

SECTION III

TAX OVERVIEW

This section reviews the major tax policy changes approved by the Legislature for the 76th Regular Session (2011). Summaries of tax policy changes between 1979 and 2009 are included in the *Revenue Reference Manual* prepared by the Fiscal Analysis Division, which is available from the Fiscal Analysis Division, or can be found on the Legislative Counsel Bureau's website at <http://www.leg.state.nv.us/Division/Fiscal/>.

76TH LEGISLATIVE SESSION (2011)

In the wake of continued declines in state revenue following the 2009 Session, Governor Gibbons was forced to call another emergency meeting of the Economic Forum in January 2010. This emergency meeting was followed by the 26th Special Session (2010) in February, to deal with the shortfall in revenue forecast by the Forum for FY 2010 and FY 2011.

Actions taken by the Legislature during the 26th Special Session to deal with the shortfall, during the 2009-11 biennium, included the redirection of all remaining portions of unclaimed property revenue from the Millennium Scholarship Fund to the State General Fund, the creation of an annual mining claim fee to be paid during FY 2010 and FY 2011, the transfer of \$100,000 in revenue generated by the Legislative Counsel Bureau from lobbyist registration fees in FY 2011, and the transfer of \$62 million in securities and cash from the Clean Water Coalition in Clark County to the State General Fund. The Legislature also directed the Department of Taxation to conduct an amnesty program for all taxes required to be reported and paid to the department between July 1, 2009, and September 30, 2009.

Governor Sandoval's Executive Budget submitted in advance of the 2011 Session did not provide for the extension of the sunsets of the temporary taxes enacted by the Legislature during the 2009 Session, including the increases in the Local School Support Tax, the Modified Business Tax on General Businesses, and the Business License Fee that were scheduled to sunset on June 30, 2011. Rather than relying on tax increases, the Governor's budget relied heavily on the redirection of various revenue sources from state and local governments. However, the Nevada Supreme Court's ruling, late in the session, that the transfer of \$62 million from the Clean Water Coalition approved during the 26th Special Session was unconstitutional led to the reconsideration of the Governor's reliance on revenue transfers in order to balance the budget. This reconsideration eventually led to agreements between the Governor and Legislature on extension of the sunsets on the Local School Support Tax and Business License Fee for Fiscal Years 2012 and 2013, retention of the top rate of the two-tiered rate for the Modified Business Tax on General Businesses for those two fiscal years, and other revenue actions.

Table 1 summarizes the changes to General Fund revenue sources enacted by the Legislature during the 76th Legislative Session for FY 2012 and FY 2013.

**TABLE 1 - ADJUSTMENTS TO THE ECONOMIC FORUM MAY 2, 2011 FORECAST FOR THE 2011-13 BIENNIUM
BASED ON MEASURES APPROVED BY THE 2011 LEGISLATURE (76th SESSION) AND COURT DECISIONS**

DESCRIPTION	ESTIMATED REVENUE IMPACT FROM LEGISLATIVE ACTIONS AND COURT DECISIONS						
	FY 2011	% Change	FY 2012	% Change	FY 2013	% Change	2011-2013 BIENNIUM*
Economic Forum May 2, 2011, Forecast <u>Without</u> Measures Approved by the 2011 Legislature or Impact of Court Decisions	\$3,185,802,035	5.9%	\$2,664,418,019	-16.4%	\$2,793,521,094	4.8%	\$5,457,939,113
TAXES							
NET PROCEEDS OF MINERALS TAX (A.B. 561) A.B. 561 extends the June 30, 2011, sunset (approved in S.B. 429 (2009 Session)) to June 30, 2013, on the Net Proceeds of Minerals tax. This extends the payment of taxes in the current fiscal year based on the estimated net proceeds for the current calendar year with a true-up against actual net proceeds for the calendar year in the next fiscal year. The two-year extension of the sunset yields NPM tax in FY 2012 only as tax payments are required in FY 2013 with or without the extension of the sunset. (This item was included in the Governor's Executive Budget.)			\$69,000,000				\$69,000,000
NET PROCEEDS OF MINERALS TAX (S.B. 493) S.B. 493 clarifies and eliminates certain deductions allowed against gross proceeds to determine net proceeds for the purpose of calculating the Net Proceeds of Minerals tax liability. All of the deduction changes are effective beginning with the NPM tax payments due in FY 2012 based on calendar year 2012 mining activity and are permanent, except for the elimination of the deduction for health and industrial insurance expenses, which are only effective for FY 2012 and FY 2013.			\$11,919,643		\$11,919,643		\$23,839,286
BUSINESS LICENSE FEES (A.B. 561) A.B. 561 extends the sunset from June 30, 2011, (approved in S.B. 429 (2009 Session)) to June 30, 2013, on the \$100 increase in the Business License Fee (BLF) from \$100 to \$200 for the initial and annual renewal.			\$29,949,000		\$30,100,000		\$60,049,000
MODIFIED BUSINESS TAX - NON-FINANCIAL INSTITUTIONS (A.B. 561) A.B. 561 changes the structure and tax rate for the Modified Business Tax on General Business (nonfinancial institutions) for FY 2012 and FY 2013 by exempting taxable wages (gross wages less allowable health care expenses) paid by an employer to employees up to and including \$62,500 per quarter and taxable wages exceeding \$62,500 per quarter are taxed at 1.17%, effective July 1, 2011. These provisions for the MBT-General Business sunset effective June 30, 2013, at which time the tax rate will be 0.63% on all taxable wages per quarter.			\$117,981,497		\$119,161,117		\$237,142,614
SALES AND USE TAX - GENERAL FUND COMMISSIONS (A.B. 561) Extension of the sunset on the 0.35% increase in the Local School Support Tax (LSST) in A.B. 561 from June 30, 2011, to June 30, 2013, generates additional revenue from the 0.75% General Fund Commission assessed against LSST proceeds before distribution to school districts in each county.			\$1,052,720		\$1,084,301		\$2,137,021
QUARTERLY SLOT FEES: RESTRICTED AND NONRESTRICTED (A.B. 500) A.B. 500 reduces the portion of the quarterly licensing fees imposed on restricted and non-restricted slot machines from \$2 to \$1 per slot machine that is dedicated to the Account to Support Programs for the Prevention and Treatment of Problem Gambling. The other \$1 is deposited in the State General Fund in FY 2012 and FY 2013, due to the June 30, 2013, sunset in A.B. 500. (This item was included in the Governor's Executive Budget.)			\$758,952		\$770,104		\$1,529,056
NET IMPACT - TOTAL TAXES			\$230,661,812		\$163,035,165		\$393,696,977

**TABLE 1 - ADJUSTMENTS TO THE ECONOMIC FORUM MAY 2, 2011 FORECAST FOR THE 2011-13 BIENNIUM
BASED ON MEASURES APPROVED BY THE 2011 LEGISLATURE (76th SESSION) AND COURT DECISIONS**

DESCRIPTION	ESTIMATED REVENUE IMPACT FROM LEGISLATIVE ACTIONS AND COURT DECISIONS						
	FY 2011	% Change	FY 2012	% Change	FY 2013	% Change	2011-2013 BIENNIUM*
FEES AND FINES							
SHORT-TERM CAR LEASE (A.B. 561) A.B. 561 requires the 1% portion of the 10% Short-term Car Rental Tax, currently dedicated to the State Highway Fund based on A.B. 595 (2007 Session), to be deposited in the State General Fund along with the other 9%. This change is effective July 1, 2011, and is permanent. (This item was included in the Governor's Executive Budget.)			\$4,402,222		\$4,457,778		\$8,860,000
NET IMPACT - FEES AND FINES			<u>\$4,402,222</u>		<u>\$4,457,778</u>		<u>\$8,860,000</u>
USE OF MONEY AND PROPERTY							
TREASURER'S INTEREST INCOME The Legislature approved funding for the State Treasurer's Office to use a subscription rating service to allow for more effective investment in corporate securities, which is anticipated to generate additional interest income from the Treasurer's Office investment of the State General Fund.			\$105,313		\$244,750		\$350,063
NET IMPACT - USE OF MONEY AND PROPERTY			<u>\$105,313</u>		<u>\$244,750</u>		<u>\$350,063</u>
OTHER REVENUE							
GST COMMISSIONS AND PENALTIES COLLECTED BY THE DMV (S.B. 503) S.B. 503 requires the proceeds from the commission retained by the Department of Motor Vehicles from the amount of Governmental Services Tax (GST) collected and any penalties for delinquent payment of the GST to be transferred to the State General Fund in FY 2012 and FY 2013. S.B. 503 specifies that the amount transferred shall not exceed \$20,894,228 from commissions and \$4,672,213 from penalties in each fiscal year.			\$25,566,441		\$25,566,441		\$51,132,882
EXPIRED SLOT MACHINE WAGERING VOUCHERS (A.B. 219) A.B. 219 requires 75 percent of the value of expired slot machine wagering vouchers retained by nonrestricted gaming licensees to be remitted to the Gaming Commission for deposit in the State General Fund on a quarterly basis. Based on the expiration period of 180 days for slot machine wagering vouchers and the effective date of July 1, 2011, only one quarterly payment will be made in FY 2012 with four quarterly payments made in FY 2013 and going forward.			\$3,332,750		\$13,331,000		\$16,663,750
UNCLAIMED PROPERTY The Treasurer's Office provided the Budget Division of the Department of Administration and the Fiscal Analysis Division of the Legislative Counsel Bureau with information on additional unclaimed property for FY 2011, based on more complete information that became available after the Economic Forum May 2, 2011, meeting on actual unclaimed property remitted to the Treasurer's Office.	\$13,630,561						
UNCLAIMED PROPERTY (S.B. 136) S.B. 136 reduces the period from 3 years to 2 years after which certain types of unclaimed property is presumed to be abandoned if the holder of the property reported holding more than \$10 million in property presumed to be abandoned for the most recent report filed with the Treasurer's Office. Based on the Treasurer's Office analysis of the entities subject to this change, it was estimated that there would be a net gain in unclaimed property receipts in FY 2012, but a net loss in FY 2013.			\$30,594,750		(\$33,669,923)		(\$3,075,173)
COURT ADMINISTRATIVE ASSESSMENTS (A.B. 531-2009) A.B. 531 (2009 Session) requires the deposit of a portion of the revenue generated from Court Administrative Assessment Fees to be deposited in the State General Fund. (This item was included in the Governor's Executive Budget.)			\$4,731,187		\$4,625,744		\$9,356,931

**TABLE 1 - ADJUSTMENTS TO THE ECONOMIC FORUM MAY 2, 2011 FORECAST FOR THE 2011-13 BIENNIUM
BASED ON MEASURES APPROVED BY THE 2011 LEGISLATURE (76th SESSION) AND COURT DECISIONS**

DESCRIPTION	ESTIMATED REVENUE IMPACT FROM LEGISLATIVE ACTIONS AND COURT DECISIONS						
	FY 2011	% Change	FY 2012	% Change	FY 2013	% Change	2011-2013 BIENNIUM*
OTHER REVENUE - CONTINUED							
SUPPLEMENTAL ACCOUNT FOR MEDICAL ASSISTANCE TO INDIGENT PERSONS (A.B. 529) A.B. 529 requires the transfer of \$19,112,621 in FY 2012 and \$19,218,718 in FY 2013 from the Supplemental Account for Medical Assistance to Indigent Persons created in the Fund for Hospital Care to Indigent Persons to the State General Fund. (This item was included in the Governor's Executive Budget).			\$19,112,621		\$19,218,718		\$38,331,339
CLEAN WATER COALITION - CLARK COUNTY On May 26, 2011, the Nevada Supreme Court issued a decision that the Legislature's action in A.B. 6 (26th Special Session) to require the Clean Water Coalition in Clark County to transfer \$62 million to the State General Fund in FY 2011 was unconstitutional.	(\$62,000,000)						
NET IMPACT - OTHER REVENUE	<u>(\$48,369,439)</u>		<u>\$83,337,749</u>		<u>\$29,071,980</u>		<u>\$112,409,729</u>
NET IMPACT - TOTAL GENERAL FUND	<u>(\$48,369,439)</u>		<u>\$318,507,096</u>		<u>\$196,809,673</u>		<u>\$515,316,769</u>
ECONOMIC FORUM MAY 2, 2011 FORECAST AFTER ADJUSTMENTS BASED ON MEASURES APPROVED BY THE 2011 LEGISLATURE AND COURT DECISIONS	<u>\$3,137,432,596</u>	<u>2.6%</u>	<u>\$2,982,925,115</u>	<u>-4.9%</u>	<u>\$2,990,330,767</u>	<u>0.2%</u>	<u>\$5,973,255,882</u>

* The amounts shown in the 2011-2013 Biennium column represent the sum of the FY 2012 and FY 2013 amounts and do not include any amounts shown for FY 2011. All amounts listed are revenue estimates prepared by the Fiscal Analysis Division during the 2009 Legislative Session.

**ADJUSTMENTS TO THE ECONOMIC FORUM MAY 2, 2011 FORECAST FOR THE 2011-13 BIENNIUM
ADJUSTMENTS TO THE DISTRIBUTIVE SCHOOL ACCOUNT (DSA) FOR THE 2011-13 BIENNIUM
BASED ON MEASURES APPROVED BY THE 2011 LEGISLATURE (76th SESSION)**

DESCRIPTION	ESTIMATED REVENUE IMPACT FROM LEGISLATIVE ACTIONS						
	FY 2011	% Change	FY 2012	% Change	FY 2013	% Change	2011-2013 BIENNIUM*
STATE 3% ROOM TAX- I.P. 1 (A.B. 579) A.B. 579 requires the proceeds generated from the State 3% Room Tax deposited in the State Supplemental School Support Fund, pursuant to I.P. 1, to be transferred to the Distributive School Account (DSA) for FY 2012 and FY 2013. The transfer of the room tax proceeds to the DSA provides a State General Fund offset in FY 2012 and FY 2013. Beginning in FY 2014, the proceeds from the State 3% Room Tax will remain in the State Supplemental School Support Fund and will be used to provide funding for K-12 education as intended under I.P. 1.			\$111,336,000		\$115,121,424		\$226,457,424
LOCAL SCHOOL SUPPORT TAX (A.B. 561) A.B. 561 extends the sunset on the 0.35% increase in the Local School Support Tax (LSST) rate from 2.25% to 2.60%, approved in S.B. 429 (2009 Session), from June 30, 2011, to June 30, 2013. The proceeds from the LSST provide revenue for K-12 education and provide a State General Fund offset for FY 2012 and FY 2013 through the Nevada Plan funding mechanism.			\$139,309,881		\$143,489,149		\$282,799,030
NET PROCEEDS OF MINERALS TAX (S.B. 493) The changes to deductions for the Net Proceeds of Minerals (NPM) Tax in S.B. 493, discussed in the General Fund revenue table, also generate additional NPM revenue for those school districts with mining activity. The amount represents the estimate of the additional NPM revenue that is considered as local funds available under the Nevada Plan funding formula for K-12 education and provides a State General Fund offset.			\$3,434,136		\$3,434,136		\$6,868,272
CLARK COUNTY SCHOOL DISTRICT'S FUND FOR CAPITAL PROJECTS (A.B. 579) A.B. 579 requires the transfer of \$20,000,000 in FY 2012 and FY 2013 from the Clark County School District's Fund for Capital Projects derived from real property transfer tax and room tax proceeds to be used as local funds available for public schools in Clark County.			\$20,000,000		\$20,000,000		\$40,000,000
NET IMPACT - DSA			<u>\$274,080,017</u>		<u>\$282,044,709</u>		<u>\$556,124,726</u>

**GENERAL FUND AND DISTRIBUTIVE SCHOOL ACCOUNT (DSA)
ADJUSTMENTS TO THE GENERAL FUND AND DSA FOR THE 2011-13 BIENNIUM
BASED ON MEASURES APPROVED BY THE 2011 LEGISLATURE (76th SESSION)**

DESCRIPTION	ESTIMATED REVENUE IMPACT FROM LEGISLATIVE ACTIONS						
	FY 2011	% Change	FY 2012	% Change	FY 2013	% Change	2011-2013 BIENNIUM*
GENERAL FUND	(\$48,369,439)		\$318,507,096		\$196,809,673		\$515,316,769
DISTRIBUTIVE SCHOOL ACCOUNT (DSA)			\$274,080,017		\$282,044,709		\$556,124,726
NET IMPACT - GENERAL FUND AND DSA	<u>(\$48,369,439)</u>		<u>\$592,587,113</u>		<u>\$478,854,382</u>		<u>\$1,071,441,495</u>

* The amounts shown in the 2011-2013 Biennium column represent the sum of the FY 2012 and FY 2013 amounts and do not include any amounts shown for FY 2011.