SENATE TAXATION COMMITTEE
APRIL 7, 1975

The regular meeting was called to order at 4:15 pm by Chairman Mahlon Brown with the following members present:

PRESENT: Senators Mahlon Brown, Wm. Raggio, Thomas Wilson, Mel Close and Helen Herr
Guest Senator Mary Gojack

SENATE BILL 386: Provides for submission at next general election of a question proposing certain changes in Sales and Use Tax Law.

This measure would provide for the submission to the voters at the general election in 1976 of the question whether the Sales and Use Tax Act of 1955 should be amended to create certain exemptions, increase the rate of tax and repeal administrative provisions.

The bill provides for exemption of food from Nevada's sales tax and increasing the levy to 4 % on remaining items and services. It is felt this proposal would be of particular benefit to families and those living on fixed incomes.

Senator Brown stated he has studied the bill and feels first, the committee must be convinced that this is something we can do and still make money available in roughly the same proportion that we are now receiving.

Senator Gojack testified on the bill, explaining she has been working with the Tax Commission staff addressing themselves to the issues just raised by the Chairman. She distributed a report, prepared by Mr. Lien, and called attention to the third page as far as what it will do to the General Fund. The figures reflect an increase of $3,108,000 to the General Fund. On page four, the figures have been broken down to show what the city-county distribution is under the present formula and under the proposed change. In all cases there is some increase but there is no instances in which a negative action would take place.

Mr. John Sheehan, Executive Secretary to the State Tax Commission, said the Commission is neutral and not opposed to the measure. He indicated administering a single four percent tax would be easier than administering a combined maximum 4.5 percent tax which includes a school tax. Additionally, he explained it would give jurisdiction of the tax back to the Legislature rather than the present situation in which local entities may levy a local option tax. He feels, overall, the measure warrants favorable comments from the Tax Commission.

Mr. Lien spoke in behalf of the bill, explaining they had been in contact with major retailers throughout the state about the problems of their administering the tax and found there was little or no opposition to the bill. He stated twelve percent of total sales tax revenue now comes from levies on human food. He explained they feel we can easily recapture those dollars being lost through exemption by going to the four percent levy on non-exempt items.

He suggested two items for consideration: 1. Be sure we do not affect the small cities or counties which have sales and use tax and one-half cent option tax. They have gone through their allocated receipts,from the four percent basis,so that we will return to the counties and cities and return for school purposes, that amount which they are now receiving and 2. Among the discussion that comes from the School Districts is the suggestion that they would prefer to see their portion of the money returned directly to them rather than going into the State Distributive School Fund. The Tax Commission has no quarrel with that idea and can see no problems if the bill were amended to allow that. Both of the large school districts(Clark and Washoe) have indicated their preference for direct distribution.

One of the new aspects of the distribution of monies back to the entities is that they have included new entities which have never received money before. Money has previously been distributed only to the cities. There has been built into this bill, a formula by which the counties would receive a small percent off the top; the remainder would be distributed to the cities within those counties. No one, however, would receive less dollars than what they are receiving now.

<u>Senate Bill 386</u> would yield in addition to what we are receiving, a $3-million increase in sales taxes in the first full fiscal year. Almost a $1-million increase in taxes in partial year 1976-1977; $3.1-million in second year (1977-78). This would produce an additional $3.1-million above what the present system would bring in. Part of that is due to the fact that it would be a statewide levy rather than only 11 counties.

The one question they have heard from the cities is their not wanting to be 'locked' into a situation where they couldn't come back and ask for additional monies.

They have not had much luck in getting information on what the reaction would be if the tax were extended into more service areas.

They have contacted 16 store owners, ranging from small independent stores to large independent and chain stores throughout the state and found only one individual that felt there might be a problem in administering this tax. He expressed concern over the concept of the bill, rather than administration of its provisions. The business people, on a whole, felt there would be no problem identifying what is taxable from nontaxable items as the act is reasonably delineated.

An analysis and report has been prepared by the Nevada Tax Commission and was gone over in depth with general discussion about primary areas.

Senator Gojack indicated she would have no quarrel with the proposed amendment to distribution of the monies directly to the school districts as opposed to the State Distributive Fund.

She also indicated she has discussed this with the Governor and he has indicated he would allow this to go to the vote of the people.

Dr. Glen Atkinson of the Department of Economics of the Univerity of Nevada, testified in support of the measure. Information was distributed to the members of the committee by him, supporting some of the statements he made. He stated one major reason for the bill is that sales tax is regressive with respect to income. In a study done it is indicated that the Nevada sales tax is a bigger burden than in the State of California. The burden of sales tax in Nevada is quite high, mostly because of sales taxes on food. Additionally, he pointed out that it is said that out of state visitors pay most of Nevada taxes; this is not true. Tourists primarily spend money at eating and drinking establishments but not food taxes. We should shift the burden to tourist-oriented businesses and exempt foods.
He stated the dollars saved on non-taxable food items will probably be spent on something else that is taxable. And last, he pointed out that we have six jurisdictions that do not impose a city-county relief tax and many of these areas cannot finance their own governments. This bill has added strength for raising revenue for those smaller areas.

Mr. Richard Segal, University of Nevada, Reno, Department of Political Science testified in behalf of the bill. He discussed the material distributed by Senator Gojack and stated he considers this to be one of the most beneficial issues the legislature will be asked to vote on this session. He urges very strong support for the measure.

Father Dunphy with the Franciscan Center spoke on the bill explaining this would be of particular benefit to people on fixed and lower incomes. A great number of national groups that are concerned with poverty programs have this as one of their recommendations.

Ms. Janice Gale, Vice President of Consumer Action of Northern Nevada, testified as wholeheartedly endorsing this bill. She feels taxation of food items is an unfair tax.

In discussing what services are being contemplated for taxation, it was pointed out that it was not unusual to tax shoe repair shops, cleaning and laundry establishments, automobile repair, barber and beauty shops, almost all shops and repair businesses, however, most professional services were exempt.

Mr. Bob Warren, Nevada League of Cities, stated he was not appearing in opposition to the bill because this is not a bill that, on the surface, would injure the cities. It was pointed out that the revenu received would be substantially the same, but there would be a shift in the formula. In 1973 he appeared before the Legislature seeking some relief for the cities in the form of a one-half cent sales tax. He pointed out that fiscal conditions of the cities have deteriorated since then and the legislature does have the responsibility to provide a sound fiscal base to provide for services.

It has been determined that the cities would be approaching the legislature with the possibility of an additional one-half cent sales tax for their use. If this bill should go through, it will preempt the cities from any consideration of a tax increase, as he feels the public would not approve a four and one-half cent increase.

General discussion followed on this bill and:

SENATE BILL 378: Proposes to amend Sales and Use Tax Act of 1955 to exempt food products for human consumption.

Mr. Lien stated we would be talking about a straight loss as SB 378 has no provision for recapture. There seemed to be no appetite for this bill.

A discussion was held on proposed amendments to Senate Bill #386, which will affect distribution of a portion of the sales tax directly to the several county school districts. The change in the allocation formula will require an amendment to pages 26 thru 28.

Mr. Marvin Piccolo, from the Washoe County School District testified in support of the bill, stating he had discussed this with Mr. Kenny Quinn of Clark County School District and they are both of the opinion that the money should be distributed directly to the schools. He stated it would help the schools in making application for federal funds inasmuch as their approval is determined to some degree on what amount of local support money they have.

Some discussion held on the difficulties that might present themselves at some time in the future if we should want to raise the sales tax. It was felt we might have a difficult time and was recognized as a possible problem. The committee felt, however, there are other sources that might be tapped.

Senator Gojack stated that while it may be politically expedient to wait until years from now, she felt we should really get down to the basic problems. She would hate to see something like this passed over especially in view of the fact that we are not really going to be losing anything and would be gaining $3-million per year.

Senator Raggio asked if we could explore other ideas for additional revenue without raising the tax levy to 4%. It was pointed out that the people would make the final decision in this case due to the question being put on the ballot.

Mr. Lien pointed out that there are three broad-based taxes: property, sales and gaming. We could explore the gaming aspect to see what kind of increases would be necessary in order to recapture the same amount of tax without going to the 4% levy.

He was requested to explore other avenues of raising money and bring his suggestions back to the committee.

ASSEMBLY BILL 298: Provides for the distribution of a portion of the county-city relief tax collected from the sale of a mobile home to the county of its location if different from the county of sale.

Brief discussion held on this measure, however, there was not much appetite for the proposal and a motion was made by Senator Raggio, seconded by Senator Brown (who was not presiding at the time) to postpone action indefinitely. Motion was passed by a majority vote of 4 to 1.

ASSEMBLY BILL 283: Requires report of tax dollar loss from exemption granted to certain properties used for air or water pollution control.

A brief discussion was held, resulting in a motion by Senator Raggio to recommend "do pass"; seconded by Senator Close and carried unanimously.

ASSEMBLY BILL 411: Supplies omission in reform of certain tax penalties.

The bill amends the Local School Support Tax Law to conform to the 1974 amendment of the Sales and Use Tax Act.

Mr. Lien explained this was approved by the voters last November. Now they can reduce the penalty but they still have to impose one. What they are asking for is authority to conform this to what the voters have approved.

A motion was introduced by Senator Close to recommend "do pass", seconded by Senator Raggio and carried unanimously.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Nykki Kinsley

Nykki Kinsley, Secretary

APPROVED:

B Mahlon Brown

B. Mahlon Brown, Chairman

Sen Brown

SENATE

AGENDA FOR COMMITTEE ON TAXATION

176

Date Mon. April 7 Time p.m. ajd. Room 231

| Bills or Resolutions to be considered | Subject | Counsel requested* |
|---|---|---|
| S. B. No. 264 | Modifies ~~requirement to report~~ value ~~of~~ transferred ~~real~~ property and increases penalty for false declarations | |
| S. B. No. 386 | Provides for submission at next General Election of question proposing certain changes in Sales and Use Tax Law. | |
| S. B. No. 378 | Proposes to amend Sales and Use Tax Act of 1955 to exempt food products for human consumption. | |

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*Please do not ask for counsel unless necessary.

Nevada Tax Commission
CARSON CITY, NEVADA 89701
Telephone (702) 885-4820
In-State Toll Free 800-992-0900

MIKE O'CALLAGHAN, Governor
JOHN J. SHEEHAN, Secretary

MEMORANDUM

March 13, 1975

**TO:** Senator Mary Gojack

**FROM:** James C. Lien, Assistant Secretary

**SUBJECT:** Revised Impact Study Regarding Food Exemption Plan

The proposed system is based on exempting food for human consumption (bought from grocery stores) from the sales tax. Accordingly, Chapters 374 and 377, Nevada Revised Statutes, would be repealed with a statewide sales and use tax levy of 4% being imposed in lieu of the present maximum levy of 3½%. The amount collected would be split between the State General Fund (57% or 2.28), the State School Distribution Fund (28% or 1.12), and the Counties and Cities (15% or .60). That amount now levied as Local School Support Tax and deducted as local effort from the amount computed as the Distribution Fund allocation to a school district will be put into the State Distribution School Fund. Accordingly, school funding is not affected.

The proposed system actually generates additional tax dollars and becomes a new source of revenue to some entities without loss to entities now receiving the ½¢ County/City Relief Tax. All 17 Counties and 16 Cities will receive an allocation. The .60% will be allocated to counties on a population basis. In counties with one or no city, that amount will be distributed on the basis of population ratio. In counties with two or more cities (Clark, Elko and Washoe) the county will receive [illegible]% of the total county allocation with the balance being distributed to the cities as a population basis. The proposed system has no adverse impact on the State General Fund, school or local funding.

JCL/nw

Attach

County

Continue here

Carson City

Churchill

Clark

Douglas

Elko

Esmeralda

Eureka

Humboldt

Lander

Lincoln

Lyon

Mineral

Nye

Pershing

Storey

Washoe

White Pine

Over

STATE SALES AND USE TAX RATES

| State Rate | Local School Rate | County & City Rate | Total |
|---|---|---|---|
| 2% | 1% | | 3 % |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | | 3 % |
| 2% | 1% | | 3 % |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | | 3 % |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | | 3 % |
| 2% | 1% | ½% | 3½% |
| 2% | 1% | | 3 % |

| | PRESENT SYSTEM | 3 to 3½% Levy | |
|---|---|---|---|
| | 1975-76 | 1976-77 | 1977-78 |
| State General Fund | 59,401,000 | 64,737,000 | 71,210,700 |
| State School Distr. Fund | 1,840,000 | 1,970,000 | 2,147,000 |
| County School Distribution | 27,266,490 | 29,751,130 | 32,746,243 |
| Subtotal | 88,507,490 | 96,458,130 | 106,103,943 |
| *County/Cities | 13,443,277 | 14,653,063 A | 16,118,370 C |
| Total | 101,950,767 | 111,111,193 | 122,222,313 |

*23 Entities in 11 Counties

| PROPOSED SYSTEM | 4% Levy Statewide with Food Exempt | |
|---|---|---|
| | 1976-77 | 1977-78 |
| State General Fund | 64,944,158 | 71,438,574 |
| State School Distr. Fund | 31,902,394 | 35,092,633 |
| Subtotal | 96,846,552 | 106,531,207 |
| **County/Cities | 17,090,568 | 18,799,625 D |
| Total | 113,937,120 | 125,330,832 |

** 33 Entities in 17 Counties - Distributed on basis of population. (Counties with 2 or more cities will receive .05% of the county's total allocation, the cities will receive .55% of that allocation distributed on a population basis.)

Put into Effect January 1, 1977 - Blend of Present and Proposed

| | 1976-77 |
|---|---|
| State General Fund | 64,806,052 |
| State School Distr. Fund | 11,947,468 |
| County School Distribution | 19,834,088 |
| County/Cities | 15,465,568 B |
| Total | 112,053,176 |

## COUNTY/CITY DISTRIBUTIONS

| Entity | A<br>1976-77<br>Present System | B<br>1976-77<br>Blended Systems | C<br>1977-78<br>Present System | D<br>1977-78<br>Proposed System |
|---|---|---|---|---|
| **Carson City** | | 180,200 | | 594,989 |
| **Churchill** | 241,584 | 249,109 | 265,742 | 290,576 |
| Fallon | 94,631 | 97,580 | 104,094 | 113,823 |
| **Clark** | | 159,276 | | 875,667 |
| Boulder City | 248,609 | 251,817 | 273,470 | 274,111 |
| Henderson | 780,368 | 790,452 | 858,405 | 860,418 |
| Las Vegas | 5,987,211 | 6,064,556 | 6,585,933 | 6,601,375 |
| No. Las Vegas | 1,723,807 | 1,746,080 | 1,896,187 | 1,900,634 |
| **Douglas** | 220,089 | 226,832 | 242,098 | 264,680 |
| **Elko** | | 8,135 | | 26,845 |
| Carlin | 58,524 | 59,280 | 64,376 | 66,870 |
| Elko | 339,685 | 344,071 | 373,653 | 388,129 |
| Wells | 48,183 | 48,803 | 53,001 | 55,054 |
| **Esmeralda** | | 7,332 | | 24,195 |
| **Eureka** | | 11,052 | | 36,471 |
| **Humboldt** | 89,165 | 91,938 | 98,081 | 107,244 |
| Winnemucca | 114,718 | 118,292 | 126,190 | 137,978 |
| **Lander** | | 31,076 | | 102,552 |
| **Lincoln** | 52,483 | 54,121 | 57,732 | 63,124 |
| Caliente | 29,296 | 30,205 | 32,225 | 35,236 |
| **Lyon** | 198,637 | 204,822 | 218,501 | 238,912 |
| Yerington | 64,283 | 66,285 | 70,711 | 77,316 |
| **Mineral** | 225,496 | 232,717 | 248,046 | 271,222 |
| **Nye** | 151,109 | 155,814 | 166,220 | 181,750 |
| Gabbs | 27,951 | 28,819 | 30,746 | 33,619 |
| **Pershing** | 35,144 | 36,242 | 38,659 | 42,273 |
| Lovelock | 50,239 | 51,808 | 55,263 | 60,429 |
| **Storey** | | 8,101 | | 26,733 |
| **Washoe** | | 70,560 | | 232,848 |
| Reno | 2,906,901 | 2,944,460 | 3,197,591 | 3,321,532 |
| Sparks | 964,950 | 977,422 | 1,061,446 | 1,102,588 |
| **White Pine** | | 46,415 | | 153,172 |
| Ely | | 71,896 | | 237,260 |
| **TOTAL** | $14,653,063 | 15,465,568 | $16,118,370 | 18,799,625 |

STATES WHICH EXEMPT FOOD FROM SALES TAXES

1. Alabama - poultry and other farm, dairy, grove or garden products when in original state.

2. California - food products for human consumption.

3. Connecticut - food products.

4. Florida - foods and drinks for human consumption.

5. Georgia - food sold to approved private elementary and secondary schools.

6. Iowa - gross receipts from sales of food for human consumption which may be purchased with federal food stamps - as of July 1, 1974 all food items.

7. Louisiana - sales of livestock, poultry and other farm products direct from the farms.

8. Maine - food products for human consumption, except meals served on or off the premises of the retailer.

9. Maryland - sales of food for off-premises consumption.

10. Massachusetts - sales of food products for human consumption, sales of livestock and poultry.

11. Minnesota - sales of food products.

12. North Carolina - products of farms when sold by producers in their original state.

13. North Dakota - sales of mixed drinks composed of alcoholic beverages and non alcoholic beverages or ingredients; sales of food supplies to public, parochial or non profit schools.

14. Ohio - food for human consumption off the premises where sold.

15. Oklahoma - non-intoxicating beverages.

16. Pennsylvania - food and beverages for human consumption except (1) soft drinks, (2) malt beverages and liqours and (3) food and beverages sold by caterers and eating places if total price exceeds 10 cents.

17. Rhode Island - food products for human consumption except meals and other food products sold for immediate consumption on or off the premises even though sold on a take out or to go basis.

18. Texas - food and food products for human consumption, not including soft drinks when sold in liquid or frozen forms, and candy.

19. Utah - all sales of food, beverage and dairy products from vending machines when proceeds of the sales do not exceed 15 cents.

20. Vermont - food, food stamps, food products and beverages sold for consumption off the premises; pet food and food products.

21. Wisconsin - food, food products and beverages for human consumption unless sold for direct consumption on the premises.

22 Michigan - food exemption voted in November general election, 1974.

Source: State Tax Guide, Commerce Clearing House
Compiled by: Council of State Governments
August 6, 1974

# State Headlines

February 27, 1975 No. 75-8

## GOVERNORS CALL FOR NATIONAL ENERGY CONSERVATION EFFORTS

A massive voluntary energy conservation program was urged for the Nation as Governors held their annual winter meeting in Washington, D.C. The resolution said ingredients for such a program included more vigorous enforcement of lower speed limits, more federal aid for public transportation and stiffer standards to encourage more efficient motor vehicles. Other resolutions from the National Governors' Conference urged extended unemployment benefits for the jobless and a two-year moratorium on state funded matching requirements for impounded highway funds.

## MORE STATES FREEZE HIRING, REDUCE SPENDING

More States are tightening their fiscal belts. Among the most dramatic, RHODE ISLAND Governor Philip W. Noel proposed a 5 percent wage and workweek cut for all state employees and ordered a freeze on hiring and curbs on sick-leave abuses. Job freezes were also announced by the Governors of DELAWARE, ILLINOIS, MASSACHUSETTS, MICHIGAN, PENNSYLVANIA, SOUTH CAROLINA and UTAH. Cost cutbacks were directed by the Governors of ARIZONA, FLORIDA, KENTUCKY, NEBRASKA, SOUTH DAKOTA, VERMONT, VIRGINIA and WASHINGTON, among others. MICHIGAN Governor William G. Milliken intends to take a 10 percent pay cut as part of a comprehensive austerity program. CALIFORNIA Governor Edmund G. Brown, Jr., cut his office expenses by 7.6 percent and reduced his top aides' pay by 7 percent.

## RELEASE OF PUPILS FOR RELIGION UPHELD IN WISCONSIN

A 1973 WISCONSIN law allowing the release of public school pupils from classes for religious instruction is constitutional, the State Supreme Court ruled February 5.

## GOVERNORS PROPOSE TAX CHANGES

Proposals for tax breaks outnumbered calls for tax hikes in the Governors' 1975 state of the state and budget messages. Income tax breaks were asked in six States, sales tax breaks for food and drugs recommended in nine States, and various property tax relief measures called for in 15 States. In order to finance equal educational opportunity, the Governors of NEW JERSEY and SOUTH DAKOTA urged imposition of income taxes. NEW JERSEY's Governor also asked for an offsetting cut in the sales tax. Sales tax increases were suggested by the Governors of CONNECTICUT and WASHINGTON (to fund a proposed tax exemption for food sales). OHIO's Governor tied hikes in the sales and gasoline taxes to ballot proposals for bond issues. Gasoline tax increases were proposed by the Governors of NEW JERSEY, NEW YORK, and SOUTH DAKOTA. Cigarette taxes would be raised under proposals by the Governors of CONNECTICUT and VERMONT. Higher business taxes were advocated by the Governors of CONNECTICUT, NEW YORK, WASHINGTON and COLORADO (corporate incomes over $25,000). MICHIGAN's Governor advanced a plan for a 2 percent corporate profit and payroll tax to replace the 7.8 percent tax on profits.

## ARKANSAS TO HOLD CONSTITUTIONAL CONVENTION

ARKANSAS will hold a constitutional convention beginning May 29 as a result of a 1975 law which was Governor David H. Pryor's top priority for the session. Twenty-seven delegates will be appointed by the Governor, five by the House and three by the Senate. The law provides that certain controversial sections of the constitution cannot be changed by the convention. The new constitution is to be submitted to the voters at a special election in September.

## THREE STATES HIKE WORKER PAY, ONE LEGISLATIVE COMPENSATION

Pay raises were granted to state employees by 1975 legislative action in LOUISIANA, NORTH DAKOTA, and TEXAS. The Texas Legislature appropriated $93 million to fund 13 percent raises for workers earning less than $876 monthly and 9 percent raises for higher-paid workers. The Texas law also increases travel reimbursement to 16 cents a mile. North Dakota's 10,000 state employees will receive raises averaging 11.9 percent for the last six months of the biennium. Louisiana's Legislature provided $30.9 million to fund minimum $400 or 5 percent cost-of-living hikes for state workers and teachers. ALABAMA legislators voted themselves an increase in daily expense allowances from $30 to $50.

## JOB FREEZES ORDERED BY MORE GOVERNORS

ARKANSAS Governor David H. Pryor, citing sluggish tax collections, ordered a freeze on state hiring in late January, with the exception of additional employees to handle food stamp demands. TENNESSEE Governor Ray Blanton imposed a hiring freeze, placed purchasing of major items on an emergency only basis, and told his cabinet to make immediate budget cuts to avoid a $71.4 million deficit this June 30. A later opinion by the Tennessee Attorney General's office advised that the State could not run a deficit and all appropriations would cut off when the treasury emptied. MAINE Governor James B. Longley ordered an immediate freeze on hiring state employees and on new purchasing when he took office in January.

## FEDS MUST MEET STATE WATER QUALITY STANDARDS

States can regulate sewage discharges from federal installations, including military facilities, the U.S. Court of Appeals in San Francisco ruled February 14. The court upheld the right of CALIFORNIA and WASHINGTON State to apply their more stringent water quality standards to federal facilities. The Federal Environmental Protection Agency had approved the two States' higher standards, but had excluded federal agencies from compliance.

## JUDGES MUST BE LAWYERS IN WASHINGTON STATE

A 1973 WASHINGTON State law requiring that justices of the peace and district court judges in counties of the second class and larger be lawyers was upheld February 20 by the State Supreme Court. The Court denied a contention by a nonlawyer former justice of the peace that he should have been allowed to seek reelection under a 1961 law with a grandfather clause. The Court said the 1973 law effectively repeals the grandfather clause.

Published every two weeks by the Council of State Governments, Iron Works Pike, Lexington, Kentucky 40511. Phone (606) 252-2291. Subscription rate $8 yearly. Elaine Knapp, editor.

UNIVERSITY OF NEVADA, RENO



POLITICAL SCIENCE
Reno, Nevada 89507
(702) 784-6722

March 12, 1975

The Honorable Mary Gojack
Nevada State Senator
State Legislative Building
Carson City, Nevada 89701

Dear Mary:

Enclosed are the materials on tax impacts that I referred to last week. Both sheets are from Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice, which is probably the leading textbook currently used in that field.

Table 12-5, page 313, shows in relation to a hypothetical sales tax:

1. A broadly based sales tax results in a tax burden for people with $2,000 adjusted gross income that is twice that of people with AGIs of $50,000.

2. If food is exempted, the tax burden (percentage of adjusted gross income paid through the given tax) becomes almost equal, though still disadvantageous to the poorer person.

It is not clear whether Musgrave includes a service tax in his "broadly based sales tax". If he does, the Nevada sales tax is considerably more regressive than his broadly based sales tax and would remain quite regressive even with food exempted.

The second sheet, Table 15-1, shows the trend of tax burden through a general sales tax as it relates to total family income rather than AGI. It is more realistic insofar as it shows effects of taxes as actually imposed in 1968. It shows that the general sales tax has a differential impact of almost 7:1 on incomes of under $4,000 as compared to those between $35,000 and $92,000. This presumably lumps together sales taxes that include and exclude food. We can infer from Table 12-5 that if all state and

Senator Mary Gojack
March 12, 1974
Page 2

local sales taxes excluded food this differential burden would have been quite narrow.

Please feel free to reproduce this evidence. I again offer to testify on this evidence if you think it would be useful.

Sincerely,

Richard Siegel

Richard Siegel
Associate Professor

RS:tw

Enc.

able to a [illegible] separate tax administrations. Since it would be exceedingly difficult to integrate a federal value-added tax with retail taxes at the state level, the conclusion is that a federal consumption tax, if it were to be imposed, should also take the retail form.

## D. EQUITY ASPECTS

A completely general sales tax is regressive in its burden distribution and hence is given low marks by advocates of progressive taxation. In this section we consider the extent to which this is the case and what can be done to relieve it.

### Burden Distribution

A general retail sales tax on consumer goods or a consumption-type value-added tax is equivalent in principle to a general flat-rate tax on consumption expenditures. Looked at from the point of view of *horizontal* equity, such a tax is equitable if the index of equality is defined in terms of consumption. By the same token, it is inequitable if the index is defined in terms of income. Families with similar incomes may have differing consumption (or saving) rates, whether due to age or other differences. Such families will pay different amounts of tax, thus violating horizontal equity. Looked at from the point of view of *vertical* equity, the general sales tax is proportional as related to the consumption, but regressive as related to the income base. This is the case because the sales tax is paid by the consumer and consumption as a percentage of income declines (savings as a percentage of income rises) as we move up the income scale.[13] Column I of Table 12-5 shows the burden distribution of $25 billion raised by a progressive income tax, while column II shows the estimated distribution for a broadly based 5 percent sales tax yielding a similar amount. We note that the effective rate (ratio of tax to income) of the income tax rises as we move up the income scale, while that of the sales tax falls.[14] Moreover, though not shown in the table, the sales tax burden at any given income tends to rise with family size. Since the savings rate at a given level of income falls with family size, expenditures and hence the tax burden rise. Thus, it is estimated that at an income level of $5,500 the Michigan sales tax paid by a family of four is $128, whereas a single person pays only $78.[15]

[13] For further discussion of sales tax incidence, see the summary picture given in Table 15-1 and the analysis in Chap. 19 where the distinction between lifetime and annual income is raised.

[14] Regressivity is more pronounced than shown in the table if the *net* burden of the tax is considered. This is the case because the tax is deducted from taxable income under the federal income tax (rather than credited against tax) so that tax savings from the deduction rise with bracket rates.

[15] Based on sales tax deductions permitted under the Federal Income Tax. See Individual Income Tax Return, Form 1040, 1971.



TABLE 12-5
**Burden Impact of Raising $25 Billion in Alternative Ways**
(Tax as Percent of AGI)

| Adjusted Gross Income | Income Tax (*I*) | Broadly Based Sales or Value-added Tax, 5% (*II*) | Sales or Value-added Tax with Food Exemptions, 7% (*III*) | Broadly Based Sales or Value-added Tax, 6% with Credit (*IV*) |
|---|---|---|---|---|
| $ 2,000 | – | 4.4 | 3.1 | – |
| 4,300 | – | 3.2 | 2.9 | 0.5 |
| 5,000 | 0.5 | 3.2 | 2.9 | 1.0 |
| 10,000 | 2.3 | 3.0 | 2.9 | 3.6 |
| 15,000 | 3.0 | 2.8 | 2.9 | 3.3 |
| 50,000 | 6.0 | 2.2 | 2.9 | 2.6 |
| 100,000 | 8.6 | 1.8 | 2.5 | 2.0 |

*Sources:*

Column I: Joint returns, four exemptions. Above $15,000 assumes 10% as deduction. All income fully taxable. Assuming the yield from present rates at $100 billion, the above equals one-quarter of present liabilities to yield $25 billion.

Columns II and III: Ratios estimated on basis of Tax Foundation, *Tax Burden and Benefit of Government Expenditures by Income Classes 1961 to 1965*, New York: 1967; and Joseph A. Pechman, *Federal Tax Policy*, 2d ed., Brookings, 1971, p. 157.

Column IV: $2,000 of consumption is tax-free. Credit of $120 to vanish by $24 for each $1,000 of income in excess of $5,000.

This regressive nature of the general sales tax remains but is reduced substantially if home-consumed food is exempted. About half the sales tax states provide such exemptions. Since this results in a substantial reduction in tax base, the rate as shown in column III must be raised from 5 to 7 percent to maintain the yield. While the tax remains regressive at the very bottom and top ends of the income scale, it now becomes more or less proportional over the middle range. The regressive pattern is greatly dampened but it is not removed.

### Credit

A more effective way of dealing with regressivity is to tackle the problem directly by permitting a tax-free amount of expenditure. This may be done by permitting the taxpayer a corresponding credit against his state income tax. Such a credit is now used by seven states and the District of Columbia. In some states, the credit is given as a flat amount while in others it is limited to taxpayers below a certain income level. In others, the credit declines as income rises. A credit of $8 given in Indiana, for instance, capitalized at a tax rate of 5 percent implies a tax-free expenditure of $400. As the credit is given per person, it allows for the number of dependents. Thus it not only reduces regressivity for a given family size but also reduces the burden for

**TABLE 15-1**
**Estimated Distribution of Tax Burdens by Income Brackets, 1968**
(Taxes as Percent of Total Family Income)

| Taxes | Under $4,000 | $4,000– $5,700 | $5,700– $7,900 | $7,900– $10,400 | $10,400– $12,500 | $12,500– $17,500 | $17,500– $22,600 | $22,600– $35,500 | $35,500– $92,000 | $92,000– and over | All Brackets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Federal Taxes* | | | | | | | | | | | |
| 1. Individual income tax | 2.0 | 2.8 | 5.9 | 7.1 | 7.9 | 10.1 | 10.6 | 12.7 | 14.8 | 18.5 | 9.9 |
| 2. Estate and gift tax | – | – | – | – | – | – | – | 0.6 | 2.0 | 2.7 | 0.7 |
| 3. Corporation income tax | 5.1 | 6.1 | 5.0 | 4.0 | 4.3 | 4.6 | 4.8 | 5.1 | 5.3 | 6.6 | 5.0 |
| 4. Excises and customs | 2.5 | 2.8 | 3.1 | 3.0 | 2.9 | 2.7 | 2.1 | 1.1 | 0.9 | 0.6 | 2.3 |
| 5. Payroll tax | 5.5 | 6.3 | 7.0 | 6.9 | 6.7 | 6.1 | 5.2 | 4.2 | 1.5 | 0.6 | 5.2 |
| 6. Total | 15.2 | 17.9 | 20.8 | 21.6 | 21.6 | 23.4 | 22.6 | 23.8 | 24.5 | 29.1 | 22.7 |
| 7. Total excluding line 5 | 9.7 | 11.6 | 13.9 | 14.7 | 14.9 | 17.3 | 17.4 | 19.6 | 23.0 | 28.5 | 17.5 |
| *State and Local Taxes* | | | | | | | | | | | |
| 8. Individual income tax | – | 0.1 | 0.3 | 0.6 | 0.7 | 1.1 | 1.4 | 2.3 | 1.6 | 1.3 | 1.0 |
| 9. Inheritance tax | – | – | – | – | – | – | – | 0.2 | 0.6 | 0.8 | 0.1 |
| 10. Corporation income tax | 0.4 | 0.5 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.7 |
| 11. General sales tax | 3.4 | 2.8 | 2.5 | 2.3 | 2.2 | 2.0 | 1.7 | 1.0 | 0.5 | 0.3 | 1.8 |
| 12. Excises | 2.7 | 3.0 | 3.3 | 3.0 | 2.9 | 2.5 | 1.9 | 1.0 | 0.8 | 0.6 | 2.1 |
| 13. Property tax | 6.7 | 5.7 | 4.7 | 4.3 | 4.0 | 3.7 | 3.3 | 3.0 | 2.9 | 3.3 | 3.9 |
| 14. Payroll tax | 0.2 | 0.5 | 0.8 | 1.0 | 1.0 | 1.0 | 1.1 | 1.2 | 0.2 | 0.1 | [illegible] |
| 15. Total | 13.4 | 12.5 | 11.9 | 11.6 | 11.1 | 10.6 | 9.7 | 9.1 | 7.1 | 6.9 | 10.3 |
| 16. Total excluding line 14 | 13.2 | 12.1 | 11.1 | 10.6 | 10.1 | 9.6 | 8.6 | 7.9 | 6.9 | 6.8 | 9.5 |
| *All Levels* | | | | | | | | | | | |
| 17. Total | 28.5 | 30.5 | 32.8 | 33.1 | 32.8 | 33.9 | 32.4 | 32.9 | 31.6 | 35.9 | [illegible] |
| 18. Total excluding lines 5 and 14 | 22.9 | 23.7 | 25.0 | 25.3 | 25.0 | 26.9 | 26.0 | 27.5 | 29.9 | 35.3 | 27.0 |

*Source:* For brief explanation of estimates, see text.
*Notes:*
Uneven bracket limits are used for computational reasons.
Line 12: Includes motor vehicle licenses, excises, and miscellaneous revenue.
Totals may not add due to rounding.

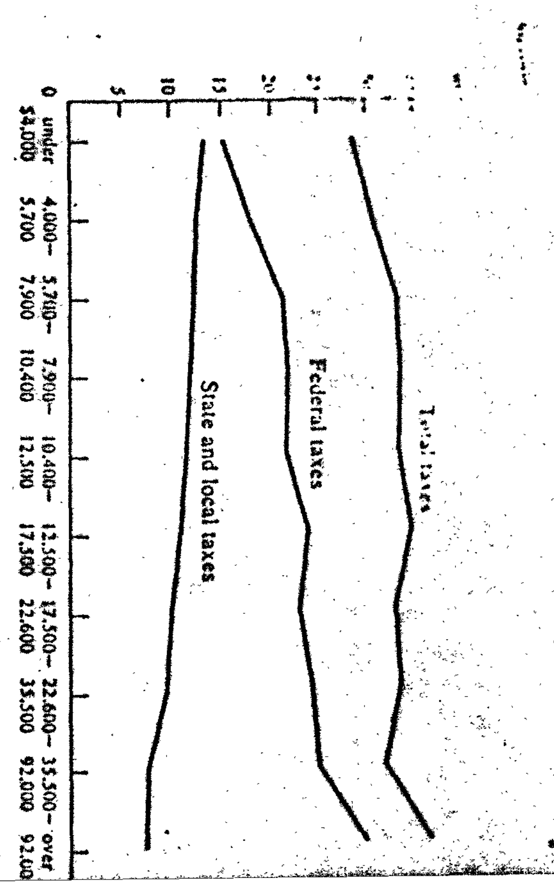


**FIGURE 15-2**
**Total Taxes as a Percentage of Total Family Income**

*Notes:* Total taxes, federal taxes, and state and local taxes are derived from Table 15-1, lines 17, 6, and 15 respectively.

The state and local picture shows a less progressive pattern for the [...]come tax which in fact turns regressive at the upper end.[22] The regressi[...] of the general sales tax (line 11) exceeds that of excises and the property [...] distribution (line 13) is mildly regressive under the assumptions used h[...]

The combined pattern, including federal, state, and local taxes (line[...] and Figure 15-2), is the most interesting part of the picture. We find [...] overall burden distribution to be more or less proportional over a wide r[...] dle range—from, say, $5,000 to $30,000—which includes the great bul[...] all families. Again this is flanked by progression at both ends of the scale[...] payroll taxes are excluded (line 18), lower-end progression is increased[...]

ALTERNATIVE ASSUMPTIONS We have noted that the choice of the [...]cidence assumptions is the most crucial element in determining the resul[...] pattern of burden distribution. This is shown in Table 15-2 where the sig[...]cance of alternative incidence assumptions is explored. The results [...] shown for selected income brackets only.

[22]Since bracket rates do not exceed a moderate level, the increasing share of income su[...] to preferential treatment results in a decline in the average rate as computed on a full inc[...] base.

(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).

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.

(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)

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

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(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.

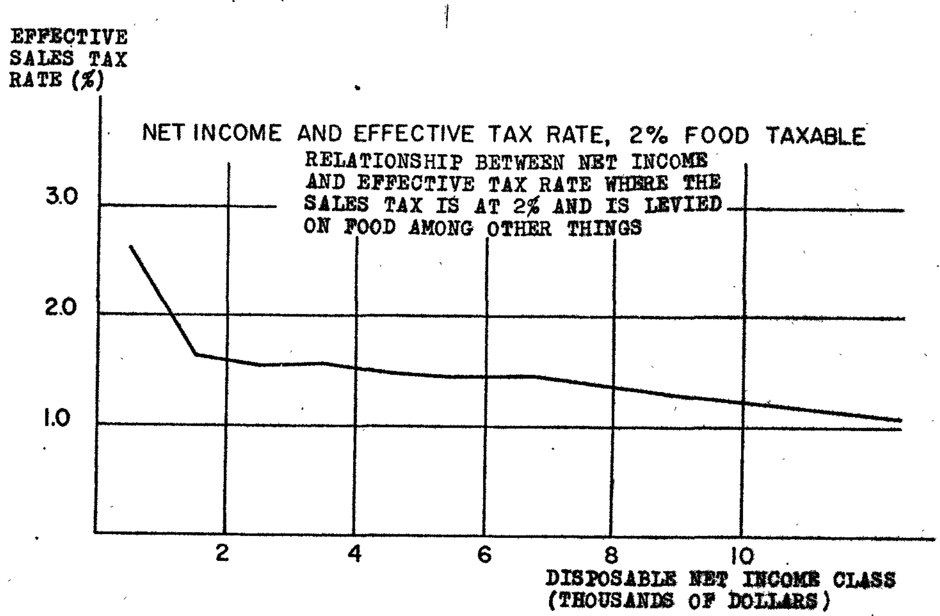


TABLE 211

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

| 1<br>Disposable net income class* (000) | 2<br>Net income | 3<br>Consumption (C) | 4<br>Taxable consumption (TC) | 5<br>TC ÷ C | 6<br>APC | 7<br>APCT | 8<br>Tax amount | 9<br>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).

FIGURE 4

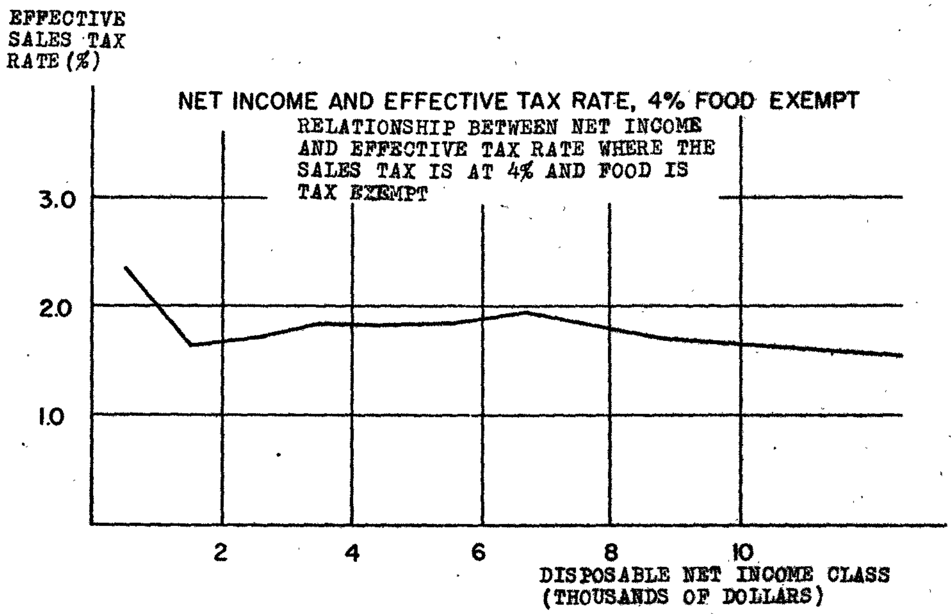


TABLE 214

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

| 1 Disposable net income class* (000) | 2 Net income | 3 Consumption (C) | 4 Taxable consumption (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 | 3,609 | 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 | 5,108 | 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 = 1.76 ÷ 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 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 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).

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Nevada State Journal

A Speidel Newspaper



Sunday, April 6, 1975

## Editorials

# Removing Tax on Food Would Equalize Burden

We approve of submitting the question of lifting the tax on food to the voters in 1976.

We are aware, however, that on the surface, this may not seem the time for lifting state taxes on any commodity. Members of the Assembly Ways and Means Committee have been pounding in the idea of an imminent state fiscal crisis mercilessly. It is not so much a question of what is wrong now, as what could happen if Nevada's tourist economy falters.

For this reason, one would think the state will need every penny it can get, particularly in the form of a stable, ongoing taxation.

There are, however, compelling reasons why the tax should be lifted. And the bill which would submit the amendment to a vote, SB-386, provides for tax increase in other areas which would even increase state tax revenues.

A tax on food is a regressive tax. Food is a commodity which is purchased by rich and poor alike. Rich and poor pay the same amount of tax for the same amount of food. But, of course, the poor pay a disproportionate share of their earnings for food, and therefore a disproportionate share of tax.

According to "Public Finance in Theory and Practice," a leading economics textbook by Richard A. Musgrave and Petty Musgrave, the share of the tax burden carried by the poor paying sales tax is large.

A broadly based sales tax, such as Nevada's which includes a tax on food, results in a tax burden for people with $2,000 adjusted gross income yearly that is twice that of people with incomes of $50,000 a

Nevada's food sales tax was approved by referendum in 1956. Even at the time, the possibility of deleting the tax on food was considered. It was decided, however, that administratively, such an exemption would be too burdensome.

Bookkeeping procedures have increased in effeciency with the advent of the computer. And removing the food tax from the total sales tax package has become a nationwide trend. Presently, 22 states have such legislation.

Under the legislation sponsored by Sen. Mary Gojack, D-Reno, the income provided by the tax on food would be made up by increasing the sales tax by one half per cent and imposing this 4 per cent tax statewide in lieu of the present maximum tax of 3½ per cent.

The amount collected would be split between the State General Fund, the State School Distribution Fund and the counties and cities.

The law is constructed so that school funding is not affected.

It is projected that the new tax plan would generate additional revenue for all entities, particularly for those cities and counties that do not impose the one half per cent tax.

The Nevada Tax Commission has released figures which demonstrate the increase. It is projected that in the 1977-78 period, $122,222,313 will be collected under the present 3 to 3½ per cent tax. If the four per cent statewide tax exempting food should be imposed, however, $125,330,832 would be collected.

This is a substantial increase.

In addition, Carson City, and Esmeralda, Eureka, Lander, Storey and White Pine counties would receive increased benefits since they do not apply the city-county relief tax.

Particularly in times of recession, tax laws should be studied carefully to assure that the load is distributed equally.

Often, relatively painless measures can be adopted to increase state revenue while reducing the burden borne by those with lower incomes.

Imposing an estate tax in Nevada, which would enable Nevada to pick up a portion of the federal tax already collected, is one way to increase revenues.

The food tax, which would shift some of the tax burden to those who can more easily afford it, is another equitable tax reform.

over

continued

If food is exempted, as would be the effect of the proposed amendment, the tax burden (the percentage of adjusted gross income paid through the tax) becomes almost equal. It still, however, places a greater burden on the poor.

The Musgrave book also shows that when total family income is considered rather than adjusted gross income, the general sales tax has about seven times the impact on yearly incomes under $4,000 as compared to those between $35,000 and $92,000.