SECTION III
TAX OVERVIEW

This section reviews the major tax changes approved by the Legislature since 1991 and proposals for the 2001-2003 biennium.

1991 TAX CHANGES

The 1991 Session of the Legislature began with the U.S. economy in the midst of its first recession since 1982. State government revenue growth was already slowing considerably at the start of 1991 and would become almost flat through the spring of the year.

While this performance was better than that of many states, the Legislature was met with Executive Budget proposals to increase funding for education, including significant class-size reduction in the first through third grades. Also proposed were funding increases for drug abuse, transportation, senior citizens, environmental and public safety programs.

To pay for these enhancements, which were to be supported by General Fund sources, the Governor proposed repealing the sunset on the cigarette tax increase approved in 1989, enacting a business activity tax based on payroll and a business license fee based on gross receipts, and applying gaming percentage fees to slot route operators.

In addition to the state budget proposals and the need to provide adequate funds for state highways, the Legislature was confronted with several local government tax policy questions. The most important were Clark County's proposal to fund its master transportation plan and the continuing debate over the "fair share" issue regarding the distribution of supplemental city-county relief tax (SCCRT) revenues.

The Legislature generally supported the Governor's budgetary proposals, but rejected most of the specific tax increases he had proposed to fund them. The rapidly deteriorating revenue picture, however, made it necessary to find revenues in addition to the new amounts proposed by the Governor. The final tax package, which was estimated at more than $300 million in additional revenue over the biennium, consisted primarily of the repeal of the cigarette tax sunset, a ¾ percent increase in the local school support tax, and the adoption of a new business license tax based on the number of employees of the business. Though the business tax had different average rates in different brackets, it averaged about $25 per employee per quarter.

To help meet the growing transportation needs of the state, the Legislature increased gasoline and special fuel taxes and registration and driver's license fees. The Legislature adopted the Clark County Master Transportation Plan for the most part as proposed, and made the proposal applicable throughout the state if approved by the local voters. To resolve the "fair share" question, the Legislature also instituted a new SCCRT distribution formula to return most of the proceeds to the county where the taxes were paid. This bill, which substantially reduced the revenues going to governments within Washoe County, also allowed Washoe County and several other counties to impose new taxes to make up for any revenue loss due to the provisions of the bill.

1993 TO 1999 TAX LEGISLATION

The 1993 through 1999 period was marked by prosperity in Nevada and in most of the rest of the nation. The four executive budgets submitted during this period included no major tax proposals and only a few General Fund revenue enhancements. One major area of change focused on the financing of the Medicaid program due to ever-changing federal rules relating to the sources of state matching funds. Each legislative session the Legislature made changes to the state program to leverage the maximum amount of federal dollars while complying with the regulations in effect at that time.

The majority of tax changes by the Legislature during this period provided additional revenue options for local governments, numerous technical and administrative changes that affect state and local government revenue efforts, and various tax exemptions and exclusions for certain taxpayers.

1993 SESSION

The 1993 Legislature adopted several of the revenue-raising proposals that were part of The Executive Budget. These included prepayment of the insurance premium tax by insurers, higher real estate fees, higher state commissions for the collection of local sales taxes, and a transfer to the General Fund during the biennium of the portion of net proceeds taxes otherwise earmarked for the permanent net proceeds fund. The prepayment of the insurance premium tax was to provide a one-shot increase in revenue exceeding $30 million in FY 1992-93.

The Legislature also approved budgetary proposals to revise the business license tax. These included elimination of the tax cap for several large employers that was included in the 1991 legislation and the adoption of a flat tax rate of $25 per employee per quarter. The Legislature further revised the business tax by changing it from a straight head tax to one based upon the number of full-time equivalent employees. The Legislature also diverged from a budget proposal by increasing the flat fees on restricted slots rather than applying the gaming percentage fee to restricted slot operations. The Legislature also approved, but scaled back, a proposal to use a portion of telemarketing fees for the General Fund.

To raise additional revenues, the Legislature increased state engineer, land company, uniform commercial code and limited partnership fees. It also imposed a new excise tax on short-term vehicle rentals to provide additional support for the General Fund.

Finally, the 1993 Legislature made a major policy change by establishing the Economic Forum, which was given the responsibility to develop General Fund revenue estimates during upcoming budgetary cycles that were binding on both the Governor and the Legislature, respectively, when recommending and approving General Fund appropriations in the future.

1995 SESSION

Proposals in The 1995 Executive Budget and actions during the legislative session were, for the first time, predicated on the General Fund revenue projections of the Economic Forum. With the expected opening of several major casinos during the 1995-1997 biennium, the revenue forecast was optimistic, and The Executive Budget was fully funded by the existing revenue structure.

After identifying reduced caseload projections for the Medicaid and Aid to Dependent Children programs and receiving upwardly revised forecasts from the Economic Forum, the Legislature was able to stray from the status quo revenue plan submitted by the Governor. These modifications included the postponement of the prepayment of the insurance premium tax and adoption of several tax exemptions contingent on voter approval and tax incentives for economic development. Voters subsequently approved sales tax exemptions for orthotic equipment and supplies and for sales by charitable organizations.

The Legislature also eliminated the prepayment of taxes on the net proceeds of minerals, but designed the plan to minimize any revenue loss. Also approved was a measure to move the collection of the tax on diesel fuel to the terminal-rack level. This bill ultimately resulted in a substantial increase in revenues for the Highway Fund because of simplified enforcement and increased compliance. The Legislature approved no tax increases and only a few fee increases.

Among local government revenue issues, one of the most hotly debated was a bill that would allow new urban towns within Clark County to share in revenues from the SCCRT and motor vehicle privilege tax. Because these two taxes provide fixed amounts of revenue each year, the effect of the legislation is to transfer resources from the five cities in Clark County to the county government whenever a new urban town is established.

1997 SESSION

Within a backdrop of national prosperity marked by the lowest inflation, unemployment rates and federal budget deficits since the 1960s, the state revenue forecasts produced by the Economic Forum were strong. Another factor tempering support for tax changes was a new constitutional provision adopted through voter initiative that requires a two-thirds approval of both houses of the Legislature to increase any tax or fee. As a result, the General Fund portion of The Executive Budget once again contained no major tax proposals.

After reviewing The Executive Budget, which included most of the one-time revenue from the prepayment of the insurance premium tax in the ending fund balance for the second year of the biennium, the Legislature quickly approved legislation to repeal the prepayment. This legislation, which also required that taxes be paid on actual premium volume rather than prior year activity, produced a net reduction of $50 million in that ending fund balance.

Much of the Legislature's work on taxes during the 1997 Session involved issues important to local governments. One of its most significant actions was to approve a plan developed by an interim committee to pool local government revenue from six different revenue sources at the county level and to distribute those revenues to eligible local governments within the county based on a formula tied to inflation and the growth in population and assessed valuation. The Legislature further ratified the work of the interim committee by reauthorizing it as a statutory committee through July 1, 2001.

The Legislature authorized Clark County to impose a 1/4 percent sales tax for additional water delivery and wastewater facilities and extended the additional sales tax authority to other counties for their particular infrastructure needs. To provide additional funding for the rapidly growing school population in Clark County, the Legislature approved an additional one percent room tax, redirected a 5/8 percent room tax from the convention and visitors authority, and increased the real property transfer tax by 60 cents per $500 of value and earmarked the revenue for school infrastructure.

On a statewide basis, the Legislature adopted a new property tax incentive program to encourage economic development and diversification.

1999 SESSION

General Fund revenue collections during the 1997-1999 biennium were disappointing and came in below the Economic Forum forecast produced in April 1997. Nevertheless, The Executive Budget contained no significant revenue enhancements for the third consecutive budgetary cycle.

The Legislature approved the two minor General Fund revenue changes that were included in the Governor's proposals. First, about $2.6 million of revenue that had accrued in the permanent net proceeds fund was redirected to the General Fund in FY 1998-99. Also, the permanent net proceeds allocation was eliminated in future years with the formerly earmarked proceeds going to the General Fund. The latter change increased net proceeds revenue for the General Fund by about $700,000 each year of the biennium. The second change set the General Fund commission for the collection of local sales taxes at 0.75 percent rather than 0.5 percent, adding about $7.5 million to the state General Fund and reducing local government and school revenues by a like amount during the biennium.

Only a handful of bills that affect state revenue collections were approved in 1999. These included the transfer, effective January 1, 2002, of the collection of the gasoline tax to the Department of Motor Vehicles and a change in the collection point of that tax to the terminal-rack level. Other bills approved make it easier for Nevadans to purchase wine for personal consumption directly from out-of-state wineries, outlaw the sale of cigarettes in Nevada that were produced for export to another country and then re-imported into the U.S., and require cigarette manufacturers who have not signed the master settlement agreement to put money into an escrow account based on the number of cigarettes they sell in Nevada.

The Legislature also passed a number of bills affecting the revenues of local governments. Included were more than ten bills recommended by the statutory committee on the distribution of local government revenue that was created the previous session. One of these bills standardized the criteria for tax abatements for economic development. Another bill from the statutory committee allows the $3.64 property tax rate cap to be exceeded in certain jurisdictions under very limited circumstances. A third committee bill prohibits a local government from "buying down" the tax rate of another local government to bring the combined tax rate in that local government within the statutory rate cap. Other important legislation increased the room tax in Washoe County to improve convention and visitor facilities and revised the property and sales tax exemptions for the public display of fine art.

2001 TAX PROPOSALS

The 2001 Legislature gets underway with clouds across the economic horizon; several economic indicators have slowed considerably in recent months and stock prices have been in a slump since last spring. Alan Greenspan, Chairman of the Federal Reserve Board, recently told

Congress that economic signs are not encouraging and that there is a strong possibility of a U.S. recession. In addition, an energy shortage in California has begun to have negative consequences on its economy, which will almost certainly affect the economies of neighboring states, including Nevada, and may pose additional risks for the nation as a whole.

While ten years of generally strong growth for the U.S. economy may be ending, the tax climate in Nevada remains pretty much the same as the last three biennia. The Economic Forum is forecasting moderate growth in General Fund revenue, as has been the case since it began making forecasts prior to the 1995 Legislative Session. And for the fourth consecutive budgetary cycle, The Executive Budget has been submitted with few recommendations regarding state revenues.

The Governor's budget will require legislative action to increase insurance fraud assessments by about $360,000 annually. The bulk of the additional revenue, about $263,000 per year, is required to fully fund the Attorney General's Insurance Fraud Unit. The remainder of the revenue, almost $96,500 per year, reduces General Fund spending on insurance regulation. The Governor's budget also recommends the Legislature authorize an increase in the cost of the Trout Stamp to support a project to renovate four state fish hatcheries. The additional revenue will be used to help repay a $3 million bond issue to pay the costs of the project. As a footnote, The Executive Budget provides additional salary increases of roughly nine percent for Gaming Control Board employees. The higher wages are funded from increases in gaming investigative fees that took effect on January 1, 2001, with the concurrence of the Governor.

One major issue that the Legislature may confront shortly after the 2001 Session is underway is the initiative petition to enact a tax of four percent on the income of businesses operating in Nevada. The Nevada State Education Association has proposed the initiative and, if approved by the Legislature or the voters, the new revenues, estimated at $250 million per year, must only be used to supplement the existing funding for K-12 education. Questions regarding the constitutionality of the proposal are currently before the Nevada Supreme Court. If the court does not halt the initiative, the measure must be enacted or rejected by the Legislature within the first 40 days of the session. If rejected, the proposal must appear on the 2002 General Election ballot, but the Legislature may submit an alternative proposal to the voters at the same election. If this occurs, any provisions in the competing proposals that do not conflict and win voter approval will become law. If conflicting provisions are approved, those with the largest number of votes will become law.

The 2001 Legislature will also consider another ten proposals from the statutory committee on the distribution of local government revenue. One proposal revises the formula regarding the distribution of a portion of local gasoline tax revenues to redirect, in most cases, increases in the revenue to the faster growing counties in the state. Another issue relating to taxes that the Legislature will consider is the enactment of a long-term forecasting process for state revenues and expenditures. The Task Force for Long-Term Financial Analysis and Planning created by AB 525 of the 1999 Legislative Session developed the recommendations regarding this process.