



# The Business License Fee: What We Still Don't Know

## Executive Summary

### Objective

This policy brief describes Governor Brian Sandoval's proposal to revise the State's Business License Fee structure. It summarizes the core elements of the proposed revenue-generating instrument and identifies areas that merit further consideration. The policy brief concludes by offering Legislators a series of recommendations as they consider tax policy reform in Nevada.

### What we know

1. Motivation of the proposed revision to the Business License Fee – to fund K-12 education priorities
2. Nevada's current tax policy landscape lacks a broad-based business tax
3. The revised Business License Fee structure contains elements of good tax policy
4. Nevada is not the only state to consider a fee (tax) based on gross receipts
5. Revenue-generating instruments based on gross receipts have been proposed before in Nevada
6. The Business License Fee rate is lower than the 2014 Education Initiative (margin tax)

### Comparison of Effective Tax Rates under Business License Fee and other Proposals

	Revenue	Business License Fee + MBT	Gross Receipts Tax 2003	Margin Tax 2011 + MBT	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)	Modified Business Tax (2% Rate)
<b>Governor Examples</b>							
A. Construction	2,000,000	0.216%	0.194%	0.280%	1.400%	0.129%	0.220%
B. Financial Activities	5,500,000	0.213%	0.230%	0.458%	1.400%	0.084%	0.084%
C. Health Services	27,000,000	0.381%	0.246%	0.539%	1.400%	0.172%	0.294%
D. Retail Trade	17,000,000	0.161%	0.243%	0.527%	1.400%	0.034%	0.058%
<b>Business Examples</b>							
1. Construction Subcontractor	1,476,000	0.380%	0.174%	0.291%	0.686%	0.291%	0.498%
2. Commercial Insurance Broker	1,834,000	0.405%	0.189%	0.278%	1.043%	0.278%	0.475%
3. Small Medical Practitioner	3,790,000	0.607%	0.220%	0.396%	1.143%	0.396%	0.678%
4. Automotive and Accessories Retail Sales	31,137,000	0.251%	0.246%	0.270%	0.740%	0.129%	0.221%
5. Real Estate Broker	15,186,000	0.630%	0.243%	0.456%	1.272%	0.351%	0.600%
6. Telecommunications Business	23,114,000	0.499%	0.245%	0.536%	1.400%	0.162%	0.277%
7. Average Large Las Vegas Strip Casino	654,772,409	0.355%	0.158%	0.354%	0.887%	0.207%	0.353%
8. Restaurant with 15 Slots	1,300,000	0.211%	0.040%	0.000%	0.646%	0.000%	0.000%
9. Gold Mine	100,000,000	0.133%	0.074%	0.554%	1.400%	0.115%	0.197%

### What we don't know

1. What are the Business License Fee revenue estimates by industry?
2. Should the allocation of revenues generated by the Business License Fee toward the K-12 and higher education systems be made explicit in the proposed legislation?
3. What is the rationale for the proposed Business License Fee rates?
4. What is the combined impact of the revised Business License Fee and the Modified Business Tax?
5. Will the Business License Fee avoid pyramiding (or the imposition of a tax on a tax)?

### Recommendations

1. Begin collecting and reporting data on gross receipts prior to the implementation of any revenue plan.
2. Ensure BLF fee rates are transparent, simple, and reflect the profitability of the industry.
3. Consider the advantages of having a single/limited license fee rate schedule and phasing in over time.
4. Phase out the MBT and adjust rates for the BLF over time to ensure revenue targets are met.
5. Explore the advantages of explicitly earmarking BLF revenues toward education in the legislation.
6. Ensure that any legislative tax proposal helps improve Nevada's overall tax base and structure.