

Minutes of Hearing ^{Sub-}TAXATION COMMITTEE - 56th ASSEMBLY SESSION
February 3, 1971

Present: Lingenfelter, Swallow, Smith, May, and Smalley, ^{Junior}

Absent: ~~Kean and Mello~~

Guests: Ernest Newton, Taxpayers Association; Ira Kent, Nevada State Cattle Association; Chuck Thomas, Greater Reno Chamber of Commerce; Bill Bender, Department of Economic Development; Bob Barkley, Churchill County Assessor; Jack Cunningham, State Association of County Commissioners, W.F. Buchanan, Ray Knisley; Pete Kelly, Representative for Robert Pearce, Manager of J.C. Penny Company and President of the Nevada Retail Association.

Meeting was convened at 10:25 A.M. by Chairman of sub-committee, Mr. Lingenfelter.

AJR-14* Proposes constitutional amendment to exempt inventories of merchants and household property from ad valorem property tax.

Mr. Pete Kelly was introduced to represent Mr. Robert Pearce, Manager, J.C. Penny, Co. and President of the Nevada Retail Association. Mr. Kelly read a prepared statement. See attachment No. 1.

Mr. James Lien of the Tax Commission was introduced. He discussed a prepared statement on effects derived from revenue loss on property tax as proposed by AJR-14. See Attachment No. 2. Discussion followed. It was stated that the tax was inequitable in that the inventory assessed was not indicative of the stock turned over and that a large business may well pay less tax than a small business. Assessments were not accurate. It was suggested that perhaps this tax should be replaced with one more equitable, and easier to collect.

AJR-5* Which proposes constitutional amendment to add certain exemptions from taxation.

Mr. Lingenfelter stated that if the phrase (While in the warehouse) were omitted and "subjected to a manufacturing process" were added, there would be a tax loss. He said he would like to hear some testimony regarding this.

Mr. Ernest Newton, Taxpayers Association, stated that he believed it would be wise to insert the word "manufacturing" in the bill. This would ~~beasure~~ be a taxation advantage to manufacturers. He also felt the boost to the economy, resulting from increased industry, would out-weigh any loss of revenue from this source.

* From the 55th Session

Chuck Thomas, Greater Reno Chamber of Commerce, agreed with Mr. Newton. He felt that the word "manufacturing" was important in terms of promotion.

Mr. Knisley stated that bringing new families into Nevada would mean increasing another tax because the ad valorem tax would not cover all of us.

Mr. May did not agree with Mr. Knisley's definition of "manufacturing." He had talked with Russ McDonald and he had said, "The inventory" of a manufacturer is "a list or schedule of raw materials, supplies, work in process and finished goods on hand." (Webster's Third New International Dictionary, page 1189). There is no doubt that the words in the resolution "The inventory of manufacturers shall exempt from taxation," includes all property of the manufacturer, whether used in connection with materials shipped in interstate commerce or at rest within the state on a permanent basis. The "free port" concept is gone. Further, elimination by the resolution of the words "while in the warehouse" in connection with permission allowing the property to be subjected to a manufacturing process, makes perfectly patent the fact that all elements of interstate commerce and "free port" have been lost.

We are constrained to conclude that adoption of the resolution and adoption of the proposed constitutional amendment in its present form will afford exemption from taxation on personal property to all manufacturers in the state, without any restraints as to free port, interstate commerce or temporary warehouseing in Nevada.

Mr. Knisley quoted from the Utah Constitution: "Tangible personal property held for sale in the ordinary course of business and which constitute the inventory of any retailer, or wholesaler, or manufacturer, or farmer, or livestock raiser, shall be exempted from ad valorem taxation. Household furnishings of the ordinary family home shall not be subject to ad valorem taxation.

Mr. Lingenfelter said that AJR-5 is similar and would be insignificant if AJR-14 were passed.

Mr. Newton disagreed and read: "Personal property which is moving in interstate commerce through or over the territory of the State of Nevada, or which was consigned to a warehouse, public or private, within the State of Nevada from outside the State of Nevada, for storage in transit to a final destination outside the State of Nevada, whether specified when transportation begins or afterward, shall be deemed to have acquired no situs in Nevada for purposes of taxation and shall be exempt from taxation."

Mr. Glaser asked if this would preclude personal property which originated in Nevada and Mr. Newton said that it would.

Mr. Lingenfelter said the bill did not do what it intended. The idea was to exempt inventory merchants and the way it is written, it does not do that.

The committee felt that before the bill was put before the people, it should be rewritten with the commas and semicolons in the right places.

Mr. Glaser stated that he did not think the tax as it pertained to livestock was equitable. He felt that only that part of the herd held over from one year to the next, as breed stock, should be taxable.

Mr. Glaser and Mr. Smith will pursue this subject further.

Meeting adjourned.

Statement of Robert Pearce, manager of J.C. Penny Company Store, Las Vegas. Pearce is president of the Nevada Retail Association. He was represented by Mr. Pete Kelly.

The trend toward elimination of one of the most absurd forms of tax, the business inventory tax, is unmistakable.

--21 states have no tax or have phased out or reduced the tax on merchants' business inventories.

--Of these 21 states: 4 states do not levy a tax on any tangible personal property; 4 states have a special exemption for merchants' inventories (Rhode Island exempts only manufacturers' inventories)

--6 states will phase out the inventory tax over a period of years.

--7 states have reduced inventory assessments.

It is being recognized that, aside from the revenue which comes from the tax, there is little justification for any personal property tax to persist in the taxing system. In particular, the glaring inequity of taxation of business inventories makes the tax indefensible. The tax bears no relation to wealth or income; it is impossible to administer fairly and the widespread abuses are impossible to correct. In reality, it is a penalty for being in the retailing, wholesaling or manufacturing business.

Tax study commissions have, for years, branded the tax as archaic, unworkable and capricious. The Advisory Commission on Intergovernmental Relations has recommended that states eliminate the tax because it discriminates erratically among business firms.

The action in 16 state legislatures over the past 5 years bears witness to the valiant efforts of state retail associations to do away with this ridiculous tax.

- 25
- In 1966 two states reduced the tax.
 - In 1967 nine states reduced or eliminated the tax.
 - In 1968 another state reduced assessments.
 - In 1969 three more states reduced or eliminated the tax.
 - In 1970 New Hampshire eliminated the tax entirely.
 - In four other states there is no personal property tax levy, and in another state inventories are exempt by constitutional amendment.
 - In several states, efforts will be made by other retail associations to persuade the legislature to abandon this tax.

Nevada Tax Commission

27

CARSON CITY, NEVADA 89701



MIKE O'CALLAGHAN, Governor

JOHN J. SHEEHAN, Secretary

February 2, 1971

Assembly Taxation Committee
The Honorable Tom Kean, Chairman
Assembly Chambers
Legislative Building
Carson City, Nevada 89701

Gentlemen:

As requested by Assemblyman Lingenfelter, I have reviewed the effects on the revenues derived from the property tax were the following changes made to existing statutes:

- a. All merchant's inventory exempted from the ad valorem property tax,
- b. All household furnishings exempted from the ad valorem property tax, and
- c. All livestock held for resale exempted from the ad valorem property tax.

The 1969-70 (current) segregation of the tax rolls were utilized for the study and the following assumptions were made:

- a. That 33-1/3 percent of total livestock in this state is held for resale and the remaining 66-2/3 percent remains subject to the property tax.
- b. That 40 percent of the "other personal property" shown on the assessors' rolls represent household furnishings. The remaining 60 percent consists of mobile homes, boats, commercial and industrial furnishings, equipment, etc. That percentage was adjusted for Lander, Mineral and White Pine Counties.

To determine revenue loss, the segregation was analyzed for each taxing district (local government) within the state.

The overall effect does not appear to be detrimental and yet to some entities, the impact is staggering due to the high percentage of valuation attributed to the three areas. A method to recover revenue lost should be considered before passing on the exemptions.

The statewide results would be as follows:

Assembly Taxation Committee
 February 2, 1971
 Page 2

| | |
|---|---------------------|
| Total State Assessed Valuation as of July 1, 1970 | \$ 1,889,376,425.00 |
| Less 1/3 Total Livestock Value | 6,551,198.00 |
| Less Merchants Inventory | 39,049,701.00 |
| Less 40 percent of other Personal Property as Adjusted | 62,790,499.00 |
| New Total State Assessed Valuation | 1,780,985,027.00 |

Loss in Tax Dollars:

| | |
|---------------------------------------|--------------|
| Livestock | 168,709.00 |
| Merchants Inventory | 1,751,558.00 |
| Household Furnishings | 2,712,956.00 |
| Total Tax Revenue Loss (All Entities) | 4,633,223.00 |
| Loss to the State | 270,977.00 |
| Total Statewide Revenue Loss | 4,904,200.00 |

The anticipated ad valorem tax collections for fiscal 1970-71 were projected at \$85,624,283; thus, the above represents a 5.7 percent loss in revenue. (Table 1 shows the assessed valuation by exemption category as lost to each county and the projected revenue loss from that exemption to all entities within each county).

The effect of the exemptions on each of the counties and the entities therein is significant. Table 2 shows that the revenue derived would effectively erode the tax base by 5.9 percent; however, the range is from 2.1 percent in the rural Ormsby District of Carson City to 17.6 percent in Mineral County. The counties would have to find other revenue sources to off-set the \$1,403,004 loss. Other above average losses would be in Elko County with an 8.3 percent loss; Nye County with a 9 percent loss; White Pine County with a 7.1 percent loss and Churchill County with a 7 percent loss.

Table 3 shows that school districts have the same loss factor but the total tax dollars lost to the districts is \$2,232,829. Again, more significantly, it is the rural counties which feel the impact.

Table 4 shows the impact on cities wherein tax dollars lost total \$605,790. The average ad valorem tax dollar loss is 5.5 percent, however, the range for the cities is from 2.2 percent in Gabbs to 13 percent in Ely. Other cities with significant ad valorem tax dollar losses are Yerington, 12.2 percent; Wells, 12.2 percent; Lovelock, 10 percent; Elko, 9.2 percent; and Fallon, 9.5 percent. Even Henderson and Reno are above the average at approximately 6.5 percent. Tonopah Town was added to the list as it is experiencing financial difficulty; it shows an 8.7 percent ad valorem tax dollar loss.

Table 5 shows the same impact on selected districts. For example, the Henderson Library District would lose 13.4 percent of its ad valorem tax dollars and the Lander County Sewer and Water District 1, 8.4 percent.

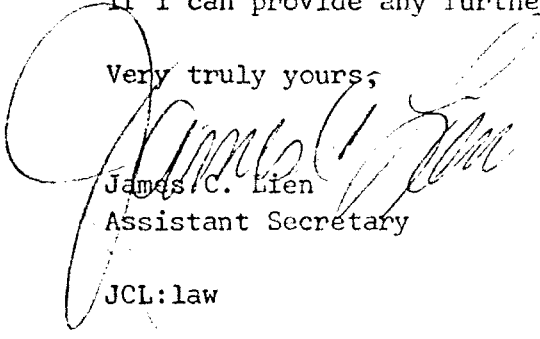
Table 6 again recaps the revenue loss by county, totaled as to all entities in each, as well as the loss to the State by county.

Of significance is the effect on these various tax entities. For example, the City of Lovelock has a total assessed valuation of \$2,870,000; \$144,588 or 5% of which is merchant's inventory. Other Rural county cities such as Wells and Ely have large merchants' inventories in proportion to total valuation because they are major shopping centers; (Wells, 5.9%; Ely 7.3%) thus, the exemption of merchants inventories has a severe impact on their limited tax bases. Raising the ratio of assessed value to full cash value from 35 percent to 37 or 37 1/2 percent would recoup the exempted assessed valuation and supply added revenue to most entities.

Certainly, the equity of the merchants' inventory tax can be questioned since automobiles, mobile homes and farm machinery are exempt from the inventory tax. There are many household furnishings not reported to the county assessors and compliance is difficult. Again equity is impossible to achieve. Perhaps more equity should be brought to the inventory tax and the same retained while the tax on household furnishings is removed.

If I can provide any further information, please contact me.

Very truly yours,


James C. Lien
Assistant Secretary

JCL:law

Enc: Table 1 - 6

VALUATION AND REVENUE LOSS BY EXEMPTION

| <u>Counties</u> | <u>Household Val.</u> | <u>\$Loss (All Entities)</u> | <u>Merchandise Val.</u> | <u>\$Loss (All Entities)</u> | <u>Livestock Val.</u> | <u>\$Loss (All Entities)</u> |
|-----------------|---------------------------|----------------------------------|-----------------------------|----------------------------------|---------------------------|----------------------------------|
| Carson City | \$ 1,243,957 | \$ 103,421 | \$ 129,480 | \$ 11,042 | \$ 7,615 | \$ 568 |
| Churchill | 1,158,937 | 45,871 | 491,405 | 22,371 | 369,171 | 13,844 |
| Clark | 29,419,444 | 1,331,381 | 20,553,808 | 946,729 | 140,630 | 5,963 |
| Douglas | 2,087,040 | 65,539 | 684,417 | 23,172 | 238,067 | 4,718 |
| Elko | 2,628,829 | 101,986 | 1,490,455 | 63,874 | 2,532,869 | 31,721 |
| Esmeralda | 107,466 | 5,371 | 26,150 | 451 | 66,111 | 2,745 |
| Eureka | 521,976 | 18,355 | 36,405 | 1,270 | 328,615 | 11,306 |
| Humboldt | 942,403 | 37,103 | 536,060 | 24,968 | 866,795 | 31,733 |
| Lander | 950,600 | 34,723 | 80,049 | 3,483 | 290,029 | 10,035 |
| Lincoln | 360,614 | 9,802 | 87,407 | 3,251 | 224,113 | 5,278 |
| Lyon | 2,333,264 | 77,160 | 777,201 | 28,214 | 288,442 | 9,203 |
| Mineral | 1,757,101 | 86,023 | 195,830 | 9,301 | 26,461 | 1,257 |
| Nye | 1,722,662 | 69,267 | 194,255 | 9,070 | 300,450 | 11,173 |
| Pershing | 451,952 | 15,448 | 164,778 | 7,445 | 165,355 | 4,729 |
| Storey | 169,199 | 6,718 | 16,570 | 681 | 1,921 | 73 |
| Washoe | 14,519,855 | 617,188 | 12,873,965 | 562,904 | 353,205 | 12,591 |
| White Pine | 2,415,200 | 87,600 | 711,466 | 33,332 | 351,349 | 11,772 |
| Totals | \$62,790,499 | \$2,712,956 | \$ 39,049,701 | \$1,751,558 | \$6,551,198 | \$168,709 |

Table 2

TAX DOLLAR LOSS AND PERCENTAGE OF AD VALOREM BASED \$ LOST - COUNTIES

| <u>County</u> | <u>Current Tax \$</u> | <u>Value Loss</u> | <u>Current Tax Rate</u> | <u>Tax \$ Loss</u> | <u>% Ad Valorem Tax \$ Lost</u> |
|------------------------|-----------------------|-------------------|-------------------------|--------------------|-------------------------------------|
| Carson City (Rural) | \$ 201,177 | \$ 296,470 | 1.420 | \$ 4,210 | 2.1 |
| Churchill | 518,828 | 2,019,513 | 1.7860 | 36,069 | 7.0 |
| Clark | 10,618,045 | 50,113,882 | 1.1305 | 566,537 | 5.3 |
| Douglas | 71,997 | 3,009,524 | .1100 | 3,310 | 4.6 |
| Elko | 834,033 | 6,652,153 | 1.0367 | 68,963 | 8.3 |
| Esmeralda | 158,140 | 199,727 | 2.6500 | 5,293 | 3.3 |
| Eureka | 250,560 | 886,996 | 1.5100 | 13,394 | 5.3 |
| Humboldt | 441,350 | 2,345,258 | 1.3107 | 30,739 | 7.0 |
| Lander | 356,823 | 1,320,678 | 1.7600 | 23,244 | 6.5 |
| Lincoln | 116,571 | 672,134 | 1.1500 | 7,730 | 6.6 |
| Lyon | 632,992 | 3,398,907 | 1.213 | 41,229 | 6.5 |
| Mineral | 366,084 | 1,979,392 | 3.2500 | 64,330 | 17.6 |
| Nye | 421,119 | 2,217,367 | 1.7000 | 37,695 | 9.0 |
| Pershing | 255,600 | 782,085 | 1.2000 | 9,385 | 3.7 |
| Storey | 111,117 | 187,690 | 2.3000 | 4,317 | 3.9 |
| Washoe | 7,488,737 | 27,747,025 | 1.5530 | 430,911 | 5.8 |
| White Pine | 780,904 | 3,478,015 | 1.6000 | 55,648 | 7.1 |
| Totals | \$ 23,624,077 | \$108,391,398 | | \$ 1,403,004 | 5.9 av. |

Table 3

TAX DOLLAR LOSS AND PERCENTAGE OF AD VALOREM BASED \$ LOST - SCHOOL DISTRICT

| <u>County</u> | <u>Current Tax \$</u> | <u>Value Loss</u> | <u>Current Tax Rate</u> | <u>Tax \$ Loss</u> | <u>% Ad Valorem Tax \$ Lost</u> |
|---------------|-----------------------|-------------------|-------------------------|--------------------|---------------------------------|
| Carson City | \$ 869,578 | \$ 1,381,052 | 2.0140 | \$ 27,814 | 3.2 |
| Churchill | 569,375 | 2,019,513 | 1.9600 | 39,582 | 7.0 |
| Clark | 20,684,759 | 50,113,882 | 2.2023 | 1,103,658 | 5.3 |
| Douglas | 1,112,684 | 3,009,524 | 1.7000 | 51,162 | 4.6 |
| Elko | 1,617,059 | 6,652,153 | 2.0100 | 133,708 | 8.3 |
| Esmeralda | 89,513 | 199,727 | 1.5000 | 2,996 | 3.3 |
| Eureka | 320,252 | 886,996 | 1.9300 | 17,119 | 5.3 |
| Humboldt | 733,833 | 2,345,258 | 2.1793 | 51,110 | 7.0 |
| Lander | 344,659 | 1,320,678 | 1.7000 | 22,452 | 6.5 |
| Lincoln | 212,869 | 672,134 | 2.1000 | 14,115 | 6.6 |
| Lyon | 991,497 | 3,398,907 | 1.9000 | 64,579 | 6.5 |
| Mineral | 168,962 | 1,979,392 | 1.5000 | 29,691 | 17.6 |
| Nye | 483,048 | 2,217,367 | 1.9500 | 43,239 | 9.0 |
| Pershing | 353,580 | 782,085 | 1.6600 | 12,983 | 3.7 |
| Storey | 72,467 | 187,690 | 1.5000 | 2,815 | 3.9 |
| Washoe | 9,644,220 | 27,747,025 | 2.0000 | 554,941 | 5.8 |
| White Pine | 854,114 | 3,478,015 | 1.7500 | 60,865 | 7.1 |
| Totals | \$39,122,469 | \$108,391,398 | | \$ 2,232,829 | 5.7 av. |

Table 4

TAX DOLLAR LOSS AND PERCENTAGE OF AD VALOREM BASED \$ LOST - CITIES

| <u>City</u> | <u>Current Tax</u> | <u>Value Lost</u> | <u>Current Tax Rate</u> | <u>Tax \$ Loss</u> | <u>% Ad Valorem Tax \$ Lost</u> |
|------------------------|--------------------|-------------------|-------------------------|--------------------|-------------------------------------|
| Carson City (Urban) | \$ 743,797 | \$ 958,948 | 2.5640 | \$ 24,587 | 3.3 |
| Fallon | 67,101 | 635,320 | 1.0000 | 6,353 | 9.5 |
| Boulder City | 130,114 | 505,376 | 1.1970 | 6,049 | 2.3 |
| Henderson | 283,626 | 1,551,708 | 1.2049 | 18,697 | 6.6 |
| Las Vegas | 5,233,234 | 18,818,669 | 1.3268 | 249,686 | 4.8 |
| North Las Vegas | 862,949 | 2,267,469 | 1.3268 | 30,085 | 3.5 |
| Carlin | 43,463 | 194,956 | 1.6430 | 3,203 | 7.4 |
| Elko | 310,988 | 2,303,180 | 1.2430 | 28,629 | 9.2 |
| Wells | 53,319 | 383,658 | 1.7000 | 6,522 | 12.2 |
| Winnemucca | 116,804 | 727,499 | 1.2600 | 9,166 | 7.8 |
| Caliente | 14,027 | 68,160 | 1.5000 | 1,022 | 7.3 |
| Yerington | 53,503 | 438,069 | 1.4920 | 6,536 | 12.2 |
| Gabbs | 34,151 | 69,845 | 1.1000 | 768 | 2.2 |
| *Tonopah | 44,688 | 353,796 | 1.1000 | 3,892 | 8.7 |
| Lovelock | 54,243 | 278,106 | 1.8900 | 5,256 | 10.0 |
| Reno | 2,151,920 | 17,488,441 | .8000 | 139,908 | 6.5 |
| Sparks | 721,842 | 4,575,544 | 1.1930 | 54,586 | 7.6 |
| Ely | 83,587 | 774,631 | 1.4000 | 10,845 | 13.0 |
| Totals | \$11,003,356 | \$ 52,393,375 | | \$ 605,790 | 5.5 |

* Unincorporated Town

Table 5

SELECTED DISTRICTSTAX DOLLAR LOSS AND PERCENTAGE OF AD VALOREM BASED \$ LOST

| <u>Districts</u> | <u>Current Tax</u> | <u>Value Lost</u> | <u>Current Tax Rate</u> | <u>Tax \$ Loss</u> | <u>% Ad Valorem Tax \$ Lost</u> |
|---|--------------------|-------------------|-------------------------|--------------------|-------------------------------------|
| Henderson Library Dist. \$ | 30,583 | \$ 5,157,140 | .0795 | \$ 4,100 | 13.4 |
| Greater Clark County Library District | 334,951 | 22,059,476 | .0759 | 16,743 | 5.0 |
| Lander County Sewer & Water Dist. I | 2,145 | 180,413 | .1000 | 180 | 8.4 |
| North Lyon Fire Maintenance | 8,284 | 373,810 | .1470 | 550 | 6.6 |
| Mason Valley Mosquito Abate- ment | 7,391 | 563,905 | .0230 | 130 | 1.8 |
| Incline Village | 206,097 | 492,513 | .4500 | 2,216 | 1.1 |
| Kingsbury Gen. Improvement District | 34,278 | 101,220 | .5800 | 587 | 1.7 |
| Lake Tahoe Fire Protec- tion District | 243,247 | 1,450,212 | .5990 | 8,687 | 3.6 |
| Totals | \$ 866,976 | \$ 30,378,689 | | \$ 33,193 | 1.0 av. |

35 Table 6

RECAP - REVENUE LOSS ALL ENTITIES

| <u>County</u> | <u>All Entities</u> | <u>State</u> | |
|---------------|---------------------|--------------|------------------------|
| Carson City | \$ 115,031 | \$ 3,453 | |
| Churchill | 82,086 | 5,049 | |
| Clark | 2,284,073 | 125,285 | |
| Douglas | 93,429 | 7,524 | |
| Elko | 197,581 | 16,630 | |
| Esmeralda | 8,567 | 499 | |
| Eureka | 30,931 | 2,217 | |
| Humboldt | 93,804 | 5,863 | |
| Lander | 48,241 | 3,302 | |
| Lincoln | 18,331 | 1,680 | |
| Lyon | 114,577 | 8,497 | |
| Mineral | 96,581 | 4,948 | |
| Nye | 89,510 | 5,543 | |
| Pershing | 27,622 | 1,955 | |
| Storey | 7,472 | 469 | |
| Washoe | 1,192,683 | 69,368 | |
| White Pine | 132,704 | 8,695 | |
| Totals | \$ 4,633,223 | \$270,977 | \$4,904,200 (5.7 Loss) |