

How Dependent Is Nevada on Sales and Use Taxes?

Introduction

The combination of three tax sources – income (what is earned), property (what is owned), and sales (what is bought) – is the foundation of revenue structures in many states. Nevada is distinct, if not unique, in this regard: it does not impose a state income tax, and property taxes are distributed primarily to local governments, such as counties, cities, and school districts. This shifts Nevada’s revenue burden to the sales tax.

The sales tax is vulnerable to economic cycles. That is, it tends to fluctuate with short- and long-term local and national economic conditions, thus making it a volatile source of revenue. Moreover, Nevada’s economy is concentrated in sales-tax-generating industries, such as retail trade, food services, and hospitality. The prevalence of sales-tax-generating industries – which are vulnerable to market contractions – coupled with Nevada’s dependence on the sales tax to fund operations, creates a compounding effect. The hardest-hit sectors of the economy have a high concentration in taxable sales, and it is on this revenue source that the State relies most heavily.

Put simply, the most vulnerable industry sectors are simultaneously the most instrumental to the State for its operational expenses. Some states may weather the decline in taxable sales, especially over the long term, but those with a high concentration of sales-tax-generating industries or a budgetary dependence on the sales tax, may fare worse. That Nevada has a combination of both may be cataclysmic for the State.

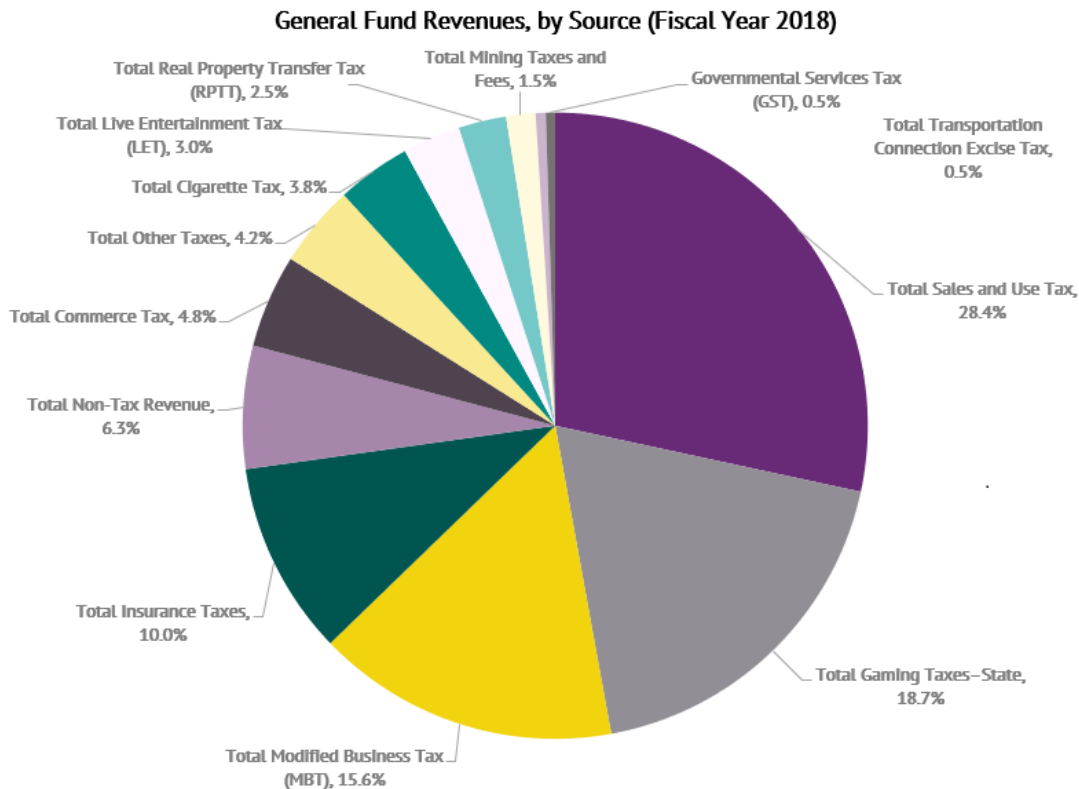
This data snapshot briefly assesses the extent of Nevada’s dependence on sales and use taxes.

Sales and Use Taxes in Nevada: An Assessment of Dependence

The General Fund is the State’s major operating fund. Collections in the form of taxes, certain licenses/fees, and use of money and property that can be used in the appropriations process are deposited in Nevada’s General Fund.

As Figure 1 indicates, total sales and use taxes deposited in the General Fund make up its largest share of revenue, or 28.4 percent. That is nearly 10 percentage points higher than the second-largest contributor, total gaming taxes–State (18.7 percent). Collectively, the third- and fourth-largest contributors, total modified business tax (MBT) and total insurance taxes, respectively, account for 25.6 percent of General Fund revenues, which comprise a smaller share than total sales and use taxes alone. With nearly one-third of General Fund revenues derived from sales and use taxes, which far exceed other revenue sources, it is evident that the State depends on the strength of taxable sales to help fund its operations.

Figure 1. General Fund Revenues, by Source (Fiscal Year 2018)

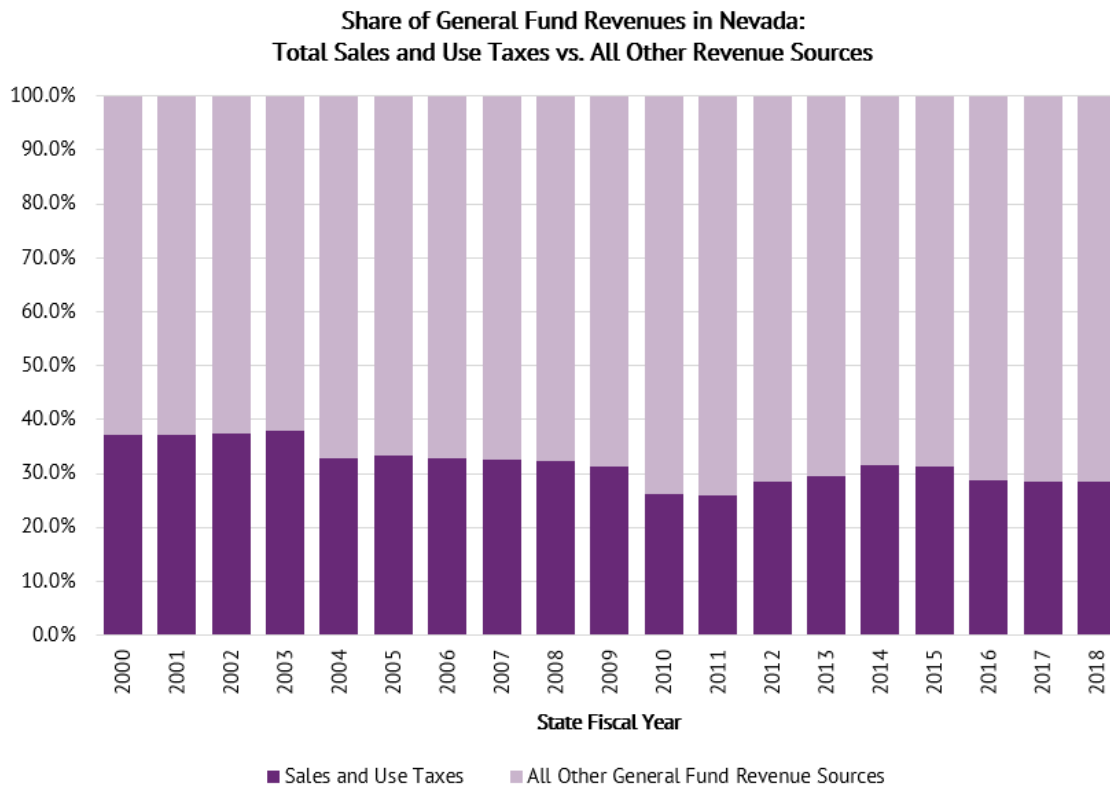


Source: [General Fund Revenues – Economic Forum May, 1, 2019 Forecast, Adjusted for Actions Approved by the 2019 Legislature \(80th Session\)](#)

It should be noted, however, that the State’s reliance on sales and use taxes has declined over time, as shown in Figure 2. In FY 2000, the sales and use taxes share of the General Fund was 37.0 percent. Since then, the share of sales and use taxes in General Fund revenues increased slightly through FY 2014, then dipped incrementally before leveling off in FY 2016 through FY 2018.

The decreasing share in recent years may be explained partially by the impact of tax credit programs, which began to apply in FY 2015. The sales and use tax share of the General Fund data as displayed in Figures 1 and 2 is calculated before tax credits; after tax credits, total General Fund revenues are lower, which means that the sales and use tax share may be slightly understated. Another possibility is that the commerce tax provisions went into effect on July 1, 2015, which marked the beginning of FY 2016, which is when the sales and use tax share of General Fund revenues decreased. As Nevada diversified its General Fund revenue portfolio with the addition of the commerce tax, total General Fund revenues increased, which commensurately lessened the impact of sales and use taxes.

Figure 2. Share of General Fund Revenues in Nevada: Total Sales and Use Tax vs. All Other Revenue Sources

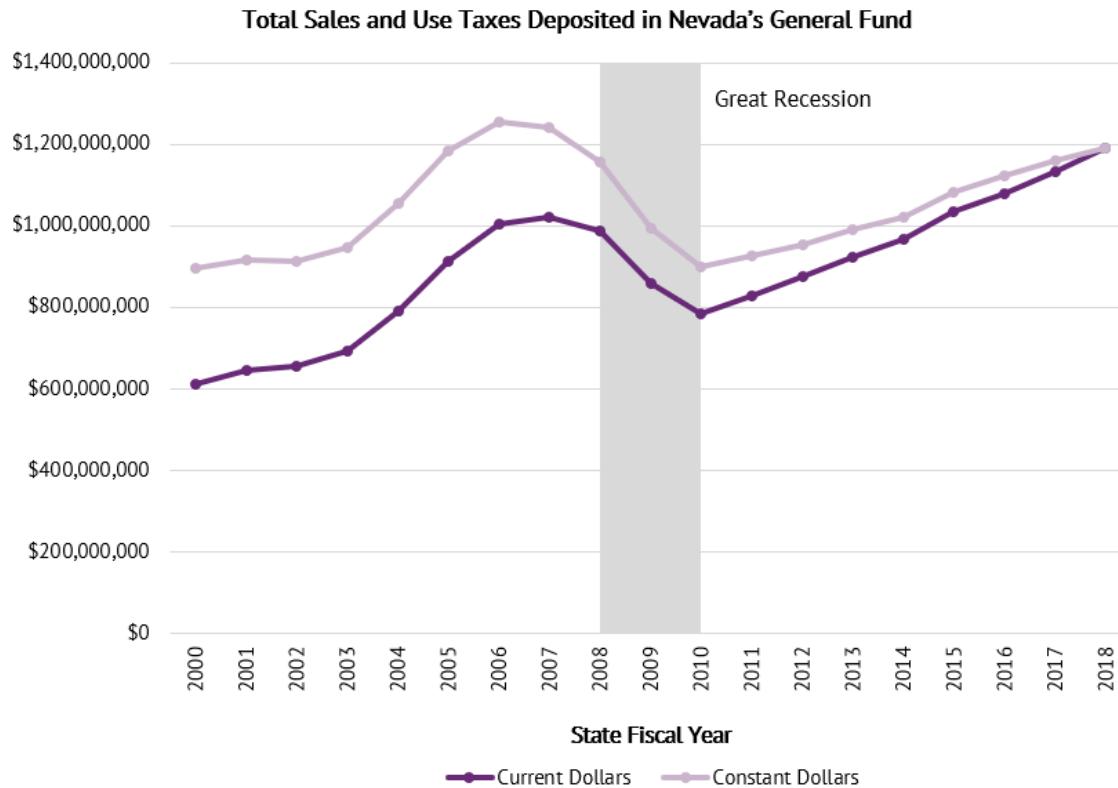


Source: Fiscal Analysis Division, Nevada Legislative Counsel Bureau. [2001 – 2019 Appropriations Report\(s\)](#).

Figure 3 shows sales and use tax deposits in the General Fund in current and constant dollars. In inflation-adjusted terms, sales and use taxes increased just 33.0 percent between FY 2000 and FY 2018. This suggests that, while Nevada is dependent on this revenue stream, the real dollar amount seemingly has not increased commensurately with population growth and higher levels of visitation, which should translate into higher revenue yields from taxable sales.

Nevada’s dependence on sales and use taxes is in evidence when compared to other states. Data from the U.S. Census Bureau’s *Annual Survey of State and Local Government Finances* shows that, in 2017, Nevada ranked 3rd-highest in state-level general sales tax collections per capita at \$1,627. For comparison, Hawaii is the highest (\$2,278), and Virginia is the lowest (\$472).

Figure 3. Total Sales and Use Taxes Deposited in Nevada’s General Fund



Source: Fiscal Analysis Division, Nevada Legislative Counsel Bureau. [2001 – 2019 Appropriations Report\(s\)](#).

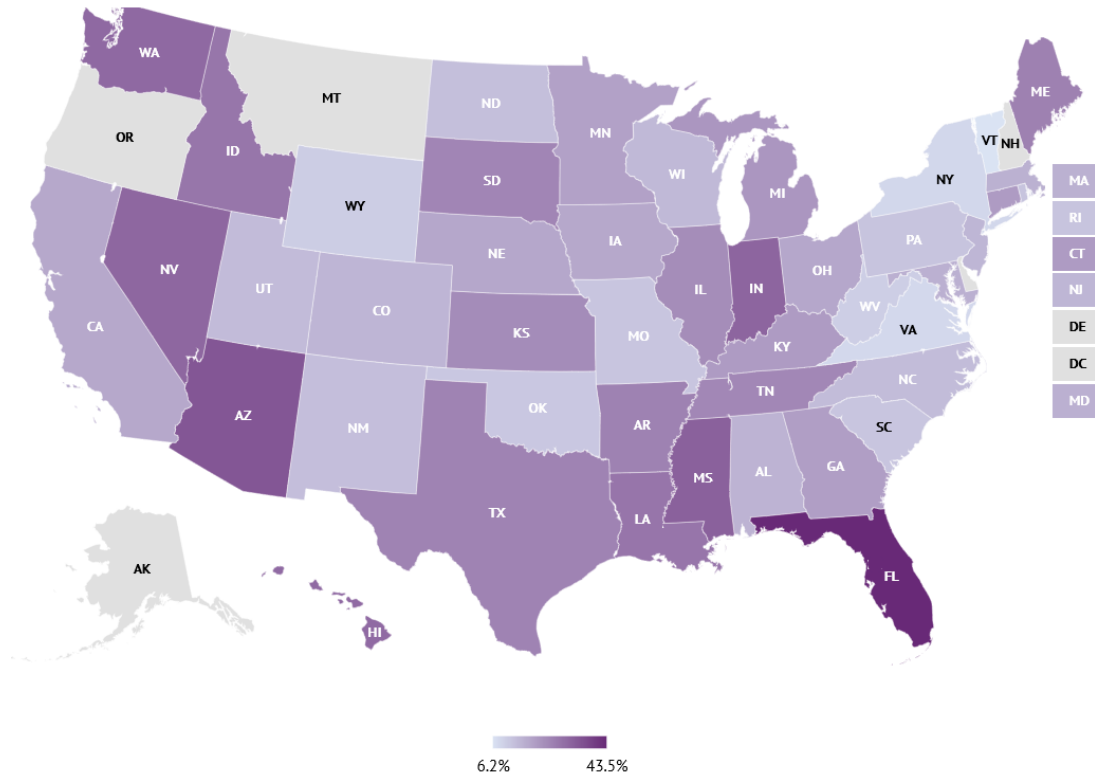
Figure 4 maps general sales tax (i.e., sales tax collections) as a share of general revenue each state receives from its own sources at the state government level. (See the Appendix for ranked data and for sales tax collections in local governments and state/local governments combined.) Note that Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy state sales taxes. Nor does the District of Columbia, definitionally, as it is not a state.

In Nevada, general sales tax as a share of general revenue for 2017 was 31.1 percent for a ranking of 5th in the nation, which conveys Nevada’s dependence on sales and use taxes relative to other states. (The percentage differs slightly from that displayed in Figure 2, most likely as a result of incongruities across data sources.) States with higher shares, in ascending order, are: Indiana (31.4 percent), Mississippi (32.3 percent), Arizona (34.5 percent), and Florida, far exceeding the others, at 43.5 percent. Vermont has the lowest general sales tax share of general revenue at 6.2 percent.

What is somewhat unexpected is that, of the seven states with no income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming), and excluding Alaska on the basis of its lack of state sales tax, three states do not rank in the top 10 of general sales tax as a share of general revenue: South Dakota, Texas, and Wyoming (though the former two are in the top 15). Wyoming is the outlier with just a 10.6 percent general sales tax share of general revenue.

Figure 4. General Sales Tax as a Share of General Revenue from Own Sources: State Government, 2017

General Sales Tax as a Share of General Revenue from Own Sources: State Government, 2017



Source: U.S. Census Bureau. [Annual Survey of State and Local Government Finances: 2017 State & Local Government Finance Historical Datasets and Tables](#).

Conclusion

Generally, both the State-level data and the comparative data indicate that Nevada is fairly dependent on sales and use taxes. Sales and use taxes account for nearly one-third of State General Fund revenues, and Nevada has the 3rd-highest state-level general sales tax collections per capita, and the 5th-highest general sales tax as a share of general revenue in the nation. Sales tax dependence in Nevada thus is intrinsically high and comparatively high. As lawmakers grapple with policy solutions around economic recovery and potential budget shortfalls in the wake of the COVID-19 pandemic, the State’s dependence on such a variable tax may become a concern.

Appendix

General Sales Tax as a Share of General Revenue from Own Sources, by Level of Government, 2017						
State	State Government	Rank	Local Government	Rank	State and Local Government	Rank
Florida	43.5%	1	3.5%	28	22.0%	7
Arizona	34.5%	2	19.5%	5	28.1%	2
Mississippi	32.3%	3	0.0%	–	19.2%	11
Indiana	31.4%	4	0.0%	38	18.7%	12
Nevada	31.1%	5	5.2%	23	23.1%	6
Washington	30.6%	6	8.8%	13	23.9%	5
Hawaii	30.4%	7	6.4%	20	24.5%	4
Louisiana	28.3%	8	31.2%	1	29.7%	1
Idaho	28.0%	9	0.1%	37	17.5%	15
Maine	25.9%	10	0.0%	–	15.7%	19
Arkansas	25.7%	11	27.2%	2	26.0%	3
Texas	25.3%	12	6.1%	22	18.1%	13
South Dakota	24.9%	13	10.5%	12	20.7%	8
Tennessee	24.7%	14	8.6%	15	20.2%	9
Kansas	23.7%	15	12.4%	10	19.3%	10
Illinois	23.5%	16	6.4%	21	15.0%	22
Michigan	21.6%	17	0.0%	–	14.0%	24
Kentucky	20.6%	18	0.0%	–	13.8%	26
Connecticut	20.6%	19	0.0%	–	12.8%	29
Georgia	19.9%	20	12.9%	9	16.5%	17
Minnesota	19.3%	21	1.3%	34	13.0%	28
Nebraska	18.3%	22	4.0%	26	12.6%	31
Ohio	18.2%	23	4.5%	25	14.1%	23
Iowa	18.1%	24	3.2%	29	12.6%	32
California	18.1%	25	8.7%	14	13.9%	25
Maryland	16.3%	26	0.0%	–	9.4%	39
Massachusetts	16.3%	27	0.0%	–	10.4%	36
Alabama	15.8%	28	19.7%	4	17.4%	16
Colorado	15.3%	29	20.1%	3	17.9%	14
New Jersey	15.2%	30	0.0%	–	9.6%	38
Wisconsin	14.7%	31	1.4%	33	11.0%	35
Utah	14.1%	32	6.8%	18	12.7%	30
North Carolina	13.9%	33	6.5%	19	12.4%	33
New Mexico	13.5%	34	12.9%	8	15.9%	18
North Dakota	13.5%	35	5.2%	24	12.3%	34
Pennsylvania	12.5%	36	1.4%	32	9.1%	40
Rhode Island	12.5%	37	0.0%	–	8.9%	42
South Carolina	12.2%	38	2.4%	30	8.9%	41
Missouri	12.2%	39	11.3%	11	13.4%	27
Oklahoma	11.7%	40	16.8%	6	15.5%	20
Wyoming	10.6%	41	1.8%	31	7.9%	44
West Virginia	10.5%	42	0.8%	35	8.4%	43
New York	8.7%	43	8.5%	16	10.2%	37
Virginia	8.4%	44	3.7%	27	7.3%	45
Vermont	6.2%	45	0.5%	36	5.5%	46
Alaska	0.0%	–	7.7%	17	2.9%	47
Delaware	0.0%	–	0.0%	–	0.0%	–
Montana	0.0%	–	0.0%	–	0.0%	–
New Hampshire	0.0%	–	0.0%	–	0.0%	–
Oregon	0.0%	–	0.0%	–	0.0%	–
District of Columbia	–	–	15.2%	7	15.2%	21
U.S. Average	22.7%	–	8.2%	–	16.2%	–

Source: U.S. Census Bureau. [Annual Survey of State and Local Government Finances: 2017 State & Local Government Finance Historical Datasets and Tables.](#)