

Assembly

MINUTES OF MEETING - TAXATION COMMITTEE - 55TH NEVADA ASSEMBLY
SESSION - MARCH 5, 1969

Present: K. Hafen, Hilbrecht, Young, Smith, Getto,
Swackhamer and Tyson

Absent: Schouweiler and Espinoza

Also Present: Ray Knisley, Individually;
Ernest Newton, Nevada Taxpayers Association;
Don Peckham, Washoe County Assessor;
Walt Mongolo, Asst. Washoe County Assessor;
James Lien, Asst. Secretary, Nevada Tax. Comm;
Wm. B. Byrn, Administrative assistant to the
Clark County Assessor;
James Bilbray, Clark County Assessor;
Arthur Palmer, Legislative Counsel Bureau

Chairman Hafen convened the meeting at 7:30 a.m.

A.J.R. 9, proposing to amend Nevada Constitution to allow imposition of estate tax not to exceed credit allowable under federal law.

Getto moved that A.J.R. 9 be re-referred back to Committee from the Chief Clerk's desk; motion seconded by Tyson and unanimously carried.

Mr. Newton then presented a proposal for pre-empting the business license tax and in lieu thereof adding 3% tax on services. This idea was taken from cities such as Las Vegas, Henderson, Reno, etc. and Sparks started the procedure when a group of city councilmen developed the system based on the gross income figures. The rates of 1% of gross income sometimes went as high as 7 and 1/2% and threatened to go as high as 17%. This hit the utility industries the most. Recognizing the fact that they were limited by the PSC to about 7%, they issued a questionable order, Rule 60, to let them surcharge the taxes on utilities. It appears to the consumer that their utilities have gone up 7 and 1/2% rather than there being a surcharge tax. BDR 32-1083* would provide the net revenue to the cities and counties much the same as the cigarette tax does not. The estimate of revenue is approximately \$14 million a year. The current income is \$5 million a year. There is provided a 10% commission allowance to the state and the return to the cities would be about \$12,600,000. Mr. Newton said they should take precautions to prevent sabotage by a series of exemptions.

In Illinois when they enacted this plan it contained one exemption. Before they got through there were about eight of them. It was not an equal application of the tax and so they threw it out. They later re-enacted the tax and took out the exemptions. There have been no challenges on it since.

Mr. Hafen said in his opinion it could become pretty nasty because you are reaching to waitresses and bus boys who are not required

to make any report now. Mr. Newton said that in most cases they are in a tipping pool so it should not be too difficult to keep track of. Mrs. Tyson said this was questionable because she knows that many of the bus boys are only given a token of the tips at the end of the evening, not a certain amount that is required.

Young said in his opinion if you start taxing the pools they are really going to be unhappy. Hilbrecht asked about the baby-sitters and Newton said he believed they would be exempt. Certain items are exempt such as items that are already taxed; entertainment tax, etc., or anything that is included as a sales tax.

When asked for an example he used the case of Caesar's Palace when they were taking bids on the carpet, drapes, etc. they received proposals from eight interior decorators but when time came to let the contract, it was not given to any of them. As it happened, the cost of the decorating services was included in the total construction contract, and the sales tax was put on that part also. When the second addition was put on they were very careful to make sure the decoration was separate.

Tyson said it would be similar to engineering services; they are not subject to sales tax either. Young noted that the automobile repair bill always separates parts and labor also.

Tyson moved that B.D.R. 32-1083 be introduced as a committee measure; motion seconded by Hilbrecht; unanimously carried.

Mr. Young noted that the taxpayer can claim deduction for this tax where he could not on the utility surcharge. Mr. Newton said the reason the proposal was so long was because it was amending 17 charters.

*
BDR C-766 was presented by Mr. Young regarding the whether of raising the bond debt limit. He asked whether or not the committee would like to take a look at the proposal.

Swackhamer said he was definitely against this measure. The legislature has been told twice by the people now that they do not want to have the debt limit raised. Mr. Hafen said there was already another bill in on this.

Young noted that they were already allowed to go above 1% for resources and emergencies and specific bond issues still have to go to the vote of the people. Hilbrecht asked if the proposal had any limit at all and Young said "no, but it could be amended to include a limit".

Swackhamer said again that this has been turned down before and he did not think it was right for the legislature to go behind their backs on it now. Mr. Young stated that his people have told him that they want it.

Tyson moved that BDR C-766 be introduced as a committee measure;

Motion seconded by Young and vote taken with following results:
6 For and Swackhamer against.

Short recess was taken and meeting reconvened at 8:00 a.m.

A.J.R. 4, proposes constitutional amendment to authorize legislature to provide for reduced tax on certain improvements to real property, introduced by Mr. Hilbrecht.

Mr. Hilbrecht stated that this was originally meant to be an all-purpose tax with limitations which would allow the legislature to have the ad valorem assessed as something else. He had in mind originally to give relief to the single family dweller. The tax is frequently a deterrent to improve your home because of the fear of being over-taxed. This is especially true in residential areas where they are not interested in turning their property right away and this results in a regressive neighborhood. He said he believed it should be modified so that there would be no question with regard to industrial development. He did not intend for that to be included when it was drawn up. He also felt it should be modified to apply to homes in which the owner is living, based on the same principal as the homestead exemption.

Mr. Hafen then gave brief description of AJR's 5, 14, 15, 25 and 28. He noted that the committee has discussed these measures at various times in the past and requested that Mr. Peckham give his views on them.

Mr. Swackhamer said he believed the committee had decided to pick the best of these and incorporate them into one bill.

Mr. Peckham stated that in Washoe County the inventory which is proposed for exemption amounts to some \$13 million assessment and when that source is taken away from the cities and schools is going to be a big thing. He noted that when he took a merchandise inventory total assessment in 1967-68, it came to \$35,700,000 most of which is in Washoe and Clark Counties. When this amount of revenue is lost, it has to come from somewhere else and as always it is passed on to the property owner. The property owner is the least able to bear this burden of taxation. He stated that the assessors are in favor of having household personal property excluded because they are not really able to arrive at equitable means of assessment. The approach they are taking now does not actually comply with the law.

He stated that with regard to AJR 28 most of the companies he has talked with are very pleased with our \$5 limit and 35% assessment figure. It looks like it is a crime to live in Nevada the way this bill looks. He said he did not believe that this would be an inducement to bring people in. If they really want to, they will come in anyway.

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A.J.R. 20 sounded like permissive legislation to Mr. Peckham and Mr. Getto noted that this bill would enable evaluation of the agricultural property on the basis of its agricultural value. Based on what it is capable of producing. It may be used as a pasture or for grazing but based on the soil tests and other factors they can decide what the land is capable of producing.

A.J.R. 5; Mr. Peckham stated that he was personally in favor of adding "subjected to a manufacturing process". Swackhamer asked if it would be too troublesome for the assessors to arrange this exemption over a period of a certain number of years. Using a guide to gradually decrease the tax. Mr. Peckham said it would be a bookkeeping problem but nothing serious. He said it would be essential that they have proper guide lines to go by.

Mr. Hilbrecht asked if he was not in favor of giving the home owner some relief on the tax situation and he said he agreed with that type of thinking. Mr. Mongolo said that if they exempted that property proposed in A.J.R. 15, Washoe County would lose approximately \$15 million and the home owner would have to pick it back up somewhere. He said in his opinion they should not exempt any of them.

Mr. Branch was present for the purpose of discussing AJR 25 and AJR 28. He stated that the purpose of these bills was to give both the home owner and the man who owns rental property a tax break when adding improvements to their property. He noted that there has been much thought in both houses on this and asked to hear from the County Assessors to ascertain the loss involved. He said he believed they would be gaining rather than losing because of the stimulation of growth caused by AJR 25. When building permits are taken out, the person may tend to put down the lesser value of the improvements unless he knows he is not going to get socked with a high assessment rate for them. He said this goes right up to the \$10 million casinos and hotels. At the present time a person may think twice about improving his property because of the assessment. He then related the story of the couple who put an addition on their property and did the work themselves. The cost of the materials came to \$4000 but when it was assessed it was up to \$8000.

Mr. Bilbray said with these proposals they would need some changes which would help the assessors to keep up with the collections. He noted that the way it is now, the jobs have grown to the point where an additional bookkeeper should be hired for each assessor's office. He said he was in favor of giving the home owner a break. They are the easiest to reach and they are getting it in the neck.

Mr. Byrn said the idea on sparing the home owner in AJR 25 is good and the idea that it might stimulate improvements. He said it was very important how this was handled however. He replied to Mr. Branch's statement regarding the \$8000 assessment on the property addition and said that it did not matter how much money

was put into the improvement, the value is what is important. When the property is appraised they are not concerned with the cash involved.

He noted also the possibility of a home owner building a home and leaving much of it unfinished. The completion would come when it would be advantageous to the owner with regard to the exemption allowed to him. The other side of the picture would be the point of being an incentive on the part of the home owner to improve his property.

Mr. Smith replied in Mr. Bilbray's direction that he had a very good idea when he spoke about an administratively possible tax. One that would be completely manageable by the assessor. He said they had introduced a bill this morning which if passed would help to allay the fears on the loss of revenue from the exemptions.

Hilbrecht asked what else could be done to help the houseowner other than the household goods and personal property exemptions. Mr. Bilbray said he had not studied the matter to that extent but that he and Mr. Byrn hoped to make a thorough study into the matter in the near future. He said they had a ratio to meet and the tax commission has tried to help but there was going to be problems when these things were taken off of the tax rolls.

Mr. Byrn said he wondered if it was constitutionally sound to remove the household goods but as to the inventories of wholesales and retails, they had a fairly good way of verifying these. He stated that it was equitable with regard to the inventories but the method of arriving at the household valuations were not.

Mr. Stmith said in his opinion when we are talking about taking burden off of the home owner, what about the merchants? They are in the tax collection business whether they like it or not and they are probably the best collectors yet.

Mr. Bilbray noted that they were losing a lot of revenue in the sales of trailers, campers, boats, etc.

Hilbrecht said that possibly a new approach should be given to the gaming casinos. Perhaps a new criteria would be a solution. Bilbray said that presently they are getting all kinds of static from the casinos. The casinos are hiring expert people to go over their tax situations and they are grabbing for pennies now rather than dollars. They had never had a protest from a casino until this year. These experts know what they are doing and they are really giving the assessor problems. Casinos have ideas now that no one has ever thought of throwing into it. If they ever go into the depreciation part, the assessor's office is really going to get socked.

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Hafen asked if he had any figures on which he could estimate the loss by exemptions. Bilbray said in Clark County they have \$987,000 in merchant's inventory and household goods are about \$480,000 under the methods of assessment they are now using. He stated that all assessors are using the same method in assessing household goods.

Mr. Peckham said his concern in these bills was in the exemption of revenues. He is not against the exemptions, but he does not want to see the legislature turn around later and say that the assessment ratio must go to 40% of the appraised valuation. If they do this they are going right back to the home owner.

Mr. Lien noted that Nevada is considered to be a very good state taxwise because they have a uniform rate. All ratios are the same straight across the board. He wondered whether people would really take the position in AJR 25 of leaving their home unfinished for the benefit of the exemption. He wondered if they would not be creating inequities in many ways. They may run into more problems than they have now by granting these exemptions.

With regard to AJR 28, Mr. Lien said he believed new businesses coming into the state were more interested in the water availability; the labor and transportation, etc. And he did feel that this bill was discriminating against Nevada residents. Nevada is rapidly expanding and the impact on the economy by losing the tax on inventories is a prime concern. You are coming into a close relationship with the local governments on this. He said he did not feel the phasing out would cause that much trouble in bookkeeping. He said these exemptions are close to \$300 million when all are considered. That is 1/5 of our assessments being discussed and that is a lot of revenue.

Smith noted that they were not coming up with any answers to the problems. He said it was necessary for someone to come up with a good manageable tax. Bilbray said in his opinion it would be better not to take any of these taxes away. Smith said the way it is going now they keep adding silly little taxes one on top of another.

Bilbray said he did not feel that our tax system was a hodge-podge; he felt Nevada had an excellent one and possibly the best in the country.

Pete Kelley, representing the Nevada Retail Association, stated that his group was in favor of AJR 14 and left a report on the inventory tax structure.

Mr. Hafen requested Mr. Bilbray and Mr. Peckham to leave their figures with the committee.

Mr. Knisley stated that he would like to point out that AJR 5 and

AJR 14 did not take all classes into consideration and was therefore discriminatory. He asked that they remember this in their considerations that they may be causing more inequities than they would be eliminating.

Chairman Hafen thanked the witnesses for appearing and adjourned the meeting at 9:00 a.m.