

Department of Taxation

2019–2021 Biennium Budget Overview

Presented to the Legislative Commission's Budget Subcommittee
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Agency Overview

Summary of Agency Operations

The Department of Taxation is responsible for providing fair, efficient, and effective administration of the tax programs of the State of Nevada

- Administers the collection and distribution of state and local government revenue from 17 taxes; **\$6.87 billion distributed in FY18**
- Licenses and regulates Nevada's medical and adult-use marijuana licensees
- Responsible for appraising property of an interstate or inter-county nature as well as mining property
- Establishes guidelines for county assessors, recorders, and treasurers; monitors appraisal and assessment performance; and ensures statewide compliance with assessment standards established by the Nevada Tax Commission (NTC)
- Reviews local government budgets and audits, prepares ad valorem tax rates for certification, and advises local governments on Budget Act compliance and financial management matters
- Provides certified annual population estimates for the state and its counties and incorporated cities
- There are currently 381 positions under BA 2361 and 44 positions under BA 4207



Agency Overview

Department of Taxation

Organized in 6 Divisions

- Executive
- Compliance
- Administrative and Fiscal Services
- Local Government Services
- Information Technology
- Marijuana Enforcement

The Department also serves as staff to 5 boards and commissions

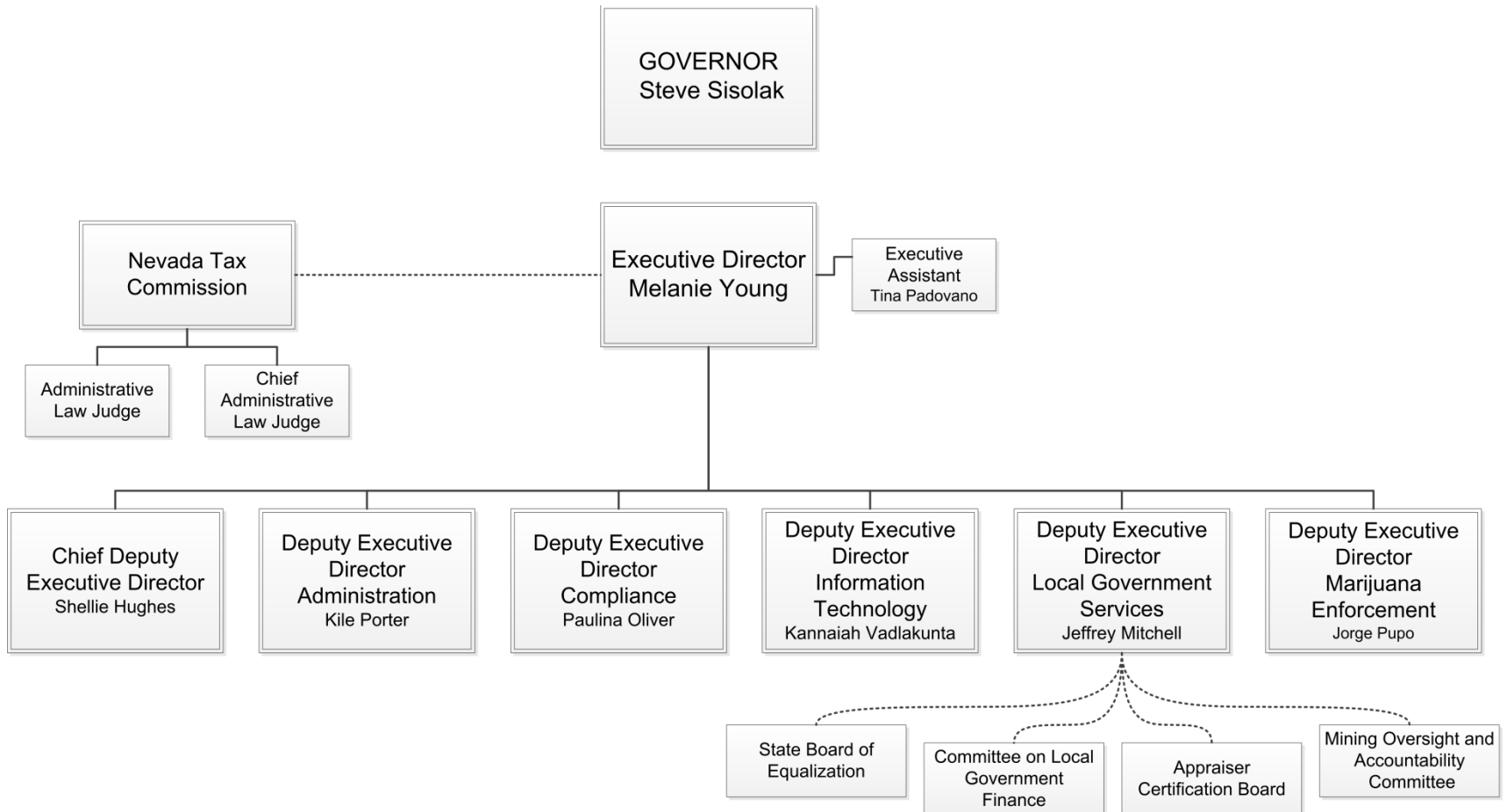
- Nevada Tax Commission – head of the Department by statute
- Committee on Local Government Finance
- Appraiser Certification Board
- State Board of Equalization
- Mining Oversight and Accountability Commission



Agency Overview

Organizational Structure

Department of Taxation





Agency Overview

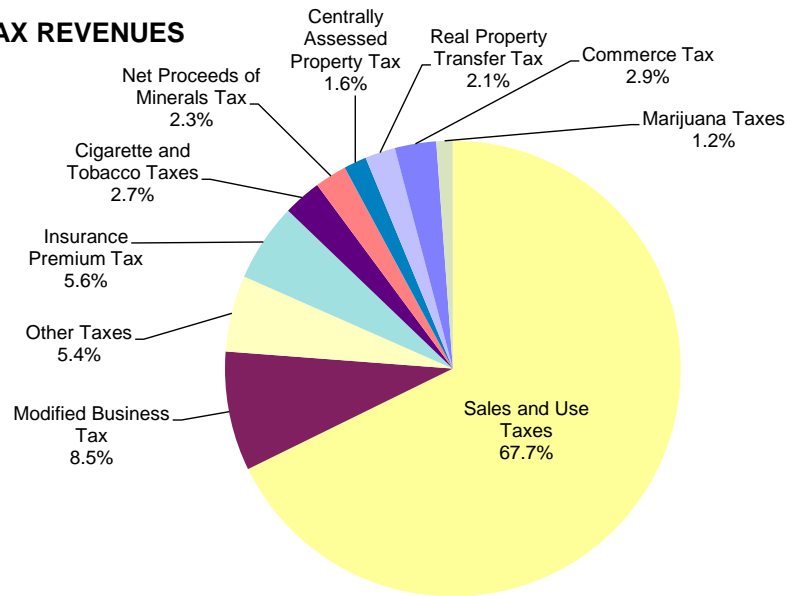
The Department collects and distributes:

- Sales and Use Taxes (NRS Chapters 372, 374, 377, 377A)
- Modified Business Tax (NRS Chapters 363A, 363B)
- Net Proceeds of Minerals Tax (NRS Chapter 362)
- Insurance Premium Tax (NRS Chapter 680B)
- Property Tax on Interstate and Inter-County Companies (NRS 361); (centrally assessed)
- Liquor (NRS Chapter 369)
- Cigarettes and Other Tobacco Products (NRS Chapter 370)
- Live Entertainment Tax (NRS Chapter 368A)
- Bank Branch Tax (NRS Chapter 363A)
- Lodging Tax (NRS Chapter 364)
- Wholesale and Retail Marijuana Excise Taxes (NRS Chapters 372A and 453D)
- Tire Tax (NRS Chapter 444A)
- Short-term lessor Fee (NRS Chapter 482)
- Commerce Tax (NRS Chapter 363C)
- Transportation Connection Tax (NRS Chapter 372B)
- Distributes the real property transfer tax received from county recorder collections to the state general fund and local governments

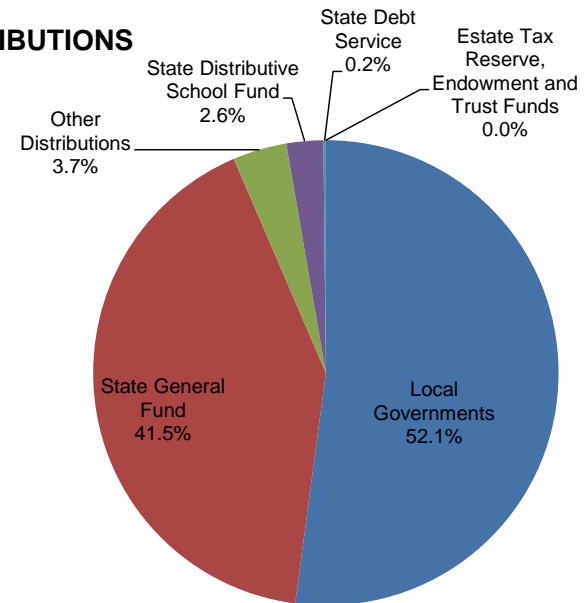


Tax Revenues & Distributions, FY 2018

TAX REVENUES



TAX DISTRIBUTIONS



Revenue Description	Amount	%
Sales and Use Taxes	\$4,652,841,344	67.7%
Modified Business Tax	\$581,975,518	8.5%
Other Taxes	\$371,219,143	5.4%
Insurance Premium Tax	\$381,540,491	5.6%
Cigarette and Tobacco Taxes	\$186,619,738	2.7%
Net Proceeds of Minerals Tax	\$155,938,531	2.3%
Centrally Assessed Property Tax	\$110,566,647	1.6%
Real Property Transfer Tax	\$147,574,926	2.1%
Commerce Tax	\$201,926,513	2.9%
Marijuana Taxes	\$79,599,631	1.2%
Total	\$6,869,802,482	100.0%

Distribution Description	Amount	%
Local Governments	\$3,578,770,980	52.1%
State General Fund	\$2,847,646,906	41.5%
Other Distributions	\$255,445,607	3.7%
State Distributive School Fund	\$176,221,977	2.6%
State Debt Service	\$11,697,455	0.2%
Estate Tax Reserve, Endowment and Trust Funds	\$19,557	0.0%
Total	\$6,869,802,482	100.0%



Agency Overview

Key Changes Since 2015

Four new tax types: Commerce Tax, Transportation Connection Tax, Wholesale Marijuana Tax, Retail Marijuana Tax

- Total number of taxpayer accounts with filing obligations increased from 196,797 in FY15 to 768,315 in FY18
- In FY18 there were 534,356 Commerce Tax accounts but only 145,981 returns filed—meaning 388,375 taxpayers were out of compliance with the requirement to file (72.7 percent); Averaged over the last three fiscal years, only 1.57 percent of Commerce Tax accounts (6,924) met the threshold of more than \$4M in gross revenue and, also averaged over the last three fiscal years, the Department processed 147,553 “zero” returns a year
- Total revenue collections increased from \$5.36B in FY15 to \$6.87B in FY18 – a 28 percent increase



Agency Overview

South Dakota v. Wayfair

Not part of the budget request, but reflective of increasing and ongoing demands on Department resources

- June 21, 2018: SCOTUS ruled that states can now collect Sales Tax from out-of-state sellers who make sales into a state; eliminates physical presence requirement
- In collaboration with LCB, the Dept. has implemented new requirements via regulation that reflect the Court's support of South Dakota's requirements (eff. 10/1/18):
 - Sales Tax is not applied retroactively
 - Small seller exception; Only businesses that meet one of the following thresholds must register/collect/remit
 - \$100,000 or more of sales into NV a calendar year, OR
 - 200 or more retail transactions into NV a calendar year
 - Also consistent with the Court's favorable view of South Dakota in *Wayfair*, NV is a member of the national Streamlined Sales and Use Tax Agreement
- Anticipated increase in Sales Tax accounts and revenue



Budget Account 2361

Taxation Operating Account



Budget Account 2361

Efficiencies & Cost Allocation

Decision Unit E225 – Commerce Tax Non-Filing for under \$4M

Efficiency Measure – Biennium total savings of \$37,228

This request reduces costs for the department and Nevada businesses via the elimination of the requirement that each business, including those with no tax liability, file a commerce tax return.

This decision unit requires a budget BDR (19A1302144)

Decision Unit E800 – Transfer to Receive Cost Allocation from BA 4207

FY20 \$1.39M, FY21 \$1.44M

This request establishes the Department of Taxation cost allocation for the administration, oversight, Information Technology, cash handling, fiscal service, and collection of taxes for the Marijuana Regulation and Control Account.

Companion Decision Unit to BA 4207 Decision Unit E800



Budget Account 2361

New Fees & Fee Increase

Decision Unit E235 – Cigarette and Other Tobacco Product (OTP) Fees

Revenue increase of \$354,700 each year

One-time expenditure of \$208,000 for system programming

This request would increase the licensing fee for cigarette wholesale dealers and establish new fees for OTP wholesale dealers, cigarette manufacturers, and cigarette and OTP retail dealers. NRS 370.150 requires an annual license fee of \$150 for each wholesale dealer's license. This fee has been in statute since 1977 with no changes. There are currently no licensing fees levied on OTP wholesale dealers, cigarette manufacturers, or cigarette and OTP retail dealers. This request proposes to increase/add the following fees:

- Cigarette Wholesale Dealer's License – increase from \$150 to \$650
- OTP Wholesale Dealer's License – new fee of \$650
- Cigarette Manufacture's License – new fee of \$1,000
- Cigarette & OTP Retail Dealer's License – new fee of \$50

Requires Budget BDR (19A1302089)



Budget Account 2361

Staffing Requests

Decision Unit E227 – Alcohol Enforcement Positions

Goal: *Promote and ensure compliance among liquor licensees and increase investigations*

FY20 \$337,988, FY21 \$377,237

This request is for four new alcohol enforcement positions to increase alcohol inspection and enforcement efforts. The positions include:

- 1 Chief Investigator
- 2 Compliance/Audit Investigators
- 1 Administrative Assistant

Requires Budget BDR (19A1302134)



Budget Account 2361

Staffing Requests

Decision Unit E229 – New Auditor Positions

Goal: Maintain sufficient audit penetration rate with increased taxpayer accounts and new tax types

FY20 \$374,645, FY21 \$467,092

This request is to add five Auditor positions as a result of increased taxpayer accounts and new tax types.



Budget Account 2361

Staffing Requests

Decision Unit E239 – Information Technology Positions

Goal: *Address workload and ensure timely implementation of IT projects*

FY20 \$369,247, FY21 \$406,810

This request adds three IT positions to address workload and ensure timely implementation of IT projects. IT is mission-critical to the Department and its systems. There are 50 custom software solutions used by the Department to maintain its taxpayer reporting obligations. Currently, many tax projects have been reduced in priority as the programmers and technical team work on marijuana programming and functionality. The Department needs to address its backlog of IT requirements as well as maintain critical existing programs. Positions added:

- 1 IT Manager
- 2 IT Professionals



Budget Account 2361

Staffing Request Summary

Number of Positions

Current budgeted positions for BA 2361	381
<i>Requested enhancements</i>	
Alcohol enforcement	4
Auditors	5
Information technology	3
Total requested positions	12
TOTAL	393



Budget Account 2361

Equipment Replacement Requests

Total Request

FY20 \$650,924, FY21 \$442,505

Decision Unit E710 – Desktop Computers, Laptops, and Software

FY20 \$239,388, FY21 \$100,764

Decision Unit E711 – Servers, Data Storage, and Firewall

FY20 \$403,505, FY21 \$46,112

Decision Unit E712 – IT Hardware

FY20 \$8,031, FY21 \$295,629



Budget Account 2361

Other Staff-Related Requests

Decision Unit M501 – Background Reinvestigations for Employees

FY20 \$6,997, FY21 \$1,668

This request is to perform background reinvestigations on employees as required by the IRS.

Requires Budget BDR (9A1302133)

Companion Decision Unit to BA 4207 Decision Unit M501



Budget Account 2361

Item for Special Consideration Technology Investment Request

Decision Unit E550 – Unified Tax System (UTS) Modernization

One-shot funding of \$1.70M

This request is to fund a needs assessment, requirement definitions, gap analysis and a Request for Proposal (RFP) as part of a Technology Investment Notification (TIN) for the modernization of UTS. UTS is a comprehensive package of software and components that, when implemented 13 years ago, was already 12 years old. The coding languages are legacy and approaching obsolescence (e.g., Cobol). The project will have five major phases: needs assessment, RFP development and vendor selection, detailed requirements analysis, phases of implementation, and training and maintenance. The total cost is estimated to be \$58.8 million over 5 years, depending on the technology solution selected.



Budget Account 4207

Marijuana Regulation & Control Account



Program Overview

Summary of Regulatory Responsibilities

The Department of Taxation administers Nevada's legal medical and adult-use marijuana programs, ensuring the protection of public health and safety through a strict and rigorous regulatory scheme

- Establishes licensing qualifications for 9 license types and determines the need to license additional establishments in the state
- Reviews applications for licensure; issues initial and annual renewal of licenses; suspends, revokes, and reinstates licenses; issues civil penalties
- Reviews and makes determinations on transfers of ownership and location changes
- Establishes standards and procedures for the cultivation, production, testing, distribution, and sale of marijuana in Nevada
- Inspects and audits marijuana establishments to ensure compliance with state laws and regulations around issues such as security, testing, inventory tracking, labeling, and packaging
- Reviews all proposed marijuana establishment advertising and design



Program Overview

Key Statistics

- 659 final medical and adult-use certificates/licenses issued and 245 provisional/conditional certificates/licenses*
 - Each license is subject to annual renewal; Department reviews/processes each renewal application
- 11,889 current active marijuana agent cards*; expected to continue to increase as industry grows
 - Department processes applications and issues agent cards, which are required for each employee, volunteer, owner, officer, and board member; annual renewal
- The Department conducted 510 inspections in FY18 and 497 so far in FY19*
- The Department also investigates complaints against establishments; 234 complaints /investigations completed in FY18 and 89 so far in FY19

*As of January 2019



Program Overview

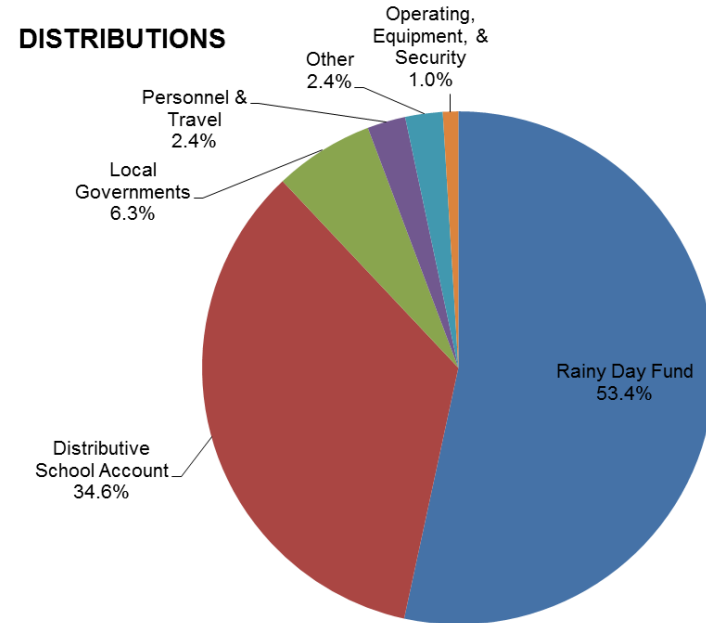
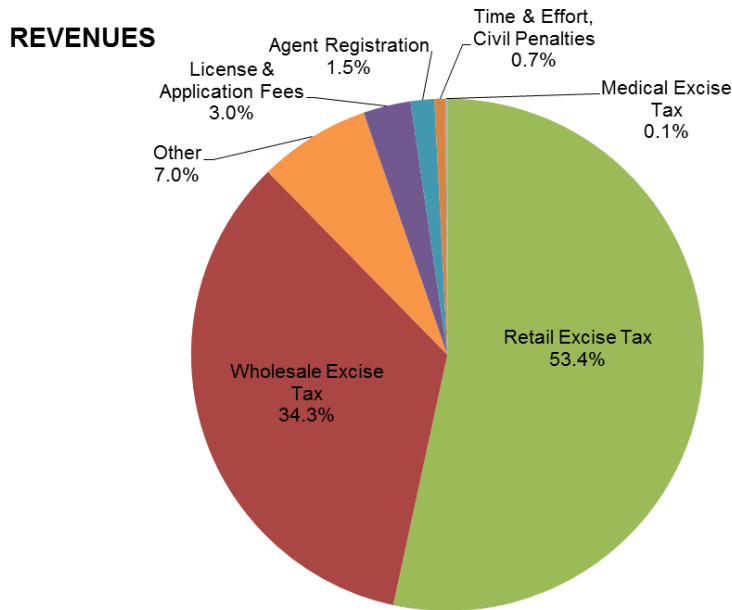
Key Statistics

- The Department received 8,158 proposed marijuana establishment advertising and packaging submissions for review in FY18 and 7,427 so far in FY19*
 - Average of 56 submissions received per day
 - Turnaround time for approval/denial averages 5.4 days
- The Department processed 136 ownership change requests and 34 location change requests in FY18
- To date, the Department has completed 9 audits of dispensaries/retail stores for Retail Marijuana Tax, 12 audits are in progress, and \$54,543 has been billed to date*
- To date, the Department has issued 46 civil penalties totaling \$603,250*
- Since July 1, 2017, when adult-use sales began, the Department has suspended 6 licenses; No licenses have been revoked*

*As of January 2019



Marijuana Tax Revenues & Distributions, FY 2018



Revenue Description	Amount	%
Retail Excise Tax	\$42,489,202	53.4%
Wholesale Excise Tax	\$27,270,582	34.3%
Other	\$5,605,487	7.0%
License & Application Fees	\$2,381,896	3.0%
Agent Registration	\$1,187,150	1.5%
Time & Effort, Civil Penalties	\$552,469	0.7%
Medical Excise Tax	\$92,765	0.1%
Total	\$79,579,550	100.0%

Distribution Description	Amount	%
Rainy Day Fund	\$42,489,202	53.4%
Distributive School Account	\$27,518,741	34.6%
Local Governments	\$5,000,000	6.3%
Personnel & Travel	\$1,920,596	2.4%
Other	\$1,877,566	2.4%
Operating, Equipment, & Security	\$773,445	1.0%
Total	\$79,579,550	100.0%



Budget Account 4207

Staffing Request

Decision Unit E226 – Marijuana Positions

FY20 \$955,993, FY21 \$989,602

Goal: Ensure strict enforcement and regulation of the expanding marijuana industry in Nevada

This request adds 10 full-time positions to ensure strict enforcement of the expanding marijuana industry in a manner that protects the health and safety of children, Nevada residents, and tourists. Sales and revenues have outpaced projections and the number of licensed establishments to regulate continues to grow. The department has been stretching resources to manage the dynamic, evolving needs that arise in the regulation of this nascent industry. Positions include:

- 3 Auditors
- 1 Tax Examiner
- 1 Accounting Assistant
- 2 Marijuana Program Inspectors
- 2 Compliance/Audit Investigators
- 1 Revenue Officer



Budget Account 4207

Staffing Request Summary

Number of Positions

Current budgeted positions for BA 4207	44
<i>Requested enhancements</i>	
Tax Examiner	1
Accounting Assistant	1
Compliance/Audit Investigators	2
Revenue Officer	1
Auditors	3
Inspectors	2
Total requested positions	10
TOTAL	54



Budget Account 4207

Cost Allocation

Decision Unit E800 – Cost Allocation to BA 2361

FY20 \$1.39M, FY21 \$1.44M

This request establishes the Department of Taxation cost allocation for the administration, oversight, Information Technology, cash handling, fiscal services, and collection of taxes for the Marijuana Regulation and Control Account.

Companion Decision Unit to BA 2361 Decision Unit E800



Budget Account 4207

Equipment Request

Decision Unit E720 – Refrigerator, Safe, and RFID Scanners

FY20 \$46,210

Goal: *Effectively enforce the provisions of NRS 453A and NRS 453D*

This request is to fund a refrigerator, safe, and scanners. The Marijuana Enforcement Division is required to seize and remove any marijuana and marijuana products that do not comply with the provisions. In doing so, these items need to be secured. A large locking refrigerator will allow the division to secure and store edible products; a safe will allow the division to secure and store marijuana products; and radio frequency identification device (RFID) scanners are used in the seed-to-sale tracking system to ensure all marijuana products are in compliance with the tracking requirements.



Budget Account 4207

Other Staff-Related Request

Decision Unit M501 – Background Reinvestigations for Employees

FY20 \$254, FY21 \$73

This request is to perform background reinvestigations on employees as required by the IRS.

Requires Budget BDR (9A1302133)

Companion Decision Unit to BA 2361 Decision Unit M501



Budget Account 4207

Implementation of Adult-Use Marijuana Program

- Nov 2016 Voters pass Question 2, codified as NRS 453D
- Jan 2017 Possession and consumption of marijuana become legal in NV
- Mar-May 2017 Governor's Task Force for the Regulation and Taxation of Marijuana Act
- May 2017 Temporary regulation adopted, providing for the licensing and regulation of adult-use marijuana businesses
Department accepts first round of applications for adult-use marijuana licenses (one-for-one and distribution licenses)
- Jul 2017 Medical marijuana program moves from DPBH to Taxation
Medical Marijuana Tax changes to Wholesale Marijuana Tax and the Retail Marijuana Tax takes effect
Adult-use licenses are active and adult-use sales begin
Department launches 3-month statewide public awareness campaign on safe and legal use and rolls out *marijuana.nv.gov* public information website



Budget Account 4207

Implementation of Adult-Use Marijuana Program

Nov 2017	Temporary regulation expires and emergency regulation goes into effect
Mar 2018	Department disburses \$5M for FY18 to local governments per SB487
Jun 2018	Department accepts third round of applications for adult-use licenses (one-for-one)
Aug 2018	Department disburses \$27.5M to the DSA from the 10 percent retail marijuana tax By end of FY18, Department disbursed a total of \$42.5M to state rainy day fund
Sep 2018	Department accepts applications for adult-use marijuana retail stores – <i>61 conditional licenses issued in Dec</i>
Oct 2018	Department accepts fourth round of adult-use license applications (one-for-one) Tax Commission adopts temporary regulation clarifying \$3.5M portion of \$5M disbursements for local governments
Feb 2019	Department to disburse \$5M for FY19 to local governments



Budget BDRs

Commerce Tax Non-Filing for under \$4M

BDR 19A1302144

Decision Unit E225

NRS 363C.200

Description

Eliminates the requirement that each business must file a Commerce Tax return if that business has less than \$4 million in Nevada gross revenue in a taxable year

Impact

Reduces fiscal liabilities and inefficiencies; offers cost avoidance since the Department would need additional resources to enforce compliance with filing requirement



Budget BDRs

Background Reinvestigations for Employees

BDR 19A1302133

Decision Unit M501 for BA 2361 and BA 4207

NRS 360

Description

Requires the Department to perform background reinvestigations on its employees or contractors every five years

Impact

- Helps ensure the security and proper access and disclosure of tax information
- Brings the Department in compliance with IRS policy



Budget BDRs

Cigarette & Other Tobacco Products Fees

BDR 19A1302089

Decision Unit E235

NRS 370

Description

- Increases licensing fee for cigarette wholesale dealers
- Requires OTP wholesale dealers, cigarette manufacturers, and cigarette and OTP retail dealers to obtain licenses and renew them annually for a fee
- Creates a special account for the deposit of all licensing fees and statutorily imposed civil penalties for use by the Department's tobacco enforcement unit

Impact

Provides funding for enforcement activities



Budget BDRs

Alcohol Enforcement

BDR 19A1302134

Decision Unit E227

NRS 369

Description

Funds the administration of alcohol in a similar fashion to tobacco

Impact

Provides increased funding for enforcement activities requested in Decision Unit E227



Contact Info & Locations

Website: <https://tax.nv.gov>

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Nevada

DEPARTMENT OF TAXATION



Questions?