SECTION III
TAX OVERVIEW

This section reviews the major tax policy changes approved by the Legislature each session since 2001. Summaries of tax policy changes dating back to 1979 are included in the Revenue Reference Manual available from the Fiscal Analysis Division.

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 six 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 issues 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. Assembly Bill 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 for 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.

2007 SESSION AND 23RD, 24TH, AND 25TH SPECIAL SESSIONS

With regard to tax policy, much of the focus of the 2007 Session was on decreasing rather than increasing taxes, fueled in part by robust growth forecast by the Economic Forum at its November 30, 2006, meeting. A significant number of the bills that were referred to the Assembly and Senate Committees on Taxation proposed tax reductions or exemptions, such as exemptions from state and local sales taxes for mobility-enhancing and ocular devices, as well as deductions or credits against the modified business tax for child-care expenses, donations made to public schools, and employer-assisted housing project costs. Legislation was also proposed in both houses to equalize the modified business tax rate for financial institutions with the rate imposed on other businesses and eliminate the per-branch excise tax on banks that was enacted during the 2003 Session.

An additional consideration that factored into discussions of tax policy during the 2007 Session was Governor Gibbons' adherence to his pledge to not increase taxes unless the tax increase had been approved by voters. In upholding this pledge, the Governor allowed passage of legislation authorizing a sales and use tax for public safety that had been approved by voters in Nye County, but also vetoed legislation authorizing the imposition of a new ad valorem property tax rate in other counties for juvenile justice facilities.

Faced with signs of an economic slowdown, the Economic Forum made downward revisions to its General Fund revenue forecasts at its May 1, 2007, meeting; however, it soon became evident that these downward revisions were still too optimistic, given the deterioration of the economy. Faced with the prospect of a budget deficit of hundreds of millions of dollars, the Governor called an emergency meeting of the Economic Forum on June 20, 2008, as well as two Special Sessions of the Legislature, to deal with the looming budget crisis.

Senate Bill 2 of the 25th Special Session, which was approved by the Legislature and signed by the Governor in December 2008, enhanced General Fund revenue by requiring advance payment of the tax on the net proceeds of minerals based upon the estimated net proceeds for the current calendar year, beginning in FY 2008-09. The bill also reduced the collection allowances provided to taxpayers for timely payment of the sales and use tax, cigarette tax, liquor tax, and other tobacco tax between January 1, 2009, and

June 30, 2009, and required one percent of the four percent vehicle recovery surcharge collected by car rental companies in the state to be remitted to the General Fund between January 1, 2009, and June 30, 2009.

The following tables summarize the legislative changes relating to tax policy that were approved during the 2007 Regular Session and the 23rd Special Session, as well as the revenue enhancements that were approved as a part of Senate Bill 2 of the 25th Special Session.

SUMMARY OF THE ESTIMATED IMPACT ON GENERAL FUND REVENUES FOR FY 2007-08 AND FY 2008-09 FROM LEGISLATIVE CHANGES APPROVED DURING THE 2007 REGULAR SESSION AND 23RD SPECIAL SESSION					
Bill	**Tax**	**Description**	**Estimated Impact**		
			FY 2007-08	**FY 2008-09**	**Biennium**
A.B. 621	State Share Sales Tax Commissions	Revises the eligibility criteria for sales and use tax abatements provided for "green" buildings.	-$1,035,000	-$833,000	-$1,868,000
A.B. 628	Modified Business Tax – Non-Financial Institutions	Removes the sunset of S.B. 523 of the 2005 Session, reducing the Modified Business Tax-Non-Financial Institutions tax rate from 0.65% to 0.63%, effective July 1, 2007.	-$8,771,000	-$9,447,000	-$18,218,000
A.B. 487	Live Entertainment Tax	Provides an exemption for professional minor league baseball games held in the state.	-$104,752	-$104,752	-$209,504
S.B. 357	Quarterly Restricted Slot Fee	Removes the sunset of S.B. 357 of the 2005 Session, continuing the allocation of $2 per slot machine per quarter from the quarterly licenses imposed on restricted and non-restricted slot machines.	-$174,704	-$179,581	-$354,285
S.B. 357	Quarterly Non-Restricted Slot Fee		-$1,477,176	-$1,529,276	-$3,006,452
TOTAL IMPACT FROM 2007 LEGISLATIVE CHANGES			**-$11,562,632**	**-$12,093,609**	**-$23,656,241**

SUMMARY OF THE ESTIMATED IMPACT ON GENERAL FUND REVENUES FOR FY 2008-09, FY 2009-10 AND FY 2010-11 FROM LEGISLATIVE CHANGES APPROVED PURSUANT TO SENATE BILL 2 OF THE 25TH SPECIAL SESSION					
Bill	**Tax**	**Description**	**Estimated Impact**		
			FY 2008-09	**FY 2009-10**	**FY 2010-11**
S.B. 2 (25th S.S.)	Net Proceeds of Minerals	Requires advance payment of estimated taxes due for current calendar year in addition to payment of actual taxes due for prior calendar year.	$28,000,000	-$1,500,000	$0
S.B. 2 (25th S.S.)	Sales and Use Tax – State 2% Portion	Reduces the collection allowance provided to taxpayers for timely payment of taxes due from 0.5 percent to 0.25 percent, between January 1, 2009, and June 30, 2009.	$1,087,145	$0	$0
S.B. 2 (25th S.S.)	Sales and Use Tax – Local Taxes (LSST, BCCRT, SCCRT, Other Local Option Taxes)	Reduces the collection allowance provided to taxpayers for timely payment of taxes due from 0.5 percent to 0.25 percent, between January 1, 2009, and June 30, 2009.	$21,995	$0	$0
S.B. 2 (25th S.S.)	Cigarette Tax	Reduces the collection allowance provided to taxpayers for timely payment of taxes due from 0.5 percent to 0.25 percent, between January 1, 2009, and June 30, 2009.	$125,955	$0	$0
S.B. 2 (25th S.S.)	Liquor Tax	Reduces the collection allowance provided to taxpayers for timely payment of taxes due from 0.5 percent to 0.25 percent, between January 1, 2009, and June 30, 2009.	$50,412	$0	$0
S.B. 2 (25th S.S.)	Other Tobacco Tax	Reduces the collection allowance provided to taxpayers for timely payment of taxes due from 0.5 percent to 0.25 percent, between January 1, 2009, and June 30, 2009.	$11,209	$0	$0
S.B. 2 (25th S.S.)	Short-Term Car Rental Fee	Requires car rental companies to remit 1 percent of the 4 percent vehicle recovery surcharge to the Department of Taxation, for credit to the state General Fund, between January 1, 2009, and June 30, 2009.	$1,779,910	$0	$0
TOTAL IMPACT FROM S.B. 2 LEGISLATIVE CHANGES			**$31,076,626**	**-$1,500,000**	**$0**

TAX PROPOSALS FOR THE 2009 SESSION

The Governor has included a number of revenue enhancements necessary to finance amounts recommended in The 2009-11 Executive Budget. These revenue enhancements include:

- Transfer the 3/8 of 1 percent portion of the state mandatory room tax rate currently provided to the Nevada Commission on Tourism and deposit the room tax revenue in the state General Fund. The Executive Budget includes an estimate of $17,700,000 in FY 2009-10 and $18,700,000 in FY 2010-11 from the statewide 3/8 of 1 percent room tax rate. The Commission on Tourism budget is recommended to be supported by General Fund appropriations.

- Implement the advisory question approved by voters in Clark County and Washoe County at the 2008 General Election to impose an additional room tax of up to 3 percent, such that the total rate cannot exceed 13 percent in the county or city in which a room tax is imposed. The Governor's Executive Budget includes an estimate of $142,000,000 in FY 2009-10 and $150,000,000 in FY 2010-11 for the proposed increase of up to 3 percent, but not to exceed 13 percent, in the room tax rate in Clark County and Washoe County.

- Redirect a portion equal to 4 cents of the property tax rate in Clark County and Washoe County to the state General Fund, which is estimated to generate $39,396,104 in FY 2009-10 and $39,704,044 in FY 2010-11.

- Increase the commission retained by the state for collecting and distributing the sales and use tax collections generated by the Basic-City County Relief Tax, Supplemental City-County Relief Tax, and other local option tax rates authorized in statute or by special act by 1.0 percent, from 0.75 percent to 1.75 percent, effective July 1, 2009. The Executive Budget estimates additional General Fund revenues totaling $14,332,000 in FY 2009-10 and $14,778,667 in FY 2010-11. The proposed increase in the General Fund commission does not apply to the Local School Support Tax.

- Tax gaming markers on the value of the marker issued versus the amount of the marker collected under current statute. This proposal is estimated to generate a one-time acceleration in General Fund revenue in FY 2009-10 of $31,000,000. No additional General Fund revenue is anticipated from this recommendation in FY 2010-11.

- Transfer 100 percent of the fees charged by the Secretary of State to provide expedited services to the state General Fund which is estimated to generate $2.3 million in FY 2009-10 and $1.8 million in FY 2010-11. To offset the loss of revenue, the Secretary of State would receive increased support from the state General Fund.

- Transfer to the state General Fund a portion of Court Administrative Assessments collected pursuant to NRS 176.059 that are allocated to Executive Branch agencies. This recommendation is estimated to generate General Fund revenues of $5.4 million in FY 2009-10 and $6.9 million in FY 2010-11.