

nma Nevada Manufacturers Association

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Governor's Task Force on Tax Policy in Nevada
C/o Legislative Counsel Bureau
401 South Carson Street
Carson City, NV 89701-4747

Dear Chairman Hobbs:

This is our recommendations on behave of NMA and it member companies, in follow up to our notification letter of January 17th. First, we note that the existing tax structure has a series of quirks and weaknesses that have accumulated over the past seventy years. We had probably with good intentions and for purposes of dealing with a current problem made numerous changes that seem to be band aides when viewed with the benefit of hindsight. As we look at the composite structure today, we believe it would be nearly impossible to take a clean sheet of paper and re-create the current tangled web. Further, if starting with a clean sheet of paper, no one would re-create what we have.

Knight Allen's comments to the committee were appropriate in many ways. As much as possible we want to make as many of our taxes voluntary taxes paid with as much discretionary income as possible. Where people make a choice to spend on something and thereby contribute to the taxes, compliance is better and easier.

With that as a background, we suggest that for the long term benefit of the state, local governments, businesses and the citizens, the primary mission of your task force should be to correct as many of the **structural issues of existing taxes** as possible. The current shortfall is insignificant compared to the long term advantage to everyone of at least recommending that the flaws get fixed rather than more band aides added. We know that will require a comprehensive tax reform package that part of will need to go to the voters. We know that is a time consuming process. We suggest it is better to take the five years now than work around the current flaws for few more decades. Most of what we have needs to be fixed or drastically improved to reflect the current technology and the changing Nevada economy. We know this is politically difficult, but that is NOT a valid reason to not try to make or at least recommend doing what is right.

1. Gaming taxes is the area that we understand the least about. We suggest that someone with more knowledge should look at the levels, whether it should be gross or net and what to do with making the slot route operation more consisted with casino operations.

2. Sales and Use tax was created in 1955 and then confirmed with the referendum process. We need to ask the voters to remove the handcuffs from that tax system because it doesn't fit our current economy. We suggest the following:
 - A. Allow the legislature to take full control of the law.
 - B. Re-install the sales tax on grocery store food, but at a much lower rate than other sales. That alone will add much greater stability to the collections while keeping the good features of the sales tax. We suggest the combined rate should be dropped to around 6% with the food rate in the 2% range. We suggest that we probably need to get to a single rate as a member of the streamlined or Simplified Sales Tax Act group. We should move in that direction while revisions are in process. The number of exclusions and exemptions should be minimized to make the base as wide as possible. We suggest that the exemption of road fuels should remain at this time, but new power system might even change that within a decade.
 - C. Use tax is confusing at best. We suggest that the use tax should continue to apply to all purchases, but individuals should be given an annual exemption of \$10,000 (?) of non-motor vehicle items for personal use. The rules for businesses need to clear, concise and consistent and they are not today.
 - D. We suggest that if the personal property tax is going to continue that it should be shifted to the state-funding stream. We recommend this because the collector of sales and use tax has the best opportunity to insure compliance with both taxes and that installs an audit mechanism for the personal property tax that otherwise is very limited. We know this has many pro's and con's.
 - E. Eliminate all earmarking of funds within the sales tax collection and distribution system. Nevada is burdened with earmarking that needs to go away.
 - F. Finally, this will have some impact on business in rural counties, but we suggest that the state should drive towards one allowable sales tax on general merchandise sales before required to comply with the Simplified Sales Tax Act. At some time we will want to collect sales tax on catalog and Internet sales. Having a single tax rate for general merchandise in the state will help achieving that goal. This may mean that local governments will have to use the property tax if they need revenue.
3. The depreciation schedule within the property tax schedule for improvements on real property should be significantly changed. There are several ways to fix the depreciation issue: Revalue property improvements upon sale as in CA, phased down depreciation and drop the maximum depreciation and adjust the schedule. The maximum residual value should be perhaps 75% and the depreciation schedule should drop perhaps to one half percent per year. Existing property would need to be grandfathered in at their current rate and perhaps adjusted schedules for a reasonable transition. The adjustments in property tax should be both up and down. While that has some political risk to it, it is better than what we have now. Revalue on sale might slow the real estate market, but it protects the long term resident from being taxed out of their homes. The person buying a new home has again made a decision to pay the taxes.
4. The entertainment tax should be expanded or renamed or whatever as a tax on event fees for most if not all discretionary spending entertainment events. This is the perfect Nevada tax. A major portion of this tax is paid by visitors and participation in paying the tax is voluntary. The tax is paid with discretionary income. The tax should apply to entry fees to sporting events, amusement events, theaters and most

any "open to the public" event, venue, convention or entertainment. The tax at whatever rate should be flexible enough to allow the operator to build into the ticket price or tack on top at their option.

5. The BLT – The BLT has no adjustment factor for inflation, but it is among the easiest and simplest taxes for user compliance. We offer two different thoughts on this revenue stream. The first idea is to adjust for inflation by the CPI since it started and then change the law to adjust by the CPI annually. The adjustment doesn't need to be at the start of the year, but should be at the same date each year. The CPI actually tends to be a little higher than actual inflation, so that should allow it to add a little to the general fund coffers above inflation. The second idea is more radical. We suggest repealing the BLT completely and replacing it with a payroll tax that is still easy to calculate, audit and encourages employer action that reduces government expense. A tax of one half percent on "take home pay" of 20K is equal to the current tax. "Take home pay" or the net-net pay adjusts for dependents, benefits, gross pay and other factors. The adjustment is not perfect, but it is easy. We suggest on the net-net rather than total compensation. The tax should cover bonus pay, owner dividends, and dollar to contract labor. Doing that will tend to make the tax more equitable than the existing tax. This tax might be easier to calculate and pay quarterly than the BLT. The reason we suggest the net-net basis is that it might encourage employers to improve benefit programs. Most benefit programs tend to reduce the cost to government. Taxing only the "take home pay" also eliminate any question of taxing federal taxes or taxing benefits. This might encourage larger employers to have section 125 programs and encourage their use. Better benefits reduce the cost to government at some point in time. The only obvious flaw is direct tip income is lost in this scenario.
6. Universal Energy Charge – There is no nexus between the energy consumed by residents or business and the need for an energy assistance program. Additionally, this is viewed by consumers as a very regressive tax. The PUC should not be in the tax collection business. People in need of assistance should not be paying a tax on the hope that they will get assistance in return sometime in the future. Structurally this may be the worst tax creation in the state. The utilities are or can be an efficient tax collector, but this tax has flaws in a de-regulated market. Tacking on to the utility bills during record high rates is insane. Tacking on to each bill with the assumption that government will figure out how to help the most needy is inefficient at best. Finally allowing caps on the payment even though it helps some of my members is bad policy. We recommend as a minimum, removing the caps and earmarking, then calling it a "tax" instead of a "charge" and putting it in the general fund. The best idea would be to eliminate this tax completely.
7. Tax on Services - We have no specific recommendations in this area, but consider this one area that the state must consider sometime if not this session. If the task force recommends a ballot item to put a 2% tax on food, perhaps that rate should be applied to services or at least "non-essential" or "service purchased with discretionary dollars". This would bring in a chunk of money. The definition will be a legislative fight, but we suggest that dry cleaning, lawn service, legal, repairs and optional medical procedures are "non-essential services".
8. Insurance Premium Tax – We note that the escalating premiums are making insurance in several areas price prohibitive for many companies and a growing

number of individuals. If we truly want to encourage employer provided and individual health insurance that category should be removed from the premium tax as a minimum. We don't charge sales tax on medicine, but the premium tax has a bigger impact on the total cost of health care than the sales tax on medicine. It is probably a bad policy that should be repealed. Health insurance today covers a much greater portion of the health cost than it did when this tax was created. The premium tax on healthcare insurance is punitive.

9. Fuel taxes – Nevada fuel taxes need to be competitive between our state and the surrounding states, so that we don't return to the drive through problem for long haul transportation. Second, the fuel tax must be competitive between fuels. At some point in the future, alternative fuel vehicles are likely to be a significant part of the road use. They generally have lower emissions and that is good, but they will still use the roads and highways. They should be taxed at an equivalent rate with gasoline and diesel fueled vehicles, so we don't create a highway fund hole. It is our suggestion to deal with this now rather than once alternative fuel vehicles area significant portion of the vehicles on the roads.
10. Financial Institutions Fee – The governor has made it clear that he intends to tax banks. We suggest that the interstate banks and others may be able to shift their Nevada revenue streams to other states if any revenue structure is onerous. We could burden the community and local banks while the interstate operations move money to avoid taxation. Our suggestion is simple and easy to audit. We suggest that all financial institutions be charged a very small rate on deposits and payments made to banks, bank type institutions or processing facility that are in Nevada or from Nevada to companies with Nevada operations. We think a properly constructed law could and should include banks, credit unions, mortgage companies, brokerages and credit card processing operations. The rate would likely need to be in the one tenth of a percent range or less to prevent "bank flight". Banks and other financial institutions are subject to state audits, so it should be rather easy to confirm compliance and the level of deposits and payments for the fee calculation.

We are part of one of the tax working groups and expect that coalition will have additional tax ideas at a future point. In our view, some of the existing processes and taxes need to be corrected as part of this process. We know some of these changes recommended will mean the creation of a ballot item(s) and its rather lengthy process. We know that some are politically difficult, but that doesn't mean that they are not the right ideas and the best long term solutions. The adjustments in the range of the structural deficit number" means that our problem needs some modest short-term corrections, but we have time to make long-term adjustments and corrections. In our view, those are essential to fix the tax structure problems long term.

Regards,

Ray Bacon
Executive Director