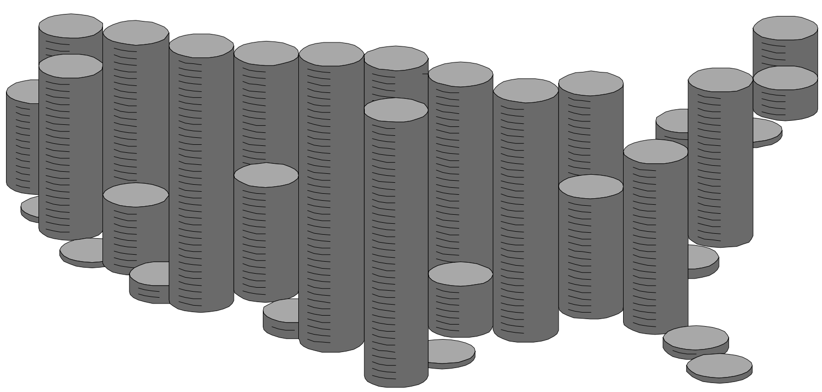
TAX POLICY



TAX POLICY

BACKGROUND

The 2001 Session of the Legislature convened with clouds across the economic horizon. Stock values had been dropping, most severely in the high-tech sector, and various economic indicators were reflecting that a U.S. recession was a strong possibility. In addition, an energy shortage in California threatened to adversely affect the economies of western states.

The Governor's budget was predicated on modest General Fund revenue increases forecasted by the Economic Forum. No General Fund revenue increases were proposed, although the Legislature adopted two non-General Fund revenue enhancements included in The Executive Budget. The first, Assembly Bill 134, increases fraud assessments on insurers. The bill produces about $359,500 in additional revenue annually, of which $263,000 is used to fully fund the Attorney General's Insurance Fraud Unit. The remaining additional revenue is used to replace a portion of General Fund support for insurance regulation. The second measure, A.B. 199, doubles the trout stamp fee to $10. The additional revenue will be used to repay $3.5 billion in bonds to be issued to rehabilitate fish hatcheries.

The modest General Fund revenue forecast used in The Executive Budget ultimately proved too optimistic. The Economic Forum's May 1 revisions reduced projected General Fund revenues by $121.4 million during the 2001-03 biennium. After receiving the reduced revenue numbers, the Legislature approved three General Fund revenue enhancements to replace approximately $64.9 million of that "shortfall" over the biennium.

The bills providing revenue increases include A.B. 77 and S.B. 489, which shorten the period that certain property is considered unclaimed and remitted to the state. These bills are expected to produce an estimated one-time increase in revenues of approximately $8.3 million in FY 2001-02. Senate Bill 577 was designed to provide an additional $29 million during the biennium through increases in a variety of fees on business transactions handled through the Secretary of State's office. Finally, A.B. 460 increases the state's share of the car rental fees to a full six percent rate and provides for quarterly rather than annual payment of those fees. This measure is estimated to generate an additional $27.5 million for the state General Fund this biennium.

Because of concerns over the state's long-term revenue picture, the Legislature approved ACR 1 at the 17th Special Session. This resolution creates a Governor's task force on tax policy during the interim. In addition, a number of bills affecting local government finances were passed during the 2001 Session and the 17th Special Session, including several that contain recommendations from the Legislative Committee Studying the Distribution of Revenue Among Local Governments (S.B. 253 of the 1997 Session). One of those bills, S.B. 557, extends the authority of the committee through June 30, 2005 and renames it the Legislative Committee for Local Government Taxes and Finance to better recognize the committee's areas of study.

In addition to the bills affecting state revenues and local government finances, the Legislature also approved numerous technical tax law changes and continued to revise tax exemptions in 2001. As the regular and special sessions concluded, state and national economic performance remained sluggish, and the first recession since 1991 was still a possibility.

The most important new laws affecting Nevada's tax system are detailed in the following legislation section.

LEGISLATION

STATE REVENUE	TECHNICAL CHANGES	TAX EXEMPTIONS	LOCAL GOVERNMENT
AB 77	AB 433	AB 243	AB 361
AB 460	AB 455	AB 639	AB 501
SB 489	AB 656	AB 657	SB 124[2]
SB 577	SB 59	SB 156	SB 125[2]
ACR 1[1]	SB 64[2]	SB 227[2]	SB 203[2]
	SB 70	SB 273	SB 221
	SB 123[2]	SJR 11[3]	SB 238
	SB 222	SJR 1[1]	SB 389
	SB 376		SB 425
	SB 381		SB 557[2]
	SB 499		AB 10[1]
	SB 528		

[1]Approved at the 17th Special Session.
[2]Recommended by SB 253 Committee.
[3]First approved at 70th Session.

STATE REVENUES

For additional information regarding these five state revenue measures, see the Background portion of this Tax Policy section.

Assembly Bill 77 and Senate Bill 489 shorten the period from five years to three years for determining when certain types of property are considered unclaimed and are to be remitted to the Unclaimed Property Division of the Treasurer's Office.

Assembly Bill 460 requires rental car companies to remit the full six percent rental car fee to the state. Previously, the companies were allowed to keep up to four percent of the fee to offset vehicle registration costs. The bill now provides that the companies may impose an additional 3.5 percent fee to cover those costs. The bill also requires fees to be remitted each quarter rather than at the end of each year.

Senate Bill 577 changes the fees charged to entities that choose to do business in Nevada. The changes include an increase from $85 to $165 for filing the initial list of officers, directors and managers of various types of businesses. Fees are increased on filings of certificates and documents concerning procedures such as reinstatement, amendments, dissolution, notice of withdrawal from Nevada by a foreign corporation, original articles of organization for limited liability companies, or registration of certain business entities. Additional fee changes include an increase from $10 to $20 for certifying copies of certain documents and from $15 to $30 for executing a certificate of corporate existence. In addition to the fee increases, the bill revises liability provisions pertaining to a stockholder, director or officer of a corporation.

Assembly Concurrent Resolution 1 (17th Special Session) creates the Governor's task force on Nevada's tax policy. The task force consists of six to eight members, including four legislators, and will develop proposals to address the state's need for additional revenue for state programs, stabilize the tax base and reduce Nevada's long-term structural budget deficit.

TECHNICAL CHANGES RELATING TO STATE AND LOCAL TAXES

The bills in this group make technical and administrative changes to the tax laws and have not been designed with the intent to increase or reduce revenues.

Assembly Bill 433 establishes a guideline for assessors to determine the amount of time a non-exempt person or business leases or uses property that is otherwise exempt from taxation.

Assembly Bill 455 enacts the Simplified Sales and Use Tax Administration Act. The bill is a first step in an effort by states to develop a more simple, uniform and fair system of sales and use taxation. The participating states, as embodied in this legislation, are required to establish uniform definitions within tax bases, uniform sourcing rules, and uniform audit procedures, and to simplify exemption administration and rate simplification. A feature of A.B. 455 unrelated to the tax simplification requires a vendor who contracts with the state or a political subdivision to register with the Department of Taxation to collect sales and use taxes regardless of whether or not that vendor has a physical presence in Nevada.

Assembly Bill 656 allows any employer with less than one FTE employee per quarter to submit a request to the Department of Taxation to pay the business license tax annually instead of quarterly.

Senate Bill 59 changes the name of the vehicle privilege tax to the governmental services tax.

Senate Bill 64 allows personal property taxes that are not secured by real property to be paid in four equal installments, if the business has been in existence for at least three years, the personal property taxes exceed $10,000, and the taxpayer has filed a written statement of personal property with the assessor by July 31. A written request to the county treasurer or county assessor to pay the taxes quarterly is required.

Senate Bill 70 revises provisions that govern the classification of various types of factory-built housing as real property.

Senate Bill 123 requires a municipality to notify other affected governmental entities before submitting a proposal to the county debt management commission to incur general obligation debt or levy a special elective tax, authorizes the commission to establish methods to address several issues related to such proposals, and requires the commission to resolve conflicts between entities and approve, in whole or in part, or reject the increase in property taxes set forth in a proposal.

Senate Bill 222 allows the Nevada Tax Commission to share information related to the business license tax with the governing body of a city, county, town or fair and recreation board.

Senate Bill 376 clarifies a tax exemption for surviving spouses, extends provisions relating to mobile homes to encompass manufactured homes, transfers the collection of special taxes on livestock to the state Department of Agriculture effective July 1, 2004, and requires a county recorder to provide the county assessor with duplicate copies of recordings of various maps, plats and records of survey.

Senate Bill 381 streamlines procedures for the administration and payment of taxes on tobacco products, other than cigarettes. Among other things, the bill vests all responsibility for reporting and record keeping with the wholesale dealer.

Senate Bill 499 eliminates the park marina development fund and expands the permissible uses of money received from the tax on motor vehicle fuel used in watercraft for recreational purposes.

Senate Bill 528 corrects a technical ambiguity in statute regarding the taxability of medical devices provided to a Medicaid or Medicare beneficiary through a contract between a vendor and a governmental entity. The bill provides that the sale of a medical device that is paid for by a governmental entity is exempt from the sales tax regardless of who actually owns and uses the device.

TAX EXEMPTIONS

Five bills in this group add a new tax exemption or expand an existing tax exemption. The other bill, Senate Bill 227, revises various exemptions related to recycling and renewable energy. Of the two proposed constitutional amendments, one authorizes the Legislature to enact a new property tax exemption, while the second establishes an exemption policy for the Legislature.

Assembly Bill 243 provides an exemption from local sales taxes, effective July 1, 2002, for farm machinery and equipment. The bill also submits a question to the voters at the 2002 general election whether to extend the exemption to the two percent state sales and use tax. The exemption covers only major pieces of farm equipment and parts, and excludes all vehicles registered with the Department of Motor Vehicles.

Assembly Bill 639 exempts special fuel used to operate special mobile equipment from the tax on special fuel and authorizes special mobile equipment and farm equipment to be operated on certain highways using dyed special fuel.

Assembly Bill 657 provides an exemption from local sales taxes, effective October 1, 2001, for engines, chassis and other component parts of professional racing vehicles used by a professional racing team. The bill also provides an exemption for the equipment used to transport the vehicles or other equipment associated with professional racing teams or the organizations, such as CART, that sanction professional racing. In addition, the bill submits a question to the voters at the 2002 general election whether to extend these exemptions to the two percent state sales and use tax.

Senate Bill 156 doubles the tax exemptions for war veterans and certain disabled veterans or their surviving spouses over four years. When fully effective on July 1, 2004, the exemption for war veterans will be $2,000 and the exemption for eligible disabled veterans will be between $10,000 and $20,000 depending on the percentage of service-connected disability. In subsequent years, the amounts will be indexed to changes in the Consumer Price Index. The amount of the exemption can be applied to the assessed valuation of property, the valuation of a vehicle for purposes of the government services tax, or any combination of the two.

Senate Bill 227 modifies various provisions related to existing tax abatements for recycling businesses to conform to the same criteria as other abatements administered by the Commission on Economic Development. The bill also modifies and conforms abatements for facilities that generate electricity from renewable energy.

Senate Bill 273 exempts from local sales taxes the sale or use of a product or system that uses renewable energy to generate electricity. To be exempt, the system has to be an integrated package of components that produces at least 75 percent of the electricity from renewable resources. The exemption is authorized only from January 1, 2002 to June 30, 2003.

Senate Joint Resolution 11 of the 70th Session proposes a constitutional amendment to allow the Legislature to provide for an abatement of the tax or an exemption of part of the assessed value of an owner-occupied, single-family residence to avoid severe economic hardship to the owner. The proposed amendment will be voted on at the 2002 general election.

Senate Joint Resolution 1 (17th Special Session) proposes to amend the Nevada constitution to provide that before the Legislature enacts an exemption from property or sales tax, the proposed exemption must meet one or more of five criteria identified in the resolution. In addition, SJR 1 requires the Legislature to review each property and sales tax exemption at least every six years to determine if it is still valid and that it is being used effectively. The proposed amendment will have to be approved in this form by the 2003 Legislative Session before it can be submitted to the voters at the 2004 general election.

TAX POLICY CHANGES AFFECTING LOCAL GOVERNMENTS

These bills affect the tax policy of local governments. Four of the bills were recommendations of the legislative committee created by S.B. 253 of the 1997 Session.

Assembly Bill 361 establishes uniform dates for the reporting of net proceeds information and the payment of net proceeds taxes by mines and royalty recipients. The bill also establishes uniform dates for the Department of Taxation to report net proceeds information to the Controller and for the Controller to distribute the tax revenues to school districts and local governments.

Assembly Bill 501 includes any property tax rate authorized for school capital projects in the property tax rate used to determine a school district's share of the government services tax that is earmarked for school capital projects.

Senate Bill 124 requires that money from gasoline taxes collected by the state for a city be remitted directly to that city rather than having the money sent to the county for subsequent distribution to the city.

Senate Bill 125 requires local governments to submit fiscal reports electronically to the Department of Taxation and publish a summary of the report in a newspaper of general circulation in the area. Additionally, the bill requires the Committee on Local Government Finance to adopt regulations regarding the electronic fiscal reports.

Senate Bill 203 allows two or more counties to levy a property tax not to exceed five cents per $100 of assessed valuation to operate a regional facility for public safety, health or criminal justice purposes. The bill allows participating counties to establish an "administrative entity" to operate the facility. The bill further requires the establishment of a separate fund to account for the revenue from the tax and requires the administrative entity to develop a budget for the revenues and expenses of the fund.

Senate Bill 221 authorizes the City of Reno to increase the room tax by a rate of up to 1.5 percent and levy assessments within four city blocks of downtown to pay the costs of convention and visitor facilities to serve the downtown properties.

Senate Bill 238 sets up audit, penalty, due process, refund and lien provisions for the real property transfer tax and establishes a Taxpayers' Bill of Rights for this tax. In addition to the administrative provisions, S.B. 238 applies the tax to transfers of real property from a government to a private party and eliminates an exemption for the value of loans assumed by the purchaser of the property.

Senate Bill 389 increases from $85,000 to $130,000 the maximum amount of revenue from the state two percent tax on aviation fuel allocated to the Civil Air Patrol account each fiscal year. The Civil Air Patrol will receive additional state funding as a result of this bill only if tax revenues increase above current levels.

Senate Bill 425 places certain requirements on a county, city or general improvement district that wishes to expand or take over service from a nongovernmental service provider for the purpose of delivering electric, telephone or telecommunications service. The bill also requires the Legislative Committee for Local Government Taxes and Finance to study the impact on state and local taxes of local governments that expand or acquire certain utility facilities.

Senate Bill 557 revises the formula for the distribution of revenues to counties from a 3.6 cents-per-gallon state-imposed tax on gasoline. The new formula will distribute the revenues based two-thirds on the population of the county and one-third on the road mileage in the county, and guarantees that each county will receive at least the amount of revenue that it received in FY 2000-01. The road mileage for purposes of the formula will include only locally maintained roads. The previous formula included state-maintained road mileage. In addition, the bill renames the legislative committee established by Senate Bill 253 of the 1997 Session as the Committee for Local Government Taxes and Finance and extends its authorization through June 30, 2005.

Assembly Bill 10 (17th Special Session) revises the intracounty distribution of "excess" revenues in the consolidated tax distribution account by allowing population changes to be averaged over five years and by eliminating, over a four-year period, the "one plus" factor that diminished the impact of growth on the distribution of those revenues. The bill also adds $4 million to the base allocation of the City of Henderson. Finally, the bill requires the technical advisory committee of the renamed Legislative Committee for Local Government Taxes and Finance to study the effects of the revised formula and to report its findings to the legislative committee by October 1, 2002.