

Background Paper 83-7

NEVADA TAX RELIEF: 1978-1983

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I

INTRODUCTION

With the 1978 passage of Proposition 13 in California, property tax limitation became a national phenomenon. Proposition 13 was the chief impetus for the long awaited "taxpayer's revolt." This "movement" not only stirred desires for property tax reform, but called for other forms of tax relief, including exemptions from sales and use taxes (food and drugs) and abolition of inheritance taxes.

While taxpayers are concerned with the level of all taxes, particular emphasis has been given to local property taxes. This tax has traditionally been one of the most unpopular in most states.

While no tax is popular, the property tax has some unique characteristics which contribute to its unpopularity:

- No other tax bears down so heavily on low-income households, or is so unrelated to the ability to pay, if there is no mechanism for homeowner exemptions or credits.
- The property tax has been a threat to homeownership in some states where the tax is heavily used.
- The property tax is one of the most difficult to administer. As a result, assessment appears arbitrary and results in some inequity in tax bills.
- The dramatic increase in taxes that often follows reassessment has no parallel in the administration of a sales, gambling or income tax.
- The property tax many times is due in a lump sum, which makes it seem more "painful" than the "pay as you go" sales and income taxes.

California's Proposition 13 basically limited the property taxes that could be collected from a property owner to 1 percent of full cash value plus an amount necessary to pay off existing debt. Assessed values were initially rolled back to 1975-1976 levels. These adjusted values could then be increased by no more than 2 percent per year as long as the same taxpayer continued to own the property. This limit could only be exceeded by a two-thirds vote of the people.

Nevada's Question 6 and the legislative tax packages of 1979 and 1981 all sought to ease the burden on the Nevada property owner. Previous to Question 6, the effective rate of property taxation was 1.65 percent of market value. Had it been adopted, Question 6 would have mandated a rate of 1 percent plus levies for outstanding debt. Passage of the 1979 tax package lowered that rate to about 1.1 percent, including debt. Since the 1981 tax plan, that rate is about .6 percent of market value, including debt service.

II

QUESTION 6

Question 6 was Nevada's answer to California's Proposition 13. This proposal was placed on the ballot for voters' consideration in November 1978. In its initial review by the voters, it passed overwhelmingly, receiving 78 percent approval out of 180,000 votes cast.

The key provisions of Question 6 were:

1. It limited the amount of property tax, exclusive of outstanding debt, that could be collected from the owner of real property to 1 percent per year of the property's appraised value.
2. It rolled back the appraised value of real property to the value shown on the assessment rolls for fiscal year 1975-1976, and thereafter limited increases in appraised value to 2 percent a year as a result of inflation. There was some question about how this would actually work. Property sold or constructed after 1975-1976 would be appraised at full market value at the time of sale or construction. However, property that had not been reappraised for a number of years prior to 1975-1976 would not be reappraised to determine an estimated value as of the 1975-1976 cut-off period.
3. Question 6 required a two-thirds vote of the legislature to increase state taxes, none of which could be based on the value of real property.
4. It instituted similar provisions regarding local taxes, except that local tax increases would require two-thirds approval of the voters. There were also provisions for meeting emergency situations.

The fiscal analysis division of the legislative counsel bureau, estimated that if Question 6 had been operative in fiscal year 1978-1979, tax relief would have amounted to \$98.6 million. This would have amounted to a 43.8 percent decrease in property taxes to a level of \$125.6 million.

To become law, as a constitutional amendment, Question 6 had to be passed a second time, in 1980. It failed, receiving only about 42 percent of the vote.

A major reason for that failure was passage of the 1979 legislative relief alternative.

III

1979 LEGISLATIVE TAX ALTERNATIVES TO QUESTION 6

Following passage of Question 6 in 1978, the legislature expressed concern about potential consequences of the referendum, both with respect to funding for local government and possible inequities. Rather than endorse Question 6 in the form in which it passed, the legislature enacted a tax relief package intended to reflect the general sentiments of taxpayers, while avoiding some of its potentially inequitable features. This broad based tax package provided both property and sales tax relief. Limitations were also placed on future growth of state and local expenditures.

Senate Bill 204 (chapter 593, Statutes of Nevada 1979), A.B. 616 (chapter 286, Statutes of Nevada 1979), A.B. 268 (chapter 650, Statutes of Nevada 1979), and S.B. 319 (chapter 363, Statutes of Nevada 1979) constituted this comprehensive tax reform program.

The 1979 tax package provided property tax relief for homeowners principally through the replacement of several local tax levies with state monies, and with the state giving up its share of the real estate transfer and county gaming license fees to local government. Additional property tax relief would be granted if revenues from sales and gaming taxes exceeded expectation. Household personal property was exempted from property taxation, and grocery sales were exempted from sales taxation. Limits were also placed on the growth of state and local government expenditures based on inflation and population growth.

Senate Bill 204

Senate Bill 204 statutorily reduced the maximum constitutional \$5 property tax rate to \$3.64 on each \$100 of assessed valuation. This new rate is the maximum for all public purposes and cannot be exceeded. The reduction was accomplished by: (1) repealing the requirement that counties contribute 11 cents for the state's medicaid program; (2) the state replacing \$1 of the \$1.50 school levy through the distributive school fund; and (3) the state giving up its 25 cents property tax levy.

Local units of government did not lose any of their tax base since the state replaces the entire amount of property tax lost. The \$1 share of the school levy was replaced by the state through elimination of the 70-cent mandatory levy and by reduction of the optional levy for schools from 80 cents to 50 cents.

The following chart illustrates the computation of the new tax rate limit set by the 1979 legislative tax package:

\$5.00	Constitutional rate limit
-.11	County medicaid levy - replaced by state
-.25	State levy - eliminated
-.70	School mandatory levy - replaced by state
-.30	School optional levy - replaced by state
<u>\$3.64</u>	Statutory rate limit

The fiscal analyst estimated accumulated property tax savings from the 1979 legislative tax plan at a combined amount of \$170 million for fiscal years 1981-1982 and 1982-1983.

All property subject to taxation in Nevada must be assessed at 35 percent of its taxable value. The tax plan did not modify this percentage.

In S.B. 204, the legislature exempted household personal property from the property tax. This exemption became effective July 1, 1979. Previously, assessment of household property had been inconsistently applied from county to county so that this exemption not only provided tax relief, but also eliminated a major source of property tax inequity. Homeowners saved about \$7.5 million over the biennium from this exemption.

Senate Bill 204 also provided that in fiscal year 1980-1981, greater property tax relief would be granted if state sales

and gaming revenues exceeded expectations. Under this measure, the maximum combined tax rate was adjusted to reflect the level of increase in sales and gaming taxes.

Because of less than expected sales and gaming tax collections, the maximum combined tax rate was increased by 10 cents per \$100 of valuation to \$3.74. This "trigger" mechanism caused the optional school tax to be reduced from 80 cents to 60 cents, rather than to 50 cents.

Senate Bill 204 also provided that tax relief accruing to landlords must be passed on to their tenants.

Senate Bill 204 provided more than immediate tax relief, it also limited growth in state and local expenditures. The measure required that the governor's executive budget, as submitted to the legislature, be limited in growth by state population and inflation. Under this legislation, the 1975-1977 biennium became the expenditure base and increases were allowed from July 1, 1974, for both population growth and inflation.

Senate Bill 204 provided for an expenditure "cap" on all levels of local government that receive taxes or license fees. These limitations were tied to the local entities' fiscal 1978-1979 budgets as a base and allowances were made for population increases and an inflation factor which changed based on 80 percent of the previous 5 years' average of changes in the Consumer Price Index. If a local government disputed its estimated population, it could appeal to the Nevada tax commission, whose decision was final. Any growth increase for special districts was based on indices other than population with the approval of the department of taxation.

Under the measure, the "cap" could be overridden by the local government's governing body to meet "emergency" situations when approved as such by the legislative commission. The "cap" could also be overridden by a majority vote of the people. Such an approval expired after 2 years.

These expenditure "caps" were repealed by the legislature in the 1981 tax package (as discussed later in this paper).

Senate Bill 204 also provided for a limitation on the amount of property taxes school districts levy. Under the 1979 tax

relief plan, the state replaced the existing 70 cents mandatory tax levy and 30 cents of the optional 80 cents levy. Now, the amount of taxes that can be derived from the remaining 50 cents levy is limited in growth. The average levy from this 50 cents tax for the previous 3 assessment years becomes the base from which the allowable levy is calculated. The base may be adjusted for changes in enrollments and inflation. The enrollment adjustment measures the change from the same 3 years that constitute the base to the current year. The inflation factor is 80 percent of the last 5 years' average increase or decrease of the Consumer Price Index.

If greater or lesser tax relief is triggered in the second year of the biennium, the limitation on the school levy also changes because the "cap" will always be on the levy that is available to the school districts. If, for instance, in 1980-1981, state revenues exceeded expectations and an additional 10 cents of the 80-cent optional school levy was replaced by the state, the limitation would change to one on a 40-cent levy since schools would only be allowed to tax that amount.

Assembly Bill 616

Assembly Bill 616 provided for the removal of the sales tax on food for human consumption at home, effective July 1, 1979. A special election was required to accomplish this goal and was set for June 5, 1979. This exemption was passed by a 3 to 1 margin. A referendum was necessary since the original state sales tax was approved by a referendum. Removal of the sales tax on food provided over \$52 million in tax relief for fiscal years 1979-1980 and 1980-1981. The loss to school districts from the 1 percent school support tax was replaced by additional appropriations to the distributive school fund. The loss to cities and counties from the one-half of 1 percent city/county relief tax was replaced by the provisions of A.B. 268 as discussed below.

Assembly Bill 268

Assembly Bill 268 replaced most of the revenue losses for cities and counties created by the property and sales tax relief provisions.

Under A.B. 268, the state share of the real estate transfer tax and the county gaming license fee was returned to the appropriate local government. The county collected a tax of

55 cents per \$500 of unencumbered value on each deed conveying real property to another person. Previously, the county retained 25 percent of this tax and returned 75 percent to the state. Assembly Bill 268 provided all these proceeds to the county of origin. This change of distribution cost the state a combined amount of \$5.2 million during fiscal years 1979-1980 and 1980-1981.

Prior to the passage of A.B. 268 of the 1979 legislative session, the county gaming license fee, authorized by Nevada Revised Statutes 463.390, provided a distribution of 25 percent to the state and 75 percent to local governments. The enactment of A.B. 268 caused the return of the state's 25 percent to either the city, county or town, depending on where the fee was collected. This change of distribution cost the state a total of \$5.6 million during fiscal years 1979-1980 and 1980-1981.

Senate Bill 319

Finally, S.B. 319 removed the requirement that counties share one-third of the cost of foster care for children not eligible for the federal Aid to Dependent Children Program. The state "picked up" this additional cost of about \$565,000 over 2 years.

The 1979 tax relief program provided about \$218 million in tax relief during fiscal years 1979-1980 and 1980-1981. If Question 6 had passed in 1980, most of the 1979 tax relief package would have expired.

IV

1981 LEGISLATIVE TAX PACKAGE

The 1981 tax package was designed to meet taxpayers' continuing demands for tax relief to homeowners. This proposal, embodied in A.B. 369 (chapter 149, Statutes of Nevada 1981), S.B. 69 (chapter 427, Statutes of Nevada 1981) and S.B. 411 (chapter 411, Statutes of Nevada 1981), involved a basic shift from local government dependence on property taxes to a greater dependence on sales taxes. The package included increases in the city/county relief tax, the local school support tax and decreases in the amount of property taxes that can be levied as well as changes in assessment practices. The local government spending limits, as passed in 1979, in other than school districts were repealed, and

revenue limits were imposed. An interim legislative committee on local government finance was established to provide oversight on local government fiscal practices.

Several other related bills were passed, including A.B. 134 (chapter 310, Statutes of Nevada 1981), which provides a temporary increase in several gaming taxes including the flat fees on slot machines and the gross license fee tax.

As passed in 1981, A.J.R. 27 and S.J.R. 21 also effect property taxes. If they are passed by the 1983 legislature, they will be submitted to the voters in November of 1984 for final approval. These resolutions provide for classification of real property and establishment of a rate of \$5 for \$100 assessment of mines. A more detailed description of these bills will be found later in this section.

Assembly Bill 369

Assembly Bill 369 increased state and local sales taxes from a combined rate of 3.5 percent to 5.75 percent.

The sales tax is, in essence, three different taxes: the state sales tax, the local school support tax and the city/county relief tax. These taxes are levied at a percentage of the gross receipts from all sales of tangible personal property not exempted by law.

Receipts from the state sales tax go to the state general revenue fund. Revenues from the local school support tax are distributed to appropriate county school districts less a .5 percent collection fee which goes to the state. Revenues from the city/county relief tax are distributed to counties and cities on the basis of origin of sales and a legislative formula, based on comparative assessed valuations of property (less .5 percent collection fee to the state).

Assembly Bill 369 raised the local school support tax from 1 percent to 1.5 percent, and the city/county relief tax from .5 percent to 2.25 percent. These new rates became effective for the 1981-1983 biennium. The old rates will go back into effect July 1, 1983, unless the rates established by A.B. 369 are maintained by legislative action during the 1983 legislative session. The following table compares these tax rates:

	<u>Old Rate</u>	<u>New Rate</u>	<u>Increase</u>
State Sales Tax	2 %	2 %	-0-
Local School Support Tax	1 %	1.5 %	.5 %
City/County Relief Tax	.5%	.5 %	-0-
Supplemental City/County Relief Tax	<u>-0-</u>	<u>1.75%</u>	<u>1.75%</u>
	3.5%	5.75%	2.25%

Also, retailers with monthly taxable sales over \$10,000 are now required to make tax remittances monthly rather than quarterly.

The sales tax increases of 1981 were designed to replace property tax revenues lost to local government because of the property tax relief contained in S.B. 69. This process reduced the tax rate which was applied against the assessed valuations which were factored in S.B. 69. This process is discussed later in this section.

The local school support tax increase was designed to provide schools with an additional source of local revenue that would be responsive to changes in the local economy.

It was estimated that this increase would generate \$36 million in new revenue in fiscal year 1981-1982. The actual revenue increase from fiscal year 1981 (\$69.6 million) to fiscal year 1982 (\$98.7 million) was \$29.1 million.

The total basic and supplemental city/county relief tax was made mandatory (previously Esmeralda and Eureka counties did not impose the tax). Distribution of the existing .5 percent is by county of origin and remains unchanged. Proceeds of the supplemental portion (1.75 percent) are distributed on the following basis without regard to county of origin:

1. \$71,110 per month (\$853,300 per year) is distributed on a fixed percentage basis to local governments with declining cigarette and liquor tax revenues resulting from population shifts. For each succeeding fiscal year, this amount is reduced by \$7,111 from the preceding year. Assembly Bill 369 provides that cigarette and liquor tax distribution be based on current population figures.

2. The remaining revenues are required to be distributed monthly to counties for further allocation to the county and other units of government within the county for replacement of "basic ad valorem revenue." "Basic ad valorem revenue" is each unit's assessed valuation for the year of distribution multiplied by the tax rate for everything except debt service for fiscal year 1980-1981. These monthly distributions are based on estimates made for each fiscal year by the director of the department of taxation. Any supplemental (1.75 percent) city/county relief tax money remaining after distributions reverts to the reserve fund for later distribution to local governments and for emergency allocations.

Actual revenue generated in fiscal year 1982 was \$149 million, compared to \$40.7 million in fiscal year 1981, an increase of about \$108 million.

Senate Bill 369 requires landlords to pass through at least 90 percent of property tax reductions to their tenants. Failure to reduce the rents in the amounts required makes the landlord liable for triple damages to the affected tenants. There have been concerns that this provision is not working satisfactorily.

School districts are required by S.B. 369 to levy a property tax of 50 cents on \$100 assessed valuation. This amount, together with increases in the local school support sales tax and assistance from the state distributive funds, was expected by the 1981 legislature to provide for the fiscal needs of the educational system.

Senate Bill 69

Senate Bill 69 was the 1981 legislative vehicle enacted to provide property tax relief to the homeowners of Nevada. Under the bill, property is valued, for property tax purposes, according to "taxable value" rather than "full cash value." This change causes more weight to be given to the use of property and replacement cost and less to the market value.

As a result of this change, homes are now assessed and taxed similar to industrial and commercial properties. The land upon which the home is situated continues to be appraised on the basis of its market value. Homes, buildings and other improvements are assessed by determining replacement cost, less straight-line depreciation, based on the actual age of improvements. Obsolescence is also a factor.

Prior to passage of S.B. 69, commercial properties were allowed depreciation in their assessments, but remodeling was taken into account and the amount of depreciation was much less. Depreciation was not a factor in home appraisal.

Now, all homes and commercial buildings are depreciated approximately 2 percent a year for each year of their age. Under the "straight-line" depreciation method, the assessment on a 20-year-old building with a life of 50 years is reduced 40 percent.

Some believe this depreciation method has created some problems of equity. Two buildings with essentially the same appraised value may have a substantially different taxable value. A 40-year-old home with an appraised value of \$100,000 will have a taxable value based on straight-line depreciation of 2 percent per year. But a new \$100,000 home still would have a taxable value of \$100,000.

A 3-year schedule was established for phasing in the reform beginning in fiscal year 1981-1982. For the levying of taxes to be collected during fiscal year 1981-1982, existing property is assessed at 35 percent of its "adjusted cash value."

Adjusted cash value is obtained by multiplying full cash value by a factor based on the class of property (residential or nonresidential) and the last year of appraisal. This procedure is designed to approximate placing property appraised before fiscal year 1980-1981 on par with property appraised that fiscal year and to place residential real property on par with nonresidential real property. The special factors for residential improvements are also to minimize the effort of the more rapid rate of appreciation of residential property during recent years. A residential improvement is a single family dwelling, a townhouse or a condominium and its appurtenances.

These procedures and factors apply only for the levying of taxes collected in fiscal year 1981-1982 and apply as follows:

<u>Year of Appraisal</u>	<u>Multipliers for Residential Improvements</u>	<u>Multipliers For Other Property</u>
1976-1977 or earlier	1.416	1.438
1977-1978	1.190	1.313
1978-1979	1.000	1.199
1979-1980	.840	1.095
1980-1981	.706	1.000

Examples:

Home last appraised 1977-1978.

Land	\$10,000 (full cash value) x 1.313 =	\$13,130
Home	\$50,000 (full cash value) x 1.190 =	\$59,500
	Adjusted cash value	<u>\$72,630</u>

Home last appraised 1980-1981.

Land	\$10,875 (full cash value) x 1.000 =	\$10,875
Home	\$75,000 (full cash value) x .706 =	\$52,950
	Adjusted cash value	<u>\$63,875</u>

Adjusted cash value x assessment ratio
(35 percent) = Assessed Value

For new properties, the county assessor must determine taxable value consistent with the value of like properties as determined from adjusted cash value.

For the 1982-1983 tax year, the fiscal year 1981-1982 "adjusted cash value" was again adjusted by a new set of factors developed by the Nevada tax commission (Bulletin Number 147A, "Standards for Determining the Cost of Replacement of Improvements," 1981, Department of Taxation). These factors were reviewed and approved by the interim legislative committee on local government finance.

The following chart shows the factors for the 1982-1983 tax year.

<u>County</u>	<u>Land</u>	<u>Improvements</u>
Carson City	1.06	1.06
Churchill	1.06	1.06
Clark	1.12	1.06

<u>County</u>	<u>Land</u>	<u>Improvements</u>
Douglas	1.00	1.06
Elko	1.06	1.06
Esmeralda	1.00	1.06
Eureka	1.06	1.06
Humboldt	1.06	1.06
Lander	1.00	1.06
Lincoln	1.09	1.06
Lyon	1.06	1.06
Mineral	1.06	1.06
Nye	1.12	1.06
Pershing	1.00	1.06
Storey	1.00	1.06
Washoe	1.03	1.06
White Pine	1.06	1.06

For the fiscal year 1983-1984, tax year appraisals of all property will reflect the following taxable value:

1. Vacant land will be appraised at full cash value considering the use to which it may lawfully be put, any legal physical restrictions upon those uses, the character of the terrain, and uses of other land in the vicinity.
2. Improved land will be appraised at full cash value consistent with the use to which the improvements are being put.
3. Improvements on land will be appraised at replacement cost less applicable depreciation and obsolescence. The Nevada tax commission is charged with developing schedules of depreciation and standards for determining replacement cost. These schedules and standards must be approved by the interim legislative committee on local government finance. This committee was created by S.B. 411 (see later discussion concerning invalidity of committee).
4. Possessory interest in property will be appraised by subtracting depreciation and obsolescence from the replacement cost or by capitalization of income technique.
5. Personal property will be valued at replacement cost less depreciation and obsolescence in accord with schedules and standards of the Nevada tax commission.

Taxable values will be kept current between physical reappraisals by application of factors which reasonably represent the year-to-year change in the value of property.

The date when the tax lien is attached to property is changed by the measure from September of the prior year to July of the year when the taxes are due, so taxes will always be paid for the current year rather than for the previous year. The amount of collections, as established by S.B. 69, will be unaffected.

Senate Bill 411

As noted earlier, S.B. 411 removed the local government expenditure limits imposed by the 1979 legislative tax package. Instead, S.B. 411 fixed a limit on the revenues of local government. This limit includes ad valorem and supplemental city/county relief taxes.

For fiscal year 1981-1982, the combined revenues from the ad valorem (except for debt service) and supplemental city/county relief taxes that local government may collect was limited to a maximum of 12 percent more than the ad valorem actually collected in fiscal year 1980-1981.

In fiscal year 1982-1983 and thereafter, the total combined revenue growth from property and sales taxes is limited to the percentage growth of the Consumer Price Index plus new property added to the roll. Also, for fiscal year 1982-1983 and thereafter, the property tax rate can be set no higher than the level which will produce a 4.5 percent increase in collections on existing property. Local governments may apply these rates to both existing property and property placed on rolls for the first time. Therefore, to a limited extent, additional property tax revenue may be available to fund growth-related services.

Senate Bill 411 limits business license and permit fee increases to 80 percent of the annual increase in the Consumer Price Index.

A number of exemptions are made from these revenue limitations including emergency situations and voter referendums.

These exemptions are:

- A local government may ask the voters, through a referendum, to increase spending through a property tax rate increase.

- A local government, facing an emergency situation, may apply to the interim legislative committee on local government finance for a 2-year increase in its ad valorem taxes not to exceed 50 cents.
- A local government may use short-term financing to obtain short-term emergency funding.
- A local government may request approval of the interim legislative committee on local government finance for an exemption to the "cap" on property tax to finance increased costs due to additional services mandated by state or Federal Government.
- Special distribution of the supplemental city/county relief tax may be made to a local government upon approval of the interim legislative committee on local government finance, if sufficient "reserves" exist--but such reserves have been almost nonexistent to date.

Senate Bill 411 also created the interim legislative committee on local government finance consisting of three members from the senate and three members from the assembly. This committee was to act as the fiscal oversight review on local government. This provision was declared invalid by the courts. Senate Bill 411 contained a provision anticipating this decision by transferring the committee's authority to the Nevada tax commission in case of such a ruling.

Assembly Bill 134

Assembly Bill 134 provided for tax or license increases in several gaming revenue sources. Quarterly state license fees on casinos, based upon gross revenue in excess of \$400,000, were increased from 5 1/2 to 5 3/4 percent. License fees on slot machines were increased by \$10 per machine on a quarterly basis.

These gaming increases sunset July 1, 1983, and return to their previous levels.

Local governments are prohibited from increasing their business license fee on gaming higher than the rate in effect April 27, 1981. Rates are frozen, but the amount of revenue generated is not limited.

Constitutional Amendments: A.J.R. 27 and S.J.R. 21

Finally, the 1981 legislature passed two constitutional amendments related to property taxation: A.J.R. 27 and S.J.R. 21. These resolutions must be passed again during the 1983 legislative session and be approved by a vote of the people in November 1984 before they may become effective.

Assembly Joint Resolution 27 proposes to amend the Nevada constitution to permit the legislature to classify real property for taxation purposes. Classification basically means assessing different types of property (i.e. residential, industrial, commercial) at different levels. A separate system of assessment would be established on the valuation of owner occupied residential housing. If approved, the legislature would have the authority to provide property tax relief directly to homeowners rather than "across the board."

Senate Joint Resolution 21 would amend the state constitution to permit the legislature to set the rate of taxation on net proceeds of mines not to exceed \$5 per \$100 of their value as net proceeds. Presently the net proceeds of mines are taxed at the same rate as all other property within a taxing district. These local rates were substantially reduced by the 1981 tax package.

V

1982 COURT DECISION

As discussed earlier in this paper, the 1981 Nevada tax package was enacted to provide tax relief to Nevada homeowners by shifting some of the tax revenue sources for local government from the property tax to the sales tax. The tax package was ruled unconstitutional by the Eighth Judicial District Court of Nevada (Clark County) in a decision filed August 5, 1982.

It appears that the court felt the tax package is unconstitutional because of the special factors created by S.B. 69 that favor owners of residential property. The court said the special factors do not violate the state constitutional requirement of "just valuation," but found that these separate factors for taxing residential improvements violate the constitutional requirement of "equal and uniform rates

of assessment." The court noted, that under the tax package, residential assessments are artificially lowered, thus creating an unconstitutionally favored classification of property.

As noted earlier, the court also appeared to rule that the creation of the interim legislative committee on local government finance in S.B. 411 was an improper delegation of legislative authority.

The court also said that, because the 1981 tax package was an integrated plan, the whole tax package is unconstitutional.

In October of 1982, the Eighth Judicial District Court stayed the order invalidating the tax package until 100 days after the 1983 legislative session begins. That date is April 26, 1983. The stay was sought to preserve the "public interest." If no action is taken by the 100th day, the three tax laws, A.B. 369, S.B. 69 and S.B. 411, will be invalidated.

VI

CONCLUSION

The 1981 tax package has been declared unconstitutional. The court has mandated the legislature to provide a remedy for that situation on or before the 100th day after the legislative session begins.

Sales and gaming revenues for fiscal year 1981-1982 and the first 6 months of fiscal year 1982-1983 are coming in below expectations because of unstable economic conditions. Such revenue shortfalls, it is claimed, have caused fiscal hardship on state government, schools, and local governments.

In an effort to ease cash flow problems, the 1983 legislature passed Senate Bill 1 and sent it to the governor. This legislation, provided for the transfer of \$20 million from the retirement fund to the general fund.

Many believe a modified state revenue plan is needed to maintain important state and local services. There is concern that the development of such a modified plan should not overburden the taxpayers of Nevada.

It is thought that additional revenue will be needed to fund state and local government operations. A number of sources are being considered, including, but not limited to:

1. Reimposing the state property tax;
2. Placing a tax on services;
3. Increasing the gross gaming tax on the highest earning casinos;
4. Increasing the corporate filing fee rates;
5. Imposing a video game tax;
6. Placing a tax on jet fuel; and
7. Imposing a corporate income tax.

VII

GOVERNOR'S 1983 TAX PROPOSAL

Governor Richard H. Bryan unveiled his 1983 tax proposal during his January 19, 1983, state of the state message.

Major provisions of this proposal include:

1. Increasing the property tax rate by 75 cents per \$100 of assessed valuation. The revenues from this tax increase will be used for primary and secondary education and a tax rebate program for homeowners and renters. Any permanent residential household is entitled to receive an \$80 rebate from the state in 1983-1984 and \$88 in 1984-1985. The purpose of the rebate is to minimize the impact of the tax increase on households. Industrial and commercial enterprise would feel the full impact. The following chart shows estimates of revenue increase and the cost of the rebate program over the next biennium:

(Figures in millions of dollars)			
		<u>FY 1983-1984</u>	<u>FY 1984-1985</u>
Increased Revenue	\$.75/100	\$84.7	\$93.2
Cost of Rebate		<u>27.4</u>	<u>30.2</u>
Net Revenue Increase		\$57.3	\$63.2

2. Enacting a constitutional amendment which provides an equal property tax exemption for all properties. This, in effect, would give relief to small property owners at the expense of industry and other larger property owners. If passed in 1983, this proposal must also pass the legislature in 1985 and receive a positive vote of the people in November 1986 before it becomes effective. The amount of exemption, i.e., \$20,000, may be determined by future legislatures.
3. Enacting a constitutional amendment allowing the legislature to provide a separate system for the assessment and taxation of utilities, railroads and airlines. If such a joint resolution is passed in 1983, it would also need to pass the legislature in 1985 and receive a positive vote of the people in November 1986 before it becomes effective. This proposal is similar to the concept embodied in S.J.R. 21 of the 1981 session relating to net proceeds of mines.
4. Continuation of several of the 1981 tax package provisions which are scheduled to sunset July 1, 1983. They are:
 - (a) Local school support tax at 1.5 percent (local schools);
 - (b) City/county relief tax at 2.25 percent (local government);
 - (c) Gaming percentage fee increase (state general fund);
 - (d) Restricted slot tax increase (state general fund); and
 - (e) Nonrestricted slot tax increase (state general fund).
5. Modification of the existing statute which requires that real property be valued at replacement cost less straight-line depreciation regardless of its condition. Under the proposal, the depreciated value of an old building that is renovated would be based on its effective age rather than its chronological age.

6. Passage of a statewide room tax measure of 3/4 percent to support economic development and tourism. It is estimated this would generate about \$3.3 million in FY 1983-1984 and \$3.4 million in FY 1984-1985.
7. Increasing general fund revenue from the following license and fee increases:

<u>Source</u>	<u>Increased Revenue FY 1983-1984</u>	<u>Increased Revenue FY 1984-1985</u>
Liquor (wine and beer) Tax	\$ 2,642,000	\$ 2,766,000
Insurance Premium Tax	6,895,000	7,395,000
Gaming Taxes	81,400	81,400
Corporate Licenses Increases	1,275,000	1,275,000
Fees and Fines	1,134,500	1,141,500
Transfer of Federal Slot Tax	<u>5,000,000</u>	<u>5,000,000</u>
Total Revenue Increases	\$17,027,900	\$17,658,900