

SENATE TAXATION COMMITTEE
JANUARY 27, 1977

The meeting of the Senate Taxation Committee was called to order by Chairman Richard Bryan at 2:00 pm, with the following members and representatives present:

Senator Richard Bryan Senator Ty Hilbrecht
Senator Norman Glaser Senator Gary Sheerin
Senator Carl Dodge

Excused: Senator Lamb

Mr. Harlan Elges, representing Gaming Control Board
Mr. Jack Stratton, " " "
Mr. Phil Hannifin, " " "
Mr. Jeffrey Silver, " " "
Mr. Bud Hicks, Attorney General's office
Mr. James Lien, State Department of Taxation

1. Discussion by representatives of the State Gaming Control Board. The discussion was lead by Chairman Phil Hannifin and centered around several problem areas:

a. He told the Committee, the State has lost several decisions in the courts with respect to tax statutes and felt there should be amendatory language to correct this. Refunds as a result of these decisions total \$261,984.41 on taxes that have been paid and later ruled as non-taxable items by the courts.

According to his figures, the State is losing an estimated \$316,000 annually on taxes that were once assessed on show room photographs and on admissions and food and beverage at jai alai frontons.

It was suggested that the legislature might want to amend the laws to return the casino entertainment tax to services which the Supreme Court has ruled it does not cover. It was pointed out that the Federal Government at one time collected a cabaret tax; that tax was abandoned by the Federal Government and was picked up by the State. The state, however, did not pick up the entire amount that was previously collected by the Federal Government.

Several reports were distributed to the committee members showing the amount of casino entertainment tax collections by fiscal years (attached) and considerable discussion was held on possible amendments.

The representatives of the Gaming Board asked that the language in the statutes be specific in intent in order to lessen the burden in trying to administer them in the future.

Mr. Hannifin explained they are not here to advocate changes, but merely to bring to their attention what has transpired and some of the court rulings in this matter.

b. Another problem they are bringing to the committee's attention is the policy being practiced by some of the strip hotels in Las Vegas whereby they are selling tickets to their dinner show rooms to independent vendors, and the vendors then sell them to the ultimate consumer. For example, the hotel may sell the tickets to the vendor for \$6.00 per ticket, the vendor then sells the same ticket to the user for \$9.00. Their question is, at what price do they levy the tax and what entity should pay the tax.

In discussion, it was suggested that they might require the price of the ticket to be printed on the face of the ticket for protection of the customer.

c. Several promotional ideas being used by the various hotels were discussed in which the hotels are claiming promotional expenses as being a tax exemption. For example, some hotels charge a .25¢ fee for which the customer receives ten 'pulls' on a slot machine; the hotel wants to declare all expenses for the ten pulls. The two-fer coupons are also being used whereby the customer uses one coupon and a dollar cash to play one of the table games. For a payment of \$1.00, the hotels claim a deduction in the amount of \$2.00. Another casino is using a nickle imbedded in a plastic chip. A customer comes in and plays that chip; the casino takes into revenue .05¢, however, if the customer wins, he is paid \$5.00 and that \$5.00 is deducted against revenue. So we get .05¢ into revenue and \$5.00 of less deducted against the revenue.

Mr. Hannifin advised the committee members, that the Gaming Control Board has taken exception to those practices wherein no money changes hands. Their problems arise in trying to deduct monies paid on these promotional offers. They are presently in negotiation with Harrah's regarding their policy of giving winners of jackpots a coupon; these coupons are accumulated and can be redeemed for cash or merchandise. They have not been allowing Harrahs to deduct the cost of that merchandise against their gaming revenue. The potential liability there is \$678,461 (that does not include the last two quarters of the year, so the figure would be higher than that). It was suggested that the term "gross revenue" be defined in order to clean up that area.

Mr. Hannifin explained that about 1950, the Gaming Board commenced the practice of allowing the licensees to deduct, from its gross revenue, the cost of collecting gaming debts. It was not allowed by statutes, but it has been a common practice. He suggested that, inasmuch as it is a direct reduction of gaming monies, we should either amend the statutes to allow this, or disallow this deduction.

The Gaming Board also believes there should be statute authority clearly setting out the procedure for tax refunds as provided in NRS (Tax Commission statutes) 360.470 to 360.460, and also provisions on penalties (NRS 460.340 to .406). There should be something in the statutes speaking to these tax refund matters as they are frequent, and yet there is no statute authority to grant them.

Also suggested some consideration be given to the provisions in NRS 463.142 (the five year statute of limitations). They need language as to whether or not the commencement of an audit by the Board toll the statute of limitations so that the Board can have an opportunity to do the audit. They would suggest that the period of time remain at five years, but that the statute of limitations should be tolled on the date the audit begins, or that the time period should begin at the time of discovery of discrepancy. Additionally, it was pointed out that there is no provision for an extension of time to do the audit.

It was the consensus of the committee members that they did want to work out some amendments that could make administration of the gaming laws easier.

At the conclusion of the presentation, a motion was introduced by Senator Hilbrecht that the committee establish a relationship between representatives of the Gaming Control Board and Mr. Frank Daykin to draft amendatory language to accomplish what the Gaming Control Board feels would be acceptable with respect to the following items: audits performed within the statute of limitations, adjustment for audit collection proposes, the establishment of refund procedures and the provision for settlement including trade-off between over and under payments. Chairman Bryan was authorized to confer with the Assembly Committee on this matter. Motion seconded by Senator Dodge and carried unanimously. 20

On the question of the extent of the definition of a casino entertainment tax and gross revenue, the Gaming Board was requested to draw up a couple of modifications or suggestions for Committee consideration. Attached to each of their positions will be the revenue implications of that particular modification.

Mr. Les Kofoed addressed the Committee on giving more consideration to the gaming industry and the amount of money brought into the state by this industry. He explained that industry spends millions of dollars bringing people into the state; \$92-million is collected in gaming privilege taxes, yet when the casinos are trying to promote the industry, the state tightens up any loopholes where they can get a tax break. He asked that the committee take into consideration the fact that the gaming industry is what is keep Nevada alive; we should be equal partners.

- #2. Mr. James Lien, Deputy Director of the Department of Taxation presented Ms. Marilyn Paoli, Supervisor of Senior Citizens Program who will serve as the legislative liason.

Several reports, charts, and an organizational chart were distributed to the members and attached hereto. Among the exhibits were sources of state revenue and distribution of the funds to local governmental agencies. Mr. Lien indicated that over \$166-million has been collected by the Department of Taxation.

Senator Bryan informed Mr. Lien that the Gaming Control Board has indicated they might want to parrallel their statutes to the Department of Taxations and asked if they have any particular problems with tax collection system in case they do. Mr. Lien assured Senator Bryan they have found their procedures very workable.

General discussion centered around several aspects of the functions of the Department, i.e., staffing and personnel, proposal of renaming and restructuring the department whereby they would collect all the taxes, including motor vehicle taxes, gaming etc.

Senator Dodge reported that he has introduced a bill which would involve the Department more in supervising cities that have gotten into financial difficulties.

Mr. Lien explained their involvment in revenue sharing, stating that they have a contract with the Office of Revenue Sharing and review local audits as to compliance with federal regulations and verification of amounts etc., so they do become involved at the local level. The funds go to the local government; the Department of Taxation is merely in the adminstrative aspect.

There should be three senior citizens bills introduced during the session; one a Department bill, one a county bill, and the source of the third is unknown at the time.

The committee will soon be hearing testimony on the food tax. One bill has been introduced and another has been proposed for introduction. Senator Hilbrecht said that last session we were chanelizing our exploration of alleviating that problem into one area. He would like to have the opportunity to have some alternative approach. He suggested selecting the target people who we want to help and help them by way of rebates similar to the senior citizen program. Mr. Lien explained they already have information available on several alternatives if they can be given an indication of what type of people they want to help, the information can be forwarded to them. Senator Dodge asked if they would develop a regressivity curve so that we could get some idea of the percentage of people against whom the sales tax on food is regressive.

Senator Bryan urged that we build some mechanism into the ~~21~~

whereby we don't lose control of the situation.

Senator Dodge stated he still has a problem with the exemption proposal and that is through regressivity. The individual by himself, that person at a \$5,000 income level is one thing, the tax isn't particularly regressive against that level, but if you had a family and you had a five thousand dollar wage level, that is entirely different. It can really become regressive. He asked if we could develop something that makes this distinction or recognize that when we are talking about regressivity it depends on economic levels; it depends upon how many mouths we are trying to feed. Mr. Lien was requested to bring back information along that line.

Three bills that have been introduced and will be considered by the committee are: modification of the senior citizens bill, the estate tax credit, and the food tax question.

Another bill has been introduced trying to control the smoke shops on the indian reservations in sale of cigarettes to off-reservation consumers. (AB 100) Mr. Lien explained the actions taken in the past and explained that the revenue loss due to smoke shop operations, is estimated at \$87,000 per month - this year it will be in excess of one million dollars. Senator Dodge reminded the committee that he had introduced similar legislation but it had been killed by the Federal Government.

Mr. Lien stated they would be submitting amendatory bill to the Greenbelt legislation passed at the last session that would be for clean-up purposes.

Senator Bryan asked if they had received a request for a five cent increase on the cigarette tax for funding of recreational complexes and was advised by Mr. Lien that they have been asked to develop a fiscal note on such a proposal.

Senator Dodge asked if they had been approached with an increase in liquor taxes to fund detoxification units and was advised that they have provided some information on that already.

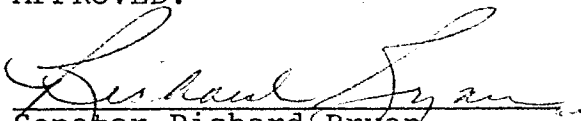
Senator Hilbrecht expressed a desire to see an improvement in the local government budgets in providing more detail in the budget reports. Mr. Lien advised that he has tried to do that over the past years but has not had much success. Senator Bryan stated he has learned that there are plans to include into the local government budgets, a certain percentage for capital improvements out of operating revenue. Mr. Lien was requested to obtain some information on the subject of local government budgets for the committee's review.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Nykki Kinsley, Secretary

APPROVED:


Senator Richard Bryan,
Chairman

MEMORANDUM

DATE: January 24, 1977

TO: Phil Hannifin

FROM: Harlan Elges

SUBJECT: Casino Entertainment Tax Losses

The estimated loss of the tax on photographs is \$177,000 per year, statewide.

The estimated loss on admissions from the MGM Fronton is \$108,000 per year. Loss on food and beverage is estimated at \$31,000, for a total loss from the Fronton of \$139,000 per year.

HHE/jkh

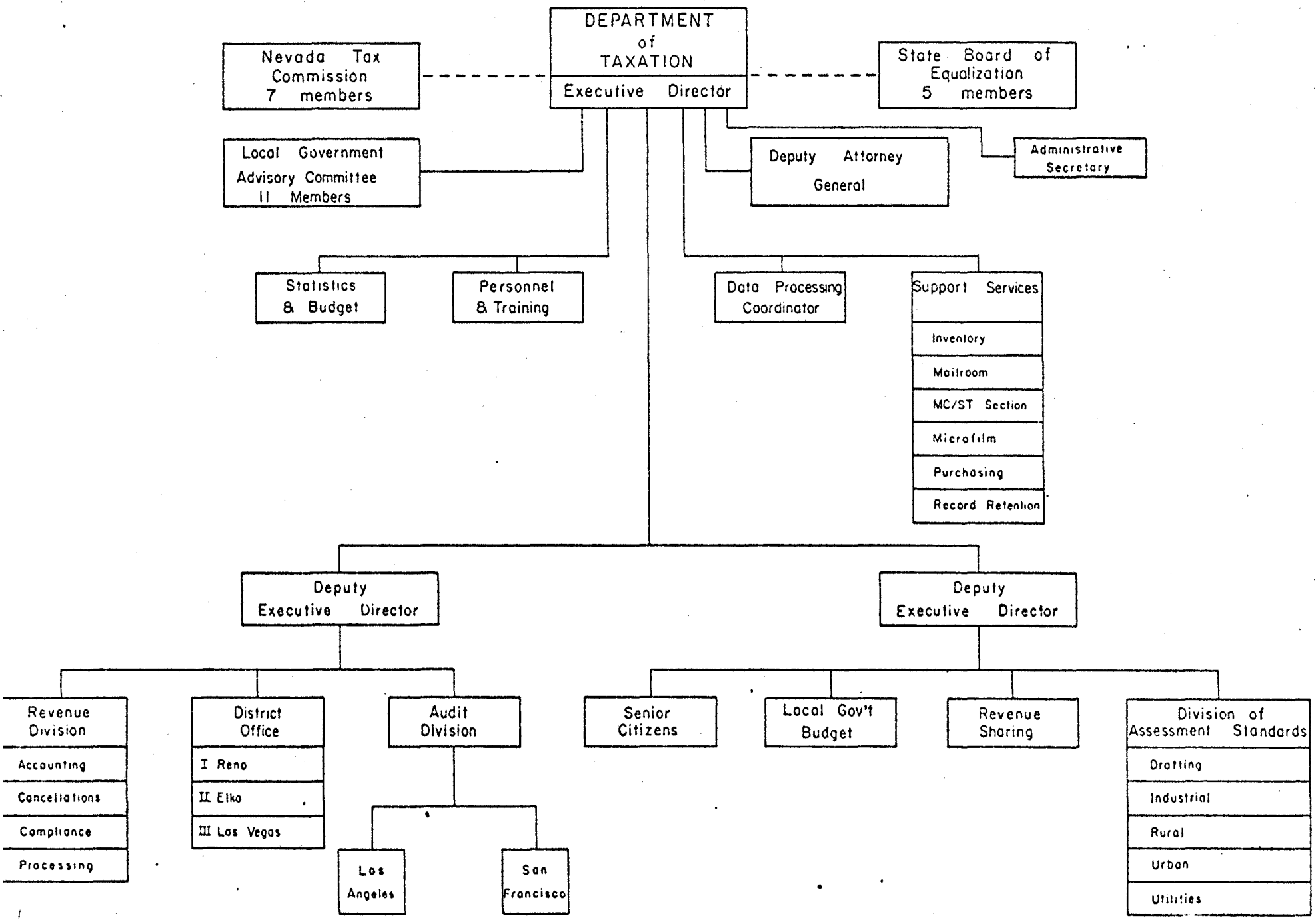
CASINO ENTERTAINMENT TAX COLLECTIONS
(BY FISCAL YEARS)

	<u>1970/1971</u>	<u>1971/1972</u>	<u>Variance</u>		<u>1972/1973</u>	<u>Variance</u>		<u>1973/1974</u>	<u>Variance</u>	
			<u>Dollar</u>	<u>Percentage</u>		<u>Dollar</u>	<u>Percentage</u>		<u>Dollar</u>	<u>Percentage</u>
Clark	\$5,160,572	\$5,615,527	\$+454,955	+ 8.8	\$6,364,243	\$+748,716	+13.3	\$7,819,863	\$+1,455,620	+22.9
Douglas	699,578	898,967	+199,389	+28.5	898,723	- 244		1,069,184	+ 170,461	+19.0
Washoe	<u>535,690</u>	<u>557,976</u>	<u>+ 22,286</u>	<u>+ 4.2</u>	<u>520,058</u>	<u>- 37,918</u>	<u>- 6.8</u>	<u>608,544</u>	<u>+ 88,486</u>	<u>+17.0</u>
STATEWIDE	<u>\$6,506,189</u>	<u>\$7,182,379</u>	<u>\$+676,190</u>	<u>+10.4</u>	<u>\$7,941,687</u>	<u>\$+759,308</u>	<u>+10.6</u>	<u>\$9,672,655</u>	<u>\$+1,730,968</u>	<u>+21.8</u>

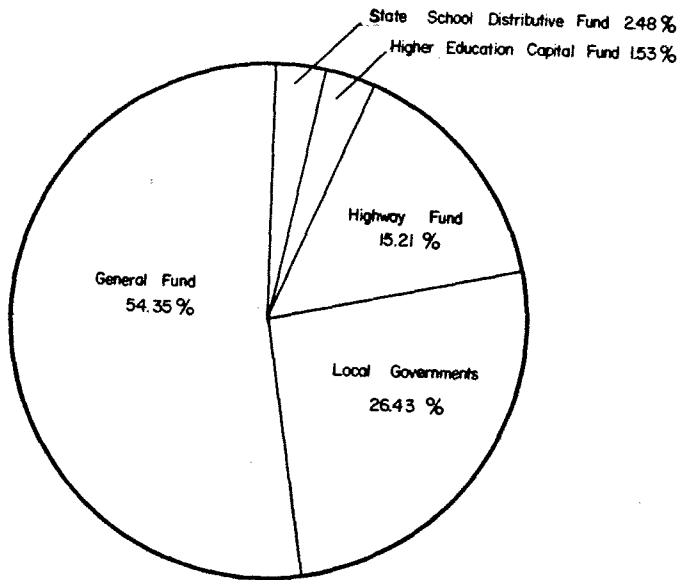
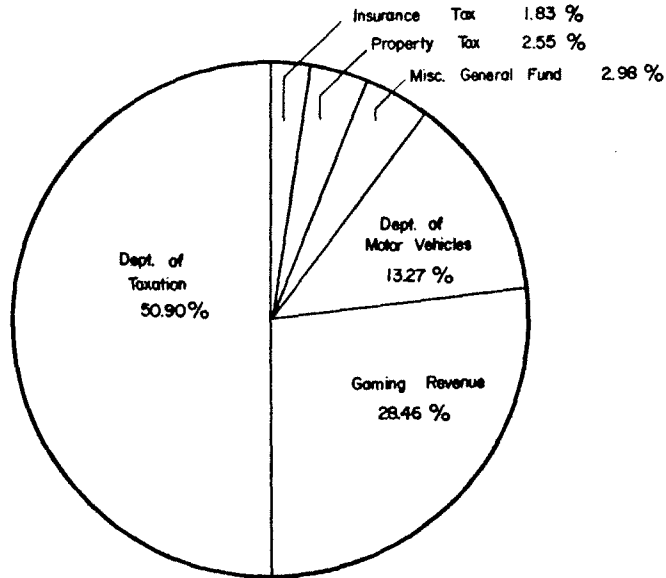
	<u>1974/1975</u>	<u>Variance</u>		<u>1975/1976</u>	<u>Variance</u>	
		<u>Dollar</u>	<u>Percentage</u>		<u>Dollar</u>	<u>Percentage</u>
Clark	\$9,068,419	\$+1,248,556	+16.0	\$9,002,232	\$-66,187	-0.7
Douglas	1,209,295	+ 140,111	+13.1	1,249,188	+39,893	+3.3
Washoe	<u>690,835</u>	<u>+ 82,291</u>	<u>+13.5</u>	<u>754,885</u>	<u>+64,050</u>	<u>+9.3</u>
STATEWIDE	<u>\$11,149,245</u>	<u>\$+1,476,590</u>	<u>+15.3</u>	<u>\$11,212,411</u>	<u>\$+63,166</u>	<u>+0.6</u>

77 Locations currently paying Casino Entertainment Tax.

Department of Taxation



SOURCES OF STATE REVENUES



DISTRIBUTION OF STATE REVENUES

General fund	\$177,938,838
Highway fund	49,782,619
State school distributive fund	8,128,764
Higher education capital construction	5,000,000
Local governments	<u>86,520,713</u>
	\$327,370,934

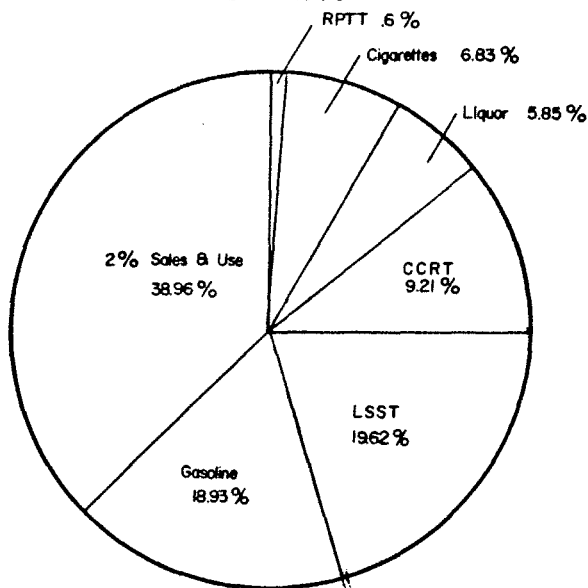
SOURCES OF STATE REVENUES
1975 - 1976

Insurance Tax	\$ 6,001,728
Gaming Revenues	78,387,104*
Licenses	1,537,452
Federal tax credit	11,253,417
Fees collected by counties	<u>1,988,740</u>
Total Gaming Revenues	\$ 93,166,713
Miscellaneous General Fund Revenues	
Licenses	\$ 2,285,776
Fees and fines	507,915
Charges for services	676,924
Use of money and property	5,659,207
All other receipts	<u>638,409</u>
Total Miscellaneous Revenues	\$ 9,768,231
Department of Motor Vehicles	\$ 43,454,637
Property Tax	\$ 8,359,233
Department of Taxation	
Sales and use tax	\$ 64,922,178
Local school support tax	32,691,778
County/city relief tax	15,350,857
Liquor tax	9,743,132
Cigarette tax	11,372,025
Gasoline tax	31,540,338
Real property transfer tax	<u>1,000,084</u>
Total Department of Taxation	<u>\$166,620,392</u>
TOTAL STATE RECEIPTS	\$327,370,934 (1)

* Includes Casino Entertainment Tax

(1) Any differences from the Budget Document are the result of different methods of accounting.

SOURCES OF REVENUE COLLECTED BY
DEPARTMENT OF TAXATION
1975 - 1976

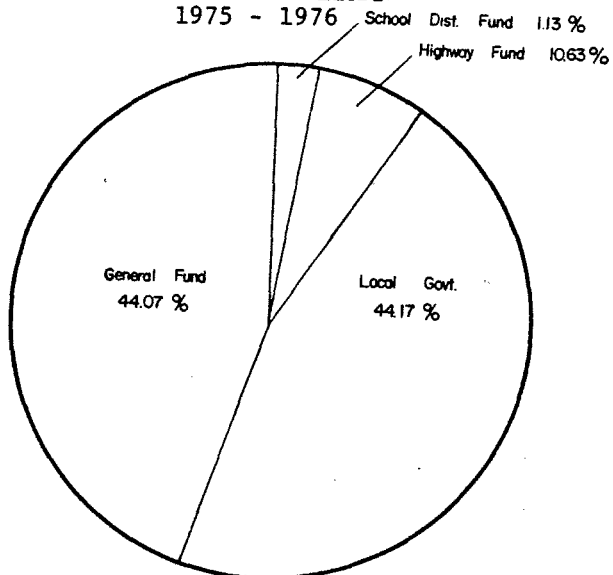


2 percent sales
Local school support tax
County/city relief tax
Gasoline
Liquor
Cigarettes
Real property transfer tax

\$64,922,178
32,691,778
15,350,857
31,540,338
9,743,132
11,372,025
1,000,084
<u>\$16,620,392</u>

DISTRIBUTION OF REVENUES COLLECTED BY
DEPARTMENT OF TAXATION

1975 - 1976



DISTRIBUTION TO LOCAL GOVERNMENT

Cities	\$25,707,689	34.93 %
Counties	17,387,783	23.62 %
Local school	30,508,268	41.45 %

AGENDA FOR COMMITTEE ON.....TAXATION.....

Date THURSDAY,.....Time.....2:00 pm Room.....231.....
JANUARY 27, 1977

Bills or Resolutions
to be considered

Subject

Counsel
requested*

1. Discussion - Phil Hannifin - Gaming Control Board
2. Discussion - James Lien, State Tax Commission.

Lavalin Centre Jan. 27 1977

Name

Agency Rep.

Harlan Elges

Gaming Control Bd.

Jack Strutton

" " "

Bud Hicks

Attorney General

Phil HANNIFIN

GAMING CONTROL BD

JEFFREY SILVER

GAMING CONTROL BOARD.

SENATE

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