

State-Level Revenue Raising Options to Support ECE Initiatives in Nevada



2024

Introduction

This memo analyzes state-level revenue-raising mechanisms that could be utilized to enhance public investments in early childhood care and education in the state of Nevada. It was created in partnership with the Children’s Funding Project and its national partner—the Institute on Taxation and Economic Policy.

Six potential revenue raising mechanisms were identified as potential sources for new funding that could be dedicated to ECE initiatives at the state level. Each of these options is summarized and analyzed, with a description of each revenue mechanism, potential revenue yield (if known), comparison with other and neighboring states, and considerations of who ultimately pays for the revenue increase. In the “Considerations” discussion, pros/cons as well as factors contributing to feasibility are identified. The conclusion lays out next steps for further utilization of this information in the information-gathering, decision-making, and strategic planning processes.

The appendix lists source materials consulted as part of the revenue options research.

State-Level Revenue Raising Mechanisms for ECE

Enact a Capital Gains Excise Tax

- **Description:** Similar to Washington State’s recently enacted capital gains excise tax, a tax on certain capital-gains-generating sales.
- **Estimated Revenue:** Could raise approximately \$57 million per percentage point if modeled on WA design
- **States with This Tax & Neighboring States:** WA recently became the first state without a personal income tax to enact an excise tax on capital gains.
- **Who Pays:** Capital gains taxes are highly progressive with the vast majority of the revenue coming from taxpayers with the highest ability to pay

Enact a Personal Income Tax

- **Description:** A tax on personal income, which would require constitutional amendment
- **Estimated Revenue:** Depending on the design of a proposed personal income tax, the revenue generated could be significant (in the billions of dollars)
- **States with This Tax & Neighboring States:** A majority of states levy taxes on personal income
- **Who Pays:** In general, income taxes are progressive, though a flat tax would be less so than one with a graduated structure

Reform the Modified Business Tax

- **Description:** The current Modified Business Tax is essentially a payroll tax paid by businesses on payroll exceeding \$50,000 per quarter with different rates for different types of businesses
- **Estimated Revenue:** Requires further analysis to estimate revenue yield of different policy designs.
- **States with This Tax & Neighboring States:** 7 states currently levy a surcharge on property taxes for property over a certain amount, but none in the region
- **Who Pays:** As a payroll tax levied on employers, the direct incidence of the tax likely falls on shareholders

Reform Commerce Tax

- **Description:** Nevada's Commerce Tax is a type of gross receipts tax applying to the total sales of businesses. In Nevada, this applies to businesses with at least \$4 million in sales and includes 26 industry-specific rates
- **Estimated Revenue:** Depending on design of policy
- **States with This Tax & Neighboring States:** Delaware, Ohio, Oregon and Washington have gross receipts taxes
- **Who Pays:** As a tax on levied on the total sales, the costs of the gross receipts tax are likely passed onto consumers

Enact a Progressive Payroll Tax

- **Description:** Enacting a tax to be imposed on wages and remitted by the employer
- **Estimated Revenue:** Depending on design, could be substantial (hundreds of millions)
- **States with This Tax & Neighboring States:** Several states utilize payroll taxes to pay for Paid Family and Medical Leave; Vermont became the first state to utilize a payroll tax for child care
- **Who Pays:** Depending on design, this could be a fairly progressive tax change

Reform the Real Property Tax

- **Description:** Nevada's existing Real Property Transfer Tax could be revised to charge higher rates for very high-value homes
- **Estimated Revenue:** Depending on design, could raise from \$38 million to \$374 million annually
- **States with This Tax & Neighboring States:** Seven states currently levy a higher rate on sales of high-value homes, as well as several localities
- **Who Pays:** This would be a progressive source of revenue

Considerations

Determining the most feasible revenue mechanism depends on several factors, including political, economic, and equity considerations. The below chart highlights some key features to consider.



Revenue Mechanism	Pros	Cons	Feasibility Factors
Enact a Capital Gains Excise Tax	Highly progressive source of revenue	Revenue could fluctuate year over year	Politically challenging
Enact a Personal Income Tax	Easy to implement and administer; substantial revenue potential.	Immense opposition politically and some legal challenges in NV	Politically challenging; mitigation measures (e.g., tax credits) could improve acceptance.
Reform the Modified Business Tax	Can simplify tax code and raise revenue simultaneously	As a form of gross receipts tax, likely a regressive source of revenue	Significant political and legal barriers
Reform Commerce Tax	Can simplify tax code and raise revenue simultaneously	Depending on design, might be less revenue or less progressive than a payroll tax	Significant political and legal barriers
Enact a Progressive Payroll Tax	Relatively simple to administer and remit. Significant revenue potential.	Depending on design, could be more or less progressive	Significant political and legal barriers
Increase Real Estate Transfer Taxes	Progressive, targeting wealthier households; high revenue potential from top-tier homes.	Market dynamics may shift to avoid taxation; administrative challenges in property valuation.	Politically viable in progressive regions but may encounter resistance from real estate stakeholders.

Conclusion

The revenue mechanisms outlined in this memo represent a mix of regressive and progressive options, each with unique pros and cons and different feasibility profiles.

Next steps towards exploring these options and landing on decisions should include:

1. Stakeholder Engagement: Convene discussions with key stakeholders, including policymakers, educators, advocates, and affected industries, to build consensus on the most viable mechanisms.

2. **Model Revenue and Equity Impacts:** Conduct detailed modeling for each revenue option to understand potential revenue generation and its distributional effects. This includes exploring how different design features (e.g., exemptions, credits) could mitigate regressivity or enhance progressivity.
3. **Policy Design Refinement:** Refine the policy details of prioritized mechanisms to address stakeholder concerns, ensure administrative feasibility, and optimize equity outcomes.
4. **Public Awareness Campaign:** Launch an awareness campaign highlighting the critical need for early childhood investment and the benefits of the proposed mechanisms to garner public and legislative support.

By evaluating these mechanisms through a lens of equity and sustainability and following a structured approach to stakeholder engagement and policy refinement, Texas can make meaningful strides toward enhancing its investment in early childhood education.

Appendix: Sources

Enact a Capital Gains Excise Tax (CGET)

<https://budgetandpolicy.org/resources-tools/2024/05/Capital-Gains-Tax-FAQ-BPC.pdf>

https://budgetandpolicy.org/resources-tools/2022/02/WA_Capital_Gains_Tax_Fact-Sheet.pdf

Enact a Personal income Tax

<https://itep.org/whopays-7th-edition/>

<https://itep.org/the-pitfalls-of-flat-income-taxes/>

<https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves>

Enact a Progressive Payroll Tax

<https://itep.org/cigarette-taxes-issues-and-options-1>

<https://app.leg.wa.gov/RCW/default.aspx?cite=82.26.020>

<https://www.cdc.gov/statesystem/factsheets/excisetax/ExciseTax.html>

Increase or Rework Real Estate Transfer Taxes on High-Value Homes

<https://itep.org/states-should-enact-expand-mansion-taxes-to-advance-fairness-and-shared-prosperity/>

<https://itep.org/local-mansion-taxes/>

<https://itep.org/state-mansion-tax-estimator/>

<https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes>