SECTION III
TAX OVERVIEW

This section reviews the major tax policy changes approved by the Legislature each session since 1995. Summaries of tax policy changes dating 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 Medicaid and Aid to Dependent Children programs and an upward revised Economic Forum forecast, the Legislature was able to stray from the status quo revenue plan submitted by the Governor. These modifications included delaying 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 Supplemental City/County Relief Tax (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 realizing The Executive Budget 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 approved legislation to repeal the prepayment. This legislation, which required taxes to 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 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 1 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.

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 are 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 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 convened with clouds across the economic horizon. Stock values had been dropping, most severely in the high-tech sector, and various economic measures indicated a national 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, A.B. 134, increased fraud assessments on insurers. The bill produced about $359,500 in additional revenue annually, of which $263,000 was used to fully fund the Attorney General's Insurance Fraud Unit. The remaining additional revenue was used to replace a portion of General Fund support for insurance regulation. The second measure, A.B. 199, doubled the trout stamp fee to $10. The additional revenue was 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 A.B. 77 and S.B. 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, A.B. 460 was designed to increase the state's share of the car rental fees to a full 6 percent rate and provide 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 A.C.R. 1 during the 17th 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 (S.B. 253 of the 1997 Legislative Session). One of those bills, S.B. 557, extended the authority of the committee through June 30, 2005, and renamed 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.

2003 SESSION AND 20TH SPECIAL SESSION

During the 2001-03 Interim, the Governor's Task Force on Tax Policy in Nevada (Task Force), created by the 17th Special Session, conducted a study of the state's revenue and expenditure structure. The Task Force was created principally to examine the state's long-term revenue needs with regard to the potential for the state's revenue growth to not keep pace with the growth in population and inflation. The Task Force's proposed solution to the state's revenue structure was brought forward for the Legislature's consideration in A.B. 281 during the 2003 Regular Session.

Using the Task Force's recommendations as a template, The Executive Budget for the 2003-05 biennium proposed tax increases and other revenue changes to support the Governor's recommended budget for the 2003-05 biennium and future biennia. Included in the proposal were increases in the cigarette, liquor and business license taxes and Secretary of State and restricted slot fees. These new revenues were recommended to take effect April 1, 2003, to help balance the FY 2002-03 budget and to partially replenish the state's stabilization fund.

Continuation of the tax and fee increases recommended for FY 2002-03, proposals to adopt an annual business license fee and a transactions tax on non-participatory amusement activities, and several minor revenue changes were designed to support the FY 2003-04 budget recommended in The Executive Budget. To finance the recommended FY 2004-05 spending amount, revenues were to be further supplemented with a statewide property tax of 15 cents per $100 of assessed valuation.

The Governor's budget also requested the 2003 Legislature to approve a gross receipts tax on businesses and increase the top gaming tax rate, combined with a reduction in the business license tax, to support the budget beginning with the 2005-07 biennium and beyond. The enactment of a gross receipts tax was a key component of the revenue recommendations made by the Governor's Task Force on Tax Policy in Nevada.

In May 2003, the Economic Forum forecasted modest increases of 4.5 and 5.0 percent in General Fund revenues for FY 2003-04 and FY 2004-05, respectively, from a FY 2002-03 base that was considerably reduced from the Forum's May 2001 projections. With these revised forecasts, overall revenue growth would remain far below the combined effects of population growth and inflation since FY 2000-01. The Executive Budget proposal and various alternative revenue enhancement plans to support the Governor's budgetary recommendations proved to be the most debated and controversial issue for the Legislature, not only during the 72nd Regular Session, but through the 19th and 20th Special Sessions, as well.

The revenue package to support the General Fund appropriations was ultimately adopted at the conclusion of the 20th Special Session of the Nevada Legislature, which ended on July 22, 2003. The three bills approved to raise revenue, A.B. 4, S.B. 2, and S.B. 8, included several of the elements contained in the revenue proposal submitted in January 2003 by the Governor. Nevertheless, the final funding plan also differed from the Governor's revenue proposal in many important details.

One of the Governor's proposals that was not approved by the Legislature was bridge revenues to help balance the FY 2002-03 budget. Instead, the Legislature approved the transfer of $135 million from the Rainy Day Fund, which represented almost the entire balance of the fund and $85 million more than was recommended by the Governor. The increases in cigarette and liquor taxes and restricted slot fees recommended by the Governor to take effect in April 2003 were included in S.B. 8, but their effective dates were delayed by more than three months because the bill was not approved until July 22, 2003.

Senate Bill 8, which encompassed more than 90 percent of the revenue package, includes the annual business license fee and a live entertainment tax. The Governor's proposals for a state property tax and a gross receipts tax were not adopted. In their place, the revenue needs for the 2003-05 biennium and future biennia were met with a combination of a real property transfer tax, a modified business tax and a larger gaming tax increase than was proposed by the Governor. The enactment of a modified business tax, in the form of a payroll tax with a special higher rate on financial institutions and a deduction for costs of providing health insurance coverage for employees, also resulted in the repeal of the state business license tax.

The remaining two bills, A.B. 4 and S.B. 2, provided additional revenue over the 2003-05 biennium through reductions in tax payment and collection allowances for liquor, cigarette, other tobacco and sales taxes, and higher fees on commercial recordings and securities collected through the Secretary of State's office.

2005 SESSION

Two major issues dominated the tax policy agenda during the 2005 Session: providing property tax relief and making changes to the tax plan approved during the 2003 Session.

Reports of potential significant increases in assessed value for property owners spurred the Legislature to provide immediate property tax relief in the form of partial abatements of property tax bills. Assembly Bill 489 and Senate Bill 509 were the two bills approved during the 2005 Session that provided property tax relief to both residential and non-residential property owners in the state. Together, the bills established the provisions for providing partial abatements of property taxes, provided for mechanisms to distribute property tax revenue to government entities after the abatements, and addressed other additional technical matters related to property tax abatements.

Subsection 10 of Section 1 of Article 10 of the Nevada Constitution authorizes the Legislature to provide by law for an abatement, or an exemption of, the tax upon part of the assessed value of a single-family residence occupied by the owner to the extent necessary to avoid a severe economic hardship to the owner of the residence. Subsection 8 of Section 1 of Article 1 of the Nevada Constitution provides that the Legislature may exempt from taxation property used for certain charitable purposes.

Under the provisions of Subsection 10 of Section 1 of Article 10 of the Nevada Constitution, the Legislature declared that an increase of more than three percent in the property tax bill of a single-family owner-occupied residence constitutes a severe economic hardship. A.B. 489 established a partial abatement such that property taxes cannot increase by more than three percent from the previous year's tax levy for a single-family residence that is the primary residence of the owner.

Under the provisions of Subsection 8 of Section 1 of Article 10 of the Nevada Constitution, the Legislature declared that a charitable exemption should be provided to owners of residential rental dwellings that qualify as low-income housing under the standards established by the U.S. Department of Housing and Urban Development. To qualify for this partial abatement, the amount of rent collected from each tenant of the residential rental dwelling cannot exceed the fair market rent for the county in which the dwelling is located, as published by the U.S. Department of Housing and Urban Development. The charitable exemption is provided in the form of a partial abatement of property taxes and provides for the same three percent cap on the increase in taxes afforded to owners of single-family residences. The partial abatement provided to qualifying residential rental dwellings does not apply to hotels, motels, or other forms of transient lodging.

A separate partial abatement from property taxes was provided for all other property that does not qualify as a single-family owner-occupied primary residence or meet the requirements established for low-income rental dwelling units. The maximum percentage increase in property taxes allowed in each county is determined by a two-part formula. The first part of the formula is the lesser of: the average percentage change in the assessed value of all taxable property in the county over the fiscal year in which the levy is made and the nine immediately-preceding fiscal years as determined by the Department of Taxation, or eight percent.

The second part is determined by establishing twice the percent change in the Consumer Price Index (U.S. city average, all items, all urban consumers) for the prior calendar year. The partial abatement provided in the form of a limit on the increase in property taxes from the prior year is the greater of the percentages calculated in the first and second parts of the formula.

The partial abatements are not available to property value in its first year of existence on the tax roll, such as new improvements or enhancements to existing improvements. The partial abatements also do not apply to land in which the authorized use of the property was changed.

The 2005 Legislature also approved several technical and policy changes to the tax plan approved by the 2003 Legislature. Many of these changes were recommended by the interim Legislative Committee on Taxation, Public Revenue and Tax Policy, which was created by Senate Bill 8 of the 20th Special Session to review and study the tax changes approved during the 20th Special Session. Additional proposals were discussed and considered by the Senate Taxation and Assembly Commerce and Labor Committees regarding changes to various taxes, principally the business license fee (BLF), modified business tax on general business and financial institutions (MBT), and the live entertainment tax (LET). Assembly Bill 554, Senate Bill 3 (22nd Special Session), Senate Bill 391, and Senate Bill 523 were the four major bills that implemented the legislatively-approved changes to the BLF, MBT, and LET.

The following table presents a summary of the legislative changes relating to tax policy that were approved during the 2005 Regular Session and the 22nd Special Session.

SUMMARY OF THE ESTIMATED IMPACT ON GENERAL FUND REVENUES FOR FY 2005-06 AND FY 2006-07 FROM LEGISLATIVE CHANGES APPROVED DURING THE 2005 REGULAR SESSION AND 22ND SPECIAL SESSION

Bill	Tax	Description	Estimated Impact		
			FY 2005-06	FY 2006-07	Biennium
S.B. 3 (22ND SS)	Business License Fee	Provides an exemption for entities that have four or fewer rental dwelling units.	-$2,975,000	-$3,060,000	-$6,035,000
S.B. 3 (22ND SS)	Business License Fee	Allows an entity operating a facility where craft shows, exhibitions, trade shows, conventions, or sporting events to pay the BLF for entities not having a business license as an annual flat fee of $5,000 or on a $1.25 times the number of entities without a business license times the number of days of the show basis	$134,420	$158,884	$293,304
S.B. 3 (22ND SS)	Branch Bank Excise Tax	Provides an exemption for one branch office maintained by a bank in each county, replacing the previous exemption of only one branch office per bank.	-$441,000	-$441,000	-$882,000
S.B. 4 (22ND SS)	Unclaimed Property	Allocates $7,600,000 of the Unclaimed Property revenues collected by the State Treasurer to the Millennium Scholarship Trust Fund.	-$7,600,000	-$7,600,000	-$15,200,000
S.B. 390	Real Property Transfer Tax	Increases the collection allowance provided to Clark County and Washoe County for collecting and remitting the state portion to the Department of Taxation from 0.2% to 1.0%.	-$1,056,292	-$1,022,504	-$2,078,796
S.B. 391	MBT-Financial Institutions	Replaces the NAICS-based approach for defining financial institutions with a structure based on a state or federal licensing or regulatory requirement for conducting financial activities.	-$1,801,800	-$2,047,500	-$3,849,300
S.B. 391	MBT-Nonfinancial Institutions		$584,168	$621,237	$$1,205,405
S.B. 357	Quarterly Restricted Slot Fee	Allocates $1 per slot machine per quarter in FY 2005-06 and $2 per slot machine per quarter in FY 2006-07 from the quarterly licenses imposed on restricted and non-restricted slot machines; will sunset effective June 30, 2007.	-$84,666	-$172,834	-$257,500
S.B. 357	Quarterly Nonrestricted Slot Fee		-$737,334	-$1,505,166	-$2,242,500
S.B. 523	MBT-Nonfinancial Institutions	Reduces the MBT-NFI tax rate from 0.65% to 0.63%. Sunsets June 30, 2007.	-$6,978,000	-$7,450,000	-$14,428,000
A.B. 554	LET-Nongaming	Lowers the occupancy threshold for determining whether an establishment is subject to the tax from 300 to 200.	$3,600,000	$3,600,000	$7,200,000
TOTAL IMPACT FROM 2005 LEGISLATIVE CHANGES			-$17,355,504	-$18,918,883	-$37,479,792

TAX PROPOSALS FOR THE 2007 SESSION

The Executive Budget for the 2007-09 biennium recommends the elimination of the Branch Bank Excise Tax. This proposal is estimated to reduce state General Fund revenues by $2,940,000 in FY 2007-08 and $2,975,000 in FY 2008-09. The Branch Bank Excise tax was originally approved under S.B. 8 during the 20th Special Session as a new revenue source in the 2003 tax plan. The tax is an annual levy of $7,000 per branch, with the allowed exemption of one branch per county.

Additionally, The Executive Budget proposes to reduce the rate of the Modified Business Tax (MBT) on non-financial institutions from 0.65% to 0.62% of wages paid net of the allowable healthcare deductions. The measure is expected to reduce state General Fund revenues by $13,539,462 and $14,622,600 in FY 2007-08 and FY 2008-09, respectively. S.B. 523, approved during the 2005 Session, had reduced the rate of the MBT on non-financial institutions from 0.65% to 0.63%, effective from July 1, 2005 to June 30, 2007.