

# **Nevada Revenue Plan**

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a solution to fund Nevada's schools  
and balance the state's budget

# Nevada Revenue Plan

Three Elements, Each Designed to Broaden the State's Business Tax

## Business License Fee



1

Increase Nevada's current Business License Fee from \$200 to \$500 for corporations and \$200 to \$300 for all other business entities filing with Nevada's Secretary of State

## Modified Business Tax



2

Increase the existing Modified Business Tax to 1.475% for businesses generally (2.0% for mining and financial institutions); reduce the maximum standard exemption from \$340,000 to \$200,000 per year; employer paid health care deduction remains; 50% credit for paid Commerce Tax

## Commerce Tax



3

Create an industry-specific, annual levy imposed on businesses with Nevada revenue of \$3.5 million or more; 50% of the tax may be used as a credit against the taxpayer's Modified Business Tax liability

# Foundational Policy Considerations

- **Consolidation of Concepts** | Plan reflects elements of the three primary revenue proposals considered by the Nevada State Legislature
- **Balancing Progress and Stability** | Plan limits reliance on more speculative sources of revenue, while at the same time expanding and diversifying the state's business tax base
- **Values Simplicity** | Simplifies both compliance and administration by reducing the number of filers and the number of filing events each year
- **Sufficient and Flexible** | Provides the revenue necessary to fund the state's evolving budget and needed education reforms

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# 1 Element #1 | Business License Fee

## Strategy Summary:

Increase Nevada's current Business License Fee from \$200 to \$500 for corporation and \$200 to \$300 for all other business entities filing with Nevada's Secretary of State

## Estimated Yield:

\$118M | \$46.3M (net new)

## Policy Considerations:

Nevada's Business License Fee is currently the broadest source of business tax revenue in the state; the tax base includes more than 330,000 business entities

## Consensus:

All three revenue proposals included some additional yield from the Business License Fee

## Other Issues:

- Administration remains with Secretary of State, annual fee, reduced compliance costs
- Yield reduced to reflect potential increase of fees, respecting analysis has yet to be provided
- Need to increase compliance rate for smaller businesses

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# 2 Element #2 | Modified Business Tax

- Summary:** Increase the existing Modified Business Tax rate to 1.475%, reduce the maximum standard exemption from \$340,000 to \$200,000 per year; retain paid health care deduction; 50% credit for paid Commerce Tax; mining and financial institutions remain at 2.0%
- Estimated Yield:** \$571M | \$516M (net of credit)
- Policy Considerations:** Stable, predictable and known source of revenue; retaining health care deduction increases tax equity; lowering the standard exemption increases the number of taxpayers
- Consensus:** Increases the number of businesses that will pay the tax, which was included in all proposed strategies; addresses concerns with collection timing
- Other Issues:**
- Tax increase will be more significant for smaller, labor-intensive businesses, particularly those with payroll levels of less than \$500,000
  - Alternative rates, albeit with underlying rationale, remain for financial institutions and mining companies

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# 3

## Element #3 | Commerce Tax

### Summary:

Create an industry-specific, annual business levy imposed on Nevada revenues in excess of \$3.5 million; 50% of which may be credited against the Modified Business Tax; any collections in excess of the projected yield will be used to “buy down” the Modified Business Tax

### Estimated Yield:

\$121M | \$60.7M (net of credit)

### Policy Considerations:

Creates a broad-based business tax that reflects the diversity of Nevada’s economy; provides greater equity between larger capital-intensive and labor-intensive businesses; step toward reducing the in-state firm tax bias in the existing tax system

### Consensus:

Balances a desire for tax reform with concerns over revenue yield; materially reduces administrative costs; shifts the burden to larger, more sophisticated taxpayers; builds in longer-term equity shift if revenues exceed expectations

### Other Issues:

- Requires the creation of a new tax
- Tax base and credit balance will need to be closely monitored

## Commerce Tax Rate Schedule

Rate Applied to Nevada Revenue in Excess of \$3.5M Per Year

<u>Sector</u>	<u>Tax Rate</u>	<u>Sector</u>	<u>Tax Rate</u>
Agriculture	0.063%	Financial Activities	0.111%
Mining	0.051%	Real Estate	0.250%
Utilities/Telecommunications	0.136%	Professional Services	0.181%
Construction	0.083%	Management of Companies	0.137%
Manufacturing	0.091%	Administrative and Support Services	0.154%
Wholesale Trade	0.101%	Waste Management Services	0.261%
Retail Trade	0.111%	Educational Services	0.281%
Air Transportation	0.058%	Health Services	0.190%
Truck Transportation	0.202%	Arts, Entertainment and Recreation	0.240%
Rail Transportation	0.331%	Accommodation	0.200%
Other Transportation	0.129%	Food Services (includes restaurants)	0.194%
Warehousing and Storage	0.128%	Other Services	0.142%
Publishing, Software, Data Processing	0.253%	Unclassified	0.128%

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# **Analysis of Tax Incidence**

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# Summary Comparison of Tax Incidence

## Includes Existing General Business Levies

Sector	Governor's BLF Plan	% of Total	Armstrong- Anderson MBT Plan	% of Total	Spearman Supplemental Business Fee	% of Total	Nevada Revenue Plan	% of Total
Agriculture	\$809,261	0.11%	\$1,139,256	0.15%	\$2,515,183	0.32%	\$1,138,601	0.15%
Mining	\$21,344,229	2.85%	\$22,098,422	2.84%	\$23,231,475	2.95%	\$23,218,795	3.07%
Utilities	\$11,471,769	1.53%	\$7,335,331	0.94%	\$18,943,730	2.40%	\$8,205,289	1.09%
Construction	\$32,810,116	4.37%	\$43,987,083	5.66%	\$36,882,187	4.68%	\$41,303,503	5.47%
Manufacturing	\$34,487,582	4.60%	\$37,166,055	4.78%	\$50,602,281	6.42%	\$35,949,515	4.76%
Wholesale Trade	\$34,502,253	4.60%	\$27,095,547	3.48%	\$76,259,065	9.67%	\$29,493,992	3.91%
Retail Trade	\$92,282,362	12.30%	\$74,006,663	9.52%	\$169,417,071	21.49%	\$79,192,295	10.49%
Transportation	\$21,688,435	2.89%	\$23,411,618	3.01%	\$25,013,404	3.17%	\$22,502,375	2.98%
Warehousing and Storage	\$4,433,705	0.59%	\$5,780,661	0.74%	\$2,861,909	0.36%	\$5,135,060	0.68%
Publishing, Software, Data Processing	\$11,609,709	1.55%	\$13,164,665	1.69%	\$5,418,424	0.69%	\$12,654,015	1.68%
Telecommunications	\$9,648,324	1.29%	\$6,418,594	0.83%	\$7,581,036	0.96%	\$6,437,510	0.85%
Financial Activities	\$34,063,291	4.54%	\$33,452,455	4.30%	\$34,757,115	4.41%	\$38,691,641	5.12%
Real Estate	\$25,337,697	3.38%	\$15,866,562	2.04%	\$27,392,191	3.47%	\$19,057,218	2.52%
Professional Services	\$42,525,009	5.67%	\$50,580,317	6.51%	\$35,326,367	4.48%	\$50,104,768	6.63%
Management of Companies	\$25,816,802	3.44%	\$19,083,232	2.45%	\$36,716,353	4.66%	\$20,943,714	2.77%
Admin. and Support Services and Waste Mgmt.	\$35,057,362	4.67%	\$49,775,095	6.40%	\$16,209,387	2.06%	\$47,002,738	6.22%
Educational Services	\$2,356,917	0.31%	\$3,071,658	0.40%	\$1,168,685	0.15%	\$3,017,673	0.40%
Health Services	\$54,362,459	7.25%	\$62,618,260	8.05%	\$35,775,960	4.54%	\$60,490,970	8.01%
Arts, Entertainment and Recreation	\$16,253,598	2.17%	\$15,563,777	2.00%	\$11,125,489	1.41%	\$15,772,424	2.09%
Accommodation	\$83,857,572	11.18%	\$94,405,944	12.14%	\$46,339,476	5.88%	\$84,965,176	11.25%
Food Services (includes restaurants)	\$50,237,070	6.70%	\$60,382,112	7.77%	\$23,813,828	3.02%	\$57,083,914	7.56%
Other Services	\$7,219,252	0.96%	\$11,081,978	1.43%	\$9,985,772	1.27%	\$11,083,389	1.47%
Unclassified	\$914,144	0.12%	\$117,750	0.02%	\$2,579,334	0.33%	\$565,827	0.07%
Non-Employer Businesses/Foreign Filers	\$97,090,564	12.94%	\$99,919,898	12.85%	\$88,482,282	11.22%	\$81,149,971	10.75%
<b>Total</b>	<b>\$750,179,482</b>	<b>100.00%</b>	<b>\$777,522,933</b>	<b>100.00%</b>	<b>\$788,398,002</b>	<b>100.00%</b>	<b>\$755,160,374</b>	<b>100.00%</b>

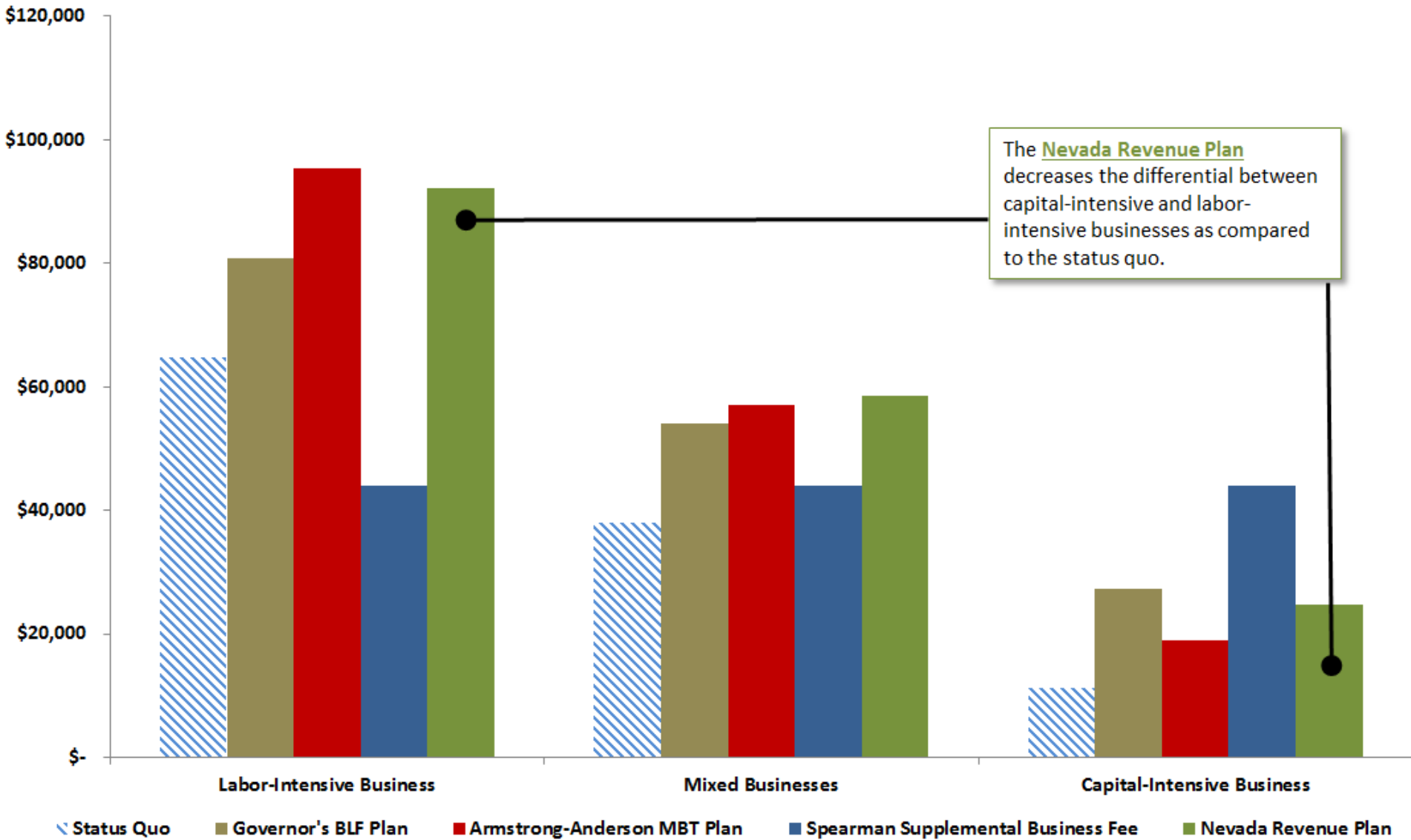
# Summary Comparison of Incremental Tax Liability

## Industry Totals and Industry as a Percent of Total

Sector	Governor's BLF Plan	% of Total	Armstrong- Anderson MBT Plan	% of Total	Spearman Supplemental Business Fee	% of Total	Nevada Revenue Plan	% of Total
Agriculture	\$211,364	0.08%	\$541,359	0.19%	\$1,917,285	0.65%	\$540,703	0.21%
Mining	\$7,608,527	2.96%	\$8,362,719	2.94%	\$9,495,772	3.22%	\$9,483,092	3.62%
Utilities	\$6,501,935	2.53%	\$2,365,497	0.83%	\$13,973,896	4.73%	\$3,235,455	1.23%
Construction	\$6,158,072	2.40%	\$17,335,040	6.10%	\$10,230,143	3.46%	\$14,651,460	5.59%
Manufacturing	\$10,789,468	4.20%	\$13,467,942	4.74%	\$26,904,167	9.11%	\$12,251,401	4.68%
Wholesale Trade	\$18,331,192	7.13%	\$10,924,486	3.84%	\$60,088,004	20.35%	\$13,322,931	5.08%
Retail Trade	\$44,712,246	17.39%	\$26,436,547	9.30%	\$121,846,955	41.26%	\$31,622,179	12.07%
Transportation	\$6,541,662	2.54%	\$8,264,845	2.91%	\$9,866,631	3.34%	\$7,355,602	2.81%
Warehousing and Storage	\$879,790	0.34%	\$2,226,747	0.78%	(\$692,006)	-0.23%	\$1,581,146	0.60%
Publishing, Software, Data Processing	\$3,004,579	1.17%	\$4,559,535	1.60%	(\$3,186,706)	-1.08%	\$4,048,885	1.55%
Telecommunications	\$5,466,401	2.13%	\$2,236,671	0.79%	\$3,399,113	1.15%	\$2,255,587	0.86%
Financial Activities	\$1,633,621	0.64%	\$1,022,784	0.36%	\$2,327,445	0.79%	\$6,261,971	2.39%
Real Estate	\$15,484,597	6.02%	\$6,013,462	2.11%	\$17,539,091	5.94%	\$9,204,118	3.51%
Professional Services	\$11,767,998	4.58%	\$19,823,306	6.97%	\$4,569,356	1.55%	\$19,347,757	7.38%
Management of Companies	\$12,644,049	4.92%	\$5,910,478	2.08%	\$23,543,599	7.97%	\$7,770,960	2.97%
Admin. and Support Services and Waste Mgmt.	\$2,957,477	1.15%	\$17,675,210	6.21%	(\$15,890,499)	-5.38%	\$14,902,853	5.69%
Educational Services	\$477,113	0.19%	\$1,191,854	0.42%	(\$711,119)	-0.24%	\$1,137,869	0.43%
Health Services	\$14,979,821	5.83%	\$23,235,622	8.17%	(\$3,606,677)	-1.22%	\$21,108,332	8.06%
Arts, Entertainment and Recreation	\$6,048,573	2.35%	\$5,358,753	1.88%	\$920,464	0.31%	\$5,567,399	2.12%
Accommodation	\$23,190,811	9.02%	\$33,739,184	11.86%	(\$14,327,284)	-4.85%	\$24,298,415	9.27%
Food Services (includes restaurants)	\$10,797,808	4.20%	\$20,942,850	7.36%	(\$15,625,435)	-5.29%	\$17,644,652	6.73%
Other Services	\$1,133,349	0.44%	\$4,996,076	1.76%	\$3,899,869	1.32%	\$4,997,487	1.91%
Unclassified	\$837,560	0.33%	\$41,166	0.01%	\$2,502,751	0.85%	\$489,243	0.19%
Non-Employer Businesses/Foreign Filers	\$44,908,282	17.47%	\$47,737,616	16.78%	\$36,300,000	12.29%	\$28,967,689	11.05%
<b>Total</b>	<b>\$257,066,297</b>	<b>100.00%</b>	<b>\$284,409,748</b>	<b>100.00%</b>	<b>\$295,284,816</b>	<b>100.00%</b>	<b>\$262,047,188</b>	<b>100.00%</b>

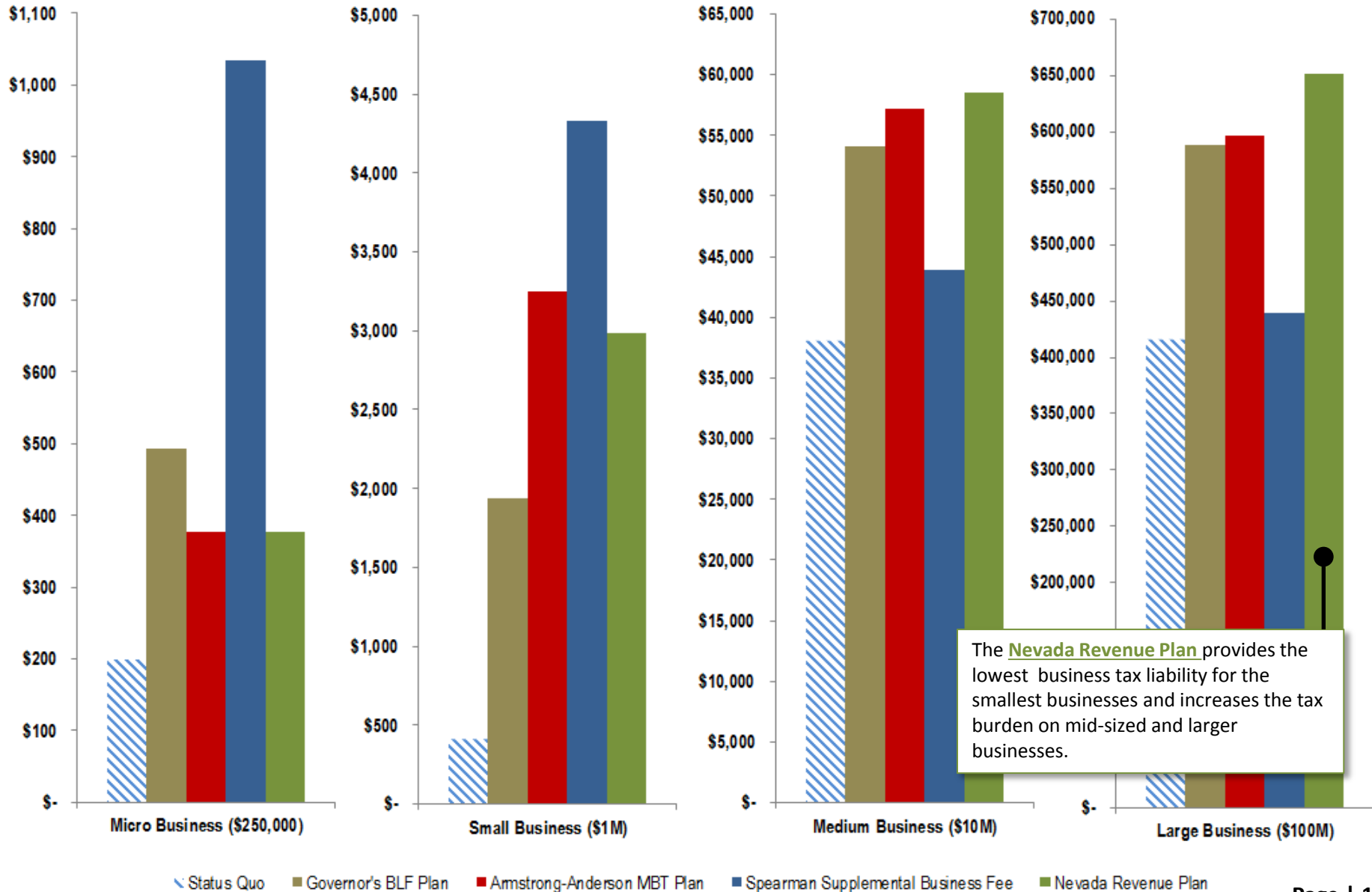
# Comparative Analysis of Alternative Revenue Strategies

Hypothetical \$10 Million Labor-Intensive, Capital-Intensive and Mixed Businesses



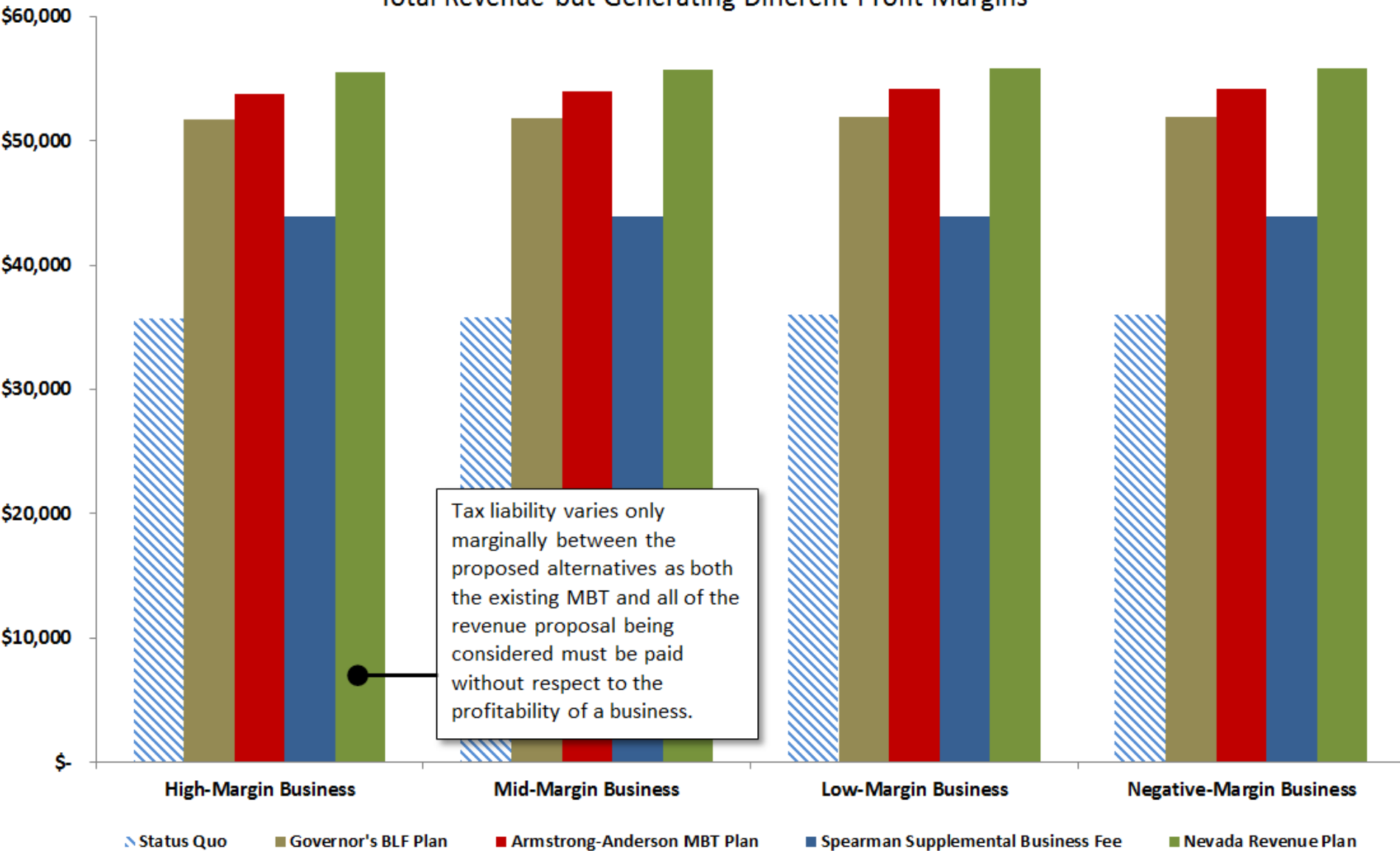
# Comparative Analysis of Alternative Revenue Strategies

Comparative Analysis of Hypothetical Firms Generating Between \$250,000 and \$100 Million in Total Revenue and Earning Similar Profit Margins



# Comparative Analysis of Alternative Revenue Strategies

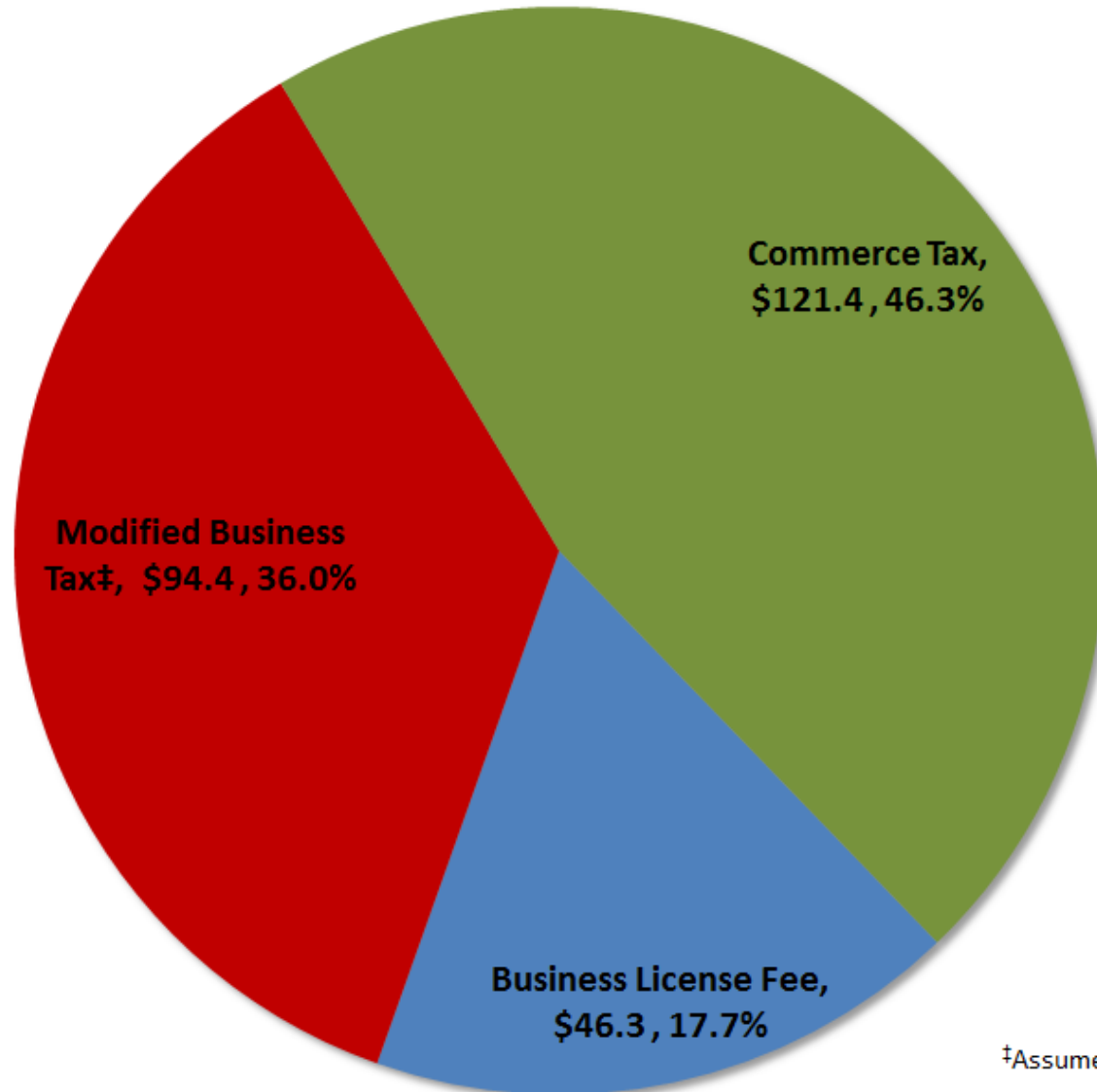
Comparative Analysis of Hypothetical Firms Generating \$10 Million in Total Revenue but Generating Different Profit Margins





# Nevada Revenue Plan

Summary of Incremental Nevada Businesses Taxes  
Excluding Existing General Business Taxes/Fees<sup>†</sup>



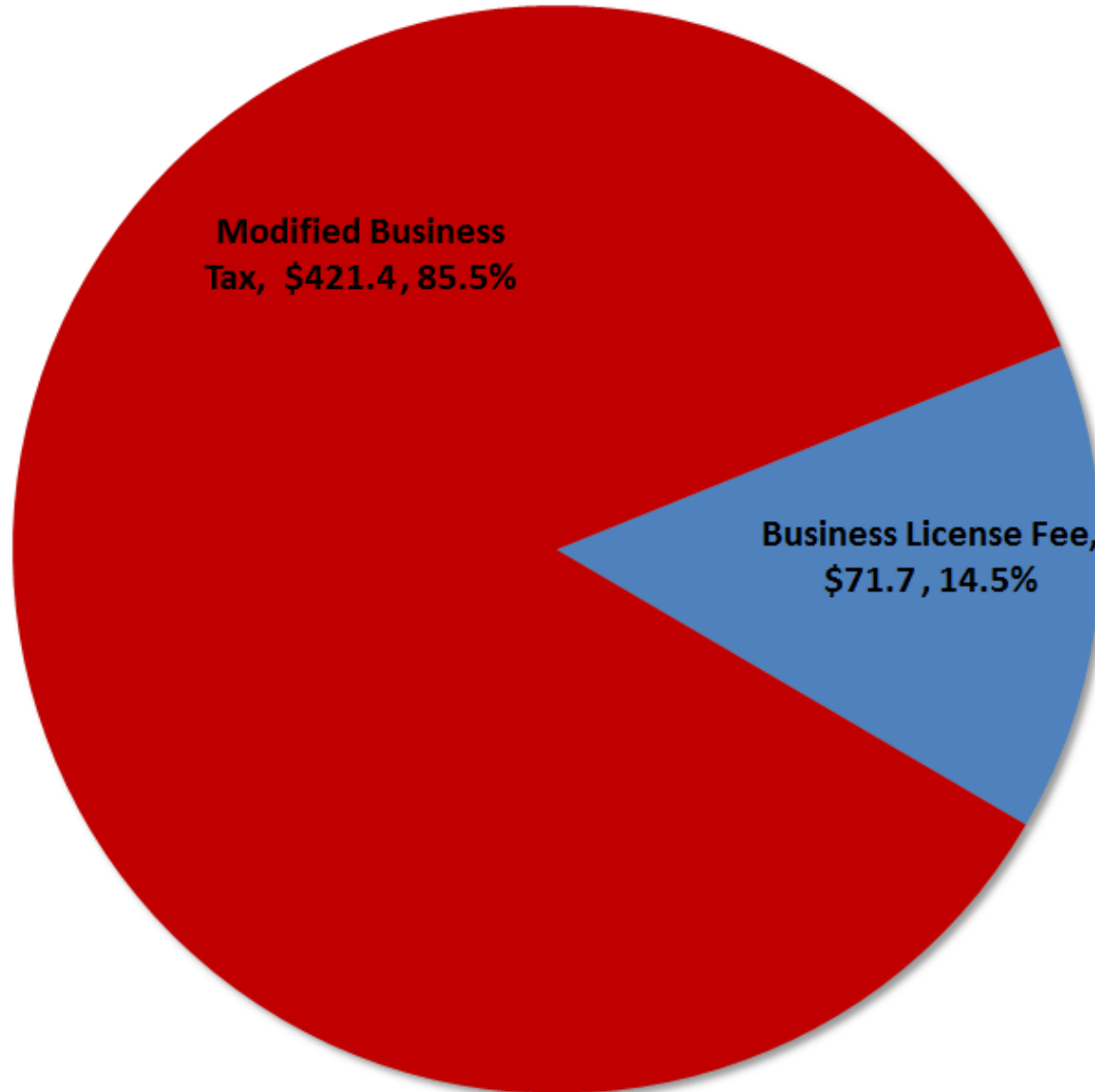
**Total**  
**\$262.0M**

<sup>†</sup>Annual values expressed in millions

<sup>‡</sup>Assumes a \$60.7 million tax credit for paid Commerce Tax

# Nevada Revenue Plan

## Summary Nevada General Businesses Taxes<sup>†</sup>

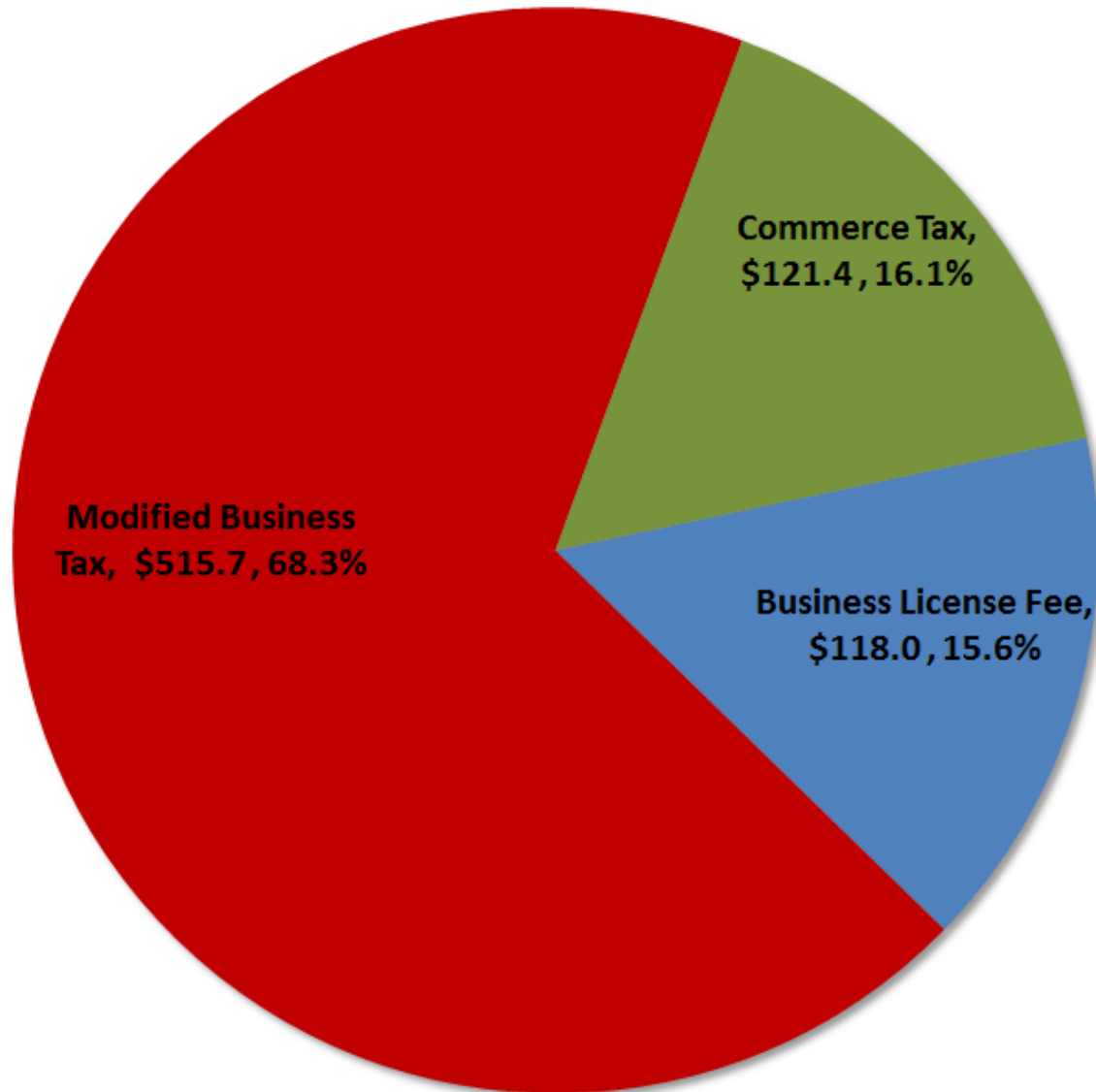


**Total**  
**\$493.1M**

<sup>†</sup>Annual values expressed in millions

# Nevada Revenue Plan

Summary of Nevada Businesses Taxes  
Including Existing General Business Taxes/Fees<sup>†</sup>



**Total**  
**\$755.2M**

<sup>†</sup>Annual values expressed in millions