



**DATE:** March 20, 2002

**TO:** Chairman Guy Hobbs and  
Members of the Governor's Task Force on Tax Policy

**FROM:** Carole Vilardo

**SUBJECT:** Response to Letter of Solicitation

Thank you for the opportunity to respond to the issues before the Task Force. The charge of the Task Force set forth in ACR 1 is monumental given the time frame in which you must identify, analyze and formulate recommendations. I believe the action taken by the Task Force to preliminarily determine a level of revenue needs through 2010 will make it easier to evaluate tax bases and rates. Further, as discussions of expenditures and revenues continue, the relationship of expenditures and revenues between the state and local government should also be factored.

Current economic conditions have also dramatically pointed up the importance of addressing the issue of cyclical revenue shortfalls which seem to occur every 10 to 13 years; an importance that I believe overshadows even a "structural deficit". The Fiscal Policy Statement adopted by the Association's Board of Directors in July 2001 recognizes both sides of the equation - - - revenue and expenditure - - - and speaks to a systematic review (of both) to address future cyclical and structural revenue shortfalls.

Pursuant to this Statement, the attached document deals only with recommendations concerning administration and collection of existing taxes - - - the first step in the identified three step process. I expect to submit two additional documents, as identified in numbers (2) and (3) below, upon completion of surveys that will be sent to NTA's Board of Directors.

Briefly, the section of the Statement that deals with taxes says:

*"The review of any revenue system should include not only taxes, but also those fees that function as taxes because they are deposited to the State's general fund. A systematic review involves three steps to be followed to analyze the existing revenues and determine potential new revenue sources . . ."*

The three steps referred to include: (1) identifying administrative and collection procedures that will enhance the generation of revenue; (2) reviewing all existing taxes to determine what modifications, if any, should be made in rates, bases, formulas, etc.; and (3) exploration of new revenue sources.

The complete Fiscal Policy Statement can be found on the Association's website. Log onto: [www.nevadataxpayers.org](http://www.nevadataxpayers.org), click onto "Tax Topics" and then "July 2001" (see pages 11 and 12).

Thank you for your consideration to the attached recommendations. If you require any additional information or have any questions concerning the attached, please contact me.

**REVENUE PROPOSALS FOR CONSIDERATION BY THE  
GOVERNOR'S TASK FORCE ON TAX POLICY IN NEVADA**

**Submitted by the  
NEVADA TAXPAYERS ASSOCIATION  
March, 2002**

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**PROPOSALS TO PROVIDE INCREASED EFFICIENCIES AND REVENUE  
ENHANCEMENTS TO THE TAXES AND FEES COLLECTED BY THE STATE**

***1. ELECTRONIC FUND TRANSFERS SHOULD BE REQUIRED BY ALL AGENCIES WHICH COLLECT REVENUE THAT SUPPORTS THE STATE'S GENERAL FUND.***

REASON: This would eliminate "float time" and allow additional interest income to be generated.

***2. ELECTRONIC REPORTING SHOULD BE REQUIRED IN CONJUNCTION WITH #1 (ABOVE).***

REASON: There are multiple advantages to electronic reporting: reporting errors are minimized because there is a reduced incident of transposing numbers; the agency does not have to input the data which also minimizes the chance of reporting errors; agency expenditures, such as the costs associated with the handling, printing and mailing of forms, can be reduced.

***3. PROVIDE THAT ALL REVENUE GENERATING AGENCIES WILL RECEIVE FUNDING PRIORITY FOR TECHNOLOGY ENHANCEMENTS, UPGRADES AND TRAINING, IN ORDER TO ALLOW REVENUE COLLECTIONS TO BE MAXIMIZED.***

REASON: The Attorney General's Office recently issued an opinion that clarifies when the use tax collection allowance is permitted (only a business that is collecting the tax is entitled to the collection allowance). However, the Department of Taxation is unable to implement the change at this time because its computer system ("Aces") cannot accommodate the change. When this change can be finally be implemented it will generate at least \$2.5 million dollars<sup>1</sup> (this is a conservative estimate) annually.

*(Please see recommendation # 4 under "State General Fund Revenue Reforms".)*

***4. ALLOW THE SALES AND USE TAX COLLECTION ALLOWANCE ONLY IF THE TAX IS REMITTED IN A TIMELY MANNER.***

REASON: Currently whether the tax is remitted one day or one year after it is due the collection allowance is statutorily permitted.

Note: Penalty and interest is applied to late payments.

***5. ALL BUSINESSES SHOULD BE REQUIRED TO REGISTER FOR NEVADA USE TAX.***

REASON: Statute requires registration only for the sales tax component of the sales and use tax. Smaller, non-retail businesses can easily forget that they should be reporting use tax. Registration for use tax would allow the Department of Taxation to send out periodic reminders, with forms as appropriate.

**Notes:**

<sup>1</sup> Sales and use tax is made up of 5 components. Any revenue derived would be allocated as follows: 2% to the State; 2¼% to the Local School Support Tax; and the remainder (from 2¼% to 3¼% to local government).

**STATE GENERAL FUND  
REVENUE REFORM**

***1. ALL GENERALLY IMPOSED TAXES WHICH ARE EARMARKED IN WHOLE OR PART FOR PROGRAMS WITHIN THE STATE'S GENERAL FUND SHOULD BE ELIMINATED.***

REASON: The executive and legislative branches should determine the necessary level of funding for programs based on the needs of the program within given periods. Earmarking a specific source almost always eliminates accountability and does not take in to account the priority of the program or function on an ongoing basis.

Two examples of earmarked funds are: (1) 15 cents of the tax collected on liquor with an alcohol content of over 22% is earmarked for alcohol programs; and (2) an amount equal to 10 cents for each \$500 of the real property transfer tax (this is a local tax) is remitted to the state general fund for deposit to the Low Income Housing Trust Fund. Both of these programs should be funded based on need and their priority within the overall scheme of things, not because they have a dedicated source of funding which could otherwise be a general fund revenue source.

***2. BOTH THE \$5 MILLION DOLLAR DISASTER RELIEF FUND AND THE \$500,000 EMERGENCY ASSISTANCE FUND SHOULD BE ELIMINATED. THE USE OF THE RAINY DAY FUND SHOULD BE MODIFIED TO ACCOMMODATE THE NEEDS ADDRESSED BY THESE TWO FUNDS.***

REASON: If there is a need for either fund, they do not have sufficient funds allocated to address the need. Case in point were the winter (1998) floods that impacted the Reno, Henderson and Boulder City. The \$5 million in the Disaster Relief fund was insufficient to accommodate the requests by these entities to mitigate the damage done by the floods. The Fund had to be restored (per statute) which then meant \$5 million less for another state need. (See following recommendation, #3.)

***3. CREATE SUB ACCOUNTS WITHIN THE RAINY DAY FUND TO ACCOMMODATE DISASTER RELIEF AND EMERGENCY ASSISTANCE.***

REASON: Specify a percentage of the Rainy Day Fund that could be used under the conditions currently specified for Disaster Relief and Emergency Assistance. These sub-accounts could be established as you would a revolving loan fund so that there would be repayment of funds distributed, thereby maintaining the integrity of the Rainy Day fund. Additionally, if the percentage allowed to be "borrowed" from the rainy day fund is in the range of 10 to 15% more revenue would be available for the mitigation of disasters.

***4. SPENDING PRIORITIES SHOULD BE ESTABLISHED IF THE MAY 1 REVENUE PROJECTIONS BY THE ECONOMIC FORUM ARE GREATER THAN THE PROJECTIONS USED TO SUBMIT THE STATE'S GENERAL FUND BUDGET.***

REASON: When the Economic Forum updates their revenue projections on May 1 of the legislative year and projects an increase in revenue there is no apparent rhyme or reason as to how the increased revenue will be spent.

At the very least the following two spending priorities should be established to provide that a percentage of any additional forecast revenue will:

- a. Be deposited in the State's Rainy Day Fund (to the total allowed by statute); and
- b. Be used to establish a technology revolving loan-fund for state agencies. <sup>12</sup>

## REVENUE REFORM - Continued

### Spending Priorities - 4b continued.

Currently, the purchasing of upgraded or new technology (hardware and software) and the technology training provided to the staff of an agency either means one of two things: (1) that services and programs provided by the agency will suffer because of redirecting the agency's funds to their technology needs; or (2) funds are allocated over a period of three to six years rendering technology purchases obsolete as soon as they delivered. The establishment of this fund would allow agencies, that have approved plans, to put the necessary upgrades in place much faster. These upgrades should allow: better tracking of the services and programs the agency is required to provide; allow the institution of more cost efficient and effective methods to handle the collection of revenue and data; and reduce paper handling. Additionally, funds would be available for staff training to assure maximum utilization of the technology.

#### Notes:

<sup>1</sup> This could either be a process of grants, loans of 5 to 10 years, or a combination of both.

<sup>2</sup> This should sunset after a specified period of time, to insure that if it is no longer needed it will be eliminated.

#### ***5. VACANT POSITIONS WITHIN A GENERAL FUND AGENCY SHOULD BE TIME LIMITED TO 12 MONTHS.***

REASON: If a general fund agency/department has unfilled positions for a period longer than 12 months, and the agency has been able to function at an acceptable level, the position(s) should be automatically eliminated unless there is a specific justification for keeping the position open. This justification should be noted in the budget document.

The current practice does not provide for the mandatory elimination of positions vacant for 12 months or longer. According to various published reports there are between 1,000 and 1,500 vacant positions of which the greater majority have been vacant since December of 1998.

#### ***6. THE STATE SHOULD DEVELOP PROGRAM BUDGETS WHEN APPLICABLE.***

REASON: Where multiple agencies and levels of government provide similar programs, those agencies budgets should be program-based. This would allow the establishment of non-conflicting priorities, provide program continuity and minimize administrative cost. (For example: Currently Substance Abuse Programs are provided directly and indirectly by: Department of Prisons, Department of Drug and Alcohol, Various District Courts, the State Department of Education, individual school districts, etc.)