Reno: Growth and Opportunity in a Low-Tax Environment

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RENO, NEVADA CALLS ITSELF THE "BIGGEST LITTLE CITY in the World." For many years, Reno was viewed as a blue-collar gambling town tucked into the base of the eastern Sierra Nevada mountains. Today, many are discovering that Reno is one of the best-kept secrets in the western United States.

With a booming economy, low taxes, several of the highest ranked public schools in the state, a temperate four season climate, plentiful outdoor recreation opportunities, and a four hour drive from Silicon Valley, it's no surprise that companies like Microsoft, Tesla, Apple and Amazon have expanded and relocated operations to the area.

Startups and incubators are popping up and attracting more millennials. Transplants are relocating to the area to take advantage of these benefits and escape the high cost of living in states like California. If you visit downtown Reno today, the growth and opportunity feel very similar to the early days in Silicon Valley; the biggest difference is the tax landscape.

Nevada has established itself as an attractive state to do business, and to reside. Nevada is a historically low-tax state. Nevada has no personal income tax. The majority of tax revenues come from the sales tax, taxes on gaming, lodging, mining and insurance premiums, a payroll tax and the property tax.

Of those taxes, the property tax is primarily used to fund the operations of local government and the Legislature has had to balance the needs of local government against the desire of property owners for a low, stable and predictable tax.

Over the past five years, the median sales price of a residence in Reno has nearly doubled, but there has not been a corresponding increase in property taxes. As explained below, this is due to the unique way in which Nevada assesses property and a tax cap that was put in place in 2005 to mitigate the effect of rapidly increasing property values.

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Unlike many other states that assess property based on market value, Nevada assessors determine the taxable value of property by adding the depreciated replacement cost of improvements to the market value of land. This approach usually results in a value which is less than market value.

For example, a two-year old residence with 3 bedrooms and 2½ baths in Damonte Ranch sold in early 2017 for $580,000. At the time, the taxable value of the property was $421,906. The assessor increased the taxable value for the subsequent tax year. But, even with knowledge of the sale, the assessor only increased the taxable value of the property to $429,497.

The difference between market values and taxable values is even more significant for older homes in desirable areas, because statutory depreciation can have a pronounced effect on taxable value. ■