



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) |
|--|-------------|----------------------------|-------------------------|-----------------------|-----------------------|--------------------------------------|---------------------------------|
| Governor Examples | | | | | | | |
| 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% |
| Business Examples | | | | | | | |
| 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.