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Report: Inequitable Tax Code Costs Nevadans up to $1.5 Billion

Taxing Top Incomes at the Same Rate as the Middle Class Could Fund Critical States Priorities, Restoring Cuts to Higher Education and Paying Down Pension Debt

Reno—As the Nevada legislature prepares to grapple with difficult budget choices, a new report today shows that the state could generate up to $1.5 billion in revenue by fixing inequities in state tax code.

Nevada’s highest-income one percent pay a significantly lower percentage of their income in state and local taxes than those in the middle of the income distribution—1.4 percent vs. 6.6 percent, respectively. The report, Tax Fairness: An Answer to Nevada’s Budget Problems, released by the Keystone Research Center and the Progressive Leadership Alliance of Nevada, finds that if Nevada taxed the top one percent of taxpayers at the same rate as the middle 20 percent, the state could raise $857 million per year. Similarly, if the top 20 percent of income earners paid a fair tax, Nevada would generate $1.5 billion per year.

“Revenue lost because of the one-two punch of rising inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said Keystone Research Center economist Stephen Herzenberg. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In the 1970s, the top one percent of taxpayers received about one of every nine dollars of income in Nevada. By 2012, their share of Nevada’s total income had risen to 30.8 percent—nearly one in every three dollars and the third-highest one percent share in the nation. This shift equals means that, every year, $21.7 billion in income now goes to just one percent of Nevadans. According to a recent analysis from the Economic Policy Institute, Nevada is one of four states where only the top one percent experienced rising incomes since 1979, while incomes for the bottom 99 percent fell over this nearly-three-decade period.

For context: $21.7 billion is more than six-and-a-half times the Nevada state (General Fund) budget and 58 times the annual cost of paying down the state’s pension debt.

There are many ways that Nevada could embrace tax fairness. It could emulate other states by establishing a progressive income tax. It could also replace its business payroll tax with a profits tax. Taxing upper income groups at the same overall tax rate as middle-class Nevadans would relieve enormous pressure on the state’s budget. With about 60 percent of the $857 million generated by applying tax fairness to just the one percent, Nevada could restore state cuts in higher education funding since 2007-08 and pay down its pension debt.
The loss of revenue because the top one percent pay low tax rates is not unique to Nevada. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Applying tax fairness to the one percent would generate $68 billion nationally, while taxing the top 20 percent at the same rate as the middle class would generate $128 billion.

"This study illustrates how corporate interests and the very wealthiest residents have benefitted at the expense of working families. Enacting the Governor’s proposed corporate tax package and raising the minimum wage are two simple, big steps we can take to make life better for Nevadans," said Bob Fulkerson, state director and co-founder of the Progressive Leadership Alliance of Nevada.

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