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Service Tax

SB 382, Section 29

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As accountants we are keenly aware of the need to balance budgets and to distribute the tax burden in a manner that is fair, transparent and easily administered. In our opinion, SB 382 fails all of these principals.

The Nevada Society Taxation Group paper discusses these shortcomings in detail.

It fails the fairness test because

- The tax is not broad-based. It exempts too many services, notably realtors, brokers, medical professionals and construction.
- The tax rate is too high. The Nevada Societies submittal calculates it as comparable to a state income tax rate of over 12%.
- The tax is regressive. The \$50 "personal service" exemption would not cover many everyday expenditures.

It fails the transparency test because the cost of service is already often included in the cost of products already subject to the sales tax, resulting in a pyramiding of tax. The current sales tax avoids this issue by providing resale exemptions.

The tax would not easily be administered.

- Administrative burden on the collecting agency.
 - A dramatically increased number of businesses would have to be registered and monitored.
 - Regulations would have to be generated to deal with issues, such as sourcing of income and pyramiding.
 - It would be difficult to monitor out of state vendors providing services in Nevada.
- Compliance issues.
 - It would be difficult to enforce. Businesses and individuals providing services are often small in size and less sophisticated.
 - Many small businesses, such as gardeners, may not even realize they are subject to the tax.

Obviously, we are opposed to the service tax as proposed. However, we recognize that service providers must participate in bridging the budget deficit.

Speaking for myself and Bill Freeman, NOT the Nevada Society of CPAs, we believe this can be accomplished simply by substantially increasing the so-called "head tax" on defined categories of service providers.

- While the current tax would remain at \$25 per quarter for employees in businesses currently paying their "fair share" of taxes (i.e., gaming, mining, etc.), the "head tax" would be increased to \$125 per quarter for individuals in professional service sectors, including medical, construction, legal, accounting and real estate sales.
- A more modest increase would apply to non-professional service industries, such as gardening, salons, housekeeping, etc.
- In our firm, that would increase our business tax from \$2,700 per year to \$10,700 (a four-fold increase).
- This tax could be collected within the current taxing structure.

An example of another tax that could be easily collected and meets the "ability to pay" test would be a 1% tax on the sale of real estate. Since the tax would be withheld by escrow companies, the state would not have a substantial administrative cost.