

## Assembly

31

### MINUTES OF MEETING - COMMITTEE ON TAXATION - 55TH NEVADA ASSEMBLY SESSION - FEBRUARY 18, 1969

Present: K. Hafen, Smith, Hilbrecht, Tyson, Young, Espinoza & Getto

Absent: Schouweiler and Swackhamer

Also Present: Ernest Newton, Nevada Taxpayers Association;  
Clark Russell, Department of Economic Development;  
Dr. Robert C. Weems, Dean of College of Business  
Administration, University of Nevada at Reno

Chairman Hafen convened the meeting at 8:00 a.m. and introduced Dr. Weems and Mr. Russell and Mr. Newton.

Mr. Russell noted that they had developed a simple amendment to A.J.R. 5, proposing constitutional amendment to add certain exemptions from taxation. The amendment proposed deletion of the words "while in the warehouse" on lines 24 and 25. Dr. Weems stated that the big objection to the free port law is how broad is it? He said that when the law was written, they felt it was not broad enough and so they added the words "manufacturing process"; however, it turned out that they had inadvertently made it sound like they must construct a warehouse and the property subjected to a manufacturing process. Therefore, he suggested removing the words "while in a warehouse" as a possible solution; thus reading "... shall not be deprived of such exemption because the property is subjected to a manufacturing process..."

He went on to say that the amendment would open the gate for prospective industries who would like to come into the state but will not do so the way the law is now written. It would be embarrassing to us if an industry came in and then assumed they had to build a warehouse around their manufacturing process. Even though we assure them that the law does not mean that, they would like to see it before they make the move. Of course on the opposite side, we do not want to destroy the tax base. Therefore, we cannot exempt things that would come under the category as Kennecott corporation would, for instance. We want to give as much consideration as possible to the small industries; their goods in process do not actually amount to a great amount. Then too, their plant, land and machinery would not be exempt, only that inventory passing through the plant from out of state and destined to go out of the state. In this way we would broaden our tax base.

Dr. Weems presented his views to rectify the problems at hand and suggested that if we wanted to tighten the law a little, on Line 24, the following amendment be inserted: "Such property shall not be deprived of such exemption because while in the warehouse, outside of, or in an adjacent manufacturing activity related to the warehousing activity, the property is subjected to a manufacturing process or is assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled, or re-packaged." Noting further that the main purpose is to broaden the law without destroying the tax base.

Mr. Hilbrecht cited the situation existing at Stead Air Base where airplanes are assembled. He noted that the rivets and other parts are from out of state and therefore would be exempt. But what if they made it a practice to retain 25 or 30 finished products on hand. Even though the raw materials were brought from out of state, the finished product is actually from Nevada.

Dr. Weems noted that it would still be exempt if it was destined to go out of state. Hilbrecht asked if it would be considered the same position as Kennecott in this respect. Their finished product comes out of the State of Nevada. Dr. Weems said that with the airplane, the raw materials did not come from the State of Nevada as they do with Kennecott, but agreed that there could be some real hot spots with this. He said, however, that the idea is to follow the raw materials from the point of origin, even though after completing the finished product, the raw materials have been eliminated.

Hilbrecht then asked if we in Nevada were not encouraging the industries to purchase their raw materials out of state and Dr. Weems said unfortunately that was true but was one of the less attractive aspects of the free port law.

Smith then asked Dr. Weems to give his opinion of a request he had made in the past wherein the two words, Possessory and personal, would have been removed from the constitution. He said in his opinion, we are all working around it but not facing it squarely.

Dr. Weems said that in his opinion, there should be an abolishment of all personal and property taxes and substituted with something, but he did not know what it would be.

Smith said, "you have indicated that if we omit certain words from the constitution that the manufacturers still might not be satisfied until they see what we substitute in place of them?" Dr. Weems replied, "yes".

Hilbrecht noted that the idea of exempting all raw materials used in the manufacturing process was good in theory and Dr. Weems said it was a good thought but that he was afraid we would be running into a problem with the larger inventoried corporations such as Kennecott.

Hilbrecht asked if Kennecott was manufacturing anything now and Dr. Weems said "no". Hilbrecht said he felt in that case the tax situation would remain the same.

Dr. Weems said if we were going to exempt all goods including those originating in Nevada, we would find ourselves running into the mining and agricultural field, just to mention a few.

Mr. Newton then said that if Nevada raw materials subjected to a manufacturing process were exempted, it would cause an erosion of the tax base. He said it would hit Lyon County and White Pine County in particular and possibly Nye County. In his opinion, there was a possibility of also running into the dairy farming and feed yard fields. It felt the whole thing could become a big can of worms and wondered if the benefits would be commensurate with the deprivations. He recommended that it be taken one step at a time.

Smith asked Dr. Weems if he felt the other resolutions in question should be incorporated with AJR 5 together with the amendments proposed, and Dr. Weems said he would not even consider the rest of the bills. He felt too much was being done for the taxpayer now and he did not feel it was right.

Page -3- Taxation Committee

February 18, 1969

Dr. Weems said he did not recommend the insertion of exemption manufacturers and merchants inventory either and that he did not recommend any of the other resolutions being considered.

Mr. Newton said that if the committee desired to exempt the inventory of manufacturers and merchants he suggested that the word "shall" be amended to "may" on Line 28. In that way the decision did not rest on the Legislature to decide whether the goods should be exempt or not. He said the tax base must be presented and this amendment would be the most desirable so that the change would not be locked into the constitution.

Mr. Smith noted that Dr. Weems had a special interest here, that being to bring people into the state. Mr. Smith said he was interested in an equal tax and that is what is needed this session. The livestock people got into the act because they were afraid not to. He said the tax was not reasonable to begin with, but where do we cut it off. We can't legislate in this session one step at a time because there isn't time and a solution is needed now.

Dr. Weems agreed that the free port law is discriminatory against Nevada goods, but that there was no other way to handle it without hurting the tax base. Mr. Smith said he felt we should be doing something to make it possible for the entire state to enjoy the benefits of the free-port law and Dr. Weems said it did not discriminate too much, just enough to give that needed doubt.

Young said he feared that Dr. Weems was more interested in promoting more industry into the state than in cleaning up the tax structure and Dr. Weems admitted that his interest was as an expert on the free port law and that was the only reason he was present at the hearing. He felt his suggestions with respect to the other bills were worth considering. Young then said that we were trying to clean up the tax situation and some of the things contained in the bills were aimed at that purpose. He used the fact that it is hard to know the value of one's personal property in the home as well as merchant's inventory.

Weems said in his opinion it would be confusing to combine all these things being requested for exemption. Mr. Russell pointed out his letter forwarded to the committee dated February 13 in which they have made their proposal.

Chairman Hafen said further decision would be considered by the committee and that at the time he felt it should be left separately and not combined with the other bills. Smith said he has found that if you present a whole series of proposals to the public, you won't get anything passed. He felt they should be combined; like putting all your eggs in one basket and shooting your best shot.

Mr. Newton stated again that he felt the word "shall" should be amended to "may". He was asked if he went along with the resolutions and the amendments presented. He said he was not absolutely sure. The resolution would not go to the people until 1972, however, he felt the bill should have a lot of charm with the electorate and would not hurt the free port law. If anything it would help it.

Page -4- Taxation Committee

February 18, 1969

Smith asked if there should be a new bill or resolution drawn and Mr. Newton said he felt AJR 15 would be the logical bill to work on.

Hilbrecht cited the example of the homestead exemption and wondered if maybe something could be worked out in this regard. The exemption is given as long as the property is lived on. It might be a possibility to be explored.

Young pointed out that since those plants now wanting to come into the state are the reason for the amendment to the free port law; and in view of the fact that it will take four years for the enactment, he suggested that a bill be drafted in this regard.

Mr. Russell, regarding the problems had in the past with the Attorney General's office, said he felt it would help them in that regard. Dr. Weems then explained that when they came up with the word process after having consulted the dictionary, the attorney general informed them that the word "process" was synonymous with "manufacturing". He stated further that if a bill were to be drafted indicating that the two words were synonymous, it would get them off the hook.

Chairman Hafen noted that they would need clarification language on this and that the bill would have to be in harmony with the constitution. He noted that there was a new resolution coming in soon.

Chairman Hafen then noted BDR C-1210, concerning improvements to property and property taxes and asked for comments. Dr. Weems stated that he felt the idea was very good in view of the fact that the problem with property taxes now is that it discourages owners from improving their property further.

Mr. Newton said that in 1934-35, the legislature in effect postponed the collection of taxes for a year. Consequently, due to this time lags, it is possible to escape taxation on improvements for a period of 2 1/2 years. He noted that taxes are collected a year later than when assessed and that at certain times of the year, should you complete a house in February, it does not get assessed until October. It would take too long for a tax review to catch up with the growth in population.

Getto asked how it would be possible to bring the taxes current, by declaration? Newton said it would definitely take a change in the law. It would have to be determined whether it would be politically possible. Getto asked if they would have to be wiped out completely in order to bring them to date and Newton said yes and that had been proposed two years. The suggestion was to have the assessment remain at April 1st and taxes would be due on the assessment in September. The trouble was with the counties who were worried about their cash flow. The idea was to pay two installments instead of four in September and March.

Hilbrecht said he felt the only way was to collect the tax at the cash register and release personal property from tax. He said he would much rather have his property taxes cut in half and pay 6% sales tax.

Smith asked if it were possible to educate people to get ready for this tax change and asked if we were not running many years behind.

Page -5- Taxation Committee

February 18, 1969

Newton commented that his organization is really pushing for it.

Chairman Hafen then thanked the guests for being present and excused them.

Thereafter Hafen presented BDR 32502, clarifying methods and procedures involved in valuation and assessment of property; BDR 1121, increasing maximum allowances for state public debt limit to 3% of the State's assessed valuation and by restricting contracts permissible outside debt limit.

Discussion was held regarding possible study by legislative commission or taxation committee into the ad valorem tax, sales tax structure.

Chairman Hafen announced meeting to be held at 8:00 a.m. February 19, and meeting was adjourned.



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February 13, 1969

36

CLARK G. RUSSELL  
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Mr. M. Kent Hafen, Chairman  
Assembly Taxation Committee

Dear Tim:

Reference is made to Assembly Joint Resolution 5 introduced by Mr. Lowman on January 27, 1969, proposing Constitutional amendments to add certain exemptions from taxation. Specific reference is made pursuant to line 25 of this resolution.

I have consulted with several individuals who are interested in AJR 5, most notable of which is Robert C. Weems, Jr., Dean of the College of Business Administration in Reno, and I offer the following for your perusal. "Such property shall not be deprived of such exemption because while in the warehouse, outside of, or in an adjacent manufacturing activity related to the warehousing activity, the property is subjected to a manufacturing process or is assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled, or repackaged."

The above terminology is at the suggestion of Dr. Weems, and I personally would offer my endorsement, principally because by simply using the word warehouse it may be construed by potential Nevada industries to read that they must construct a warehouse, that the property be subjected to a manufacturing process.

Consideration is appreciated.

Regards,

  
Clark G. Russell  
Director

CGR/mw