60	155.58	59.65	42.52	18.67	14.51	9.83
Colorado.....	161.04	27.28	133.75	106.39	52.69	27.37	164.59	72.43	50.29	23.09	20.98	11.06
Connecticut.....	111.09	11.46	99.63	85.01	44.75	14.63	117.29	40.99	35.28	21.68	8.77	6.77
Delaware.....	114.62	16.81	97.80	79.20	15.21	18.61	119.80	49.71	36.31	25.22	6.56	6.55
District of Columbia.....	119.49	31.48	88.00	76.32	26.05	11.69	131.47	24.51	23.92	21.77	9.76	18.07
Florida.....	138.17	15.61	122.56	94.06	38.77	28.51	149.48	49.75	40.93	26.79	9.09	14.23
Georgia.....	142.46	27.08	115.38	88.44	27.79	26.94	150.93	53.03	42.26	29.84	13.63	15.59
Hawaii.....	173.04	39.01	134.03	106.20	18.42	27.83	190.60	60.56	40.34	16.50	7.76	14.08
Idaho.....	164.88	34.35	130.52	103.91	50.53	26.61	170.44	63.81	47.43	42.24	12.31	10.40
Illinois.....	112.69	13.35	99.33	85.35	43.69	13.99	112.08	42.33	33.77	16.93	11.64	8.20
Indiana.....	120.62	13.10	107.52	86.39	48.92	21.13	122.78	58.27	42.31	20.32	5.79	8.56
Iowa.....	147.11	17.25	129.85	106.66	60.52	23.19	148.67	61.55	46.15	34.21	12.20	10.09
Kansas.....	152.15	17.27	134.88	111.39	63.38	23.49	154.37	65.92	49.43	31.95	11.59	10.28
Kentucky.....	141.63	30.07	111.56	88.93	25.87	22.63	166.32	57.53	40.49	47.80	14.82	9.72
Louisiana.....	192.98	39.85	153.14	114.17	25.81	38.96	201.63	63.92	47.44	39.69	31.18	10.69
Maine.....	142.00	23.78	118.22	102.24	53.54	15.99	151.23	54.98	42.92	37.10	14.76	7.72
Maryland.....	115.52	13.16	102.36	84.34	35.77	18.02	121.98	46.71	39.03	19.71	6.15	10.40
Massachusetts.....	123.64	13.64	110.00	96.06	56.31	13.94	127.91	36.68	33.09	18.65	15.00	11.86
Michigan.....	141.32	16.51	124.81	102.44	47.52	22.37	143.58	59.12	43.61	22.12	9.37	12.32
Minnesota.....	161.99	19.68	142.31	114.90	62.42	27.41	160.32	63.77	49.81	28.14	15.30	11.85
Mississippi.....	176.03	37.45	138.58	107.00	31.00	31.58	182.89	63.11	44.79	41.70	18.69	16.20
Missouri.....	113.19	19.35	93.84	78.25	33.95	15.59	119.04	44.54	37.67	22.20	13.68	9.37
Montana.....	174.93	40.03	134.90	106.91	60.86	27.99	177.12	68.44	53.53	49.89	10.16	7.21
Nebraska.....	132.18	21.43	110.75	86.73	62.32	24.02	137.21	54.24	40.34	36.97	7.44	7.68
Nevada.....	146.01	26.43	119.58	92.47	29.90	27.11	154.21	49.50	37.97	32.14	5.89	13.05
New Hampshire.....	126.91	19.59	107.31	90.18	58.19	17.14	143.86	47.68	37.23	38.23	10.32	8.99
New Jersey.....	110.37	10.38	99.99	85.00	54.81	14.99	108.53	38.45	33.59	14.72	5.73	7.91
New Mexico.....	205.81	51.04	154.77	106.41	28.26	48.36	195.75	88.78	62.05	38.51	15.64	8.85
New York.....	140.99	10.92	130.07	109.07	47.63	21.00	144.19	46.10	38.94	19.08	10.87	14.18
North Carolina.....	133.22	19.49	113.73	92.00	24.50	21.73	128.87	56.14	43.45	21.30	10.48	9.60
North Dakota.....	188.33	34.65	153.68	108.41	55.37	45.26	191.79	74.66	48.77	45.65	12.89	6.45
Ohio.....	116.46	14.25	102.21	82.10	42.59	20.11	118.74	43.41	35.74	23.48	10.23	7.68
Oklahoma.....	165.45	37.42	128.03	98.70	31.09	29.34	173.59	60.90	44.45	34.05	31.40	9.75
Oregon.....	156.09	30.22	125.87	97.82	47.16	28.05	162.92	68.92	50.79	32.03	10.73	8.44
Pennsylvania.....	116.06	14.53	101.54	85.39	29.51	16.14	126.09	46.20	39.87	20.73	10.66	7.77
Rhode Island.....	129.93	20.99	108.94	96.98	46.30	11.96	132.69	42.44	31.34	21.49	12.63	8.59
South Carolina.....	136.53	22.46	114.07	89.55	20.99	24.52	133.98	56.25	44.06	23.33	9.27	12.56
South Dakota.....	174.48	33.54	140.94	111.35	61.49	29.59	173.39	71.62	53.74	49.97	11.61	5.39
Tennessee.....	138.94	30.00	108.94	86.21	29.01	22.73	146.14	48.43	38.76	35.76	10.22	12.40
Texas.....	138.47	20.60	117.86	92.41	41.67	25.46	136.80	53.56	43.48	28.15	11.09	7.63
Utah.....	164.93	39.19	125.74	102.89	44.37	22.85	176.73	84.20	60.49	34.89	11.02	7.09
Vermont.....	172.38	40.97	131.41	114.98	51.09	16.44	181.94	63.53	41.92	53.54	15.39	8.93
Virginia.....	118.48	19.43	99.05	78.06	27.11	21.00	132.03	51.32	40.86	32.03	5.34	7.95
Washington.....	159.19	23.77	135.42	105.15	33.38	30.26	167.05	68.85	50.17	29.32	14.26	7.65
West Virginia.....	141.38	25.19	116.20	96.91	26.07	19.29	136.55	52.19	40.89	27.18	19.82	8.86
Wisconsin.....	157.05	15.98	141.08	120.76	61.81	20.32	162.26	61.59	46.79	30.50	11.16	10.60
Wyoming.....	222.80	77.70	145.09	105.27	57.48	39.82	209.98	74.50	57.89	71.20	8.44	14.71

Note: Because of rounding, detail may not add to totals. These data are estimates subject to sampling variation

SOURCE: U. S. Bureau of the Census, GOVERNMENTAL FINANCES IN 1963, p. 50.

There are, however, two offsetting considerations which set at least an upper limit to this source of revenue. Insofar as the liquor tax is paid by residents, the regressive nature of the tax must be considered. A lower-income family spends a higher percentage of its total income on liquor, on the average, than does a higher-income family. Perhaps it should not be so, but it is. We tend to think of liquor as a luxury and perhaps, in a physiological sense, it is. Yet it is established that some people will continue consuming this luxury while cutting down on necessities for themselves and their family. The demand is much more inelastic than we might expect; higher prices (including taxes) do not discourage consumption as much as one might expect in the case of a luxury. Thus, in fact, higher liquor taxes tend to impose a greater relative burden on lower- than on higher-income families.⁽¹⁾

The other factor is that liquor is highly portable in small quantities. Visitors who come in for short trips from other states can "bring their own" if the liquor tax is lower there. As may be seen in Tables 218 and 219, this is not a serious threat at present. Upper limits to liquor taxation are evident from these tables, however, from a competitive point of view. It is not desirable to encourage visitors to bring a suitcase full of liquor; it is far better to encourage them to bring a suitcase full of money to spend in Nevada.

The present tax rates are \$1.40 a gallon for distilled spirits, 50¢ a gallon for fortified wines and 6¢ a gallon for beer.⁽²⁾ Liquor taxes and

(1) See the analysis and references in Ellis T. Austin, CALIFORNIA EXCISE TAXES ON CIGARETTES, ALCOHOLIC BEVERAGES, AND HORSERACING. (State of California Assembly Interim Committee on Revenue and Taxation 1964)

(2) Commerce Clearing House, Inc., STATE TAX GUIDE: NEVADA, par. 620, p. 556 (1964). The specific rates for liquor are: 1/2 of 1% through 14% alcohol, 30¢ per gallon; more than 14% through 22% alcohol, 50¢; over 22%, \$1.40. Licenses range from \$15 to \$500.

TAX RATES ON DISTILLED SPIRITS FOR STATES WITH LICENSING SYSTEMS, AS OF JANUARY 1—1953 THROUGH 1964
(dollars per gallon)

States	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Alaska.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.50		4.00		4.00
Arizona.....	1.20										1.44	1.44
Arkansas.....	2.50											2.50
California.....	.80			1.50								1.50
Colorado.....	1.60							1.80				1.80
Connecticut.....	1.00									2.00		2.00
Delaware.....	1.00	1.15										1.15
District of Columbia.....	.75		1.00		1.25						1.50	1.50
Florida.....	2.17											2.50
Georgia.....	1.00											1.00
Hawaii.....	1					1						1
Illinois.....	1.00					1.02		1.52				1.52
Indiana.....	2.08											2.08
Kansas.....	1.00									1.20		1.20
Kentucky.....	1.28											1.28
Louisiana.....	1.58				1.68							1.68
Maryland.....	1.25			1.50								1.50
Massachusetts.....	2.25											2.25
Minnesota.....	2.75							2.875				2.875
Missouri.....	.80									1.20		1.20
Nebraska.....	1.20											1.60
Nevada.....	.80									1.40		1.40
New Jersey.....	1.50											1.80
New Mexico.....	1.30											1.50
New York.....	1.50											1.50
North Dakota.....	2.50											2.50
Oklahoma.....	—	—	—	—	—	—	—	2.40				2.40
Rhode Island.....	1.50						2.00					2.00
South Carolina.....	2.72											2.72
South Dakota.....	.75											1.25
Tennessee.....	2.00											2.50
Texas.....	1.408							1.68				1.68
Wisconsin.....	2.00											2.25

NOTE: A blank space (.....) indicates no rate change since previous rate shown. A dash (—) indicates no tax was in effect as of January 1.
SOURCE: Advisory Commission on Intergovernmental Relations, *Tax Overlapping in the United States*, July 1964, p. 198.

n.a.—Data not available.
* 12% of wholesale price.
** 100% of wholesale price.

SOURCE: Ellis T. Austin, CALIFORNIA EXCISE TAXES ON CIGARETTES, ALCOHOLIC BEVERAGES AND HORSE RACING, p. 37. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

STATE TAX RATES ON BEER, JANUARY 1, 1964¹

(per barrel)

Less than \$1	\$1 to \$2	\$2 to \$3	\$3 to \$4	\$4 to \$6
Maryland Missouri Wyoming	California Colorado Illinois Montana Nebraska Nevada New Jersey New York Oregon Rhode Island ⁶ Washington Wisconsin District of Columbia	Arizona Connecticut Delaware Indiana ² Iowa Kentucky Massachusetts ⁴ New Mexico Ohio Pennsylvania	Kansas Minnesota New Hampshire Tennessee ³	Arkansas Idaho Texas Utah Virginia West Virginia
Total.....3131046
\$6 to \$8	\$8 to \$10	\$10 to \$12	\$12 to \$14	16 percent of wholesale price
Alaska Maine ⁵ Michigan North Dakota ⁷ Vermont	Florida Georgia South Dakota	Louisiana North Carolina Oklahoma	Alabama Mississippi South Carolina	Hawaii
Total.....53331

¹ Montana, Virginia, Washington, and West Virginia tax light beer only, and Kansas and Oklahoma tax strong beer only. The rates for Minnesota, North Dakota, South Dakota, and Utah included in the table are those applicable to strong beer.

² Includes, in addition to excise taxes of 8¢ per gallon, an enforcement tax of $\frac{1}{4}$ of 1¢ per gallon.

³ The tax on sales of beer at wholesale is 17 percent of the wholesale price.

⁴ In addition, every corporation, association or organization which is licensed by any city or town to sell alcoholic beverages, except certain corporations and certain veterans' organizations, are taxed on the gross receipts from the sale of alcoholic beverages at the rate of one-fourth of 1 percent, plus 23 percent surtax.

⁵ Malt beverages imported into the state are taxed on the basis of reciprocity. The current rate, as fixed by the Liquor Control Commission, is \$1 per barrel.

⁶ The tax on malt liquors manufactured in the state is 5 $\frac{1}{2}$ ¢ per gallon.

⁷ Includes additional taxes scheduled to expire on July 1, 1967.

SOURCE: Advisory Committee on Intergovernmental Relations, *Tax Overlapping in the United States: 1964*, July 1964, p. 199.

SOURCE: Ellis T. Austin, CALIFORNIA EXCISE TAXES ON CIGARETTES, ALCOHOLIC BEVERAGES AND HORSERACING, p. 40. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

licenses yielded \$3.4 millions in the fiscal year 1966 and are estimated to yield \$3.7 millions in the fiscal year 1967, as shown in Table 208.

In making projections for the next decade, we assume that liquor tax revenues at existing rates will rise at a 10 percent annual un compounded rate. We assume also that increased rates of taxation will result in an only slightly less than proportional increase in revenues, specifically, that a 50 percent increase in rates will result in a 45 percent increase in revenues and that a 100 percent increase in rates will raise revenues 85 percent. That there will be some such dampening is a result of the same factors as in the case of sales and use taxation - the budgetary, avoidance and evasion effects discussed above. Dampening is assumed to be less severe than for taxable sales as a whole because of the relatively strong attachment to this commodity within moderate price ranges as indicated earlier in this section. The projections can readily be modified to give weight to other possibilities if desired.

The resulting figures are as follows, based on fiscal year 1966 estimates of \$3.4 millions:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
At present rates	4.1	5.1	6.8
At rates 50 percent higher, with 45 percent assumed increase in yield			
Totals	5.9	7.4	9.9
Increments	1.8	2.3	3.1
At rates 100 percent higher, with 85 percent assumed increase in yield			
Totals	7.6	9.4	12.6
Increments	3.5	4.3	5.8

The amounts designated above as increments are used later when presenting alternative programs for filling the revenue gaps.

5. CIGARETTE TAX AND LICENSES

Cigarette taxes have many of the economic and social characteristics of liquor taxes, discussed above. There is the additional factor introduced by the medical evidence of recent years to the effect that cigarette smoking may lead to cancer and heart ailments. This may strengthen the justification or rationalization for higher cigarette taxes. It has not, however, appreciably altered the strong attachment of cigarette smokers to their habit in face of price increases; hence the economic analysis is unchanged and remains much like that for liquor taxes.

The cigarette tax in Nevada is derived through the sale of stamps. The rate is 7¢ per pack. The proceeds are apportioned as follows: 30 percent to the general fund of the State; 64.5 percent to cities and counties according to population; and the remaining 5.5 percent to counties of origin.⁽¹⁾

There may appear to be waste motion in the fact that the State returns some of the cigarette tax to the counties and the counties collect some of the property tax for the State. A plausible suggestion would be to allocate each tax to one level of government. The cross-relationship, however, does have an advantage in that it gives each a stake in two types of taxes instead of one, thereby "spreading the risks", so to speak, and making each less reliant on the particular economic forces that might affect property values but not cigarette consumption, or vice versa. Some additional flexibility was evidenced in 1965 when the Legislature returned 36 percent of the State's share of the cigarette tax to the cities and counties (and increased general fund revenues by imposition of the casino entertainment tax and designated the receipts from real estate and savings and loan levies as general fund revenues).

(1) NEVADA REVISED STATUTES, Chapter 370.

Cigarette taxes and licenses yielded \$1,629,000 in the fiscal year 1966 and are estimated at \$1,678,000 for 1966-67. We assume, as in the case of liquor, a 10 percent annual rate of increase un compounded. With respect to possible increases in rate of taxation, however, it appears that the tax in Nevada is relatively high compared with other states. (See Table 220.) Increases within the range of feasibility might be 1¢, 2¢ and 3¢ a pack. These would represent increases of 14.3 percent, 28.6 percent and 42.9 percent, respectively. The resulting rise in prices that would occur (even if producers and sellers should absorb some of the cost by lowering their prices) would lead to some dampening of demand, as discussed in the section on liquor taxes. We accordingly assume that the increased revenues resulting from the higher rates will be 12-1/2 percent, 25 percent and 37-1/2 percent, respectively. These are, of course, only arbitrary assumptions based on a judgment as to what is likely to occur.

In the following projections we limit the possibilities to increases of 1¢ and 2¢ a pack with corresponding percentage increases in license fees:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
At present rates	2.0	2.4	3.3
At 1¢ a pack higher, ⁽¹⁾ with 12-1/2 percent increase assumed in yield.			
Totals	2.2	2.7	3.7
Increments	0.2	0.3	0.4
At 2¢ a pack higher, ⁽¹⁾ with 25 percent increase assumed in yield.			
Total	2.5	3.0	4.1
Increments	0.5	0.6	0.8

(1) Corresponding percentage increase in license fee assumed.

STATE CIGARETTE TAX RATES

(per pack of 20 cigarettes)

DECEMBER 1964

No tax	2¢	2½¢	3¢	3.9¢
North Carolina Oregon	Arizona District of Columbia	Kentucky	California Colorado New Hampshire Virginia	Hawaii
4¢	5¢	6¢	7¢	8¢
Illinois Indiana Missouri Wyoming	Delaware Iowa New York Ohio South Carolina	Alabama Arkansas Connecticut Kansas Maine Maryland Massachusetts Nebraska South Dakota West Virginia	Idaho Michigan Nevada North Dakota Oklahoma Tennessee Washington	Alaska Florida Georgia Louisiana Minnesota Montana New Jersey New Mexico Pennsylvania Rhode Island Texas Utah Vermont Wisconsin
9¢				
Mississippi				

JANUARY 1950

No tax	1¢	2¢	2½¢	3¢
California Colorado Maryland Missouri North Carolina Oregon Virginia Wyoming	West Virginia	Arizona Delaware Iowa Kentucky Montana Ohio Utah	New Hampshire	Alabama Connecticut Idaho Illinois Indiana Kansas Michigan Nebraska Nevada New Jersey New York Rhode Island South Carolina South Dakota Tennessee Texas Wisconsin
4¢	5¢	8¢		
Arkansas Maine Minnesota Mississippi New Mexico Pennsylvania Vermont Washington	Florida Georgia Massachusetts North Dakota Oklahoma	Louisiana		

SOURCES: (1964) Federation of Tax Administrators, *Tax Administrators News*, September, 1964, and subsequent issues; (1950) California, Senate Interim Committee on State and Local Taxation, *State and Local Taxes in California: A Comparative Analysis*, p. A-465.

SOURCE: Ellis T. Austin, CALIFORNIA EXCISE TAXES ON CIGARETTES, ALCOHOLIC BEVERAGES AND HORSERACING, p. 24. (State of California Assembly Interim Committee on Revenue and Taxation, 1964).

NOTE: This table lists taxes applicable as of 1964. Since then several states have increased the tax rate on cigarettes but Nevada still ranks near the top.

The amounts designated above as increments are used later when presenting alternative programs for filling the revenue gaps.

6. FEES AND SIMILAR CHARGES

The fee structure in most state and local governments is a hodgepodge. Nevada's is no exception.

The theory of fees has been neglected in both economic thinking and fiscal practice. The structure of fees and similar charges, including licenses, fines, permits and service charges, reflects this. Any attempt even to get a complete list of all fees charged in the State would be a major undertaking. So would any effort to organize the fee structure and bring it up to date. The main problem arises from the fact that fees tend to remain unchanged for long periods, and do not reflect the cost - let alone the value - of the service rendered.

Some of the revenue in this category has already been taken into account in considering gaming, liquor and cigarette licenses. Referring back to Table 208, we find the following amounts in addition:

	<u>Actual</u> <u>1959-60</u>	<u>Estimate</u> <u>1965-66</u>	<u>Estimate</u> <u>1966-67</u>
Licenses (excluding gaming, cigarette and liquor)	\$ 817,121	\$1,458,955	\$1,514,741
Fees and fines	223,867	360,600	371,700
Charges for services	<u>195,347</u>	<u>330,500</u>	<u>336,000</u>
Totals	<u>\$1,236,335</u>	<u>\$2,150,055</u>	<u>\$2,222,441</u>

The increase in revenue over the period under study has averaged 10 percent a year un compounded, but is volatile.

The amounts are sizeable, both absolutely and relatively. Subject to what a detailed examination might find, rate increases averaging up to 100 percent might be considered within the realm of feasibility. Higher rates

in this range should have no dampening effect on volume of receipts because the charges are generally small relative to the value of the privilege granted (such as marriage or doing business) or service performed (such as hospital care).

Based on the 1965-66 figure, and assuming a continued increase of 10 percent a year un compounded, revenues may be projected as follows:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
At present rates	2.6	3.2	4.3
Increments (used later when presenting alternatives for filling the revenue gap)			
At 50 percent increase	1.3	1.6	2.2
At 100 percent increase	2.6	3.2	4.3

Although a straight across-the-board increase was assumed in the foregoing projections, a thorough reexamination of the fee structure might reveal that some fees should be increased five- or ten-fold, and perhaps some should be lowered. The principles that might guide such changes are complicated but may well yield substantial returns in a more productive and more equitable fee structure. It has recently been proposed that there be five "canons" in setting state fees in addition to the four "principles" that may be borrowed from the field of taxation.⁽¹⁾

The four borrowed principles, in oversimplified form, are:

- (1) Neutrality - minimize interference with the operation of the free market.

(1) See three studies by Alice John Vandermeulen: (a) "Five Canons for Setting State Fees", WESTERN ECONOMIC JOURNAL, Summer 1966, pp. 216-220; (b) "Reform of a State Fee Structure: Principles, Pitfalls, and Proposals for Increasing Revenue", NATIONAL TAX JOURNAL, December 1964, pp. 394-402; (c) CALIFORNIA'S FEE AND LICENSE STRUCTURE: 1964. (State of California Assembly Interim Committee on Revenue and Taxation 1964)

- (2) Benefit - charge full cost for benefits received.
- (3) Ability to pay - allow for inability of some persons to pay for needed services.
- (4) Penalize luxuries - like alcohol and perhaps even unnecessary use of automobiles.

The five proposed canons for fee-setting, again oversimplified for our use, are:

- (1) Fees should resemble prices rather than taxes.
- (2) Fees should meet governmental objectives rather than being used indirectly as a method of subsidizing one special interest group at the expense of another.
- (3) Fees, as a general rule, should be applied without special exemptions ("such as California's somewhat terrifying gift of free hunting licenses to the blind").⁽¹⁾
- (4) Cost of administration of the fee program should be covered, neither more nor less.
- (5) There should be conformity between the fee and tax-expenditure structure of the state as to the degree of progressivity or regressivity involved.

These principles and canons may be kept in mind in any revision of Nevada's fee structure, whether on a piecemeal or comprehensive basis.

There is one consideration that may warrant a somewhat different approach to fee-setting in Nevada compared with other states. This is the fact that Nevada's laws provide for certain types of business (such as the casinos) and certain liberal features (such as in connection with

(1) See Alice John Vandermeulen: "Five Canons for Setting State Fees", WESTERN ECONOMIC JOURNAL, Summer 1966, pp. 219.

marriage and divorce) not generally found in other states. Although a "fee" that is simply a fee should cover only the cost of rendering the service, it may also be regarded as the exaction of a monopoly price for a privilege granted by the State. In that case, the fee may far exceed the cost of granting the privilege and may be more closely related to the value of the privilege granted. The gaming licenses imposed by the State are of this nature, hence are appropriately included with gaming taxes. It might be felt, in addition, that the State should charge more fully for the privilege of getting married and divorced in Nevada (with "full faith and credit" throughout the country and much of the rest of the world), with a relatively small amount of red tape and enjoying a honeymoon or residence, as the case may be, at hotels that (because of gaming and entertainment) offer unusual attractions for the room rates charged. Legalization of marriage and divorce is a state monopoly; it is undoubtedly feasible, and may be wise, to charge a monopoly price for the service rendered, namely, for the privilege granted.

7. INSURANCE PREMIUM TAX

The insurance premium tax produced revenues ranging from \$868,000 in the fiscal year 1960 to an estimate of \$1,925,000 in the fiscal year 1966, as shown in Table 208. Because of complicated problems of interstate reciprocity, we have not projected a change in this tax.

* * *

Although every tax hurts - and an increased tax hurts even more - it is evident that a considerable amount of additional revenue can be derived from existing taxes through higher rates. The study of the economic limits of taxation is probably the most inexact science there is. Whether based on art or science, however, the foregoing analyses of the major sources of revenue suggest that moderately higher rates, at least, could be employed in several of the taxes considered without significantly harmful effect to the taxpayers

involved or to the State's economy. Whether increased outlays are actually needed and, if so, who should bear the burden of providing the increased revenue, are questions that go beyond the scope of this study. Various alternatives are presented later in Chapter IV.

In addition, new taxes offer another source of revenue. These are considered in Chapter III.

III. NEW SOURCES OF TAX REVENUE

The growth of outlays may be at such a rapid pace that new sources of revenue will have to be found to fill the gap. Mere increases in the rates of existing taxes may reach the point of diminishing returns. An increase in rates beyond a certain point will kill the goose that lays the golden egg. Even long before this point is reached, higher rates of existing taxes may have such unfavorable effects on the State's economy that it would be unwise to exploit existing revenue sources further.

As a general rule, diversification of revenue sources has merit in that it reduces the chance of unduly hurting a particular industry or line of activity. There are occasionally some overriding considerations that warrant special encouragement to some industries and discouragement to others. By and large, however, a variety of moderate taxes on many industries and activities runs less risk of harmful economic impact than a concentration of heavy taxes on one industry or activity. Even though all taxes tend ultimately to be dispersed throughout the economy, the initial impact and the process of dispersion might have serious consequences. Thus the State should at least study other sources of revenue before carrying the exploitation of existing sources to the point where, say, a doubling or tripling of rates is seriously contemplated.

As indicated in Table 221, there are several sources of revenue that are employed in other states and not in Nevada:

Capital values franchise

Corporation income

Individual income

Stock transfer

Recording documents

Estate, gift and inheritance
Admissions and amusement⁽¹⁾
Chain store
Timber.

Each of these provides some possibility of revenue and could be resorted to in case of need. We will pay special attention, however, only to the following:

Corporation income
Individual income
Estate, gift and inheritance.

Income taxes are widely used by other states and cannot be dismissed without some consideration of their potentialities for Nevada. The gratuitous transfer taxes offer no burden whatever to Nevada taxpayers if confined to the federal tax credit. We would be remiss indeed if we failed to explore that possibility fully.

One caution may be sounded with respect to any new taxes. A considerable time lag may be involved, especially if a constitutional change is required (as in the case of death taxation). New taxes should probably not be counted on before the fiscal year 1969.

In this chapter we shall explore:

1. Taxation of individual and corporate incomes
2. Projection of revenue from an individual income tax
3. Projection of revenue from a corporate income tax
4. Death tax.

(1) Although there is now a casino entertainment tax of 10 percent, replacing the federal levy.

All States Tax Chart

State	Cap. Values Franchise	Corp. Income	Individ. Income	Sales	Use	Tangible Personality	Intangibles	Stock Transfer	Recording Documents
Alabama	•	•	•	•	•	•	•		•
Alaska				(10)					
Arizona		•	•	•	•	•	•(5)		
Arkansas	•	•	•	•	•	•	•		
California		•	•	•	•	•	•(12)		
Colorado	•	•	•	•	•	•			
Connecticut	•	•	(7)	(7)	•	•			
Delaware	•	•	•	(4)					
Dist. of Columbia		•	•(8)		•	•			•
Florida	•			•	•	•	•(12)	•	•
Georgia	•	•	•	•	•	•	•(12)		
Hawaii		•	•	•	•	•			
Idaho	•	•	•	•(21)	•(21)	•			
Illinois	•			•(6)	•	•	•		
Indiana		•	•	•	•		•(13)	•(2)	•(13)
Iowa		•	•	•	•	•	•(12)		
Kansas	•	•	•	•	•	•	•(12)		•(17)
Kentucky	•	•	•	•	•	•	•(12)		
Louisiana	•	•	•	•	•	•	•		•(18)
Maine	•			•	•	•			
Maryland	•	•	•	•	•	•	•(12)		•
Massachusetts	•	•	•			•			•
Michigan	•	(3)	(3)	•	•		•(12)		
Minnesota		•	•	•	•	•			•
Mississippi	•	•	•	•	•	•	•		
Missouri	•	•	•	•	•	•	•(12)		
Montana		•	•			•	•(12)		
Nebraska	•					•	•(12)		
Nevada				•	•	•	•(20)		
New Hampshire	•		•(9)			•			
New Jersey	•	•	•(16)			•			
New Mexico	•	•	•	•	•	•	•		
New York	•	•	•(8)	•(22)	•(22)			•	•
North Carolina	•	•	•	•	•	•	•(12)		
North Dakota		•	•	•	•	•	•		
Ohio	•			•	•	•	•(12)		
Oklahoma	•	•	•	•	•	•	•(12)		•
Oregon	•	•	•			•			
Pennsylvania	•	•	•	•	•		•(12)		•
Rhode Island	•	•	(7)	•(7)	•	•(19)	•(12)		
South Carolina	•	•	•	•	•	•	•(5)	•	•
South Dakota				•	•	•	•(12)		
Tennessee	•	•	•(9)	•	•	•	•		•
Texas	•			•	•	•	•	•	
Utah		•	•	•	•	•			
Vermont		•	•			•			
Virginia	•	•	•	(1)			•(12)		•
Washington	•			•	•	•			•
West Virginia	•		•	•	•	•	•(12)		•
Wisconsin		•	•	•	•	•			
Wyoming	•			•	•	•	•		

NOTES: The bullet (•) indicates that the tax is imposed.

Under "Franchise" are included taxes based on anything but income, for the privilege of being or operating as a general business corporation within the state. Franchise taxes based on income are covered under "Income".

Under "Property" taxation of realty is not indicated since every state permits the taxation of real estate locally. Under "Intangibles" where footnote does not indicate that a special low intangibles tax rate or a special low valuation is permitted, intangibles theoretically are taxed at the general property tax rate and valuations. Actually, however, because of difficulty of enforcement, it is doubtful if much tax is collected on intangibles in those states.

Under "Admissions and Amusements" are included not only taxes on admissions price but taxes or fees determined by gross receipts or seating capacity. In some instances the tax is imposed under the state sales tax.

TABLE 221
(continued)

All-States Tax Chart

State	Taxes	Estate	Gift	Inheritance	Motor Fuel	Admissions & Amusement	Chain Store	Tobacco	Minerals	Timber
Alabama	•	•			•	•	•	•	•	•
Alaska	•			•	•			•	•	
Arizona	•				•	• (15)		•	•	
Arkansas	•				•	• (15)		•	•	•
California	•	•	•	•	•			•	•	
Colorado	•	•	•	•	•		•	•	•	
Connecticut	•			•	•					•
Delaware	•			•	•			•		
Dist. of Columbia	•			•	•			•		
Florida	•				•	• (15)	•	•	•	
Georgia	•				•	• (15)		•	•	
Hawaii	•			•	•	• (15)		•		
Idaho	•			•	•		•	•	•	•
Illinois	•			•	•			•		
Indiana	•			•	•	• (15)		•	•	
Iowa	•			•	•	• (15)	•	•		
Kansas	•			•	•	• (15)		•	•	
Kentucky	•			•	•	• (15)		•	•	
Louisiana	•	•	•	•	•	• (15)	•	•	•	•
Maine	•			•	•			•	•	
Maryland	•			•	•	•	•	•		
Massachusetts	•			•	•			•		•
Michigan	•			•	•		•	•	•	•
Minnesota	•	•	•	•	•			•	•	•
Mississippi	•				•	•	•	•	•	•
Missouri	•			•	•	• (15)		•		•
Montana	•			•	•		•	•	•	
Nebraska	•			•	•			•	•	
Nevada	•			•	•			•	•	
New Hampshire	•			•	•			•		
New Jersey	•			•	•			•		
New Mexico	•			•	•	• (15)		•	•	•
New York	•			•	•			•		•
North Carolina	•	•	•	•	•	•	•	•	•	
North Dakota	•			•	•	• (15)		•	•	
Ohio	•			•	•			•		
Oklahoma	•	•		•	•	• (15)		•	•	
Oregon	•	•		•	•					•
Pennsylvania	•			•	•			•		
Rhode Island	•	•	•	•	•	• (15)		•		
South Carolina	•				•	•	• (14)	•		
South Dakota	•			•	•	• (15)		•	•	
Tennessee	•	•	•	•	•	•	•	•	•	
Texas	•			•	•	•	•	•	•	
Utah	•				•	• (15)		•	•	
Vermont	•			•	•			•		
Virginia	•	•	•	•	•	•		•		•
Washington	•	•	•	•	•	• (15)		•		•
West Virginia	•			•	•	• (15)	•	•		
Wisconsin	•	•	•	•	•				• (11)	•
Wyoming	•			•	•	• (15)		•	•	

FOOTNOTES:

(1) Va.—License tax imposed on wholesalers, retailers and manufacturers. (2) Ind.—Unpaid annual intangibles tax must be paid before stocks can be transferred. (3) Mich.—Tax is on business gross receipts. (4) Del.—Tax based on gross receipts or purchases (retailing and wholesaling). (5) Ariz. & S.C.—Law on books apparently unenforced. Gross income tax imposed only on corporations. (6) Ill.—Tax is on retailers; based on gross receipts. (7) Conn. & R.I.—Gross income tax on unincorporated businesses also imposed. (8) D.C. & N.Y.—Net income tax imposed on unincorporated business also. (9) N.H. & Tenn.—Tax is on income from intangibles only. (10) Alaska—License tax on business; based on gross receipts. (11) Wis.—Low grade iron ore property. (12) Intangibles taxable at lower value or lower rate than other property. (13) Ind.—Annual document tax is imposed in lieu of property tax on intangibles. (14) S.C.—Chain store tax part of sales and use tax law. (15) Amusements are taxable under gross income, gross receipts or sales tax laws. (16) Tax applies only to commuters in the "critical" transportation area (N.Y.-N.J.). (17) Kan.—Mortgages and instruments creating liens. (18) La.—eff. 1-1-65 to 6-30-65. (19) R.I.—Only cities and towns can levy tax. (20) Nev.—Nearly all intangibles exempt by law. (21) Ida.—Tax eff. 7-1-65. (22) N.Y.—Tax eff. 8-1-65.

SOURCE: Prentice-Hall, Inc., STATE AND LOCAL TAXES, ALL STATES, Unit, Vol. I, pp. 103-105, par. 101. Copyright 1965 Prentice-Hall, Inc.

1. TAXATION OF INDIVIDUAL AND CORPORATE INCOMES

In looking over the list of taxes used in other states, as shown in Table 221, one of the more common taxes not used in Nevada is the income tax, individual and corporate. Nevada is one of the few states not using this source of revenue. The State undoubtedly derives favorable publicity from the fact that it has no income tax; and some industry and individuals are undoubtedly attracted thereby.

In looking to the uncertain future, however, with its possibly enlarged demands for public services — also necessary to attract and keep industry and individuals — a productive revenue base like income cannot be ignored. If the choice turns out to be between taxing income or imposing higher taxes on sales and gaming, there may be an issue as to which is the better — or least bad — method of deriving the needed revenue. After a certain point, practically any tax can have harmful effects on the economy. It may be necessary to choose the lesser of two evils; and that may turn out to be an income tax. At any rate, this source of revenue merits consideration.

One of the most serious objections to any state income tax — apart from the fact that it extracts money from the taxpayer — is that it involves filling out more forms, and it creates confusion with the corresponding federal forms. This is because of the lack of conformity of state income taxes with federal income taxes. Taxpayers object not only to the necessity of paying the tax but, even in cases where rates are low, object even more to the necessity of filling out the state forms and all the related schedules. Most states have their own definitions, rules and regulations and set up their taxes with their own schedules. This necessitates expenditure of time and sometimes money on the part of the taxpayer, to say nothing of the cost of administration involved in having a staff for collection, auditing and enforcement. It is difficult at this late date to achieve conformity in

most states because the various state provisions and interpretations (at variance with the federal) are so well ingrained and the bureaucracy is so well entrenched. State legislators have also felt that lack of conformity is justified insofar as it reflects the peculiar problems and wishes of the particular state as opposed to the averaging effect of congressional action or, even worse, the pressures of groups remote from the state involved. Yet the costs of nonconformity are high.

Nevada has a great advantage in that it has no income tax. Hence it can begin in an ideal way — ideal for both the State and the taxpayer. This is to begin with full conformity with the federal income taxes.

The taxpayer would compute his taxable income only once — for the federal government. He would then work out his federal income tax liability, as he does now. After that he would simply pay to the State of Nevada a certain percentage, say 5 percent or 10 percent, of his federal tax liability. Federal definitions, rules, regulations and interpretations would automatically apply because they would be involved in the calculation of taxable income and tax liability. In fact, it may be possible to arrange by contract that the Internal Revenue Service would handle all aspects of collection, auditing and enforcement of the State tax. At the present time, interchange of information and tax returns is possible between federal and state officials where a state income tax exists. Federal administration of the state tax — if desired — is only a step away. Since no income tax bureaucracy now exists in the State service, the possibility of this economical arrangement should not be dismissed lightly. In any case, the amount of administration involved in the percentage plan proposed here is minimal. The net returns after cost of administration would be high.

A plan of this sort exists in Alaska. That state imposes a percentage tax on the federal tax liability. An unfavorable consequence of the plan has, however, been experienced by Alaska; the revenue would automatically go down when the federal rates are cut, as they were in 1964. Such sudden decreases or increases in revenue can be offset by changing the percentage applied to the federal levy, but some delay is necessarily involved in this. The important thing, however, is that the taxpayer is not confronted with two sets of tax rules.

Details of Alaska's income tax plan may be suggestive of the approach that might be used in Nevada. Alaska personal income tax is 16 percent of the federal income tax, and the corporation income tax is 18 percent of the federal tax. The Alaska tax was enacted in 1949 and has been revised several times since then. The law of 1961 appears on the following page.

To reduce vulnerability to tax cuts and tax increases, Alaska decided in 1964 to specify its own detailed schedule of rates which worked out to 16 percent and 18 percent, as before, on the old federal schedule, namely, the one before the tax cuts of 1964. The federal definition of taxable income was retained in all respects. In this way, Alaska became invulnerable to changes in federal tax rates. It does, however, remain vulnerable to changes in federal definitions and deductions, such as accelerated depreciation. On the other hand, the federal investment tax credit, being a "credit", does not involve taxable income and leaves Alaskan revenue unaffected.

Complete uniformity with the federal tax is impossible because there has to be an allocation of income earned in various states. A state cannot impose a tax on all the income earned by a corporation doing business in various states, but only on the allocable portion. This is a problem for

CHAPTER 55

AN ACT

Relating to the net income tax; amending Subsec. A of Sec. 5, Ch. 115, SLA 1949 as last amended by Ch. 181, SLA 1957; amending Subsec. B of Sec. 8, Ch. 115, SLA 1949 as last amended by Ch. 21, SLA 1959.

(H.B. 40)

Be it enacted by the Legislature of the State of Alaska:

Section 1. Subsec. A of Sec. 5, Ch. 115, SLA 1949, as repealed and re-enacted by Ch. 132, SLA 1951, as amended by Ch. 188, SLA 1955, as repealed and re-enacted by Ch. 64, SLA 1957, and as amended by Ch. 181, SLA 1957, is amended to read:

Sec. 5. Tax on Individuals, Fiduciaries, Corporations and Banks.

A. **General Rule.** There is hereby levied and there shall be collected and paid for each taxable year upon the net income of every resident and non-resident individual, fiduciary and bank required to make a return and pay a tax under the Federal Income Tax law, a tax equal to 16 percent of the total income tax that would be payable for the same taxable year to the United States under the provisions of Chapter 1 of subtitle A of the 1954 Internal Revenue Code, Public Law 591, 83rd Congress, 2nd Session, as amended, upon all income derived from sources within the state, without benefit of the deduction of the tax payable hereunder to the state: Provided, however, that there is hereby levied and shall be collected and paid for each taxable year upon the net income of every resident and non-resident corporation required to make a return and any tax under the Federal Income tax law, a tax equal to 18% of the total income tax that would be payable for the same taxable year to the United States under provisions of Chapter 1 of Sub Title A of the 1954 Internal Revenue Code, Public Law 591, 83rd Congress, 2nd Session, as amended, upon all income derived from sources within the state without benefit of the deductions of the taxes payable hereunder to the state: Provided, however, the following exceptions, modifications and additions to the general rule shall apply:

(1) All taxpayers whose income includes a cost of living allowance which is exempt from the Federal Income Tax shall determine and include such amount as part of their income as if such cost of living allowance had not been exempt.

(2) Standard exemptions, credits and deductions may not be claimed by persons who are not residents of Alaska for the full twelve months of the tax year and they shall be subject to the following limitations:

(a) Personal exemption and dependency credits claimed shall be allowed only in that proportion of the total exemptions and credits as the number of months said taxpayer is physically present in Alaska bears to 12 months. A fractional part of the month shall be disregarded unless it amounts to more than one-half of a month in which case it shall be considered as a month.

(b) 1. Deductions claimed shall be allowed only if and to the extent that they are directly connected with:

a. income which arises from sources within Alaska; or

b. property having a situs for taxation within Alaska.

2. Contributions or gifts claimed shall be allowed only:

a. in the amounts otherwise authorized in this Act; and

b. if such contributions or gifts were made within the tax year to Alaska or any political subdivision thereof for use exclusively for public purposes within Alaska, or to a non-profit corporation or association formed and/or located within Alaska.

Sec. 2. Subsec. B of Sec. 8, Ch. 115, SLA 1949 as amended by Ch. 188, SLA 1955 and Ch. 21, SLA 1959 is amended to read:

B. **Requirement of Withholding.** Every employer making payment of wages or salaries shall deduct and withhold a tax in the amount of sixteen percent of the tax deducted and withheld under the provisions of subchapter (D), Chapter 9 of the Internal Revenue Code, except that in the case of employees whose wage or salary includes a cost-of-living allowance which is exempt from the Federal income tax, the amount to be deducted and withheld hereunder shall be determined as if such cost-of-living allowance had not been so exempt. Every employer making a deduction and a withholding as outlined above, shall furnish to the employee upon request a record of the amount of tax withheld from such employee on forms to be prescribed, prepared and furnished by the Commissioner of Revenue.

Sec. 3. This Act shall apply retroactively from January 1, 1961.

Approved April 8, 1961

all states, and cannot be avoided whether federal rates or definitions are employed. Alaska has the usual task of allocation and apportionment. There are important questions involved which cannot be dealt with adequately here. The Congress has taken an interest in this matter in recent years because of the possibility of multiple taxation and interference with interstate commerce. It may be that a considerable degree of uniformity will exist by the time that Nevada enacts a corporation income tax, if it does. (1)

The present allocation provisions in Alaska are on the next page.

A word may be said about a somewhat more complicated type of conformity, that adopted by New York State. This is just illustrative of a type of conformity adopted by a number of states.

It is nominally an example of full conformity in that federal rules, definitions, etc. were adopted from the beginning. New York kept its own structure of rates and credits, and, as time has gone on, has made numerous changes in "taxable income". For the average taxpayer, however, basic conformity does exist. He has to fill out a state form applying the state schedule to the federal tax base and taking special credits where appropriate. Although this plan is not as simple as the Alaska plan, it does, for the most part, relieve the taxpayer of the burden of conflicting definitions and interpretations.

(1) Details of various state practices and proposed uniform laws are set forth in Harold M. Somers and David R. Doerr, assisted by Joseph Launie, TAXATION OF CORPORATE INCOME IN CALIFORNIA. (California: Assembly Interim Committee on Revenue and Taxation, 1964).

C. ALLOCATION AND APPORTIONMENT.

(1) Direct Allocation. If a taxpayer's gross income is derived from sources both within and without the Territory, and the part within is so separate and distinct from and unconnected with the part without that the net income from the part within can be determined without regard to the part without, then the part without the Territory shall not be considered in computing the tax imposed by section 5 A of this Act [subd. A of this section], and the special method of allocation, provided for in section 5 C (2) of this Act [subd. C (2) of this section], shall not be used.

(2) Special Method of Allocation. If a taxpayer's gross income is derived from sources both within and without the Territory, and the part within is so connected with the part without that the net income from the part within cannot be accurately determined independently of the part without, such as in the case of a business, trade or profession carried on within the Territory which is an integral part of a unitary business carried on both within and without the Territory, then the entire net income derived from sources both within and without the Territory shall be computed under the provisions of the Internal Revenue Code [26 USC § 1 et seq.], and the net income derived from sources within the Territory shall be equal to that portion of such entire net income that (a) the total value of real and tangible personal property within the Territory, plus the total wages, salaries and bonuses and other compensation for personal services performed within the Territory bears to (b) the total value of real and tangible personal property both within and without the Territory, plus the total wages, salaries and bonuses and other compensation for personal services performed both within and without the Territory, viz:

$$\begin{array}{l} \text{Net income} \\ \text{derived from} \\ \text{sources within} \\ \text{the Territory} \end{array} = \begin{array}{l} \text{Entire net income} \\ \text{derived from sources} \\ \text{both within and} \\ \text{without the} \\ \text{Territory} \end{array}$$

$$X [(a)^* \div (b)^{**}]$$

*total value of real and tangible personal property within the Territory plus total wages, salaries and bonuses and other compensation for personal services performed within the Territory.

**total value of real and tangible personal property both within and without the Territory plus total wages, salaries, and bonuses and other compensation for personal services performed both within and without the Territory.

For purposes of applying this special method of allocation "entire net income" is defined to include the total of all gross income from any source whatever, after deducting all expenses necessary to derive said income.

(4) Apportionment by Tax Commissioner. If the taxpayer, upon petition to the Tax Commissioner, as provided in section 13 of this Act [§ 48-10-13 herein] conclusively demonstrates that because of/

other factors, the method of allocation hereinabove provided, results in a larger tax than in equity and good conscience he should have been required to pay, then the tax shall be determined, allocated and apportioned under such processes and formulas as the Tax Commissioner shall provide, and the Tax Commissioner may promulgate proper apportionment rules and regulations conformable with this Act [this chapter] for general application in similar cases. In the case of two or more organizations, trades or businesses owned or controlled directly or indirectly by the same interest, the Tax Commissioner is authorized to distribute, apportion, or allocate the tax where such action is necessary to prevent evasion of payment.

SOURCE: ALASKA COMPILED LAWS ANNOTATED 1949, CUMULATIVE SUPP. 1957, Revenue and Taxation, Sec. 48-10-5, pp. 157-159.

2. PROJECTION OF REVENUE FROM AN INDIVIDUAL INCOME TAX

Income tax returns filed by individuals in Nevada for the calendar year 1964 totaled \$143.7 millions in income taxes paid after credits. The corresponding national total was \$47,160 millions.⁽¹⁾

Income tax reductions in 1964 and 1965 make the calendar year 1964 a difficult base for projection. The following figures ⁽²⁾ are, however, of interest:

In millions of dollars

Net receipts from federal individual income taxes in the fiscal year:

1964	48,697
1965	48,792
1966 (estimated)	51,400
1967 (estimated)	56,240

To arrive at a projection of federal income taxes paid, based on individual returns filed in Nevada, the following procedures were adopted:

- (1) To the calendar year 1964 figure for Nevada, shown above, \$143.7 millions, a 5 percent growth rate has been added to produce an imputed figure for the fiscal year 1966 — \$150.9 millions. (In the listing of the federal figures above it will be seen that there was practically no increase from 1964 to 1965 and only about 5 percent from 1965 to 1966.)
- (2) To the base for projection, increases are added at 10 percent a year un compounded.

(1) STATISTICS OF INCOME: INDIVIDUAL INCOME TAX RETURNS 1964, preliminary. U. S. Treasury Department, Internal Revenue Service Division.

(2) ECONOMIC REPORT OF THE PRESIDENT 1966, page 276.

Based on these steps the projections of federal income tax paid in

Nevada are:

	<u>In millions of dollars</u>
1967-68	181.1
1970-71	226.3
1975-76	301.8

These constitute the amounts on which percentage rates for Nevada would, in substance, be based. For example, a 15 percent rate of tax, applied to the federal tax liability, would be expected to produce \$27.2 millions for 1967-68.

The reader will readily understand that, in the case of both individual and corporate income taxes, any projection is vulnerable to changes in rates, structure or interpretation made at the federal level.

Two factors make projection of a state income tax difficult. First is the amount of federal income tax collected, which is influenced by federal rates, etc., as mentioned above. Second, the portion of federal income tax contributed by Nevadans might fluctuate from year to year. To avoid problems that could be encountered by such variations, the State might consider a plan of premeditated underestimation of revenues, followed by a refund, as illustrated in Table 222.

3. PROJECTION OF REVENUE FROM A CORPORATE INCOME TAX

Factors affecting the projection of corporate income taxes correspond closely with those affecting individual income taxes. Following the same procedures as for projecting individual income taxes:

- (1) We adopt a base of \$38.6 millions for the fiscal year 1966, relying on the following reasoning:

ILLUSTRATION OF PLAN OF CONTINGENT REFUNDS
FOR INDIVIDUAL INCOME TAX

All amounts used below are hypothetical, merely to illustrate the concept of contingent refunds.

Nevada seeks to gain a revenue of \$5,000,000 from an individual income tax in the fiscal year 1972. It projects a base of \$241.4 millions, on which base

- . a rate of 2 percent would yield \$4.8 millions
- . a rate of 3 percent would yield \$7.2 millions.

To provide a cushion for contingencies, the State imposes a rate of 3 percent.

Amounts actually levied produce only \$6,027,000, let us say because of a reduction in federal rates. This amount is nevertheless about 20 percent in excess of the amount sought.

The State makes a refund to all Nevada individual income taxpayers at the rate of 15 percent of their payments for the calendar year 1971. This may be paid to them in cash, or they may be allowed to offset when paying taxes for the calendar year 1972.

. Federal corporate income taxes raised in Nevada in the fiscal year 1965 were \$35.1 millions out of a national total of \$26,131 millions. (1) (This is the most recent year for which state figures are available.)

. We add 10 percent to this amount to produce a projection for the fiscal year 1966.

(2) We add increases of 10 percent a year un compounded to the base to project into future years. (Near-term projections on a national basis are available for net receipts as follows: \$25,461 millions in the fiscal year 1965, \$29,700 millions in 1966, and \$34,400 millions in 1967. These increases substantially exceed a 10 percent annual un compounded rate.) (2)

The projections thus produced are:

	<u>In millions of dollars</u>
1967-68	46.3
1970-71	57.9
1975-76	77.1

If we apply a 10 percent State tax to these projections, we obtain estimates consistent with those made by the Fiscal Analyst in his letter to Senator Wilson McGowan, dated December 9, 1963. His estimates of the revenue from a tax of 10 percent on the federal corporate income tax liability for the fiscal years 1964 through 1967 were:

(1) ANNUAL REPORT OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE FINANCES: 1965, p. 548. (Washington, D. C.: U. S. Government Printing Office, 1966). The figures are for collection; possible refunds are neglected.

(2) ECONOMIC REPORT OF THE PRESIDENT, 1966, page 276.

<u>Fiscal year</u>	<u>In millions of dollars</u>
1964	3.74
1965	3.92
1966	4.12
1967	4.32

We have assumed that a rate of tax from 5 to 15 percent on the federal corporate income tax liability will cause no attrition in the base, namely, that the imposition of a tax within this range of rates will not affect in any way the amount of taxable income earned by corporations in Nevada or the federal tax liability on the returns filed in Nevada. This implies that no corporation is discouraged from doing business in Nevada because of the tax. Whether or not this is a realistic assumption cannot be determined. A supporting consideration is the fact that nearly half of the new tax would be borne by the federal government through deductibility of the State tax in computing federal tax liability. (1)

4. DEATH TAX

An obvious candidate for consideration in searching for new sources of revenue is some form of death tax, Nevada being the only state in the Union that imposes no such tax (and proud of it!). We are well aware of the strong feelings that exist against any such tax, as embodied in a constitutional prohibition, and confine our attention to one very special type of

(1) This point is discussed more fully in an earlier section of this report. No allowance is made here for the fact that deduction of the State tax would reduce the federal liability, hence the yield of a tax based on the federal liability. Nor do we go into the subject of shifting of the tax except to say that logic and evidence suggest that some shifting occurs under realistic conditions. See Harold M. Somers and David R. Doerr, *THE CORPORATE INCOME TAX IN CALIFORNIA*, pp. 13-28 (cited above).

death tax which yields revenue to the State without imposing any burden whatever on anyone in Nevada. This is a tax that is limited to the amount that the federal government will credit against its estate tax.

As indicated in Table 223, the following states have death taxes that merely provide for the federal credit for estate and inheritance taxes paid to the states:

- . Alabama
- . Arkansas
- . Florida
- . Georgia
- . Mississippi.

The imposition of these state taxes imposes no burden whatever on the taxpayers in those states. ⁽¹⁾ The federal government bears the entire burden by giving the taxpayer credit of an equal amount on his federal tax return. A state death tax of this sort is thus not really a tax at all. It may be more accurately referred to as a "federal pick-up credit."

The statutes involved are very simple in most cases. The Florida law, for instance, reads as shown on the next page.

Our first task is to attempt an estimate of the yield from a death tax in Nevada in fiscal 1966 on the assumption that there had been in existence a tax of the type used in Alabama, Arkansas, Florida, Georgia and Mississippi. With that as a base, projections can be made into the future.

(1) Giving credit for state taxes paid reduces federal revenue, hence imposes a burden on federal taxpayers generally. Those in Nevada who pay federal taxes would be affected to an insignificant extent, however, by the granting of a State death tax credit on the federal estate tax return.

FLORIDA

CHAPTER 198
INHERITANCE AND ESTATE TAXES

[§ 1101]

Definitions

198.01 When used in this chapter the term, phrase or word:

- (1) "Commissioner" means the comptroller of the State of Florida, as commissioner of revenue.
- (2) "Executor" means the executor, administrator or curator of the decedent, or, if there is no executor, administrator or curator appointed, qualified and acting, then any person who is in the actual or constructive possession of any property included in the gross estate of the decedent;
- (3) "Person" means persons, corporations, associations, joint stock companies and business trusts;
- (4) "Transfer" shall be taken to include the passing of property or any interest therein, in possession or enjoyment, present or future, by inheritance, descent, devise, succession, bequest, grant, deed, bargain, sale, gift, or appointment in the manner herein described;
- (5) "Decedent" shall include the testator, intestate, grantor, bargainor, vendor, or donor;
- (6) "Resident" means a natural person domiciled in the State of Florida;
- (7) "Non-resident" means a natural person domiciled without the State of Florida;
- (8) "Gross estate" means the gross estate as determined under the provisions of the applicable federal revenue act;
- (9) "Net estate" means the net estate as determined under the provisions of the applicable federal revenue act;
- (10) "Tangible personal property" means corporeal personal property, including money; and the term "intangible personal property" means incorporeal personal property including deposits in banks, negotiable instruments, mortgages, debts, receivables, shares of stock, bonds, notes, credits, evidences of an interest in property, evidences of debt and choses in action generally.
- (11) "United States" when used in a geographical sense includes only the states, the territories of Alaska and Hawaii, and the District of Columbia. [1933, c. 16015, Sec. 2.]

[§ 1102]

Tax upon Estates of Resident Decedents

198.02 A tax is imposed upon the transfer of the estate of every person who, at the time of death, was a resident of this state, the amount of which shall be a sum equal to the amount by which the credit allowable under the applicable federal revenue act for estate, inheritance, legacy and succession taxes actually paid to the several states shall exceed the aggregate amount of all constitutionally valid estate, inheritance, legacy and succession taxes actually paid to the several states of the United States (other than the State of Florida) in respect to any property owned by such decedent or subject to such taxes as a part of or in connection with his estate. [1933, c. 16015, Sec. 3.]

[§ 1103]

Tax upon Estates of Non-Resident Decedents

198.03 A tax is imposed upon the transfer of real property situate¹ in this state, upon tangible personal property having an actual situs in this² state, upon intangible personal property having a business situs in this state and upon stocks, bonds, debentures, notes and other securities or obligations of corporations organized under the laws of this state, of every person who at the time of death was not a resident of this state but was a resident of the United States, the amount of which shall be a sum equal to such proportion of the amount of the credit allowable under the applicable federal revenue act for estate, inheritance, legacy and succession taxes actually paid to the several states, as the value of the property taxable in this state bears to the value of the entire gross estate wherever situate. [1933, c. 16015, Sec. 4; 1953, c. 28031, Sec. 1.]

Ch. 28031, Laws 1953, s. 1. effective May 26, 1953, substituted at ¹ the words "in this state, upon" or for the word "and" and added at ² the words "upon intangible personal property having a business situs in this state and upon stocks, bonds, debentures, notes and other securities or obligations of corporations organized under the laws of this state."

SOURCE: Commerce Clearing House, INHERITANCE TAX REPORTS-STATE,
Report 363; 3-60; p. 20, 103.

**DEDUCTIBILITY OF THE FEDERAL ESTATE TAX AND INHERITANCE TAXES
PAID TO OTHER JURISDICTIONS**

State	Federal Estate Tax	Inheritance Taxes Paid Other States
Alabama	No ¹	No ¹
Alaska	Deductible	Yes
Arizona	Not deductible	No ²
Arkansas	No ¹	No ¹
California	Not deductible	No ²
Colorado	Not deductible	No ²
Connecticut	Not deductible	No ²
Delaware	Not deductible	No ²
District of Columbia	Deductible (apportioned)	No ²
Florida	No ¹	No ¹
Georgia	No ¹	No ¹
Hawaii	Deductible	No ²
Idaho	Deductible	Yes
Illinois	Deductible	No ²
Indiana	Not deductible	Yes, as to intangible personal property.
Iowa	Deductible	No ²
Kansas	Deductible	No ²
Kentucky	Deductible (apportioned)	No ²
Louisiana	Not deductible	No ²
Maine	Deductible	No ²
Maryland	Deductible	Yes
Massachusetts	Deductible	Yes
Michigan	Not deductible	No ²
Minnesota	Deductible	Yes
Mississippi	No ¹	No ¹
Missouri	Deductible	Yes
Montana	Deductible	No ²
Nebraska	Deductible	No ²
Nevada	No inheritance tax law	No inheritance tax law.
New Hampshire	Deductible	Yes, except in case of tax on a specific bequest of property in another state.
New Jersey	Not deductible	Yes, to the extent that they are paid on property taxable in New Jersey.
New Mexico	Not deductible	No ²
New York	Not deductible	No ²
North Carolina	Not deductible	Yes
North Dakota	Deductible	Yes, as to intangible personal property.
Ohio	Deductible	Yes. Credit allowed for taxes paid to other states.
Oklahoma	Not deductible	No ²

(Table continued on next page)

**DEDUCTIBILITY OF THE FEDERAL ESTATE TAX AND INHERITANCE TAXES
PAID TO OTHER JURISDICTIONS—Continued**

State	Federal Estate Tax	Inheritance Taxes Paid Other States
Oregon	Not deductible	No ¹
Pennsylvania	Not deductible	Yes
Puerto Rico	Not deductible, but credit allowed	No ¹ , but credit allowed
Rhode Island	Not deductible	Yes
South Carolina	Not deductible	Yes, on death taxes on charitable transfers.
South Dakota	Not deductible	No ¹
Tennessee	Not deductible	Yes, as to intangible personal property.
Texas	Not deductible	No ¹
Utah	Not deductible	No ¹
Vermont	Deductible	Yes, if made a charge on the residuary estate.
Virginia	Deductible	No ¹
Washington	Not deductible	No ¹
West Virginia	Deductible	No ¹
Wisconsin	Deductible	No ¹
Wyoming	Deductible	No ¹

¹ These states levy estate taxes based on the credit allowed against the federal estate tax toward state death taxes, so the question of deducting the federal estate tax does not arise. Where a portion of the decedent's property is in another state, the tax levied is the proportionate amount of the federal credit based upon the ratio of the property within the state to the entire estate.

² Taxes paid other states on the transfer of stock are deductible in computing the value of such stocks. *Frick v. Pennsylvania*, (1925) 268 U. S. 473.

³ Allows only a credit against local taxes on same transfer.

SOURCE: *Inheritance, Estate and Gift Tax Reporter*, State Vol. 4, Commerce Clearing House, Inc. Chicago 1964.

NOTE: Reproduced from INHERITANCE TAX REPORTS, published by and copyright 1962, Commerce Clearing House, Inc., Chicago, Illinois.

SOURCE: Harold M. Somers assisted by Joseph J. Launie, CAPITAL GAINS, DEATH AND GIFT TAXATION, pp. 24-25. (State of California Assembly Interim Committee on Revenue and Taxation, 1965).

The following factors make both the fiscal 1966 estimate and future projections both difficult and unreliable:

- (1) Current data can be obtained only through exceptional and unjustified effort.
- (2) The probability of marked fluctuations from one year to another makes projections less reliable than in the case of taxes with a broader base and more general applicability, such as the sales tax.

These factors are considered below, and a rough estimate is developed for fiscal 1966 despite the surrounding uncertainties. A basic assumption is that the death tax in Nevada would be of the type used in Florida. Such a tax would impose no financial burden on the estate of any Nevadan decedent, since tax paid to the State would be recouped through an offsetting credit against the federal estate tax.

Federal estate tax returns filed in Nevada did not in fact incorporate any credit for a Nevada tax, as none now exists. We can therefore only surmise what that credit might have been. It would be neither feasible nor economic to examine each return filed and calculate what the aggregate credits might have been. We must therefore resort to indirect and somewhat conjectural forms of estimation.

One such method is to determine the usual relationship between the federal estate tax and the federal credit for state taxes. This may be illustrated by reference to Table 224, which shows six states in alphabetical sequence, including Mississippi (one of the five states discussed above) and Nevada. This selection of six states is illustrative of our problem and method and produces the following information:

FEDERAL ESTATE TAX RETURNS FILED IN 1963: SELECTED DATA FOR MINNESOTA, MISSISSIPPI, MISSOURI, MONTANA, NEBRASKA AND NEVADA

[Citizens and resident aliens]

Size of gross estate	Returns with State death tax credit								Returns without State death tax credit							
	Number of returns	Returns with State death tax credit			Returns without State death tax credit			Number of returns	Returns with State death tax credit			Returns without State death tax credit				
		Number of returns	Taxable estate (Thousands of dollars)	Estate tax before credits (Thousands of dollars)	Credit for State death taxes (Thousands of dollars)	Number of returns	Taxable estate (Thousands of dollars)		Estate tax before credits (Thousands of dollars)	Number of returns	Taxable estate (Thousands of dollars)	Estate tax before credits (Thousands of dollars)	Credit for State death taxes (Thousands of dollars)	Number of returns	Taxable estate (Thousands of dollars)	Estate tax before credits (Thousands of dollars)
	Minnesota								Mississippi							
Grand total.....	1,787	443	97,423	30,423	3,218	1,324	8,534	725	390	133	22,820	5,879	402	297	2,046	173
Taxable returns, total.....	984	443	97,423	30,423	3,218	541	8,534	725	262	133	22,820	5,879	402	129	2,046	173
\$50,000 under \$80,000.....	197	1	7	-	-	-	136	1,135	31	-	-	-	-	31	234	12
\$80,000 under \$100,000.....	136	-	-	-	-	-	136	2,765	32	-	-	-	-	32	720	68
\$100,000 under \$150,000.....	251	128	7,196	1,115	18	133	2,048	151	58	27	1,593	246	4	31	382	29
\$150,000 under \$200,000.....	147	30	4,508	906	34	97	2,029	177	45	15	1,413	288	8	30	367	20
\$200,000 under \$300,000.....	138	123	12,942	2,803	104	35	430	45	48	45	4,514	964	34	3	94	10
\$300,000 under \$400,000.....	96	54	9,763	2,440	131	2	71	8	20	20	3,116	752	37	-	-	-
\$400,000 under \$500,000.....	35	33	8,236	2,196	141	2	55	6	6	5	1,387	376	26	1	30	3
\$500,000 under \$600,000.....	9	9	2,191	382	37	-	-	-	2	2	324	78	4	-	-	-
\$600,000 under \$700,000.....	5	4	3,533	425	31	-	-	-	3	2	418	207	3	1	10	-
\$700,000 under \$800,000.....	7	7	3,197	923	77	-	-	-	4	4	2,657	613	54	-	-	-
\$800,000 under \$900,000.....	3	3	1,520	455	41	-	-	-	4	4	1,919	365	46	-	-	-
\$900,000 under \$1,000,000.....	3	3	1,398	406	34	-	-	-	3	3	1,758	534	30	-	-	-
\$1,000,000 under \$2,000,000.....	16	16	15,106	5,035	588	-	-	-	5	5	3,707	1,197	116	-	-	-
\$2,000,000 under \$3,000,000.....	4	4	7,519	2,809	383	-	-	-	-	-	-	-	-	-	-	-
\$3,000,000 under \$5,000,000.....	4	4	7,123	2,634	356	-	-	-	1	1	647	197	18	-	-	-
\$5,000,000 or more.....	3	3	15,223	7,693	1,252	-	-	-	-	-	-	-	-	-	-	-
Non-taxable returns, total.....	783	-	-	-	-	783	-	-	128	-	-	-	-	128	-	-
\$50,000 under \$80,000.....	386	-	-	-	-	386	-	-	45	-	-	-	-	45	-	-
\$80,000 under \$100,000.....	197	-	-	-	-	197	-	-	33	-	-	-	-	33	-	-
\$100,000 or more.....	200	-	-	-	-	200	-	-	50	-	-	-	-	50	-	-
	Missouri								Montana							
Grand total.....	1,647	622	172,471	56,105	6,131	1,025	13,147	1,478	408	106	11,871	2,647	118	302	2,462	223
Taxable returns, total.....	1,237	622	172,471	56,105	6,131	615	13,147	1,478	241	106	11,871	2,647	118	135	2,462	223
\$50,000 under \$80,000.....	153	1	14	1	-	-	152	1,121	38	30	-	-	-	30	209	10
\$80,000 under \$100,000.....	136	-	-	-	-	-	136	3,119	284	32	-	-	-	32	721	64
\$100,000 under \$150,000.....	289	122	7,096	1,123	18	167	3,384	358	78	33	1,811	277	6	45	890	89
\$150,000 under \$200,000.....	190	88	8,403	1,720	47	102	2,937	273	46	22	2,218	464	13	24	506	45
\$200,000 under \$300,000.....	187	139	16,619	3,749	150	48	1,947	278	35	31	3,699	807	30	4	139	15
\$300,000 under \$400,000.....	100	93	16,795	4,420	218	7	642	121	13	13	2,018	488	34	-	-	-
\$400,000 under \$500,000.....	47	46	9,372	2,474	144	1	1,80	45	4	4	1,229	138	24	-	-	-
\$500,000 under \$600,000.....	32	30	9,777	2,718	200	2	237	52	2	2	701	197	15	-	-	-
\$600,000 under \$700,000.....	17	17	6,352	1,803	142	-	-	-	-	-	-	-	-	-	-	-
\$700,000 under \$800,000.....	19	19	8,453	2,443	206	-	-	-	-	-	-	-	-	-	-	-
\$800,000 under \$900,000.....	8	8	4,771	1,452	137	-	-	-	-	-	-	-	-	-	-	-
\$900,000 under \$1,000,000.....	8	8	4,548	1,380	130	-	-	-	-	-	-	-	-	-	-	-
\$1,000,000 under \$2,000,000.....	29	29	23,519	7,991	827	-	-	-	1	1	383	76	5	-	-	-
\$2,000,000 under \$3,000,000.....	12	12	19,252	7,288	1,001	-	-	-	-	-	-	-	-	-	-	-
\$3,000,000 under \$5,000,000.....	7	7	16,991	6,896	997	-	-	-	-	-	-	-	-	-	-	-
\$5,000,000 or more.....	3	3	20,368	11,267	1,914	-	-	-	-	-	-	-	-	-	-	-
Non-taxable returns, total.....	410	-	-	-	-	410	-	-	167	-	-	-	-	167	-	-
\$50,000 under \$80,000.....	197	-	-	-	-	197	-	-	70	-	-	-	-	70	-	-
\$80,000 under \$100,000.....	93	-	-	-	-	93	-	-	36	-	-	-	-	36	-	-
\$100,000 or more.....	180	-	-	-	-	180	-	-	61	-	-	-	-	61	-	-
	Nebraska								Nevada							
Grand total.....	1,127	308	43,069	10,619	685	819	7,003	638	128	10	2,977	873	35	118	13,627	3,805
Taxable returns, total.....	990	308	43,069	10,619	685	382	7,003	638	108	10	2,977	873	35	98	13,627	3,805
\$50,000 under \$80,000.....	69	-	-	-	-	99	742	41	16	-	-	-	-	16	99	4
\$80,000 under \$100,000.....	112	-	-	-	-	112	2,478	223	15	-	-	-	-	15	324	29
\$100,000 under \$150,000.....	186	96	5,373	881	14	90	1,923	196	25	1	55	8	-	24	1,251	191
\$150,000 under \$200,000.....	121	61	5,861	1,209	34	60	1,276	116	14	1	110	24	1	13	926	174
\$200,000 under \$300,000.....	92	71	7,993	1,653	63	21	584	62	14	3	374	86	2	11	1,418	330
\$300,000 under \$400,000.....	39	39	6,005	1,445	71	-	-	-	7	1	119	26	1	6	1,055	262
\$400,000 under \$500,000.....	14	14	3,337	882	55	-	-	-	4	1	132	36	1	3	979	270
\$500,000 under \$600,000.....	6	6	2,187	626	46	-	-	-	3	2	871	280	20	1	207	53
\$600,000 under \$700,000.....	5	5	1,458	399	28	-	-	-	1	-	-	-	-	1	296	80
\$700,000 under \$800,000.....	4	4	1,922	568	49	-	-	-	2	-	-	-	-	2	1,002	297
\$800,000 under \$900,000.....	4	4	2,244	675	62	-	-	-	-	-	-	-	-	-	-	-
\$900,000 under \$1,000,000.....	-	-	-	-	-	-	-	-	2	-	-	-	-	2	362	152
\$1,000,000 under \$2,000,000.....	6	6	4,019	1,259	129	-	-	-	3	1	1,286	443	10	2	2,347	787
\$2,000,000 under \$3,000,000.....	1	1	867	276	29	-	-	-	2	-	-	-	-	2	3,150	1,175
\$3,000,000 under \$5,000,000.....	1	1	2,003	754	104	-	-	-	-	-	-	-	-	-	-	-
\$5,000,000 or more.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-taxable returns, total.....	437	-	-	-	-	437	-	-	20	-	-	-	-	20	-	-
\$50,000 under \$80,000.....	197	-	-	-	-	197	-	-	8	-	-	-	-	8	-	-
\$80,000 under \$100,000.....	129	-	-	-	-	129	-	-	3	-	-	-	-	3	-	-
\$100,000 or more.....	111	-	-	-	-	111	-	-	9	-	-	-	-	9	-	-

SOURCE: U. S. Treasury Department, ESTATE TAX RETURNS FILED DURING 1963, p. 74.

FEDERAL ESTATE TAX RETURNS FILED DURING 1963: SELECTED DATA
FOR ALL STATES

(Citizens and resident aliens)

State	All returns													Returns for testate decedents										
	Number of returns	Gross estate (Thousand dollars)	Economic estate (Thousand dollars)	Funeral expenses		Administrative expenses							Number of returns	Gross estate (Thousand dollars)	Economic estate (Thousand dollars)	Funeral expenses		Administrative expenses						
				Number of returns	Amount (Thousand dollars)	Total		Executors' commissions		Attorneys' fees		Other expenses				Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)	Total		Executors' commissions		
						Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)	Number of returns								Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)			
United States..	78,393	17,007,239	16,129,099	76,440	122,852	73,139	606,847	32,366	211,190	64,697	304,167	69,188	91,490	67,148	15,496,839	14,723,182	65,630	106,167	62,951	560,070	28,812	199,619		
Alabama.....	557	125,775	116,567	529	656	532	3,947	181	1,598	445	1,762	516	587	515	120,063	111,641	493	618	493	3,789	167	1,549		
Alaska.....	15	2,095	2,038	14	22	13	85	8	16	12	55	13	14	11	1,731	1,686	11	19	10	73	6	14		
Arizona.....	458	124,325	112,893	447	671	423	5,608	181	1,778	389	2,922	389	908	410	117,282	106,260	400	600	380	5,411	166	1,721		
Arkansas.....	391	73,377	67,859	376	604	359	1,829	119	495	304	1,002	336	333	311	60,387	56,325	299	488	287	1,522	97	471		
California.....	8,646	1,946,469	1,834,654	8,305	10,268	7,891	56,460	3,760	18,013	7,104	28,453	7,614	9,994	7,693	1,820,516	1,721,471	7,386	9,107	7,024	53,285	3,493	17,241		
Colorado.....	898	187,377	177,192	843	1,250	794	7,005	316	2,279	703	3,708	739	1,018	702	161,827	154,896	672	1,025	628	6,220	279	2,115		
Connecticut.....	1,597	452,045	444,409	1,574	2,748	1,452	16,756	775	6,976	1,152	6,095	1,430	3,686	1,595	434,383	417,931	1,376	2,438	1,267	15,908	694	6,750		
Delaware.....	203	100,545	97,766	202	296	136	1,973	103	932	115	274	192	767	181	97,568	94,885	180	260	178	1,882	93	314		
District of Columbia.....	326	132,589	126,815	501	695	485	5,553	232	2,831	369	1,997	472	728	458	122,658	117,323	438	613	428	5,191	209	2,736		
Florida.....	3,070	662,140	623,696	2,923	4,656	2,715	26,188	1,194	7,969	2,393	12,948	2,527	5,272	2,675	602,740	571,316	2,558	4,121	2,383	24,396	1,109	7,588		
Georgia.....	939	214,934	200,066	896	1,559	892	6,700	392	3,680	731	2,062	857	957	829	199,330	186,584	794	1,369	787	6,259	361	3,509		
Hawaii.....	156	39,526	36,602	151	166	145	1,113	97	408	120	438	143	269	135	36,729	34,067	131	134	126	1,041	85	379		
Idaho.....	205	31,106	27,619	201	277	196	1,195	76	377	188	668	188	150	151	24,524	21,488	130	209	144	982	58	319		
Illinois.....	5,564	1,166,775	1,114,413	5,437	9,703	5,236	49,974	1,986	11,057	4,708	23,978	4,895	5,928	4,554	1,028,441	984,698	4,452	7,993	4,305	36,564	1,731	10,285		
Indiana.....	1,854	326,561	313,164	1,805	3,082	1,750	12,869	773	3,799	1,991	7,477	1,643	1,593	1,417	274,453	263,521	1,389	2,414	1,349	11,171	634	3,392		
Iowa.....	2,344	301,231	286,034	2,265	3,358	2,030	8,993	919	2,684	1,858	5,124	1,955	1,185	2,017	267,244	254,026	1,949	2,910	1,757	8,112	802	2,452		
Kansas.....	1,438	231,876	222,243	1,402	2,185	1,260	7,363	510	2,664	1,104	4,267	1,136	930	998	175,847	168,968	976	1,551	890	6,094	395	1,533		
Kentucky.....	847	172,380	164,826	842	1,539	802	4,904	378	2,137	660	2,076	789	691	729	154,424	147,904	725	1,321	689	4,341	328	1,308		
Louisiana.....	610	142,526	133,044	598	1,227	601	114	134	1,238	541	3,895	568	879	403	114,799	107,327	397	845	393	5,086	111	1,965		
Maine.....	445	107,005	102,243	437	540	422	3,852	210	1,700	360	1,579	408	343	405	101,931	97,381	399	497	385	3,659	196	1,651		
Maryland.....	1,258	278,854	266,456	1,218	1,779	1,165	8,485	706	4,557	847	2,545	1,126	1,382	1,034	244,536	234,224	1,006	1,495	969	7,732	614	4,225		
Massachusetts.....	2,454	594,690	527,898	2,422	3,653	2,383	19,623	1,162	7,103	2,128	9,705	2,272	2,816	2,138	516,055	491,909	2,113	3,201	2,081	18,148	1,042	6,707		
Michigan.....	2,230	498,255	475,753	2,157	3,963	1,969	14,347	972	4,127	1,739	7,645	1,855	2,575	1,810	437,791	417,928	1,757	3,266	1,818	12,589	826	3,745		
Minnesota.....	1,767	315,020	304,026	1,675	2,321	1,550	8,204	634	1,845	1,377	4,958	1,439	1,401	1,262	251,328	242,610	1,211	1,690	1,135	6,904	495	1,663		
Mississippi.....	390	75,280	68,465	382	587	370	2,100	106	505	322	1,130	351	465	311	63,184	57,504	304	472	298	1,790	89	438		
Missouri.....	1,647	414,224	399,761	1,586	2,895	1,482	12,909	777	5,597	1,221	5,424	1,384	1,887	1,355	369,861	358,179	1,316	2,465	1,234	11,935	676	5,276		
Montana.....	408	54,790	52,969	394	519	390	1,922	157	486	370	1,274	382	382	320	44,573	43,160	312	421	306	1,558	122	388		
Nebraska.....	1,127	170,745	162,557	1,065	1,669	970	5,274	445	1,114	894	3,366	901	794	840	138,789	132,083	796	1,288	729	4,426	346	354		
Nevada.....	128	37,759	34,820	124	175	122	1,863	59	458	112	1,217	114	187	97	30,683	28,879	94	122	91	1,333	44	367		
New Hampshire.....	315	59,980	57,408	310	391	295	1,991	157	714	264	962	280	313	284	55,019	52,907	279	344	270	1,847	139	661		
New Jersey.....	3,411	724,836	693,979	3,372	5,460	3,283	33,562	1,316	13,106	2,992	16,985	3,170	3,471	3,212	697,150	667,796	3,176	5,135	3,094	32,336	1,255	12,834		
New Mexico.....	185	34,800	31,367	183	240	179	1,570	99	487	162	783	174	299	156	30,401	27,298	154	195	152	1,382	81	431		
New York.....	10,995	2,636,768	2,490,700	10,264	18,473	10,017	123,594	4,015	43,698	9,201	63,259	9,143	16,697	9,198	2,477,965	2,342,374	9,084	16,510	8,885	117,111	3,653	42,192		
North Carolina.....	1,138	244,503	230,211	1,122	1,862	1,101	5,477	475	2,662	906	1,902	1,057	913	940	214,348	201,766	927	1,341	907	4,849	397	2,732		
North Dakota.....	280	34,931	33,386	274	372	264	1,070	135	278	253	700	242	92	196	26,063	24,873	193	264	185	815	100	223		
Ohio.....	3,922	853,122	811,243	3,867	6,809	3,733	27,975	1,932	8,179	3,424	15,768	3,630	4,027	3,549	808,382	768,716	3,504	6,230	3,376	26,270	1,742	7,793		
Oklahoma.....	933	175,214	163,887	918	1,583	889	5,878	316	1,577	826	3,611	690	724	724	144,460	136,952	713	1,224	690	4,709	262	1,386		
Oregon.....	732	131,436	124,174	712	848	677	3,904	325	1,240	603	2,099	819	565	639	120,423	113,934	620	734	589	3,578	291	1,154		
Pennsylvania.....	4,615	1,078,815	1,030,092	4,552	7,824	4,379	43,524	2,402	16,513	3,921	19,345	4,255	5,665	4,234	1,023,822	978,307	4,187	7,235	4,036	41,190	2,255	17,618		
Rhode Island.....	381	96,316	92,033	378	669	375	4,974	202	1,883	341	2,298	360	793	332	85,709	81,709	329	567	429	4,682	184	1,806		
South Carolina.....	325	98,328	93,017	319	911	508	2,718	185	1,312	386	1,028	489	378	445	87,069	82,725	439	775	431	2,408	158	1,206		
South Dakota.....	357	50,811	48,403	348	490	316	1,761	151	528	298	1,084	271	149	263	39,869	37,991	256	366	235	1,449	111	438		
Tennessee.....	786	210,865	196,884	781	1,193	769	5,631	286	2,685	618	2,290	743	656	635	189,516	177,782	631	956	620	5,050	240	2,520		
Texas.....	2,927	617,411	574,022	2,893	5,490	2,772	16,416	613	4,428	2,696	8,371	2,473	3,618	2,618	568,438	528,517	2,593	4,942	2,493	15,070	564	4,082		
Utah.....	202	39,555	37,653	193	246	189	1,305	100	294	174	772	177	140	151	32,710	31,366	146	190	142	1,022	82	251		
Vermont.....	175	31,148	29,957	171	215	160	1,262	99	493	121	426	14												

[Citizens and resident aliens]

State	Returns for testate decedents--Continued				Returns for intestate decedents													Returns for decedents not identified as testate or intestate		
	Administrative expenses--Continued				Number of returns	Gross estate (Thousand dollars)	Economic estate (Thousand dollars)	Funeral expenses		Administrative expenses								Number of returns	Gross estate (Thousand dollars)	Economic estate (Thousand dollars)
	Attorneys' fees		Other expenses					Number of returns	Amount (Thousand dollars)	Total		Executors' commissions		Attorneys' fees		Other expenses				
	Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)						Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)	Number of returns	Amount (Thousand dollars)			
(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)	
United States.....	55,797	277,779	59,948	82,672	10,957	1,468,059	1,365,560	10,532	16,258	9,932	45,285	3,467	11,106	8,688	25,648	9,014	8,530	288	42,342	40,357
Alabama.....	412	1,681	478	559	40	5,478	4,702	34	37	37	157	12	48	32	81	36	27	2	233	223
Alaska.....	9	48	10	12	4	364	354	3	3	3	12	2	2	3	7	3	-	-	-	-
Arizona.....	351	2,818	353	872	44	6,454	6,076	44	68	39	188	14	57	35	99	34	33	4	589	558
Arkansas.....	246	823	272	282	79	12,922	11,466	76	114	71	306	22	77	57	178	63	51	1	67	67
California.....	6,357	26,695	6,784	9,349	918	120,848	108,184	885	1,125	833	3,031	259	739	718	1,666	798	626	35	5,106	4,999
Colorado.....	554	3,208	590	897	191	24,387	21,204	166	219	161	735	36	158	144	467	144	110	5	1,683	1,092
Connecticut.....	1,002	5,757	1,247	3,401	194	25,979	24,809	190	299	178	791	77	204	125	325	176	261	8	1,684	1,670
Delaware.....	100	225	171	743	21	2,912	2,815	21	35	21	91	10	19	15	49	21	23	1	65	65
District of Columbia.....	325	1,803	416	652	67	9,769	9,388	63	82	56	316	23	95	43	175	55	46	1	162	104
Florida.....	2,120	12,036	2,227	4,771	386	38,258	51,277	357	524	326	1,766	83	377	269	896	295	493	9	1,142	1,102
Georgia.....	641	1,900	763	850	106	15,098	12,998	98	184	102	428	30	159	88	161	91	104	4	505	484
Hawaii.....	106	409	125	253	20	2,699	2,458	19	30	18	74	12	29	14	30	17	16	1	99	77
Idaho.....	140	557	138	106	54	6,581	6,131	51	68	52	213	18	58	48	112	50	44	-	-	-
Illinois.....	3,865	21,168	4,085	5,070	990	135,869	127,311	966	1,670	915	4,341	247	711	829	2,772	796	858	20	2,464	2,454
Indiana.....	1,225	6,428	1,285	1,350	433	51,741	49,278	412	661	398	1,683	137	401	363	1,039	356	243	4	367	365
Iowa.....	1,604	4,616	1,694	1,064	324	33,730	31,754	313	445	270	876	117	252	251	503	258	121	3	258	253
Kansas.....	794	3,480	822	781	427	54,604	51,876	413	514	358	1,248	113	331	300	770	303	147	13	1,425	1,399
Kentucky.....	565	1,825	676	608	115	17,696	16,662	114	215	110	547	47	217	110	82	110	82	3	261	260
Louisiana.....	349	3,190	382	731	206	27,641	25,633	200	378	203	923	23	73	191	703	148	1	86	93	-
Maine.....	325	1,478	375	530	40	5,074	4,862	38	43	37	193	14	78	35	101	33	13	-	-	-
Maryland.....	708	2,269	950	1,237	220	33,747	31,663	208	277	192	737	90	326	135	268	172	144	4	571	569
Massachusetts.....	1,867	8,875	1,998	2,567	309	38,077	35,413	302	442	298	1,468	119	392	259	827	272	249	7	587	577
Michigan.....	1,435	6,734	1,512	2,139	407	58,923	56,291	388	681	351	1,730	143	377	294	923	315	430	13	1,541	1,534
Minnesota.....	996	4,118	1,079	1,124	491	65,075	59,894	451	617	404	1,260	133	176	371	817	349	267	14	1,617	1,522
Mississippi.....	257	951	282	402	78	11,917	10,784	77	113	71	299	16	63	64	173	68	63	1	179	177
Missouri.....	1,010	4,964	1,169	1,696	284	42,898	40,148	262	413	241	965	100	319	207	457	211	189	8	1,465	1,435
Montana.....	293	1,045	301	124	81	9,436	9,030	75	90	77	343	33	94	70	213	74	36	7	781	779
Nebraska.....	671	2,823	688	649	280	31,172	29,701	262	373	235	831	96	155	217	533	208	144	7	784	773
Nevada.....	87	1,034	87	151	27	6,442	5,382	26	48	27	283	13	78	22	173	23	32	4	634	559
New Hampshire.....	238	893	252	293	50	4,897	4,437	30	47	28	140	17	53	25	68	27	19	1	64	64
New Jersey.....	2,812	16,251	2,988	3,282	197	26,924	25,432	194	320	187	1,203	61	302	178	713	180	188	2	762	752
New Mexico.....	136	682	149	269	29	4,399	4,069	29	44	27	187	18	56	26	101	25	30	-	-	-
New York.....	8,189	59,280	8,140	15,639	1,172	155,617	145,273	1,155	1,919	1,108	6,327	356	1,418	992	3,910	981	998	25	3,187	3,053
North Carolina.....	747	1,679	870	718	192	29,104	27,459	189	311	188	617	76	209	154	213	181	194	6	1,051	986
North Dakota.....	177	531	170	58	81	8,608	8,254	78	106	76	249	34	51	73	165	70	33	3	260	259
Ohio.....	3,094	14,767	3,295	3,710	369	44,413	42,212	359	573	353	1,699	189	386	327	997	332	316	4	327	315
Oklahoma.....	641	2,813	652	511	203	30,095	26,292	199	350	193	1,153	53	189	179	788	184	176	6	459	442
Oregon.....	528	1,912	543	511	94	10,635	9,872	89	110	85	316	33	84	73	180	73	52	3	378	369
Pennsylvania.....	3,614	18,306	3,946	5,266	359	48,805	46,275	345	554	325	2,037	137	723	294	934	295	380	22	6,188	5,511
Rhode Island.....	299	2,147	323	730	47	6,274	6,117	47	93	44	276	17	75	40	142	35	59	2	207	207
South Carolina.....	329	874	415	327	79	11,141	10,177	79	135	76	305	26	103	56	152	73	50	1	117	114
South Dakota.....	225	891	120	93	25	10,831	10,315	91	124	80	311	40	91	73	193	69	27	1	111	97
Tennessee.....	496	1,973	601	557	149	21,013	18,807	148	233	147	571	45	163	120	310	240	99	2	337	295
Texas.....	2,240	7,643	2,255	3,345	299	46,574	43,304	290	521	269	1,162	47	296	247	639	211	227	10	2,400	2,301
Utah.....	133	663	137	108	47	6,177	5,693	43	51	44	172	16	37	39	104	38	32	4	668	594
Vermont.....	102	383	124	290	30	3,911	3,565	28	33	25	156	18	60	19	43	22	52	-	-	-
Virginia.....	652	1,401	1,014	1,174	186	26,880	25,041	182	267	179	783	79	328	112	159	170	295	5	958	939
Washington.....	876	3,804	913	750	85	11,545	10,692	82	74	82	439	26	118	74	243	70	78	4	290	289
West Virginia.....	268	931	336	460	40	5,236	4,939	39	48	39	180	23	76	63	28	36	42	-	-	-
Wisconsin.....	1,389	5,980	1,448	1,102	287	34,669	32,877	274	390	250	957	94	165	229	667	245	125	7	542	542
Wyoming.....	101	502	105	129	32	4,320	3,962	32	46	28	119	18	43	26	61	26	15	-	-	-
Other areas.....	97	563	112	352	21	3,231	2,951	16	20	15	94	5	15	12	37	14	42	-	-	-

*Returns filed with the Office of International Operations.

SOURCE: U. S. Treasury Department, ESTATE TAX RETURNS FILED DURING 1963, pp. 79-80.

State	In millions of dollars		Credit as percentage of federal tax
	Federal estate tax before credits (a)	Federal credit for state death taxes	
Minnesota	30.4	3.2	11
Mississippi	5.9	0.4	7
Missouri	56.1	6.1	11
Montana	2.6	0.1	4
Nebraska	10.6	0.7	7
Nevada	<u>0.9</u>	<u>.. (b)</u>	<u>..</u>
Totals (excluding Nevada)	<u>105.6</u>	<u>10.5</u>	<u>10</u>

(a) Data in the first column are limited to returns showing a state death tax credit.

(b) The credit shown for Nevada (\$35,000) is for payments to other states. Similar payments would also be included in the payments recorded in returns filed in the other states listed above.

The sample displays no clear pattern from state to state. However, 10 percent appears to be a workable assumption.

The small number of estates in Nevada accentuates the speculative nature of any estimate for the State. It will readily be appreciated that the settlement of any unusually large estate in any one year might have a marked effect on the statistics for Nevada. Referring to Table 224, we can see that the relevant percentage varies (and apparently not in any consistent manner) from one size of gross estate to another. There were only 128 returns filed in Nevada in 1963 in contrast with 1,767 in Minnesota. ⁽¹⁾

(1) The problem of number of returns may be illustrated further by reference to the tabulation of all states in Figure 225.

Nevada has gaps in many estate brackets and constitutes too small a base to be statistically dependable. The error involved in any estimate would be so great as to make purported refinement misleading. The estimates have to be illustrative rather than definitive.

As a working assumption, we accordingly take 10 percent of the federal estate tax paid as the amount which would have accrued to Nevada if the required law had been in effect. This is not the same as 10 percent of the federal estate tax before credit, but there is no need to make any correction because of the fundamental roughness of the estimates.

The next task is to apply this 10 percent to the federal estate tax paid in Nevada in fiscal 1966 to obtain the credit that could have accrued to Nevada that year. Here we encounter the additional difficulty that state-by-state data are not available for so recent a year. In 1963 the gross estates for all returns filed in Nevada were \$37.8 millions while the comparable amount for the United States as a whole was \$17.0 billions, according to Table 225. This gives us a relationship of 0.22 percent. For working purposes, a percentage of 0.2 is used. In fiscal 1966 federal estate and gift taxes yielded \$2.9 billions and are estimated to yield \$3.3 billions in fiscal 1967. ⁽¹⁾ Applying the 0.2 percent factor, federal tax on returns paid in Nevada would be \$5.8 and \$6.6 millions respectively (compared with the \$4.6 millions in 1963, as shown in Table 224). ⁽²⁾ Applying the 10 percent factor to these figures, we find that the following credits would have been taken in Nevada if a pick-up tax had existed there: \$586,400 in fiscal 1966 and \$660,000 in fiscal 1967. The fiscal 1966 estimate is used as the base figure for projections to 1967-68, 1970-71 and 1975-76 below.

(1) ECONOMIC REPORT OF THE PRESIDENT: 1966, p. 276. The error introduced by inclusion of gift taxes in some of the statistics is ignored.

(2) \$3,805,000 plus \$873,000 minus \$35,000.

Before turning to the projections, we may test the rough order of magnitude of our base figures. Federal estate and gift tax collections in Nevada in fiscal 1965 amounted to \$6.21 millions out of nationwide collections of \$2.7 billions. (1) The relationship was 0.226 percent in contrast with the more conservative 0.2 percent used above, based on estate tax returns actually filed in 1963. By the same token, 10 percent of the fiscal 1965 collections in Nevada amounted to \$621,000, compared with the estimate we derived for fiscal 1966, as described above. The latter thus appears to be on the conservative side but within the right order of magnitude.

These two groups of estimates provide sufficiently comparable results to support the validity of using \$586,400 as a conservative fiscal 1966 base for projections into future years. (2) The projections follow:

1965-66	\$ 586,400
1967-68	704,000
1970-71	880,000
1975-76	1,173,000(3)

* * *

As Table 221 shows, other possibilities exist for new sources of revenue. Those that may warrant particular study for Nevada are a real estate transactions tax and a tax on savings and loan associations. We have explored in detail only

(1) ANNUAL REPORT OF THE SECRETARY OF THE TREASURY: 1965, p. 548, U. S. Government Printing Office.

(2) The use of the more conservative estimates also tends to compensate for the inclusion of gift taxes in some of the federal statistics used above.

(3) SOURCE: 1965-66 estimate derived as explained above. Projections derived by applying 10 percent per annum un compounded rate of growth. Estimated federal revenues from estate and gift taxes: 1965-66, \$2,932 millions; 1966-67, \$3,301 millions. (ECONOMIC REPORT OF THE PRESIDENT, 1966, p. 276.)

the two most obvious possibilities: income and death taxes. The same type of approach may be used for any other source as attention focuses on it.

To summarize, we have now considered the following taxes and have projected their potential revenue-producing power in future years:

- . sales and use tax
- . gaming taxes
- . liquor tax and licenses
- . cigarette tax and licenses
- . fees and similar charges
- . individual income tax
- . corporate income tax
- . death tax.

We have also considered the property tax, the insurance premium tax, and the casino entertainment tax; however, we have found them unlikely candidates for increased rates of taxation.

Each of the existing sources of revenue, with present and increased rates, and each of the possible new sources of revenue, was discussed above in isolation. We must recognize, of course, that the various sources of revenue are actually interrelated. If an increased gaming tax cuts into profits, the yield of a corporate net income tax would fall; if it is all passed on to the customer by reducing the payout, he will have less to spend on items subject to the sales tax. Of course, if any tax is carried to the point where the entire economy of the State suffers, tax revenues generally would be hurt. This problem can be handled, and even then only imperfectly, through a comprehensive econometric model of the Nevadan economy. Rather than attempt to make arbitrary adjustments in our projections, we leave them as computed above, with the strong caveat that some reduction in the revenue raised by each tax would actually occur when used in

combination with other taxes. This must be kept in mind particularly in connection with the various revenue programs presented in the next chapter.

Two other matters also merit consideration.

There exist certain constitutional barriers and also some judicial interpretations which would prevent or delay the imposition of some new taxes (such as the inheritance tax) or the increase in rates of old taxes (such as the sales tax). We make no attempt here to consider the legal issues involved or the likelihood of overcoming the existing barriers. The only recognition given this problem is in allowing for appropriate delays in instituting the changes. This appears in the various revenue programs considered in the next chapter.

The question of a State lottery has received some attention. However, the situation is somewhat speculative and we have not given it consideration in this report.

IV. TAX PROGRAMS

In presenting alternative tax programs, we first had to determine the expected excess of outlays chargeable to the general fund over the expected revenues. The method of estimating this revenue gap is first described. Following this, we present four alternative programs - the first three concentrating on individual segments of the taxpaying population and the fourth spreading the impact of additional taxes over a broader cross-section.

At the outset, we must reiterate what has been stated in Chapter I - that we are dealing with projections and not predictions. Projections five and ten years into the future must be based to a large extent on assumption and conjecture. Projections can in no way be construed as predictions as to what will occur. They are merely extensions into the future of existing figures on the assumption that certain conditions will then prevail. Alternative assumptions yield alternative projections. No prediction is made as to which conditions will actually prevail, hence which projections will become reality. The projections are nevertheless useful in providing a framework within which long-run thinking and planning can occur for a variety of eventualities.

1. REVENUE GAPS

All the foregoing discussion of existing and new sources of revenue is directed toward a single problem: providing enough revenue to meet the State's needs for the next ten years. We have been looking only at the one side: the revenue potentialities. The need for revenue will determine what is actually done. By comparing the revenue prospects of existing sources and rates with the prospective need for revenue we find the "gap" that has to be filled. That gap may be filled by raising rates of existing taxes or imposing new taxes, or both. The various possibilities are explored below.

Determination of the gap is no simple matter. Some of the problems

involved in projecting revenues have been discussed above. The imponderables are perhaps even greater on the outlay side, the need for revenue. Population growth and price increases will affect both sides. But how great will be the demand for increased public services? What matching requirements will be imposed by federal grants and programs? These are two of the basic questions that will actually determine the outlays that will be incurred and the pull on the revenue structure of the State. The range of possibilities is almost infinite.

Any governmental entity faced with a potential deficit, as is Nevada, is compelled to study both sides of the fiscal picture - increases in revenues and reductions in outlays. The study just completed was directed toward the revenue side only.

It would be faulty, however, to consider revenues alone, and we are fully aware of the State's consideration of the expenditure side too. Opportunities might lie in restriction of the number or scope of services provided, or in improvement of government efficiency, as examples. As our study did not - and was not intended to - penetrate the question of expenditures, we can express no opinion on the opportunities that exist. Nevertheless, a hard look at expenditures must be taken as the State commits itself to increased taxation.

The projection of outlays of the general fund was made under the supervision of the Chief of the Budget Division, Department of Administration, of the State of Nevada.

It is not the State's customary practice to make projections as far ahead as ten years. So many uncertainties exist - such as the emergence of new federal programs with their impact on State expenditures - that the exercise tends to be too conjectural.

For the purpose of this study, however, such projections were

essential. The Chief of the Budget Division presented his projections to the Legislative Counsel August 17, 1966. (1) They covered the three fiscal years 1968, 1971 and 1976, and were submitted in three amounts for each year - the lowest, the highest and the most realistic aggregate of appropriations taking into account all presently known conditions and prognosticating the financial impact of conditions that might be expected to occur in the future.

After studying these projections, we elected to base calculations of the revenue gaps on the outlay figures classified as the most realistic, namely:

	<u>In millions of dollars</u>
1967-68	74.0
1970-71	104.0
1975-76	175.0

Estimates of general fund revenues were made by the Fiscal Analyst to the Legislative Counsel. They covered the same three fiscal years, and were similarly submitted in three amounts for each year. An underlying assumption was that all existing taxes would continue at their present rates and that no new taxes would be introduced.

We again elected to base calculations on the figures classified as the most realistic. However, before accepting them, by agreement with the Fiscal Analyst, we substituted for his projections of the percentage gaming tax the projections considered in Chapter II.

The adjusted projections were as follows:

(1) The Chief of the Budget Division emphasized that the projections were made at short notice and, because of their time span, involve a variety of uncertainties.

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Gaming taxes			
Percentage tax - original	19.8	27.9	46.5
adjusted	18.8	24.0	34.9
All other (net)	0.3	0.3	0.4
Sales and use tax	28.3	36.2	59.4
All other taxes	17.7	23.5	35.3
Totals	<u>65.1</u>	<u>84.0</u>	<u>130.0</u>

Deducting the revenue projections from the outlay projections, we arrive at the following estimated revenue gaps:

	<u>In millions of dollars</u>
1967-68	8.9 say 9.0
1970-71	20.0
1975-76	45.0

The following were among the assumptions used in making outlay projections:

- (1) Population of the State will increase at the rate of 7 percent a year.
- (2) Salary increases will average 5 percent a year.
- (3) Inflation will continue, at $1\frac{1}{2}$ percent a year.
- (4) Revenues from the federal government and from counties will not change.

What will actually occur in the fiscal years 1968, 1971 and 1976 may be very different from these projections. As we get closer to those years, more accurate estimates can be made for budgeting purposes. We are not pretending to present budgets for the next ten years but merely illustrations of the budgetary problems that may have to be faced.

2. ASSUMPTIONS AFFECTING TAX PROGRAMS

Each tax program here presented is calculated according to a basis that will in all cases either fill the estimated revenue gap or provide a modest surplus.

Calculations are made throughout in units of a million dollars carried to one decimal place. The deviations that can result from future events departing from the bases of assumption render anything less than a million dollars too relatively insignificant to warrant concern.

Common to each program is the assumption that fees, licenses (other than gaming, cigarette and liquor), fines and charges for services will be increased by amounts averaging 100 percent of their present aggregate level. The arguments in support of this have been presented earlier. We must caution, however, that we have not made a detailed study of the individual fees, etc., and are not prepared to state their present and proposed levels individually.

Also common to each program is the assumption that a death tax will be introduced on the lines of the Florida death tax discussed in Chapter III. This would require a constitutional amendment, so that no provision is made for revenue from this tax in the fiscal year 1968.

It is also assumed that the sales tax will not be increased beyond 3 percent. If an increase beyond this rate is seriously contemplated, the question of exempting food from this tax should receive attention.

3. FIRST PROGRAM - CONSUMER IMPACT

The first alternative program is one in which the major impact is thrust on the consumer, as follows:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Fees, licenses, fines and charges			
Increase present rates by			
100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Liquor tax and licenses			
Increase present rates by			
50 percent	1.8	2.3	3.1
Cigarette tax and licenses			
Increase tax by 2¢ a pack and			
licenses proportionately	0.5	0.6	0.8
Sales and use tax			
Increase rate to 3 percent,			
starting February 1, 1968	4.7	14.5	23.8
Corporate income tax			
Levy tax equivalent to 16			
percent of present federal rates	-	-	12.3
	—	—	—
Totals from the foregoing	9.6	21.5	45.5
Estimated revenue gaps	9.0	20.0	45.0
	—	—	—
Estimated surpluses	<u>0.6</u>	<u>1.5</u>	<u>0.5</u>

4. SECOND PROGRAM - GAMING IMPACT

The second alternative program bears predominantly on the gaming industry, as follows:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Fees, licenses, fines and charges			
Increase present rates by			
100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Gaming tax			
Increase percentage tax			
overall by			
35 percent	6.6		
70 percent		16.8	
100 percent			34.9
Corporate income tax			
Levy tax equivalent to 6			
percent of present federal			
rates	-	-	4.6
	—	—	—
Totals from the foregoing	9.2	20.9	45.0
Estimated revenue gaps	9.0	20.0	45.0
	—	—	—
Estimated surpluses	<u>0.2</u>	<u>0.9</u>	<u>none</u>

In another part of this report there is discussion about the limitations on gaming tax increases and the desirability of making such increases in stages.

5. THIRD PROGRAM - INCOME IMPACT

The third alternative program emphasizes taxation of incomes, as follows:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Fees, licenses, fines and charges			
Increase present rates by			
100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Corporate income tax			
Levy tax equivalent to the			
following percentages of			
present federal rates			
6	2.8		
12		6.9	
20			15.4
Individual income tax			
Levy tax equivalent to the			
following percentages of			
present federal rates			
2	3.6		
4		9.1	
8			24.1
	—	—	—
Totals from the foregoing	9.0	20.1	45.0
Estimated revenue gaps	9.0	20.0	45.0
	—	—	—
Estimated surpluses	<u>none</u>	<u>0.1</u>	<u>none</u>

6. FOURTH PROGRAM - BALANCED IMPACT

None of the three alternative programs thus far presented achieves a spreading of the impact of new and increased taxation over the whole tax-paying population. The purpose in presenting them, however, was to define the approximate contribution that can be derived from such taxation.

In this fourth program it is our purpose to present a balanced tax impact. It is worth noting that no increase is proposed for the sales and use tax on the grounds that the typical consumer will be reached by (1) the

individual income tax and (2) the possible passing on of a part or all of the corporate income tax in higher prices, as well as, for those concerned, taxes on cigarettes and alcoholic beverages and liquor.

The program takes the following form:

	<u>In millions of dollars</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Fees, licenses, fines and charges			
Increase present rates by			
100 percent	2.6	3.2	4.3
Death tax			
As discussed above	-	0.9	1.2
Liquor tax and licenses			
Increase present rates by			
50 percent	1.8	2.3	3.1
Cigarette tax and licenses			
Increase tax by 2¢ a pack and			
licenses proportionately	0.5	0.6	0.8
Gaming tax			
Increase percentage tax			
overall by			
25 percent	4.7		
35 percent		8.4	
50 percent			17.4
Corporate income tax			
Levy tax equivalent to the			
following percentages of			
present federal rates			
5	-	2.9	
12 1/2			9.6
Individual income tax			
Levy tax equivalent to the			
following percentages of present			
federal rates			
1 1/4	-	2.8	
3			9.1
	—	—	—
Totals from the foregoing	9.6	21.1	45.5
Estimated revenue gaps	9.0	20.0	45.0
	—	—	—
Estimated surpluses	<u>0.6</u>	<u>1.1</u>	<u>0.5</u>

The following tabulation presents a picture of the spread of the additional tax burden, exclusive of fees, licenses, fines and charges, and death tax.

	<u>In millions of dollars</u>			<u>In percentages</u>		
	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>	<u>1967-68</u>	<u>1970-71</u>	<u>1975-76</u>
Consumer taxes						
Liquor and cigarette	2.3	2.9	3.9	33	17	10
Gaming tax	4.7	8.4	17.4	67	49	43
Income taxes						
Corporate and individual	-	5.7	18.7	-	34	47
Totals	<u>7.0</u>	<u>17.0</u>	<u>40.0</u>	<u>100</u>	<u>100</u>	<u>100</u>

Taxes levied directly on the consumer decrease steadily in significance after the fiscal year 1968. The gaming tax, at an increase of 25 percent, bears a relatively high proportion of the increased taxation in the fiscal year 1968, but the relative contribution declines after then, despite rate increases. Income taxes are scheduled to increase in stages, both in amount and in proportion. On the other hand, an alternative increase in the sales tax would reduce the need for reliance on income taxes.

Assuming that this fourth program receives serious consideration, two questions, in particular, will merit careful study.

- (1) Should the sales and use tax be increased and thus reduce the contribution to be made from other sources of revenue?
- (2) What procedures should be employed for increasing gaming taxes?

Each of these issues is touched upon below.

- (1) Should the sales and use tax be increased?

The sales and use tax has been discussed in some depth in Chapter II. It was there pointed out that the tax in Nevada does not

exempt food, as does the sales tax in several other states.

Exemption of food from the tax would, of course, involve substantial administrative change. Nevertheless, any increase in the rate should be preceded by a thorough study of the desirability of exempting food.

Proportionately, the sales tax yields the lion's share of general fund revenue. Administratively it is easy to increase this tax. A single percentage point increase produces substantial additional revenue - yet this entire increment may, for other reasons, be more than necessary. The question then arises about an increase of less than a fractional point. As fractional points would introduce complications for the average person in calculating the tax, we have not used them in the programs. Nevertheless, they should not be entirely disregarded as a possibility.

(2) How should gaming taxes be increased?

In another volume of this report we have examined the capability of the gaming industry to bear a higher tax rate. In this volume we have assumed throughout that any increase will be levied as a flat across-the-board increase in the percentage tax. This has been done to evaluate the relative amounts to be produced by gaming taxes.

However, consideration should also be given to:

- . changing the scale of rates, the brackets, or both, used for the percentage tax, or
- . increasing license fees other than the percentage tax.

These two factors - concerning the sales tax and the gaming tax - deserve study in any long-term planning of the State's tax programs.

* * *

The programs considered above have highlighted the initial impact of the various taxes. Who ultimately bears the burden of various kinds of taxes after shifting occurs is a large and complicated subject, some suggestions on which were given in earlier sections of this report.

The most difficult task will be to decide who shall pay the increased taxes needed to fill the revenue gaps. This is a decision that can be made only by the people of Nevada. We have tried to indicate some of the pros and cons of the major revenue sources, new and old, but there are basic political considerations that are entirely beyond the scope of this study and they will be the ultimate determinants of the changes that are actually made. With the exception of the federal estate tax pick-up credit, we must confess to having discovered no tax that will please everyone - and we are not even so sure about the pick-up credit. (We know it will hurt no one but it may still displease some.) As Edmund Burke wrote in 1774 in ON AMERICAN TAXATION: "To tax and to please, no more than to love and to be wise, is not given to men."

With great oversimplification, we may say that the consumer taxes tend to bear heavily on medium- and low-income groups and impinge little on any major industry of the State, hence leave the growth potential virtually unscathed. The gaming taxes cannot fail to have some repressive effect on the industry involved, with ultimate consequences that depend largely on the prospects for diversification of industry and reduced reliance on the tourist trade. If we use both consumer and gaming taxes, we can have correspondingly lower rates for each. This spreads the burden more broadly and more thinly. Any reliance on the income tax (as a percentage of federal tax liability) and on fees and similar charges also spreads the burden broadly and thinly. If we cannot be so wise as to avoid all taxation, perhaps we can at least show wisdom in reducing the risk of serious damage to any one group or segment of the economy.

STATE OF NEVADA
STUDY OF GENERAL FUND REVENUES

PART III

AN ECONOMIC ANALYSIS OF
THE GAMING INDUSTRY IN NEVADA

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APPENDIXES

- A Correlation between California personal income and gross gaming revenues in Nevada and related effects on extrapolation
- B Extrapolation of operating expenses of the gaming industry
- C Technical comments on profitability analysis

AN ECONOMIC ANALYSIS OF
THE GAMING INDUSTRY IN NEVADA

The State of Nevada will, almost without question, face a general fund deficit in the near future. The constitution of the State limits the total State debt to one percent of the State's aggregate assessed valuations for property taxes and thus precludes substantial deficit financing. Additional revenues will be needed to balance the budget.

An obvious source of such additional revenues is the gaming tax. Yet it cannot be increased without reason. Beyond a certain point of increase taxation would syphon off the profits of the gaming industry to such an extent that it might virtually be put out of business.

The economic consequences of this would be serious. So dependent is the State's total economy on the well-being of the gaming industry that any form of confiscatory taxation would defeat its own ends.

Yet some increase in this taxation is feasible.

It is the purpose of this part of the report to examine the extent to which additional tax revenues can be drawn from the gaming industry without reducing profits to a level that could endanger its survival.

In the first chapter we present some facts regarding the industry which have a bearing on the analysis. In the second chapter we provide a synopsis of the present tax structure.

We go on, in the third chapter, to describe the methodology followed in gathering and extrapolating data for making an analysis of the industry's taxability, and comment on the problems encountered, and the uncertainties that must necessarily exist.

The final chapter contains the results of the analysis and conclusions regarding the industry's ability to bear a higher level of taxation.

I. CHARACTERISTICS OF THE GAMING INDUSTRY

Gambling has long been prevalent in Nevada. Although, on occasions, it has been declared illegal, it was fully legalized in 1931 and has remained so ever since. Whether or not it can be morally justified is not a question for this study. The fact is that it exists and it flourishes.

The natural hazards that gambling can create, as well as its ability to provide revenues to the State, resulted in legislation for licensing, regulating and taxing the industry. One of the purposes of the State Gaming Control Board, created in 1955, was to eliminate the participation of undesirable elements in the industry.

Four factors led to a growth in gaming in Nevada after World War II. First, there was a marked increase in population in the western states. Second, the disposable personal income rose significantly. Third, gaming itself proved a major attraction to tourists. And finally, the natural attractiveness of Nevada, its improving industrial climate and the establishment of military bases combined to draw more people to the State. Not only did the gaming industry expand, but its outward characteristics started to change. Large and luxurious resort hotels were built, and entertainment exerted increasing drawing power, with shows involving well-known entertainers and elaborate stage productions. Legalized gambling and its related businesses provided a fertile source of revenue to the State and a stimulant to its economy. A period of prosperity had emerged.

In 1959 the Legislature found it necessary to install tighter controls. It created the Nevada Gaming Commission to issue licenses to and collect taxes and fees from the industry, functions previously exercised by the Nevada Tax Commission. The existing Gaming Control Board was affiliated with the Nevada Gaming Commission, and was concerned with audit, investigative and administrative activities.

In its efforts to oust undesirables from the industry, the Board moved in 1960 to place casinos off limits to people listed in its so-called "black book" as having undesirable reputations. About this time sensational publications concerning the industry created an adverse effect on the State's reputation, and, later in 1960, the Commission inaugurated a public information program for the benefit of the press, the tourists and the citizens of Nevada. This was followed, in 1961, by the Legislature's creation of a Gaming Policy Board, with the Governor of Nevada as its chairman.

More recently, unfavorable publicity has been even more acute. In particular, it has been alleged that casinos have been concealing large amounts from winnings and thereby evading tax. A Wall Street Journal article of August 24, 1966 cited newspaper reports that up to \$1 million a month is being "skimmed" at six Las Vegas casinos alone. The Nevada Gaming Commission held an inquiry in August 1966 regarding these and related allegations. The Commission reported in its findings, in substance, that (1) there was no valid evidence to substantiate the allegations; (2) extensive investigations carried out continuously by the State Gaming Control Board had unearthed no evidence of skimming; (3) measures used by the casinos for internal control did not justify conclusions of substantial skimming; (4) there was no evidence of undisclosed ownership of any licensed establishment; (5) there was no evidence of irregular transportation of money from gaming to persons outside Nevada; and (6) the Commission was considering developing a system to permit observation of the handling of money through electronic devices and accounting methods.

A recently originated initiative petition, if successful, would have the effect of increasing State taxes on gaming to about three times their present level. In a letter to the Nevada Congress of Parents and Teachers, dated October 20, 1965, the Governor of Nevada stated that a substantial tax increase would seriously undermine the gaming and tourist industries, would create severe

unemployment, and among other consequences, would weaken the State's educational structure.

With this brief historical introduction and comments on recent events, it is now appropriate to consider the profile of the industry. In particular, we shall dwell on its growth, its composition and its regulation.

1. GROWTH OF THE INDUSTRY

A realistic measure of the industry's expansion is gross taxable revenues from gaming. This represents the excess of money collected from games and machines over that paid to customers as winnings.

As indicators of the expansion, annual gross taxable revenues from gaming for the years ended June 30 were:

	<u>\$ millions</u>
1946	21.6
1956	113.1
1966	328.8

Of the two decades covered above, the annual uncompounded rate of increase was over 42 percent during the first decade and over 19 percent during the second.

The first ten years, following closely after World War II, saw the most dramatic rise, but the second ten years witnessed a rate of increase that was still impressive, as demonstrated by the following data:

Year ended June 30	Annual gross taxable gaming revenues	
	<u>\$ millions</u>	<u>Percentage of 1956</u>
1957	126.4	112
1958	143.8	127
1959	162.8	144
1960	194.1	172
1961	203.7	180
1962	227.1	201
1963	248.2	219
1964	276.3	244
1965	295.4	261
1966	328.8	291

(The foregoing figures are derived from the Nevada Gaming Commission's quarterly reports.)

Three counties in Nevada have contributed the most significant amounts of revenues. For the fiscal year ended June 30, 1966, the composition of revenues was as follows:

	<u>\$ millions</u>	<u>Percentage</u>
Clark County, which includes Las Vegas	179.0	54
Washoe County, which includes Reno, Sparks and north Lake Tahoe	84.3	26
Douglas County, which includes south Lake Tahoe	51.6	16
All other counties	<u>13.9</u>	<u>4</u>
Totals	<u>328.8</u>	<u>100</u>

Also of interest is the relative proportion of total gaming revenues provided by slot machines. Data provided by the quarterly reports of the Nevada Gaming Commission show that, for the eight quarters ended June 30, 1966, slot machine revenues averaged 35.7 percent of total revenues from

gaming, and ranged from a quarterly low of 32.4 percent to a quarterly high of 39.9 percent.

As gaming increased, and as the tax rates also increased, the industry's contribution in State quarterly gaming taxes and license fees showed a steep rise. For the years ended June 30, these figures were:

	<u>\$ millions</u>
1946	0.2
1956	5.7
1966	16.9

For the first decade the annual uncompounded rate of increase was 275 percent and for the second it was 20 percent. These rates compare with 42 and 19 respectively for annual gross taxable gaming revenues.

Various attempts have been made to estimate the percentage of the population of Nevada dependent on the gaming industry. A reliable estimate is difficult to produce for these reasons:

- . Many gaming establishments tend to be multiple-service facilities, offering hotel services, entertainment and other facilities as well as gaming.
- . Gaming produces indirect employment for services needed to support its activities, such as food, neon signs, laundry, gardening, furniture, etc.
- . Employees of the industry, both direct and indirect, use other services, such as education, transportation, utilities, etc.
- . Gaming and tourism are intimately related, and employment in the gaming industry tends to rise or fall with tourist activity.

Because, as is later explained, population of the State has little direct bearing on the fortunes of the gaming industry - although the reverse

would be true - we did not study in depth the validity of the many estimates of the proportion of the population dependent on gaming. We therefore accept at face value the estimate of 25 percent suggested in the Governor's letter of October 20, 1965 previously mentioned. Other estimates have been even higher.

Among the influences affecting the growth of gaming are population, tourism and personal income.

It is generally conceded that the population of California represents a significant reservoir of potential customers for the gaming industry in Nevada. In the years 1940, 1950, 1960 and 1965 the national population, in millions, was 132, 151, 179 and 193 respectively; for California, comparable figures were 6.9, 10.6, 15.7 and 18.7 - a much steeper rate of increase. The population of California is expected to continue to grow faster than the national population over the next twenty years.

The link between tourism and gaming is significant, but reliable measures of the size and growth of tourism in Nevada are difficult to gather for these reasons:

- . The number of tourists visiting Nevada in any given period is difficult to assess. The current level was estimated by most of those whom we questioned at 19 to 21 millions.
- . The head count of tourists is not as significant, for considering potential gaming demand, as the composition. Minors, for example, should be excluded.
- . Even a reliable head count, with minors excluded, would be less significant than tourist-man-days (the number of days spent by tourists in Nevada).

- The spending ability of tourists is of transcending importance and would need to be considered in interpreting any count or man-day statistics.

Our analysis led to the conclusion that neither population nor tourist statistics, in themselves, are reliable yardsticks for measuring the prosperity of the gaming industry in Nevada. The crucial issue is how much money is available to be spent on gaming.

As later explained, it was found that there is a useful correlation between California personal income and Nevada gross revenues from gaming. The description and implications of this relationship are discussed later in Chapter III.

As a measure of the growth in resources available for gaming in Nevada, the following data depict the annual increases in California personal income:

<u>Calendar Year</u>	<u>Personal income</u>	
	<u>\$ billions</u>	<u>Percentage of 1955</u>
1945	15.2	50
1955	30.2	100
1956	33.3	110
1957	35.6	118
1958	37.2	123
1959	41.0	136
1960	43.2	143
1961	45.8	152
1962	49.1	163
1963	52.3	173
1964	56.1	186
1965	60.2	199

(The foregoing statistics are derived from the Bank of California's publication "Pacific Coast Economic Series 1929-1965".)

Income doubled during the decade ended December 31, 1955 and again doubled during the following decade - an annual un compounded rate of increase of 10 percent. This rate of increase was not as steep as that experienced in annual gross revenues from gaming in Nevada during the twenty years ended June 30, 1966. However, as later explained, a statistical relationship does exist for the second decade; the first - occurring during the early post-war years of gaming in Nevada - was affected by such abnormal growth factors as to be unsuitable for valid statistical correlation.

2. COMPOSITION AND REGULATION OF THE INDUSTRY

For regulatory purposes, licensees are divided into two classes: restricted and nonrestricted.

A restricted license, as defined in State Regulation 1.050, is granted "for the operation of slot machines only in an establishment wherein the operation of slot machines is incidental in the primary business of the licensee". By practical interpretation, a nonrestricted licensee is one whose business meets any one of three criteria:

- (1) It involves the operation of a substantial number of slot machines (sixteen is often used as a rough guideline), or
- (2) There is at least one table used for gaming, or
- (3) Gaming on the premises is a significant part of the business.

Restricted licensees are usually such businesses as barber shops, service stations, grocery stores, or small restaurants. Nonrestricted licensees are more typically the resort hotels, casinos, and larger restaurants and bars.

Typical of many industries, gaming tends to be localized, with its principal concentrations in (1) the Las Vegas Strip, (2) Las Vegas downtown area, (3) Reno and Sparks, and (4) Lake Tahoe. Activity declines materially outside these areas.

In its report for the quarter ended June 30, 1966, the Nevada Gaming Commission reported as follows:

Number of licenses in force

Restricted (slot machines only)		778
Slot machine operators ("route operators", who provide slot machines to establishments for public use)		48
Nonrestricted:		
Slot machines only	44	
Games and slot machines	<u>186</u>	<u>230</u>
Total as of June 30, 1966		<u><u>1,056</u></u>

Number of gaming devices licensed

Slot machines, including pinball		28,262
Games		1,547
Tables (poker, etc.)		<u>179</u>
Total as of June 30, 1966		<u><u>29,988</u></u>

The industry, like many others, has been slow in organizing to improve its methods and conditions of operation, to produce industry statistics, to adopt uniform reporting systems, to share in economic research, or to encourage the maintenance of minimum acceptable standards of operation. However, there are some associations. The more influential are:

- (1) Nevada Resort Association, Inc., in Las Vegas, represents about a dozen of the larger luxury hotel-casinos on the Las Vegas Strip.
- (2) Gaming Industry Association of Nevada, Inc., in Reno, represents over thirty gaming licensees outside Clark County.

Services rendered by these associations are predominantly in public relations and related functions.

With the passage in 1959 of the Nevada Gaming Control Act, comprehensive provisions were set up for controlling and licensing the industry. As since amended, the Act assigns major responsibilities to three bodies:

- (1) The Gaming Policy Board,
- (2) The Nevada Gaming Commission, and
- (3) The State Gaming Control Board.

Chaired by the Governor of Nevada, with representatives from the other two bodies, the Gaming Policy Board may be convened "for the exclusive purpose of discussing matters of gaming policy".

The Nevada Gaming Commission (elsewhere also referred to as "the Commission") is a five-member organization responsible for issuing and revoking licenses, for collecting gaming taxes and fees, and for other activities, such as research and public information.

The State Gaming Control Board (elsewhere also referred to as "the Board") has three principal areas of responsibility: investigation, audit and enforcement. It investigates applicants for licenses, and recommends their approval or denial to the Commission. It audits licensees' records to assure collection of proper amounts of State taxes and fees from gaming, as well as to guard against hidden interests in gaming enterprises. It also enforces regulations against cheating and other undesirable practices.

The Commission is empowered by the Act to issue regulations governing the gaming industry. In conjunction with the Board, it has issued such regulations.

* * *

As earlier mentioned, more comprehensive details than the foregoing could be provided. However, the information here set forth should be adequate to serve as a background for the analysis that follows.

II. TAXATION OF THE GAMING INDUSTRY IN NEVADA

Every enterprise doing business in the United States is subject to a variety of federal taxes, such as taxes on income and social security. Similarly, every enterprise doing business in the State of Nevada is subject to many taxes imposed by the State, such as the sales and use tax, by its counties, such as property tax, and by other municipal entities.

Gaming, like other industries, bears these taxes. It is also subject to other taxes levied specifically for the privilege of doing business in legalized gambling.

It is with this latter class of taxes that we are now concerned.

First, let us consider their magnitude. The Nevada Gaming Commission published, in 1964, and updates annually, an analysis of all direct levies on gaming in Nevada, showing their source and distribution. For the year ended June 30, 1965 - the latest available at the time of preparing this report - on the following page is a condensed summary derived from these statistics:

<u>Collected by</u>	<u>\$ millions</u>	
United States Government	6.7	
State	15.1	
Counties	4.2	
Cities	<u>1.7</u>	27.6*
<u>For support of</u>		
United States Government	6.7	
State general fund	14.4	
State gaming administration	0.7	
Counties	2.6	
Cities	2.7	
Towns	0.3	
Other	<u>0.1</u>	27.6*

*Approximation to the nearest \$100,000 results in apparent differences in totals.

As these statistics show, the State levies and receives over half the total gaming tax revenues.

To describe the types of taxes which make up these collections, we have drawn on information from the Nevada Gaming Commission's "analysis of the structure and rates of direct levies on gaming by all levels of government . . ." Separate sections deal with federal, State, county and city taxes.

1. TAXES LEVIED BY THE UNITED STATES GOVERNMENT

Three taxes are levied:

- (1) An annual tax of \$250 is levied on coin-operated gaming devices.
- (2) An annual occupational stamp of \$50 is required of both principals and agents for wagering.
- (3) A wagering excise tax of 10 percent is levied on bookmaking activities.

As earlier mentioned, levies under these categories for the fiscal year 1965 aggregated \$6.7 millions.

2. TAXES LEVIED BY THE STATE OF NEVADA

The two principal taxes imposed on the gaming industry are the quarterly and annual license fees.

The quarterly license fee is based on gross revenue from gaming, and is calculated quarterly, payable on license renewal. Rates are based on the following sliding scale:

<u>Quarterly gross revenue</u>	<u>Percentage</u>
Up to \$150,000	3
From \$150,000 to 400,000	4
From \$400,000 to \$1,000,000	5
Over \$1,000,000	5.5

The annual license fee is based on the number of games operated, according to the following scale:

<u>Number of games operated</u>	<u>Amount</u>
One	\$ 100
2	200
3	400
4	750
5	1,750
6 or 7	3,000
8, 9 or 10	6,000
11 through 16	1,000 each game
Over 16	
. for first 16 games	16,000
. for each game in excess of 16	200

Other taxes consist of the following:

- (1) Fees for licensees who disseminate horseracing information;
- (2) A 2 percent tax on money wagered through pari-mutuel pools;
- (3) Investigation (\$250) and application (\$50) fees plus actual costs of investigation;
- (4) Mandatory penalties for late payment of quarterly license fees.

3. TAXES LEVIED BY COUNTIES

County gaming license fees - of which 25 percent go to the State for its general fund - are payable quarterly according to the following monthly rates:

- . \$25 for card games;
- . \$50 for other table games, such as craps, 21 and roulette;
- . \$10 for slot machines

The foregoing are standard in all counties of Nevada.

Clark and Pershing counties raise additional taxes. Clark County's provisions are quite comprehensive, and include:

- . application fees, based on the type of gaming device
- . annual license fees, scaled according to the game.

The following data show collections of gaming taxes by counties:

	<u>\$ millions</u>
Clark	2.10
Washoe	1.07
Douglas	0.49
Elko	0.17
Ormsby	0.10
All other	<u>0.23</u>
Total for the fiscal year 1965	<u><u>4.16</u></u>

4. TAXES LEVIED BY CITIES

Various cities - notably the larger ones - levy taxes on gaming, usually in the form of annual fees based on the type of game or gaming device.

The following data show cities' direct collections from gaming taxes:

	<u>\$ millions</u>
Las Vegas	0.89
Reno	0.60
North Las Vegas	0.07
Sparks	0.07
Henderson	0.03
Others (each under \$20,000)	<u>0.06</u>
Total for the fiscal year 1965	<u>1.72</u>

The impact of such taxes is relatively minor.

* * *

In the light of the structures and rates here described, the State is now faced with the question: Can the gaming industry bear additional taxes and, if so, how much?

The methods used preparatory to answering this question are discussed in the following chapter.

III. METHODOLOGY USED FOR PROJECTING GAMING INDUSTRY PROFITABILITY

One of the principal purposes of the study was to determine the capacity of the gaming industry to provide additional taxes over the next ten years in an effort to close the expected gap between expenditures and revenues in the State's general fund.

Another part of this report deals with the measurement of that expected gap and the opportunities for raising other revenues from taxation. The spotlight must necessarily fall on gaming, if only for two reasons: the substantial proportion of total tax revenues already produced from gaming taxes, and the demand emanating from articulate public opinion that gaming taxes be raised.

We had to consider, too, the possibility that gaming revenues might be diverted and thus evade taxation. In Part IV we discuss the opportunities for this to occur and recommend measures to reduce them to a minimum. In that part of the report we also consider the dearth of statistics produced by the industry and means that should be pursued to remedy that deficiency. Without reliable data, the industry may be in a weak position when asserting its inability - on this or future occasions - to assume a larger share of the State's tax burden.

Any serious attempt to measure the industry's taxability must be preceded by answering a number of questions. As examples:

- (1) What is the present profitability of the gaming industry in Nevada as a whole?
- (2) To what extent does this vary according to different segments of the industry?
- (3) How much faith can be put in the statistics now able to be gathered?
What adjustments are needed to make them defensible?
- (4) At what rate is the industry's gross income likely to grow?

- (5) What influences are expected to affect future costs, and by how much?
- (6) How should profitability be measured, particularly for comparing the gaming industry's performance with that of comparable industries?
- (7) To what extent can the industry bear additional gaming taxes, at varying levels, and what would be the effect on its profit performance?
- (8) What measures can the industry take to offset the effect of higher gaming taxes, and how realistic is it to expect them to be followed?

In this chapter we describe the methods used to provide answers to these questions. In the following chapter we discuss the results of the analysis and the conclusions that are drawn from it.

1. THE APPROACH IN PERSPECTIVE

Before penetrating the details of the analytical process, it will be appropriate to describe, in skeleton form, the steps that were followed to assess the taxability of the industry.

The first necessity was to gather, from a representative segment of the industry, a body of facts and figures capable of portraying operating results, financial position, taxes borne, and other relevant data.

We expected to find that the information would be deficient in some respects and unsuitable for analysis in others. This, in fact, we found. The second step was therefore one of evaluating, questioning, substantiating and, as necessary, adjusting the data so that they could be used to provide a valid profile of the industry.

The third step was to determine a realistic basis for extrapolating gaming revenues into future years. This involved exploring available data, seeking opinions from knowledgeable sources, and - as eventually proved successful - using mathematical techniques with the aid of a computer.

The fourth step was to develop a method for extrapolating costs.

Here again, a variety of opportunities was investigated.

The fifth step was to project the data into future years, applying such different assumptions as:

- . differing rates of increases in costs,
- . differing rates of increases in gaming taxes, and
- . differing methods of offsetting tax increases through less favorable odds or otherwise.

The volume of data to be processed, coupled with the combinations of alternative projections needed, required the use of an electronic computer. Without this, such an extensive analysis would have been too costly and time-consuming to attempt. To prepare for the use of a computer, however, the work had to be planned in intricate detail, diagrammed, and converted into symbols capable of being processed electronically.

During the steps outlined above, uncertainties, gaps and inconsistencies in the basic data had to be examined and judgments had to be made for dealing with them logically and equitably.

Finally, as progressive volumes of processed data emerged from the computer, they had to be interpreted, and conclusions had to be drawn from them.

It is of interest to note that, as we had expected, the procedures employed can be repeated from time to time to make similar analyses in future years. Use can be made of the computer programs and other methods followed in this study. We are accordingly making a record of the steps followed and providing instructions so that the State can again use the type of analysis employed.

2. GATHERING BASIC DATA

The basic vehicle for gathering data from nonrestricted licensees was a six-page questionnaire, accompanied by a page of instructions.

By completing the questionnaire, a respondent provided:

- . particulars of the organization, history and general activities of the enterprise,
- . its balance sheet and related supporting schedules,
- . a departmentalized operating statement and related supporting schedules, a
and
- . subsidiary personnel statistics.

Nonrestricted licensees were asked to produce the operating statement for the five most recent years.

Before mailing the questionnaire, we met with officers of the two principal associations of public accountants in the State, discussed the content, and sought their cooperation. We also asked that, in submitting completed questionnaires, respondents include a written opinion from their independent accountants containing comments on the reliability of the data presented.

The questionnaires, as well as instruction sheets and explanatory covering letters, were mailed in mid-July 1966 to 184 nonrestricted licensees (covering all except those operating only slot machines) and to all certified public accountants and public accountants registered in the State.

This was followed by conferences with two industry associations and some of their members to assure a proper understanding and to answer questions raised by them.

With few exceptions, members of the industry cooperated in returning completed questionnaires. In some cases they failed to provide required data and our representatives helped them to develop this information.

By arrangement with the officers of the public accounting bodies, we extended the deadline for submission. Nevertheless, delays were encountered, and many of the questionnaires arrived after the scheduled due dates.

3. TESTING THE RELIABILITY OF INDUSTRY DATA

By advance arrangement with the Legislative Commission, we decided to rely, to the fullest practical extent, on the signed opinions of the respondents' independent accountants. However, this did not preclude reviews on our part to substantiate selected data, to make inquiries from the respondents, or to discuss individual questions with their accountants.

Between July and September we sent representatives to 35 of the respondent casinos to make tests of the reliability of information furnished, to examine working papers, records and accounts, and to make such inquiries as each situation warranted. Gross gaming revenues of these 35 casinos accounted for more than 75 percent of the revenues of the industry as a whole.

As an additional precaution, we compared selected information reported in the questionnaires with data on file with the Nevada Gaming Commission. No major or unexplained discrepancies were revealed by this comparison.

Because of inconsistencies and lack of uniform accounting classifications within the industry, we were compelled to make many adjustments so that data could be processed on a comparable footing.

In some cases the latest information provided by respondents was not recent enough for practical use. These instances, however, were limited enough to pose no major problem.

Having satisfied ourselves as to the information received and its adjustment into a form sufficiently consistent for comparability, we selected 85 questionnaires⁽¹⁾ from those received as being in the most suitable form for analysis and containing sufficiently few gaps in information as not to prejudice the reliability of the resultant analysis. While 85 returns out of 184 questionnaires originally sent out may seem a meager sample, they represented:

- . establishments accounting for 93 percent of the gross gaming revenues,
- . a good geographical cross-section of the industry, and
- . an adequate mix of the larger and smaller licensees.

It is worth mentioning at this point that we also mailed limited questionnaires to over 10 percent of the restricted licensees. The information gleaned from these completed questionnaires was of interest in other aspects of the study but was not used for the profitability analysis - nor had it ever been intended that this information would be so used.

4. FINDING A BASIS FOR EXTRAPOLATING REVENUES

As earlier mentioned, the industry's annual gross taxable revenues from gaming rose from \$21.6 millions in the fiscal year 1946 to \$113.1 millions in 1956 and \$328.8 millions in 1966. The continuation of this rate of increase into future years appeared to us to be an unrealistic expectation. At some future time, we suspected, the rate of increase must decline.

(1) Of these 85 questionnaires 33 later proved unsuitable for determining cost and profitability trends, as discussed in Appendix B.

We conducted interviews with members of the gaming industry, governmental offices, financial institutions, utilities, industry associations, the University of Nevada, and others. These were for the purpose of gaining general background and opinion needed for the study, but, among the questions to which we continually sought an answer, was that of how to predict future gross revenues from gaming. It soon became apparent that forecasts were based largely on intuitive factors and that few concerned were ready to make forecasts for as long as five years ahead.

To rely on this type of forecasting, or to assume continuation of the historical trend of gross gaming revenues, struck us as a dangerous course to pursue if weighty decisions were to be based on the results.

A better method had to be found.

The forecasting method had to be based on indicators that possessed three characteristics:

- (1) They should logically relate to the gaming industry in Nevada.
- (2) They should demonstrate a close correlation over recent years.
- (3) They should, in themselves, be capable of being projected into the future.

In attacking the first criterion, we gained the impression, through interviews and other research, that the fortunes of the gaming industry depend materially on the wealth of California. To what extent this is so was difficult to determine. Intuitive estimates covered a wide range. Accordingly, we selected for experimentation four economic indicators characteristic of incomes and spending in California.

The next step was to determine whether there was a past correlation between gross revenues from gaming in Nevada, on the one hand, and any one or combination of the indicators tentatively selected, on

the other hand. The nature of this experimentation and the successful results it produced are described in Appendix A, following the text of this part of the report.

In summary, a relationship was found to exist through applying a formula having this effect:

- (1) Take the annual personal income of California in dollars and multiply it by 0.007136764 (the regression coefficient).
- (2) Deduct \$113,444,750 (the regression constant) from the product derived in the previous step.
- (3) The remainder represents the derived estimate of the annual gross revenue from gaming in Nevada.

The implication of this correlation is that the amount of California personal income is an influential factor in producing gross revenue from gaming in Nevada. It does not imply that the one is wholly dependent on the other, but it does imply that California personal income is a reliable measure of the resources that support the gaming industry in Nevada, and that other significant measures follow a pattern relatively comparable with that of California personal income.

The final criterion to be considered was the availability of the selected indicator in projected form. Among the sources of economic indicators that we studied were those compiled by a major western bank. The bank projects California personal income ten years ahead, based on four major assumptions:

- (1) that there will be no large-scale war,
- (2) that normal business activity will continue,
- (3) that the projections of California population growth published by the California Department of Finance will hold good, and
- (4) that inflation will continue at the same rate as has prevailed since 1945.

The bank's projections appear to us to be based on thorough and professional methods. Obviously, future uncertainties lead to a greater percentage of error the farther ahead a projection is made. For example, the current projections for 1967-68 are likely to be more accurate than those for 1970-71, and even more accurate than those for 1975-76. This is typical of any economic projection. The inherent inaccuracies over the long-term future should not adversely affect the forecasting process in the State of Nevada, since the legislative process by which taxes are raised is subject to frequent attention. Thus opportunities exist for reassessment with the passage of time, and therefore what had previously been a long-term forecast falls into the category of a more reliable short-term forecast.

Personal income is, in our opinion, a more dependable indicator than personal spending, disposable income or retail sales - three other indicators we examined. The last three indicators are derived from the personal income indicator and necessitate the application of assumptions such as how much will be saved, spent, used for necessities, and spent in retail stores. Of the four external indicators personal income is more reliable because of the fewer assumptions which are applied. It is therefore, in our consideration, the most suitable for producing projections of gross annual revenues from gaming in Nevada.

5. FINDING A BASIS FOR EXTRAPOLATING COSTS

In collecting operating expense data through questionnaires, eleven major classifications were identified in addition to the cost of sales. Federal income tax provisions were excluded. As data were gathered and further analyzed, some classifications were combined, leaving the following eight categories:

- . Salaries, wages, employee benefits, payroll taxes and officers' compensation

- . Depreciation and amortization
- . Rent
- . Interest
- . Taxes other than federal income taxes
- . Professional entertainment
- . Advertising and promotion
- . Other operating expenses not classified above.

As earlier mentioned, we encountered a lack of uniformity within the industry in the method of classifying expenses. Where practical, we adjusted the data provided in the questionnaires to permit a greater degree of comparability. A prevalent example of this was the treatment of "comps" - the cost of complimentary drinks, meals, rooms, etc. provided to customers. This expense was variously classified as advertising and promotion, as other operating expense, and even as miscellaneous (nonoperating) expense. Some respondents costed this expense at retail selling price, while others used actual cost. Our practice was to adjust this expense to an actual cost basis and classify it as advertising and promotion.

To gain an impression of the expected trend of costs over future years we asked questions of casino operators, representatives of industry associations, bankers, economists, civic leaders, and others. Based on these extensive interviews, the following opinions were often expressed:

- (1) Costs are rising at a faster rate than revenues.
- (2) Management needs to take more effective action than it has done hitherto in reducing costs through improving efficiency.
- (3) Efforts are needed to increase volume.
- (4) Despite cost reduction, if achieved, casino operators expect costs to eat increasingly into profit margins.
- (5) There was little agreement as to what specific costs, aside from labor, would be expected to rise, or at what rate.

- (6) For the coming year, estimates of increases in payroll costs ranged from 3 percent to 25 percent.
- (7) Larger establishments have greater flexibility in controlling costs because of their ability to lay off nonessential workers in slack periods.
- (8) Cost forecasting for managerial control is not practiced. Those establishments which do budget generally project past cost history after allowing for expected volume increases and additional costs arising from inflation.
- (9) An appreciable portion of the expenses is discretionary in nature. Opportunities for reduction of these expenses clearly exist, but the industry appears opposed to making such reductions, particularly in the face of competitive practices.
- (10) Advertising and promotion, which consumes about one-eighth of the revenue dollar, is an expense that can easily be varied. It is often varied when the situation demands, for example, during the recent airlines strike, when it was cut back.

As a means for making meaningful projections of costs, extensive use was made of the computer to produce ratios and trends, to compare results according to homogeneous segments of the industry, to identify and isolate abnormalities, and finally to produce a satisfactory basis for extrapolation. In Appendix B we discuss the processes followed, the difficulties observed, methods used to overcome them, and the conclusions reached.

6. PROJECTING THE PROFITABILITY OF THE INDUSTRY

To afford the reader an easier opportunity to follow the processes by which the gaming industry's profitability and taxability were forecast for the fiscal years 1968, 1971 and 1976, we present details and conclusions in Chapter IV.

7. JUDGMENTS MADE FOR PROJECTING DATA

We have already touched upon some of the judgments we were compelled to make in adapting heterogeneous information into a form suitable for developing a profile of the economics of the industry and for making projections. It will be useful to recapitulate these decisions here and to touch upon others not previously mentioned.

(1) A representative sample of data had to be selected

Many questionnaires were not completed and returned. Others were too deficient to be of practical value. In these cases, we followed up the questionnaires of the larger establishments and made sure they were put into acceptable form for analysis.

We first selected 85 returns for processing. They covered licensees with 93 percent of the gross gaming revenue for the year studied; they constituted a realistic geographical spread; and they provided an adequate cross-section of the industry.

However, shortcomings in the data compelled a further reduction, from 85 to 52 returns. This latter represented 75 percent of the gross gaming revenue and still constituted an adequate industry cross-section.

(2) Different segments of the industry needed study

To protect against an analysis in the aggregate failing to disclose the characteristics of individual segments of the industry, statistics were divided according to two classes: geographic and size.

The geographic segmentation involved five categories:

- (i) Las Vegas downtown
- (ii) Las Vegas Strip
- (iii) Lake Tahoe area

- (iv) Reno-Sparks area
- (v) All other localities.

Ten categories were used for dividing nonrestricted licensees according to size. They were:

- . Substantially diversified (casino, hotel, restaurant, theatre and bars):
 - (i) Very large (annual revenues over \$14 millions)
- . Diversified:
 - (ii) Very large (over \$18 millions) - no hotel
 - (iii) Large (\$2 to \$18 millions) - no theatre
- . Casino, bar and restaurant:
 - (iv) Large (over \$2 millions)
 - (v) Medium (\$0.5 to \$2 millions)
 - (vi) Small (up to \$500,000)
- . Casino and bar, but no restaurant:
 - (vii) Medium (\$200,000 to \$3 millions)
 - (viii) Small (up to \$200,000)
- . Gaming a sideline:
 - (ix) Medium (\$125,000 to \$500,000)
 - (x) Small (up to \$125,000)

In addition to the foregoing, a separate control group of nonrestricted licensees was studied. This represented the six casinos whose procedures were examined to evaluate the feasibility of prescribing minimum control standards for the industry. (Details of this study are dwelt upon in Part IV.)

(3) The value of capital employed had to be determined

An investor in the gaming industry must consider the return on his money in comparison with returns he could earn by investing it

differently. Clearly, by putting his money into government bonds or blue chip stocks he would have a greater measure of safety. For the additional risk he assumes by investing in the gaming industry he is entitled to a higher return on his investment.

In appraising the profitability of the industry, we had therefore to make some measure of the capital employed in the industry. But certain factors contribute to confuse this measurement:

- (i) There are several ways of amortizing or depreciating assets. The faster the writeoff, the lower the reported book value. With licensees using a variety of methods, comparability is difficult.
- (ii) The market value of assets employed in a business - particularly land and buildings - may appreciate to an amount considerable in excess of book value (generally cost less depreciation). In the more densely populated communities of Nevada increases in property values have been substantial.
- (iii) The use of "off-balance-sheet financing" has become prevalent. By this method, the business enterprise leases its property through a financing institution or associated enterprise and, as a lessee rather than owner, excludes the asset value from its balance sheet.

To provide some measure of consistency in measuring profits earned and capital employed, we made the following statistical adjustments:

- . In cases where properties were subject to sale-and-leaseback transactions or were rented from affiliates -
 - an imputed asset and a corresponding imputed liabilitywere set up to represent the capitalized value of the rents;

- rent expense was statistically reduced accordingly;
- depreciation expense was statistically increased to the extent of 5 percent a year on the amount of the capitalized land and other property;
- the capitalized values were tested for reasonableness against county assessors' appraisals, but technical considerations rendered this test nugatory.

A test was made of the book values of assets subject to property taxes, comparing them with county assessors' appraisals. However, properties covered by sale-and-leaseback transactions were difficult to differentiate from those legally owned by the businesses, and the amounts were of such magnitude, that it was not possible to establish, in total, whether book values and appraised values were realistically close. In the absence of evidence to the contrary, we therefore accepted net book values of owned property as representing fair market values.

(4) Influences of closely related businesses had to be recognized

Many casinos form elements of complex enterprises. As an example, one entity may own the land, another the buildings, a third the gaming license. The licensee's financial statements, therefore, do not necessarily represent a fair picture of either its financial condition or the results of its operations.

Licensees were asked to report associations with other businesses. In all reported cases, appropriate adjustments were made to account for their financial implications.

(5) Tax-saving devices and other unusual factors had to be allowed for

Before subjecting reported statistics to extensive analysis, we had them tabulated by computer and certain ratios and other relationships established. This process brought to light several unusual features. All such features of any significance were investigated.

In many of such cases the abnormalities were found to occur because of the accounting effect of tax-saving devices, or because of unusually high interest charges, officers' compensation or rent. These were often the consequences of dealings at less than an arm's length. In cases where a failure to allow for them would have distorted the results of the analysis, judgmental adjustments were made to normalize these conditions.

(6) The possible effect of skimming warranted consideration

Reference was made earlier to allegations that some casinos have been skimming - excluding gross gaming revenues from their accounting and thereby evading tax. The Nevada Gaming Commission's report of September 1, 1966 (also referred to earlier) stated that no valid evidence had been provided to substantiate the existence of this practice.

It would be naive, however, to ignore the possibility of skimming. Nevertheless, the secrecy that would surround it - if in fact, it is prevalent - precludes the possibility of assessing any measure of it.

Accordingly, we made no statistical allowance for the possible existence of this practice.

(7) Future revenue growth had to be anticipated

Elsewhere in this report, including specifically Appendix A, there is a description of the means adopted to extrapolate the industry's gross revenues. The formula adopted for the underlying calculations is based on four major assumptions:

- (i) that there will be no large-scale war;
- (ii) that normal business activity will continue;
- (iii) that projections of population growth published by the California Department of Finance will hold good; and
- (iv) that inflation will continue at the same rate as has prevailed since 1945.

To these assumptions we have added others:

- (v) that night horseracing will not be introduced in California and thereby reduce the potential demand on the tourist and gaming industries of Nevada;
- (vi) that Nevada will not introduce a legalized lottery and thus possibly reduce the flow of money into the gaming industry; and
- (vii) that no other state reasonably close to Nevada will legalize gaming.

(8) Future cost levels had to be projected

The uncertainties surrounding future costs are discussed at length, particularly in Appendix B. In projecting future costs it has been assumed in varying degrees:

- (i) that the upward trend of costs will continue;
- (ii) that managements in the gaming industry will be compelled to take - and will take - more active and effective steps to control the continued rise in costs;

(iii) that conditions affecting rises in costs will not differ materially from one location in the State to another, nor among the various types and sizes of gaming establishments.

(9) The feasibility of changing the odds to compensate for rising costs or tax increases had to be considered

The gaming industry argues vigorously that it is no longer feasible to reduce odds as a means for creating additional revenue. Odds have, of course, been reduced in the past, but the contention is that this is no longer possible.

An argument can also be made, based on defensible economic concepts, that the determination of odds is more heavily influenced by the natural forces of competition than by costs. In fact, experiments have been made that show, in limited cases, that a casino which improves the odds can attract sufficient additional business to do more than compensate for the higher payout.

We were informed on numerous occasions by casino operators that attempts to reduce odds independently of other casinos' taking similar action invariably led to a loss of business and a decline in gross revenues. If, however, rising costs were to compel the industry as a whole - or within any one community - to reduce odds, the results would conceivably be different.

Without adequate statistical evidence it is impossible to make a forecast of the effect of a possible industry-wide move to reduce odds. There is clear evidence elsewhere that reductions in odds or increases in prices do not materially dampen volume. As examples:

. Cigarette smoking continues to increase despite increases in

cigarette taxes.

- . Increases in the pari-mutuel percentage take in such states as New York, Illinois and California have not caused a decline in the volume of betting in those states.

In the face of these conflicting possibilities, we are inclined to draw the following conclusions:

- (i) If a substantial increase in gaming taxes were enacted, casinos would probably be compelled to pass at least a part of the burden to their customers in the form of reductions in odds.
- (ii) The results on gaming activity are virtually impossible to predict.
- (iii) If little adverse reaction occurred, the new odds would probably remain in force.
- (iv) If the reduction in odds caused a significant decline in gross revenues, there would be a partial or complete reversion to the previous odds.

With these uncertainties, we have assumed four different hypothetical consequences, namely that licensees will:

- (i) not pass any of the increase to their customers;
- (ii) succeed in passing on one-third of the increase;
- (iii) succeed in passing on two-thirds of the increase;
- (iv) succeed in passing on the entire increase.

These four situations, it must be emphasized, are hypothetical.

There is a strong possibility that any attempt to recoup increased taxes through reducing the odds would lead to a decline in gaming activity. This would be all the more likely if the odds were changed significantly, or if the customer believed they were.

Nonetheless, the industry's ability to pass on the additional taxes in some form or another cannot be disregarded entirely, and is considered in the next chapter.

(10) The possibility of reducing the level of service or increasing prices for service had also to be considered

The industry has another course open to it. It might reduce the amount or quality of service offered to its customers - restaurants, bars, entertainment, accommodations, complimentary meals, drinks or services, etc. Or it might maintain present levels and charge more for these services, or be more selective in the case of complimentary services.

Arguments for and against this course of action tend to follow a pattern similar to that for changing odds. In view of the similar uncertainties, we have elected to ignore this possibility and have assumed that the four different bases selected for evaluating the effect of a change in odds would incorporate any change in level or price of services.

The ten conditions enumerated above are typical of the atmosphere in which an analysis is made of the industry's ability to bear an increased tax burden. To assume several alternatives for each would create a volume of data of such magnitude that it would become valueless. In nearly each case an arbitrary judgment had to be made. The body of evidence gathered dictated the nature of each such judgment.

* * *

The reader should now understand the process by which facts were gathered and put into readiness for analysis. It now remains to describe the analytical process, the results it produced, and the significance of those results.

IV. PROFITABILITY ANALYSIS

We have described the events and conditions leading to the analysis of gaming profitability. It is now our purpose to record how the analysis was made, what it produced, and the significance of the results.

1. METHOD OF ANALYSIS

The objective was to project the profitability of the gaming industry ten years ahead under various assumed conditions. Little was to be gained by trying to estimate each of the ten years. Four were selected - to all practical intents equivalents of the years to June 30, 1966 (the base year), 1968, 1971 and 1976.

We have already observed that the farther ahead a projection is made, the greater is the uncertainty that surrounds it. The underlying assumptions are made on the best available current information and judgments. Five major assumptions were made:

- (1) Gross revenues in Nevada will continue to follow an existing relationship with California personal income. (See Appendix A for discussion.)
- (2) Gaming revenues will decline proportionately in relation to revenues from hotel, restaurant, bar and other services. This would continue the present trend, as discussed in Appendix B.
- (3) Operating expenses will bear any one of three relationships with total gross revenues (also discussed in Appendix B), namely:
 - (i) the "gold level", with expenses at a percentage comparable with those prevailing up to two years ago:

- (ii) the "green level", with expenses at a percentage slightly higher than in the base year;
 - (iii) the "blue level", with expenses persistently increasing, both absolutely and relatively, and with management unsuccessful in holding the line.
- (4) State gaming taxes can either remain unchanged or increase by any of the following five rates during the forecast period: (i) 25 percent, (ii) 50 percent, (iii) 75 percent, (iv) 100 percent, or (v) 200 percent.
- (5) By reducing odds or otherwise, the industry will pass on to its customers, at any of the four following rates, some part of the increase in gaming tax: (i) nothing, (ii) one-third, (iii) two-thirds, or (iv) all. (The customer reaction to these assumptions is dealt with in Chapter III.)

The volume of calculations required for these projections led to the use of an electronic computer. Details of its use, as well as some of the analytical data derived, are contained in Appendix C.

Throughout all projections, federal income taxes are assumed at 50 percent of pre-tax profits, and no account has been taken of the impact of any new taxes (such as State corporate income tax) or increases in present taxes (such as a higher sales tax) that the State might levy over the forecast period.

2. RESULTS OF THE ANALYSIS

It was the purpose of the analysis to forecast profits and to present them as ratios. Two bases were selected for ratio comparison:

- (1) Equity capital - the amount of stockholders' equity (capital stock, retained earnings and other capital accounts) or partners' capital, as the case may be, increased by the sum of advances by affiliated companies, officers and owners.
- (2) Gross investment - equity capital, as defined above, increased by long-term debt (that debt payable after one year of the balance sheet date).

These bases are briefly discussed below.

The equity investor typically measures earnings as a percentage of equity capital. This traditional approach is useful in determining the profit performance as a percentage of the investment of capital made by the owners and investors. It does not, of course, take into account long-term debt, and does not measure profitability on the basis of all funds invested in the enterprise. It rather focuses on the direct commitment of risk capital by the owners, partners or shareholders, as the case may be.

The gaming industry is unusually highly leveraged - that is to say, the investor's equity capital is relatively low in relation to capital raised by other means, such as loans and sale-and-leaseback financing. This leverage factor introduces a feature of sensitivity that can produce exceptionally high yields on capital when profits are good, contrasted with losses if profits fall below the level needed to pay interest, rent and other financing charges. We learned, for example, that some financing carries interest rates in excess of 10 percent a year.

To present a measurement of profitability which allows for the leverage factor, another yardstick is used, that of gross investment. Gross investment (often referred to by financial analysts in other and varied terminology) enables one to measure the basic or overall performance of a business in terms of the total funds provided by all long-term investors - rather than a single class.

(1) Equity capital approach

Equity capital and related profits were calculated as follows:

	<u>\$ thousands</u> All 52 <u>respondents</u>	<u>\$ thousands</u> 43 concerns <u>with profits</u>	Nine concerns <u>with losses</u>
Stockholders' and partners' equity	91,184	91,073	111
Affiliates', owners' and officers' advances (mainly the first)	<u>20,280</u>	<u>19,790</u>	<u>490</u>
Totals	<u>111,464</u>	<u>110,863</u>	<u>601</u>
Profits or (losses):			
Before income taxes	31,705	32,049	(344)
After income taxes (assumed at 50 percent)	15,852		

In total, profits after income taxes averaged 14.2 percent of capital.

We further analyzed the capital and earnings of the 52 respondents in contrast with those of the 33 respondents which had been in business for less than five years and whose data were rejected from the analysis because of insufficient historical trend information. After allowing for one exceptional condition, we noticed that the newer businesses were able to perform almost as well as the 52 with at least five years' experience, as shown in the analysis on the following page.

COMPARISON OF RESPONDENTS' PROFITABILITY

Range of after-tax profits as a percentage of capital	<u>Five or more years' experience</u>			<u>Less than five years' experience</u>		
	Number of concerns	Capital employed	Profits or (losses)	Number of concerns	Capital employed	Profits or (losses)
		<u>\$ thousands</u>			<u>\$ thousands</u>	
Over 50 percent	3	2,084	1,720	4	484	535
25 to 50 percent	9	9,751	3,579	6	3,842	1,510
12½ to 25 percent	17	37,107	6,083	5	888	179
5 to 12½ percent	7	51,617	4,408	2	2,335	173
Under 5 percent	4	10,594	167	1	35	1
Losses	<u>9</u>	<u>601</u>	<u>(344)</u>	<u>8</u>	<u>468</u>	<u>(1,161)</u>
	49	111,754	15,613	26	8,052	1,055
Negative capitals	<u>3</u>	<u>(290)</u>	<u>239</u>	<u>0</u>	<u>-</u>	<u>-</u>
	52	111,464	15,852	26	8,052	1,055
Special situation	0	-	-	1	5,510	(2,349)
Less than a year's history	<u>0</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>(ignored)</u>	
Totals	<u>52</u>	<u>111,464</u>	<u>15,852</u>	<u>33</u>	<u>13,562</u>	<u>(1,294)</u>
Percentage of capital:						
· excluding special situation			14.2 percent			13.1 percent
· including special situation						loss

The distortion caused by one large business that is experiencing unusual difficulties demanded that it be isolated to gain a representative picture of industry results.

As a basis for measuring industry-wide profits against capital and for projections into future years, we imputed capital as follows:

(i) The 52 selected concerns represented 75.28 percent of gross gaming revenues from the industry in the base year, and we assumed that their aggregate net capital of \$111.5 millions represented a comparable percentage. On this assumption, imputed capital for the industry was calculated at \$148.1 millions.

(ii) Assuming that future expansion would require a proportionate increase in capital, we calculated that capital would grow as follows:

Equivalent fiscal year	In millions of dollars	
	<u>Total gross revenues</u>	<u>Capital</u> ⁽¹⁾
1966	502.0	148.1
1968	606.0	178.8
1971	793.0	233.9
1976	1,201.0	354.3

It may be argued by some that the capital amounts here imputed are low and that they do not reflect the full value of assets invested in the gaming industry. They do not reflect all the assets employed in the industry. But they do represent a measure of the equity capital. It is on this base that the typical investor measures earnings. What we have done is to convey a representation of the facts as they exist. It shows an industry that is heavily financed by others, with a relatively low equity investment by owners.

(1) Capital calculated by multiplying 148.1 by gross revenues for the year concerned and dividing by 502.0.

On the following pages we portray the profit projections for the four years. Each is shown according to the varying influences of the different assumptions - expense levels, gaming tax increases, and recoupment of extra gaming tax from customers. There is a tabulation for each year, with the assumptions specified, with money amounts expressed in units of a million dollars, carried to one decimal place, and (in the case of 1966 only) percentages.

PROJECTED PROFITS OF THE NEVADA GAMING INDUSTRY

"EQUITY CAPITAL" APPROACH

EQUIVALENTS OF YEARS TO JUNE 30, 1966 & 1968

<u>1966</u>	In millions of dollars:	<u>1968</u>
502.0	Total gross revenues	606.0
328.8	Gross revenues from gaming	391.0
	Operating expenses:	
	"Gold level"	495.1
415.2	"Green level"	504.2
	"Blue level"	509.0
457.3	Gross profit	552.7
148.1	Equity capital	178.8

After-tax ⁽¹⁾ profit (\$ millions)	Return on capital (percentage)	Assumed extra gaming tax (percentage)	Assumed amount passed on (percentage)	After-tax profits ⁽¹⁾ (\$ millions)			
				"Gold level"	"Green level"	"Blue level"	
21.1	14.2	0	*	0	28.8	24.3	21.9
19.1	12.9	25		0	26.5	21.9	19.5
19.8	13.4	25		33 1/3	27.3	22.7	20.3
20.4	13.8	25		66 2/3	28.0	23.5	21.1
17.1	11.5	50		0	24.1	19.6	17.2
18.4	12.4	50		33 1/3	25.7	21.1	18.7
19.8	13.4	50		66 2/3	27.3	22.7	20.3
15.2	10.3	75		0	21.8	17.2	14.8
17.1	11.5	75		33 1/3	24.1	19.6	17.2
19.1	12.9	75		66 2/3	26.5	21.9	19.5
13.2	8.9	100		0	19.4	14.9	12.5
15.8	10.7	100		33 1/3	22.6	18.0	15.6
18.4	12.4	100		66 2/3	25.7	21.1	18.7
5.3	3.6	200		0	10.1	5.5	3.1
10.5	7.1	200		33 1/3	16.3	11.8	9.4
15.8	10.7	200		66 2/3	22.6	18.0	15.6
21.1	14.2			Highest profit	28.8	24.3	21.9
5.3	3.6			Lowest profit	10.1	5.5	3.1

* Where 100 percent of the extra tax is passed on, the effect is the same as no extra tax.

(1) Income tax assumed at 50 percent.

PROJECTED PROFITS OF THE NEVADA GAMING INDUSTRY

"EQUITY CAPITAL" APPROACH

EQUIVALENTS OF YEARS TO JUNE 30, 1971 & 1976

<u>1971</u>	In millions of dollars:	<u>1976</u>
793.0	Total gross revenues	1,201.0
500.0	Gross revenues from gaming	727.0
	Operating expenses:	
647.9	"Gold level"	981.2
659.8	"Green level"	999.2
674.1	"Blue level"	1,037.7
723.2	Gross profit	1,095.3
233.9	Equity capital	354.3

<u>After-tax profits(1)</u> <u>(\$ millions)</u>			Assumed extra gaming tax (percentage)	Assumed amount passed on (percentage)	<u>After-tax profits(1)</u> <u>(\$ millions)</u>			
<u>"Gold level"</u>	<u>"Green level"</u>	<u>"Blue level"</u>			<u>"Gold level"</u>	<u>"Green level"</u>	<u>"Blue level"</u>	
37.7	31.7	24.6	0	*	0	57.1	48.1	28.8
34.7	28.7	21.6	25		0	52.7	43.7	24.5
35.7	29.7	22.6	25		33 1/3	54.2	45.2	25.9
36.7	30.7	23.6	25		66 2/3	55.6	46.6	27.4
31.7	25.7	18.6	50		0	48.3	39.3	20.1
33.7	27.7	20.6	50		33 1/3	51.2	42.2	23.0
35.7	29.7	22.6	50		66 2/3	54.2	45.2	25.9
28.7	22.7	15.6	75		0	44.0	35.0	15.7
31.7	25.7	18.6	75		33 1/3	48.3	39.3	20.1
34.7	28.7	21.6	75		66 2/3	52.7	43.7	24.5
25.7	19.7	12.6	100		0	39.6	30.6	11.4
29.7	23.7	16.6	100		33 1/3	45.4	36.4	17.2
33.7	27.7	20.6	100		66 2/3	51.2	42.2	23.0
13.7	7.7	0.6	200		0	22.2	13.2	(12.2)
21.7	15.7	8.6	200		33 1/3	33.8	24.8	5.6
29.7	23.7	16.6	200		66 2/3	45.4	36.4	17.2
37.7	31.7	24.6			Highest profit	57.1	48.1	28.8
13.7	7.7	0.6			Lowest profit	22.2	13.2	(12.2)

* Where 100 percent of the extra tax is passed on, the effect is the same as no extra tax.

(1) Income tax assumed at 50 percent.

(2) Gross investment approach

Converting the foregoing data to an approach based on gross investment for the selected 52 concerns, we arrive at the following for the equivalent of the year 1966:

	<u>In thousands of dollars</u>
Capital as calculated above	111,464
Long-term debt	<u>50,514</u>
Gross investment	<u>161,978</u>
Profits as shown above	31,705
Add back: Interest on long-term debt	<u>3,606</u>
Adjusted profits:	
Before income taxes	35,311
After income taxes (assumed at 50 percent)	17,655

In total, profits after taxes on this basis averaged 10.9 percent of gross investment.

Similarly, after imputing the gross investment for the entire industry to be \$215.2 millions, ⁽¹⁾ we may project gross investment for future years as follows:

<u>Equivalent fiscal year</u>	<u>In millions of dollars</u>	
	<u>Total gross revenues</u>	<u>Gross investment</u> ⁽²⁾
1966	502.0	215.2
1968	606.0	259.8
1971	793.0	340.0
1976	1,201.0	514.9

Based on these data, we may make extrapolations of profits and related ratios as shown in the following pages:

(1) \$161.978 millions divided by 0.7528 (as for the equity capital approach).

(2) Gross investment calculated by multiplying 215.2 by gross revenues for the year concerned, and dividing by 502.0.

PROJECTED PROFITS OF THE NEVADA GAMING INDUSTRY

"GROSS INVESTMENT" APPROACH

EQUIVALENTS OF YEARS TO JUNE 30, 1966 & 1968

<u>1966</u>	In millions of dollars:	<u>1968</u>
502.0	Total gross revenues	606.0
328.8	Gross revenues from gaming	391.0
	Operating expenses:	
	"Gold level"	495.1
415.2	"Green level"	504.2
	"Blue level"	509.0
457.3	Gross profit	552.7
2.4	Interest factor ⁽¹⁾	2.9
215.2	Gross investment	259.8

<u>After-tax⁽²⁾</u> <u>profit</u> <u>(\$ millions)</u>	<u>Return on</u> <u>gross</u> <u>investment</u> <u>(percentage)</u>	<u>Assumed</u> <u>extra</u> <u>gaming tax</u> <u>(percentage)</u>	<u>Assumed</u> <u>amount</u> <u>passed on</u> <u>(percentage)</u>	<u>After-tax profits⁽²⁾</u> <u>(\$ millions)</u>			
				<u>"Gold</u> <u>level"</u>	<u>"Green</u> <u>level"</u>	<u>"Blue</u> <u>level"</u>	
23.5	10.9	0	*	0	31.7	27.2	24.8
21.5	10.0	25		0	29.4	24.8	22.4
22.2	10.3	25		33 1/3	30.2	25.6	23.2
22.8	10.6	25		66 2/3	30.9	26.4	24.0
19.5	9.1	50		0	27.0	22.5	20.1
20.8	9.7	50		33 1/3	28.6	24.0	21.6
22.2	10.3	50		66 2/3	30.2	25.6	23.2
17.6	8.2	75		0	24.7	20.1	17.7
19.5	9.1	75		33 1/3	27.0	22.5	20.1
21.5	10.0	75		66 2/3	29.4	24.8	22.4
15.6	7.2	100		0	22.3	17.8	15.4
18.2	8.5	100		33 1/3	25.5	20.9	18.5
20.8	9.7	100		66 2/3	28.6	24.0	21.6
7.7	3.6	200		0	13.0	8.4	6.0
12.9	6.0	200		33 1/3	19.2	14.7	12.3
18.2	8.5	200		66 2/3	25.5	20.9	18.5
23.5	10.9			Highest profit	31.7	27.2	24.8
7.7	3.6			Lowest profit	13.0	8.4	6.0

*Where 100 percent of the extra tax is passed on, the effect is the same as no extra tax.

(1) It is assumed that long-term debt will increase proportionately with equity capital over the forecast period and that the effective rate of interest will remain unchanged. The "interest factor" indicated above is the amount added back to profits after interest expense and income taxes to provide for the equivalent of interest after income tax at 50 percent.

(2) Income taxes assumed at 50 percent.

PROJECTED PROFITS OF THE NEVADA GAMING INDUSTRY

"GROSS INVESTMENT" APPROACH

EQUIVALENTS OF YEARS TO JUNE 30, 1971 & 1976

<u>1971</u>	In millions of dollars:	<u>1976</u>
793.0	Total gross revenues	1,201.0
500.0	Gross revenues from gaming	727.0
	Operating expenses:	
647.9	"Gold level"	981.2
659.8	"Green level"	999.2
674.1	"Blue level"	1,037.7
723.2	Gross profit	1,095.3
3.8	Interest factor ⁽¹⁾	5.7
340.0	Gross investment	514.9

<u>After-tax profits⁽²⁾</u> (\$ millions)			Assumed extra gaming tax (percentage)	Assumed amount passed on (percentage)	<u>After-tax profits⁽²⁾</u> (\$ millions)			
<u>"Gold level"</u>	<u>"Green level"</u>	<u>"Blue level"</u>			<u>"Gold level"</u>	<u>"Green level"</u>	<u>"Blue level"</u>	
41.5	35.5	28.4	0	*	0	62.8	53.8	34.5
38.5	32.5	25.4	25		0	58.4	49.4	30.2
39.5	33.5	26.4	25		33 1/3	59.9	50.9	31.6
40.5	34.5	27.4	25		66 2/3	61.3	52.3	33.1
35.5	29.5	22.4	50		0	54.0	45.0	25.8
37.5	31.5	24.4	50		33 1/3	56.9	47.9	28.7
39.5	33.5	26.4	50		66 2/3	59.9	50.9	31.6
32.5	26.5	19.4	75		0	49.7	40.7	21.4
35.5	29.5	22.4	75		33 1/3	54.0	45.0	25.8
38.5	32.5	25.4	75		66 2/3	58.4	49.4	30.2
29.5	23.5	16.4	100		0	45.3	36.3	17.1
33.5	27.5	20.4	100		33 1/3	51.1	42.1	22.9
37.5	31.5	24.4	100		66 2/3	56.9	47.9	28.7
17.5	11.5	4.4	200		0	27.9	18.9	(6.5)
25.5	19.5	12.4	200		33 1/3	39.5	30.5	11.3
33.5	27.5	20.4	200		66 2/3	51.1	42.1	22.9
41.5	35.5	28.4			Highest profit	62.8	53.8	34.5
17.5	11.5	4.4			Lowest profit	27.9	18.9	(6.5)

* Where 100 percent of the extra tax is passed on,
the effect is the same as no extra tax.

(1) It is assumed that long-term debt will increase proportionately with equity capital over the forecast period and that the effective rate of interest will remain unchanged. The "interest factor" indicated above is the amount added back to profits after interest expense and income taxes to provide for the equivalent of interest after income tax at 50 percent.

(2) Income tax assumed at 50 percent.

3. CONCLUSIONS

Three questions need to be answered in studying the profit projections:

- (1) What would be the impact of increasing gaming taxes by 200 percent - the approximate effect of the initiative petition in circulation during our study?
- (2) How do the industry's profits compare with those of other industries?
- (3) Can the gaming industry bear an increase of any amount in the gaming tax?

We must reiterate that, throughout this discussion, we have disregarded the effect of any increases in taxes other than on gaming - such as a corporate income tax, a higher sales tax, etc. These would reduce the profits derived from the projections.

- (1) An increase of 200 percent in gaming taxes would make serious inroads into gaming industry profits

Data taken from the projections reveal the following effect of a 200 percent tax increase:

EFFECT OF INCREASE OF GAMING TAXES BY 200 PERCENT

"EQUITY CAPITAL" APPROACH

Equivalent fiscal year		Profits after income taxes in millions of dollars (with <u>percentages in parentheses</u>)			
		<u>1966</u>	<u>1968</u>	<u>1971</u>	<u>1976</u>
Projected profits assuming present gaming tax rates prevail:					
(i)	if expenses fall to the 1965 level ("gold")				
	Amounts	28.8	37.7	57.1	
	Percentages	(16)	(16)	(16)	
(ii)	if they hold at a level proportionate to that of 1966 ("green")				
	Amounts	21.1	24.3	31.7	48.1
	Percentages	(14)	(14)	(14)	(14)
(iii)	if they rise proportionately year after year ("blue")				
	Amounts	21.9	24.6	28.8	
	Percentages	(12)	(11)	(8)	
Projected profits assuming a 200 percent increase in gaming tax:					
(i)	with expenses at "gold level"				
	Amounts	10.1	13.7	22.2	
	Percentages	(6)	(6)	(6)	
(ii)	with expenses at "green level"				
	Amounts	5.3	5.5	7.7	13.2
	Percentages	(4)	(3)	(3)	(4)
(iii)	with expenses at "blue level"				
	Amounts	3.1	0.6	(12.2)*	
	Percentages	(2)	(0.3)	*	

* Loss

The foregoing assumes no recoupment of any part of the gaming tax increase.

(See the earlier tabulations to evaluate the effect of recoupment.)

On the next page we present the same table, calculating the return on the basis of gross investment.

EFFECT OF INCREASE OF GAMING TAXES BY 200 PERCENT

"GROSS INVESTMENT" APPROACH

Equivalent fiscal year		Profits after income taxes in millions of dollars (with percentages in parentheses)			
		<u>1966</u>	<u>1968</u>	<u>1971</u>	<u>1976</u>
Projected profits assuming present gaming tax rates prevail:					
(i)	if expenses fall to the 1965 level ("gold")				
	Amounts	31.7	41.5	62.8	
	Percentages	(12)	(12)	(12)	
(ii)	if they hold at a level proportionate to that of 1966 ("green")				
	Amounts	23.5	27.2	35.5	53.8
	- Percentages	(11)	(10)	(10)	(10)
(iii)	if they rise proportionately year after year ("blue")				
	Amounts	24.8	28.4	34.5	
	Percentages	(10)	(8)	(7)	
Projected profits assuming a 200 percent increase in gaming tax:					
(i)	with expenses at "gold level"				
	Amounts	13.0	17.5	27.9	
	Percentages	(5)	(5)	(5)	
(ii)	with expenses at "green level"				
	Amounts	7.7	8.4	11.5	18.9
	Percentages	(4)	(3)	(3)	(4)
(iii)	with expenses at "blue level"				
	Amounts	6.0	4.4	(6.5)*	
	Percentages	(2)	(1)	*	

* Loss

The foregoing assumes no recoupment of any part of the gaming tax increase.

(See the earlier tabulations to evaluate the effect of recoupment.)

The risks inherent in the gaming industry, and the increased sensitivity of earnings caused by high leverage, lead an investor to seek a high return. The indicated profits following a 200 percent increase in gaming taxes show a most unattractive return.

The more profitable enterprises should be able to continue with satisfactory profits. However, the marginal and unprofitable concerns - and their total impact is significant - would experience severe difficulties. Many would be compelled to go out of business. Some of their customers would undoubtedly take their business to other licensees, but other customers could be lost to the State. New venture capital, and new outside capital by way of loans and other outside financing, would be hard to get in view of such a marked deterioration in the industry outlook.

Gaming is a controversial industry. It may conceivably be long-range policy to bring about its attrition, but it is not the purpose of this report to consider the merits of so doing. Nonetheless, we can conclude, very safely, that an increase of 200 percent in gaming taxes would lead to such a result.

(2) The industry continues to offer attractions for investment

Like other industries, gaming is composed of both profitable and unprofitable concerns. Of the 85 respondents, accounting for over 90 percent of the volume of the industry:

22 were earning over 25 percent after income tax on invested capital

22 were earning from $12\frac{1}{2}$ to 25 percent

14 were earning less than $12\frac{1}{2}$ percent

18 were losing money

9 were not classified for various reasons.

The better-managed and more successful establishment offers an attractive opportunity to risk venture capital.

The industry is characterized, on the other hand, by many licensees that fail to prosper, and either close or sell out. The high proportion of concerns studied (33 out of 85) that were either new or that had been in business under the same management for less than five years bears evidence of this turnover.

It is of interest to match the profitability of comparable industries with results of the gaming industry. The two cited below, each representing group results, are worthy of note as benchmarks:

- . All private horseracing associations in California earned 7.6 percent on "total investment" after income taxes during 1964. ⁽¹⁾ The concept of "total investment" is roughly similar to gross investment on which the gaming industry earned 10.9 percent after income taxes in fiscal 1966.
- . During 1965, 400 representative hotels in the United States earned 2.3 percent after income taxes on estimated equity in 1965, ⁽²⁾ comparable with the gaming industry's 14.2 percent after taxes in fiscal 1966.

As an example of alternative investment possibilities, the 500 largest industrial corporations in the United States averaged 11.8 percent on capital after income tax in 1965, ⁽³⁾ in comparison with the gaming industry's 14.2 percent for the fiscal year 1966.

(1) CALIFORNIA HORSE RACING INDUSTRY - AN ECONOMIC ANALYSIS, Stanford Research Institute, 1966, page 48.

(2) TRENDS IN THE HOTEL/MOTEL BUSINESS IN 1965, Harris, Kerr, Forster & Company, 1966, page 17. Income taxes assumed to be 50 percent of pre-tax earnings.

(3) FORTUNE, July 15, 1966, page 249.

We may infer from the foregoing that, on a group basis, the gaming industry in Nevada experienced:

- . Slightly better results than the horseracing industry in California,
- . Substantially better results than the hotel industry nationwide,
- . 25 percent better results than the 500 largest U.S. industrial corporations, which, generally speaking, offer a materially lower risk than the gaming industry.

(3) The industry is capable of accepting an additional tax burden

The projections here discussed should be considered in the light of five cautions - the first two applicable to any industry projection:

- (i) Industry projections represent the data of a conglomerate of both profitable and unprofitable, well-managed and ill-managed, large and small, concerns. The results of an individual business rarely match the picture of the industry as a whole.
- (ii) Extrapolation of data into future years compels the use of assumptions, based largely on judgment. Future events may disprove the validity of some of these assumptions. As stated elsewhere in this report, the projections should be understood as such. They are not predictions.
- (iii) The gaming industry does not use any uniform method of reporting its financial results. To derive a profile of the industry's earnings, one has to adjust and reclassify reported data to put them onto a standard footing. (See Part IV of this report, in which the need for uniform reporting methods is stressed.)

- (iv) The high rate of turnover in the industry, commented on above, leaves some individual concerns with too brief a history of past performance to be valid for evaluating trends. However, as a whole, historical data are adequate for this purpose.
- (v) The financial and organizational structure of the industry is unusual. Individual economic units often consist of groups of separate legal entities with related - and sometimes unrelated - ownerships.

These factors combine to make long-range projections somewhat precarious, and they should be interpreted with this fact in mind.

Avoiding those assumptions that produce extremes in the projections, we now submit six benchmarks for evaluation:

- . "Green level" of operating expenses (equivalent of 1966) and gaming tax increase of -
 - A 25 percent
 - B 50 percent
 - C 75 percent
- . "Blue level" of operating expenses (proportionately higher each year) and gaming tax increase of -
 - D 25 percent
 - E 50 percent
 - F 75 percent

No provision is made for recapture of any of the tax increase, as this is inherent in the rate. (For example, a 75 percent increase is equivalent to a 100 percent increase with a 25 percent recapture.)

Projections of profits under these assumptions follow on the next two pages.

EFFECT OF THREE ALTERNATIVE GAMING TAX INCREASES

"EQUITY CAPITAL" APPROACH

<u>Projection</u>	<u>Expense level</u>	<u>Percentage tax increase</u>	Equivalent fiscal year	<u>Profits after income taxes in millions of dollars (with percentages in parentheses)</u>		
				<u>1968</u>	<u>1971</u>	<u>1976</u>
A	"Green"	25	Amounts	21.9	28.7	43.7
			Percentages	(12)	(12)	(12)
B	"Green"	50	Amounts	19.6	25.7	39.3
			Percentages	(11)	(11)	(11)
C	"Green"	75	Amounts	17.2	22.7	35.0
			Percentages	(10)	(10)	(10)
D	"Blue"	25	Amounts	19.5	21.6	24.5
			Percentages	(11)	(9)	(7)
E	"Blue"	50	Amounts	17.2	18.6	20.1
			Percentages	(10)	(8)	(6)
F	"Blue"	75	Amounts	14.8	15.6	15.7
			Percentages	(8)	(7)	(4)

The percentages of profits after income taxes compare with 14.2 percent for the equivalent of fiscal year 1966.

The same table is presented on the next page, using the gross investment approach.

EFFECT OF THREE ALTERNATIVE GAMING TAX INCREASES

"GROSS INVESTMENT" APPROACH

<u>Projection</u>	<u>Expense level</u>	<u>Percentage tax increase</u>		<u>Profits after income taxes in millions of dollars (with percentages in parentheses)</u>		
				<u>1968</u>	<u>1971</u>	<u>1976</u>
			Equivalent fiscal year			
A	"Green"	25	Amounts	24.8	32.5	49.4
			Percentages	(10)	(10)	(10)
B	"Green"	50	Amounts	22.5	29.5	45.0
			Percentages	(9)	(9)	(9)
C	"Green"	75	Amounts	20.1	26.5	40.7
			Percentages	(8)	(8)	(8)
D	"Blue"	25	Amounts	22.4	25.4	30.2
			Percentages	(9)	(7)	(6)
E	"Blue"	50	Amounts	20.1	22.4	25.8
			Percentages	(8)	(7)	(5)
F	"Blue"	75	Amounts	17.7	19.4	21.4
			Percentages	(7)	(6)	(4)

Profits after income taxes as a percentage of gross investment were 10.9 percent for the equivalent of fiscal year 1966.

These benchmark projections would appear to cover a reasonable representation of the most likely profitability of the industry at the tax levels studied. They indicate that an increase in gaming tax rates by as much as 75 percent could be absorbed by the industry provided that (1) it is able to keep its operating expenses under reasonably tight control and (2) it is able to pass some part of the increase on to its customers.

If expenses are kept at the "green level" (comparable with 1966), the increased base provided by rises in gross revenues would allow for substantially higher expenses - from \$415 millions in 1966, to \$504 millions in 1968, to \$660 millions in 1971, and to \$999 millions in 1976. With effective management, this "green level" should be attainable.

As to recoupment by additional charges to customers, we believe that economic circumstances will compel the industry to pass on to its customers some part of any tax increase, in some form or another.

In conclusion, we would warn against an abrupt and substantial increase in the gaming tax rates. This might have dangerous consequences because the industry will inevitably need some time to gear to the heavier cost of operation. The two obvious countermeasures would be reduction of other operating expenses or services, and increase of prices (including reduction of odds) to customers.

A sharp and sudden increase would be likely to cause too heavy an adverse profit impact. Lenders, such as banks and pension funds, might feel constrained to call their loans or refrain from making new ones in the face of a less favorable profit outlook. Equity capital to replace loaned capital might likewise be harder to find. As a consequence, the industry

might be faced with a crisis even though the tax increase, over the longer run, were reasonable.

A program of smaller tax increases in stages would be preferable to a substantial one-time increase. This would permit the process of adjustment to be pursued in an orderly manner.

* * *

An analysis of the type here made would have been immeasurably easier had there been a regular and organized collection of reliable data, in standard form, from nonrestricted licensees. No such procedure now exists. In its absence, the industry is ill-equipped to make a rational defense against demands for excessive taxation. This weakness, as well as other conditions calling for better administration and collective action by the industry and the State, is dealt with in Part IV of this report, in which a program is offered for improved management and control.

If excessive taxation were to bring about a serious retrenchment in gaming, the question arises as to the effect on the economy of Nevada. Information suitable for making a complete evaluation of the repercussions was not available. Instead, salient facts and figures are extracted from a letter written by the Governor of Nevada October 20, 1965 and mentioned in Chapter I.

According to that letter, a 200 percent increase in gaming taxes would have put 43 licensees, accounting for 57 percent of the industry's gross revenues, into a loss position. Were these 43 licensees to go out of business:

- . There would be 17,000 fewer jobs in the gaming industry involving annual pay of \$82 millions.
- . There would be \$231 millions less to spend with businesses in Nevada which supply the industry.

- . The total losses of jobs in the State were conservatively estimated at over 47,000, with an adverse effect on over 142,000 people, nearly a-third of the State's population at that time.

The Governor's letter also pointed to the severe decline in tax revenues that such a situation would cause, as well as the disastrous effect on the State's economy.

Our study of gaming profitability did not penetrate as deeply as this into the precise economic consequences of a sharp decline in profits. However, we reviewed the data on which the Governor's letter was based, and our study did support the close relationship between the wellbeing of the industry and that of the State. If the industry's fortunes show a material decline, the State as a whole would undoubtedly suffer.

CORRELATION BETWEEN CALIFORNIA PERSONAL
INCOME AND GROSS GAMING REVENUES IN NEVADA
AND RELATED EFFECTS ON EXTRAPOLATION

In Chapter III reference was made to the procedures we followed in establishing a correlation between California personal income and gross gaming revenues in Nevada (which terms are respectively abbreviated in this appendix as CPI and GGRN). It is now our purpose to explain the techniques used in identifying this correlation.

The first procedure followed was to test four economic indicators in relation to GGRN and find whether there was a statistical relationship involving any one or more of them. The indicators used were:

- . California personal income
- . California disposable income
- . California personal spending
- . California retail sales.

As the foregoing indicators are derived on the basis of a calendar year and GGRN is reported for fiscal years, it was first necessary to develop, from quarterly reports of the Nevada Gaming Commission, GGRN data for calendar years. Each set of figures was developed for the most recent period of twenty years. The economic indicators were provided by a major western bank, based on data used in its published reports, as mentioned in Chapter III.

The basic data were then processed through a computer in Palo Alto, California, using a multiple regression program developed by the computer center for analyses of this type, which are not uncommon. The multiple regression program produces and tests a series of simultaneous equations, leading to the derivation of coefficients and other constants needed to establish a reliable mathematical relationship. The program tests the reliability of the formula by calculating deviations - the differences

between the amounts produced by applying the formula and the amounts that actually did occur historically.

A formula was derived and applied over the full twenty years under examination. Because of abnormalities in the years immediately succeeding World War II it was not entirely satisfactory. A new formula was derived on the basis of examining the latest eleven of the twenty years. Expressed in millions of dollars to three significant figures, it showed the following comparisons:

<u>Calendar year</u>	<u>Experienced GGRN</u>	<u>GGRN calculated by use of formula</u>	<u>Deviation (irrelevant whether positive or negative)</u>
1955	105	102	2.46
1956	120	124	4.25
1957	139	140	1.59
1958	148	152	4.60
1959	183	179	3.85
1960	200	195	5.41
1961	216	213	2.78
1962	233	237	3.71
1963	261	260	0.84
1964	290	287	3.40
1965	311	316	4.60

Concurrently, we tested the deviation to appraise the reliability of the formula. For this purpose, use was made of the "Durbin-Watson Statistic". This is a measure of the normalcy of deviations in terms of their closeness to an ideal random situation. For practical purposes, a value of 2.5 to 3.0 is considered as high as can be expected; values of about 2.0 are considered very good, and reliable for most uses; values of less than 1.5 are considered unsatisfactory.

In experimenting with the four economic indicators previously mentioned, it was found that CPI produced the most reliable results. The comparisons summarized below show the improvement in reliability of a

formula based on the experience of the most recent eleven years over that based on the full twenty years. (The formula used for the full twenty years was different from that used for the eleven-year period.)

	<u>Last eleven years</u>	<u>Full twenty years</u>
Average annual deviation (computed by totaling each annual deviation, regardless of whether plus or minus, and dividing the sum by the number of years examined) In millions of dollars	3.41	5.09
Durbin-Watson Statistic (expressed as a value to three significant figures)	1.88	1.20

A major reason for the increased reliability of the formula over the shorter period was that the experience for the first nine years was heavily influenced by changes in economic conditions following World War II.

It should be noted that the Durbin-Watson Statistic for the last eleven years shows a satisfactory value; it also showed that the average plus-or-minus deviation over the eleven-year period was just under 2 percent.

The formula used for the most recent projection was:

$$\text{GGRN} = 0.007136764 \text{ CPI} - \$113,444,750.$$

The next procedural step was to apply the formula in projecting future GGRN. To start this, we were provided by a major western bank with projections of CPI for the fiscal years 1968, 1971 and 1976. The results produced were as follows:

<u>Fiscal year</u>	<u>CPI \$ billions</u>	<u>Derived GGRN \$ millions</u>
1968	70.7	391
1971	85.9	500
1976	117.7	727

An additional extrapolation required was that of State gaming taxes for the same three fiscal years, based on the assumption that there would be no changes in the rates of such taxes.

Historically, the State's quarterly license fees, based on a sliding scale (see Chapter II), produced a return of from 4.6 to 5.3 percent of GGRN quarterly, but consistently about 4.8 percent when figured annually. We selected the 4.8 percent rate for projecting future tax revenues, but to this had to be added the other gaming taxes raised by the State and discussed in Chapter II, namely:

- . annual license fees
- . investigation and application fees
- . penalties for late payment
- . horseracing and pari-mutuel taxes.

These latter - and materially less significant taxes - have shown a slower rate of increase from year to year. They rose from \$667,000 in the fiscal year 1955 to \$1,037,000 in the fiscal year 1966 - an annual rate of increase of 5.0 percent un compounded. For projection purposes, we have assumed a continuation of this rate of increase.

Based on the foregoing, we have projected State revenues from gaming taxes as follows, expressed in million of dollars:

Fiscal year	<u>1968</u>	<u>1971</u>	<u>1976</u>
GGRN as previously calculated	391	500	727
Quarterly license fees at present rates, based on 4.8 percent of GGRN (unrounded)	18.77	23.98	34.87
All other gaming taxes (excluding casino entertainment tax), calculated on the basis of a 5.0 percent annual un-compounded increase over fiscal 1955 collections of \$667,000	<u>1.10</u>	<u>1.20</u>	<u>1.37</u>
Totals projected	<u>19.87</u>	<u>25.18</u>	<u>36.24</u>

The amounts derived above are further considered in Part II of the report.

The casino entertainment tax has been excluded from the foregoing calculations on the grounds that (1) its repeal is currently under consideration and (2) by its very nature, it can conveniently be projected separately as a special tax rather than a tax on gaming.

Independently of our calculations, the Fiscal Analyst's office of the Legislative Counsel Bureau made projections of gaming taxes (also exclusive of the casino entertainment tax) for the same three fiscal years. Three levels were projected for each year: (1) a maximum expected revenue, (2) a most realistic estimate and (3) a minimum expected revenue. Comparisons of these are shown below, in millions of dollars:

Fiscal year	<u>1968</u>	<u>1971</u>	<u>1976</u>
Maximum estimate	21.7	38.5	71.3
Realistic estimate	19.8	27.9	46.5
Minimum estimate	18.0	23.1	29.5
Projections developed from formula	19.9	25.2	36.2

Recognizing the different assumptions used and the dampening effect of using the formula as contrasted with using a constant rate that gives no effect to saturation of demand, we are satisfied that the relationship between these two sets of estimates is acceptable.

EXTRAPOLATION OF OPERATING EXPENSES OF THE GAMING INDUSTRY

The future level of costs will depend largely on two factors: natural price and rate increases, and management's ability to counteract this influence through greater efficiency.

Past performance is a necessary guide for the future. We therefore compiled data for the most recent five years, which are referred to as follows in view of the different accounting periods adopted by licensees:

Y - that year ended on June 30, 1966, or on the most recent yearend before that date;

Y-1 - the previous twelve-month period;

Y-2, Y-3 and Y-4 - the earlier twelve-month periods extending to a five-year span.

We began the analysis by processing by computer the data in 85 selected questionnaires. Print-outs produced ratios for each type of expense for each respondent and provided calculated deviation percentages. In addition, group data were printed out according to five selected geographical groups and ten size-and-type groups.

The initial analysis identified a need for further screening. In particular, some larger casinos started business in year Y, and their heavy start-up costs and less-than-typical volume of gaming and other revenues gave rise to material distortions. Furthermore, the effect of including the data for any licensee without a five-year history proved to be a misleading influence. As a result, we rejected 33 licensees with less than five years' history.

The remaining 52 licensees subjected to analysis still accounted for more than 75 percent of the total gross revenues from gaming and represented a satisfactorily representative sample.

Computer runs were then made for the remaining respondent licensees. The data thus produced had to be subjected to an additional change. To give a more realistic picture of operating results, we identified all cases for the year Y in which there were sale-and-leaseback transactions affecting property. For all such cases the following arbitrary adjustments were made:

- (1) Imputed book values (before depreciation) were determined by valuing the properties at ten times the rental equivalent.
- (2) Rent was statistically eliminated and a 5 percent depreciation equivalent was substituted.

Following these adjustments, the data were ready for interpretation as a basis for projection. The following tabulation shows the data as then adjusted, with amounts expressed in millions of dollars and relationships in percentage form.

	Years prior to year Y, all before adjustment				Year Y	
	<u>Y-4</u>	<u>Y-3</u>	<u>Y-2</u>	<u>Y-1</u>	Before adjustment	As adjusted
<u>In millions of dollars</u>						
Gross revenue:						
all sources	251.4	302.5	336.5	360.7	378.0	378.0
gaming only	169.3	201.5	222.2	239.0	247.5	247.5
Gross profit	229.5	275.4	307.2	330.1	344.5	344.5
Operating expenses	205.3	247.0	274.7	297.8	321.0	312.8
Profit before income tax	24.3*	28.3*	32.5	32.3	23.5	31.7
<u>As percentages of gross revenue from all sources</u>						
Gross revenue:						
gaming only	67.4	66.6	66.1	66.3	65.5	65.5
Gross profit	91.3	91.0	91.3	91.5	91.1	91.1
Operating expenses	81.7	81.7	81.6	82.5	84.9	82.7
Profit before income tax	9.7*	9.4*	9.7	9.0	6.2	8.4

*Approximations to the first place of decimals result in apparent differences in totals.

It will be seen that, despite a trend for revenues other than gaming to increase at a rate faster than gaming, the gross profit percentage barely declined. The conditions giving rise to this, which were supported by information gathered

during field interviews, were that:

- . Some increase in prices for beverages and meals has occurred, and
- . Some costs associated with a relatively higher proportion of other services in relation to gaming are classified as "operating expenses".

The industry has had to do more, year by year, to attract and keep customers through activities other than gaming. This has been a significant feature in the rising cost trend.

The mix between gaming and other sources of revenue has some significance in making projections, as also has the trend of the gross profit percentage. Based on historical data and on information derived during field interviews, we made the following assumptions for projecting into future years:

- (1) That the gross profit percentage would remain level over the forecast period at 91.2 percent of gross revenue from all sources;
- (2) That gross revenue from sources other than gaming would continue to increase proportionately on the basis projected below:

<u>Year</u>	<u>Percentage of gaming to all revenues</u>	<u>Annual decline*</u>	<u>Cumulative decline*</u>	<u>Average decline*</u>
Y-4	67.4			
Y-3	66.6	0.8	0.8	0.8
Y-2	66.1	0.5	1.3	0.6
Y-1	66.3	(0.2)	1.1	0.4
Y	65.5	0.8	1.9	0.5
Y+2	64.5	0.5 (2 years)	2.9	0.5
Y+5	63.0	0.5 (3 years)	4.4	0.5
Y+10	60.5	0.5 (5 years)	6.9	0.5

*Expressed in percentage points, uncompounded, based on Y-4.

The assumptions here made are fundamental to the calculations for all future years and, when applied, produce the extrapolations on the next page:

	<u>Y</u>	<u>Y+2</u>	<u>Y+5</u>	<u>Y+10</u>
<u>In millions of dollars</u>				
Gaming revenues - projected as explained in Appendix A	329	391	500	727
Total revenues	502	606	793	1,201
Gross profit	457	553	723	1,095
<u>As percentages of gross revenue from all sources</u>				
Gaming revenues	65.5	64.5	63.0	60.5
Gross profit	91.1	91.2	91.2	91.2

Our next step was to project operating expenses. For this purpose we recognized the possibility of widely variant trends developing, and selected three different bases for extrapolation:

Base 1, referred to as the "gold level", assumes that the experience of years Y-4, Y-3, Y-2 and Y-1 can be regained; that management action will be successful in offsetting higher prices; and that the industry will be more likely to maintain a satisfactory percentage of expenses to total revenues because of the higher base provided by increasing revenues.

Base 2, referred to as the "green level", assumes that the industry will maintain a level nearly approximating that of year Y; that expenses will increase, but at a rate commensurate with increases in gross income.

Base 3, referred to as the "blue level", assumes that operating expenses will increase at a rate faster than increases in gross income because of management's inability to counteract rising costs.

By applying the rates assumed for operating expenses, costs were extrapolated as follows:

<u>Year (and amount of total revenue in millions of dollars)</u>	<u>Operating expenses in millions of dollars (and percentage of total revenues)</u>		
	<u>"Gold level"</u>	<u>"Green level"</u>	<u>"Blue level"</u>
Y (502)	-	415.2 (82.7)	-
Y+2 (606)	495.1 (81.7)	504.2 (83.2)	509.0 (84.0)
Y+5 (793)	647.9 (81.7)	659.8 (83.2)	674.1 (85.0)
Y+10 (1,201)	981.2 (81.7)	999.2 (83.2)	1,037.7 (86.4)

The effect of these extrapolations on profitability is discussed at greater length in Chapter IV.

As further explanation of the three rates used:

- (1) The "gold level" was based on a return to the experience in years Y-4 through Y-1, when operating expenses ranged from 81.6 to 82.5. These figures were not, however, subjected to the adjustments described above.
- (2) Expenses for the year Y (as adjusted) amounted to 82.7 percent of gross revenue from all sources. We allowed for an increase of 0.5 percent, as a measure of conservatism, before providing for a "green level" of 83.2 percent.
- (3) By applying what appeared to us to be the most realistically pessimistic estimate of expense trends, we observed a decline in projected profit before income taxes from year Y (as adjusted) to year Y+10 of from 8.4 percent to 5.0 percent, or the equivalent of a 5 percent year-to-year decline calculated on a reducing base. Applying this 5 percent declining percentage to profit, we arrived at the operating expense percentages shown in the foregoing tabulation, representing the "blue level".

TECHNICAL COMMENTS ON PROFITABILITY ANALYSIS

This appendix provides a brief description of the use of the electronic computer in making profitability analyses and projections for the gaming industry.

It must be stated at the outset that the computer was used less extensively than had originally been contemplated. The following conditions gave rise to this:

- . Because it was found possible to use a reliable economic indicator for projecting gaming revenues (itself the result of computer analysis), only one level of revenue forecasts was made instead of three, as originally expected. This reduced the volume of projections to one-third of the expected quantity.
- . It was found simpler to evaluate the possible effect of recouping all or part of the additional gaming tax burden by taking a simple percentage rather than by following a more elaborate process that had originally been contemplated. This permitted calculations to be made "off the computer." As four alternatives were involved, this further reduced the volume of processing by 75 percent.
- . The number of completed questionnaires received (85) was smaller than had been expected (out of a total of 184 sent out). Furthermore, after initial computer analysis, 33 of the 85 returns had to be rejected as unsuitable for making projections. The remaining 52 returns did not lend themselves to the extensive analysis by geographical and type groups that had originally been expected; this type of analysis was made for the base year, but, because the

results of this analysis showed no generic characteristics for any group that differed materially from the whole, projection by groups would have been a valueless exercise.

Despite these considerations, electronic data processing (EDP) yielded certain benefits, and might be worthwhile in any repetition of this type of profitability analysis.

EDP was used for four tasks:

- (1) To make a regression analysis and determine a formula for projecting gaming revenues;
- (2) To test the reasonableness of responses to questionnaires and make initial cost trend analyses;
- (3) To make individual and group analyses of licensees' profit performance;
- (4) To project profit performance into three future years.

Each of these is discussed below.

1. DETERMINING A BASIS FOR PROJECTING REVENUES

A description of this process appears in Appendix A. No further observations are now warranted.

2. TESTING THE REASONABLENESS OF QUESTIONNAIRE RESPONSES

Questionnaires sent to nonrestricted licensees called for financial and statistical data. Some of these data were needed directly for analysis, while others were needed for background and reference.

On receipt, questionnaires were examined for completeness and general reasonableness. Field interviews were made to substantiate data, to resolve open questions, and to get information omitted from the returned questionnaires. These examinations often led to adjustments to put information onto a consistent and comparable footing.

Following these preliminary examinations, selected financial and statistical data were extracted from the questionnaires, keypunched, and put through the computer. The computer was programmed to develop ratios for every recorded income and expense item, for each respondent, showing relationships of these items to (1) total gross revenue and (2) gross revenue from gaming. This was done for each of the five years covered by the questionnaires.

The computer additionally "ranked" the data according to ratios, it highlighted out-of-line conditions, and it computed standard deviations. Following the first scanning operation made by the computer, we reviewed the questionnaires again to investigate out-of-line situations. Adjustments were made when it was clear that they were caused by inconsistent classifications.

At this time we reached the conclusion that data for those respondents with less than five years' recorded history should be withdrawn from the analysis. The principal reason was that extraordinary start-up costs created distortions and confused efforts to establish historical trends.

Following the adjustments and removals mentioned above, we ran the data relating to those respondents with five or more years of recorded history. These numbered 52 out of the original 85. However, they represented businesses with 75 percent of the total gross gaming revenue of the industry.

The accounting periods of the various respondents were not coterminous. The last reported year ended on or before June 30, 1966 was identified as the base year (the assumed equivalent of the year ended June 30, 1966).

One of the expected adjustments was to make reductions in those cases where officers' compensation appeared excessive. Analysis performed through the computer led to the conclusion that no such adjustments were needed. As might have been expected, officers' compensation tended to represent a declining percentage of gross revenues the larger the revenues were. In the case of some of the larger businesses, although compensation was high in absolute amounts, it was not high enough to warrant adjustment.

Before taking the next step, we adjusted for sale-and-leaseback transactions as described in Chapter III of the text of the report.

3. ANALYZING INDIVIDUAL AND GROUP PROFIT PERFORMANCE

It was decided to test various groups of respondent licensees to determine the characteristics of their profit behavior. Respondents' data were classified, first, according to five geographic groupings and, second, according to ten size-and-type groupings. (These groupings are dealt with in Chapter III.) In each case ratios were shown; in addition, imputed profits were recorded on the assumption of increases in gaming taxes of 25, 50, 100, 150 and 200 percent for the base year.

The results of these analyses are commented on below. It will first be appropriate to describe the terms used.

- . "Total revenues" includes the aggregate of gross gaming revenues and revenues from other sources, such as hotel rooms, restaurant, bar, etc.
- . "Gaming revenues" is the gross win.
- . "Gross profits" is the excess of total revenues over the cost of goods sold, such as food and liquor.

- . "Operating expenses" includes all expenses other than income taxes, adjusted by eliminating the rents arising from sale-and-leaseback transactions and substituting imputed depreciation.
- . "Pre-tax profits" is the excess of gross profits over operating expenses.

In Exhibit I, on the next page, is shown the breakdown of profit performance according to geographic areas. The following matters are worthy of note:

- (1) Revenues from other than gaming are highest in the outlying areas (45.9 percent) and the Las Vegas Strip (44.6 percent).
- (2) Gross profits range between 90 and 93 percent in all groups except the outlying localities, where they are 83.4 percent.
- (3) Similarly, the outlying localities keep expenses at the lowest level - 78.3 percent, in contrast with a range from 81.2 to 84.5 percent in other groups.
- (4) Profit as a percentage of gross revenue is highest in the Reno-Sparks area (11.5 percent) and Las Vegas downtown area (11.2 percent), brought about by both of these groups having the lowest proportionate amounts of revenues from other than gaming.

The table following Exhibit I shows the effect on profits as a percentage of gross revenues brought about by gaming tax increases, assuming no countermeasures by the licensees.

CONDENSED PROFITABILITY ANALYSIS
ACCORDING TO GEOGRAPHIC AREAS

The following is a condensed summary, showing only the more significant data (rounded to the first decimal place) for the five geographical breakdowns.

	<u>Respondents</u> (Number)	<u>Total</u> <u>revenues</u>	<u>Gaming</u> <u>revenues</u>	<u>Gross</u> <u>profits</u>	<u>Operating</u> <u>expenses</u>	<u>Pre-tax</u> <u>profits</u>
Grand totals						
\$ millions		378.0	247.5	344.5	312.8	31.7
Percentage	52	100.0	65.5	91.1	82.8	8.4
Las Vegas downtown area						
\$ millions		60.2	44.3	55.9	49.1	6.7
Percentage	7	100.0	73.5	92.7	81.6	11.2
Las Vegas Strip						
\$ millions		163.5	90.5	149.1	136.7	12.4
Percentage	8	100.0	55.4	91.2	83.6	7.6
Lake Tahoe area						
\$ millions		68.7	48.8	62.1	58.1	4.0
Percentage	6	100.0	71.1	90.4	84.5	5.8
Reno-Sparks area						
\$ millions		65.5	53.0	60.7	53.2	7.5
Percentage	11	100.0	80.9	92.7	81.2	11.5
All other localities						
\$ millions		20.1	10.8	16.7	15.7	1.0
Percentage	20	100.0	54.1	83.4	78.3	5.1

For comments see the text of Appendix C.

Profits before income taxes as percentages of gross revenues

	<u>Percentage increases in gaming tax</u>					
	<u>0</u>	<u>25</u>	<u>50</u>	<u>100</u>	<u>150</u>	<u>200</u>
Grand totals	8.4	7.6	6.8	5.1	3.5	1.9
Las Vegas downtown area	11.2	10.3	9.4	7.6	5.8	4.0
Las Vegas Strip	7.6	6.9	6.2	4.8	3.3	1.9
Lake Tahoe area	5.8	4.9	4.0	2.3	0.5	loss
Reno - Sparks area	11.5	10.5	9.5	7.5	5.5	3.6
All other localities	5.1	4.5	4.0	3.0	1.9	0.9

A similar analytical summary of profit performance according to size and type of operation is shown in Exhibit II on the next page. The abbreviations in that exhibit represent the following:

SDV/L - substantially diversified, with casino, hotel, restaurant, theatre and bars - very large

DV/L - diversified (no hotel) - very large

D/L - diversified (no theatre) - large

CBR/L - casino, bar and restaurant - large

CBR/M - casino, bar and restaurant - medium

CBR/S - casino, bar and restaurant - small

CB/M - casino and bar (no restaurant) - medium

CB/S - casino and bar (no restaurant) - small

GSL/M - gaming a sideline - medium

GSL/S - gaming a sideline - small

Measures of the classifications very large, large, medium and small are contained in the text of Chapter III.

As might be expected in an analysis of this type, the data in Exhibit II show wide percentage variations. There appears to be a distinct correlation between the relative proportion of gaming revenues and profits. Of the five groups with the highest percentages of gaming

CONDENSED PROFITABILITY ANALYSIS
ACCORDING TO SIZE AND TYPE OF LICENSEE

Introductory observations to Exhibit I apply also here, with respect to breakdown by size and type.

	<u>Respondents</u> (Number)	<u>Total</u> <u>revenues</u>	<u>Gaming</u> <u>revenues</u>	<u>Gross</u> <u>profits</u>	<u>Operating</u> <u>expenses</u>	<u>Pre-tax</u> <u>profits</u>
Grand totals						
\$ millions		378.0	247.5	344.5	312.8	31.7
Percentage	52	100.0	65.5	91.1	82.8	8.4
*SDV/L						
\$ millions		183.6	103.7	166.9	152.8	14.1
Percentage	9	100.0	56.5	90.9	83.2	7.7
*DV/L						
\$ millions		77.3	60.0	71.4	65.8	5.6
Percentage	3	100.0	77.6	92.4	85.1	7.3
*D/L						
\$ millions		39.4	26.8	36.2	33.5	2.7
Percentage	5	100.0	68.1	91.8	84.9	6.9
*CBR/L						
\$ millions		65.7	49.2	59.7	51.6	8.2
Percentage	13	100.0	74.9	90.9	78.5	12.5
*CBR/M						
\$ millions		4.30	2.19	3.60	3.36	0.23
Percentage	4	100.0	51.1	83.7	78.3	5.4
*CBR/S						
\$ millions		1.14	0.69	0.92	0.93	loss
Percentage	4	100.0	61.0	80.7	81.4	
*CB/M						
\$ millions		4.43	4.34	4.41	3.71	0.70
Percentage	4	100.0	98.0	99.5	83.8	15.7
*CB/S						
\$ millions		0.14	0.10	0.12	0.07	0.05
Percentage	2	100.0	75.4	84.8	48.6	36.2
*GSL/M						
\$ millions		1.64	0.32	1.07	1.01	0.06
Percentage	5	100.0	19.3	65.5	61.8	3.7
*GSL/S						
\$ millions		0.35	0.26	0.21	0.18	0.03
Percentage	3	100.0	74.6	61.9	53.2	8.7

*See the text of Appendix C for the meaning of abbreviations.

revenues to total revenues, four of these rank as the highest in profit as a ratio of total revenues; the remaining one ranks sixth. The three diversified groups, with one-third of the respondents, account for almost 80 percent of the total revenues and 70 percent of the profit of the respondents whose returns were analyzed; their profits represented 7.4 percent of gross revenues, lower than the total average of 8.4 percent. The large casino, bar and restaurant operation (which, incidentally, produced the greatest number of respondents as a group) appears to be the most profitable operation of significant size.

The following table shows the effect on profits as a percentage of gross revenues brought about by gaming tax increases, assuming no countermeasures by the licensees.

	<u>Percentage increases in gaming tax</u>					
	<u>0</u>	<u>25</u>	<u>50</u>	<u>100</u>	<u>150</u>	<u>200</u>
Grand totals	8.4	7.6	6.8	5.1	3.5	1.9
SDV/L	7.7	7.0	6.2	4.8	3.3	1.9
DV/L	7.3	6.2	5.2	3.2	1.1	loss
D/L	6.9	6.1	5.3	3.6	1.9	0.3
CBR/L	12.5	11.6	10.8	9.1	7.4	5.7
CBR/M	5.4	5.0	4.6	3.8	3.0	2.1
CBR/S	loss	loss	loss	loss	loss	loss
CB/M	15.7	14.7	13.7	11.8	9.8	7.9
CB/S	36.2	35.5	34.8	33.3	31.9	30.4
GSL/M	3.7	3.5	3.4	3.1	2.8	2.4
GSL/S	8.7	8.7	8.4	7.8	7.5	6.9

It will be noticed that an increase in gaming taxes of 200 percent would carry its severest impact among the three largest groups. As mentioned earlier, they account for nearly 80 percent of the total revenues

of the respondents examined; it may also be fair to say that they are significant in attracting tourists to Nevada. This is among the indications that lead us to conclude that a 200 percent increase in gaming taxes would have a severe effect, not only on the gaming industry, but probably on the tourist industry of Nevada as well.

An additional check may be useful on the figures discussed above. We made a review of the internal controls in six casinos selected because of their reputedly good management. The gaming revenues of these six casinos accounted for over a quarter of the gaming revenues of the industry in Nevada as a whole.

To prevent disclosure of the data of individual casinos, we show the results of their operations in Exhibit III, on the next page, in terms only of percentages of total gross revenues, and compare them with the results of the entire 52 respondents' figures.

It will be seen that their profit rate, as a group, of 9.2 percent of total revenues, is superior to that of the total sample (8.4 percent) and, of course, of all other 46 respondents in the sample (7.9 percent). However, profits of three out of the six are better than the average of the entire group, whereas three show lower profits.

4. PROJECTING PROFIT PERFORMANCE

For reasons explained earlier, we found it possible to simplify the projection of profit performance according to the various assumptions made. Based on data produced from other computer runs, it was a simple matter to complete the projections manually.

Nevertheless, it may be desirable to use the computer on future occasions for projecting profitability. Three factors in particular are significant in this respect:

CONDENSED PROFITABILITY ANALYSIS
GROUP OF SIX SELECTED CASINOS (CONTROL GROUP) VERSUS OTHERS

	<u>Respondents</u> (Number)	<u>Total</u> <u>revenues</u>	<u>Gaming</u> <u>revenues</u>	<u>Gross</u> <u>profits</u>	<u>Operating</u> <u>expenses</u>	<u>Pre-tax</u> <u>profits</u>
Grand totals						
\$ millions		378.0	247.5	344.5	312.8	31.7
Percentages	52	100.0	65.5	91.1	82.8	8.4
Not in control group						
\$ millions		246.7	160.4	223.9	204.3	19.6
Percentages	46	100.0	65.0	90.8	82.8	7.9
In control group						
\$ millions		131.3	87.1	120.6	108.5	12.1
Percentages	6	100.0	66.3	91.8	82.6	9.2
Individual respondents in control group (percentages only)						
A	1		77.9	92.6	74.1	18.5
B	1		56.0	91.6	77.3	14.3
C	1		55.9	91.3	79.0	12.4
D	1		81.1	93.1	86.8	6.3
E	1		51.5	90.5	85.6	4.9
F	1		73.6	92.0	87.4	4.6

See the text of Appendix C for comments.

- (1) The analysis made during this study was limited to 52 respondents. If an approach is made toward having regular reports from all non-restricted licensees, compiled on the basis of a uniform reporting system for the industry - and this is recommended - a substantially greater number of returns will need analysis.
- (2) The small number of respondents in certain licensee groups - and note the statistics in Exhibit II in this respect - weakened the validity of any profitability projections that might have been made on a group basis. However, with full reporting by the industry, group projections would be meaningful.
- (3) The projections took into account only a limited number of alternatives:
 - . Revenues - one only
 - . Operating expenses - three levels
 - . Tax rates - five rates of increase
 - . Pass-on of additional tax - four rates.

On future occasions it might be desired to increase the number of alternatives for any one or more of these assumptions, or to introduce alternatives for other assumptions.

As previously arranged, we are committing the related computer procedures and programs into instructional form and giving them to the State government in case of future need.

STATE OF NEVADA
STUDY OF GENERAL FUND REVENUES

PART IV

STRENGTHENING FINANCIAL CONTROLS
AFFECTING THE GAMING INDUSTRY

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STRENGTHENING FINANCIAL CONTROLS

AFFECTING THE GAMING INDUSTRY

The gaming industry offers unusual opportunities for concealment of revenues. Protection against this risk has for long been a concern of the taxing authorities and the industry itself.

Currency and its equivalent move under conditions not susceptible to the types of control associated with conventional business operations, and make this risk a real one. The gaming industry has been subjected to suspicion, particularly on the grounds that licensees may have evaded taxes by diverting proceeds. It was not the purpose of our study to establish whether these suspicions were well-founded. It was rather our assignment to determine what steps may be taken to minimize the risk itself.

To do this, we observed conditions in six casinos; based on our findings there, and based on examinations made in other respects during our study, we present a recommended program which should impose stronger control over the financial affairs of the industry. With the acceptance and operation of this program, the industry's operations can be administered under stricter financial control and it should be better able to answer allegations that might be made in the future.

In treating this subject, we deal with the following issues:

- I The present framework of control - a description of the various measures now in effect to provide for financial controls and an evaluation of their effectiveness;
- II The functioning of internal controls - a summary of our observations at six selected casinos;
- III A program for improved controls - a discussion of the various steps needed to strengthen financial controls in the industry.

I. THE PRESENT FRAMEWORK OF CONTROL

Five principal levels of control are available to the industry:

1. Internal procedures
2. Protective devices
3. Internal auditing
4. Audits by independent accountants
5. State controls.

These are briefly discussed below.

1. INTERNAL PROCEDURES

Each individual enterprise has developed its own procedures to (1) protect against the risks inherent in the industry and (2) keep management and ownership informed.

Such procedures consist of recording and accounting practices and the division of work in such a way as to have employees check on each others' work and reduce the possibility of concealing irregularities.

The quality of these procedures varies from one casino to another. Obviously, control costs money. Therefore, the degree of control that can be exercised in the larger enterprises is greater than the smaller ones can afford. The cost of comprehensive control is beyond reason for the smaller casino. However, the larger ones have a more pressing obligation, both to the taxing authorities and to the industry in general, to use more detailed controls over the handling of money.

These controls consist of two elements: first, procedures to provide an orderly flow of information and protection against irregularities and, second, availability of statistics so that tests of reasonableness may be applied in evaluating the amounts of revenues from their specific sources.

2. PROTECTIVE DEVICES

Coupled with the use of procedural controls, the industry has been resorting increasingly to mechanical devices as a protection against loss.

The "eye in the sky" - a device for surveillance of gaming operations - for example, from the ceiling - is now common in many casinos.

Closed circuit television is available for surveillance of activities in the gaming rooms and the counting rooms.

Boxes are used with devices that automatically lock them as they are removed from tables.

These are merely examples. No doubt they can be expanded upon and, with the passage of time, new devices will be introduced to provide stronger checks without the need for undue human effort.

3. INTERNAL AUDITING

Internal auditing, while commonly in force in industry generally, is uncommon in the gaming industry.

This is a practice whereby a trained staff is used to check, first, that existing controls are effective in guarding against loss and waste, and, secondly, that these controls are being applied diligently and intelligently, and are producing the intended results.

Internal auditing in its real sense is notable by its absence in the gaming industry. Controls in the larger enterprises could be improved by its introduction.

4. AUDITS BY INDEPENDENT ACCOUNTANTS

An examination by independent accountants usually culminates in a written opinion on the financial statements. In general terms, the

accountants specify that they have followed accepted auditing standards and express the opinion that the statements they have examined fairly present the financial position as of a given date and the results of operations for the period ended on that date, in accordance with generally accepted accounting principles, consistently applied.

When the accountants have made an adequate examination and are satisfied with the statements, they are in a position to submit either an unqualified or "clean" opinion, which contains no reservations, or a qualified opinion, in which attention is drawn or exception is taken to limited matters, apart from which the statements are acceptable. On the other hand, if the accountants' scope of examination is restricted, or if they encounter so many problems as to preclude their expressing an opinion, they may be forced to disclaim an opinion or to take other measures described in Appendix A.

In most cases, audits of enterprises in the gaming industry result in disclaimers, which constitute no opinion on the financial statements. Because of this, the process of auditing does little or nothing to ascribe any credibility to the statements under review.

This situation could be overcome if accountants were required to make conventional audits leading to opinions on licensees' financial statements. On the other hand, the cost of audits would increase because of their wider scope.

5. STATE CONTROLS

The State Gaming Control Board (also hereinafter referred to as the Board) has the power to audit casino records and assure the State its proper tax revenue.

The methods used for such audits are capable of being improved. This is a substantial task. It requires the use of professionally tested techniques by professionally qualified people. It calls for systematic handling, and it requires to be knitted in with other types of auditing in effect.

The Board is empowered to call for financial statements from licensees and does, in fact, require them. However, these statements differ so widely one from the other, and, not being subject to audit, they are open to such question that the apparent State control over casinos' financial statements is somewhat illusory.

* * *

As discussed in Section III, a tighter atmosphere of control is needed in a state-regulated industry where opportunities for irregularity are so striking.

II. THE FUNCTIONING OF INTERNAL CONTROLS

We examined the functioning of internal controls in six selected casinos - three on the Las Vegas strip, one in downtown Las Vegas, one in Reno and one in the Lake Tahoe area. The purpose of these examinations was to study the adequacy of the control systems with a view to identifying minimum standards for the industry.

The casinos selected were among the larger ones and together accounted for about one-quarter of the gross revenues from gaming in the State. They were recommended for selection because of their reputation for efficiency.

Described below are:

1. The nature of the examinations and
2. Shortcomings observed.

Recommended improvements are dealt with in Section III.

1. THE NATURE OF THE EXAMINATIONS

In each instance a team examined the nature of the procedures in force and made sample tests of their operation. In substance, we attempted to evaluate their effectiveness in:

- (1) Producing a means for control over monies at the gaming tables and coin-operated devices;
- (2) Tracing the movement of currency and its equivalent from the tables and devices, including the process of counting;
- (3) Providing accountability and security in the counting rooms and cashiers' offices;
- (4) Recording, classifying and summarizing proceeds for entry in the accounts and for reporting to management;
- (5) Achieving checks at critical points in the movement of money and records to guard against irregularity and loss; and

- (6) Controlling and accounting for records of indebtedness, such as "markers" and IOUs, including write-offs of uncollectible items.

In addition, we observed the operation of protective devices for surveillance and security, but our study of these measures was less intensive.

2. SHORTCOMINGS OBSERVED

The procedures in effect at these six casinos, if properly complied with, should generally provide reasonable assurance that the casinos make a proper record of their gaming revenues. In some cases, the controls appeared so strong that they could be defeated only by extensive collusion.

Nevertheless, we did encounter some weaknesses. These were generally isolated, and could readily be overcome by procedural changes. As a matter of interest, these shortcomings are cited below.

- (1) There were some cases where the interval between collecting the cash proceeds - usually in "drop boxes" - from the gaming tables and the counting of that cash was as long as sixteen hours. During this interval the boxes were stored in offices in which there was a constant traffic of people. We were advised that the very uncertainty of this traffic made irregular tampering with the uncounted contents of the boxes a hazardous venture. However, the risk was there. Added to this, currency which could have been deposited in the bank or used in gaming operations was temporarily removed from use.
- (2) Cash removed from tables was sometimes insecure because the boxes had no automatic locking devices and remained unlocked.

- (3) During the rounds of collection from tables, boxes at some of the less active tables were not withdrawn for collection at the customary times, but were left over for later collection.
- (4) Cash counts were sometimes made in the presence of people whose responsibilities did not provide a sufficient degree of independence to assure an objective count.
- (5) Where persons with accounting responsibility check on the work of those responsible for handling funds, it reduces the opportunity for concealing error or fraud by irregular recordkeeping. This interplay of responsibilities was sometimes lacking.
- (6) Many of the forms in use for recording the movement and accountability of cash and its equivalent were not prenumbered. With the absence of a numerically controlled sequence of critical reports, intentional omission of records of transactions could escape undetected.
- (7) Procedures for the movement and recording of completed forms did not always provide for a check and countercheck to assure full and satisfactory accountability.
- (8) A means for establishing the reasonableness of collections is the recording of statistics of proceeds from individual games, groups of games or coin-operated devices. Absence or insufficiency of statistics sometimes made it difficult to establish tests of reasonableness.
- (9) Resort had occasionally to be made to removing collections from slot machines before the customary times because of currency shortages.

- (10) There were some cases of excessive physical handling of coins.
This is wasteful of time (and therefore money).
- (11) There was evidence of holding funds for paying off jackpots in excess of amounts needed in the normal course of events.
- (12) The payoff of large jackpot winnings was sometimes made without independent evidence of approval.
- (13) Proceeds from card room operations were not generally subjected to a satisfactory standard of control.
- (14) Inadequate accountability and follow-up was sometimes exercised with respect to IOUs and bad checks written off as uncollectible.

As earlier mentioned, these were isolated observations. Nevertheless, they were encountered in some of the larger and reputedly best managed casinos. If typical of controls in the better managed enterprises, they might be construed as conditions warranting improvement in other casinos. In any event, they are indicative of the need for prescribing and enforcing minimum standards of control.

A notable opportunity for misappropriation or concealment of proceeds is the practice of issuing "pit chips" or "markers" as informal evidence of indebtedness by gamblers prior to (i) redemption, (ii) confirmation by IOU, or (iii) settlement by currency, check or chips. Gaming operators in general resist prohibition of the use of markers - or even the use of "finger betting", where the gambler in effect establishes credit by a sign - on the grounds that this would reduce revenues. We do not question this, but we do point out the need for more stringent control.

* * *

The following section contains a recommended program for overcoming the conditions discussed here.

III. A PROGRAM FOR IMPROVED CONTROLS

The gaming industry requires improved controls for its own protection, particularly in the light of criticism leveled against it. The State, in turn, needs to see that these controls are inherently efficient and properly enforced, both to meet the obligations imposed on it to administer gaming operations and to assure proper collection of taxes.

These controls involve four different elements: (1) regulation, (2) enforcement, (3) planning, and (4) inspection.

Regulation involves the definition of practices for internal control and reporting. They include:

- (1) Specifying internal control procedures,
- (2) Defining methods for control reporting, both within the gaming enterprises and for governmental reporting,
- (3) Publication of a uniform code of accounts and an accounting manual to provide for consistent reporting.

Enforcement implies the existence and operation of powers to assure compliance with regulations and to impose penalties for noncompliance.

Planning entails the collection and interpretation of statistical and other data for use in measuring the economy in which the industry operates and the operating economy of the industry itself.

Inspection encompasses the definition of practices for examining the controls, procedures and reports, to assure that controls and procedures are functioning satisfactorily and that the reports produced by using them are reliable.

Each of these functions tends in some manner to interact with one or more of the others, and is accordingly encompassed in the program presented

below, consisting of eight recommended actions applicable to nonrestricted licensees:

1. Establish standards for minimum acceptable controls over money and its equivalent in licensed operations.
2. Adopt and require the use of acceptable formats for reporting the results of operations and financial condition.
3. Require the use of a uniform code of accounts and accounting manual for licensees.
4. Continue the present powers of enforcement vested in the State Gaming Control Board.
5. Introduce an economic planning and research function.
6. Require more active use of internal auditing.
7. Call for independent audit reports that meet modern commercial requirements.
8. Consider more demanding audits by the State.

Each of these matters is considered at length in the pages that follow.

1. ESTABLISH STANDARDS FOR MINIMUM ACCEPTABLE CONTROLS OVER MONEY AND ITS EQUIVALENT IN LICENSED OPERATIONS

It is the policy of the Nevada Gaming Commission and the State Gaming Control Board, as promulgated in their regulations, to require that all establishments wherein gaming is conducted in the State "be operated in a manner suitable to protect the public health, safety, morals, good order and general welfare of the inhabitants of the State of Nevada" (Regulation 5.010). These bodies have broad powers to enforce their policies and to penalize delinquent licensees, including revocation of their licenses.

Nonrestricted licensees are required, under Regulation 6.030, to observe certain accounting requirements, including:

- (1) Maintaining general ledgers according to double-entry methods;

- (2) Keeping books of original entry;
- (3) Keeping individual game records, including consecutively numbered forms;
- (4) Keeping certain slot machine records by individual machine or alternatively satisfying the Board that their internal control procedures and accounting methods are adequate to dispense with this;
- (5) Making their equipment and records available for examination by agents of the Board; and
- (6) Keeping adequate records of bad checks, evidences of indebtedness, and other unpaid items.

These regulations appear to call for more detailed definition if they are to provide a realistically full measure of protection against irregularity.

We suggest that the control problem be approached through a series of three steps:

- (1) Recognize the differing levels of control according to the size of the operation

The cost of human effort needed to administer a control system dictates that the larger the operation, the more exacting its control system should be.

Because of this, nonrestricted licensees should be divided into two classes, based on the size of their gross revenues from gaming. A more stringent set of control requirements should be mandatory for the larger licensees and optional for the smaller ones. A modified - and less demanding - set of control requirements should be imposed on the smaller licensees.

(2) Formulate control requirements on a minimum basis

Control requirements should be so defined as to assure that certain essential or desirable things are done as a minimum.

For example:

- (i) Count cash in drop boxes within a minimum specified time after removal from tables, and keep physical control over cash until it is counted.
- (ii) Require the presence of at least two employees at each cash count; one of whom is responsible for physical handling and one of whom is responsible for accounting.
- (iii) Define the various points of control through which both money or its equivalent and related forms are channeled so as to enable the accounting staff to check independently on the amounts of cash collected and recorded.
- (iv) Require the use of preprinted, serially numbered forms for all documents relating to the collection, count and movement of cash or its equivalent, and the signature of such forms, when used, by at least two employees with independent responsibilities.
- (v) Impose defined physical requirements regarding the layout of the access to cashiers' and counting room areas.
- (vi) With respect to evidences of indebtedness, require:
 - . written authorization of credit,
 - . recording as revenue at the time of issue,
 - . transfer of accountability for markers from tables to cashiers at each drop collection,
 - . ledger accounts for all items of indebtedness.
- (vii) Keep a double-entry record of bad checks, overdue IOUs, and all items written off as uncollectible, and report names, addresses and amounts periodically to the Board.

- (viii) Record the issue of markers on preprinted, serially numbered forms.
- (ix) Accumulate meaningful statistical comparisons of results according to table, group of tables, employee, machine, or otherwise as appropriate.
- (x) Specify minimum requirements for surveillance devices and their operation, according to the size and layout of each casino.
- (xi) Require daily reporting of results, in a prescribed format, for approval by management.

The foregoing are merely illustrative. The Board should give the industry guidelines and criteria for controls and should require it to submit acceptable minimum standards, preferably with the assistance of professional counsel. These should be promulgated for industry-wide use after meeting the Board's approval. Failing the industry's ability to submit acceptable measures within a specified time, the Board should impose these regulations unilaterally.

- (3) See that control requirements are complied with through regular inspection methods

The Board should look to the industry to manage its own internal affairs and see that minimum control requirements are exercised. It should nevertheless, as discussed later, have access to outside audit to see that their operation is satisfactory.

In an industry where change prevails, such as the introduction of new devices, control requirements will likewise change. Both the Board and the industry should be alert to this, and changes should be approved as the occasion demands.

2. ADOPT AND REQUIRE THE USE OF ACCEPTABLE FORMATS FOR REPORTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

It is common practice in a regulated industry for the regulatory body to prescribe methods of financial reporting. This creates a degree of uniformity that makes the function of regulation easier. It also permits the extraction of comparative data for measuring the efficiency and financial health of businesses within the industry

The gaming industry in Nevada follows somewhat inconsistent financial reporting practices. As a consequence, the Board has not been successful in drawing meaningful inferences from these reports.

Furthermore, in addition to such standard financial statements as balance sheets and income statements, licensees produce internal reports for the information of their managements. The quality and informativeness of these reports vary widely, as is to be expected in view of their having been developed independently to suit the needs of their respective managements. Some appear substandard as guides for the managements to make effective decisions. The adoption of minimum standards for these internal reports should produce benefits for the industry.

Standard formats should be used for reporting financial information, and the Board should exercise leadership in this respect. Here again, as in the case of controls, a differentiation should be made between the larger and smaller enterprises. And in this respect too, the industry should be called upon to submit its recommendations to the Board, failing which the Board should publish its requirements unilaterally.

3. REQUIRE THE USE OF A UNIFORM CODE OF ACCOUNTS AND ACCOUNTING MANUAL FOR LICENSEES

The Board's inability to measure the results and financial health of the industry has already been mentioned. In Part III, too, we referred

to the difficulty of drawing effective industry comparisons because of the different methods in which the various licensees classify their expenses.

This situation can be overcome by setting up an organized structure for identifying the various asset, liability, capital, income and expense accounts. This structure, known as a chart - or code - of accounts, is necessary for the orderly classification and recording of transactions, operations and events in any sizeable business. In many regulated industries a uniform code of accounts is prescribed. These include savings and loan associations, public utilities, insurance and certain regulated transportation enterprises.

Supporting the code of accounts there should usually be an accounting manual, which contains descriptions of what should - and what should not - be classified under each accounting category.

As a basis for standardized reporting, and as a step toward installing minimum controls, mentioned earlier, a uniform code of accounts and manual are most desirable.

As in the cases of controls and reporting, the Board should require recommendations from the industry. In this instance, however, the same code and manual should suit the purposes of both larger and smaller licensees, with the larger ones being compelled to use certain code refinements reserved for optional use only by the smaller licensees.

4. CONTINUE THE PRESENT POWERS OF ENFORCEMENT VESTED IN THE STATE GAMING CONTROL BOARD

The powers vested by law in the Board are wide. They include enforcement of regulations and examination of licensees' equipment operations and records.

Continuation of these powers is essential for regulation of the industry. However, the scale of penalties needs review to match them with the relative severity of each infraction.

5. INTRODUCE AN ECONOMIC RESEARCH AND PLANNING FUNCTION

As is the case in many new industries, the gaming industry has established no central body to collect statistical data and other facts for use either to measure the efficiency or economics of individual operations or to appraise economic conditions which have a bearing on the industry.

We were struck by the absence of such facts in discussions with representative members of the industry, industry associations, financial institutions, and government departments. Thus far the industry as a whole has enjoyed a continuing rise in income. Although some enterprises have encountered adversity, gaming as a whole has prospered. The industry has therefore suffered little through its inability to draw on reliable information for charting its future course of action. When the future changes, either by reaching a plateau or facing a decline, the absence of economic data for planning may prove painful and even dangerous.

State government has much at stake in this respect. The gaming industry represents an important sector of the Nevadan economy. If gaming encounters adversity there would, in all likelihood, be a severe setback to the economy of the State as well as a drop in State revenues from gaming taxes.

The Board is gathering, through individual financial statements, some ingredients for industrial analysis. The absence of consistency in these reports, for which remedies have been recommended above, makes it difficult to use them. This, coupled with a lack of demand from the industry and the absence of any marked incentive, has led to a condition of inaction in economic and statistical planning and research.

We recommend that the State take early action to provide this service, either through the Nevada Gaming Commission or State Gaming Control Board, or through establishing the service from within the executive branch of the government.

6. REQUIRE MORE ACTIVE USE OF INTERNAL AUDITING

Internal control has been described as encompassing the plan of organization and all of the coordinate methods and measures adopted within a business to (1) safeguard its assets, (2) check the accuracy and reliability of its accounting data, (3) promote operational efficiency, and (4) encourage adherence to prescribed managerial policies. The institution and maintenance of internal control is a responsibility of management.

Many managements employ internal audit staffs to see that the controls are indeed satisfactory for their intended purposes and that they are operating properly. It was surprising to find that, although effective controls are so much needed, internal auditing is practiced only rarely in the gaming industry.

It is contended by several of the larger licensees that internal auditing is unnecessary. We cannot agree with this position. The argument appears to be propounded because of a lack of knowledge of the activity or the benefits it has been providing for several years to other branches of American industry.

For the larger licensees the Board should make internal auditing a mandatory requirement. This should not only produce direct benefits to each enterprise concerned, but, if it is satisfactorily conducted, both the independent accountants and the Board's examining agents would be able to place reliance on it. They would thus be able to reduce the extent of their tests of operations, transactions and records.

Smaller licensees might not be able to justify the expense of internal audit. The Board should recognize this and should not require it of them. Nevertheless, they could benefit by employing accountants in public practice to make occasional examinations having the equivalent effect of limited internal auditing.

7. CALL FOR INDEPENDENT AUDIT REPORTS THAT MEET MODERN COMMERCIAL REQUIREMENTS

Number 6.050 of the regulations issued pursuant to the Nevada Gaming Control Act provides as follows: "Each nonrestricted licensee shall file with the board a copy of its annual financial report as prepared by independent accountants. If no report is made by an independent accountant, then a copy of the annual financial statements prepared by the bookkeeper or internal auditor employed by the licensee shall be filed with the board."

The effect of this regulation is that no audit is required. The services of an independent accountant are optional only and are required to prepare an annual report rather than to express an opinion on its credibility. Many reports rendered by independent accountants go no farther than this regulation requires. Audits, as conventionally understood, are the exception rather than the rule in the gaming industry. The licensee who wishes to restrict his independent accountant to preparing a financial report is under no compulsion to call on him for an expression of opinion.

In contrast, the Securities and Exchange Commission, which regulates the securities of publicly held corporations nationally, demands independent audits, carried out according to generally accepted auditing standards, including an expression of opinion on each corporation's financial statements and certain supporting schedules. In certain regulated industries, the opinion report required of the independent accountants covers other factors as well.

It is clearly in the Board's interests to require financial statements which fairly present the results of operations of a licensee and its financial condition at the end of the period under review. If and when minimum standards of control are required, it should also need assurance that there is adequate compliance with them. And, if and when a uniform code of accounts and accounting manual, coupled with required reporting formats, are introduced, it should also know whether the financial statements are based on their use.

It is our recommendation that the Board seek to have Regulation 6.050 revised to require this type of audit report and thus gain better assurance of the reliability of the annual statements submitted by licensees.

8. CONSIDER MORE DEMANDING AUDITS BY THE STATE

The Board is vested with the authority to "demand access to and inspect, examine and audit all papers, books and records of applicants and licensees respecting the gross income produced by any gaming business..." (NRS 463.140), but it is under no obligation to make comprehensive audits nor to observe any prescribed auditing standards.

As explained to us, the Board is subject to staff and budgetary limitations, as a result of which examinations by its agents are too limited in scope and method to constitute effective audits.

Nonetheless, the Board is interested in determining proper amounts of gross income for verifying the accuracy of tax collections, and it should continue to have this power.

In an industry as sensitive as gaming and having such an important bearing on the affairs of the State of Nevada, the Legislature might well consider it advisable to expand and reinforce the present State audit process. This would probably entail additional expense, but we consider its merits deserve the Legislature's favorable consideration.

Such an expanded audit activity should possess these characteristics among others:

- (1) Auditors should be professionally qualified.
- (2) They should work according to such timetables and programs as to gain frequent coverage of all nonrestricted licensees and an adequate sampling of restricted licensees.
- (3) They should work according to prescribed and acceptable audit procedures.
- (4) They should observe licensees' compliance with minimum control standards, reporting procedures and accounting classifications.
- (5) They should keep proper records and working papers in support of work done and findings established.
- (6) They should penetrate and report upon those licensees that are elements of or associated with complex corporate or partnership organizations.
- (7) They should report on all audits performed and be required to convey to the Board particulars of violations of regulations or standards so that the Board can recommend disciplinary action to the Commission.
- (8) Auditors should be rotated among assignments so that no one auditor examines any one licensee on two successive occasions.
- (9) Each audit should be reviewed to make sure that it has been satisfactorily performed.
- (10) The activities of the audit staff should be subject to periodic and surprise review by the office of the Legislative Counsel.

The effect of this suggested change would be to impose on the Board a responsibility for making audits of licensees as distinct from what is now merely a right to audit. This change might call for legislative rather than regulatory action.

* * *

In adopting the program here described, the State should also consider the extent of its applicability, whether or not in modified form, to restricted licensees. Admittedly they constitute a relatively insignificant source of revenue, but the State has an obligation to exercise control over their activities.

As far as nonrestricted licensees are concerned, the need for an improved framework of control is real. The eight-point program here recommended should provide noteworthy advantages. It should reduce the opportunities now available to the industry to evade taxes because of an atmosphere of inadequate control. It should give owners better protection against loss caused by their employees. It should demonstrate the State's determination to accept its responsibilities for regulating the industry. And it should help create a better reputation for the industry itself by reason of its use of more modern, systematic and orderly financial control practices.

These advantages are worthwhile. The effort needed to attain them would not be great. And it should not be delayed.

EXPRESSIONS OF OPINION BY INDEPENDENT ACCOUNTANTS

The implications of formal opinions by independent accountants are not always understood by the public. To elaborate on the observations made in Chapter I, we cite the authority on this subject. It consists of sections 4 through 26 of Chapter 10 of AUDITING STANDARDS AND PROCEDURES, issued in 1963 by the American Institute of Certified Public Accountants.

The text is repeated verbatim, with ellipses (...) used only where parenthetical cross-references are used in the text.

SHORT-FORM REPORT

4. The short-form report of the auditor is customarily used in connection with the basic financial statements. It is also often included as part of a long-form report. The usual short-form report consists of a representation as to the work performed, expressed in an opening or "scope" paragraph, and a representation as to the independent auditor's conclusions usually in a closing or "opinion" paragraph.
5. Because of the weight which the independent auditor's opinion carries with the investing and lending public and the responsibilities he assumes in expressing it, reasonable uniformity in the manner of stating the opinion is important both to the auditor and to those who rely on his findings.
6. The profession in general has adopted the following short form of independent auditor's report:

We have examined the balance sheet of X Company as of June 30, 19__ and the related statement(s) of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement(s) of income and retained earnings present fairly the financial position of X Company at June 30, 19__, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

7. The report should be addressed to the client, or to the board of directors or the stockholders of the client if the appointment is made by them or if such address is preferred. Where the appointment of the auditor is made by the directors and approved by the stockholders the report may well be addressed to both.

UNQUALIFIED OPINION

8. An unqualified opinion that financial statements present fairly financial position and results of operations may be expressed only when the independent auditor has formed the opinion, on the basis of an examination made in accordance with generally accepted auditing standards, that the presentation conforms with generally accepted accounting principles applied on a consistent basis and includes all informative disclosures necessary to make the statements not misleading.

QUALIFIED OPINION

9. When a qualified opinion is intended by the independent auditor, the opinion paragraph of the standard short-form report should be modified in a way that makes clear the nature of the qualification. It should refer specifically to the subject of the qualification and should give a clear explanation of the reasons for the qualification and of the effect on financial position and results of operations, if reasonably determinable. Reference in the opinion paragraph to a note to the financial statements or to a preceding paragraph in the report that describes the circumstances is an acceptable method of clarifying the nature of a qualification. However, a qualification based upon the scope of the examination ordinarily should be covered entirely in the independent auditor's report. When a qualification is so material as to negative an expression of opinion as to the fairness of the financial statements as a whole, either a disclaimer of opinion or an adverse opinion is required.
10. The use of phrases that include either "except" or "exception" in qualified opinions on financial statements is recommended. However, in certain cases where the outcome of a matter is uncertain the phrase "subject to" may be appropriate (...). Phrases such as "with the foregoing explanation" are generally not clear or forceful enough for a qualification and should not be used to qualify an opinion.
11. Any modifying phrases in the standard short-form opinion paragraph (or sentence) should be considered as qualifying the opinion in some manner; however, reference to the report of other independent auditors as the basis, in part, of the opinion, whether made in the scope paragraph or the opinion paragraph, is not to be construed as a qualification of the opinion on the fairness of presentation of the consolidated financial statements or consistency, but rather as an indication of the divided responsibility for the performance of the work (...).

ADVERSE OPINION

12. An adverse opinion is an opinion that the financial statements do not present fairly the financial position or results of operations in conformity with generally accepted accounting principles.
13. An adverse opinion is required in any report where the exceptions as to fairness of presentation are so material that in the independent auditor's judgment a qualified opinion is not justified. In such circumstances a disclaimer of opinion is not considered appropriate since the independent auditor has sufficient information to form an opinion that the financial statements are not fairly presented. Whenever the independent auditor issues an adverse opinion, he should disclose all the substantive reasons therefor, usually by referring to middle paragraph of his report describing the circumstances (...).

DISCLAIMER OF OPINION

14. When he has not obtained sufficient competent evidential matter to form an opinion on the fairness of presentation of the financial statements as a whole, the independent auditor should state in his report that he is unable to express an opinion on such statements. The necessity of disclaiming an opinion may arise either from a serious limitation on the scope of examination or from the existence of unusual uncertainties concerning the amount of an item or the outcome of a matter materially affecting financial position or results of operations, causing the independent auditor not to be able to form an opinion on the financial statements as a whole.
15. With respect to significant scope limitations, he may recite the procedures followed (in which case the standard short-form scope paragraph should not be used) or the procedures omitted. In either case, he should state clearly that the scope of examination was not adequate to warrant the expression of an opinion on the financial statements taken as a whole.
16. Whenever the independent auditor disclaims an opinion, he should give all substantive reasons for doing so. For example, when he disclaims an opinion because the scope of examination was inadequate, he should also disclose any reservations or exceptions he may have regarding fairness of presentation.

UNAUDITED STATEMENTS

17. When no audit has been performed, or the auditing procedures performed are insignificant in the circumstances, any financial statements with which the independent auditor is in any way associated should be clearly and conspicuously marked on each page as unaudited, whether accompanied by his comments or not. It is preferable that a disclaimer of opinion accompany all such statements; when they are accompanied by comments the independent auditor must issue a disclaimer of opinion. Such a disclaimer of opinion may read as follows:

The accompanying balance sheet as of November 30, 19__ and the related statements of income and retained earnings for the year then ended were not audited by us and we express no opinion on them.

Phrases which may cause the reader to believe an examination or review of any type was made should be avoided in any such disclaimer.

18. The independent auditor should refuse to be associated in any way with unaudited financial statements which he believes are false or misleading (see Opinion No. 8 of the committee on professional ethics).

NEGATIVE ASSURANCE

19. Where the scope of the examination is limited by the omission of necessary auditing procedures, reports should not be issued which temper the qualification or disclaimer of opinion by the inclusion of expressions similar to "...However, nothing came to our attention which would indicate that these amounts (statements) are not fairly presented (stated)."
20. However, negative assurances are permissible in letters required by security underwriters in which the independent auditor reports on limited procedures followed with respect to unaudited financial statement filed

with the Securities and Exchange Commission. These letters usually state specifically that no audit has been made of such statements and data, and distribution of the letters is restricted to parties to the underwriting agreement.

21. In situations involving special reports covering data which do not purport to present financial position or results of operations, negative assurances may be given provided the auditing procedures followed are appropriate and reasonable in the circumstances and the scope of the examination is described in the report (...).

PIECEMEAL OPINIONS

22. In some situations requiring a disclaimer of opinion or adverse opinion on the over-all fairness of the financial statements, the auditor may, to the extent that the scope of his examination and the findings thereof justify, express a so-called "piecemeal" opinion as to the compliance of the statements with generally accepted accounting principles in respects other than those which require the disclaimer of opinion or adverse opinion. Similarly, in some cases of extensive exceptions, where an over-all opinion has been disclaimed, it may be possible to express an opinion limited to the items in the financial statements with which the auditor is satisfied. When that is done, however, the report must make clear that no over-all opinion as to financial position or operating results is intended and the auditor should be careful to indicate clearly the limitation of such comments to the individual items in the financial statements.
23. The independent auditor may issue a piecemeal opinion only when, in his judgment, the scope of his examination and his findings justify it, and then only if it is accompanied by a disclaimer of opinion or adverse opinion with respect to the financial statement(s) taken as a whole. Moreover, the piecemeal opinion should not overshadow or appear to contradict the disclaimer of opinion or adverse opinion; otherwise it may result in a misleading inference regarding the financial statements taken as a whole.
24. The auditor, as noted above, in expressing a piecemeal opinion may name the accounts covered by the opinion, or may name those accounts which are excluded and designate the accounts which are covered with an expression such as "all the other accounts." The interrelationship of the accounts affected should be carefully considered by the auditor if the latter approach is used. For example, when an opinion is disclaimed because the taking of the closing inventory has not been observed, it would ordinarily be improper for the independent auditor to use the expression "all the other accounts," thereby covering in his piecemeal opinion cost of sales, gross profit, profit before taxes, taxes, net profit, accrued income taxes, retained earnings, and, perhaps, accounts payable. In any case, a clear description of those aspects of the statement that are covered by the piecemeal opinion is required.
25. The auditor should realize that the expression of a piecemeal opinion with respect to individual items included in a financial statement may require a more extensive examination of such items than would be required if he were expressing an opinion on the financial statements taken as a whole.

CIRCUMSTANCES WHICH REQUIRE A DEPARTURE FROM THE STANDARD
SHORT-FORM REPORT

26. The usual circumstances which may require the independent auditor to deviate from the standard short-form report on financial statements are as follows:

- A. The scope of his examination is limited or affected:
 - (1) By conditions which preclude the application of auditing procedures considered necessary in the circumstances
 - (2) By restrictions imposed by clients
 - (3) Because part of the examination has been made by other independent auditors

- B. The financial statements do not present fairly financial position or results of operations because of:
 - (1) Lack of conformity with generally accepted accounting principles
 - (2) Inadequate disclosure

- C. Accounting principles are not consistently applied.

- D. Unusual uncertainties exist concerning future developments, the effects of which cannot be reasonably estimated or otherwise resolved satisfactorily.

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