MINUTES OF MEETING - COMMITTEE ON TAXATION - 56TH ASSEMBLY SESSION
March 2, 1971

PRESENT: Kean, Swallow, Lingenfelter, Glaser, Smith

ABSENT: May, Smalley

GUESTS: Mr. Ray Knisley
Mr. E. L. Newton, Nevada Taxpayers Association
Mr. Louis Bergevin, Nevada Agriculture Council
Mr. Vernon Dalton, Nevada State Cattle Association
Mr. Bill Hicks, Nevada Agriculture and Livestock Council
Mr. Nick Orphan, City of Ely
Mr. Pete Kelley, Nevada Retail Association
Mr. Don Peckham, Assessor, Washoe County
Mr. J. B. Cunningham, State Association of County Commissioners
Mr. Homer Rodriquez, Carson City Assessor
Mr. Von Sorensen, Elko County Farm Bureau President and Vice-President of Nevada Woolgrowers
Mr. Jack Boyd, Boyd Ranch, Elko

Chairman Kean convened meeting at 8:00 a.m.

AJR-27 - Proposes constitutional amendment to add certain tax exemptions.

AJR-28 - Proposes constitutional amendment to add certain tax exemptions.

AJR-29 - Proposes to amend Nevada Constitution by deleting reference to uniform taxation of personal and possessory property.

Mr. Kean briefly related histroy of legislative work on these amendments, including AJR-14 of the 55th Session, and reasons for amendment. He then discussed differences in the three resolutions.

Mr. Smith expressed his preference for AJR-29 and outlined the reasons for this preference. He discussed the inequities of the present ad valorem tax on merchants inventories, household furnishings and personal possessions.

Mr. Glaser gave history of the ad valorem tax as it applied to the livestock industry and then introduced the delegation representing this industry. Mr. Jack Boyd made the presentation for the group.

Mr Boyd stated he would review the assessment of agricultural land and develop the relationship with livestock ranches.-- We all recognize that ad valorem taxes are by definition taxes that are imposed in proportion to value and the value of many properties can be considered the present worth of all the rights to future benefits arising from ownership. The value of an income producing property can be obtained by estimating these future benefits in dollars and discounting these benefits to present worth and at an appropriate rate of investment yield or capitalization rate; and this is, of course, the capitalization process that is used by the Nevada Tax Commission to determine the appropriate assessed values for the various classes of agriculture land.

First we can consider the farmer. The farmer's basic income producing unit is an acre of land. The gross income is obtained directly from the sale of crops produced on this land. His net income is, of course, the effective gross income inus his expenses--his production costs--including taxes. In the capitalization process we simply take this net income divided by the capitalization. rate. This gives us the full value. In Nevada, the ratio of assessment value to the cash value is 35%. So .35 times full value will give us assessed value, it is easy to show that tax paid is a function of the net income. If the tax rate is 3% and the capitalization rate is 7½%, that is the percentage used by the tax commission against alfalfa, grain, alfalfa seed, and forage grasses. We use these two numbers and plug into this basic formular--and using 35% as the tax ratio--we come out with a tax paid of about 15% of the net income and the effect is exactly the same as an income tax, on the average,for a farmer.

We will consider the cattle rancher. His basic income producing unit is more complex. His consists of an animal unit and also the agriculture land required to produce substance for this animal unit for the period of time that he holds this unit on his private land--which consists of hay land, pasture land and grazing land; and the crop he produces--and usually the only crop--is beef. He receives no income directly from the forage grasses produced. His income is provided by sale of beef. The forage producing land this rancer owns is taxed on the same basis as the farmers agriculture land. They are taxed as if the rancher sold the forage produced on them and of course, he doesn't. Actually, this forage just goes into the animals but if the net income that would be received if the hay were sold and if the net rate received per animal unit month of gazing were correctly estimated by the Nevada Tax Commission in determining the appropriate assessed value, the tax rate, we'll assume as 3%, the tax paid on the value of forage producing land would be about 14% of the net income that would be received if the forage were sold. In other words, an income tax, so to speak, on the net value of the forage as if it were sold--but he isn't selling it. He feeds it to the animals. And not only his breeding stock but the crop is taxed. The animals he is selling is taxed from the age of six months until they are sold. If we treated a farmer, say the grower of alfalfa seed, in the same way, we would tax the land; we would also tax the alfalfa; and we would also tax the crop--which is the seed. We do tax that to some extent, perhaps some part of it before it is sold.

We can take another look at this capitalization formular which I have said is the net income divided by the capitalization rate equals full value and 35% of the full value equals assessed value. If we manipulate this formular a bit and assume, as the Nevada Tax Commission standard, 7½% as an appropriate rate, we can easily show that on the average, assuming tax commission assumptions are correct, on the average the net income should be about 21.4% of the assessed value or in other words, the assessed value should be about 4 2/3 times the net income for income producing agriculture lands. For the Tax Commission staff, of course this thing is that the assesed value should be roughly five times the net income and with the tax rate at 3% would result in a tax bill that would be 14 or 15% of the net income, from such lands.

As I said, the problem with the cattle rancher is that he is taxed on his land in the same way as the farmer--as if he sold the forage produced on it--and they also tax the cattle.

I have here a report by the University of Nevada "Characteristics of the Range Cattle Industry in Nevada, in Region 3 of Northeastern Nevada==More than 60% of the range beef cattle in the State are in the region dealt with in this report. Of the various classifications, large ranches with a thousand or more animal units had the greatest percentage of return on investment. They were the best off financially. In this report, large ranch tabulated income averaged seven dollars per animal unit. The study was made in 1963. So lets be very liberal and assume that the increase in livestock prices, and say the rancher has been able to hold the line on costs and through better management has doubled this net income per animal unit--doubled it to fourteen dollars. In order to compare this net income per animal unit we have to estimate the assessed value of the land, which is associated with this animal unit. The report shows that the average investment in land is $325 per animal unit.

We take 35% of this and it comes out $135; so I approached it from a little different angle. I said that this rancher has to provide for each animal unit, twelve animal units forage per year. According to this report, large ranches obtain nearly half (in this area) of their forage from the Federal land; so this would mean about half, or six animal unit months the feed would be provided by the ranchers private land.

In this bulletin, No. 125 of the Nevada Tax Commission, they indicated the appropriate assessed evaluation for the various classes of agriculture land--and we can estimate what the assessed value per animal unit of such land would be. First class pasture land is 4 AUM's provided per acre and it is assessed at about $40 per acre--so that would be $10 per AUMs assessed value. Grazing land, first class grazing, is one to four acres required per AUM. It is assessed at $6--that would be $6 to $24 per AUM. In our area most of the first class grazing land is crested wheat and it will carry a cow for about a month on three acres--so this would be about $18 per AUM.

Fourth class grazing land requires 18 acres per AUM and it is assessed at $1.25 so the best fourth class would be assessed at $15 per AUM or more. So for an average, I took $15 per AUM. Since it requires $6 for this animal unit during the year on this private land, we have six times $15 which is $90. So we can estimate that this rancher would have assessed value of land per animal unit of about $90.

If we again assume this tax rate at 3%, he would pay a tax of about 3% on this $90 assessed value, this is about 19%--the tax on the land would equal about 19% of $14--remember that was his net income for this animal unit.

Compare that with the farmer. Assuming the Tax Commission Staff assumption correct--he would pay about 14 or 15% to a ranchers 19%. That is acceptable but the tax assessor is not through with this rancher--because animal units portion of this is also subject to ad valorem tax and a mature cow will be assessed at not less than $50 a head. Add this to the $90 assessed value of the land and we see that the total assessed value on this animal unit is $140. 3% of this is $4.20 and this is 30% of $14, which is the net return from that animal unit. We can see that the rancher would be paying almost twice as much ad valorem tax on his basic income unit as a grower of alfalfa seed.

I would just like to summarize and say that the farmers basic unit is an acre of land. A ranchers basic unit is an animal unit plus the acres required to provide forage for that animal unit.

Use of the income approach to value in the determination of the appropriate assessed valuation for land results in the farmer and rancher in northeastern Nevada both paying about the same amount per dollar net income in advalorem property tax on the land.

The problem is that the rancher also has ad valorem property tax imposed on his cattle and results is the tendency for the ad valorem property tax imposed on his basic income producing unit exceeding to a considerable extent the per dollar on net income that a farmer without livestock would be required to pay on his basic income unit.

Mr Pete Kelley spoke in favor of AJR-29--basing his support of this particular AJR over the others on Mr. Hal Smiths judgement. Mr. Kelley stated the ad valorem tax was a most unfair tax, impossible to administer and to control abuses. Many other states have redued, and some have completely eliminated this tax. His organization, Nevada Retailers Association, would urge passage of one of the bills on this subject.

Mr. Don Peckham, Washoe County Assessor, agreed there were many inequities in the tax and that household furnishings and possibly livestock, should perhaps be exempt. He had reservations about exempting merchants inventories. His main concern was that exemption of these items would shift more of a tax burden to the property owners. He submitted a written report on property evaluation and tax revenue incomes in Washoe County. (See attachment)

Mr. Kean and Mr. Smith assured Mr. Peckham there would be a companion bill with the AJR that would replace the tax revenue lost by exempting the items specified in the Resolution. The tax burden would not be shifted to the property owners.

Mr. Bill Hicks, Nevada Livestock and Agriculture Council stated his group would be in favor of AJR-29. Passage of this resolution would not mean that livestock growers would not be paying their fair share of taxes. They had always paid a fair share, and more, and would continue to do so.

Mr. Cunningham of the County Commissioners Association, was concerned about the erosion of county taxes. He stated the counties were being asked to assume more responsibilities. He felt that household furniture should be exempt but unless there were other sources of revenue developed to support the fundamental functions of county governments they would be in serious difficulties.

Mr. Von Sorensen, of Elko County stated he was in favor of the bill that exempted all livestock from ad valorem tax. The livestock growers would still be paying their full share of tax. They were desirous of others also paying their full share.

Mr. E. L. Newton, Nevada Taxpayers Association, stated he did not wish to appear to be in favor or against any of the three proposals. Passage of AJR-27 or AJR-28 would result in a decrease of $38,000,000, statewide, and he did not think they would be constitutional. The language in the first part of the bill that read "The legislature shall provide by law for a uniform and equal rate of assessment and taxation---" was not compatible with the language that exempted certain property items.

AJR-29 would eliminate the taxation of all personal property and that would present difficulties and a loss far greater than that of AJR-27 and AJR-28. He felt it would result in loss in assessed evaluation in excess of $100,000,000 if everything that was classed as personal was exempt.

Mr. Lingenfelter felt that items not intended to exempted by this resolution could be picked up with statutes. Mr. Newton did not feel this could be done if AJR-29 became an amendment to the constitution.

There was further discussion on means to correct present inequities of the ad valorem and the impact of passage of one of the subject AJR's on the tax revenues of the state.

Meeting adjourned.

ASSEMBLY

AGENDA FOR COMMITTEE ON TAXATION

Date March 2 Time 7:45 a.m. Room 240

Bills or Resolutions to be considered	Subject	Counsel requested*
AJR-~~24~~ 27	Proposes constitutional amendment to add certain tax exemptions.	
AJR-28	Proposes constitutional amendment to add certain tax exemptions.	
	PUBLIC INVITED TO THIS MEETING	

*Please do not ask for counsel unless necessary.

HEARINGS PENDING

Date ____ Time ____ Room ____
Subject ____

Date ____ Time ____ Room ____
Subject ____

M E R C H A N D I S E

SUB-DIVISION	VALUE	RATE	DOLLARS
RENO	$ 9,154,950	$0.80	$ 73,239.60
SPARKS	3,385,418	1.193	40,388.03
WASHOE COUNTY	15,182,343	1.544	234,415.37
WASHOE COUNTY SCHOOLS			
GENERAL	15,182,343	1.50	227,735.14
BOND	15,182,343	0.50	75,911.71
		2.00	303,646.85
STATE TOTAL (1969/1970)	39,033,501	0.25	97,583.75

LIVESTOCK

SUB-DIVISION	VALUE	RATE	DOLLARS
RENO	$ 10,500	$0.80	$ 84.00
SPARKS	240	1.193	2.86
WASHOE COUNTY	1,367,870	1.544	21,119.91
WASHOE COUNTY SCHOOLS			
GENERAL	1,367,870	1.50	20,518.05
BONDS	1,367,970	.50	6,839.35
		2.00	27,357.40
STATE TOTAL (1969/1970)	$19,678,936	0.25	$49,197.34

HOUSEHOLD PERSONAL

SUB-DIVISION	VALUE	RATE	DOLLARS
RENO	$5,038,205	$0.80	$ 40,305.64
SPARKS	1,554,950	1.193	18,550.55
WASHOE COUNTY	8,739,685	1.544	134,940.74
WASHOE COUNTY SCHOOLS			
GENERAL	8,739,685	1.50	131,095.27
BONDS	8,739,685	0.50	43,698.42
		2.00	174,793.69

RECAPITULATION

SUB-DIVISION	VALUE		DOLLARS
RENO	$ 9,154,950	(Merchandise)	$ 73,239.60
RENO	10,500	(Livestock)	84.00
RENO	5,038,205	(HseHold Pers)	40,305.64
RENO TOTAL	$14,203,655		$113,629.24
SPARKS	3,385,418	(Merchandise)	40,388.03
SPARKS	240	(Livestock)	2.86
SPARKS	1,554,950	(HseHold Pers)	18,550.55
SPARKS TOTAL	$ 4,940,608		$ 58,941.44
WASHOE COUNTY	15,182,343	(Merchandise)	234,415.37
WASHOE COUNTY	1,367,870	(Livestock)	21,119.91
WASHOE COUNTY	8,739,685	(HseHold Pers)	134,940.74
WASHOE COUNTY TOTAL	$25,289,898		$390,476.02
WASHOE COUNTY SCHOOLS (Merchandise, Livestock, and Household Pers)	$25,289,898		$505,797.94
STATE OF NEVADA (1969/1970 Total)	$39,033,501	(Merchandise)	97,583.75
	$19,678,936	(Livestock)	49,197.34
			$146,781.09

RENO:

	$293,447,543	
	- 14,203,655	
	$279,243,888	$0.04

SPARKS:

	$ 65,057,886	
	- 4,940,608	
	$ 60,117,278	$0.098

WASHOE COUNTY:

	$543,920,929	
	- 25,289,898	
	$518,631,031	$0.075
		$0.213

WASHOE COUNTY SCHOOLS:

	$518,631,031	$0.097