SECTION III
TAX OVERVIEW

This section reviews the major tax policy changes approved by the Legislature each session since 1995 and proposals for the 2003-05 biennium. Summaries of tax policy changes back to 1979 are included in the Revenue Reference Manual available from the Fiscal Analysis Division.

1995 SESSION

Proposals in The 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 1995-97 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 allows 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 the 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 ¼ 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 1997-99 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 in 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 in 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 a 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 SESSION

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 reflected that a United States recession was a strong possibility. In addition, an energy shortage in California threatened to adversely affect the economies of western states.

The modest General Fund revenue increases forecasted by the Economic Forum were used to fully fund the Governor's budget proposals. No General Fund revenue increases were proposed, although the Legislature adopted two non-General Fund revenue enhancements included in The Executive Budget. The first, AB 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, AB 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 $87 million during the 2001-03 biennium. After receiving the reduced revenue numbers, the Legislature approved three General Fund revenue enhancements to replace approximately $65 million of that "shortfall" over the biennium.

The bills providing revenue increases included AB 77 and SB 489, which shortened the period that certain property is considered unclaimed and remitted to the state. These bills were 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, AB 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, generating an additional $27.5 million for the state General Fund during the 2001-03 biennium.

Because of concerns over the state's long-term revenue picture, the Legislature approved ACR 1 during the 17^{th} Special Session. This resolution created a Governor's Task Force on Tax Policy in Nevada to review state revenues during the interim. The 2001 Legislature and the 17th Special Session also approved a number of bills affecting local government finances, including several that contained recommendations from the Legislative Committee Studying the Distribution of Revenue among Local Governments (SB 253 of the 1997 session). One of those bills, SB 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 underway.

TAX PROPOSALS FOR THE 2003 SESSION

The lingering effects of the recession that began in March 2001 and the September 11, 2001 terrorist attacks have resulted in a significant slowdown in the growth of the Nevada economy. The state economic slowdown has put considerable pressure on both the state "safety-net" expenditures, as well as the revenues used to fund those expenditures.

September 11 initiated a sizable decline in tourism activity, which, in turn, has resulted in very sluggish gaming and sales tax revenue collections. Because these two sources account for about 70 percent of state General Fund revenues, the underperformance has led to a revenue shortfall of an estimated $156 million for this biennium, using the revised estimates of the Economic Forum, when compared to the forecasts used to support the budget approved by the 2001 Legislature. The state is also facing a shortfall of more than $70 million this biennium in the Distributive School Account due mainly to slow growth of sales tax revenues produced by the Local School Support Tax for schools.

Although the Economic Forum has forecast modest increases from this year's reduced base of 4.6 and 5.1 percent in General Fund revenues for FY 2003-04 and FY 2004-05, respectively, overall revenue growth has been far below the combined effects of population growth and inflation since FY 2000-01. The Governor's Task Force on Tax Policy in Nevada, which was created by the 17th Special Session principally to address the state's long-term revenue needs, quickly began to design a solution to this short-term revenue problem as well. In the end, the Task Force produced a package of tax increases and new taxes to address both the short and long-term revenue needs of the state.

Using the Task Force recommendations as a template, The Executive Budget for the 2003-05 biennium proposes tax increases and other revenue changes that would add more than $1 billion to state General Fund revenues through the end of FY 2004-05. Included in the proposal are increases in the cigarette, liquor and business license taxes and Secretary of State fees and restricted slot fees that are scheduled to begin April 1, 2003, to help balance the current year's budget and partially replenish the state budget stabilization fund. These increases and several minor revenue adjustments are expected to generate $84.8 million this fiscal year.

Continuation of these revenue enhancements, and proposals to enact an annual business license fee and a transactions tax on certain amusement and recreation activities and several other revenue adjustments are estimated to provide a total of $438.2 million in additional revenues in FY 2003-04. These revenues are then supplemented the following fiscal year with a proposed state property tax, which helps increase the total amount of additional revenue forecast for FY 2004-05 to $560.1 million.

The following table identifies each revenue proposal and the amounts expected from each enhancement or other adjustment as included in the Governor's Budget in FY 2002-03, 2003-04 and 2004-05, respectively. In addition to these proposals, the Governor is requesting that the Legislature enact a gross receipts tax of ¼ of one percent with an exemption of $450,000 per business, increase the top gaming tax rate to 6.5 percent, and reduce the business license tax to $140 per year to support the General Fund budget in FY 2005-06 and beyond. The enactment of a gross receipts tax was the key component of the revenue proposals of the Governor's Task Force on Tax Policy in Nevada.

Affected Revenue	Summary of Proposal	FY 2002-03 Estimate	FY 2003-04 Estimate	FY 2004-05 Estimate
Tax and Fee Increases				
Cigarette Tax	$1.05 increase per pack of 20 cigarettes	$ 29,688,047	$ 120,921,281	$ 122,784,474
Liquor Taxes	89% increase in rates of four liquor categories	4,205,658	17,282,093	17,740,919
Business License Tax	$200 per year increase in tax and application of tax to sole proprietor and first partner of a partnership	42,697,678	176,084,615	190,658,824
Secretary of State Fees	Amounts of all fees increased by 50%	6,784,762	27,998,419	28,891,139
Restricted Slots	Quarterly rates per slot increased by 33%	561,100	2,306,394	2,382,477
Business License Fee	$100 annual fee to replace $25 one-time fee	–	9,075,412	10,313,110
Amusement Tax	7.3% tax on admissions and other amusement expenditures except those already taxed and participatory activities	–	82,487,638	85,750,031
Property Tax	15 cents per $100 of assessed value	–	–	99,534,677
Other Revenue Proposals				
IFS Repayment	Increase Dept. of Personnel annual amount	$851,468	$975,140	$975,140
Cost Recovery	Revise Cost Allocation Plan	11,049	3,091,514	3,104,356
Financial Inst. Fees	Make division self-funded and remove existing fees from General Fund	–	-1,844,780	-1,844,780
Real Estate License	$20 increase for original license and $10 increase for renewals	–	150,441	135,824
Tuition Program	Reduce payback amount to $25,000 annually	–	-335,000	-335,000
	Total Net Revenues	**$ 84,799,761**	**$ 438,193,166**	**$ 560,091,192**

The additional revenues are designed to provide 20.5 percent of the funding for the General Fund budget during the 2003-05 biennium. According to The Executive Budget in Brief, over 90 percent of the spending increase is in two programmatic areas: education and humans resources.

Although these and other revenue enhancement plans to support the Governor's budgetary recommendations will be the high-profile topic this session, there will be many other tax policy issues that the Legislature will consider. Among these are ten recommendations from the Legislative Committee on Local Government Taxes and Finance (NRS 218.5388 et. seq.).

Included are proposals to index gasoline tax rates for inflation, provide additional room under the $3.64 property tax cap for local governments, and revise policies relating to the taxation of public utilities. As of this writing, there are more than 75 bill draft requests (BDRs) affecting state and local tax policy in Nevada, with more yet to come. Most of these BDRs will be considered by at least one taxation committee or another legislative committee during the 2003 Legislative Session.