

SECTION III TAX OVERVIEW

This section reviews the major tax policy changes approved by the Legislature each session since 1995. Summaries of tax policy changes back to 1979 are included in the Revenue Reference Manual available from the Fiscal Analysis Division.

1995 SESSION

Proposals in The Executive Budget and actions during the Legislative Session were, for the first time, predicated on the General Fund revenue projections of the Economic Forum. With the expected opening of several major casinos during the 1995-97 biennium, the revenue forecast was optimistic and The Executive Budget was fully funded by the existing revenue structure.

After identifying reduced caseload projections for Medicaid and Aid to Dependent Children programs and an upward revised Economic Forum forecast, the Legislature was able to stray from the status quo revenue plan submitted by the Governor. These modifications included delaying the prepayment of the insurance premium tax and adoption of several tax exemptions contingent on voter approval and tax incentives for economic development. Voters subsequently approved sales tax exemptions for orthotic equipment and supplies and for sales by charitable organizations.

The Legislature also eliminated the prepayment of taxes on the net proceeds of minerals, but designed the plan to minimize any revenue loss. Also approved was a measure to move the collection of the tax on diesel fuel to the terminal-rack level. This bill ultimately resulted in a substantial increase in revenues for the Highway Fund because of simplified enforcement and increased compliance. The Legislature approved no tax increases and only a few fee increases.

Among local government revenue issues, one of the most hotly debated was a bill that allows new urban towns within Clark County to share in revenues from the Supplemental City/County Relief Tax (SCCRT) and motor vehicle privilege tax. Because these two taxes provide fixed amounts of revenue each year, the effect of the legislation is to transfer resources from the five cities in Clark County to the county government whenever a new urban town is established.

1997 SESSION

Within a backdrop of national prosperity marked by the lowest inflation, unemployment rates and federal budget deficits since the 1960s, the state revenue forecasts produced by the Economic Forum were strong. Another factor tempering support for tax changes was a new constitutional provision adopted through voter initiative that requires a two-thirds approval of both houses of the Legislature to increase any tax or fee. As a result, the General Fund portion of The Executive Budget once again contained no major tax proposals.

After realizing The Executive Budget included most of the one-time revenue from the prepayment of the insurance premium tax in the ending fund balance for the second year of the biennium, the Legislature approved legislation to repeal the prepayment. This legislation, which required taxes to be paid on actual premium volume rather than prior year activity, produced a net reduction of \$50 million in the ending fund balance.

Much of the Legislature's work on taxes during the 1997 session involved issues important to local governments. One of its most significant actions was to approve a plan developed by an interim committee to pool local government revenue from six different revenue sources at the county level and to distribute those revenues to eligible local governments within the county based on a formula tied to inflation and the growth in population and assessed valuation. The Legislature further ratified the work of the interim committee by reauthorizing it as a statutory committee through July 1, 2001.

The Legislature authorized Clark County to impose a ¼ percent sales tax for additional water delivery and wastewater facilities and extended the additional sales tax authority to other counties for their particular infrastructure needs. To provide additional funding for the rapidly growing school population in Clark County, the Legislature approved an additional 1 percent room tax, redirected a 5/8 percent room tax from the convention and visitors authority, and increased the real property transfer tax by 60 cents per \$500 of value and earmarked the revenue for school infrastructure.

1999 SESSION

General Fund revenue collections during the 1997-99 biennium were disappointing and came in below the Economic Forum forecast produced in April 1997. Nevertheless, The Executive Budget contained no significant revenue enhancements for the third consecutive budgetary cycle.

The Legislature approved the two minor General Fund revenue changes that were included in the Governor's proposals. First, about \$2.6 million of revenue that had accrued in the permanent net proceeds fund was redirected to the General Fund in FY 1998-99. Also, the permanent net proceeds allocation was eliminated in future years with the formerly earmarked proceeds going to the General Fund. The latter change increased net proceeds revenue for the General Fund by about \$700,000 in each year of the biennium. The second change set the General Fund commission for the collection of local sales taxes at 0.75 percent rather than 0.5 percent, adding about \$7.5 million to the state General Fund and reducing local government and school revenues by a like amount during the biennium.

Only a handful of bills that affect state revenue collections were approved in 1999. These included the transfer, effective January 1, 2002, of the collection of the gasoline tax to the Department of Motor Vehicles and a change in the collection point of that tax to the terminal-rack level. Other bills approved make it easier for Nevadans to purchase wine for personal consumption directly from out-of-state wineries, outlaw the sale of

cigarettes in Nevada that were produced for export to another country and then re-imported into the U.S., and require cigarette manufacturers who have not signed the master settlement agreement to put money into an escrow account based on the number of cigarettes they sell in Nevada.

The Legislature also passed a number of bills affecting the revenues of local governments. Included were more than ten bills recommended by the statutory committee on the distribution of local government revenue that was created in the previous session. One of these bills standardized the criteria for tax abatements for economic development. Another bill from the statutory committee allows the \$3.64 property tax rate cap to be exceeded in certain jurisdictions under very limited circumstances. A third committee bill prohibits a local government from “buying down” the tax rate of another local government to bring the combined tax rate in that local government within the statutory rate cap. Other important legislation increased the room tax in Washoe County to improve convention and visitor facilities, and revised the property and sales tax exemptions for the public display of fine art.

2001 SESSION

The 2001 session convened with clouds across the economic horizon. Stock values had been dropping, most severely in the high-tech sector, and various economic measures indicated a national recession was a strong possibility. In addition, an energy shortage in California threatened to adversely affect the economies of western states.

The modest General Fund revenue increases forecasted by the Economic Forum were used to fully fund the Governor’s budget proposals. No General Fund revenue increases were proposed, although the Legislature adopted two non-General Fund revenue enhancements included in The Executive Budget. The first, A.B. 134, increases fraud assessments on insurers. The bill produces about \$359,500 in additional revenue annually, of which \$263,000 is used to fully fund the Attorney General’s Insurance Fraud Unit. The remaining additional revenue is used to replace a portion of General Fund support for insurance regulation. The second measure, A.B. 199, doubles the trout stamp fee to \$10. The additional revenue is used to repay \$3.5 billion in bonds to be issued to rehabilitate fish hatcheries.

The modest General Fund revenue forecast used in The Executive Budget ultimately proved too optimistic. The Economic Forum’s May 1 revisions reduced projected General Fund revenues by \$87 million during the 2001-03 biennium. After receiving the reduced revenue numbers, the Legislature approved three General Fund revenue enhancements to replace approximately \$65 million of that “shortfall” over the biennium.

The bills providing revenue increases included A.B. 77 and S.B. 489, which shortened the period that certain property is considered unclaimed and remitted to the state. These bills were expected to produce an estimated one-time increase in revenues of approximately \$8.3 million in FY 2001-02. Senate Bill 577 was designed to provide an additional \$29 million during the biennium through increases in a variety of fees on

business transactions handled through the Secretary of State's office. Finally, A.B. 460 was designed to increase the state's share of the car rental fees to a full 6 percent rate and provide for quarterly rather than annual payment of those fees, generating an additional \$27.5 million for the state General Fund during the 2001-03 biennium.

Because of concerns over the state's long-term revenue picture, the Legislature approved A.C.R. 1 during the 17th Special Session. This resolution created a Governor's Task Force on Tax Policy in Nevada to review state revenues during the interim. The 2001 Legislature and the 17th Special Session also approved a number of bills affecting local government finances, including several that contained recommendations from the Legislative Committee Studying the Distribution of Revenue among Local Governments (S.B. 253 of the 1997 Legislative Session). One of those bills, S.B. 557, extended the authority of the Committee through June 30, 2005, and renamed it the Legislative Committee for Local Government Taxes and Finance to better recognize the Committee's areas of study.

In addition to the bills affecting state revenues and local government finances, the Legislature also approved numerous technical tax law changes and continued to revise tax exemptions in 2001.

2003 SESSION AND 20TH SPECIAL SESSION

During the 2001-03 Interim, the Governor's Task Force on Tax Policy in Nevada (Task Force), created by the 17th Special Session, conducted a study of the state's revenue and expenditure structure. The Task Force was created principally to examine the state's long-term revenue needs with regard to the potential for the state's revenue growth to not keep pace with the growth in population and inflation. The Task Force's proposed solution to the state's revenue structure was brought forward for the Legislature's consideration in A.B. 281 during the 2003 regular session.

Using the Task Force's recommendations as a template, The Executive Budget for the 2003-05 biennium proposed tax increases and other revenue changes to support the Governor's recommended budget for the 2003-05 biennium and future biennia. Included in the proposal were increases in the cigarette, liquor and business license taxes and Secretary of State and restricted slot fees. These new revenues were recommended to take effect April 1, 2003, to help balance the FY 2002-03 budget and to partially replenish the state's stabilization fund.

Continuation of the tax and fee increases recommended for FY 2002-03, and proposals to adopt an annual business license fee and a transactions tax on non-participatory amusement activities and several minor revenue changes were designed to support the FY 2003-04 budget recommended in The Executive Budget. To finance the recommended FY 2004-05 spending amount, revenues were to be further supplemented with a statewide property tax of 15 cents per \$100 of assessed valuation.

The Governor's budget also requested the 2003 Legislature to approve a gross receipts tax on businesses and increase the top gaming tax rate combined with a reduction in

the business license tax to support the budget beginning with the 2005-07 biennium and beyond. The enactment of a gross receipts tax was a key component of the revenue recommendations made by the Governor's Task Force on Tax Policy in Nevada.

In May 2003, the Economic Forum forecasted modest increases of 4.5 and 5.0 percent in General Fund revenues for FY 2003-04 and FY 2004-05, respectively, from a FY 2002-03 base that was considerably reduced from the Forum's May 2001 projections. With these revised forecasts, overall revenue growth would remain far below the combined effects of population growth and inflation since FY 2000-01. The Executive Budget proposal and various alternative revenue enhancement plans to support the Governor's budgetary recommendations proved to be the most debated and controversial issue for the Legislature, not only during the 72nd Regular Session, but through the 19th and 20th Special Sessions, as well.

The revenue package to support the General Fund appropriations was ultimately adopted at the conclusion of the 20th Special Session of the Nevada Legislature, which ended on July 22, 2003. The three bills approved to raise revenue, A.B. 4, S.B. 2, and S.B. 8, included several of the elements contained in the revenue proposal submitted in January 2003 by the Governor. Nevertheless, the final funding plan also differed from the Governor's revenue proposal in many important details.

One of the Governor's proposals that was not approved by the Legislature was bridge revenues to help balance the FY 2002-03 budget. Instead, the Legislature approved the transfer of \$135 million from the Rainy Day Fund, which represented almost the entire balance of the fund and \$85 million more than was recommended by the Governor. The increases in cigarette and liquor taxes and restricted slot fees recommended by the Governor to take effect in April 2003 were included in S.B. 8, but their effective dates were delayed by more than three months because the bill was not approved until July 22, 2003.

Senate Bill 8, which encompasses more than 90 percent of the revenue package, includes the annual business license fee and a live entertainment tax. The Governor's proposals for a state property tax and a gross receipts tax were not adopted. In their place, the revenue needs for the 2003-05 biennium and future biennia were met with a combination of a real property transfer tax, a modified business tax and a larger gaming tax increase than was proposed by the Governor. The enactment of a modified business tax, in the form of a payroll tax with a special higher rate on financial institutions and a deduction for costs of providing health insurance coverage for employees, also resulted in the repeal of the state business license tax.

The remaining two bills, A.B. 4 and S.B. 2, provided additional revenue over the 2003-05 biennium through reductions in tax payment and collection allowances for liquor, cigarette, other tobacco and sales taxes, and higher fees on commercial recordings and securities collected through the Secretary of State's office.

The table on the following page presents a summary of the tax changes approved in S.B. 2, S.B. 8, and A.B. 4 during the 20th Special Session.

| TAX INCREASES AND CHANGES APPROVED IN SENATE BILL 2, SENATE BILL 8, AND ASSEMBLY BILL 4 OF THE 20 TH SPECIAL SESSION | | | |
|---|---|--|--|
| REVENUE SOURCE | TAX RATE/FEE | DESCRIPTION | EFFECTIVE DATE |
| INCREASES AND CHANGES IN EXISTING TAXES AND FEES APPROVED DURING THE 20TH SPECIAL SESSION | | | |
| Cigarette Tax (SB 8) | Increased tax by 45 cents per pack of 20 cigarettes. | Tax of 35 cents/pack (10 cents to counties and 25 cents to state general fund) increased to 80 cents/pack (10 cents to counties and 70 cents to state General Fund). | July 22, 2003 |
| Liquor Tax (SB 8) | Increased per gallon tax on alcoholic products by 75 percent. | Over 22 percent alcohol by volume—increased from \$2.05 to \$3.60 per gallon (15 cents per gallon deposited in liquor program account, 50 cents per gallon distributed to counties by statutory formula, and \$2.95 per gallon to state General Fund); 14 to 22 percent alcohol by volume—increased from 75 cents to \$1.30 per gallon; Under 14 percent alcohol by volume—increased from 40 cents to 70 cents per gallon; and Beer (malt beverages)—increased from 9 cents to 16 cents per gallon. | August 1, 2003 |
| Quarterly Restricted Slot Fee (SB 8) | Increased fee for operation of slot machines in restricted locations by 33 percent. | Quarterly fees increased from \$61 to \$81 per machine for first five slot machines. For each additional machine over 5, quarterly fees increased from \$106 to \$141 up to a maximum of 15 machines allowed to be operated by a restricted licensee. | July 22, 2003 |
| Secretary of State Filing Fees (SB 2 and AB 4) | Increased and created fees paid by entities for filing with the Secretary of State. | Increased existing and created new fees payable by businesses and other entities and persons in Chapters 78–90, 92A, 104, 105, 116, and 225 of the Nevada Revised Statutes for filing activities and services provided by the Secretary of State's office. | November 1, 2003 with certain exceptions |
| Gross Gaming Revenue Tax (SB 8) | Increased gross gaming revenue tax rate by 0.5 percent for non-restricted licensees. | 3 percent tax on monthly gross gaming revenue up to \$50,000 increased to 3.5 percent; 4 percent tax on monthly gross gaming revenue over \$50,000 and up to \$134,000 increased to 4.5 percent; and 6.25 percent tax on monthly gross gaming revenue over \$134,000 increased to 6.75 percent. | August 1, 2003 |
| Business License Fee (SB 8) | Created \$100 annual license fee for businesses. | One-time licensing fee of \$25 replaced by annual business license fee of \$100. | July 22, 2003 |
| NEW TAXES APPROVED DURING THE 20TH SPECIAL SESSION | | | |
| Live Entertainment Tax (SB 8) | If maximum occupancy is less than 7,500 — 10 percent tax on admission charge, plus food, refreshments, and merchandise. If maximum occupancy is 7,500 or more—5 percent tax on admission charge only. | Exemptions from tax include: (1) non-gaming establishments with maximum seating less than 300; (2) gaming establishments with maximum seating less than 300 and with less than 51 slots or 6 games or any combination within those limits; (3) nonprofit organizations; (4) boxing matches; (5) private events; and (6) certain accessory entertainment in venues such as trade shows or shopping malls. | January 1, 2004 |
| Real Property Transfer Tax (SB 8) | Imposed state tax of \$1.30 per \$500 of value on transfer of real property. | Live Entertainment Tax replaced the Casino Entertainment Tax, effective January 1, 2004. Existing county level transfer tax is 65 cents per \$500 of value, plus an additional 60 cents per \$500 of value in Clark County (proceeds to school district for capital projects). All proceeds from \$1.30 tax go to the state General Fund. | October 1, 2003 |
| Modified Business Tax - General Business (SB 8) | Imposed 0.7 percent tax on October 1, 2003; lowered to 0.65 percent on July 1, 2004. | Imposed 0.7 percent tax for FY 2003-04 on gross wages paid, lowering to 0.65 percent on July 1, 2004, with deduction for the amount paid by the employer for health insurance or health benefit plans. | October 1, 2003 |
| Modified Business Tax - Financial Institutions (SB 8) | Imposed 2 percent tax. | Imposed 2 percent tax on gross wages paid by financial institutions with deduction for the amount paid by the employer for health insurance or health benefit plans. | October 1, 2003 |
| Branch Bank Excise Tax (SB 8) | Annual fee of \$7,000. | Annual franchise fee of \$7,000, assessed at a quarterly rate of \$1,750 for each branch office in Nevada in excess of one. | January 1, 2004 |

| REDUCTION IN COLLECTION DISCOUNTS PROVIDED TO TAXPAYERS FOR COLLECTING AND REMITTING TAX TO THE STATE | | |
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| Liquor, Cigarette and Other Tobacco Tax Collection Discounts (AB 4) | Reduced collection discounts granted to retailers and wholesalers to offset the costs of collection of certain taxes. | Reduced collection discounts provided to taxpayer for collecting and remitting the taxes to the state from: 3 percent to 0.5 percent for liquor tax and cigarette tax, and 2 percent to 0.5 percent for tax on other tobacco products. |
| Sales Tax Collection Discount (AB 4) | Reduced discount provided to taxpayer for collecting and remitting the sales tax. | Reduced collection discounts provided to taxpayer for collecting and remitting tax to the state from: 1.25 percent to 0.5 percent for timely payment of sales and use taxes. (This change provided additional revenues to the state General Fund and the Distributive School Account.) |
| REPEALED TAXES | | |
| Business License Tax (SB 8) | \$25 per full-time equivalent employee per quarter. | Tax was repealed October 1, 2003, and replaced by the Modified Business Tax – General Business and Modified Business Tax – Financial Institutions. |
| Casino Entertainment Tax (SB 8) | 10 percent of all amounts paid for admission, food, refreshments, and merchandise. | 10 percent of all amounts paid for admission, food, refreshments, and merchandise paid for covered entertainment events provided in non-restricted gaming establishments. Modifications to the Casino Entertainment Tax (CET) were approved in SB 8 that were effective September 1, 2003, and were in effect until the CET was repealed January 1, 2004. |
| | | August 1, 2003 |
| | | July 1, 2003 |
| | | October 1, 2003 |
| | | January 1, 2004 |