



# Analysis of Fiscal Policy in Nevada

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*An Overview of the Approach and  
Findings of the Governor's Task  
Force on Tax Policy in Nevada*



# Summary Review

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- ◆ ACR 1's requirements and assumptions provided a general guide
- ◆ First step was to validate the assumptions and assess the magnitude of the budget shortfall
- ◆ Projected revenue/expenditure imbalance:
  - 2003-05: \$705 M
  - 2009-11: 1.4 B



# Today's Presentation

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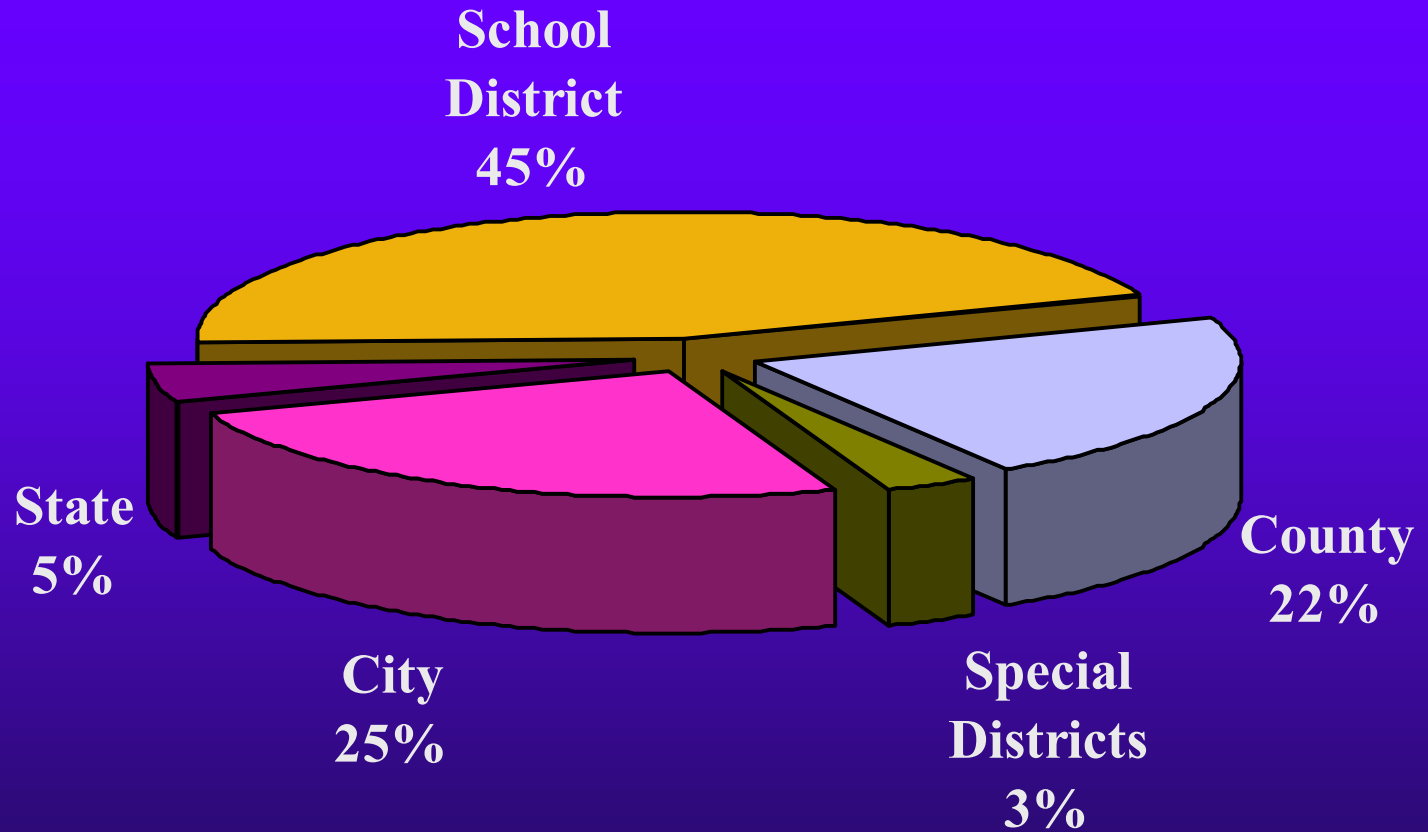
- ◆ Address additional/supplemental issues
  - Who benefits from the property tax
  - Who pays the retail sales and use tax
- ◆ Analysis of revenue sources
  - Quantitative considerations
  - Qualitative considerations
- ◆ Alternatives considered and the Task Force's recommendations



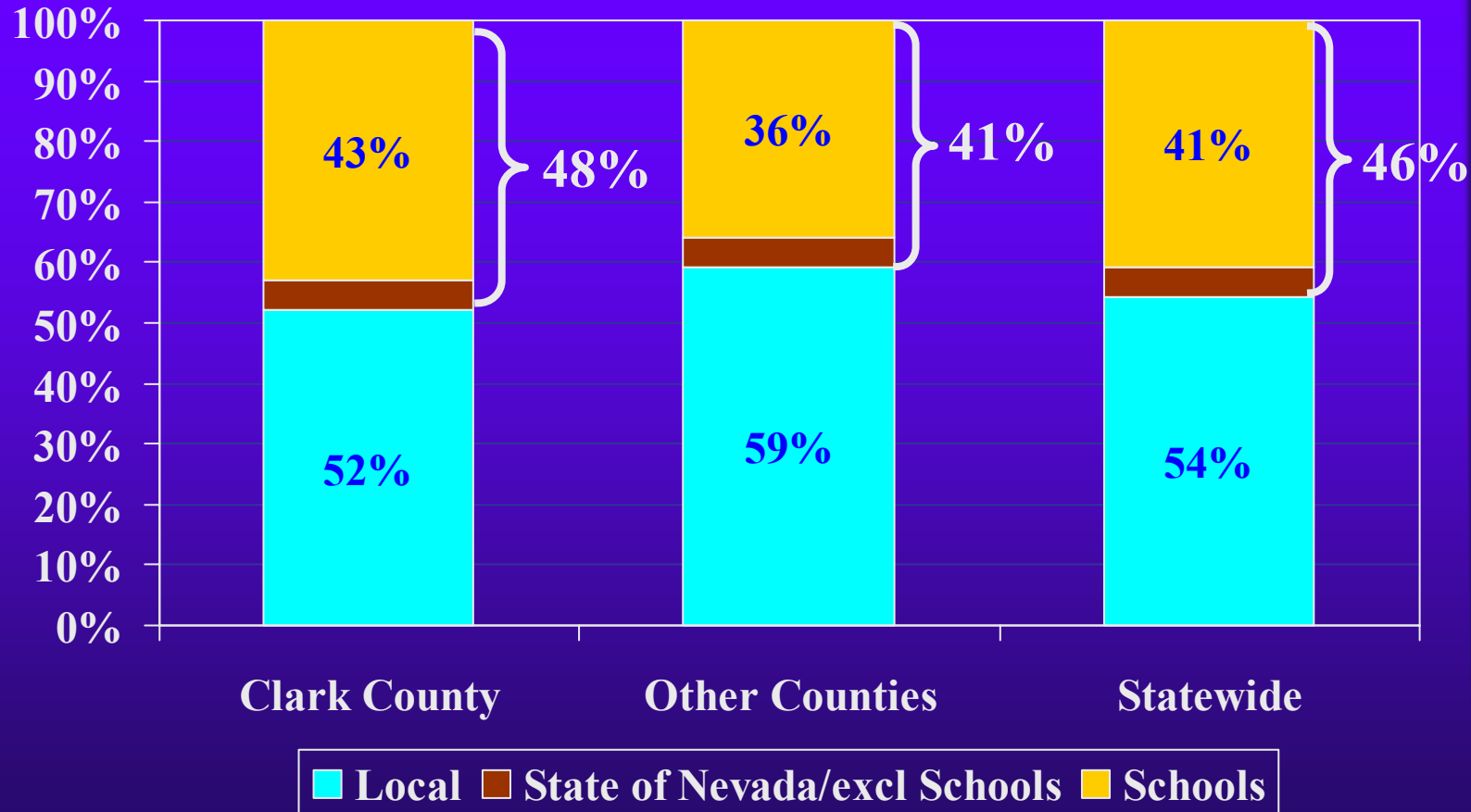
# Additional/Supplemental Issues

# Who Benefits From Property Tax?

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# Who Benefits From Property Tax?



# Who Pays the Sales Tax?

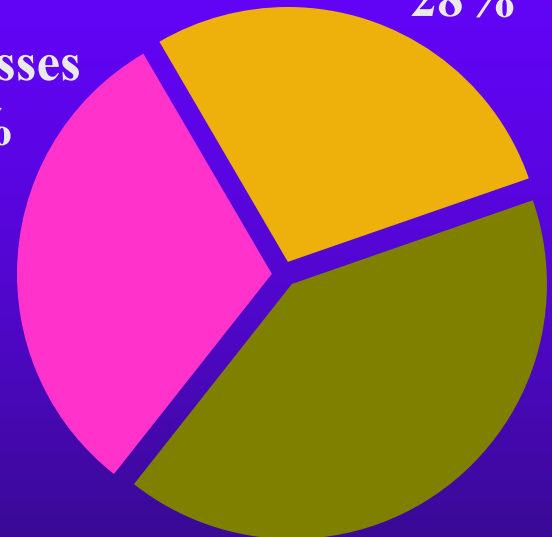
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**Out-of-State**  
9%



**In-State**  
91%

**Businesses**  
31%



**Residents**  
41%

**Visitors**  
28%





# Analysis of Revenue Alternatives

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- ◆ Considered qualitative and quantitative factors
- ◆ Evaluated both existing and new revenue sources
- ◆ More of an effort in information gathering as opposed to a statistical measure





# Evaluation Criteria

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## ◆ Revenue generation

- It is generally desirable that revenue sources produce sufficient returns with reasonable base and rate assumptions

## ◆ Stability

- It is generally desirable that revenue sources have minimal volatility and adapt easily to changes in the economy



# Evaluation Criteria (cont.)

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## ◆ Predictability

- It is generally desirable that revenue sources lend themselves to projections

## ◆ Transparency

- It is generally desirable that revenue sources not be hidden so as to allow individuals or businesses to readily ascertain the amount paid for government services



# Evaluation Criteria (cont.)

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## ◆ Uniformity

- It is generally desirable that revenue sources be consistently applied across the economy and particularly within segment of the economy

## ◆ Vertical equity

- It is generally desirable that individuals with more modest means bear a lower relative tax burden



# Evaluation Criteria (cont.)

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## ◆ Horizontal equity

- It is generally desirable that individuals and businesses that are the same in all relevant aspects be treated equally

## ◆ Competitiveness

- It is generally desirable that taxes be competitive with those of surrounding states and do not create competition within the state



# Evaluation Criteria (cont.)

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## ◆ Economic neutrality

- It is generally desirable that taxes and fees have a limited impact on economic decision-making

## ◆ Exportability

- It is generally desirable that a portion of the tax burden be borne by businesses and individuals residing outside the state



# Balancing the State's Needs

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- ◆ Sources providing near-term cash flow → ◆ Sources meeting long-term issues
- ◆ Sources broadening the state's tax base → ◆ Econ. development, diversity, and growth considerations
- ◆ Distributing the burden among taxpayer groups → ◆ Regressivity, equity and stability factors



# Revenue Alternatives Considered

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- ◆ Admissions & amusement tax
- ◆ Business license tax
- ◆ Casino entertainment tax
- ◆ Cigarette tax
- ◆ Commercial lease tax
- ◆ Corporate income tax
- ◆ Estate tax
- ◆ Franchise fees
- ◆ Government services tax
- ◆ Gaming taxes
- ◆ Gross receipt taxes



## Revenue Alternatives Considered (cont.)

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- ◆ Inheritance tax
- ◆ Inventory tax
- ◆ Liquor tax
- ◆ Mining tax
- ◆ Margin taxes
- ◆ Payroll tax
- ◆ Property tax
- ◆ Personal income tax
- ◆ Real property transfer tax
- ◆ Rental tax





# Revenue Alternatives Considered (cont.)

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- ◆ Retail sales and use tax
- ◆ Short-term car rental fees
- ◆ State lottery
- ◆ Slot route operators taxes and fees
- ◆ Value-added tax



# Task Force Recommendations, Part I

## ◆ Key consideration

- Increasing system efficiency

## ◆ Selected components

- Allow electronic funds transfer
- Tiered sales tax collection allowance
- Collection allowance only for timely filing
- Encourage e-reporting
- Use tax registration for businesses
- Term limits for tax exemptions



## Task Force Recommendations, Part II

### ◆ Key considerations

- Addressing near-term cash flow concerns
- Adjustments to compensate for purchase power losses

### ◆ Components

- Cigarette tax
- Liquor tax
- Property tax
- Corporate filing fees
- Restricted slot fees
- Business license tax



# Task Force Recommendations, Part II

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	2003-05 Biennium
Cigarette tax	\$124 M
Liquor tax	\$35 M
Property tax	\$114 M
Corporate filing fees	\$58 M
Restricted slot license fees	\$5 M
Business license tax	<u>\$106 M</u>
Total	\$442 M

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## Task Force Recommendations, Part III

### ◆ Key considerations

- Revenue sufficiency
- Reflecting the diversity of the state's economy
- Increasing long-run system stability

### ◆ Components

- State admissions and amusement transaction tax
- State activity tax and an accompanying increase in the gross gaming tax



# Task Force Recommendations, Part III

## *Admissions & Amusement Transaction Tax*

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- ◆ 6.5 percent levy imposed on the retail price of taxable admissions and amusement
  
- ◆ Exemptions
  - Expenditures subject to the casino entertainment tax
  
  - Expenditures subject to the boxing and wrestling fees
  
  - Participatory activities
  
  - Events or entertainment associated with schools, universities, or charitable organizations



## Task Force Recommendations, Part III *Admissions & Amusement Transaction Tax*

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- ◆ A “first step” in broadening the state’s narrow sales and use tax base
- ◆ Highly exportable, reflecting the changing nature of Nevada’s tourism-based economy
- ◆ Reflects trends in consumption behavior by residents



# Task Force Recommendations, Part III

## *Admissions & Amusement Transaction Tax*

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### ◆ Spectator Activities

- Professional sporting events
- Concerts
- Stage productions
- Commercial galleries
- Beauty contests
- Tours
- Pay-per-view television
- Movies & movie rentals

### ◆ Participatory Activities

- Recreational rentals
- Memberships
- Skating facilities
- Amusement and theme parks
- Bowling centers
- Golf courses
- Instruction

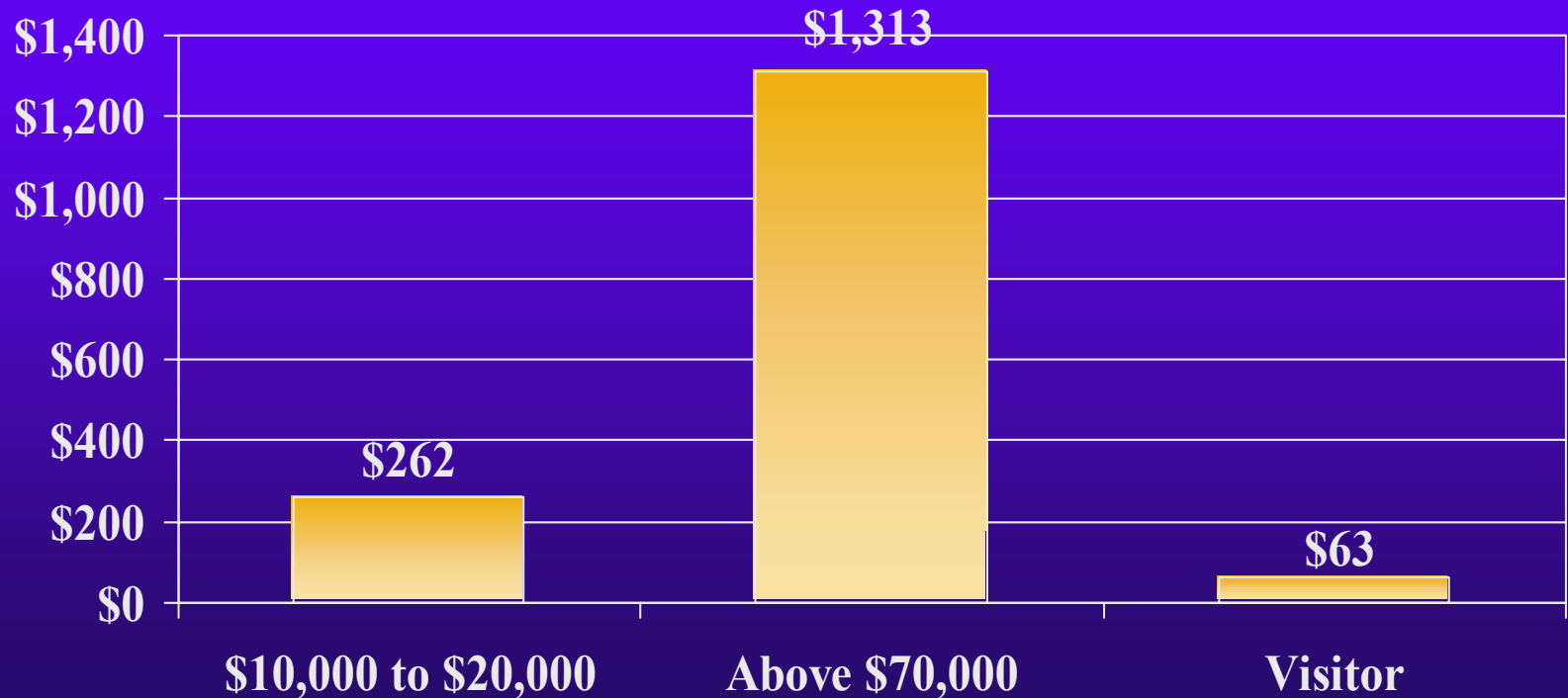


# Task Force Recommendations, Part III

## *Admissions & Amusement Transaction Tax*

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### Admissions and Amusement Spending Households by Income Level & Average Visitor

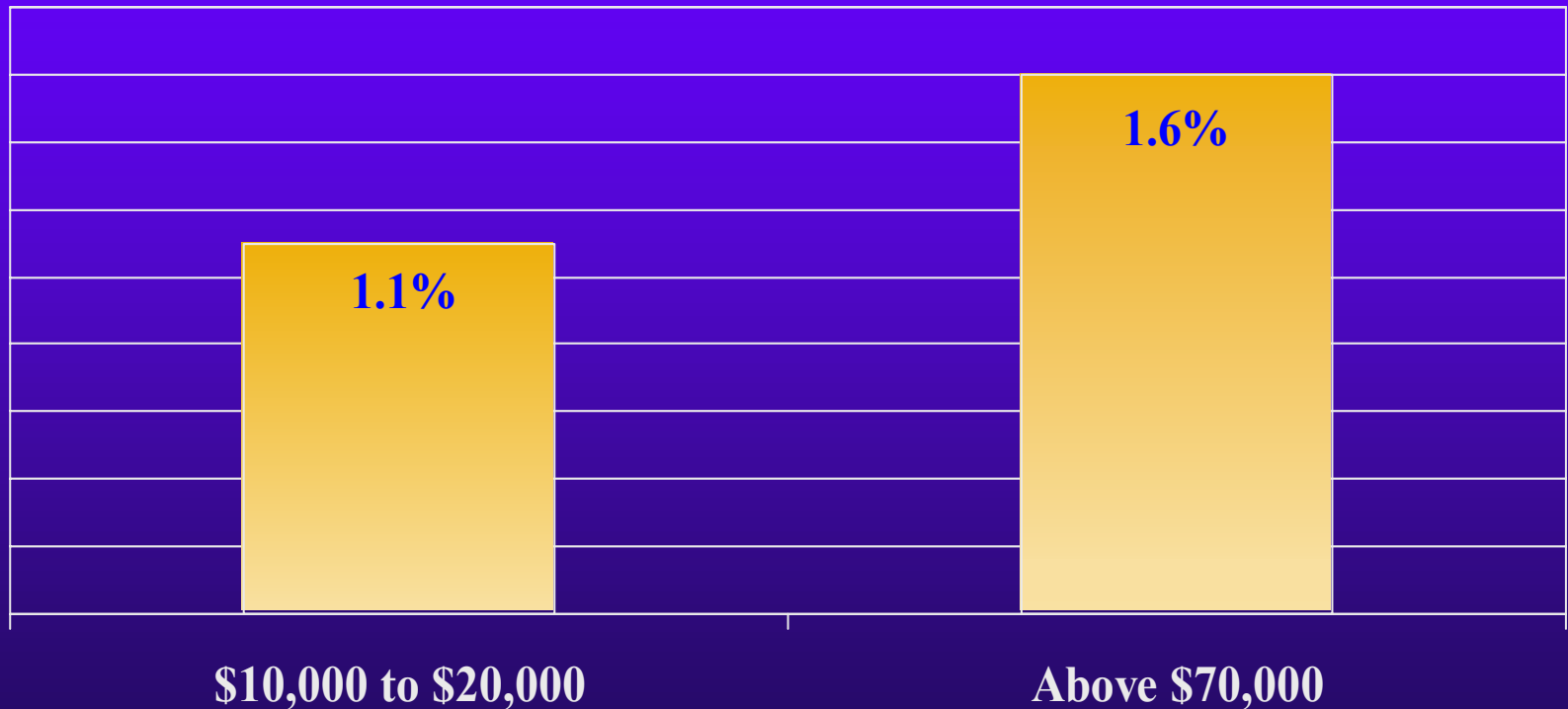


# Task Force Recommendations, Part III

## *Admissions & Amusement Transaction Tax*

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### Admissions and Amusement Spending as a Percentage of Average Household Income





# Task Force Recommendations, Part III

## *State Activity Tax*

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- ◆ 0.25 percent level imposed on the gross receipts of all business activity in Nevada
- ◆ \$350,000 standard deduction
  - Increases tax equity
  - Exempts more than 50 percent of businesses
- ◆ Qualified Nevada employee tax credit
  - Creates an integrated levy
  - Balances the burden on labor intensive and capital intensive businesses



# Task Force Recommendations, Part III

## *State Activity Tax*

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- ◆ Other deductions:
  - Motor vehicle fuel taxes collected
  - Government bond interest
  - Income the state constitutionally may not tax
  - Cash discounts taken by purchasers
  - Pass-through revenue



# Task Force Recommendations, Part III

## *State Activity Tax*

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### ◆ Other deductions:

- Bad debts
- Receipt of counterfeit bills
- Income from governmental sources received by hospitals
- Health/life insurance claims paid
- Operating income of electric, gas, sewer and water utilities
- Fundraising activities or dues of non-profit organizations



# Task Force Recommendations, Part III

## *State Activity Tax*

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- ◆ Nevada investment credit
  - Investment in certain equipment
  - Investment in certain facilities
- ◆ Approved firms only
- ◆ Administered by the State Commission on Economic Development



# Task Force Recommendations, Part III

## *State Activity Tax*

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- ◆ Reflects the diversity of Nevada's economy
- ◆ Among the most stable sources of public revenue available
- ◆ Captures out-of-state firms importing goods into Nevada and those employing national pricing strategies
- ◆ Relatively easy to administer and to comply



# Representative Family Impact

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Family of 3, One Smoker

Property tax (\$180,000 home)	\$95
Cigarette tax (1 pack per day)	\$128
Liquor tax (2 six packs per week)	\$5
Admissions and amusement tax	
(2 movies per month, at \$8.50)	\$40
(3 concerts or other events annually, at \$50)	\$29
Total additional tax	\$297





# Representative Family Impact

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Family of 3, Non-Smoker

Property tax (\$180,000 home)	\$95
Liquor tax (2 six packs per week)	\$5
Admissions and amusement tax (2 movies per month, at \$8.50)	\$40
(3 concerts or other events annually, at \$50)	<u>\$29</u>
Total additional tax	\$169



# Representative Business Impact

Business with 3.5 Full-Time Equivalent  
Employees and \$1.1 Million in Gross Revenue

<b>Business license tax liability</b>	<b>\$515</b>
<b>Corporate filing fee</b>	<b>\$43</b>
<b>Property tax</b>	<b>\$49</b>
<b>State activity tax</b>	
<b>Gross revenue</b>	<b>\$1,100,000</b>
<b>Less: Standard deduction</b>	<b>\$350,000</b>
<b>Taxable revenue</b>	<b>\$750,000</b>
<b>Gross state activity tax liability</b>	<b>\$1,875</b>
<b>Less: Business license tax credit</b>	<b><u>(\$350)</u></b>
<b>Net state activity tax liability</b>	<b>\$1,525</b>
<b>Total additional tax</b>	<b>\$2,132</b>



# Representative Business Impact

Business with 30 Full-Time Equivalent  
Employees and \$2.1 Million in Gross Revenue

<b>Business license tax liability</b>	<b>\$4,225</b>
<b>Corporate filing fee</b>	<b>\$43</b>
<b>Property tax</b>	<b>\$644</b>
<b>State activity tax</b>	
<b>Gross revenue</b>	<b>\$2,100,000</b>
<b>Less: Standard deduction</b>	<b>\$350,000</b>
<b>Taxable revenue</b>	<b>\$1,750,000</b>
<b>Gross state activity tax liability</b>	<b>\$4,375</b>
<b>Less: Business license tax credit</b>	<b><u>(\$3,000)</u></b>
<b>Net state activity tax liability</b>	<b>\$1,375</b>
<b>Total additional tax</b>	<b>\$6,287</b>



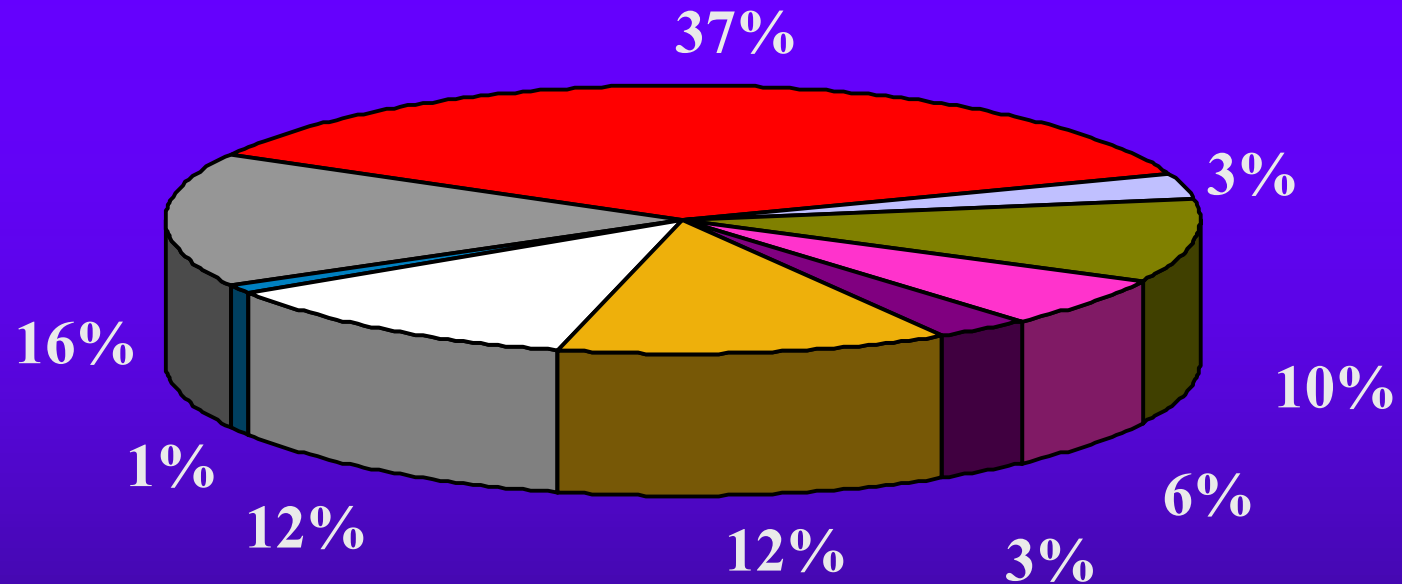
# Task Force Recommendation Summary

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- ◆ Implement passive revenue generators
- ◆ Increase cigarette tax by \$0.35 per pack
- ◆ Increase liquor taxes by 89%
- ◆ Increase by property tax by \$0.15 per \$100
- ◆ Increase tax on restricted slot machines by 32%
- ◆ Increase corporate filing fees by 50%
- ◆ Implement a state admissions and amusement tax of 6.5%
- ◆ Implement a state activity tax of 0.25%, with a \$350,000 standard deduction and a credit for paid business license tax of up to \$100 per FTE (accompanying 0.25 increase in each tier of the gross gaming tax)

# Task Force Recommendation Revenue Distribution

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■ Passive Revenue Generators

■ Corporate Filing Fees

■ Cigarette Tax

■ Slot License Fee

■ State Activity Tax

■ Business License Tax

■ Liquor Tax

■ Property Tax

■ Admissions and Amusements Tax



# Recommendation Recap and Comparison

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	2003-05 Task Force	
Cigarette tax	\$124 M	
Liquor tax	\$35 M	
Property tax	\$114 M	
Corporate filing fees	\$58 M	
Restricted slot license fees	\$5 M	
Business license tax & fee	\$106 M	
Admissions and amusement tax	\$150 M	
State activity tax	<u>\$222 M</u>	
Total	\$813 M	



# Recommendation Recap and Comparison

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	2003-05 Task Force	2003-05 Governor
Cigarette tax	\$124 M	\$243 M
Liquor tax	\$35 M	\$35 M
Property tax	\$114 M	\$100 M
Corporate filing fees	\$58 M	\$57 M
Restricted slot license fees	\$5 M	\$5 M
Business license tax & fee	\$106 M	\$386 M
Admissions and amusement tax	\$150 M	\$168 M
State activity tax	<u>\$222 M</u>	<u>\$0 M</u>
Total	\$813 M	\$994 M



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