

SENATE AND ASSEMBLY TAXATION COMMITTEES

Minutes of Joint Meeting Held
March 28, 1967
8:00 p.m.

A joint meeting of the Senate and Assembly Taxation Committees was held Tuesday, March 28, 1967, beginning at 8:10 p.m., in Committee Room 58, State Capitol. The meeting was called to order by Mr. William D. Swackhamer, Chairman of the Assembly Taxation Committee.

Committee members present:

Senator James I. Gibson, Chairman
 Senator Committee on Taxation
 Senator B. Mahlon Brown
 Senator M. J. Christensen
 Senator G. F. Fisher
 Senator Carl F. Dodge (joined the meeting at 8:20 p.m.)
 Senator Coe Swobe (joined the meeting at 8:22 p.m.)

Mr. William D. Swackhamer, Chairman
 Assembly Committee on Taxation
 Mr. Austin H. Bowler
 Mr. Bud Garfinkle
 Mr. Paul A. May, Jr.
 Mrs. Mary Frazzini
 Mr. Tim Hafen
 Mr. James E. Wood (joined the meeting at 8:20 p.m.)
 Mr. Frank Young

Absent: Senator James Slattery
 Mr. Arthur Espinoza

Others present:

Don W. Winne, Esq., Deputy Attorney General,
 Assigned to Nevada Gaming Commission and Gaming Control Board
 Mr. Bill Smith, Nevada Gaming Commission
 Richard W. Horton, Esq., Reno, representing Raven Electronics
 Virgil H. Wedge, Esq., Reno, representing
 1) Greensley (sp.?) Gaming Devices, Reno, and
 2) Mr. Michael Wichinsky of Bally Sales Corp. of Nevada,
 Las Vegas
 Mr. Marvin Roberts, D.C. Willson Co., Reno
 Mr. Ray Knisley, Lovelock (former Assemblyman)
 Mr. Curtis Blyth, Nevada Municipal Association
 Mr. Charles Munson, Gaming Association Industry of Nevada, Inc.,
 Reno
 Two newsmen and 20 or more interested persons

Mr. Swackhamer called first for consideration of:

A.B. 392: Provides for licensing and regulation of manufacturers, sellers, and distributors of gambling devices and equipment. Introduced by Committee on Taxation.

Mr. Swackhamer stated that this bill had been drafted as the result of an Assembly Taxation Committee meeting with the Nevada Gaming Commission people regarding problems in control of electronic devices. The bill encompasses a considerable number of things other than electronic devices, but the Assembly Committee agreed it would amend everything out except electronic devices. Accordingly, Mr. Swackhamer requested that those who would be speaking on A.B. 392 make their statements with reference to electronic devices only.

The first speaker was Richard Horton, Reno attorney, representing Raven Electronics, which he described as a Nevada corporation with an office and plant in Reno, employing 40 to 45 people, engaged in the manufacture of electronic keno games. He said the company plans to enlarge its field and manufacture other electronic devices. He then went through the provisions of the bill, pointing out the sections his client agreed with or objected to. He stated the 5% gross tax provided for, to be applied only to electronic gaming devices and not to mechanical devices, is unfair to one segment of the industry; further, that the tax is actually in the nature of a sales tax; that we counteract out-of-state sales taxes with a use tax and that something like that would be in order here. He said that Section 5 is not clear as to whether a tax must be paid on devices sold outside the State. He asked that no taxes be charged or inspections made on items to be sold outside of Nevada, since this would make it difficult for Nevada-based industry to compete for markets outside the State. (Their industry has a large overseas market.) He said his people do want all electronic devices used in the State to be inspected, and their contracts presently provide for that. He concluded by asking the committee to give serious consideration to either charging all suppliers of electronic AND mechanical devices, or charging none; not to place an unfair burden on a new industry which can bring income and employment to the area; to be sure that the bill is so written as not to put a financial burden on local manufacturers who must pay this 5% tax and who are in competition for the Nevada market with out-of-state manufacturers who would not pay the tax. He commented that the bill may be unconstitutional, as well as unfair, in taxing just one type of gaming device.

Mr. Don Winne, counsel for the Gaming Control Board and for the Nevada Gaming Commission, stated that when the bill came over from the Gaming Control Board, the Board made no statement as to revenue--it felt the revenue aspect was within the prerogative of the Legislature.

Mr. Virgil Wedge then addressed the committee on behalf of Reno and Las Vegas clients of his who manufacture electric slot machines. Mr. Wedge said he had the same analysis of the bill as Mr. Horton had given the committee, but would cover a few things not covered in Mr. Horton's

presentation. He said there is the following problem to the 5% tax: If the machine is manufactured in Nevada and then sold to a distributor who distributes it in Nevada, the end result would be a 10% tax--5% each on the manufacturer and the distributor. This means, he said, that any manufacturer must be his own distributor in the state. As to the inspection fee, he said the language was not clear as to who pays this. He read Section 5, then said: "Does the manufacturer pay that? If he sells to a distributor, does the distributor pay that? When he sells 100 machines to a casino, then before the machines go into operation, does the casino pay that? I don't think the bill specifies who pays that." He stated that the Las Vegas distributor he represents hopes to sell 3000 slot machines in the near future. If he has to pay \$25 a machine for inspection, that would be \$75,000. Mr. Wedge felt that this was an unreasonable sum for inspection alone. He felt, further, that it would not be necessary, to safeguard the interest of the state properly, to inspect EVERY electric slot machine sold. He said he could understand that some complicated machine might justify a \$10 to \$25 inspection, but "for a mere slot machine, I don't think that's necessary. It's excessive." Also, if 5% on the gross applies to both the manufacturer and the distributor, "I would say that's excessive."

During questioning that followed the presentations, Mr. Horton commented that he was not familiar with the electric slot machines manufactured by Mr. Wedge's clients, but, in line with Mr. Horton's earlier remarks about discrimination between electronic and mechanical devices, he believed there would have to be a definition of an electronic device in the bill. He stated the difficulty of defining when a device stops being mechanical and starts being electronic points out the discrimination of regulating and taxing electronic as opposed to mechanical devices.

Mr. Swackhamer thanked Messrs. Horton and Wedge for their presentations, and told them the committee would consider the bill again in the morning and would see if they could amend it to make it more palatable. (At this point about a dozen persons who had been interested in this particular bill left the room.)

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Senator Gibson then took over chairmanship of the joint meeting, and called on Mr. Marvin Roberts of D. C. Willson Co., Reno, who spoke with respect to:

S.B. 433: Prohibits manufacture or sale of cheating game or gambling devices. Introduced by Committee on Judiciary.

Mr. Robert strongly supported the bill and urged that possession and possibly even the purchase, as well as manufacture or sale, of cheating devices be penalized. He said a legal manufacturer can build good equipment and that "a 'cross-roader' thereafter can modify the equipment and go home scot-free, it seems." He said these activities create a bad image for the manufacturers, as well as for the State.

Mr. Swackhamer then led discussion of:

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A.B. 188: Specifies standards for classification of agricultural land by Nevada Tax Commission. Introduced by Committee on Taxation.

A discussion ensued between Senator Brown and Mr. Ray Knisley (former Assemblyman) of Lovelock as to various standards used in estimating the carrying capacity of range lands. Mr. Knisley stated that this bill would simply give the Tax Commission an official standard to use and would not affect revenues to the counties.

The next bill discussed was:

A.B. 467: Creates a procedure for assessment of livestock. Introduced by Committee on Taxation.

Mr. Knisley stated this bill was occasioned by reason of a bill introduced earlier in the session by Messrs. Glaser and Young by request. The earlier bill did not get to the subject matter that they had hoped, to cure spotty assessment of livestock in the state. He said the present statutes are so vague that no rancher is sure he's complying with the law, and the county assessors are equally perplexed by the statutes, with the result that: "We have almost as many assessment procedures as we have Assessors. Throughout the years various attempts have been made to cure this, but they were unsuccessful for one reason or another. In order to try to bring something up this session, the two introducers [of the earlier bill] and Jim Guinan of the Bill Drafter's office and I got up this bill. Some modifications were made. We believe it will honestly assess all of the cattle in the State of Nevada without penalizing the industry for the roving nature of the livestock. It provides a definite assessment date on which the operator shall file his return. It does not create a conflict with our assessment procedures. It will not assess the same cattle twice within the State of Nevada. It permits an operator who has cattle within the state for a 90-day period, and who moves them elsewhere, to pay for the portion of the year the cattle are in Nevada. It permits a definite proration within the counties of the State of Nevada. The result will be a greatly increased number of cattle on the tax rolls, perhaps for a lesser period of time. The overall result is greater accuracy in assessing and does not create loopholes so that cattle or sheep may escape untaxed. This has also been discussed with assessors in the livestock counties and in general has met with their acceptance." (Later in the evening, Mr. Knisley handed to Senator Gibson, for consideration by the Senate Taxation Committee, a proposed amendment to this bill, which Mr. Ray Guinan of the Bill Drafter's office had handed him late that afternoon.)

A.B. 419: Specifies method of computing tax on bank shares. Introduced by Committee on Taxation.

Mr. Swackhamer stated this bill was brought to the committee by representatives of the Nevada Bankers Association, who found areas of disagreement with proposals of the Legislative Commission. This bill actually makes statutory the procedures the Nevada Tax Commission uses and has used. It relates the value of shares to deposits. The NTC assesses 3% of the

deposits and then takes 35% of that. The bill would bring in about \$20,000 a year from all bank taxations in the State of Nevada. Senator Gibson asked if the Assembly Taxation Committee had had hearings on the bill. Mr. Swackhamer said they had met with the Bankers Association and had invited Mr. Springer. He said Mr. Springer objects to the bill and says it is illegitimate taxation, apparently basing his objection on the value of the shares of First National Bank stock that were sold and relating everything else in his argument to those shares. Sixty per cent of FNB shares are held by a holding corporation, and the value given is demand value, not subscription value.

Senator Dodge said: "We had a study made by the Legislative Counsel on taxation of lending institutions. Does this comply with the recommendations by them?" Mr. Swackhamer said it didn't; that that study called for a tax on net worth and that the Bankers Association said two areas were not good: 1) If you tax a bank on its net worth, instead of on deposits, a new bank is at a distinct tax disadvantage; and 2) a tax on net worth would encourage a bank to pay out excessive amounts of dividends, rather than build up its reserves. Senator Dodge asked whether the bill resulted in a greater tax impact on banks. Mr. Swackhamer: "A mere \$20,000 a year." Senator Dodge asked whether the burden on different banks is varied or is fairly uniform between all the banks. Mr. Swackhamer handed Senator Dodge a sheet showing the impact on nearly all the banks in the state. Senator Dodge asked whether the Assembly committee had considered whether it was equitable to move with this bill without consideration of the recommendations of the Legislative Counsel Bureau that savings and loan associations also be taxed. Mr. Swackhamer: "No. We addressed ourselves only to the taxation of bank shares."

Senator Swobe then asked whether this bill excludes property owned by a banking institution but not used for banking purposes. Mr. Swackhamer: "The law provides that real property owned by a bank be taxed by the county assessor in the same manner as any other property, but when they compute the value of the stock through the other method, then the assessment on the realty will be deducted from that, and they will pay on the shares." Lengthy discussion ensued between Senator Swobe and Messrs. Swackhamer and Ray Knisley as to the tax status of real estate owned by banks. The discussion turned to the taxing of savings and loan institutions and to overall taxing of banks (Senators Dodge, Brown and Messrs Swackhamer, Knisley).

Senator Gibson stated that tomorrow the Senate Taxation Committee would be holding a hearing on a proposal on taxation that originated in Las Vegas, tying in the sales tax with the gambling tax. He said he understood that the proposal is to have the state pre-empt the gaming tax area and get the cities and counties out of it, in return for a local sales tax. He invited the Assembly Taxation Committee to meet with the Senate Taxation Committee at approximately 4:00 p.m. tomorrow to hear the proposal (immediately following the hearing on the University of Nevada Medical School bill).

Senator Gibson then reviewed for the Assembly Taxation Committee the counterpart Senate committee's activities on tax measures. This included

the fact that, after consultation with the Senate Finance Committee, the Taxation Committee was trying to come up with a tax package which gave priority to an increase in gambling taxes; that they have gone far enough to have definite ideas which have been presented in the form of two bills; that the bills are subject to further work, but represent the best thinking of the committee to date, after extensive hearings with gaming people and the Gaming Commission. He stated that some basic decisions have been reached by the committee: After having an idea of how much money they were expected to raise, they recognized that they would not be able to reach this requirement through the gaming tax alone or through a gaming tax increase plus increases in "minor" taxes. They approached the problem with a program which would lead to an increase in the sales tax on a local level. To do this, they felt they had to make a sizable increase in the gaming tax, to make the sales tax increase acceptable.

Senator Gibson continued: "With this in mind, we determined to attempt to raise the equivalent of 20% on the present gaming tax this year, or \$3.7 million in the first year and \$4.2 million in the second year of the biennium. We decided we wanted to get the restricted licensees out of the percentage tax because of the large number involved and because in this area, with little actual return to the state, we were involving a great amount of the work of the enforcement and regulatory board. . . . We came up with a bill which would replace the percentage tax for the restricted licensees with a flat rate tax on the slot machines. As the bill now stands, it calls for a \$150 slot machine tax. This would replace an average tax raised on the percentage fee, of \$58. These are figures supplied to us by the Gaming Commission. We had several reasons for going this route, one of which was basically to replace the percentage tax. Also, we wanted to increase the revenue somewhat on this category. It was also our understanding, from those in a position to know, that in this area we were having the greatest problem of actual reporting of the play, and in view of that we felt the \$150 flat fee would not be excessive. It represents an increase of \$92 on the average. We agreed then to deduct this from the overall 20% increase, and the difference would be assigned to the nonrestricted category. Along with that decision we decided to try to get off the gross tax insofar as the increase is involved, with the nonrestricted category, as their position in arguing has been the unfairness of the gross percentage tax. With this in mind, we then tried to come up with a flat fee or table type tax that would raise the amount of money we had previously decided needed to be raised. This resulted in a bill which increases the present table tax by 50%, with the increase to come to the state, the present table tax to come to the counties; and with the rest of the money to be raised with a \$100 flat fee on slot machines. This bill has been introduced. Immediately we have received a lot of concern and objection about the fairness of this approach. This is still in a state of flux. We are trying to work out the application of this tax, so that it isn't unduly unfair, but we would like to work it out to get away from the part of the percentage tax we are eliminating this time, to see if we can in the future move completely away from the percentage tax. We don't want to move off the percentage tax without knowing what the result would be. This offers an opportunity to see what would

happen. It affects less than one-fifth of our gaming tax. This would allow us to chart trends in this tax, as against trends in the percentage tax.

"On the sales tax, we are working on this bill with the school board. The key to it is its application. As presently drawn, it would be earmarked for school assistance on a local basis. The school people, originally, in our hearings, were not in favor of this approach. Now they are in favor of this. We have been working with them in developing amendments which would meet the worry of the smaller counties in the application of the new formula. The argument has been if we give a major increase in education, we want to get off Peabody because there are inequities which we want to get rid of. It is easier to get rid of them now than later. If, with the additional money, we can buy out the inequities, we want to do it. With this approach, we are getting closer to agreement the the parties involved. Only one or two areas (Ormsby and Douglas Counties) are not yet in agreement.

"Our plan is to try to come to agreement on the gambling tax package and to move that along and get the other approach ready. Our feeling is we have to take action on the gambling tax before we can push the sales tax along, or a local school support tax. This is the time table we're trying to work on. We'd like to move the gambling tax package on to you first-- find out what happens to it, then come along with the other problem-- meanwhile having summed up more accurately the revenue needs for the biennium."

Senator Dodge then spoke about revenues that could be anticipated from the sales tax.

Mr. Swackhamer spoke next: "We have met with the Assembly Ways and Means. They are taking a hold-the-line minimum this year. They indicated to us they would require approximately \$4 $\frac{1}{2}$ -\$5 million in new revenue. We were thinking more in terms of gaming plus a bill to raise the tax on insurance premiums 1/2% that would produce approximately \$700,000 a year, and we understand that you have this real estate tax thing that would bring in \$400,000." Senator Dodge: "There is a lag there of one-half year." Senator Gibson: "I've met with Norm [Glaser, Chairman of Assembly Ways and Means Committee]. There's one major area where the two committees differ. The Assembly had only \$4 million for school support for the biennium. I understand they have changed their thinking on this. This won't be adequate at all. We're talking about \$12 million for the schools alone, where they [the Assembly] were originally talking about \$4 million."

Mr. Swackhamer: "I don't believe there will be any trouble ironing out the problems on gaming taxation. I believe the Assembly will buy your stamp tax, and I believe you will want to give serious consideration to the insurance premium tax. . . We haven't given any consideration to a sales tax, because we hadn't considered as large a need for new revenue."

Senator Gibson to Mr. Swackhamer and his committee: "I wanted you to understand what we're trying to do. Of course, eventually, we will have


to get together on the program. We're ready to start moving. I think in the next couple of days we'll iron out the problems on the gambling tax. Hopefully, we'll start moving that. In the meantime, we'll get this other thing [sales tax] in proper order. If we get a chance, we'll meet a couple of times."

Mr. Swackhamer complimented the Senate Committee on the thorough study they had made on the various measures and the program as a whole.

Assemblyman Frank Young asked about the status of the constitutional amendments regarding the debt limitation. Mr. Swackhamer said the Assembly Taxation Committee has the resolution raising the debt limit to 3% [A.J.R. 21 of the 53d Session], and the Senate Taxation Committee has the resolution raising it to 2% [S.J.R. 12 of the 53d Session]. Discussion followed between members of the two committees, at the end of which Mr. Garfinkle moved, with respect to A.J.R. 21 of the 53d Session: "Pass it to the Senate." Mr. Frank Young seconded the motion, and it passed on a show of hands.

The joint meeting adjourned at 9:45 p.m.

Respectfully submitted,



Louise Glover - Secretary
Senate Committee on Taxation

I certify that the foregoing minutes are correct.

Senator James I. Gibson - Chairman
Senate Committee on Taxation